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Europe's new oppressors

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Imagine a club where members of the volleyball teams enjoy drinking and eating more than exercising and, as a result, are very fat and out of shape.

The club decides to expand its membership to include a group of men who only recently gained their independence from abusive parents and now are working hard on bettering themselves. The newcomers wish to join the volleyball teams.

The existing players say to the new guys, "This is 'not fair' because you are slimmer and more energetic than we, thus you must put on weight belts so you are as slow as we are."

In the above, substitute France and Germany for the fat guys, and the 10 new entrants to the European Union as the hard-working thinner guys, and you begin to understand the new European oppression.

After the end of World War II, most European countries experienced rapid economic growth until the 1980s. Germany was considered an economical miracle because it went from wartime ruin to the highest per capita income in Europe.

The miracle came by abolishing price controls, instituting sound money, avoiding repressive taxes and regulations, and instituting the rule of law. Having achieved prosperity, the French, Germans and some of their neighbors began increasing taxes to redistribute income, and evolved into stultifying regulatory states. The predictable result is economic growth in France and Germany has all but stopped, and Germany now has a slightly lower per capita income than the average income of the pre-enlargement European Union (E.U.).

Because the Eastern and Central European countries suffered under the communists for four decades, their real income levels average only 47 percent that of the E.U.

Eight of these countries (plus Malta and Cyprus) entered the E.U. on May 1. For these new entrants to catch up, they need competitive advantages over their established neighbors so they can attract the necessary foreign investment and spur productive economic activity. These advantages can be lower taxes , fewer economic regulations and more labor mobility.

But now the bureaucrats of the old E.U. are trying to extend E.U. labor regulations to the new entrants that make it almost impossible to fire a nonproductive worker. These regulations have resulted in little E.U. private sector job growth for the last couple of decades and very high unemployment.

Yet, at the same time, these old Europe bureaucrats say they worry about a flood of workers from the new entrants. The E.U. bureaucrats in Brussels cannot seem to grasp the obvious; that the best way for a Hungarian to stay in Hungary rather than move to Berlin in search of a job is to allow him to get a good job in Budapest. Instead, the politicians of old Europe go out of their way to impose higher taxes and regulations in Hungary that can only kill job growth, keep the Hungarians relatively poor, and thus increase worker flight to higher-wage countries.

The former communist countries have greatly reduced tax rates to make themselves internationally competitive. As a result, they have been growing much faster than most E.U. countries -- that is, they have been catching up, which is precisely the goal. The French and Germans, rather than applauding this, are now trying to stop it.

German Chancellor Gerhard Schroeder recently demanded the new entrants agree to minimum taxes (i.e., the weight belt). The Germans and French claim they are seeking "tax harmonization" rather than "destructive tax competition."

Of course, in the real world tax competition is highly desirable, because it forces governments to operate more efficiently and protects both the pocketbooks and the liberties of taxpayers. The argument against tax competition is identical to that made when the inefficient, pricey retail store demands the new discount store raise its prices "to be fair."

The Organization for Economic Cooperation and Development (OECD), whose members are high-income nations, will meet in Berlin on June 4-5. The meeting is being held at the behest of the French and Germans whose goal is to force low-tax non-E.U. jurisdictions to agree to "level playing field measures" (read "tax harmonization"). The French and Germans realize even if they are able to force tax harmonization on the new E.U. entrants, they will still be at a competitive disadvantage to countries with lower taxes; hence, their attempt to extend E.U. oppression beyond the borders of the E.U.

The U.S. government will take part in the OECD meeting. The rhetoric from the Bush White House has generally been for tax competition and against tax harmonization. At the same time, some officials of the Bush Treasury have supported measures to restrict tax competition. Americans who understand it is counterproductive and inhumane to keep the poor from becoming rich can only hope the Bush administration at the OECD meeting opposes the old European oppressors and clearly sides with countries favoring economic freedom and growth.

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