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Economic murder-suicide

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On June 3, 2003, the European Commission adopted measures to "tackle harmful tax competition." If the term "harmful tax competition" sounds to you like an oxymoron, you are thinking clearly. The EU's measures are designed to make it easier for them to tax savings but, in reality, will largely destroy the small amount of remaining legal savings by EU citizens.

Because of confiscatory levels of taxation, many of those who reside in the EU have moved their savings to the United States and other relatively low tax jurisdictions. For the last several years, many economic scholars and public policy organizations have warned the EU that attempts to reach beyond their borders to tax this so-called flight capital would end in disaster.

To understand the problem, assume you are a citizen of France. You save $1,000 and receive an interest payment of $60 (6 percent). Inflation is 3 percent, so your real interest earnings are only $30. However, you must pay a 59.7 percent tax, or $35.82, on the $60 of interest, plus the $30 inflation tax. (Remember, inflation is caused by government producing too much money.) This leaves you a net loss of almost $6 on each $1,000 saved. (In those EU countries where inflation is 3 percent or more and maximum tax rates are 50 percent or more, many savers have effective tax rates on interest of more than 100 percent.)

People quickly figure out they are worse off rather than better off by saving; hence, they either move their savings out of the country to a more tax-friendly jurisdiction or stop saving. The EU will receive virtually no increase in tax revenue from these new measures. They will only succeed in driving their citizens to find legal or illegal loopholes.

Any reduction in savings rates in the EU will be a disaster. Most of the EU countries are suffering from very low birthrates and rapidly aging populations, plus increasing demands for welfare, medical and retirement benefits. Without high levels of saving, there is no way these benefit payments can be met.

It is bad enough that the EU is imposing such measures on its own citizens, but the EU is attempting to go even further by imposing it on non-EU members such as Switzerland, Liechtenstein and dependent and associated territories of the United Kingdom and the Netherlands, for which it will be economic death.

The EU has even had the audacity to try to get the U.S. to go along with this unsavory scheme (some former Clinton administration officials and Treasury bureaucrats thought this was a good idea).

The EU bureaucrats realize that if they don't get most of the world to go along with their scam, it will not work. The real world fact is, of course, it will not work no matter what they do. To sell the scam, the EU had to agree to many loopholes, in part so the lawyers and accountants could still sell tax shelters to their well-off clients.

The EU has virtually no chance of getting China-controlled Hong Kong, and some other non-EU-controlled jurisdictions to go along. Hence, the real criminal and terrorist money will no longer be in countries where legitimate law enforcement forces of the Western nations can monitor what is happening.

How could the EU come up with and sell such an awful idea? The political leaders and bureaucrats of "old Europe" had a problem. In their lust for power and control, they were killing their economies through excessive taxation and regulation.

It is often difficult for many people to move from the prison of tax oppressive regimes, but not so financial capital, which could flee by electronic means overnight. Old-fashioned capital controls had both failed and fallen into economic disrepute, so the idea of "harmful tax competition" was suddenly born.

Most people understand that when businessmen get together to limit competition, the public interest is rarely served, and the same is true of government bureaucrats. EU officials convinced their bureaucratic lackeys at the Organization for Economic Cooperation and Development (OECD) to develop the concept of "harmful tax competition" to justify trying to force all of the world's countries to jack up their tax rates to French-like levels.

More objective and competent economists have clearly demonstrated that the concept of "harmful tax competition" is without intellectual merit, particularly given that most countries have taxes far above the revenue and growth maximizing rates, so tax competition can only be beneficial.

However, these destructive measures have given the U.S. an opportunity to challenge the failed European economic model in a very public way. Our government leaders should make it clear that the U.S. wants foreign capital and is willing to provide it with strong legal protections and lower tax rates. The U.S. has just lowered taxes on capital with the capital gains and dividend rate cuts. Our government should also state that we will not be

party to any blanket financial information-sharing schemes designed to milk the world's savers.

We should go further and say that any of the associated political jurisdictions of the European countries that wish to declare independence from their European overlords, rather than see their economies destroyed, will have the necessary support of the U.S.

Such a policy is clearly in our own self-interest because most of the money that flows through low tax jurisdictions comes from Europe and Latin America and is invested in the U.S. Also, if we allow the Europeans to destroy the economies of the low-tax jurisdictions, the U.S., not Europe, is going to face a new and major refugee problem.

In the 1770s, a certain European nation tried to stuff a destructive tax regime down the throats of the American Colonies. We certainly ought not to let Europe try this gambit on us and our friends again, 230 years later.

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