



Promoting market integrity

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Moderator: **Anthony Gooch**, Director, Public Affairs and Communications, OECD

Allan Bell, Treasury Minister, Isle of Man

Cobus de Swardt, Managing Director, Transparency International

Luc Frieden, Minister of Treasury and Budget Minister of Justice, Treasury, Luxembourg

Jean-Daniel Gerber, State Secretary for Economic Affairs, Federal Department of Economic Affairs, Switzerland

Jeffrey Owens, Director, Centre for Tax Policy and Administration, OECD

Guy Ryder, General Secretary, International Trade Union Confederation

Substantial progress has been made in “cleaning up the shady underbelly of globalisation” in the past six months, said Anthony Gooch in his opening remarks, noting how a “perfect storm” had developed around the issue of tax evasion. Key factors contributing to these changes are the emergence of “unimaginable” budget deficits and the political need to justify the taxpayer-funded bailout of the banking system.

Mr Gooch admitted that this has been a difficult period for the OECD, characterised by disagreements among members and close scrutiny of the organisation’s guidelines for promoting market integrity. He emphasised the importance of these issues for developing countries, where locally levied taxes are a greater source of revenues than foreign aid. He cited Oxfam estimates that \$6.3billion in developing country wealth is held overseas by private individuals, equivalent to up to \$125billion in lost tax revenues.

Luc Frieden outlined the three main goals that Luxembourg is striving to achieve through improved tax policies: prevent crime, make sure taxes are paid by everyone, and avoid outward capital flight. Questioned about the seeming suddenness of Luxembourg’s commitment to the OECD’s tax standards, Mr Frieden argued that his country “did not take so long” in adopting these standards, and stressed the importance of maintaining fair competition among different tax jurisdictions, many of which only began taking action in March 2009. Mr Frieden spoke of the difficulty in striking the right balance between fighting crime and protecting people’s “fundamental right to privacy”, and questioned the criteria used to establish “so-called white, grey, or black lists” which, he felt, did not always reflect some countries’ poor track record in market integrity. Mr Frieden suggested that more attention be paid, for example, to opaque real estate investments in some jurisdictions “with no knowledge of where the money comes from”. He called for “a broader and fairer discussion” on the issue.

In response to Anthony Gooch’s remark about how the Isle of Man had gone from being “a black sheep in 2000 to whiter than white in 2009”, **Allan Bell** provided an overview of the perceived tax haven’s transformation. By committing to the OECD’s international tax

co-operation standards, “the Isle of Man has consistently maintained an approach based on constructive engagement and pragmatism” and “has provided leadership and, in many ways, a role model” for other small economies. He cited the importance of standards in developing tax co-operation among countries, both developed and developing. He also drew attention to the Isle of Man’s adherence to the European Union Savings Directive, which allows bank customers to opt either to exchange bank-interest information with their country of residence or to pay a withholding tax deducted at source. Given the perception by some that the withholding-tax option is a cover for bank secrecy, Mr Bell announced that the Isle of Man will remove this option starting 1 July 2011 when the withholding tax rate is scheduled to rise.

Cobus de Swardt argued that the lack of transparency, accountability, integrity and government oversight in markets and corporate governance is at the centre of the ongoing financial crisis. Moreover, Mr de Swardt warned that “a lack of focus on these core values will undermine efforts to get out of the crisis”, and that the world cannot afford to limit these efforts to a “nice public relations exercise”. Mr de Swardt also stressed the need for enhanced transparency in implementing public rescue packages, and for improved government oversight of corporations and offshore financial centres. “We don’t have to invent anything new, we already have the instruments to fight against corruption” he said. “The OCDE did a fantastic job by setting standards to fight tax evasion...What we are missing at the moment is the political will”. Finally, Mr de Swardt warned that fighting corruption in poorer countries requires not only help from wealthy nations, but the will within developing countries to call their own corrupt political leaders to account.

Jean-Daniel Gerber outlined Switzerland’s commitment to meet transparency and exchange of information standards, but argued passionately that the current debate on tax issues and integrity has become unbalanced and ignores the accumulation of “dangerous protectionist measures” in the financial sector in other countries. “This is against the principle of the optimal allocation of resources,” he asserted, “but we hear no Nobel prize-winners speak out about this”. Mr Gerber asked what the OECD is doing about this, which is in contradiction to what it stands for, and urged the organisation to follow the example of Pascal Lamy at the WTO by drawing up a list of all the protectionist measures taken around the world. Mr Gerber also expressed his strong disagreement with the argument that the origins of the financial crisis are to be found in a lack of transparency, blaming instead loose US monetary policies in the wake of 9/11 and the sub-prime crisis.

Saying that he was “extremely discouraged” by some of what he had heard, **Guy Ryder** argued strongly that “tax issues cannot be divorced from the crisis”. While agreeing that the case for multilateral co-operation is clear, he rejected the validity of arguments based on confidentiality and “whether others are doing it” for opting out of tax agreements. He also identified a corrosive, long-term process that has eroded the tax base, bid down corporate tax rates, flattened personal income taxes and undermined the basic redistributive role of taxation. “We need society to understand the original purpose of taxation”, he said, calling for the adoption of more progressive taxation policies as well as higher taxes for wealthier people.

Jeffrey Owens joked that “we may be colour blind [about black sheep and white sheep], but we do recognise an angry sheep when it comes straight at us”, in allusion to criticism of the OECD’s grey and white lists and the organisation’s role in driving the tax agenda. Arguing that tax is ultimately a political issue, he acknowledged the difficulty of reconciling the need for economic growth and equality in tax policy. Asked about the reach of the OECD’s standards, Mr Owens pointed out that they now affect 84 tax jurisdictions, which account for 90% to 95% of global financial activity, and said that the organisation now needed to focus more on implementation. He expressed interest in peer-review mechanisms whereby countries assess and coax each other towards progress as an effective way of ensuring that these agreements are put into place. Mr Owens argued that there is undoubtedly a link between tax policy and the current crisis, and although “taxes have not caused the crisis, they must be part of the solution”. Mr Owens concluded with a call to make this the “decade of transparency”, declaring that “a bit of sunlight is the best disinfectant”.

While **Stephen Timms** agreed that a lack of transparency contributed significantly to the financial crisis, he asserted that substantial improvements have been made in recent months. Mr Timms cited Switzerland’s goal of reaching the 12-agreement threshold (which would indicate its commitment to the OECD standards) by the end of 2009, and suggested that developing countries should become more engaged in these processes. Mr Timms called on the OECD to explore proposals requiring companies to report how much profit they make, and how much tax they pay, in each country. He also encouraged the OECD to revive the valuable work it had done in the 1990s on harmful tax practices.

Questions and comments from the floor ranged widely, from how to enforce OECD standards to trying to solve the problems within developing countries from the outside. One member of the Canadian Labour Congress spoke about the problem of rising unemployment and the inadequacy of his country’s tax system to assist workers. “We’re still gonna get screwed, but we’re gonna be more transparent about it” he commented.

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