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Tiny Tax on Financial Trades Gains Advocates

By STEVEN GREENHOUSE and GRAHAM BOWLEY

They call it the Robin Hood tax — a tiny levy on trades in the financial markets that would take money from the banks and give it to the world's poor.

And like the mythical hero of Sherwood Forest, it is beginning to capture the public's imagination.

Driven by populist anger at bankers as well as government needs for more revenue, the idea of a tax on trades of stocks, bonds and other financial instruments has attracted an array of influential champions, including the leaders of France and Germany, the billionaire philanthropists Bill Gates and George Soros, the consumer activist Ralph Nader, Pope Benedict XVI and the archbishop of Canterbury.

"We all agree that a financial transaction tax would be the right signal to show that we have understood that financial markets have to contribute their share to the recovery of economies," the chancellor of Germany, Angela Merkel, told her parliament recently.

On Sunday, Mario Monti, the new prime minister of Italy, announced plans to impose a tax on certain financial transactions as part of a far-reaching plan to fix his country's budgetary problems, and he endorsed the idea of a Europe-wide transactions tax.

So far, the broader debt crisis engulfing the euro zone nations has pushed discussion of the tax into the background. But if European leaders can agree on a plan that calms the financial markets, they would be in a stronger position to enact a levy, analysts said.

"There is some momentum behind this," said Simon Tilford, chief economist of the Center for European Reform in London. "If they keep the show on the road, they probably will attempt to run with this."

The Robin Hood tax has also become a rallying point for labor unions, nongovernmental organizations and the Occupy Wall Street movement, which view it as a way to claw back

money from the top 1 percent to help the other 99 percent. Last month, thousands of demonstrators, including hundreds in Robin Hood outfits with bright-green caps and bows and arrows, flooded into southern France to urge the leaders of the Group of 20 nations to do more to help the poor, including passing a financial transactions tax.

Enacting such a tax still faces many hurdles, however — most notably, skepticism from leaders in the United States and Britain, home to some of the world's most important financial exchanges.

The day after the Robin Hood protest, for example, Mr. Gates, the chairman of Microsoft and one of the world's wealthiest men, presented a report to a closed-door meeting of the G-20 leaders that laid out his ideas on how rich countries could aid poor ones. One of his proposals was a modest tax on trades of financial instruments that could generate $48 billion or more annually from the G-20 countries.

Ms. Merkel and France's president, Nicolas Sarkozy, quickly piped up, enthusiastically endorsing the tax. But Britain's prime minister, David Cameron, expressed serious reservations, saying Britain would embrace it only if it were adopted globally. British officials fear that unless the tax is worldwide, trading will flee London's huge markets to countries with no tax.

The Obama administration has also been lukewarm, expressing sympathy but saying it would be hard to execute, could drive trading overseas and would hurt pension funds and individual investors in addition to banks.

Administration officials say they would prefer a tax on the assets of the largest banks as a way to discourage them from risky activities. "The president is sympathetic to the goals that a financial transactions tax is trying to achieve and he is pushing for a financial crisis responsibility fee and closing other Wall Street loopholes as the best and most feasible way to achieve those goals," an administration official said.

Still, support is growing for the idea, which has been largely dormant since the 1970s, when a version was first proposed by the economist James Tobin, later a Nobel Prize winner.

"The tax is a good idea because banks are where the money is. It's the same reason Jesse James robbed banks," said Rose Ann DeMoro, executive director of National Nurses United, which recently held demonstrations at the offices of 60 members of Congress in support of the levy. "The thing about the financial transactions tax is it's stunning how quickly people get it and how fast they embrace it."

Labor groups like the nurses' union and the A.F.L.-C.I.O. see the tax as a way to finance job creation programs to fight high unemployment in the United States and Europe.

Other advocates hope it will slow the speculation that many blame for undermining the euro and causing wild swings in financial markets. Mr. Gates and Mr. Sarkozy would like to use the money to finance development in the world's poorest nations. And leaders like Ms. Merkel and some members of Congress are eyeing it as a relatively painless source of money to help plug government deficits.

On Nov. 16, the French Senate passed a bill supporting a financial transactions tax. And the European Commission in Brussels has said it would like to put a tax of $10 per $10,000 of transactions in place throughout the European Union by 2014, predicting it would raise 57 billion euros ($77 billion) a year in European countries alone.

Last month, Representative Peter DeFazio, an Oregon Democrat, and Senator Tom Harkin, an Iowa Democrat, proposed an American version of the tax that they said could raise $350 billion over 10 years.

Their legislation would impose $3 in taxes for each $10,000 in transactions. Other proposals, including those from the nurses' union, call for a tax of $50 per $10,000.

Mr. DeFazio said his tax plan would "raise money to invest in the real economy," but he acknowledged that it faced an uphill battle in Washington, especially within the antitax Republican caucus.

Opponents say that even at the rate in the DeFazio-Harkin bill, the tax would add significantly to the cost of trading, exceeding what institutional investors pay in commissions.

"At a time when we face a slow economic recovery, such a tax will impede the efficiency of markets and impair depth and liquidity as well as raise costs to the issuers, pensions and investors who help drive economic growth," Kenneth E. Bentsen Jr., executive vice president for public policy at the Securities Industry and Financial Markets Association, said in a statement.

George Osborne, the British chancellor of the exchequer, described the proposed tax as "economic suicide" for Europe. In this time of economic crisis, he said, the European Union "should be coming forward with new ideas to promote growth, not undermine it."

And Glenn Hubbard, who was chairman of the Council of Economic Advisers under President George W. Bush, said the Robin Hood tax is a "monstrously bad idea."

“Such a tax isn’t really going to get at the banks,” added Mr. Hubbard, who is now an adviser to the Republican presidential candidate Mitt Romney. “It’s going to hit the people who own the assets that are traded,” like investors.

Supporters of a financial transactions tax note that Britain already imposes a levy of $50 per $10,000 of stocks traded, while Hong Kong and Singapore, with fast-growing financial markets, impose fees of $10 to $20 per $10,000 of the value of certain transactions. The United States imposed a tiny tax on stock trades from 1914 to 1966.

The British actor Bill Nighy, who has made online videos promoting the tax, calls it a beautiful idea. “It would raise enough money to solve problems at home and overseas, and it could do it without hurting ordinary people,” he said.