Financial Services Authority chairman backs tax on 'socially useless' banks
Levy on profits would curb excessive bonus culture, says Lord Turner
Lord Turner said a tax on transactions in the Square Mile would cut banks' profits and reduce the pool of money available for bonuses. Photograph: David Gadd/Allstar

The government's top financial regulator last night backed radical plans for a multibillion-pound tax on banks as a way to tackle the City's persistent bonus culture.

Lord Turner, chairman of the Financial Services Authority, warned bankers that he would support a new wave of taxes on the City to prevent excessive profiteering if they continue to take excessive risks.

In a searing critique of the industry, Lord Turner described much of the City's activities as "socially useless" and questioned whether it has grown too large.

His comments, in an interview published by current affairs magazine Prospect, mark a shift in the debate on bonuses, which Turner characterised as a symptom rather than a cause of the financial crisis.

The FSA chairman, who has faced criticism for "going soft" on bankers' pay and would see his empire abolished by an incoming Tory government, said a tax on the millions of transactions in the Square Mile would cut banks' profits and reduce the pool of money available for bonuses.

The idea was recently put forward by anti-poverty campaigners who have argued that a small levy applied to each transaction would mean billions of pounds could be redirected to support developing nations. Turner said he sympathised with applying a tax that would be "a nice sensible revenue source for funding global public goods".

In a discussion of the issues facing the embattled FSA, Lord Turner said that after a decade of excess "beyond a socially reasonable size" the City had become "swollen".

In a statement that reversed a decade of policy at the regulator, he also said it was no longer one of his primary aims to promote the status of London as a global financial centre.

"The really fundamental question is whether the overall level of financial services pay is a consequence of the swollen financial sector which has resulted from oversimplistic
Financial deregulation. This is not a question that any of the politicians have focused on but I think it's an important and legitimate issue of public concern," he said.

The FSA has already put forward plans forcing banks to set aside more cash as an insurance policy to cover their risky activities. However, the regulator's critics argue that it has watered down proposals to tackle excessive pay.

Turner, who believes the immediate issues over pay should be tackled by the government, said he was concerned about curbing excessive pay over the longer term and was aware his current plans may be too weak.

He rejected plans by the Conservatives for an anti-competitive investigation of the banks, which he said would miss the target of tackling global financial transactions. He has also rejected splitting the retail banks from their riskier investment activities, which is favoured by the Liberal Democrats.

He told Prospect: "If you want to stop excessive pay in a swollen financial sector you have to reduce the size of that sector or apply special taxes to its pre-remuneration profit. Higher capital requirements against trading activities will be our most powerful tool to eliminate excessive activity and profits.

"And if increased capital requirements are insufficient I am happy to consider taxes on financial transactions – Tobin taxes."

A tax on financial transactions was first suggested by the American economist James Tobin in the early 1970s, but the lack of interest in Washington and London meant it never gained traction.

Turner won the support of some Labour backbenchers, who said his willingness to consider taxes was a step in the right direction.

The former welfare minister Frank Field said the lack of action by the authorities was "in stark contrast to the damage done by the people paid massive bonuses".

He said: "It looks like Adair Turner has fired the starting gun on thinking more seriously about the City and what it is for and what kind of pay people should expect."

"When the City has largely made money by moving money around and not by making anything, it is clear the pay is out of kilter."

Turner said that direct action on bankers' pay in the short term was the job of the government and could be tackled by ministers who had either taken controlling stakes in banks such as Royal Bank of Scotland and Lloyds Banking Group, or guarantees and insurance policies that cover Barclays and several other firms.

The Liberal Democrat treasury spokesman Lord Oakeshott said he agreed with Turner's analysis that the City had grown too big, but his remedies were flawed.

"A Tobin tax is interesting but is unworkable without international agreement, which could take years and probably will never happen," said Oakeshott.

Finance industry figures agreed that a Tobin tax would be complicated to implement and unlikely to be agreed by countries keen to protect rival financial centres.
The Association of British Insurers said current plans to impose higher capital requirements on banks and insurers were sufficient to persuade them to avoid risky behaviour.