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Tax Havens Allow Economic Vitality

By: Daniel Mitchell – April 11, 2013

From an economic perspective, tax havens are very valuable because they discourage anti-growth tax policy. Simply stated, it is very difficult for governments to impose and enforce confiscatory tax rates when investors and entrepreneurs can shift their economic activity to jurisdictions with better tax policy. Particularly if those nations have strong policies on financial privacy, thus making it difficult for uncompetitive high-tax nations to track and tax flight capital.

Thanks to this process of tax competition, with havens playing a key role, top personal income tax rates have dropped from an average of more than 67 percent in 1980 to about 42 percent today. Corporate tax rates also have plummeted, falling from an average of 48 percent to 24 percent. Notwithstanding their normal inclinations to impose class-warfare policies, politicians recognized that it was better to have modest tax rates and collect more revenue than to have confiscatory tax rates and collect less revenue.

Lawmakers also were pressured to lower or eliminate death taxes and wealth taxes, as well as to reduce the double taxation of interest, dividends and capital gains. Once again, tax havens deserve much of the credit because politicians presumably would not have implemented these pro-growth reforms if they didn't have to worry that the geese with the golden eggs might fly away to a confidential account in a well-run nation like Luxembourg or Singapore.

And this global shift to lower tax rates and better tax policy helps explain why the world economy in recent decades has been much more vibrant than it was in the 1960s and 1970s.

Tax havens also play a very valuable moral role by providing high-quality rule of law in an uncertain world, offering a financial refuge for people who live in nations where governments are incompetent and corrupt. Folks in Argentina will keep assets in the Cayman Islands to guard against economic mismanagement. People in Venezuela will invest money in Panama to protect against expropriation. Families in Mexico will hold funds in Miami to reduce the threat of kidnapping.

There are also billions of people living in nations with venal and oppressive 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.

With more and more nations careening toward fiscal collapse, raising the risk of social chaos and economic calamity, it is more important than ever that there are places where people can protect themselves from bad government. Tax havens should be celebrated, not persecuted.

