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Bowing To the Global Tax Bullies

By Richard W. Rahn
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But some low-tax nations are pushing back

Do you think the Internal Revenue Service should have the right to share your tax information with foreign governments -- even ones run by thugs and those that engage in human rights abuses and/or suppress freedom in their countries?

A meeting was held in Mexico City last week under the auspices of the Paris-based Organization for Economic Cooperation and Development (OECD), whose implicit goal is to create a global high-tax cartel. It claims to be in favor of transparency and global economic growth. However, as with many domestic and international government organizations, the OECD's actions are often contrary to its words. In order to create a global tax cartel, the OECD needs to have tax information shared among nations -- which means that the citizen of any country that signs on to this scheme may have his or her tax information shared with other member jurisdictions.

The Center for Freedom and Prosperity sent a delegation to the Mexico City meeting. It included my colleague Daniel J. Mitchell, a senior fellow at the Cato Institute. Mr. Mitchell has written extensively on the importance of global tax competition, which is needed for economic growth, the preservation of human rights and civil societies. Mr. Mitchell was there to provide intellectual support to smaller, low-tax jurisdictions, which were trying to protect their tax sovereignty, and also to report on the meeting.

The international bureaucrats who run the OECD's Fiscal Affairs Committee managed to persuade a hotel to cancel Mr. Mitchell's reservations and then tried to get him thrown out of the public lobby of the hotel where the meeting was held -- as he was quietly meeting with delegations from lower-tax jurisdictions and the press. Fortunately, when Mr. Mitchell and members of the press objected to the bullying tactics of the OECD officials, he finally was allowed to stay.

The OECD has managed to get 87 jurisdictions to sign on to its global "tax standard." The high-tax countries are using the OECD to threaten low-tax jurisdictions to sign this agreement. It is worth noting that the tax bullies at the OECD and at other international organizations, such as the United Nations, International Monetary Fund and World Bank, who demand that others pay higher taxes, enjoy tax-free personal income courtesy of the world's taxpayers.

Freedom House, an organization that keeps its eye on human rights abuses and anti-democratic activities by countries, lists a number of the countries on the OECD list of cooperating jurisdictions as "not free" or only "partly free" -- including Russia, China and the United Arab Emirates. Yet some democratic and free jurisdictions have been listed as noncooperating by the OECD. According to the OECD, the U.S. should be sharing tax information with nondemocratic and/or corrupt countries on its list. Worse yet, the Obama administration is supporting the OECD in this wholesale violation of basic rights.

The OECD's mission statement says its task is to: "Support sustainable economic growth, boost employment, raise living standards, maintain fiscal stability, assist other countries' economic development, and contribute to world trade." However, its current attempt to stop "harmful tax competition" -- which is an oxymoron -- and destroy financial privacy is totally contrary to its stated mission. The OECD is supporting the double taxation of capital and trying to quash those jurisdictions that do not levy multiple taxes on savings and investment, i.e., productive capital. Without high levels of productive capital, countries will not grow and new and well-paying jobs will be created only rarely. Taxing capital is not only economically destructive but morally suspect. If the OECD ultimately gets its way, individuals and businesses trying to protect themselves from multiple taxation of their savings and investments -- from thuggish and rapacious governments and from criminal gangs -- will have nowhere to go, and that will be the end of civil society.

The good news is that some in low-tax jurisdictions are beginning to fight back. Last week, the head of the oldest bank in Switzerland (who holds a doctorate in economics from a leading U.S. university) said he was no longer going to invest in the United States because he found the new IRS regulations -- which foreign banks must follow -- so vague, onerous and incomprehensible that he could never be sure his bank was not at risk. In addition, he argued that the economic path the U.S. is taking can only lead to slower growth, and his bank sees better opportunities elsewhere.

From the time of the Reagan economic reforms a quarter of a century ago until last year, the United States had the highest average rate of growth of the major developed countries. A substantial part of this growth was fueled by foreign investment in our nation. Those in the Obama administration's Treasury Department (including the IRS) who are working with the tax bullies at the OECD are driving away much of the foreign investment at a time when it is most needed.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

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