



April 18, 2001

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

Dear Mr. Secretary,

Competition between businesses protects the interests of consumers, and the same principle should apply to government. This is why I write to state a strong objection to the so-called "harmful tax competition" initiative being promoted by the Organization for Economic Cooperation and Development (OECD).

The 280,000 members and supporters of Citizens for a Sound Economy understand the importance of a competitive marketplace and limited government. The OECD's efforts to shore up nations with high taxation paves the way for continued government growth. As a result, we have strong concerns about the proposal before the OECD.

Jurisdictional tax competition is a powerful force for sound tax policy and economic liberty. In America, for instance, residents of states with low-tax burdens are rewarded with faster growth as workers, investors, and entrepreneurs seek to benefit from higher after-tax returns. But even residents of high-tax states benefit, since the existence of jurisdictional competition constrains profligate lawmakers.

To take just one example, this is the reason that Granite Staters have for generations boasted of the "New Hampshire Advantage." New Hampshire has neither a broad-based sales tax nor an income tax. Certainly the citizens of New Hampshire reap a benefit. However, citizens in neighboring states also reap rewards as their tax rates are held down in an effort to compete.

The same forces exist in the international marketplace, which explains why so many nations reduced their tax rates after President Reagan lowered America's top tax rate from 70 percent to 28 percent. Unfortunately, the OECD is seeking to undercut tax competition by imposing an "information sharing" requirement on low-tax countries so that high-tax countries could impose their excessive tax rates on income earned in low-tax jurisdictions.

The OECD proposal is wrong. The rules of international commerce and taxation should not be radically altered to help nations export bad tax laws. Tax competition, financial privacy and fiscal sovereignty are features of a just and prosperous international order and hallmarks of a free market economy. The OECD would be better served to examine ways to ease the tax burden of its member nations.

Sincerely,

Paul Beckner
President and CEO