“Split the banks, tax banking transactions”

These bold recommendations come out of policy documents issued in the last few weeks. First, an advisory committee whose membership included former Rabobank chair and Dutch World Bank Executive Director Herman Wijffels came up with proposals to split European banks so that retail services are separated from trading for the banks’ own account. The report of the High Level Group chaired by Finnish Central Bank Governor Liikanen wishes to preserve the European model of universal banking but with a legal wall between more risky securities and derivatives trading and societal banking services, such as deposits and loans to individuals and SMEs. For these latter activities, government support may be called for when a bank is in danger of going asunder. Such support would then not be available for the legally separated ‘casino banking’ (a term from John Kay, not the Liikanen committee), which would separately be subject to capital requirements. Splitting would only be required when the riskier activities would reach a certain level. In this respect, *Liikanen* goes less far than *Vickers*. The committee named after its chairman John Vickers advised the British government to split banks from the United Kingdom. That British proposals (see my column in the *FD* of 3 May 2011) are now subject to consultations, as are Liikanen’s ideas. In the Netherlands, there are plans to establish its own ‘commission on the structure of banks’, to be led by Wijffels. That seems rather redundant after Liikanen Report.

Shortly afterwards, the European Commission presented a proposal to allow ten Member States to use the legislative procedures of the European Union to introduce a financial transaction tax. An FTT (Financial Transaction Tax) had been proposed by the Commission for the European Union, but did not get the unanimity required in tax matters. Germany, France and eight other Member States do wish to introduce this FTT and will now be able to proceed as a group. The Netherlands, first strongly opposed to the FTT, will participate after all, according to the coalition agreement between Labour (*PvdA*) and Conservative Liberals (*VVD*). The proceeds of the FTT go into the national, not into a European treasury, even though the FTT will be applied in ten Member States of the euro area. Introducing tax going to the euro area is among the ideas that European Council President Herman Van Rompuy included in his interim report in October on the completion of Economic and Monetary Union. Surrender of (part of) the FTT revenues for a European fund to rescue banks (a Resolution Authority) would fit well into the movement towards European ‘banking union’

These are welcome developments, thus far only on paper, hopefully soon becoming reality.

René Smits, 4 November 2012.