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Organization for Economic Co-operation and Development (OECD): What America Should Do

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KEY TAKEAWAYS

The OECD was once politically centrist and did valuable work to develop greater trade and access to capital markets among market-oriented democratic member states.

Today's OECD has largely devolved into a taxpayer-funded advocacy group for higher taxes, more intrusive government and burdensome regulation, and climate activism.

The U.S. should work to steer the OECD back toward promotion of free markets, prosperity, and economic growth. If it cannot, U.S. membership should be reevaluated.

The United States played a leading role in creating the Organization for Economic Co-operation and Development (OECD). The United States had established the Organization for European Economic Co-operation (OEEC) in Paris to administer the Marshall Plan that helped to rebuild post–World War II Europe.[1] The OECD succeeded the OEEC in 1961 to provide ongoing research and economic policy coordination.[2]

In its early years, the then-politically centrist OECD developed greater trade and access to capital markets among its market-oriented democratic member states. It also provided useful economic data and research to improve the rule of law and combat corruption and bribery.

In recent years, however, the OECD has veered sharply left on many issues. Nevertheless, as this paper will explain, membership in the OECD remains in America's interest. The principal U.S. policy for the OECD in the future should be to steer it back toward promoting free markets, prosperity, and economic growth. If it does not change course, U.S. membership can be reevaluated.

A Needed Course Correction for the OECD

The OECD of today, while still a valuable collector and publisher of economic data, has largely devolved into a taxpayer-funded advocacy group for higher taxes, more intrusive government, more burdensome regulation, and climate activism. This shift to the left is evident in the work of several committees whose membership includes the United States.

Base Erosion and Profit Shifting (BEPS) Project

The OECD played a historic and critical role in reducing double taxation of multinational business profits,[3] thus promoting economic development and global trade.[4] The OECD's newest proposals basically seek to overturn those decades of progress by advocating higher taxes on global business and more complicated, burdensome collection systems that could reintroduce double taxation to the international system.

The Base Erosion and Profit Shifting (BEPS) project, launched in 2012, sought to bring about "fundamental changes" and "new international standards" to ensure that tax rates on mobile sources of income remain elevated.[5] The most recent OECD proposals under the "Inclusive Framework on BEPS" aim to centralize and harmonize global tax rules to increase effective tax rates on multinational firms.[6]

The current proposal has two pillars. The first pillar includes a new method of allocating a newly defined category of corporate profits based largely on consumer location, rather than business location.[7] Pillar two proposes an international minimum tax on corporate profits.[8] The two pillars legitimize increasing taxes on businesses located outside their borders, likely resulting in new compliance costs and decreased global investment if they are widely adopted.[9]

The current systems of taxation in effect around the world allow for tax avoidance planning and do not tax 100 percent of corporate profits due to both intentional and unintentional features in the tax system. Yet aggregate corporate revenues have remained stable, and multinational businesses do not get away with paying no or little tax.[10] In fact, this system has benefited workers and consumers by allowing competitive international pressures to keep business taxes relatively low.[11] Nonetheless, the BEPS project intends to curb tax planning and even challenge intentional tax policy decisions of sovereign states that do not wish to tax corporations to the same extent as others.

The U.S. Senate declined to ratify the Multilateral Convention implementing the BEPS project. However, the Obama Treasury Department did promulgate regulations to comply with new OECD country-by-country reporting, an international reporting regime to automatically exchange sensitive taxpayer information with countries around the world (discussed below).[12] The new requirement went into effect in 2016.

International Information Exchange

The OECD also has a new Protocol amending the Multilateral Convention on Mutual Administrative Assistance in Tax Matters,[13] which would result in the automatic sharing of bulk taxpayer information among governments worldwide, including many that are hostile to the United States, corrupt, or have inadequate data safeguards. The requirements would add another layer to the already voluminous compliance requirements imposed on financial institutions and would put Americans' financial information at risk.[14] It would also promote authoritarian governments' ability to suppress dissidents and could lead to higher rates of identity theft, kidnapping, corruption, and espionage directed at the United States.[15] President Obama signed the protocol in 2010, but the Senate has yet to ratify it.

Burdensome Rules

The OECD has also been pushing aggressively for beneficial ownership reporting regimes,[16] which would impose a large administrative burden on small American businesses when many are struggling for survival.[17] In December 2020, Congress passed a poorly drafted and unnecessary beneficial ownership reporting regime that exempts all entities with more than 20 employees.[18]

The OECD has supported ever-increasing burdens on businesses for decades in the name of combating money laundering without the slightest concern about the costs imposed.[19] The anti-money laundering (AML) rules in the U.S. Bank Secrecy Act[20] are generally promoted and coordinated internationally by the Financial Action Task Force,[21] which is hosted at the OECD.[22] The AML rules have almost certainly reached the point where the costs outweigh the benefits.[23] These rules are a major contributing factor to the decline of community banks and small broker-dealers. They have made it difficult for many banks and businesses in the developing world to access international markets[24] and they have made it much more difficult for poor and lower-income persons throughout the world to access the banking system.[25]

Costly, Ineffective Climate Policies

In recent years, the OECD has increased its attention and ramped up its work on climate policy. In 2016, it created the Centre on Green Finance and Investment to support the transition to a "green, low-emissions and climate-resilient economy."[26] Along with the OECD's Environment Directorate,[27] it has advocated for a number of interventionist climate proposals similar to pushes seen in the European Union[28] and some parts of the United States. For example, the EU's program to achieve "climate neutrality" by 2050 appears to be supported by OECD work[29] on that goal.

Much of the OECD's work on climate change supports and reflects the "whole of government" approach the left wants to take to address the issue. Policy discussions include the importance of changing how people produce and consume energy, manufacture goods, or grow and process food.[30] The OECD also recommends that private banks change their lending and underwriting practices to achieve environmental goals.[31] These programs complement an overarching campaign to restructure all economic activity and redefine the purpose of private businesses for various social or political objectives unrelated to earning a return, satisfying customers, or treating workers or suppliers fairly.

A transition to a greener energy economy is not the problem; it is the proposals to use government carrots and sticks to get there that are the problem. Many OECD publications promote additional taxes, regulations, massive government green finance strategies, and policies implemented to change producer and consumer behavior. Combined, these policies would result in higher energy prices, less consumer choice, and mandates for governments to employ policy metrics to gauge the permissible flow of capital investments—all for a relatively small potential impact on global greenhouse gas emissions.[32]

Some of the OECD's work on clean energy and climate change could be of potential use to policymakers. OECD research has stressed the need for technological innovation, private-sector investment to improve efficiency, the importance of trade, and the inclusion of commercial nuclear power as a clean, reliable fuel source. Too often, however, the policy recommendations that accompany these research topics call for more government financing and control.

U.S. Membership in the OECD

The United States is the single largest funder of the mandatory ("Part I") member-country assessments for the OECD's core budget at 20.5 percent.[33] The United States also contributes funds to certain voluntary ("Part II") activities in which it participates, such as the International Energy Agency and the OECD Development Centre.[34] For fiscal year 2019 (the latest available), the total U.S. contribution to the OECD was $74.1 million.[35] That figure excludes the costs of maintaining the State Department's U.S. diplomatic mission to the OECD.

The OECD still serves some U.S. policy interests positively, such as its consistent high-quality international data and the promotion of trade and investment flows among the OECD's market democracy member states. U.S. membership in the OECD can also restrain the growing influence of the People's Republic of China. Although China is not an OECD member, Beijing has sought and has achieved greater prominence in the organization. For example, China is deputy chair of the OECD's Steering Group of the Inclusive Framework on BEPS.[36] In addition, the OECD's fact sheet on China makes prominent mention of the possibility of the PRC's future membership in the organization.[37] Admission of new members requires a unanimous vote by all existing OECD members, however, so by remaining a member the United States will be able to block the admission of China.[38]

Also, the OECD's Ministerial Communiqué,[39] an annual statement of policy goals, often influences summit meetings of groupings such as the G-7 and the G-20. Thus, the OECD's research work on climate can provide policy justification for intrusive government environmental regulations on business.

A more active and vigilant U.S. presence at the OECD, then, can better advance American interests. The U.S. delegation's principal mandate should be to support the positive actions taken by the OECD and highlight (with robust arguments) the negative ones. The OECD should not be permitted to continue to devolve into a full-on international taxpayer-subsidized leftist think tank.

Recommendations

Congress should block U.S. voluntary assessments to the OECD until it ceases urging members to increase taxes and implement more intrusive tax collection or AML methods.

The blockage should continue until the OECD agrees to do an equal amount of research on ways to cut government spending; reduce taxation; conduct rigorous cost-benefit analysis of AML rules; examine the impact of AML rules on small banks, small broker-dealers, developing countries, and low-income citizens; and, in general, work to make bureaucracies smaller and more efficient. If other OECD member states support larger and more intrusive governments, they should fund those activities without the help of the American taxpayer.

The State Department and the Department of Treasury should oppose United States ratification of the Protocol amending the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Foreign governments should not be provided with bulk confidential tax and financial information of U.S. companies and citizens.

The U.S. should encourage the OECD to advance the growth of renewable power, nuclear energy, and broader energy innovation through competitive market forces rather than continue to advocate for a tax-and-spend approach. Markets and enabling the private sector to meet the needs of consumers and investors would generate significant economic and environmental returns.

Conclusion

During its first few decades, as the world continued to recover from the most destructive global war in history and to confront the Cold War, the OECD did vitally important work to open markets, enhance flows of capital across international borders, and increase the confidence of foreign direct investors. It also earned a reputation for producing reliable and high-quality metrics and statistical analyses that were useful for policy reform efforts among developed nations.

However, high-taxing European members of the OECD have continued to push the organization toward an almost obsessive research focus on international tax avoidance and evasion and to support ever more intrusive and bureaucratic measures without regard to their impact on the economy, lower-income people, and the developing world.

The United States should stay involved with the OECD to keep it from going into the full-time promotion of socialism and big government solutions requiring ever-higher taxes and ever more intrusive government. If OECD policy and recommendations do not change course, Congress should reduce or eliminate funding and reevaluate U.S. membership.

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