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EU Angst

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LJUBLJANA, Slovenia.

As I gaze out on the prosperous and exquisite "old town" of this ancient city, now in the European Union, it seems far removed from the country of Yugoslavia of which it was part until 1991 when, after a brief battle, Slovenia won its independence. The tensions between Serbia and Kosovo, the final remnants of Yugoslavia, are felt not much more deeply here than in most other parts of the EU.

Most of the EU countries have endorsed the independence of Kosovo, but Spain and few others remain — so much for the common EU foreign policy. Slovenia will formally endorse Kosovo's independence, while many of its citizens, including most of those of Serbian heritage, remain opposed.

Thus, it is a bit ironic that the current president of the Council of the EU — which rotates every six months — is the president of Slovenia, which was the first of the former communist states to be a member of the EU in 2004 and also adopt the euro as its currency at the beginning of 2007.

By almost any measure, Slovenia has been an economic success during the last 18 years, and now enjoys a per capita income (on a purchasing power parity) almost equal to that of the average EU country, and about 60 percent of that enjoyed by the average American.

Despite Slovenia's success, it now faces many of the same problems found in the larger EU countries. Back in 1991, Slovenia, tucked up against the Austrian Alps, had the goal to be a little Switzerland with its economic prosperity and personal liberty. Yet, two decades later, the economic system in Slovenia looks more like that of France than Switzerland.

The attitude toward foreign capital at best is mixed, and in some cases outright hostile. Many Slovenian politicians argue, as do the French, that there is a "national interest" in keeping many Slovenian companies out of foreign hands. Like in much of "old Europe," unemployment is stubbornly high — more than 7 percent— because of very rigid labor markets, the reluctance to make it easier for foreign companies to invest, and bureaucratic impediments to the formation of new businesses.

The intellectual divide can be seen in the tension between the low-tax rate countries in the EU, consisting primarily of the former communist Central and East European countries with their new flat and low-rate taxes on personal incomes and corporations, and the old high-tax rate, and rigid labor market countries, typified by Germany, France, Italy and Belgium.

Last week, we saw this struggle played out in the rather unseemly conflict between Germany and Liechtenstein. The German government paid multimillion-dollar fees or bribes, depending on one's view, to a former employee of a bank in Liechtenstein to report German citizens who might be trying to evade German taxes.

Some in Europe were appalled at the German government's behavior, recalling that the original Swiss bank secrecy laws were put in place in the 1930s to keep the Gestapo from bribing Swiss bank employees, a few who had revealed the ownership of flight money placed in these banks by German Jews and other anti-Hitler Germans. Other Europeans have sided with the Germans against Liechtenstein, arguing it is wrong to use financial privacy provisions to protect tax flight funds.

The Germans and other high taxers ignore the fact that humans quite naturally tend to move their companies, funds, and even their bodies from high-tax to low-tax-rate jurisdictions. This is the major reason low-tax-rate states in the United States, such as Texas, Florida, Nevada and New Hampshire, grow much more rapidly than high-tax rate states, such as New York, New Jersey and California.

As the free movement of people and companies speeds up within the EU, and also with its neighbors, the old statist countries are going to find themselves increasingly disadvantaged. Will they resort to the rather questionable German-type reactions, or take constructive actions like reducing destructive tax rates as the Irish have done, and freeing their labor markets as the Danes have done?

Slovenia and many other EU countries are torn between these choices. Will those with an old socialist mentality win out, or will those like the young people connected with Slovenia's leading free market think tank, the Free Society Institute, with their dynamic, optimistic view of what is possible, win the struggle for Europe's future?

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