

THE COSTCO CONNECTION

Should offshore bank accounts be taxable?

Daniel J. Mitchell

February 1, 2016

Politicians have an unfortunate tendency to overspend and overtax. When they do this for a short period, growth in the productive sector of the economy tends to diminish. And if they overtax and overspend for a long period, you suffer the kind of fiscal crisis we now see in so many European nations.

That's not what any of us want, but how can we restrain politicians? There's no single answer, but "tax competition" through tax havens is one of the most effective ways of controlling the greed of the political elite.

We know that taxes are onerous in California and Massachusetts, but imagine how much worse they would be if the politicians in those states didn't have to worry about investors, entrepreneurs and small-business owners escaping to zero-income-tax states such as Nevada and New Hampshire?

The same principle applies on a global basis. Nations with pro-growth tax systems, such as Switzerland and Singapore, attract jobs and investment from uncompetitive countries such as France and Germany. These tax havens force the politicians in Paris and Berlin to restrain their greed.

Some complain that these low-tax jurisdictions make it hard for high-tax nations to enforce their punitive tax laws. But why should the jurisdictions with good policy, such as the Cayman Islands, be responsible for enforcing the tax law of governments that impose bad policy?

In any event, the best way to reduce tax evasion is to institute lower tax rates and tax reform. If the United States had a flat tax, for instance, we would enjoy much faster growth and we would attract trillions of dollars of new investment. We would be the tax haven, and that's a good thing!

In addition to promoting good fiscal policy, tax havens also help protect human rights. Most of the world still lives in nations where there is political oppression, economic instability and persecution of minorities. Tax havens help these people protect their assets from venal

governments. To cite just a few examples, tax havens offer secure financial services to political dissidents in Russia, ethnic Chinese in Indonesia and the Philippines, Jews in North Africa, gays in Iran and farmers in Zimbabwe.

The moral of the story is that tax havens should be celebrated, not persecuted.

Daniel J. Mitchell is a senior fellow at the Cato Institute (cato.org).