



Financial Tyranny against Political Enemies

BY RICHARD W. RAHN

THE FEDS HOBBLE THEIR CRITICS BY CHOKING OFF THEIR BANKING PRIVILEGES

If you were a political leader who wanted to control the population, but wanted to do it without using brute force, how would you do it? The answer: control how individuals and businesses spend their money by controlling their bank and other financial accounts. The Obama administration has set up a program to do just that, called "Operation Choke Point."

If the government can prevent you from spending your money on legal products and information services it does not like, it soon has control over much of your life. You might be thinking this could not happen in America, but it is. Increasingly, businesses and individuals engaged in legal activities are having their banking relationships severed because people within the Obama administration and some politicians do not like the particular activity.

In the modern age, it is almost impossible to operate without a bank account and making electronic payments directly or through a credit card company. Banks and other financial service firms, including payment processors, are very heavily regulated by the government. Also, the U.S. Treasury can label any bank in the world as a "bad bank," which means that other banks are, in essence, prohibited from having corresponding banking relationships with the "bad bank." Banks need to have accounts with other banks for the interbank payment system to work. Typically, small banks have such corresponding relationships with big banks, and the big banks have accounts at the Federal Reserve Bank — the ultimate bank. In sum, banks cannot function without corresponding banking relations, and the government sets the rules for these relationships.

Last year, the Justice Department started Operation Choke Point, which placed massive paperwork and information burdens on banks and money-payments firms that were servicing legal businesses that the administration doesn't like, such as payday lenders, adult entertainment, and gun and ammo dealers. In addition, the Internal Revenue Service and Treasury Department came up with new rules for most financial-services companies (including banks) on the globe that may provide financial services to American citizens and so-called American "tax persons," such as green-card holders. The excuse for these new rules was that some Americans were not paying the full income tax due on their foreign accounts. The fact is, the compliance costs of the new rules on the global financial system will be many times the projected revenue from the tax. Many foreign banks now refuse to open bank accounts for Americans abroad, causing them great hardship. Many foreign financial institutions are now reducing or eliminating their investments in the United States, which will reduce the number of jobs and, hence, tax revenue. None of this makes any sense from a tax or economic point of view, but if the government's real goal is to control and reduce the liberty Americans have over their own financial affairs, it is achieving it.

As noted, the government has already been putting additional regulatory burdens on banks that have clients with websites the government does not like — even though the businesses are legal in the jurisdictions in which they operate. The goal is to make the additional costs for the banks to service these businesses so high that the banks drop the businesses as clients. If the Obama administration thinks it has a right to go after banks that have gun dealers or dating services as clients because they are not in their definition of the "public interest," how long will it be before it goes after banks that have as their clients Tea Party groups or other organizations that oppose the administration? What happens if a think tank produces a report that the administration does not like? Will the think tank lose its banking relationship? How about newspapers that print critical articles the administration claims not to be in the "public interest"? Without bank accounts, newspapers and other news and opinion outlets will find it almost impossible to function.

The courts will not let the government directly censor the media or individual bloggers. However, if the government is allowed to make the banking relationships so costly for those it does not like that they cannot afford to operate, then the ability to disseminate free speech will have been extinguished. The Obama administration has already shown it will abuse tax and bank regulatory powers it has for political purposes.

The good news is Congress has the power to repeal the rules and regulations that have allowed the administration to engage in financial regulatory abuse. The bad news is the situation will only get worse if Congress fails to act.

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