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## The OECD's Anti-Tax Competition Campaign: An Update on the Paris-Based Bureaucracy's Hypocritical Effort to Prop Up Big Government

*Acting at the behest of uncompetitive nations like France and Germany, the Organization for Economic Cooperation and Development continues to pressure low-tax jurisdictions in an attempt to hinder the flight of jobs and capital from high-tax countries. The Paris-based bureaucracy has been largely unsuccessful – even though it created a blacklist of so-called tax havens and threatened them with financial protectionism. The OECD's failure is partly because of the growing recognition that tax competition is a vital factor in the adoption of much-needed economic reforms. And since nations that lower tax rates and reform their tax systems are so clearly out-performing high-tax countries, the OECD has lost a considerable amount of credibility by seeking to reward failure and punish success. The anti-tax competition scheme also is foundering because the OECD has been unable to deal with the “level playing field” issue. More specifically, member nations such as the United States, Austria, and Luxembourg refuse to agree to the bad policies that the OECD wants to force on blacklisted nations. Moreover, there are many other jurisdictions that also are “tax havens” according to the OECD's definition, but they were not blacklisted because the bureaucrats chose to target only relatively small and powerless nations and territories. The OECD deserves harsh criticism for its anti-tax competition project. Low-tax jurisdictions should refuse to emasculate their pro-growth policies. And policy makers from non-blacklisted nations should withhold and/or withdraw any support from the OECD's statist campaign to prop up high-tax welfare states.*

**By Daniel J. Mitchell**

The Organization for Economic Cooperation and Development (OECD) is conducting a Global Forum in Melbourne, Australia, on November 15-16 as part of its “harmful tax competition” project. The Paris-based bureaucracy, ostensibly representing the interests of the world's 30 most powerful industrialized nations, hopes to use this meeting to bully low-tax jurisdictions into surrendering their fiscal sovereignty so that high-tax nations can more easily track – and tax – flight capital.

The OECD's campaign to create an OPEC for politicians has not been very successful. The bureaucracy did receive considerable publicity in 2000 after releasing a “tax haven” blacklist. Using the threat of financial protectionism, the OECD shortly thereafter even convinced most of those low-tax jurisdictions to sign “commitment letters” stating that they would emasculate their tax and privacy laws to help high-tax nations double-tax the foreign-source income of their citizens.

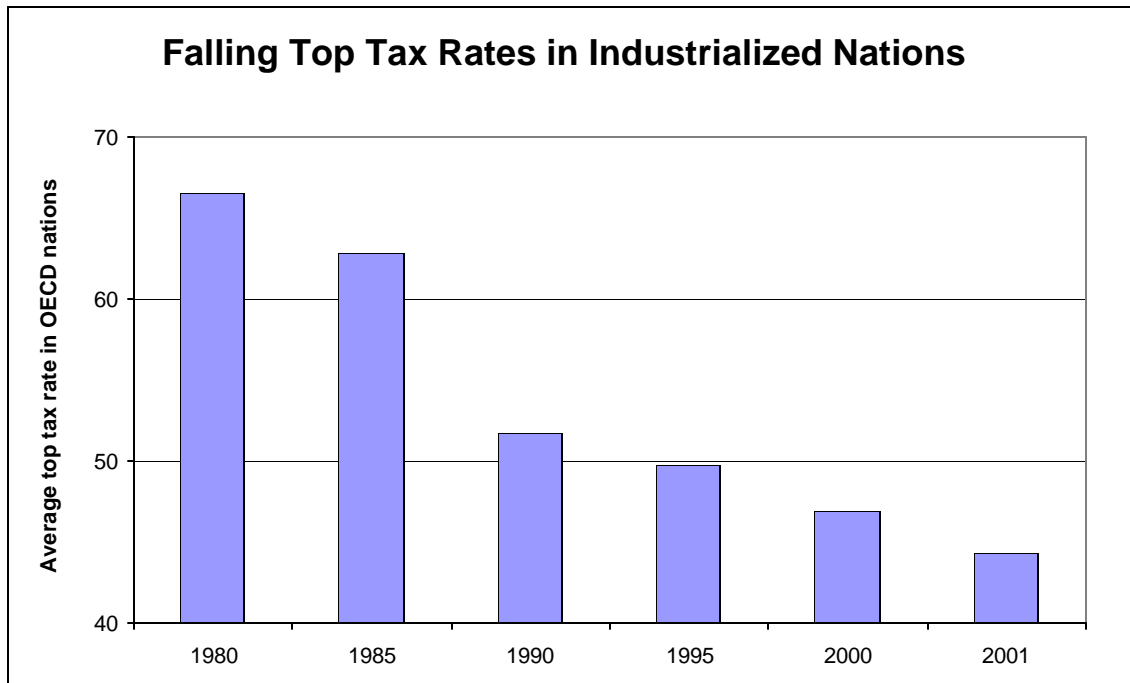
But for both substantive and political reasons, momentum has since swung against the OECD. Previous meetings in Ottawa (2003) and Berlin (2004) failed to jump-start the bureaucracy's flagging anti-tax competition campaign, and it is not clear why the Melbourne meeting will be any more successful. The stalemate is likely to continue until the OECD figure out how to deal with two main obstacles:

- The substantive roadblock to the OECD is the growing recognition that high taxes are hindering growth and causing economic misery and unemployment. The crisis in Germany and the continuing turmoil in France illustrate the heavy cost of excessive taxation. And since it also is understood that tax competition has played a key role in convincing other governments to lower tax rates and improve tax systems, the OECD anti-tax competition effort is widely seen as an effort to prop up inefficient welfare states at the expense of global economic performance.
- The political roadblock to the OECD involves the "level playing field" issue. The Paris-based bureaucracy has a hard time convincing so-called tax havens that they should cripple their economic competitiveness when many OECD nations have similar policies and are not being asked to surrender their fiscal sovereignty. More specifically, when low-tax jurisdictions sent "commitment letters" to the OECD, they stated that would emasculate their tax and privacy laws only if all OECD nations agreed to abide by the same misguided rules. This created a big "hypocrisy" problem for advocates of tax harmonization since a number of OECD nations – including the United States, the United Kingdom, Luxembourg, Austria, Belgium, and Switzerland – are "tax havens" according to the OECD's own definition.

### **The Economic Case for Tax Competition**

Globalization makes it harder for inefficient governments to maintain uncompetitive policies. Labor and capital are increasingly mobile and this facilitates the flow of productive resources to more fiscally responsible jurisdictions. But rather than reform, many governments are working through international bureaucracies such as the OECD to hinder jurisdictional competition. For all intents and purposes, this is battle against globalization.

Thanks to the growing integration of the world economy, there has been a dramatic reduction in top tax rates around the world. Over the last 25 years, nations have dramatically reduced top tax rates on both personal and corporate income. This is particularly pronounced in developed nations. As seen in the accompanying chart, the top personal income tax rate in industrialized countries has fallen by an average of more than 22 percentage points since 1980. The corporate rate generally was not as high as the personal rate twenty-five years ago, but it also has fallen dramatically – by almost 20 percentage points.



The impact of tax competition can be best understood by reviewing three historical episodes.<sup>1</sup> First, the personal income tax rate reductions of Margaret Thatcher and Ronald Reagan triggered similar rate cuts in other nations. Second, the corporate rate reduction by Ireland has echoed throughout Europe. Last but not least, the flat tax revolution in Eastern Europe is partially driven by a competitive battle for investment and growth.

**The Thatcher–Reagan Tax Rate Reductions.** Sweeping reductions in personal income tax rates were a significant component of both the Thatcher and Reagan agendas. The top tax rate was 83 percent when Thatcher took office, and she reduced the top rate to 40 percent. The top tax rate in the United States was 70 percent when Reagan was inaugurated, and he lowered the top rate to 28 percent. The United Kingdom and the United States both benefited from tax rate reductions, but other nations also profited because their governments were compelled to lower tax rates—and this shift to better tax policy is an ongoing process. So far, the average reduction in the top income tax rate is more than 20 percentage points. Tax competition surely has played a role in this global shift to lower tax rates, and lower tax rates unambiguously have helped the world economy to grow faster.

**The Irish Miracle and Corporate Rate Reduction in Europe.** The Irish Miracle is perhaps the most impressive evidence of how tax competition advances good tax policy. Less than 20 years ago, Ireland was an economic “basket case” with

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<sup>1</sup> For more detailed information about these historical episodes, see: Daniel J. Mitchell, “The Economics of Tax Competition: Harmonization vs. Liberalization,” *Index of Economic Freedom*, The Heritage Foundation, 2004. Available at <http://www.heritage.org/research/features/index/ChapterPDFs/chapter2.pdf>.

double-digit unemployment and an anemic economy. This weak performance was caused, at least in part, by an onerous tax burden. The top corporate tax rate was 50 percent. Today, the corporate income tax rate is only 12.5 percent. Aggressive “supply-side” tax rate reductions have yielded enormous benefits. The Irish economy has experienced the strongest growth of all industrialized nations. In a remarkably short period of time, the “sick man of Europe” has become the “Celtic Tiger.” Unemployment has dropped dramatically, and investment has boomed. Once a relatively poor nation, Ireland now enjoys the second highest standard of living in the European Union. This growth has been great for Ireland, but tax competition has caused this policy to spread to neighboring nations. Corporate tax rates have fallen dramatically since 1986, and the pace of rate reductions has been especially fierce in the European Union. Just since 2000, the average corporate tax rate has fallen by 7 percentage points.

**Tax Reform in Eastern Europe.** The three Baltic nations—Estonia, Lithuania, and Latvia—adopted flat tax systems in the 1990s, and this triggered a virtuous cycle of tax competition. Russia followed with a 13 percent flat tax that took effect in January 2001. Ukraine then adopted a 13 percent flat tax, Serbia implemented a 14 percent flat tax, and Slovakia approved a 19 percent flat tax. And earlier this year, Romania joined the bandwagon with a 16 percent flat tax while Georgia chose a 12 percent flat tax. These flat tax regimes have been remarkably successful, leading to faster growth and more tax revenue. Equally important, tax competition has played a role in each of these success stories.

The empirical case for tax competition is unambiguous. Politicians are more likely to make positive reforms when they fear the loss of jobs and capital to neighboring jurisdictions. Ironically, the OECD is supposed to favor economic liberalization, yet the international bureaucracy is leading the charge to create an OPEC for politicians. To be fair, however, the OECD actually is split on the issue. The anti-tax competition project is controlled by the Fiscal Affairs Committee, which is comprised of representatives of the tax authorities of the member nations. Perhaps it should come as no surprise that they have a “tax enforcement über alles” mentality.

The OECD's economists, by contrast, are very sympathetic to tax competition. They have written that, “[T]he ability to choose the location of economic activity offsets shortcomings in government budgeting processes, limiting a tendency to spend and tax excessively.”<sup>2</sup> And rather than scapegoat low-tax jurisdictions, the economists have noted that the real problem is bad tax policy, writing that, “[I]llegal tax evasion can be contained by better enforcement of tax codes. But the root of the problem appears in many cases to be high tax rates.”<sup>3</sup> Speaking of tax rates, the OECD's economists also have noted that, “...a 10 percentage point higher tax rate is accompanied by roughly ½ percentage point lower rate of growth” and that “...a 10 percentage point decrease in

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<sup>2</sup> Organisation for Economic Cooperation and Development, *Economic Outlook*, June 17, 1998. Available at <http://www.oecd.org/dataoecd/50/17/2088806.pdf>.

<sup>3</sup> Organisation for Economic Cooperation and Development, *Economic Outlook*, June 17, 1998. Available at <http://www.oecd.org/dataoecd/50/17/2088806.pdf>.

marginal tax rates would increase per capita income in an average industrial country by more than 7 per cent (and in an average developing country by more than 15 per cent).<sup>4</sup>

Unfortunately, the Fiscal Affairs Committee is the tail that wags the OECD dog, and the organization seems determined to continue its anti-globalization effort to keep tax rates high. This explains the growing hostility to the OECD among U.S. policy makers and leading economists. Perhaps because of America's long experience with federalism, many U.S. officials are appropriately skeptical of "one-size-fits-all" harmonization schemes. John Bolton, currently serving as America's Ambassador to the United Nations, wrote 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>5</sup>

Not surprisingly, economists are particularly critical of efforts to stifle jurisdictional competition. Indeed, several Nobel Prize winners have commented specifically on tax competition. James Buchanan points out that "...the intergovernmental competition that a genuinely federal structure offers may be constitutionally 'efficient'..." and that "...tax competition among separate units...is an objective to be sought in its own right."<sup>6</sup> Milton Friedman, meanwhile, writes, "Competition among national governments in the public services they provide and in the taxes they impose is every bit as productive as competition among individuals or enterprises in the goods and services they offer for sale and the prices at which they offer them."<sup>7</sup> And Gary Becker observed that "...competition among nations tends to produce a race to the top rather than to the bottom by limiting the ability of powerful and voracious groups and politicians in each nation to impose their will at the expense of the interests of the vast majority of their populations."<sup>8</sup> Legal scholars also recognize the dangers of harmonization. John McGinnis of Northwestern University Law School recently wrote that:

Jurisdictional competition among sovereign nations is a primary mechanism for empowering the 'encompassing interest' of a nation and reducing the ability of interest groups to take resources from the government. Under jurisdictional competition, sovereigns compete by providing efficient levels of public goods. Leaders are thereby restrained from rewarding themselves, their supporters, or influential special interest groups. A large, diverse democracy, where interest groups are held in check by jurisdictional competition, substantially reduces the

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<sup>4</sup> Willi Leibfritz, John Thornton, and Alexandra Bibbee, "Taxation and Economic Performance," Organisation for Economic Co-operation and Development, Economics Department, *Working Paper* No. 176, 1997.

<sup>5</sup> John R. Bolton, "Should We Take Global Governance Seriously?" *Chicago Journal of International Law*, 2000.

<sup>6</sup> Geoffrey Brennan and James Buchanan (1980), *The Power to Tax: Analytical Foundations of a Fiscal Constitution* (Cambridge University Press: Cambridge).

<sup>7</sup> Letter to Center for Freedom and Prosperity, 2001. Available at <http://www.freedomandprosperity.org/update/u05-15-01/u05-15-01.shtml#3>

<sup>8</sup> Gary Becker, "What's Wrong with a Centralized Europe? Plenty," *Business Week*, June 29, 1998.

incentives for individuals to seek rents through government action. Individuals will instead spend their time, on balance, in relatively more productive and peaceful activity.<sup>9</sup>

The OECD's pro-tax harmonization campaign is an effort to prop up inefficient, high-tax welfare states. In effect, the bureaucrats want to prevent taxpayers from being able to benefit from better tax policy in other jurisdictions. There are two ways of achieving this misguided goal:

1. Explicit tax harmonization occurs when nations agree to set minimum tax rates or decide to tax at the same rate. The European Union, for instance, requires that member nations impose a value-added tax (VAT) of at least 15 percent. The EU also has harmonized tax rates for fuel, alcohol, and tobacco, and there are ongoing efforts to harmonize the taxation of personal and corporate income tax rates. Under the direct form of tax harmonization, taxpayers are unable to benefit from better tax policy in other nations, and governments are insulated from market discipline.
2. Implicit harmonization occurs when governments tax the income their citizens earn in other jurisdictions. This policy of "worldwide taxation" requires governments to collect financial information on nonresident investors and resident aliens and to share that information with tax collectors from foreign governments. This "information exchange" system tends to be a one-way street since jobs and capital generally flow from high-tax nations to low-tax nations. Under the indirect form of tax harmonization, just as under the direct form outlined above, taxpayers are unable to benefit from better tax policy in other nations, and governments are insulated from market discipline.

Tax harmonization would mean higher taxes, which is why it is so strongly supported by uncompetitive nations such as France and Germany. Nations that prefer growth and opportunity should oppose the OECD's so-called harmful tax competition scheme – especially since the growth caused by better tax policy is necessary to improve the lives of poor people. Indeed, governments that support economic growth should consider withdrawing financial support from the OECD. Many U.S. government officials, particularly in Congress, want to reduce or eliminate America's subsidy.

### **The Fairness Argument Against the OECD**

When the OECD first published its blacklist in 2000, it demanded that low-tax jurisdictions send "commitment letters" promising to rewrite their domestic policies to discourage foreign capital. But the so-called tax havens generally did not acquiesce to the drafts provided by the OECD (jokingly referred to a Soviet-style pre-printed confessions). Instead, the low-tax nations and territories almost universally added

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<sup>9</sup> John O. McGinnis, "The Political Economy of Global Multilateralism," *Chicago Journal of International Law*, 2000.

language stating that OECD member nations would have to agree to abide by the misguided policies that the bureaucracy was trying to impose on blacklisted jurisdictions. As noted by the government of the Bahamas: "...commitments...are offered on the ...establishment of a level playing field among all OECD member countries and those non-member jurisdictions with which it is materially in competition in the provision of cross-border financial services."<sup>10</sup>

This is a huge problem for the OECD since many of its member nations are tax havens. The United States, the United Kingdom, Austria, Belgium, Switzerland, and Luxembourg all have policies that satisfy one or more of the criteria used to define a "tax haven."<sup>11</sup> The OECD hoped this problem would be solved by the adoption of the European Union Savings Tax Directive. At one point, this tax harmonization scheme would have required all EU nations – along with six non-EU nations including Switzerland and the United States – to automatically collect and share information about nonresident investors. Had that proposal been implemented, low-tax jurisdictions would have faced tremendous pressure to comply with OECD demands (even though the level-playing-field requirement still would not be satisfied because certain tax havens in Asia and elsewhere would have been exempt).

The E.U. directive became a moot issue, though, when the Brussels-based bureaucracy was forced to eviscerate the proposal because the U.S. declined to participate and Switzerland and other non-E.U. nations insisted on sweeping changes. As a result, several OECD nations have been excused from any requirement to share information, meaning that the so-called level playing field does not exist. Moreover, the directive (which was implemented earlier this year) is riddled with loopholes. The following press reports demonstrate the quandary for the OECD:

- The U.K.-based *Sunday Times* noted: "The latest escape route, dreamt up by Swiss private banks, uses a type of Luxembourg-based investment firm called a Sicav (société d'investissement à capital variable). The schemes are not subject to the EU savings-tax directive, which ordered member states to share information about people who live in one country but earn savings income in another, in a bid to combat tax fraud."<sup>12</sup>
- The *International Herald Tribune* explained: "Asia's private bankers are a happy lot. Not only are they working in a region where booming economies are churning out millionaires faster than the millionaires can hire private bankers, but they are also on the receiving end of an accelerating inflow of money from Europe. Since

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<sup>10</sup> All the "commitment letters" are available at [http://www.oecd.org/document/19/0,2340,en\\_2649\\_33745\\_1903251\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/19/0,2340,en_2649_33745_1903251_1_1_1_1,00.html). The Bahamian "commitment letter" can be accessed at <http://www.oecd.org/dataoecd/44/59/2075870.pdf>.

<sup>11</sup> See, for instance: Daniel J. Mitchell, "The Adverse Impact of Tax Harmonization and Information Exchange on the U.S. Economy," *Prosperitas*, Vol. 1, Issue 4, November 2001. Available at <http://www.freedomandprosperity.org/Papers/taxharm.shtml>.

<sup>12</sup> Kathryn Cooper, "Saver find an offshore haven in Luxembourg," *The Sunday Times*, October 30, 2005. Available at <http://business.timesonline.co.uk/article/0,,9554-1848726,00.html>.

July 1, the 25 member nations of the European Union have agreed under a new regulation, the European savings tax directive, either to share with each other information on residents' cross-border savings income or levy a 15 percent withholding tax, which is to rise to 20 percent in 2008 and 35 percent from 2011 onwards. ... Roman Scott, director of the Boston Consulting Group in Singapore, estimates that the new levy could cause at least 1 trillion, or \$1.2 trillion, to flow out of Luxembourg and Switzerland alone into other financial centers around the world, with a 'significant' amount coming to secure Asian tax havens like Singapore and Hong Kong."<sup>13</sup>

- The *Financial Times* reported: "...the EU savings directive, which requires member states to swap information on savings income, is widely expected to leave much of the money hidden offshore undetected. ...Three main factors could undermine the effectiveness of the directive. First, its geographical reach. Even though its scope extends beyond the EU to some notable offshore centres, including the Channel Islands, some Caribbean islands, the Isle of Man, Andorra, Liechtenstein, Monaco, San Marino and Switzerland, anyone determined to evade tax could move money out of Europe into financial centres in Asia or elsewhere. Second, the directive only covers bank interest - and income from some bonds and investment funds - paid to individuals. Investments could be restructured or put within trusts and companies to ensure they fall outside the scope of the directive. ...Third, several of Europe's most important financial centres, including Austria, Belgium, Luxembourg, the Isle of Man and the Channel Islands, have decided to maintain customer confidentiality by levying a withholding tax instead of exchanging information for a transitional period."<sup>14</sup>
- An article in Switzerland's *Neue Züricher Zeitung* explained: "Tax experts say banks and financial advisors have for months been looking for ways to circumvent tax obligations in the recently-concluded bilateral agreements with the EU. 'There are a lot of loopholes in the EU's taxation directive, which underpins the agreement between the EU and Switzerland,' Thomas Jaussi, a Basel-based tax specialist with accounting firm KPMG told swissinfo. ...The bilateral accords, agreed after Switzerland received guarantees that the deal would not compromise banking secrecy, include the introduction of a withholding tax on interest earned by EU residents with savings in Switzerland. The levy ranges from 15 to 35 per cent. Of that, three quarters will be sent to EU tax authorities, with Switzerland keeping the rest to cover costs. However, it will not apply to income from dividends, share funds, insurance policies, derivatives and gold. ...Government bonds issued before March 2002 are also exempt, providing a loophole that at least one bank has openly sought to exploit. ...A second source of weakness - according to tax experts - is the fact that the EU levy is not 'withheld' at the

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<sup>13</sup> Sonia Kolesnikov-Jessop, "Rising European money tide flows to Asian coffers," *International Herald Tribune*, October 30, 2005. Available at <http://www.iht.com/articles/2005/10/25/news/Rwemasia.php>.

<sup>14</sup> Vanessa Houlder, "Offshore accounts could escape EU's crackdown on tax evaders," *Financial Times*, June 17, 2005. Available at <http://news.ft.com/cms/s/e23be048-decc-11d9-92cd-00000e2511c8.html>.

source, but by the "paying agent". "Normally, this will be a bank," said Jaussi. But if the paying agent is outside Switzerland or the EU, the tax will not be levied. ...Some analysts predict that only those who are not wealthy enough to afford good advice or set up a foundation will be hit with the new levy. ...The Zurich-based *'Tages-Anzeiger'* newspaper this week described the new system as a 'tax only for dummies'.<sup>15</sup>

- Another *Financial Times* article commented: "...the savings tax directive may turn out to be a damp squib - and bank secrecy may again become an issue in the EU. While hard-pressed EU finance ministers have been hoping for a windfall from previously undeclared savings, the signs are that revenues may be negligible. Robert Waldburger, Switzerland's chief international tax negotiator, declines to estimate how much the new levy, ascending in three steps from 15 per cent to 35 per cent, may raise. ...Mr Waldburger stresses that the decision to exclude any types of savings instruments reflected the wishes of member states during the EU's long internal negotiations. But the result has been to create a measure full of loopholes. ...Tax lawyers and trustees have little doubt that any account holder, aided by astute bankers, will be able to get round the levy. For a start, only interest payments will be taxed. Income from share dividends, unit trusts or insurance policies will be excluded. Even interest payments from the bonds of Swiss-based issuers will be left out, as these are already taxed at source. The deal also only covers certain categories of account holders. The status of trusts and foundations, for example, is unclear. While minnows may find their accounts too small to warrant their bankers' attention, those with large numbers to their names will have a variety of means to circumvent the levy."<sup>16</sup>
- The *Bureau of National Affairs* wrote: "A day before a controversial European Union savings tax directive was to take effect, the European Commission stated June 30 that it would begin work to extend the law to cover offshore banking centers in Singapore and Honk Kong, especially in light of evidence that billions of euros have been transferred there from European-based banking centers in recent months. At the same time, the commission said it will consider revisions to the directive, especially if, as it said it expected, financial service centers find ways around the cross-border savings tax. Also, the commission said it would keep pushing to move toward a complete information exchange system for reporting interest-bearing assets, instead of giving countries with bank secrecy laws the option of imposing a withholding tax. Meanwhile, the commission said there was no chance in the foreseeable future that the EU would sign a bilateral agreement with the United States allowing automatic information exchange between tax authorities when it comes to interest-bearing accounts. ... Commission official Michel Aujean said the EU executive body is aware that

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<sup>15</sup> Original link no longer available. See <http://www.freedomandprosperity.org/blog/2004-05/2004-05.shtml#313> for more information.

<sup>16</sup> Original link no longer available. See <http://www.freedomandprosperity.org/blog/2004-05/2004-05.shtml#175> for more information.

transfers of more than 1 billion euros (\$1.2 billion) have been made to Asian banking centers such as Hong Kong and Singapore in anticipation of the savings tax taking effect. 'That is why we will be launching efforts soon to try and reach an agreement with other offshore banking centers,' Aujean said. 'Two of the most prominent of these are Hong Kong and Singapore.'"<sup>17</sup>

These news reports confirm that there is no "level playing field." Nations that belong to the OECD are tax havens (at least for non-resident investors) and will continue those policies. Moreover, there are several non-OECD jurisdictions that escaped the original blacklist that nonetheless also qualify as tax havens. Until and unless all of these policies in all these nations are repealed, the level playing field does not exist and conditions outlined in the "commitment letters" do not exist.

By continuing its anti-tax competition effort, the OECD is acting in bad faith. It has failed to fulfill its side of the bargain, yet it hypocritically expects low-tax jurisdictions to meekly acquiesce. Needless to say, these nations and territories are not obliged to surrender their sovereign rights to the OECD.

### **Recommendations for Victory**

For both substantive and procedural reasons, the OECD has been stymied. This is good news, but winning a battle is not the same as winning a war – particularly since the OECD has adopted a long-term strategy of gradually eroding the will of low-tax jurisdictions. Supporters of tax competition, including delegates to the sub-group meeting, should remember two key points:

1. **Stalemate is victory** – More and more nations are lowering tax rates and reforming their tax codes every year. As this process continues, the number of nations interested in tax harmonization will begin to shrink and the assault on low-tax jurisdictions will abate. Indeed, this process already is underway in the European Union thanks to the accession of 10 new member nations – many of which have more pro-growth tax regimes. The Fiscal Affairs Committee at the OECD so far has remained insulated against this liberalizing breeze, but time is on the side of tax competition. As such, while it may be a nuisance to attend meetings with OECD officials and bureaucrats from high-tax nations, this is a relatively low-cost way of placating opponents of tax competition – assuming, of course, that low-tax jurisdictions do not make any foolish concessions.
2. **Don't let the OECD win procedural victories** – In advance of the Melbourne meeting, the bureaucrats in Paris prepared a document entitled "Draft Conclusions and Next Steps: A Proposal by the Sub-Group on Level Playing Field Issues for Discussion at the Melbourne Global Forum Meeting."<sup>18</sup> Moreover, the "Joint Ad

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<sup>17</sup> Joe Kirwin, "EU Sets Sights on Singapore, Hong Kong As Savings Tax Directive Goes Into Force," Bureau of National Affairs, July 1, 2005.

<sup>18</sup> Available at <http://www.freedomandprosperity.org/oecd-mel-draft.pdf>

Hoc Group On Accounts” earlier this year released a report on “Enabling Effective Exchange Of Information: Availability And Reliability Standard.”<sup>19</sup> Both of these documents presuppose that tax competition is bad and that all jurisdictions eventually should be part of a global agreement to collect and share information for the purposes of slowing the migration of capital from high-tax nations to low-tax jurisdictions. Neither of these documents contains blatant falsehoods, but both are designed to herd low-tax jurisdictions in a certain direction. As one official from an OECD nation privately remarked, “We are painting them in a corner. By the time they realize what is happening, we will have achieved 80 percent of what we wanted.” While this surely exaggerates the status of the OECD's anti-tax competition scheme, it is an excellent illustration of the strategy and attitude of the Paris-based bureaucracy.

Barring self-inflicted wounds, low-tax jurisdictions should be able to resist the OECD. Tax competition is increasingly viewed as something to be celebrated rather than persecuted. Combined with the OECD's utter failure to achieve a “level playing field,” this should cripple the efforts of high-tax nations. This is good news. Five years ago, it appeared tax competition, fiscal sovereignty, and financial privacy were heading for extinction. But advocates of tax harmonization have been stymied, and there is every reason to believe that these opponents of economic liberalization will remain frustrated so long as low-tax jurisdictions forcefully defend themselves.

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<sup>19</sup> Available at <http://www.freedomandprosperity.org/oecd-annex3.pdf>