The Washington Times
www.washingtontimes.com

Poverty purveyors plus

By Richard W. Rahn
THE WASHINGTON TIMES
Published May 14, 2007

SANTO DOMINGO, Dominican Republic.

This beautiful island nation has had more than its fair share of corrupt and incompetent rulers who have kept too many of its people in poverty. But now, as the Dominican economy begins to strengthen and the noises for constructive change seem to be getting louder, the country (and other similar poor nations) may have more to fear from some in the U.S. Congress, European Union bureaucrats, and officials of international organizations, such as the Organization for Economic Cooperation and Development, than from their own leaders.

Ireland, Iceland, Bermuda, Cayman and Singapore are all islands where most of the people have become affluent in recent decades. Yet many island nations such as Jamaica, Cuba and the Dominican Republic with many more natural resources are poor. What the wealthy islands have in common is not climate or races of people but the rule of law, minimal corruption, and internationally competitive regulatory, tax, and trade policies. The poor islands all suffer from too much corruption and government regulation and too little economic freedom.

One would think the political classes in the rich nations would laud the policies that brought prosperity and freedom to the wealthy islands (and other nations) and attack the policies of the poor nations. But alas, that is not happening.

It is difficult for a poor island or poor country to grow and prosper if it cannot attract foreign capital and have access to foreign markets. Yet, the small, reasonably affluent nations are attacked by many EU leaders, the OECD and some in the U.S. Congress because they have low tax rates, particularly on labor and capital. Their opponents argue they are engaged in unfair tax competition.

This battle has gone on for much of the last decade, but it has recently heated up again with the EU taking direct aim at Switzerland because some of the local Swiss jurisdictions provide favorable tax treatment to companies that move there. Several members of the U.S. Senate, notably Democratic Sens. Carl Levin of Michigan and Byron Dorgan of North Dakota, have introduced bills to penalize low-tax jurisdictions whose governments are engaged in the "crime" of trying to improve their citizens' lot by making their countries attractive to foreign capital. (Of course, the good senators could constructively take care of the "problem" of tax competition by replacing the obscenely complex and destructive U.S. income tax system with a simple consumption tax, such as the Fair Tax, which would have the added benefit of increasing U.S. growth but that would be responsible.)

The hypocrisy of some of the EU nations and the United States seems almost unlimited. The small jurisdictions are being attacked for having tax and privacy policies also maintained by the U.S., the U.K. and other EU members, such as Austria, Belgium and the Netherlands. It is not well known, but foreign investors in the U.S. and U.K. are exempt from many income and capital gains taxes on some of their investments, and each of these nations have locations or types of businesses where confidentiality is protected.

Trade is another area where hypocrisy seems to be unlimited. EU officials, while lamenting the plight of the world's poor and demanding more taxes for foreign aid, turn around and severely restrict agricultural imports from both the poor African and island nations. The Democratic leadership in Congress is pushing measures to deny lower-income countries access to the U.S. market. Recently Sen. Max Baucus, Montana Democrat, said he was for "free trade" and then turned around and said trade should be restricted if foreign workers did not have the same benefits as U.S. workers, and if foreign countries did not have the same environmental standards as the U.S. This made it apparent he did not know what "free trade" is.

I could just imagine his outrage if some other country said it would not take the goods from Montana because Montana did not have as high labor and environmental standards as jurisdiction X.

For years, many of us economists have been telling low-income countries: Reduce your high marginal tax rates on labor and capital to make your economies globally competitive, and reduce your tariffs and trade barriers, and the major nations will reciprocate. Unfortunately, many politicians and news media in places like the Dominican Republic now hear this message from Washington, Brussels, and Paris: If you put in pro-growth economic policies, we will punish rather than praise you.

It is ironic that some of the most outspoken and powerful purveyors of policies that will create more poverty in both their own and foreign lands are often lauded as humanitarians by members of an unthinking news media who cannot tell the difference between the rhetoric of compassion and actions that actually make things better or worse for the world's poor.

It would not come as a surprise if members of the U.S. Congress demanded that we no longer allow Dominican baseball players in the U.S. because of the "unfair competition" they pose to our native-born ballplayers.

Richard W. Rahn is the chairman of the Institute for Global Economic Growth.

http://www.washingtontimes.com/commentary/20070513-101110-4539r.htm