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Attack on the free

By: Richard Rahn – February 12, 2013

For at least the last 2,500 years, from the time of the Athenian republic, fragile islands of freedom have been under attack. Unfortunately, nothing has changed, except now some of the aggressor states cloak themselves in the mantle of compassionate democratic countries. Rather than using arrows or bullets, the new weapons of the aggressor states are financial sanctions, including restrictions on corresponding banking relationships. It all sounds so civilized, proper and benign, but in reality, it serves to destroy incomes and property both in those jurisdictions under attack and many of those in the attacking states.

The more economically free jurisdictions have, in general, higher growth rates and standards of living for their citizens than those less free. There is now constructive competition among countries to try to improve their rankings on the various economic freedom scores produced by think tanks and even the World Bank. However, a few large, democratic countries, rather than striving to be more free, are trying to repress economic freedom in smaller entities. This is as despicable as the current effort by a number of authoritarian states to use the United Nations to try to put political controls on what may go over the Internet.

Some high-tax countries with onerous and destructive financial regulations hate the competition from low-tax, more economically free, jurisdictions. The poster child for this bad behavior is France, which ranked a miserable 47th on the Economic Freedom of the World Index, a project of the Fraser and Cato Institutes. France has induced Germany (No. 31) to join it in this war, as well as the United States (No. 18) and the United Kingdom (No. 12), along with a few other high-tax states. What is particularly disappointing is that the United States, usually ranked in the top five or six in economic freedom until the last decade, has dropped dramatically under the Obama administration.

The main targets of the economic oppression are Switzerland (No. 4), Liechtenstein and the British overseas territories of the Cayman Islands, Bermuda, British Virgin Islands, Jersey, Guernsey, Isle of Man, and Turks and Caicos. The Western powers have used the Organization for Economic Cooperation and Development (OECD) as their main instrument for attacking the freer jurisdictions. The OECD, primarily with the prodding of the French, started by trashing “tax competition,” as if tax competition was not a legitimate form of competition among sovereign states. (In the United States, high-tax states such as California, Illinois and New York don’t like the competition from low-tax states, such as Texas, Florida and Nevada. However, that does not give the high-tax states the moral right to shut down the low-tax states.) The OECD then went on to create a blacklist for so-called tax havens that were not in “compliance” with an “internationally agreed tax standard.” The financially free, low-tax countries were not in agreement, but their rights were run over by the bigger powers. Here in the Bahamas at the Global

Financial Summit last week, Ryan Pinder, minister of financial services, rightly complained about the cost of the unjustified financial assault by the United States and others on his sovereign country.

Under the Obama administration, the United States has become the biggest single financial imperialist and oppressor of global economic freedom. Its biggest “gun” has been the new Foreign Account Tax Compliance Act (FATCA), which requires foreign financial institutions, including banks, stockbrokers, hedge funds, pension funds, insurance companies, trusts, etc., to report directly to the Internal Revenue Service all clients who are U.S. “tax persons.” This makes it almost impossible for U.S. citizens and green card holders living abroad to obtain local bank accounts, and is driving massive amounts of foreign investment and jobs out of the country. It is also causing great resentment toward the United States by those affected directly or indirectly. Some jurisdictions, such as Hong Kong (No. 1 in economic freedom) are beginning to push back, as are many domestic and foreign financial institutions. More responsible members of Congress are also raising questions and calling for repeal of this highly destructive regulation by the Obama Treasury.

How would most Americans react if the Swiss government told all American financial institutions they had to report their customers to the Swiss tax authorities so the Swiss could determine if any Swiss citizens or residents had U.S. accounts? The outrage and resentment would be justifiable. What a repressive world it would become if foreign nations could extend their laws into the sovereign borders of other nations whenever they wished. What Americans should be asking is how the Swiss, in a landlocked country with few natural resources, have managed to create a level of prosperity as high as that in the United States with a much smaller government (33 percent of gross domestic product) as contrasted with the United States (41 percent of GDP) and, in general, provide higher levels of government services with lower taxes, more economic freedom and as much personal freedom (including gun ownership).

Now, President Obama has again called for even higher taxes. His ideal seems to be the French, big-government model. If the Republicans are smart, they should support and advocate for the smaller-government, Swiss model — France’s freer and more prosperous next door neighbor.