

MAJORITY LEADER



Congress of the United States

House of Representatives

Washington, DC 20515-6502

March 16, 2001

The Honorable Paul O'Neill
Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue
Washington, DC 20220

Dear Secretary O'Neill,

Recent news reports indicate that you are wisely reevaluating the United States involvement in the OECD's "harmful tax competition" initiative. This project, which was supported by the Clinton Administration, is fatally flawed and contrary to America's national interests. I stand ready to assist you in seeking a far more productive way to address important international tax issues.

I encourage you to act quickly to reverse the previous administration's misguided policy. Many low tax nations, facing a threat of financial protectionism as early as this July, are under tremendous pressure to comply with the OECD's demands. As the world's largest economy, but also as the nation that symbolizes freedom and entrepreneurship, we have a moral obligation to come to the aid of these persecuted regimes.

It is my understanding that career personnel are urging you to support the Clinton Administration viewpoint on the grounds that the OECD initiative is needed to reduce tax evasion. This is a red herring. A global network of tax police is the wrong approach.

Instead, the U.S. should shift entirely to a territorial system—the common sense notion that countries only tax income that is earned within their borders—and also eliminate the double taxation of income that is saved and invested. This approach is consistent with sound tax policy, protects financial privacy, and preserves fiscal sovereignty. Moreover, the incentive for tax evasion would be eliminated. At the same time, economic growth would be enhanced because a territorial system and proper tax treatment of savings and investment would stimulate business activity here at home and attract investment from overseas.

Bad economic policy is not the only reason to reject the OECD's initiative. Countries that are being persecuted for having attractive tax policies will have little incentive to cooperate in the prosecution of drug dealers, terrorists, and other international criminals. Indeed, the OECD proposal likely will cause an increase in crime

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since some people may seek illegal income from things like money laundering to offset the legitimate income lost as a result of the OECD's attack against tax competition.

By every possible criterion, the OECD's effort is misguided. It is designed, in effect, to create a tax cartel for the benefit of a small handful of high-tax nations. These countries are seeking to impede the flow of global capital, and the U.S. economy – with its comparatively attractive tax system – will suffer if they succeed. I look forward to working with you to stop the OECD's initiative and to adopt, instead, common-sense proposals that will maintain tax competition and the sovereignty of all nations.

Respectfully,



DICK ARMEY
Member of Congress