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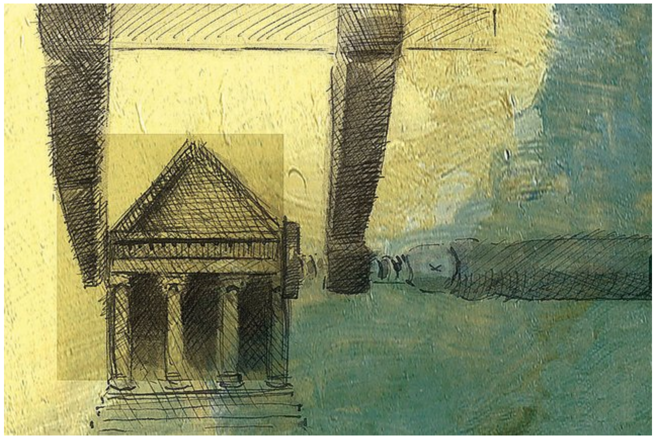

Making Regulations That Do More Harm Than Good

by Richard W. Rahn

GOVERNMENTS FORGET TO CHECK THE END RESULT OF THEIR RULES

Terrorists, money launderers, drug dealers and tax evaders use automobiles, airplanes, telephones, computers, banks and countless other goods and services that we all use. Yet all too many government policymakers think that if we make these things very difficult to use, the bad guys will go away — forgetting, of course, that all the rest of us suffer from mindless regulation and control. Banks and other financial service firms have become the targets of choice for the unthinking government class and its allies — because in popular culture, bankers are often cast as the evil villains, despite the fact that the world economy could not function without them.

Thirty years ago, the excuse for more financial services' regulation was that "drug dealers" used banks. That argument morphed into "banks facilitate money laundering," which was made a crime in the United States in 1986. Then after Sept. 11, 2001, that excuse evolved into "terrorists use banks." More recently, the justification for more rules has become "banks around the world enable businesses and individuals to avoid taxes." There are always new excuses for more regulation — but the demands are always the same: Banks must give more information about their customers and operations to government officials. This assumes, of course, that the government officials will not share the information with competitors, not use it for political or personal purposes, nor allow it to fall in the hands of evil governments or the bad guys. As anyone who can read a newspaper knows, none of this is true.

Development experts have known for decades that the most effective foreign-aid program is private remittances. Millions of people have left poor countries to get jobs in rich countries. Most of these people send money back home to their families — remittances — which enable their families to better their own lives and even start small businesses. They most often use money-transfer businesses, because the workers and the recipients do not have bank accounts, or they find that bank transfer fees are very expensive, particularly for the small amounts of money that are frequently sent. The unholy cabal of Treasury and finance ministries, tax collectors of major countries, the Organization for Economic Cooperation and Development, and the Financial Action Task Force are making it increasingly difficult for major banks to deal with the money-transfer service providers. They claim that drug dealers, money launderers, tax evaders and terrorists might use these services. This is true in the same way criminals also might use telephones, pencils and paper. Bankers can be held criminally liable if one of their customers or even a customer's customer misbehaves, so they are fearful of serving many types of businesses. Under these criteria, the secretary of the Treasury should be sent to jail anytime a criminal uses U.S. dollar bills. If governments are nothing else, they're hypocritical.

The legitimate and properly regulated money-transfer businesses cannot exist without corresponding banking relationships. If they are shut down, money transfers will be driven underground and run by criminal operators moving cash in the same way they do drugs. For example, the whole banking structure collapsed in Somalia during the civil war, so there is no banking structure in the country. More than $1.2 billion is remitted each year — by Somalian workers who have left the country — through legitimate money-transfer services, accounting for more than half of Somalia's gross domestic product. Nongovernmental organizations such as Save the Children, CARE and other humanitarian groups also rely on money-transfer services. If these companies are shut down, are the world's taxpayers, through official aid programs, going to make up the difference, or will the poverty worsen and create more terrorists?

The government class (particularly at the Treasury, Federal Reserve and Internal Revenue Service) is always in denial about the consequences of its actions. The same group that is undermining economic development in the Horn of Africa and many other poor regions is also promulgating a truly wicked and destructive regulation — which will make it too costly for many foreign financial institutions to service U.S. citizens and invest in the United States. This regulation, the Foreign Account Tax Compliance Act, will stop perhaps trillions of dollars of needed foreign investment from coming into the United States, costing millions of jobs and economic growth.

To be fair, it is not only the people at the IRS and Treasury who fail to think beyond Stage One and deliberately ignore sound cost-benefit regulation. The rocket scientists at the Food and Drug Administration last week decided that acetaminophen (Tylenol) must contain an additional warning label for Stevens-Johnson Syndrome — a rare skin disease that caused 12 deaths associated with acetaminophen (out of an estimated 1.3 trillion pills consumed over a 43-year period). That is one death per 100 billion pills. You are more likely to die by having a cow fall on you. Such an action unnecessarily scares people, many of whom will suffer far more by not taking Tylenol and similar products.

Those in government are unlikely to start considering the consequences of their actions until citizens are empowered to bring suits against those who act in such irresponsible ways.

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http://www.washingtontimes.com/news/2013/aug/6/rahn-making-regulations-that-do-more-harm-than-goo/