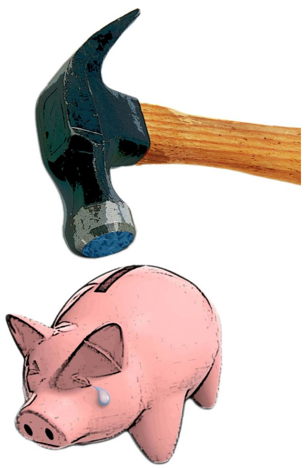
The Washington Times **March 26, 2013**



How Government Steals Your Savings

by Richard W. Rahn

UNCLE SAM HAS HIS OWN METHODS OF EXPROPRIATION

There has been global outrage about the proposal from the Cyprus government to have a significant one-time tax on those who have deposits in Cypriot banks. It has been correctly called a theft of private capital. What many fail to realize is that from the beginning, governments have been engaged in this type of theft, including the U.S. government.

As the debt crisis deepens, governments are likely to increasingly engage in various forms of capital expropriation despite the fact that such activities are economically destructive and morally offensive. The U.S. government is now doing precisely what the Cypriot government is proposing, but only with a lighter and more subtle touch. If you have a savings account, a CD or money market fund, there is a good chance that you are receiving less than 1 percent interest on the money, thanks to the Federal Reserve, while government-caused inflation is running at roughly 2 percent. Thus, you are, in effect, suffering a 1 percent expropriation of your savings each year -- without Congress ever having voted for such expropriation. It gets worse. The Internal Revenue Service taxes you on all the interest you receive as income, even though what you are actually receiving is only a partial return of your capital investment.

The IRS also taxes capital gains that are nothing more than changes in the price level owing to government-caused inflation. Again, this is a non-legislated expropriation of capital. The IRS does index income-tax brackets, Social Security payments and other entitlements for inflation, so it clearly recognizes that the current dollar does not have the same purchasing power as a dollar saved years ago -- yet it taxes the inflationary portion of the gain as if it were income, which it is clearly not. Such activities undermine capital formation and, hence, economic growth, job creation, the rule of law and civil society. I often wonder if Treasury and IRS officials who impose such rules, which again are not required by the tax law, are economically ignorant, or mean-spirited and amoral.

There are a number of actions governments take to expropriate capital without explicitly saying so. Some on the left have asserted that IRA accounts are "unfair" because they favor "the rich." They have proposed retroactive limits on amounts in IRAs, and/or taxing them -- both of which result in a taking of capital. A few years ago, Argentina took over private retirement accounts under the excuse that these funds would be safer if they were managed by government. The government has managed to squander much of what it seized, lied about the true level of inflation, and imposed currency and price controls. All of these acts were, in effect, an expropriation of the people's savings. Many governments at one time or another have engaged in one or more of these actions to fund their own overspending.

It is not hard to imagine the Obama administration demanding that all retirement accounts include a certain portion of government bonds, in the name of "safety." The real goal, of course, would to be to artificially increase the demand for government bonds, thus assisting the Fed in holding down interest rates to below inflation levels as a backdoor way of expropriating the people's savings.

Many people who realize the danger of holding savings, money market and retirement accounts that are invested in government bonds are moving to corporate stocks and gold. Even though both of these assets are likely to be safer than government bonds, holders of these assets will be subject to a tax on their capital, particularly when inflation returns, because taxpayers are required by the IRS to pay taxes on imaginary "capital gains" caused by inflation.

When it comes to trying to raid the people's pocketbooks, there is almost no limit to what governments will do -- and not just authoritarian or totalitarian regimes. On April 5, 1933, President Franklin D. Roosevelt issued an executive order making it a criminal penalty -- with a $10,000 fine and up to 10 years in prison -- to hold gold coins, gold bullion or gold certificates. The people were required to give their gold to the federal government in exchange for paper money at a rate of $20.67 per ounce of gold. In January 1934, Roosevelt, again by executive order, set the price of gold at $35 per ounce. The result was that the government, in effect, expropriated 41 percent of the value of the gold from its owners -- including legal tender U.S. gold coins. (Note: Inflation was less than 2 percent from 1933 to 1934.) There is perhaps nothing to prohibit President Obama from issuing a similar executive order, particularly given the Roosevelt precedent.

The only protection the people have against abuse by their governments is through the legislative process and, at times, the courts. For instance, a law denying the ability of government to tax inflationary gains on savings or assets of any type and to prohibit the government from again seizing gold or silver coins or bullion would provide some additional, but not full, protection against capital expropriation. I expect such a law could pass the current U.S. House of Representatives, but maybe not the Senate if the president said he was opposed to it. Nevertheless, the attempt should be made to protect savers, the economy and civil liberties.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

http://www.washingtontimes.com/news/2013/mar/26/how-government-steals-your-savings/