Opportunities For International Financial Centers In The 21st Century

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I am concerned, and I surmise you are, that the OECD is campaigning to tax mobile capital wherever it may seek shelter. It tells us that international tax competition is “harmful,” and should be stamped out. Is this just ceremonial, like so much politics? I fear not. It is more like a “smart bomb,” with your name on it. When a powerful international political organization officially brands you as “harmful,” look out. “The arts of Power and its minions are the same in all countries and in all ages. It marks its victim; denounces it; and excites the public odium and the public hatred, to conceal its own abuses and encroachments.” — Henry Clay, U.S. Senate, 14 March 1834.

One of those “arts” is slander. Some Administrators become all too handy at violating the Ninth Commandment, “Thou shalt not bear false witness against thy neighbor,” a sin so damaging to the social fabric that Moses ranked it right up there with the Sixth, “Thou shalt not murder.” Defamation anticipates oppression, conditioning suggestible minds to accept it.

The OECD tentacles extend deep into the scholarly world, and get quick action. The National Tax Journal, a sedate scholarly outlet that should be detached from political pressures, picked up the theme instantly. Joann Weiner of the U.S. Treasury’s Office of Tax Analysis (OTA), and Hugh Ault of the OECD itself, and the Boston College Law School, rushed into print in the September, 1998, issue in a slavish rehash and endorsement of the OECD report. The journal review process is ordinarily so glacial that you could discover the meaning of life and take 5 years to get published, but Weiner and Ault picked up a Report published April 27, pondered, consulted, wrote their manuscript, had it “peer-reviewed” with breathtaking speed and jumped a long queue: the Journal published it in September, four months after the OECD Report itself.

More recently, the same Journal published two articles, one of unprecedented length (37 pages), on international tax competition. These are more in the literature-reviewing, hemming-and-hawing style, but John D. Wilson, the major author, concludes: “This assessment suggests a role for intervention by a central authority … ” — a strong avowal for an academic more disposed to issue caveats than to affirm.

There are quite a few academics who, like myself, do not agree that what you do is “harmful” to the world. We do not teach our students you are sneaky free riders. (We may not think you are plaster saints, either, but that is another topic for another day, and we’re not perfect, either.)

I. Precedents

So the OECD tells us international tax competition is "harmful." You may find their own words in the Report of their Committee on Fiscal Affairs, Harmful Tax Competition, an Emerging Global Issue, which the OECD Council approved on April 9, 1998, and issued soon thereafter as a "Recommendation to the Governments of Member Countries." Anyone who can stay awake through its deadly prose will recognize a very live assault on your profession, and an uncritical embrace of personal income taxation at high rates, imposed worldwide. You may find a readable summary in my response of August, 1998, "International Tax Competition: Harmful or Beneficial?"

The OECD ideal is tax "uniformity" among nations. This has a familiar ring to any economist who follows fashions in the ideologies of public finance. As one precedent, closely analogous, in 1969 or so, California pundits told us that interurban tax competition was harmful, because it kept some cities from raising their sales taxes. To solve this problem, they invoked the doctrine of "uniformity": if only every city raised the sales tax, no retailer or buyer could escape it by fleeing to a city without one. Accordingly, policymakers forced every city to impose a sales tax, piggybacking on the existing state sales tax. The State collects it, and returns it to each municipality of origin. A few years later California cut its local property tax rates to 1/3 of their former level, and virtually froze assessed values (the tax base). It replaced the funds with state subventions, financed by raising state sales and income taxes, taxes on upward mobility, and subjecting its once- independent cities, counties and schools to a high degree of state control.

A "uniform" sales tax is NOT uniform in its effects. Retailers in rich locations can bear it and survive; those in marginal locations cannot. It drives a tax wedge between buyers and sellers, which only the rich locations have the cushion to absorb. The result is especially to penalize poorer neighborhoods and regions and communities.

There are unintended consequences. Interurban competition survives, but takes the new form of competing to attract retail trade (and hence sales tax revenues) by overzoning for it, and by subsidizing new retail outlets in various ways. Those best able to subsidize retailers are the cities already richer, adding to the bias against marginal locations.

A byproduct of that is a retail vacancy rate approaching 33%, an enormous private and social cost. Every empty store entails a wasted lot underneath it, and vast unused parking spaces around it, in a ratio of about 5 square feet of parking to one square foot of floor space.

II. Internal contradictions of the OECD

Such centralized control is also the aim of the OECD campaign against tax competition. It is contradictory for those who preach for competition in the private sector —what they call "liberalization" — to call for suppressing competition among governments, but that is what they are doing, in increasingly strident terms, as quoted below.

It is also incongruous for the OECD to fault tax havens for "distorting" world investment patterns when their own internal systems distort investment on a grand scale. For example, their Report (p.31) brands a nation as "harmful" if it lets a person deduct costs when the corresponding income is not taxed. That sounds reasonable, and yet that is the standard treatment of much real estate income in the U.S.A., the largest member of the OECD. The costs of ownership – interest and property taxes — are fully deductible. The cash flow is offset by overdepreciation until the property may be sold. The resulting nominal gain then gets special treatment as a “capital gain,” often resulting in no tax at all, and at most in a lower tax rate, at a deferred date. If it is an owner-occupied residence with curtilage and pleasance, or a private pleasure-ground, however vastly spreading and preemptive, there is not even a nominal tax on the imputed income. A large share of the land in affluent nations today is in modern country manors, whose popularity rises in step with the value of their freedom from income taxation, i.e. the tax rate on cash income.

Thus, OECD members might review Scripture: “First pick the beam from thine own eye; then thou may see better to pick the mote from thy neighbor’s eye.”

III. What is “harmful”?

The OECD says a “harmful tax regime” is one that “attracts mobile activities.” Many of us see that, rather, as a mark of a good system, but I’ll return to that. First, let’s follow them along a way. Right away we think of low taxes, and that is what the OECD means — on p.27 they specify low income taxes. They, and allied international organizations like the EU, also have a history of jumping nations whose VAT is too low to suit them.

That view is too simple by far. Mexico, for example, has very low taxes, but repels both capital and labor anyway. A nation may also attract mobile activities and factors in two other ways. One is by offering superior public services. That, for example, is how many of us became Californians, lured by the State University. The other is by a tax structure that favors mobile activities without stinting on public services. This may be done simply by targeting taxes on IMmobile resources. Let’s inspect those points closer.

A. Richness of the tax base

A jurisdiction may enjoy both high public revenues and low tax rates if it be favored with a high tax base. Alfred Marshall, renowned Edwardian economist, warned about the excessive magnetism of London, and, within Greater London, of the richer suburbs. Vancouver, B.C. is another example of Marshall’s principle. It is such a magnet for Canadians that the Provincial Government deliberately fosters developments elsewhere in the Province at the expense of Vancouver. The whole Province of Alberta is another such magnet, thanks to its monopoly of petroleum in Canada, and its effective system of raising Provincial revenues therefrom. The State of Alaska is another magnet. It has the highest taxes per capita of any U.S. state, but they are paid mainly by a handful of giant oil companies with favorable leases on State-owned lands. Its magnet takes the very direct form of an annual “social dividend” of over $1,000 per man, woman and child, in cash. More generally, though, the whole world is divided among tax jurisdictions with richer and leaner tax bases, ranging along a wide continuum.

In all those cases, the “distortion” caused by high public revenues is in attracting mobile factors, not repelling them. It is an advantage enjoyed by the major OECD nations, vis-a-vis those less favored by nature, by virtue of their occupying the best locations on the planet. It seems rather shabby of them to deny nations with poorer lands the best recourse available. If anything, the situation calls for helping the poorer nations.

Poorer nations may replicate the magnetism given by natural advantages, and attract mobile activities, in two ways. One is by maintaining a more efficient and honest government: more service at lower cost. This is what competition is supposed to achieve in the private sector: why not in the public, too?

The other way is by adopting a magnetic tax structure. There are taxes and then there are taxes. The OECD Report was written by people wearing blinders that keep their eyes and minds glued only on kinds of taxes that penalize and repel mobile activities. Let us liberate ourselves from that fixation. There are taxes that do not repel mobile factors, but positively attract them. Now that is Tax Competition! The OECD ignores it, and apparently bids us ignore it, too, for it will embarrass nations with repressive and repellent tax structures. I will give you some examples.

B. Magnetic tax structures: the case of California

The U.S.A. is a great laboratory for testing tax structures. It contains 51 or more separate systems, with free migration of labor and capital guaranteed by The Constitution.

The extraordinary growth of California from about 1900 to 1978 shook and recast the economy of the U.S.A., and parts of the whole world. It was not done with low taxes and skimpy public services. It was in part the product of a tax structure that was Magnetic (compared with other states).

California's natural advantages (a mixed bag) did not promote much growth after the 1849 Gold Rush and the Civil War, when California growth lagged badly for 20 years or more. Neither did the transcontinental rail connection, completed in 1867, promote much growth. Eventually, though, INTERNAL growth-oriented forces prevailed. California provided superior public services of many kinds: water supply, schools and free public universities, health services, transportation, parks and recreation, and others. It held down utility rates by regulation, coupled with resisting the temptation to overtax utilities.

That all required tax revenues. California had oil, but did not tax severing it, and still doesn't. Its wine industry went virtually untaxed. There was and is hardly any tax on its magnificent redwood timber, either for cutting it or letting it stand. There was no charge for using falling water for power, or withdrawing water to irrigate its deserts. Most of those are good ideas, but they are not what California did.

Its main tax source was another kind of immobile resource: ordinary real estate. Its tax valuers focused their attention on the most immobile part of that, the land, such that by 1918, land value comprised 72% of the property tax base – and on top of that there were special assessments on land.

People and capital flooded in, for they are mobile in response to opportunities. California became the largest state, and a major or the largest producer of many things, from farm products up to the "tertiary" services of banking, finance and insurance.

C. Was California's tax competition "harmful"?

On the contrary, in a world of self-aggrandizing governments, intergovernmental competition is all that makes life bearable. Competition from nations or cities with rich tax bases can distort the allocation of mobile factors, it is true, but that is not what OECD is targeting. Rather, they are targeting the magnetic tax structures of governments that are efficient and economical.

If California competition were harmful to the world as a whole, we would have to conclude by analogy that the discovery of the New World was, too: Columbus should have stayed home. The Lucayo Indians whom he exterminated here would probably agree, I must admit; so might the Aztecs and Incas whom the Spaniards looted. There was a negative side to the migration of European and African people and capital to the New World, yet few would suggest that many people, on balance, would be better off today in a world shrunk to its eastern hemisphere.

California became the largest producer of cotton, for example, displacing a good deal of eastern cotton. The damage to eastern producers was offset by an equal gain to cotton processors and consumers, with a net gain from higher usage due to the lower price. Eastern cotton lands were released for other uses, like reforestation of lands marginal for cotton. (To the extent this was due to subsidies, and racing for cotton quotas during the Korean War, I do not vaunt it — but there are few pure examples of anything in this complex world.)

California attracted eastern workers, tending to draw up eastern wage rates. The damage to eastern employers was offset by an equal gain to their workers, with large net gains from two sources. One is a more equal distribution of wealth; the other is a drop in welfare costs and social problems like crime that would have ensued had the "Okies," for example, had to remain in the Dust Bowl instead of finding new lives in California. Even the braceros, the Hispanic "guest-workers" who toil in the fields, send money home, relieving problems in their homelands. It would be better yet if they could become small landowners and work their own farms, but in this imperfect world we observe what is, without denying that it might and should be better. What is involved here, in spite of its well-publicized abuses, and glaring shortfalls, is turning useless and even criminal people into productive people.

As to capital, California offered a higher return on that, too. There emerged what people called "the continental tilt of interest rates," higher in the west, to overcome the frictions of space and draw eastern capital to where it was more welcome. Over time, buildings that wore out in the east were replaced in California.

Did California's
vigor seem too ambitious, so as to damage others? If so, as Shakespeare had Marc Antony say, "it were a grievous fault," worthy of suppression by an OECD. Most economists believe, however, that investing is the motor that drives prosperity, and raising investment opportunities is the key to the ignition. I certainly agree. OECD does not, apparently, for last July it pressured Spain, an emerging member, to bring down its interest rates to the "euro convergence rate" of 3.5%.

Apparently any nation pursuing "harmful tax policies" to raise investment opportunities would upset some delicate balance or grand plan. May we not anticipate pressure on Ireland to raise its corporate income-tax rate on manufacturers drawn from elsewhere? Will the new European Central Bank not demand Irish cooperation in holding down continental interest rates?

California competition did tend to pull up interest rates back east, hurting some borrowers. These losses, however, were offset by equal gains to savers, with a net bonus from the rise of saving caused by higher interest rates. There are those who would intuitively assume that the distributive effects are regressive, but that is doubtful. In this case the truth is counter-intuitive. Equity earnings in stocks and real estate vary inversely with interest rates. Equity values are impacted even more, because higher interest rates translate into higher capitalization rates, which mean lower Price/earnings (P/e) ratios and lower capital gains.

This is too big an issue to settle in a few words. If you find it counterintuitive, I can only ask you to think about my argument above. On balance, in my opinion, a rise of interest rates has an equalizing effect on the distribution of wealth, and the more so when the initiating cause is a rise of investment outlets.

The net "micro" or allocative effect of higher interest rates is to move capital into higher uses, as directors impose higher "hurdle" rates on their managers. (A "hurdle" rate is a minimum acceptable rate-of-return on any prospective investment.) Hurdle rates rose, not because there was less capital overall, but more opportunities to invest it productively.

Basically, California's remarkable 20th Century growth extended the American and the Canadian tradition of the western frontier, in the spirit of Thomas Jefferson, as a "safety-valve" for mobile resources oppressed in the older states. It limited the power of the haves over the have-nots, with net gains all around.

Was California growth the product of untaxing wealth, and dumping taxes on poor workers and consumers? The OECD says competition is harmful because it limits the power of OECD nations to tax "wealth," thus more-than-intimating that they are upholding the interests of labor, like good continental European social democrats. In this, I suggest they have misstated the issue, setting an agenda for a false and futile debate, fooling both their friends and their critics, and possibly even themselves (although I am cynical as to the last point). Their premise, at least the one they state, is that "wealth" is more mobile than labor. Some wealth is, of course, but California relied on the property tax, and, to repeat, 70% of this tax base was land, pure land, totally immobile. The OECD treats land like one of those four-letter words that is unmentionable. So do its academic retainers, who are well-trained to believe that land is just as mobile as capital. This makes them completely useless to analyze the OECD allegation that a nation's tax regime is "harmful" if it attracts mobile resources.

Was California growth the product of southwestern pioneer vigor? Compare if with New Mexico, not far away. New Mexico has made itself little more than a Third World Nation masquerading as an American state. Since before statehood, an oligarchy of giant landowners, in the million-acre class, have dominated everything, and kept taxes off their vast lands. New Mexico raises a lower fraction of its state and local revenues from the property tax than any other state. Its economic base, such as it is, is mainly the product of what Senator Albert Beveridge of Indiana called "the free coinage of western Senators." New Mexico gets more federal spending per capita than almost any state, but that and scenery are about it. It is picturesque: its boosters call it "The Land of Enchantment," but The Enchanter has cast a sleeping spell on its local enterprise. It has the highest poverty rate in the U.S., and, in its wide open spaces, nearly the highest rate of violent death in the U.S. — itself a violent nation.

D. Recent changes in California.

In 1978, California took a giant step backwards by enacting its "Proposition 13," capping property tax rates at about 1/3 of their previous level. The national ranking of its services began a precipitous fall; so did its per capita income. Struggling to maintain itself, the State has raised sales and income and business taxes to unprecedented levels. These are taxes that "shoot anything that moves," and spare immobile resources that don't. The result has been the rapid "Alabamization" of California, as we have fallen to join Alabama with the worst school system in the nation. Inmigration has changed to outmigration, and of those who stay, California has by far the largest prison population of any state, so large that the union of prison guards is now our most powerful lobby, and building prisons is our fastest-growing construction industry. None of these people, prisoners or prison-builders or guards, are producing goods and services for others, but are not counted as unemployed, and our unemployment rate is above the national average even without them.

Today if we look for a new frontier we find it in, of all places, one of the original 13 colonies, New

Hampshire, with its poor soils, marshy peneplains, harsh climate, impassable mountains, and lack of natural urban confluences. What New Hampshire has now is the least repellent tax structure in the nation: it does not tax personal income or sales, while 2/3 of all its state and local revenues come from the property tax. It has bucked the national trend toward taxing income and sales, and IT HAS PROSPERED! (Details are in a Chapter by Richard Noyes and the speaker in Fred Harrison (ed.), 1998, *The Losses of Nations*.)

IV. Is tax competition beneficial?

A more efficient government would offer superior public services without higher taxes; or the same services with lower taxes. Is this harmful? Those who sanction competition to regulate private enterprise to attract suppliers and customers, and undercut monopolies, should by the same reasoning also endorse competition among governments to attract people and capital. Such competition is a major defense against the tyranny that a monopoly government can exercise.

Every government has some latent monopoly power by its nature — a monopoly of power over certain lands. The behavior of OPEC during the 1970s, and the threat posed by Saddam Hussein more recently, illustrate the point, but by no means exhaust it. Governments try especially to attract industries that are clean, safe, and generative of fiscal surpluses. That includes tertiary industries like yours, of course. Through the OECD, they will fight to keep them from migrating elsewhere. As Baroness Elizabeth Symons of Vernham Dean, Minister for the Overseas Territories, remarked recently, London itself is the largest “offshore” financial center.

The benefits of intergovernmental competition are exemplified by an era in European history. The 16th Century, the age of nation-building, also saw a worsening in the returns to the mobile factor, labor. Before that, during the anarchic Wars of the Roses in England, for example, dozens of petty tyrants competed to hold onto their retainers and archers, making the 14th and 15th Centuries a golden age for English labor. Competition tempers Tyranny. Economic historians have shown that the material living standards of labor in this golden age were higher than in the 19th Century, for all its technical progress. (The Church used its vast landholdings to provide the welfare system of the period.) The Tudor monarchs then put an end to such wasteful competition among tyrants. They let their favorites enclose the commons, and replace people with sheep. They let thousands be cast loose to roam as “sturdy beggars,” and then whipped them back, landless and desperate, to serve on the masters’ terms. Thus was the modern age born in agony, an agony brought on by ending competition among governments.

V. Should tax regimes be the same everywhere?

Uniform taxation does not produce uniform results, a phenomenon that tax-economists acknowledge in their theorizing as “The Ramsey Rule.” Having nodded to it in theory, many of them then pass over it in prescribing actual tax policy — a maddening ambivalence that I will not try to explain here, but only deplore. They would improve their policy prescriptions if they gave more weight to the Ramsey Rule. In some disfavored regions, or “lean territory,” at the edges of settlement, the land generates little or no surplus above the opportunity cost of the mobile factors. Labor just makes wages; capital just makes enough to pay interest. Impose a uniform GST, PAYE or VAT and it makes economic life non-viable at these lean edges, because there is no taxable surplus there: you can’t squeeze blood out of a stone or a turnip. The giants of classical political economy (Smith, Ricardo, or Mill) saw this clearly; so had their mentors, the French Physiocrats like Quesnay and Turgot. Thomas Jefferson, a student of the

Physiocrats, also saw it clearly, which is why he opposed the excise taxes favored by Hamilton, which bore heaviest on the frontiersmen whom Jefferson represented so well. His brilliant Treasury Secretary, Albert Gallatin, was a French-Swiss immigrant who also knew his Physiocracy well.

A modern example is "the Backveld" of South Africa. South Africa imposed a VAT with the very purpose of extracting taxes from poor blacks in the Backveld. The result was to sterilize the Backveld economically, to scorch the earth and drive its people away to squat in extra-legal shacktowns like Soweto, near Johannesburg, and The Crossroads near Cape Town. It forced them to survive by hawking in gray markets on the streets and roadsides, turning also to drugs, prostitution, and crime. What else were they to do?

A rich place like, say, Vancouver might impose a VAT and survive, but it is not clear that it should, even so. Hong Kong is the sparkling paragon of a rich territory that embraced magnetic tax policies. As a Crown colony, it redoubled its natural magnetism by shunning repellent taxes of most kinds. Its public coffers overflowed, nonetheless, because the Crown owned all the land there, and did a tolerable job — not excellent, but better-than-average — of collecting much of the rent for public purposes. With a tiny land area, about 5% of The Bahamas, it became a world center of both secondary and tertiary industry, with a population of 5 millions, and a high per capita income by world standards. Those who have eyes to see, let them see.

National governments not owning their own land can replicate the Hong Kong effect simply by emulating California of yesterday, and New Hampshire of today, basing most of their taxes on the immobile factor, land. Tax capital, and capital flight is a hazard, but land never flies nor flees. Tax labor, and brain-drains are a menace, but land stays home.

VI. Choices for the OECD nations

If the OECD nations are concerned about tax competition, they have at least three choices.

- **A. They could impose exchange controls to prevent capital export**, as attempted by various authoritarian states before World War II, and some welfare states afterwards. This approach had its day, and is now a proven failure, although that is not stopping some desperate failing Asian nations now from giving it another whirl.
- **B. They can try muscling small nations into copying, and helping them enforce, their own repressive tax systems.** This means and requires extending their sovereignty worldwide, as envisioned in the OECD Report we are discussing. It is in the spirit of the times, in this age of world cartels, MNCs, the International Telecommunications Union, world radio and TV networks, the IMF, the World Bank, the WTO, the MAI (another OECD boon), the Trilateral Commission, Interpol, the world war on drugs, the U.S. as world policeman, etc. It is something like the Holy Alliance that undertook to police each aberrant nation of post-Napoleonic Europe, only more ambitious: its turf is the whole world, with no exceptions or refuges, not even any speck of coral in the wide oceans. Any independent force threatens the whole structure, so it demands nothing short of worldwide domination: a megalomaniac goal, indeed.
- The megalomaniac mindset is seen in a recent statement from Italian Treasury Minister Carlo Ciampi that the IMF's interim committee must become "the embryo" of an economic government for the world, backing recent calls by Michel Camdessus for the interim council to become a body producing binding directives rather than recommendations (ROME, Dec 17 (AFP)). Baroness Elizabeth Symons of Vernham Dean, Minister for the Overseas Territories, makes it even plainer

when she tells us that the new OECD guidelines are intended not just for members and their territories, but “non-members as well. It is, therefore, an ambitious attempt to create a new international standard to apply equally to all jurisdictions.” (Address to the British Virgin Islands Financial Services Seminar, September 1998.) Bahamians, take note: did I say this is a smart bomb with your name on it?In the short run The Bahamas seem positioned to benefit by your independence. The Edwards Report of the British Treasury, quickly endorsed by Robin Cook’s White Paper, declares an intent to pressure the Dependent and Overseas Territories into following the UK along the OECD lines. Cook is also cajoling, holding out the bait of non-reciprocal UK citizenship for citizens of islands that comply. (One wonders if he would do this if Hong Kong and the Bahamas were still British?) Those territories are bending over backwards to appear cooperative and compliant. This would seem to open opportunities for The Bahamas to pick up new business. This honeymoon, however, should it occur, would likely lead to new OECD pressures on The Bahamas.

- **C. They could reform their own domestic tax systems** along the lines demonstrated by California before 1978, by Hong Kong before 1997, and by New Hampshire today. They could lead us to a world of benign tax competition. They could move away from extra-territorial taxation to purely intra-territorial taxation; away from in personam taxes towards in rem taxes; and away from a mobile tax base towards a more immobile tax base. They are not headed in those directions today, but if one or two nations can face them down, they will have no other choice. Freedom anywhere foils tyranny everywhere. Tax tyranny is a balloon: seal every leak, or it collapses.

VII. Tax intelligence

A cognate concern of the OECD is extending the sovereign powers of its members to pry into private dealings in other nations. The French verb percevoir has two meanings: one, of course, is “to perceive”; the other is “to tax.” How very perceptive of the French to notice that connection. To tax some thing or event you must first conceive it and see it. Income-tax agents are necessarily voyeurs. They are frustrated and offended by privacy provisions in other nations and, as the OECD Report makes clear, they believe they have the moral authority to pierce those veils, and to invoke political force for the purpose.

Must it be so? Is taxation always at war with personal privacy and national sovereignty? Fortunatel y, no. The OECD Report tacitly premises that all taxes must be on a personal (or corporate) basis: what the lawyers call in personam. Some other taxes, however, are levied on a thing, or in rem. Import duties, for example, are levied on bringing in dutiable goods, regardless of who does it, or where they come from (although sometimes this is considered). No deep inquisition is required into all the personal affairs of the importer. Duties are enforceable simply by refusing admission until they are paid or, in extreme cases, seizing the goods. Only in criminal cases are persons as such penalized or jailed.

There are upper limits on feasible tariff rates. Many national borders are long and penetrable. Many nations are lowering or avoiding import duties in the interests of freer world trade, the strong trend of the times. Many groups rebel against high domestic consumer prices. The weight of opinion is that import duties, and all such consumer taxes, are regressive, and socially undesirable.

A purer case of in rem taxation is the tax on real estate. Such taxes are a lien on the land, not the owner. Sovereignty over land is unambiguous. Each parcel of land is either inside or outside the taxing jurisdiction, regardless of who owns it, or where he or she resides, or what other assets he or she may own, or other income he or she may receive, here or elsewhere. No international tax treaties are needed in order for a nation or smaller jurisdiction to tax its own land. No information need be demanded of any other nation or its institutions, as a rule. The important exception is a severance tax on minerals exported by MNCs that use internal pricing to transfer profits to low-tax jurisdictions – a case calling for drastic remedies on the home front.

Adam Smith wrote in 1776 that if you tax stock (movable capital) it will be concealed or removed. Worse, some forms of capital are more concealable and removable than others, so a tax on capital, even on ALL capital, is necessarily nonuniform. Knowing the quantity of mobile capital requires a deep inquisition "as no people could support" (*Wealth of Nations*, p. 800). Capital is never uniformly taxed, and never can be, even within one nation. In today's world economy, with instant electronic encrypted international fund transfers, the ability of creative people to avoid and evade taxes on mobile capital has outrun even Smith's pioneering insights.

The OECD's response is to call for more enforcement, and to scapegoat small tax havens. To enforce an income tax today calls for nothing less than a worldwide intelligence network with vast powers of search and seizure.

It also calls for worldwide thought-control to give it moral authority and general support. The end of this thought-control is to criminalize income. Since that is too absurd to proclaim in so many words, the OECD nations have added a step: it is not criminal to earn income, but it is criminal to do so and not "admit" it and pay a fine. People's minds have been conditioned to tar that as "cheating," as though it were a kind of moral lapse. It is roughly parallel (without judging the case) with Kenneth Starr's approach to President Clinton: what you did was neither criminal, nor public business; but failing to report it was both, and impeachable. The OECD Report is the latest move in a longtime thought-control campaign to universalize that attitude toward earning income. One earns income mainly by producing goods and services, so that mindset is stiflingly, massively counterproductive. More: to impose a false, self-serving "morality" is the worst kind of immorality.

We have come a long way since Adam Smith gave people credit for not supporting deep inquisitions into their affairs. How he would boggle at the inquisitions "supported" or tolerated today. However, now it has become clear that income taxation cannot endure without a worldwide intelligence network: a worldwide inquisition by the revenue agents of every nation into the records of every other nation. Here, I submit, is where to draw the line. Here is where a determined small community, jealous and precious of its sovereignty, can defy, puncture and collapse a bloated world tyranny. It's been done before.

Messrs. Gibson and Bastian, speaking at this conference, indicate a determination to uphold Bahamian independence. I wish them, and you, the best of luck in doing so. Don't let anyone make you feel guilty: tax competition is not harmful, but benign. You will be doing not just yourselves, but the whole world, a good turn.