The Washington Times February 18, 2014

Being Taxed for Bad Advice

BY RICHARD W. RAHN

IT'S FOOLISH TO FUND ORGANIZATIONS THAT DEMAND EVEN MORE MONEY

If you became aware that the advice you were receiving from your economic advisers was causing you to get poorer rather than richer, how long would you keep them? Among the general public, the International Monetary Fund (IMF), the World Bank and their lesser known younger sibling, the Organization for Economic Cooperation and Development (OECD), had reputations far exceeding their actual achievements. The World Bank's star was tarnished many years ago because of its multitude of program failures, crony capitalism and leadership scandals.

The IMF had its wings clipped this past month when Congress refused to go along with the administration's "strenuous pleas to increase the IMF's discretionary-loan budget," as described by former Undersecretary of the Treasury John Taylor. The IMF had reneged on a previous agreement of how the funds were to be used. Again, Mr. Taylor noted, the agreement "barred the IMF from making new loans to countries with unsustainable debts."

"Such loans effectively bailed out creditors, raised the debt burden on a country's citizens, encouraged irresponsible fiscal policy, increased risk taking, and thereby created a crisis atmosphere. Then the Greek sovereign-debt crisis emerged in 2010. Rather than sticking to the rule — no loans to a country with unsustainable debt — the IMF simply changed the rule." The Greek economy sank under all of the new debt, and the country was soon forced into a debt rescheduling. The IMF had given in to political pressure, undermining its effectiveness. Congress, quite correctly in Mr. Taylor's judgment, applied a penalty.

The IMF has made many mistakes over the decades, but always had access to the pocketbooks of global taxpayers, particularly U.S. taxpayers, as it engaged in endless mission creep with little serious oversight. Apologists for the organization claim it was just filling the potholes left by the governments of the developed countries and, of course, its client countries in the developing world.

The OECD was originally set up as an organization to promote trade among the developed countries and to build statistical databases. It has now morphed into an organization whose principal goal appears to be the collection of more taxes for its member governments. Last week, Angel Gurria, secretary-general of the OECD, said it was the "duty" of international companies to stop employing tax-reduction strategies — aiming some of his comments directly at Apple and Google.

Mr. Gurria seems to think the purpose of business is to pay taxes. Not so. The purpose of a business is to maximize the returns to its shareholders by producing goods and services to meet the wants, needs and desires of its customers. In fact, the officers of companies have a fiduciary responsibility to their stockholders to employ legal tax-minimization strategies to the extent they increase net profit.

Most tax economists view the corporate tax as one of the worst taxes, and many argue for abolishing it. Professor Reuven Avi-Yonah of the University of Michigan Law School, who has been a consultant both to the U.S. Treasury and the OECD, wrote that widespread support for a corporate-income tax comes from "the misguided belief that corporations bear the burden of the tax, while every economically literate person knows that taxes can only be borne by natural persons." Last month, mainstream economist Laurence Kotlikoff, in an article in The New York Times, described the results of a large-scale economic model that he had developed with colleagues through the nonpartisan Tax Analysis Center. "In the model, eliminating the United States' corporate-income tax produces rapid and dramatic increases in American investment, output and real wages, making the tax cut self-financing to a significant extent."

Mr. Gurria seems to be woefully ignorant of the destructive effects of high corporate-income tax rates. He also seems to be unaware of the considerable literature concerning the optimum size of government, which shows that most of his OECD member countries are spending far beyond the optimum amount. Rather than berating companies for not paying "enough" taxes, Mr. Gurria should spend his energy and the resources of the OECD to reduce both destructive spending and taxing by governments, which would truly fulfill the OECD mission "of promoting policies to improve the economic and social well-being of people around the world."

Most Apple and Google employees (and those of most other multinational corporations) work hard producing and developing new products that enhance the quality of life — and they pay taxes on their earnings. Many OECD employees spend much of their time traveling first class around the world to attend conferences (on your tax dollars) — and their salaries are tax-free. Now that Congress has shown the courage to say no to the IMF, perhaps it will have the courage to stop supporting the OECD's taxpayer-funded campaign to make us pay more in taxes.

I expect most Americans, if given a choice between paying higher taxes to support the OECD, or having more money to spend on Apple and Google products, would rationally pick the latter.

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