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EU extortionists

By Richard W. Rahn

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Imagine you own a successful business, and you have a much larger and less efficient competitor. Your inefficient competitor has demanded you make payments to him or he will pressure your suppliers to stop doing business with you. I have just described classic criminal extortion, as now conducted by some governments in the European Union.

In the above example, substitute: France, Germany and Italy for the "inefficient competitor;" smaller, low tax jurisdictions for the "successful business;" global financial institutions for "suppliers;" and coerced taxes and information for "payments." Now you begin to understand what is going on.

On July 1, the controversial European tax savings directive took effect. This requires 25 EU members and 15 other countries and independent territories to institute an automatic information exchange system. This would require financial institutions to report to the citizen's home country any interest earned outside that country. Or countries may withhold taxes on interest income at a rate that will rise to 35 percent.

Yet, June 30, the day before the directive became effective, the EU Commission had the unmitigated gall to announce it would try by amendment to make the directive even more onerous on the signers and to extend it to jurisdictions that have not signed on, like Singapore and Hong Kong. This, again, proves paying blackmailers only whets their appetites.

Many of the low-tax, capital-importing, EU countries opposed the directive, as did virtually all the other 15 small, non-EU jurisdictions forced to comply. The smaller jurisdictions were required to acquiesce under the threat multinational banks operating in their countries would be denied certain corresponding banking relationships with the EU, the equivalent of financial knee-capping.

The intended goal of the savings directive is to greatly increase the already bloated tax coffers of France, Germany and Italy. The actual result will be costly efforts by savers, investors, lawyers, accountants and financial institutions to develop legal ways around the directive. People will go to great lengths -- both legally and illegally -- to protect their financial assets from punitive taxation and regulation. They will naturally seek to move such assets to locales that offer better protection and higher after-tax returns. Even if the governments involved could collect the tax revenue, it would be dreadful economic policy. Good economists understand that taxing capital is like destroying the "seed corn" needed for investment to create more jobs and wealth in the future.

The responsible thing for the governments of Old Europe to do is cut taxes, spending and regulations. Instead they have chosen to operate like a Mafia gang and extort their smaller competitors. The EU leaders do occasionally acknowledge they need to reform, but actions have been minimal.

In autumn 2003, they agreed to work to reduce and simplify regulations. Since 1975, the EU has passed 3,046 directives and 105,000 regulations. Yet they have only managed to simplify but one rule -- "electromagnetic compatibility."

One can only wonder if EU politicians and bureaucrats who push such measures to increase taxes and eliminate financial privacy are ignorant that they are further destroying economic growth and opportunity and civil society -- or are only malicious.

You can bet it is only a matter of time before greater scandals emerge about the misuse of newly available, confidential, personal financial information by those in governments who will now be able to get their hands on it.

Unfortunately, the U.S. Treasury has been largely AWOL in this battle to protect financial privacy and the free flow of capital. Treasury Secretary John Snow has forcefully defended tax competition, but so far has not stood up to the bureaucrats in his own office of Tax Policy who failed to withdraw a Clinton era proposal to engage in blanket sharing of sensitive tax information with the Europeans.

Mr. Snow's inaction is baffling, given the damage it would do the U.S. economy and that he has been urged by White House economists, most of the leading policy institutes and many members of Congress to withdraw the proposal.

However, Mr. Snow is now putting in place a new Treasury team we can hope will be wiser than the previous crew and take the necessary action to prevent the Europeans from obtaining such sensitive financial information. Doing so would be a clear statement to the untrustworthy and destructive forces in Old Europe that the U.S. stands with the rising number of low-tax jurisdictions, both within and outside the EU, trying to increase their citizens' economic growth, opportunity and civil liberties.

Richard W. Rahn is a senior fellow of the Discovery Institute and an adjunct scholar of the Cato Institute.

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