

United States Senate
WASHINGTON, DC 20510-2903

January 25, 2002

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

Dear Secretary O'Neill,

The "information exchange" schemes proposed by the Organization for Economic Cooperation and Development and European Union pose a significant threat to America's competitive position in the global economy. Compared to Europe's welfare states, the United States is a low-tax economy, and this helps us attract jobs and capital.

I recognize that you have resisted these initiatives, but I am concerned that the Administration's opposition to tax harmonization is not sufficiently enthusiastic. To put my mind at ease, can you address the following issues:

1. The United States should never feel compelled to put another nation's laws above our own, and we should guard against international initiatives that create dangerous precedents. With this in mind, can you assure me that you agree that all nations have the right to determine their own domestic policies so long as they do not create a national security threat to other countries?
2. Do nations have the right to determine the tax treatment of income earned inside their borders? This question is important, as you will appreciate, because America is the world's largest beneficiary of international capital flows. Needless to say, the United States should determine how – and if – any resulting income is taxed.
3. A United Nations conference in mid-March will be considering proposals to boost foreign aid, including tax harmonization proposals such as information exchange, an International Tax Organization, and global taxes on energy and/or financial transactions. Can you assure me that the United States will block these proposals, all of which would undermine America's competitive advantage in the global economy?

4. As New Hampshire residents can attest, tax competition between states promotes fiscal responsibility and rewards free-market economic policy. But politicians from the European welfare states promoting tax harmonization argue that individuals should not be allowed to lower their tax bills by shifting resources to lower-tax jurisdictions. Isn't this mentality inconsistent with conservative principles?

I look forward to specific answers to these important questions. Thank you for your attention to this critical issue.

Sincerely yours,



Bob Smith
U.S. Senator