

MAJORITY LEADER



Congress of the United States
House of Representatives
Washington, DC 20515-6502

September 7, 2000

The Honorable Lawrence Summers
U.S. Department of Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Summers,

I am deeply concerned by the Administration's active support for the Organization for Economic Cooperation and Development's (OECD) effort to stamp out tax competition. This effort is designed in effect to create a tax cartel and, if the OECD succeeds, our nation will face the risk of higher taxes and a weakened economy while developing nations will be hamstrung in their attempts to promote economic growth.

As you know, the OECD has launched a program to stop what it calls "harmful tax competition." In its recent publication, "Towards Global Tax Cooperation," the OECD called on member nations to eliminate "harmful tax practices." In practice this means that the OECD is attempting to end low-tax policies that attract investment from overseas. The OECD also demanded that low-tax nations (so-called tax havens) agree to dismantle financial privacy or face financial protectionism.

The OECD is supposed to represent the interests of the 29 member nations from the industrialized world. Making it harder for nations to cut taxes, however, will only serve the needs of politicians and will harm the interests of taxpayers. It is not the role of the OECD to tell the United States – or any other member country – how to conduct tax policy, particularly when those changes would increase the tax burden on individuals and businesses.

America's tax burden is too high. In spite of this, we have achieved our standing as the most prosperous nation in our global economy because we have managed to keep our tax burden lower than almost every other industrialized nation. This competitive advantage has helped us attract jobs, capital, and entrepreneurial talent from around the world. Therefore, it is imperative that we continue our efforts to lower America's tax burden. Not only do taxpayers deserve to pay less in taxes, they deserve elected officials who watch

their interests by advancing tax policies that encourage tax competition. The OECD effort to undermine this process would jeopardize tax relief as well as tax reform efforts.

Tax competition is a strong factor in both maintaining and increasing the vibrancy of economies across the globe. When Ronald Reagan reduced tax rates in the 1980s, not only did he trigger the economic renaissance we continue to enjoy today, he also forced policy makers in almost every other country to follow suit in order to remain competitive. This competition between nations forces lower taxes and economic growth.

The OECD is even trying to impose its will on nations that are not members of the organization, calling for draconian sanctions against so-called tax havens. This is troubling on several levels. Sovereign nations should be free to determine their own tax policies. American citizens would not respond well if other countries tried to dictate our tax laws, and it hardly seems right for us to participate in a campaign to force other nations to change their tax laws.

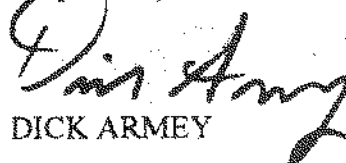
Likewise, it is not our job to tell other countries to dismantle their financial privacy laws. We should seek cooperation when investigating specific cases of wrongdoing, but this does not require the wholesale destruction of personal privacy.

Finally, I am also very concerned that this assault on low-tax nations will undermine our efforts to fight the war on drugs. We have made considerable progress convincing many offshore financial centers to cooperate in the fight against money laundering. Yet what incentive will these nations and territories have to support U.S. criminal investigations if we threaten their ability to maintain pro-growth policies? If developing nations are not allowed to create an attractive investment climate, their economies doubtlessly will suffer. The end result would be less cooperation and fewer resources devoted to fighting international crime.

Mr. Secretary, I hope that you are not committing the United States to actions that are unlikely to receive the approval of Congress. In upcoming years, we intend to implement tax cuts that will make America more attractive to the world's investors, regardless of whether the bureaucrats at the OECD think this is "harmful competition." Moreover, the financial protectionism that the OECD wants to impose against low-tax regimes is against our national interests and would also endanger the economies of other nations.

Adopting the OECD's policy not only represents a major change in tax policy, it hinders our efforts to reduce the U.S. tax burden and reform our unfair tax code. It also poses a serious risk to our continuing prosperity and prosperity around the globe. I urge you to summarily and immediately reject this policy and I look forward to learning the actions you plan to take to stop the OECD from moving forward.

Respectfully,


DICK ARMEY