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# The Return of the Tax Bullies

*by Richard W. Rahn*

Bully: "A person who uses strength or power to harm or intimidate those who are weaker."

In civilized societies, children are taught not to bully. The "#MeToo" movement has declared war on adult sexual bullies. But there is one area where the bullies have not been called out and, in fact, are often applauded, even though they have hurt thousands of times as many people as Harvey Weinstein. These bullies are government officials in big countries and international organizations who use their power to weaken the economies of smaller and often poorer jurisdictions — and their citizens by trying to deny them their right to set their own tax and economic policies.

Last week, the government of the Netherlands blacklisted 21 jurisdictions "deemed to have low-tax regimes." One of the specific sins of the blacklisted 21 was to have a corporate income-tax rate of 9 percent or less. It is widely agreed among tax economists that the corporate income tax is one of the worst taxes ever devised because it is largely a tax on capital — that is, a tax on productive saving and investment. It is hard to devise a tax that hurts real wages, job creation and economic growth more than the corporate tax.

Most of the jurisdictions on the blacklist have a much lower per-capita income than do the Dutch. The bottom line is that countries that have refused to adopt a stupid tax that damages their own citizens are being bullied by a much richer country.

Powerful countries in centuries past would conquer poorer countries and then exploit their resources as a form of tribute. In the modern world, the language has been adulterated to make it sound as if the exploiters are the victims of the poorer countries — when the truth is quite the opposite. The low-tax jurisdictions allow for the accumulation and proper global allocation of capital to its highest and best use. The falsely labeled so-called tax havens are, for the most part, small-population places that can only absorb a limited amount of investment, so most of the funds that flow through them are invested in the large rich countries.

The large rich nations have created international organizations like the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) to facilitate the restrictions on economic freedom and growth of the smaller blacklisted entities. The economic establishment will scream at my characterization of this immoral system, which persists, in part, because of the constant flow of highly paid professional staff between the international organizations and individual governments. It is a racket rife with conflicts of interest.

It is particularly ironic that the Dutch are leading the latest charge against the smaller lower-tax jurisdictions since they have, for decades, been masters at creating special tax deals, particularly for multinational companies. They have managed to do so through a web of tax treaties that enable many companies to escape much in the way of income tax. "In a recent study by the government agency, Statistics Netherlands, found that the country had received 4.6 trillion euros in foreign direct investment in 2017. However, less than a fifth of that money remained in the Dutch economy, while 4.2 trillion was routed through shell companies to other jurisdictions."

In the United States, the IRS has long acted as a tax bully. It is often aggressively mean-spirited when going after individual taxpayers, particularly high-profile targets like Martha Stewart, but protects its own from any prosecution, even when the evidence is overwhelming about massive wrongdoing (remember Lois Lerner, who was never even charged).

Over time, tax abuse by governments is corrected either by violent revolts (e.g. the American Revolution) or by passive resistance (tax avoidance or evasion). Resistance can take many forms, including people and their money fleeing the high tax jurisdiction. In the United States, a number of high-tax states are losing population, including Illinois, New York, New Jersey and Connecticut. The beneficiaries of the exodus are states without a state income tax, like Florida. (A related topic for another day is how many low-tax jurisdictions provide a better level of government service than high-tax entities.)

What is most likely to discipline the high-tax countries is the development of various types of crypto and digital currencies. Many of them will be nearly impossible for governments to monitor without spending more on enforcement than the transactions are worth. The new currencies will allow the movement of wealth around the world in near real time, largely undetected.

The more that governments try to clamp down on so-called tax havens, the greater the incentive they provide the global private sector to develop ways to avoid the tax bullies. The smartest people on the planet go to work in the tech companies, not in the tax departments of government — and that fact will ultimately protect economic opportunity and individual liberty.

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