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Global Political Hypocrisy

By Richard W. Rahn
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Two of the following three news stories are true and one is not. Which ones do you think are true?

Story No. 1:
"A new commission appointed by Norway will investigate ways of putting a stop to the huge flows of money into tax havens. Tax evasion and corruption are believed to cost poor countries at least $50 billion a year (according to an estimate by Oxfam International). The commission, launched last week, includes Eva Joly, a special adviser on corruption for the Norwegian development agency Norad. Among the areas that have been labeled as tax havens are Andorra, Monaco, Gibraltar, Jersey, the Cayman Islands, Luxembourg, the Netherlands, as well as some parts of the financial system in London." (June 30, 2008)

Story No. 2: "A new commission created by several small low-income non-oil producing nations was established to seek ways of forcing oil rich nations to share their oil revenue with poor nations. The large increase in oil prices has caused particular hardship on the people in those countries without any oil resources of their own. Jean Louis Bona of Haiti, the temporary chairperson of the commission, said, 'subsurface oil and minerals are a heritage of all mankind, and should not be exploited by a few countries at the expense of the many.' " (July 7, 2008)

Story No. 3: "Senators declare war on offshore havens. Congressional scrutiny of the offshore vehicles used by companies, investment funds and wealthy individuals is increasing. A study by a separate Senate panel last week calculated that offshore abuses cost the U.S. government $100 billion a year in lost tax revenue. 'We're going to find a way to make a huge dent in this problem,' said Sen. Max Baucus, Montana Democrat and chairman of the Senate Finance Committee." (July 25, 2008).

If you are having trouble figuring out the real stories from the fictional one it is because you understand the tendency of politicians to blame things they have caused on others. (News items Nos.1 and 3 are real, and No. 2 is not.)

Norway, which now has the highest, or closest to the highest, per capita income on the planet due to its immense oil reserves and relatively small population, has decided to beat up on a number of poorer countries that do not have the luck to sit on a vast pool of oil.

Smaller-resourced, poor countries need to find goods and services they can provide to the rest of world so their citizens can also prosper.

If a county does not have oil and mineral wealth, vast agricultural lands, and the population to create major manufacturing industries, what is it to do? The answer is, usually services. Creating a tourist industry can help, but there are limits to how wealthy a country can become on tourism alone. Many countries have dealt with this problem by developing financial services' industries.

When it comes to financial services, people often think of small island jurisdictions, such as Jersey, Bermuda, and Cayman, but the financial services' business is of great economic importance to Switzerland, Ireland, the City of London, and Wall Street in New York.

The Norwegians have been particularly hypocritical. Despite their enormous wealth, they still maintain very high tax rates that discourage productive activity within the country and encourage citizens and companies to move funds to lower-tax jurisdictions. And even the Norwegian government-controlled massive pension fund, the recipient of much of the oil revenue, has been investing in companies registered in tax havens.

The Norwegian socialists put themselves on a slippery slope when they argue for investing only in high-tax countries. Poor countries never get rich when they have high taxes. The rich, high-tax countries became rich before they had high taxes. Will the Norwegians agree to share their oil wealth with low-tax countries if these countries agree to increase their taxes?

When members of Congress advocate foolish trade and financial restrictions and regulations (like the Sarbanes-Oxley Bill, which has driven much of the IPO (initial public offering) market to London), they discourage foreign companies and individuals from investing in the United States, which causes the dollar to fall and fewer jobs to be created.

Most so-called tax havens are actually huge global money funnels into the United States. Were the havens to be shut down, capital investment would become more expensive in the United States, and less investment means fewer U.S. jobs.

The problem is that many politicians do not understand (or perhaps do not wish to) how their previous actions caused many of the current problems and how their proposed "solutions" will make things worse. One simple example: The United States has the highest corporate income tax rate in the world (about 40 percent). Thus, other things being equal, if you were to start a business with customers in many countries, would you choose to incorporate in the U.S. or elsewhere? (Note: the average corporate tax rate of the EU countries is now less than 25 percent, and some countries have their corporate tax rate as low as 10 percent.)

It is worth noting that many of the same senators and representatives who created the Fannie Mae and Freddie Mac mess by ignoring basic economic principles are at it again.

Hint: If your competitor has lower prices (i.e., other countries with lower tax rates), the solution is lowering your prices (i.e., lowering your country's tax rates) rather than hypocritically criticizing your investors for seeking better returns elsewhere.

To his credit, John McCain has at least partially recognized the real problem and has proposed lowering the corporate tax rate to 25 percent instead of proposing measures that will only make the problem worse.

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