

Prosperitas

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United Nations Seeks Global Tax Authority

The United Nations (UN) recently issued a report attacking tax competition and fiscal sovereignty. There are four main recommendations in the report - an international tax organization, global taxes, emigrant taxation, and a back-door form of tax harmonization (information exchange). Every one of these initiatives would undermine individual liberty and encourage statist economic policy. Like the Organization for Economic Cooperation and Development (OECD) and the European Union (EU), both of which are pursuing similar agendas, the UN seeks to prop up inefficient welfare states by making it difficult for taxpayers to escape oppressive tax systems. Leaders of all low-tax nations, particularly the United States, should block the UN's radical scheme.

By Daniel J. Mitchell

The Proposal

A key United Nations panel recently put forth a series of initiatives that would radically change national and international tax policy. Chaired by Ernesto Zedillo, former President of Mexico, the "High-level Panel on Financing for Development" endorsed the creation of an international tax organization, recommended the imposition of global taxes, and called for a form of tax harmonization known as information exchange. All governments would be expected to acquiesce to this scheme, which will be part of the agenda at the International Conference on Financing for Development, scheduled to take place in Mexico next March.

If implemented, the proposed changes would undermine the right of sovereign nations to determine their own tax policies. Yet the attack on sovereignty is minor compared to the likely effect on global economic performance. The report seems designed to prop up inefficient welfare states and promote more government spending. The

report openly condemns tax competition, for instance, and repeatedly endorses expanded efforts to redistribute wealth and income.

But contrary to what is asserted in the UN report, tax competition is a desirable force in the world economy. Because it is increasingly easy for resources to cross national borders, politicians must exercise at least a modest degree of fiscal discipline in order to attract jobs, capital, and entrepreneurship. The UN proposals would undercut this liberalizing process and therefore erode the economic advantage of all low-tax nations, including America. The President and Congress should reject this extremist agenda, and this rejection should be echoed by all nations that believe in freedom and prosperity.

The UN report contains four major initiatives. Each one of these proposals is bad tax policy. All of the proposals undermine national sovereignty, and most of them represent an assault on the right to privacy. The unambiguous result of these policies is that governments around the

world would be shielded from competition and politicians would have much less incentive to be fiscally responsible.

Creation of an International Tax Organization.

The UN report endorses the creation of an International Tax Organization. This new body would have some relatively mundane responsibilities, such as collecting statistics and monitoring developments in tax policy, but facilitating bad tax policy seems to be the number one objective. The Zedillo report explicitly states that the International Tax Organization should help countries tax income earned outside their borders, and it also argues that such a body could “take a lead role in restraining tax competition.”

At no point, however, does the report demonstrate any harm caused by fiscal rivalry between nations. Instead, readers are supposed to blindly accept the assertion that this competitive process is bad. But if competition is good for banks, pet stores, and car companies, then how can competition be bad for governments? The answer, of course, is that competition is good, but it is good for taxpayers and national economies rather than politicians. A global bureaucracy, by contrast, almost certainly would represent the interests of politicians. Like parallel efforts by the Organization for Economic Cooperation and Development (OECD) and the European Union (EU), it would create a cartel-like environment for purposes of undermining competition. Governments should not conspire to keep taxes high, and they certainly should not set up a supra-national institution to pursue a statist agenda.

An International Tax Organization is a threat to the best interests of all low-tax nations, including America. It also is bad news for taxpayers in high-tax jurisdictions like France. Without tax competition, it is quite likely that many nations would impose even heavier burdens on their people. As such, any effort to restrict the tax-motivated

flow of global capital would undercut the ability of all taxpayers to climb the ladder of economic opportunity.

The Imposition of Global Taxes

A major part of the report is a proposal to have global taxes, levies that would be imposed on the entire world. The revenues generated by these taxes would be made available for income redistribution and other purposes.

The report refers to this as “Innovative Sources of Finance,” and highlights two options. The first is a levy on all international currency transactions, the so-called Tobin tax. The appeal of this tax, at least to the report’s authors, is that it would generate a huge amount of money – up to \$400 billion each year. That is the bad news. The good news is that the tax is so impractical that the report acknowledges the difficulty of implementing such a scheme. In short, currency traders would either avoid the tax – which the report admits could amount to 1000 percent of profit margins – or develop derivative instruments that would be harder to tax. Combined with the fact that a currency transaction tax would throw a monkey wrench in the world trading system and impose a disproportionate burden on America’s efficient financial markets, it appears a Tobin tax is not an immediate threat.

Unfortunately, the same cannot be said about the second option, a worldwide energy tax. The UN report is very enthusiastic about a tax on fossil fuel consumption, supposedly pegged so that each type of fuel (oil, gas, coal, etc) would be taxed in accordance with its contribution to greenhouse gases. No mention is made of the tax rates that might be imposed or the amount of tax revenue desired, but the report does state that the tax should be high enough to discourage consumption. Interestingly, the authors seem oblivious to the fact that there is a tradeoff between raising revenue and discouraging consumption. In any event, a comprehensive

global energy tax would dramatically hinder world economic growth. It would mean higher gas prices, higher electricity prices, and higher heating oil prices, and developing nations would be especially hard hit.

And if this agenda is not sufficiently frightening, the report also talks about global taxes on seabed mining, ocean fishing, and satellite launches. The drawback of these initiatives – from the UN perspective – is that they might not raise a large amount of money. The report also mentions taxes on trade, air travel, and arms exports, but concludes that these might not be politically feasible.

Turning people into government property

Perhaps the most radical proposal in the report is an initiative to give governments permanent taxing rights over their people. This “taxation of emigrants” is supposedly necessary to protect nations from economic loss when productive citizens emigrate. The report states that the enforcement of such a scheme could be one of the responsibilities of the new International Tax Organization.

This idea implicitly assumes that people are a form of chattel, the property of a government even if they seek opportunity elsewhere. To be sure, there are jurisdictions that suffer from “brain drain.” French citizens have been fleeing to England in record numbers and Canadians often make their way to the United States. In a world that values individual sovereignty and personal liberty, this would not be an issue. And even if some governments think emigration is a problem, perhaps they should put their own houses in order before seeking to make their citizens perpetual tax slaves. After all, France’s brain drain is mostly a reflection of that country’s oppressive tax system. England merely happens to be the unintended beneficiary of France’s fiscal policy mistakes.

The United States should be the strongest opponent of this scheme. Because America’s free market economy promotes high levels of job creation and economic opportunity, the U.S. is a magnet for the world’s entrepreneurs and other ambitious people. As such, it seems unlikely that the US would support a policy that allows other nations to tax income earned in America. Critics may argue that this view is inconsistent and hypocritical (the US, after all, is one of the few nations to impose taxes on its citizens’ overseas labor income), but self-interest is a powerful force. Foreign born workers in America, including both citizens and resident aliens, earn over \$500 billion of labor income each year – nearly \$600 billion including other types of income. Allowing other governments to tax that income, even at rates as low as 10 percent, could drain \$60 billion out of the US economy.

Back-door tax harmonization

Not only does the UN want to impose taxes on a global basis, it also wants to help individual governments tax income on a global basis. This is why the report endorses “information exchange,” which means every government would be expected to collect private financial data on individual taxpayers and then share that information with other governments. High-tax nations would then use this information to tax any income their residents earn in other countries. This initiative is very similar to the information exchange schemes being pushed by the OECD and the EU.

Information exchange makes sense, but only for jurisdictions with oppressive tax systems. Politicians from high-tax nations like France, for instance, get upset when taxpayers shift their savings and investment to jurisdictions with lower tax burdens and they desperately want the ability to continue taxing any income these assets generate. But this should be a matter for the French government and French taxpayers. Low-tax nations should not be forced to suspend their

financial privacy laws and act as vassal tax collectors for Europe's welfare states. Indeed, information exchange violates an important principle of international law – dual criminality – by seeking to force low-tax countries to put the laws of other nations above their own.

While this proposal will probably get the least attention of the report's four major recommendations, it could be the most dangerous. Information exchange is a back-door form of tax harmonization since individuals would be taxed at the same rate regardless of where they earn their income. This initiative is a dagger aimed at the heart of U.S. financial markets since people from all around the world invest in the U.S. economy, but many would withdraw their funds if financial institutions were forced to act as informers for foreign tax collectors.

Conclusion

In addition to the specific proposals discussed above, the report calls for a doubling of foreign aid, more social welfare spending, higher taxes, and international bureaucracies that would interfere with the ability of sovereign nations to determine their own labor and environmental policies. Combined with the U.N.'s recent pro-gun control meeting, it seems the organization is still wedded to an anti-American, anti-freedom agenda.

In the final analysis, motives do not matter. Regardless of whether the U.N.'s behavior is driven by knee-jerk anti-Americanism or by hard-core socialist ideology, the organization's tax agenda

would cripple the global economy. Low-tax nations like America, the UK, Switzerland, and the so-called tax havens would suffer the most.

The good news is that the UN cannot move forward with its radical proposal without full support from the world's major governments. This means that the United States has effective veto power. To protect the interests of American taxpayers and to preserve prosperity and opportunity around the globe, Congress and the President should tell the bureaucrats at the U.N. to take a long walk off a short pier.

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*The UN Report is online at
<http://www.un.org/esa/ffd/a55-1000.pdf>*

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