

# PROSPERITAS

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## The Paris-Based Organization for Economic Cooperation and Development: Pushing Anti-U.S. Policies with American Tax Dollars

*After decades of gathering statistics and publishing innocuous studies, the Organization for Economic Cooperation and Development (OECD) has entered the realm of policy-making. Unfortunately, even though it is heavily subsidized by American taxpayers, the OECD generally promotes policies that are contrary to U.S. economic interests. This is particularly true in the field of fiscal policy, where the international bureaucracy endorses higher taxes, more spending, and tax harmonization. These policies may be in the short-term interest of the high-tax nations that dominate OECD decision-making, but they surely are not in the interests of the United States. The OECD's statist approach to policy is particularly disturbing since American taxpayers pay more than \$70 million annually for the putative privilege of belonging to the Paris-based bureaucracy.*

**By Daniel J. Mitchell**

The Organization for Economic Cooperation and Development (OECD) is an international bureaucracy based in Paris.<sup>1</sup> Founded in the early 1960s, the OECD for decades concentrated on collecting statistics and publishing studies. During the 1990s, however, high-tax European nations (23 of the 30 member nations are from Europe) pushed the OECD into the policy arena. Unfortunately, the OECD almost always chooses to fight for larger government.

It is unfortunate when international bureaucracies pursue anti-free market policies, but it adds insult to injury when American taxpayers are asked to finance organizations that push those policies that are contrary to US interests. That is the difference, for example, between the European Commission and the OECD. The EC is dominated by the same European welfare states and advocates many of the same misguided policies, but at least American taxpayers are not subsidizing the bureaucrats in Brussels.

The OECD, by contrast, has a pipeline to the Treasury. American taxpayers finance the biggest share of the OECD's budget, paying one-fourth of the bureaucracy's expenses. The US's direct contribution is more than \$60 million, and the cost of the US delegation in Paris is another \$5 million. But this does not include other expenses, such as expenditures of US agencies that participate in OECD activities, assessments for special projects, and capital costs (including funds for the OECD's palatial headquarters in Paris).

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<sup>1</sup> For more information, see [www.oecd.org](http://www.oecd.org).

The OECD was not a good use of taxpayer money – at least from the perspective of those who favor limited government – when the bureaucracy was engaged in innocuous activities such as collecting statistics and issuing studies. But now that the OECD is carrying water for Europe’s welfare states and pursuing policies that are contrary to American interests, it is a terribly misguided use of taxpayer money. A sampling of OECD policy initiatives includes:

1. **The OECD repeatedly has urged the United States to adopt a value-added tax (VAT).** This is never proposed as a replacement for the income tax but rather as an add-on tax. European nations all have VATs (indeed, European Union nations have harmonized their VATs so that the rate has to be at least 15 percent), and the adoption of this hidden national sales tax helped finance the costly welfare state that has crippled European economic performance. Yet the OECD thinks it is a good idea for America to have a tax system more like France’s.<sup>2</sup>
2. **The OECD is pursuing an anti-tax competition project** that seeks to punish low-tax jurisdictions for attracting jobs and investment away from high-tax nations.<sup>3</sup> This tax harmonization program is irretrievably flawed, which is why the Bush Administration has publicly condemned the proposal (although ideological bureaucrats at the Treasury Department continue to give aid and comfort to the scheme). The main shortcomings of the initiative are:
  - a. **The anti-tax competition project is bad tax policy.** It seeks to make it easier for nations to: a) impose high tax rates; b) double-tax income that is saved and invested; and c) tax income earned in other jurisdictions (a policy known as worldwide taxation). All of these policies are completely inconsistent with tax reform proposals such as the flat tax and national sales tax. Nobel Prize winners including Milton Friedman, Gary Becker, and James Buchanan have all strongly endorsed tax competition as a means of controlling excessive government.<sup>4</sup>
  - b. **The anti-tax competition project is contrary to America’s interests**, both because the U.S. is a low-tax country (at least compared to Europe) and because the U.S. is a refuge for foreign investors. According to the Commerce Department, the United States has attracted about \$10 trillion of foreign capital – investment that helps create jobs and make America competitive. But if the OECD succeeds and high-tax governments gain more ability to track and tax flight capital, a significant portion of the money will leave. Job creation and financial markets would be adversely impacted.<sup>5</sup>

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<sup>2</sup> For more information, see <http://www.oecd.org/dataoecd/4/11/35541272.pdf>.

<sup>3</sup> For more information, see <http://www.heritage.org/Research/Taxes/BG1395.cfm>.

<sup>4</sup> For more information, see <http://www.freedomandprosperity.org/Papers/oecd-hypocrisy/oecd-hypocrisy.shtml>.

<sup>5</sup> For more information, see <http://www.freedomandprosperity.org/Papers/taxharm/taxharm.shtml>.

- c. **The anti-tax competition project is a threat to national sovereignty.** Bureaucrats in Paris should have no right to dictate tax policy to sovereign jurisdictions. America's U.N. Ambassador noted in an article on the threat of international bureaucratic rule that this approach, "... represents a kind of worldwide cartelization of governments and interest groups. ...The costs to the United States--reduced constitutional autonomy, impaired popular sovereignty, reduction of our international power, and limitations on our domestic and foreign policy options and solutions--are far too great, and the current understanding of these costs far too limited to be acceptable."<sup>6</sup>
3. **The OECD has sided with unions in a campaign against competition in the market for ocean shipping.** In a scheme bearing remarkable similarity to the anti-tax competition campaign, the OECD sought to cripple "open registries" for international shipping. This effort was driven by an unholy alliance of high-tax governments (which don't want shippers registering their vessels in nations that operate lower-cost open registries) and unions (which prefer monopolistic national registries since they are much easier to organize). Fortunately, opposition from the U.S. Coast Guard has forced this project onto the back burner.<sup>7</sup>
4. **The OECD is trying to interfere with the right of U.S. states to control their own corporation laws.** At a recently concluded anti-tax competition conference, the OECD specifically called on central governments to interfere with the policies of "political subdivisions." News reports noted that this was a specific attack on U.S. states with market-friendly incorporation laws such as Delaware, Nevada, Alaska, Florida, Wyoming, and Montana. The OECD's attack on American states is driven by high-tax nations that are unhappy that investment activity is shifting to America.<sup>8</sup>
5. **The OECD has sided with the United Nations and endorsed a 450 percent increase in America's foreign aid budget.** Since foreign aid funds pay the very comfortable (and tax-free!) incomes of OECD bureaucrats, it is not surprising that the OECD is a big advocate of more foreign aid spending. The OECD even endorsed a scheme from the U.N. that would require the U.S. to increase foreign aid spending by 450 percent.<sup>9</sup>
6. **The OECD has expressed support for global taxation.** The OECD has explicitly stated support for the United Nations proposal for "innovative financing methods." Translated

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<sup>6</sup> John R. Bolton, "Should We Take Global Governance Seriously?" Chicago Journal of International Law, 2000.

<sup>7</sup> For more information, see <http://www.freedomandprosperity.org/Papers/shipping/shipping.shtml>.

<sup>8</sup> For more information, see <http://www.freedomandprosperity.org/press/p12-06-05/p12-06-05.shtml>.

<sup>9</sup> For more information, see

[http://www.oilis.oecd.org/olis/2005doc.nsf/43bb6130e5e86e5fc12569fa005d004c/ad127d5da27d6890c1256ff2005fb897/\\$FILE/JT00183455.PDF](http://www.oilis.oecd.org/olis/2005doc.nsf/43bb6130e5e86e5fc12569fa005d004c/ad127d5da27d6890c1256ff2005fb897/$FILE/JT00183455.PDF).

out of bureaucratism, this means taxes levied by the U.N., potentially including carbon taxes, currency transaction taxes, and airline ticket taxes.<sup>10</sup>

7. **The OECD also pursues bad policy in other nations.** It has endorsed higher tax rates in Mexico,<sup>11</sup> Spain (a carbon tax),<sup>12</sup> the United Kingdom,<sup>13</sup> and New Zealand (a capital gains tax).<sup>14</sup>

If nothing else, the OECD does have the courage to bite the hand that feeds it. The United States is the biggest contributor to the OECD's budget, yet the bureaucracy does not hesitate to pursue policies that are contrary to America's interests. The bureaucrats even continue these policies after being criticized by American policy makers. The most radical faction of the OECD almost surely is the Fiscal Affairs Committee.<sup>15</sup> Comprised of tax collectors from each member nation, the Fiscal Affairs Committee is the driving force behind the anti-tax competition project.

In 2001, the Secretary of the Treasury noted: "I share many of the serious concerns that have been expressed recently about the direction of the OECD initiative. I am troubled by the underlying premise that low tax rates are somehow suspect and by the notion that any country, or group of countries, should interfere in any other country's decision about how to structure its own tax system. I also am concerned about the potentially unfair treatment of some non-OECD countries. The United States does not support efforts to dictate to any country what its own tax rates or tax system should be, and will not participate in any initiative to harmonize world tax systems. The United States simply has no interest in stifling the competition that forces governments - like businesses - to create efficiencies."<sup>16</sup>

This sentiment was echoed two months ago, when the Congress enacted the Commerce, Justice, State appropriations bill. The Report accompanying the legislation noted: "The conferees remain concerned with proposals by international organizations to interfere with the sovereign right of jurisdictions to pursue low-tax policies and direct the Department of State to consider such behavior when reporting whether continued participation in that international organization serves the interests of the United States."<sup>17</sup>

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<sup>10</sup> For more information, see [http://www.oecd.org/olis/2005doc.nsf/43bb6130e5e86e5fc12569fa005d004c/ad127d5da27d6890c1256ff2005fb897/\\$FILE/JT00183455.PDF](http://www.oecd.org/olis/2005doc.nsf/43bb6130e5e86e5fc12569fa005d004c/ad127d5da27d6890c1256ff2005fb897/$FILE/JT00183455.PDF).

<sup>11</sup> For more information, see <http://www.oecd.org/dataoecd/49/10/35312303.pdf>.

<sup>12</sup> For more information, see <http://pubs.bna.com/ip/BNA/der.nsf/is/a0a9x0f9m2> and [http://www.oecd.org/document/6/0,2340,en\\_2649\\_201185\\_33764998\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/6/0,2340,en_2649_201185_33764998_1_1_1_1,00.html).

<sup>13</sup> For more information, see <http://www.oecd.org/dataoecd/18/34/35473312.pdf>.

<sup>14</sup> For more information, see <http://www.oecd.org/dataoecd/29/27/1891375.pdf>.

<sup>15</sup> For more information, see <http://techcentralstation.com/051904A.html>.

<sup>16</sup> Treasury Department, "Treasury Secretary O'Neill Statement On OECD Tax Havens," PO-366, May 10, 2001. Available at <http://www.treasury.gov/press/releases/po366.htm>

<sup>17</sup> Conference Report 109-272, "Making Appropriations For Science, The Departments Of State, Justice, And Commerce, And Related Agencies For The Fiscal Year Ending September 30, 2006, And For Other Purposes," November 7, 2005. Available at [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_cong\\_reports&docid=f:hr272.109.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_reports&docid=f:hr272.109.pdf).

The OECD is a bad investment for U.S. taxpayers. Ideally, the United States government should withdraw from the Paris-based bureaucracy. To the extent there are any worthwhile activities conducted by the OECD, they either duplicate efforts at other international bureaucracies or they easily could be handled through bilateral and multilateral negotiations. Defenders of the status quo frequently admit that the OECD has veered off in the wrong direction, but they claim that defunding the bureaucracy is akin to throwing out the baby with the bathwater. In this case, though, defunding is a protective measure, similar to pulling the plug so the baby is safe from drowning.

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  - 5) January 2002, *Prosperitas Vol. II, Issue I*, “U.S. Government Agencies Confirm That Low-Tax Jurisdictions Are Not Money Laundering Havens,” by Daniel J. Mitchell. Web page link below:  
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  - 4) November 2001, *Prosperitas, Vol. I, Issue IV*, “The Adverse Impact of Tax Harmonization and Information Exchange on the U.S. Economy,” by Daniel J. Mitchell. Web page link below:  
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