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THREATS TO FINANCIAL FREEDOM

Statement of HON. RON PAUL OF TEXAS

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- Mr. Speaker, I recently had the pleasure of hearing remarks made by our former House colleague, Bob Bauman of Maryland, at a meeting of the Eris Society in Colorado. Since his talk centered on banking, financial and related privacy issues pending before the Congress, I want to share his view with the House as an informed statement of the threats to financial freedom posed by the Clinton administration's policies.

- Mr. Bauman, the author of several books on offshore financial topics, serves as legal counsel to The Sovereign Society (http://www.sovereignsaociety.com), an international group of citizens concerned with the government encroachment on financial freedom.

- Remarks of Robert E. Bauman, Eris Conference, Durango, Colorado, August 12, 2000.

I take as my theme two quotations, one from the Gospel of St. Matthew, 20:15--`Do not I have the right to do what I want with my own money?'

The second is from Mayer Amschel Rothchild (1743-1812), founder of the famous banking dynasty, the House of Rothchild, who said: `Give me control over a nation's currency and I care not who makes its laws.' Both quotes have relevance to what I have to say.

If you are fortunate enough to fall into the estimated group of six million millionaires worldwide now in existence, a number noted in a study by Merrill Lynch last year, you automatically may be a criminal suspect.

I say `suspect' because Citibank views these wealthy people, who control approximately 21 trillion-six hundred billion dollars, as potential financial criminals simply because of their wealth. Citibank announced last year that their 40,000 private banking clients, each of whom had to prove a personal net worth of $3 million in order to qualify for the bank's services, are watched every minute of every day to see if they may be engaged in money laundering or other financial crimes. I am certain other banks do as well.

The constant surveillance is accomplished, as is most privacy invasion these days, by a special banking computer software program called `America's Software' which allows every transaction in any account to be watched constantly. It produces a daily record for bank officials, who now have certain obligations imposed by US law that require the reporting of `suspicious activities' to federal agents. Transfers of large amounts of cash or other unusual account activity rings alarm bells and results in an investigation not revealed to the `suspect' banking client under penalty of law.

We can conclude from this Draconian arrangement, for one thing, that a person of great wealth who establishes a private banking relationship with a major bank now is presumed to be a

I was at a conference on April 22, 1999 in Miami sponsored by the respected publication,

Money Laundering Alert. Lester Joseph, Assistant Chief of Asset Forfeiture and Money Laundering for the Criminal Division of the U.S. Department of Justice, said that the U.S. Government officially views any offshore financial activity by US persons--any offshore financial activity--especially the use of tax havens, as potential criminal money laundering activity.

Now, it's quite obvious that financial activities in which a person engages when wealth is moved offshore for asset protection, for broader investment potential, for any number of legitimate reasons, for possible tax savings, any of these moves, are innocent in themselves. Former Secretary of the US Treasury, Robert Rubin, admitted in congressional testimony last year, it is the intention behind these innocent financial moves that government agents want to police for possible criminal investigation and prosecution.

So now we have the government money police targeting normal financial activities that until recently have been perfectly legal, simply because a person decides in his own best interests, to go offshore. We all know that in the US, African-American, Latino, Asian-American and other racial minorities have been unfairly subject to police `profiling.' Add to that list of `presumed guilty,' Americans who engaged in offshore financial activity.

I'm not a defender of wealth per se. I wish I had wealth to defend, but I am a defender of freedom. There can be no freedom, personal or otherwise, without wealth, without the right to own and use one's own property as one see fit. Remove property rights and you have no means to sustain life for yourself or your family. But now the acquisition and accumulation of productive wealth has become officially suspect in America.

For the last 20 years the policies adopted by the United States and allied governments have constituted a stealth war against wealth and against financial privacy. While the free flow of capital is extolled as appropriate and essential, the governments of major nations have turned upside down the traditional role of banks and banking. As a child I was made to believe that the people you dealt with at your bank and other financial institutions were fiduciaries to whom you could entrust your money.

Now we have what I call the `Nazification' of the financial system, not only in America but worldwide. I don't use that term lightly. As a matter of historic fact, the civil forfeiture laws in this country mirror in many major respects the Nazi forfeiture laws that were used to confiscate the property of the Jews. I am a member of the board of directors of Forfeiture Endangers American

The genesis of this `wealth=crime' policy can be found in that infamous political and moral failure, the so-called `war on drugs.' One of the primary weapons of this ill-begotten war has been civil forfeiture, where police seize cash and property based on rumor or hearsay. In 80% of the cases, the owner is never charged with any crime, but usually the police keep the loot. Many police have long since turned their attention away from drugs, and instead pursue the cash and property they use to lard their budgets. Thankfully, my former colleague, Henry Hyde of Illinois, led the successful legislative battle for some much needed civil forfeiture reform which recently became law.

As part of the drug war that progressed and expanded (but is never victorious), the catch all crime of `money laundering' was invented: an all purpose federal prosecutors' dream. The anti-money laundering statutes that have grown like a malignancy. Charges of money laundering now routinely are shown in with almost every possible criminal indictment, often as a bargaining chip and/or a means to confiscate the wealth of the accused even before trial. Try hiring a good defense attorney when your bank account has been frozen.

Laws enacted under the banner of the war on drugs intentionally have forced bankers to become spies for the federal financial police. The bankers' primary allegiance now is not to customers or clients, but to the government.

At the Miami conference, scores of bank officials were instructed how to question clients, watch account activity, and report any `suspicious activity'. Suspicious activity reports (SARs) are filed by the tens of thousands every month, produce voluminous computer records, encourage potential criminal investigations, allow prosecutors to bully citizens, but in the end very few SARs put criminals in jail. What this success process has produced is the mushrooming of federal prosecutorial staffs, US attorneys budgets, the power and costs of the US Department of Justice and the welfare of the bureaucrats and lawyers who feast at the taxpayers' trough.

That great economist, Wilhelm Roepke, once wrote: `It is very easy to awaken resentment against people who not only have money, but also the boldness to send that money abroad in order to protect it against all manner of domestic insecurity. It's vital that people in their means of existence, that is, capital, still have the chance to move about internationally, and when absolutely necessary, to escape the arbitrariness of government policy by means of secret back doors.'

Consider that expressed view in the context of what is known as `expatriation,' the human right

to acquire a new nationality and renounce one's old citizenship. We, as a nation of immigrants, should cherish that right.

In November 1994 Forbes magazine published an infamous article which identified a handful

In truth, there are very legitimate financial reasons for an American citizen to `go offshore'. These include avoiding exposure to costly domestic litigation and excessive court damage judgements and jury awards, protection of assets, unreasonable SEC restrictions on foreign investments, the availability of more attractive and private offshore bank accounts, life insurance policies and annuities, avoidance of probate and reduction of estate taxes.

But Americans who have followed this prudent course now find themselves lumped together with drug lords, tax cheats, dirty money launderers, disease carriers and assorted criminals. What is legal and legitimate is made to look sinister and evil.

There is a decided international dimension to this domestic U.S. campaign against wealth. Beginning last June, the news media took belated notice of offshore tax havens and their thriving financial centers as a newly discovered international threat. A frenzy of publicity surrounded the serial publication of spurious `blacklists' by previously unnoticed international organizations. None of these self-appointed, self-important groups enjoy any legal standing, but they proceeded to announce exactly how the international financial world should conduct its affairs. Those nations in disagreement with the OECD world view were threatened with financial boycotts and unexplained `sanctions' to be imposed by June 2001.

These organizations include the Paris-based organization for Economic Cooperation and Development (OECD), which loudly denounces what it calls `harmful tax competition' is composed of representatives from major high tax nations. An OECD subsidiary is the Financial Action Task Force (FATF), a sort of financial Gestapo that pronounces who is legal and who is not legal in terms of money laundering activity.

Yet a third group without no basis in international law calls itself the `Financial Stability Forum.' This is a subgroup of the G-7 nations and has taken it upon itself to decide which nations are good or bad in cooperation for capital flows.

All of these organizations are self-anointed and don't have any more standing than the International Tennis Association as far as legal capacity to impose their decisions. They are little more than public relations mouthpieces of an international cartel of rich nations trying to suppress tax havens and other nations that have profited from fully legal tax competition.

In an obviously co-ordinated effort starting last May, these organizations each issued its own `blacklist' of nations it found deficient in various ways. The FSF attached those it claimed were disruptive to international financial activity. FATF issued a list of countries allegedly lax on money laundering. The OECD came out with list of nations engaged in `unfair tax competition'. It was no coincidence that most of the world's no-tax financial haven nations were on all these phony lists. A small coterie of statist bureaucrats in the financial ministries of the major nations had coordinated their propaganda work well: an uneducated, gullible global news media swallowed this phony story whole.

Every one of the wealthy nations that are pushing this attack on tax havens are controlled by high-tax, socialist governments who see a tax and wealth hemorrhage occurring among their citizens. Yes, millions, billions of dollars, pounds and francs are pouring out of high tax nations flowing to offshore tax havens--and for very good reasons. Why would anyone in his right mind continue to pay confiscatory taxes when you can move your financial activity to another nation where you pay no personal or corporate income tax, no estate tax, no capital gains tax?

Ignored in this concerted attack on small tax haven nations is the simple fact that under current U.S. and UK tax laws the biggest tax savings for foreigners can be found in Britain and in the United States. The United States is one of the biggest tax havens in the world--but only for non-U.S. persons. And in spite of the known fact that most of the dirty money laundering in the world takes place in London and New York, neither nation is on the FATF money laundering blacklist.

All this is really a smoke screen for increased tax collection. Feeling the tax drain, the rich nations want an end to all those factors that make tax haven attractive: They demand that taxes be imposed where there are none, want an end to financial and banking privacy and `free exchange' of information, want complete `transparency', and want these small nations to become tax collectors for the rich, welfare state nations. In other words, they want tax havens to become just like the profligate major nations.

This new cartel of high-tax nations, limping along with their huge, unsustainable welfare state

budgets, are engaged in a grotesque rebirth of colonialism and imperialism of a financial nature. They are willing to trample the sovereignty of small nations. In fact, the United Nations last year said national sovereignty must be compromised in order to impose a world financial order of high taxes and no financial privacy. Such a radical demand mocks international law. It makes vassal states out of sovereign nations.

This wrong headed approach flies in the face of every development that is producing the new prosperity: the Internet, e-commerce, globalization, cross border investment worldwide. For that reason alone, this effort will fail. Just as the legendary King Canute could not hold back the ocean tides, the rich nations will be swept away in their effort to impose their will on the world.