The Politics of an Emergent Global Regime for Controlling Tax Competition

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This paper probes what I call the emergent global regime for controlling tax competition. Since at least the early 1990s, states have perceived that competition for investment, whether through direct subsidies or tax incentives, threatens to undermine the fiscal underpinnings of the modern state, particularly in terms of its provision of social welfare programs. As states have provided financial or fiscal subsidies to capital (especially mobile capital), they have had to compensate through some combination of imposing higher levels of taxation on other actors, running higher deficits, or cutting spending.[1] Each has shown itself to have substantial problems, and the response of states has now come full circle: to reconsider the competition for investment that causes the fiscal problems in the first place.

Building on efforts to control subsidies (known as "state aid" in the EU) in the European Union and World Trade Organization, on the transparency exercises of these organizations and the OECD, and the tax expertise of the EU, OECD, and the International Monetary Fund, two distinct but closely related control processes have emerged.

The EU's Member States have pledged to stand still and roll back "harmful tax measures" as part of a Code of Conduct on Taxation, while also relying on increased use of the state aid rules to sanction tax schemes that can be construed to constitute state aid. On the global level, the OECD has received similar undertakings from its member states, but is also planning sanctions against non-member countries that do not cooperate in removing their tax haven status as defined by the OECD. Both of these efforts are noteworthy in that neither has been motivated by efficiency concerns per se,[2] but more directly by the potential for the degradation of tax revenue that tax competition is perceived to have caused, and for addressing the problem of competition for investment quite directly. In addition, the EU efforts have been motivated quite explicitly by equity issues, documenting clearly the shifting of tax burdens from capital to labor, and the potential for substituting capital for labor as this tax incentive shifts. This paper will examine the political twists and turns within and between the OECD and EU control mechanisms, and consider where policy is likely to evolve in the future.

The Problem

The issue of revenue degredation has been rising in importance since the late 1980s. In the late 1980s and early 1990s, the United States tried to deal with one way in which capital mobility threatens tax revenue, the increasing use of abusive transfer prices by multinational corporations. This resulted in new Internal Revenue Service guidelines on transfer pricing in 1993, the effectiveness of which is still being debated.[3] The proximate cause for tax competition and fiscal degradation being taken up in the multilateral arena came in the 1990s when the Ministers of Finance in both France and Germany found their tax revenues trailing projections. According to Vito Tanzi of the IMF, they contacted then-IMF Managing Director Michel Camdessus on what to do about the problem. At the urging of OECD staff, American and Japanese officials successfully argued to make it a project in the OECD instead of the IMF. Since then, the IMF has had no official role, though it continues to conduct research in the area of tax competition.[4]

Why is this a multilateral issue rather than a domestic one? Briefly, the problem is a Prisoners' Dilemma: If one country cuts taxes, it attracts more investment; but if all countries cut taxes, they leave investment location unaffected, while all have reduced their tax revenues.[5] To control the problem, then, requires action from more than one country, as none can individually take account of the externalities they impose on other countries or prevent externalities imposed by other countries. Achieving cooperation in such a Prisoners' Dilemma is precisely the goal of the EU and OECD tax competition control efforts.

The Fiscal Policy Incompatibility Theorem

Over the past 40 years, the world has witnessed a sharp increase in capital mobility. That is, it has become increasingly possible for owners of capital to shift their capital from one location to another, whether that means financial assets or productive investment. In the context of governments' need for investment,[6] increasing capital mobility makes it necessary for states to engage in more intense efforts to compete for investment. The varieties of competition for investment are numerous, including direct grants or firm-specific tax holidays to attract an individual company, more general measures to improve a jurisdiction's 'business climate', such as reduction in tax rates generally, relatively more favorable labor climate (Britain's former opt-out from the Social Chapter of the Maastricht Treaty; anti-union 'right-to-work' laws in some U.S. states), lower regulatory frameworks, etc.

These governmental responses to increasing capital mobility have led to a cumulative, long-term shift in the burden of taxation. When examined over a long period of time, the shift in tax burden off of the corporate sector and onto personal income, and to other relatively immobile actors, is unmistakable. A number of studies show the dimensions of this phenomenon. Table 1 shows data on corporate income taxation in the OECD:

Table 1

CORPORATE INCOME TAX SHARE OF TOTAL TAX REVENUES

	1955	1975	1996
U.S.	20.3%	11.4%	9.6%
CANADA	17.6%	13.6%	8.9%
JAPAN	18.4%	20.6%	16.4%
GERMANY	9.8%	4.4%	3.8%
FRANCE	N/A	5.2%	3.8%
U.K.	17.5%	6.2%	10.5%
ITALY	5.5%	6.3%	9.2%
G-7 MEAN (unweighted)	14.9%	9.7%	8.9%

Sources: OECD, Revenue Statistics, 1965-1997 (Paris: OECD, 1998). 1955 calculated from Table 130, p. 194; 1965-1996 given in Table 13, p. 84.

For the OECD as a whole, figures reported in The Economist show a similar increase in personal income taxes (including social security contributions) and a fall in taxation of corporate income, property, and even goods and services. As Pearson and Paylasian state, citing these figures, "Between 1981 and 1994, the average tax rate on wages increased from 35% to 41%, and personal income taxes from these wages constitute the largest share of government revenues."[7] The European Union has also documented the extent of burden shifting in the EU: From 1980 to

1994, tax on labor increased from 34.7% of total labor income to 40.5%, while tax on capital, the self-employed, energy and natural resources fell from 44.1% of income to 35.2%[8]

However, reducing the tax burden on corporations and other mobile factors causes fiscal problems that must be dealt with in one (or a combination) of three ways: increasing the tax burden borne by individuals (as already shown above), worsening their budget balance (in practice, increasing their budget deficit), or cutting government expenditures. I propose to call this the Fiscal Policy Incompatibility Theorem: All other things equal, a tax cut in one area must be made up for by raising other taxes, worsening the fiscal balance (usually meaning a higher deficit), or cutting spending. However, each of these responses has problems of its own. Indeed, the first two probably are already played out, and the third is beginning to reach its political limits as well.

"Tax revolts," such as those that began in the U.S. with California's Proposition 13 (reducing property taxes) in 1978, show the limits to directly shifting the tax burden to individuals.[9] In many countries, the next response was to turn to increased government debt, but this is also limited by the extent to which lenders will continue to lend, without demanding greater interest rate premia.[10] The third response is to reduce government expenditures, but as many of the programs of the welfare state have deep political support, there has been strong resistance in many countries to this approach, as perhaps best exemplified in the French strikes of December 1995.[11]

Policy Responses

As noted above, both the OECD and the EU have addressed the issue of tax competition, and each has engaged in large-scale initiatives to combat it. The success of these efforts will be determined by how three sub-issues play out: 1) Conflict over low taxes per se, which pits Ireland and to a lesser extent the U.K. against most of the rest of the OECD and EU, particularly France and Luxembourg; 2) The contention by the U.K. that EU tax withholding will destroy the Euromarkets, which has led to a veto of withholding proposals in the EU; 3) The issue of bank secrecy, which pits Luxembourg and Switzerland against the U.S. and Germany.

OECD Report on Harmful Tax Practices

In April 1996, the OECD established a Forum on Harmful Tax Practices, "to examine how this competitive bidding [for mobile investment] may distort investment flows and undermine revenues."[12] This followed upon an earlier attempt in 1992-95 to study the issue, which for political reasons never released a report.[13] According to Jeffrey Owens, head of OECD's Fiscal Affairs Directorate, the rapid increase in the use of tax havens "was depriving governments of legitimate tax revenues, undermining the integrity of their tax systems, and threatening their fiscal sovereignty."[14]

Because tax policy is highly sensitive, and a central part of a nation's sovereignty, advancing such a project was a very difficult undertaking. One major issue was Ireland's 10% rate of corporate income tax for manufacturing and some services. Some OECD members, such as France, have been highly critical of this, claiming that it was unfair competition and had the kinds of effects Owens outlined in the quote above. This issue has also been raised in the simultaneous EU discussions on tax competition, and in the EU's competition directorate, which has been interested in the issue of whether the low tax rate constitutes state aid. The issue has a long history, going back to Ireland's economic development strategy before joining the EC, one which centered on the use of an tax exemption (known as Export Sales Relief or ESR) for all export profits, as well as generous grants offered by the Industrial Development Authority (IDA). Since intra-Community export subsidies are absolutely prohibited as part of EU state aid policy, in the negotiations for Ireland's accession, Ireland pressed for, and obtained, "guarantees that any revised incentive scheme required by EEC codes would be equally effective."[15] In 1978, Ireland announced a system to replace ESR, which involved a reduction in corporate income tax for manufacturing industry to 10%.[16] With the EC's acceptance of this tax regime as being a "general macroeconomic policy" and not a state aid, the seeds were sown for a bitter dispute on unfair tax competition. This old decision has had high-profile reverberations in the last few years due to some highly-publicized relocations of firms from mainland Europe to Ireland, such as Boston Scientific, which closed operations in Belgium and Denmark.[17]

A second big issue the OECD project has had to face is that of bank secrecy. For OECD members Switzerland and Luxembourg, as well as small tax havens around the world, bank secrecy has been an important attraction for financial investment.[18] But bank secrecy can also attract customers who are laundering criminal profits, such as drug money or bribes, or who are evading taxation.[19] For this reason, there is pressure from some EU countries, and especially from the U.S., to end bank secrecy.

A third potential issue is a non-starter in the OECD. That is, one solution to a part of the problem, transfer pricing abuses, would be to use worldwide unitary taxation. However, this has always been anathema at the OECD, due to furious lobbying of members by their multinational corporations.[20] There seems to be no likelihood that this could change in the forseeable future.

The political wrangling to decide on the parameters for the tax competition study took place behind closed doors, and OECD officials are relatively tight-lipped when it comes to the issues affecting member states. In the end, while some of the project's preliminary criteria appeared to include the current Irish 10% corporate tax rate for manufacturing within the purview of the project, this politically sensitive issue was ultimately excluded from the first phase of the project in favor of a focus on tax competition for financial and other services. According to two OECD officials, one important reason for the narrowing of emphasis was the resource constraints on the project, which makes it unclear when it will be possible to expand to consider competition for FDI.[21] This narrowed focus was sharply criticized by Luxembourg and Switzerland, who both abstained on the report's approval.[22] The OECD's Jeffrey Owens defended the decision, however, telling the The Observer: "Where governments have an immediate problem is with financial services. What is $250 billion doing in the Dutch Antilles, for example? Tax havens do not usually get involved in manufacturing cars."[23] In the future, however, the issue of Ireland's tax rate (now scheduled to be raised to 12.5%, but to apply across the board) is sure to reappear.

Results of the Study

The study identified a number of factors to be associated with tax havens and harmful preferential tax regimes, including no or very low taxes, lack of effective exchange of information (the perceived assault on bank secrecy laws was a major objection of Switzerland and Luxembourg), and non-transparent operation of the tax regime. In addition, tax havens are characterized by no requirement for substantial activities to take place, while preferential tax regimes are commonly "ring-fenced," either not available to domestic taxpayers, only foreigners, or requiring that firms benefiting from the tax regime not operate in the domestic market.[24] (Note that no one of these criteria is necessarily decisive by itself, particularly the question of zero or low tax rates.) As two OECD staff pointed out to me, for some tax havens, the stock of financial services capital is a multiple of GDP.[25]

The next stage of this project is to use these criteria to publish a list of tax havens, and to designate OECD members' tax regimes as "harmful," which would require their abolition within three years (though benefits could be grandfathered until 2005). This was originally scheduled for June 2000, but as progress was made with some non-members on changing their tax policies, it was decided to wait until 31 July 2001 to publish the List of Uncooperative Tax Havens. According to one staff member, "There was a feeling we had had some success with commitments from half a dozen states and continuing negotiations with more made it seem like there was reason to extend the deadline, but pre-announce sanctions in a year."[26] Moreover, most, if not all, OECD members, operate at least some "harmful" preferential tax programs, and many members have dependencies that are clear tax havens, such as the Netherlands Antilles and the Channel Islands.[27] This adds up to potentially far-reaching effects. The OECD Forum will also conduct outreach to persuade non-members to operate their tax systems in non-harmful fashion.[28] More specifically, the OECD has asked non-members to provide more information to foreign tax authorities and make the operation of their tax regimes more transparent.[29]

The reaction from non-OECD member countries has been mixed. The Bahamas, after initially being very critical of the OECD, has more recently intimated that it would prohibit corporations from being set up without the owner's name being disclosed, and that it would consider other forms of information exchange. However, Finance Minister Sir William Allen said there "is no question that we are going to institute an income tax ourselves." The Cayman Islands and Bermuda have also offered some concessions (see below on the Channel Islands).[30] On the other hand, according to Tanzi, some Caribbean countries have sought to persuade the IMF to intervene on their behalf in the OECD process. Since they do not need income tax revenue, these countries hope to reach an agreement that would only require them to exchange information, but not withhold tax. At the same time, they are resistant to information exchange as long as OECD members such as Luxembourg, Switzerland, and (to a decreasing extent) Austria themselves have bank secrecy.[31] Moreover, as IMF economist Howell Zee points out, even information exchange means that most of the burden falls on the tax havens, which would receive many information requests while generating very few for OECD members.[32]

For those countries that do not cooperate with the OECD, the threat of being tabbed as a tax haven is not a hollow threat. The OECD's 2000 report published a list of potential "defensive measures" to use against Uncooperative Tax Havens, including suspension of their tax treaties with OECD members, withdrawal of non-essential economic aid, targeting transactions in these countries for intensive auditing, etc. According to a Financial Times analysis, they could also potentially lose investment from banks that did not wish to have their reputation damaged by associating with a tax haven.[33]

EU Tax Competition Code of Conduct

In the European Union, the potential for revenue degradation was foreseen when capital movements were liberalized, and even in 1989 there was a proposal for an EU-wide minimum tax on savings.[34] Yet revenue degradation has not been the only motivation for EU policy to combat tax competition. It was also recognized that tax competition to attract mobile investment was contributing to a long-run shift of the tax burden from capital to labor. From 1980 to 1994, tax on labor increased from 34.7% of total labor income to 40.5%, while tax on capital, the self-employed, energy and natural resources fell from 44.1% of income to 35.2%[35] The Commission also suggested that this shifting tax burden was contributing to the EU's severe unemployment problem, by providing tax incentives to substitute capital for labor.[36] Starting with meetings of economic and finance (ECOFIN) ministers at Verona in 1996, the Commission gradually hammered out a Code of Conduct on business taxation that was adopted by the Council of Ministers on 1 December 1997. The agreement represents a political commitment by all 15 Member States to identify harmful tax measures, not introduce new ones, and roll back existing measures. The final hurdle was a battle between Ireland and France over the former's low corporation tax rates, which France sees as unfairly attracting investment, which ended with Ireland receiving five years to phase out many of its programs.

To follow up on the Code of Conduct, a monitoring group chaired by U.K. Treasury Secretary Dawn Primarolo began reviewing programs possibly in violation. From an original number of about 80 identified by tax experts, the group was flooded with complaints by governments bringing the total to over 200 altogether. The torrent of programs began when the Dutch government, which operated many of the schemes targeted in the first round, released a report it commissioned on tax incentives in the EU.[37] In November 1999, the report named 66 corporate tax regimes in the states or dependencies of every EU member except Sweden. Nine of these were in the Netherlands, six in Ireland (but only one not already agreed for phase-out) five in Luxembourg and four each in France and Belgium. Approximately 20 were in such dependencies as the Netherlands Antilles, British Virgin Islands, and Channel Islands (though the U.K. proper had none). By the provisions of the Code of Conduct, these must be abolished by 2003.[38]

The process caused considerable controversy. For example, while Luxembourg has already abolished two of the five identified tax regimes, it objected to French pressure and eventual

Commission inclusion of its regime for tax-deferred reserves for reinsurance companies. On the other hand, like the French, the Luxembourgeois negotiators saw Ireland's low tax rate, even at the scheduled 12.5%, to be too low. As Gaston Reinesch, Director General of the Ministry of Finance, put it, there is a paradox when a country with a 40% corporate income tax and a special rate of 30% is considered to be engaging in "harmful tax competition" while a country with a 20% across-the-board rate is not.[39]

Ireland has actively defended its 10% tax rates over the years and continues to argue for low rates. According to Liam MacGabhann of the Irish Permanent Representation, their position is that low rates are good both for economic growth and higher tax revenues.[40] The 10% rates included the manufacturing provisions originally scheduled to end in 2010, the Shannon Customs-Free Airport Zone, and the International Financial Services Center (IFSC) in Dublin, which had a planned expiration of 2007.[41] According to MacGabhann, Ireland was particulary attacked over the IFSC by France, Germany, Belgium, the Netherlands and Denmark, as well as the Competition Directorate-General.[42]

Tax regimes in its dependencies cause a problem for the United Kingdom. Dependent territories such as Jersey, Guernsey and the Isle of Man have autonomy in matters of taxation and are technically not part of the EU. However, pressured by the rest of the EU on withholding tax (see below), and by the OECD, Chancellor of the Exchequer Gordon Brown has demanded they stop facilitating tax avoidance. Some commentators have suggested that the U.K. government is trying to "(claim) control over the islands' tax affairs," and causing some politicians in the latter to openly discuss the formerly unthinkable possibility of declaring independence.[43] Another U.K. dependency, Gibraltar, is considered part of the U.K. for state aid purposes (unlike those listed above), and it has a number of fiscal aids that could come in for scrutiny either as part of the Code of Conduct or under state aid rules.[44]

The tax competition issue in the EU is complicated by its being bundled up with two related issues, bank secrecy and a withholding tax on savings. As in the OECD, Luxembourg wants to protect bank secrecy, but is faced most forcefully in this venue by Germany, which wants to ensure that Germans with deposits in Luxembourg are taxed. Luxembourg has claimed it will not compromise on this issue without an agreement on a minimum corporate income tax rate, something Ireland and the UK oppose.[45] While the EU has now agreed in principle on information exchange, Luxembourg argues that this cannot come into effect unless Switzerland and other non-EU members do as well.[46] At the same time, all Member States except the U.K. have endorsed a withholding tax on savings, but the U.K. contends this would destroy the Euromarkets and has so far blocked the package by threatening to veto it (tax policy requires unanimity in the EU's Council of Ministers, and attempts at the 2000 Nice summit to move some taxation issues to qualified majority voting failed).

As noted, the unanimity requirement on direct taxation issues in the Council of Ministers is a major hindrance to achieving further agreement. One important alternative for dealing with some tax schemes is to treat them as state aid and review them under that rubric. With Mario Monti moving from Internal Market to Competition Commissioner, this has taken shape with investigations of tax aid in every Member State.[47]

Two differences stand out in the political dynamics of these parallel processes. First, as already noted, the OECD's motivation is more narrowly cast, primarily relating to the problem of fiscal degradation, while the EU explicitly has taken equity issues into account (one might argue, however, that the issue of fiscal degradation is indirectly an equity issue, given the mechanism by which tax capacities have been undermined). Second, the presence of the United States within the OECD negotiations, but not those of the EU, has made the issue of bank secrecy more central in the OECD process, because of strong U.S. opposition to bank secrecy.[48]

Future Prospects

This brief outline has shown how rising capital mobility has put pressure on government fiscal policies. As taxes on mobile actors have fallen, governments have had to adjust, by either taxing other actors more heavily, running up greater debt, or cutting programs. All of these have run into political difficulties, so governments are now attempting to jointly regulate their own behavior to reduce tax competition. Both the EU and OECD have launched projects in this area. Some observers, such as Vito Tanzi, suggest that the proper approach may involve reaching agreement on the corporate income tax base, while continuing to permit competition over tax rates, which he sees as much more transparent. Another possibility he suggests represents an even more profound change, moving from residence-based to source-based taxation, though he points out that the reduction in revenue losses may generate economic inefficiencies.[49]

Predicting success in such a sensitive area is a risky business. Ireland's low corporate income tax rate is likely to continue to be a problem, even after the rate goes from 10% to 12.5%. Although this move has the blessing of the EU, whether it will ultimately satisfy higher tax member states such as France and Luxembourg is open to question. Indeed, Luxembourg's Reinesch suggested that a "global examination" of what tax competition is would have to include the possibility of minimum tax rates, though he also said that Luxembourg would not be "aggressive" in seeking higher tax rates.[50] Moreover, Ireland will probably be squarely in the sights of the OECD efforts after the current phase of the project is complete in 2005. The Swiss and Luxembourgeois complaints that the OECD's non-comprehensive approach unfairly burdens them has some support among EU members, as reflected in the EU willingness to allow bank secrecy if taxes are withheld from non-residents. But in the OECD venue, U.S. opposition to bank secrecy guarantees that the issue will remain on the agenda for the foreseeable future. Each forum appears to have made headway on the issue, but their continued progress is needed if there is to be a successful assault on some of the negative consequences of rising capital mobility.

Endnotes

1.IMF economist Vito Tanzi argues that tax competition has already changed the composition of taxes (lower corporate income taxes, rising consumption taxes, higher personal income taxes on wage income but lower on personal capital income). He further contends that total tax revenues may eventually fall as a consequence. "How Will National Tax Systems Fare As Globalization Proceeds?" IMF Survey, 26 May 1997, p. 166. See also "Disappearing Taxes: The Tap Runs Dry," Economist, 31 May 1997, pp. 21-23.

2.As I note in Competing for Capital: Europe and North America in a Global Era (Washington: Georgetown University Press, 2000), there are both efficiency and equity drawbacks to the use of investment subsidies. These apply as well to the use of tax measures to promote investment. See pp. 4-5.

3.For divergent views of the U.S. regulations, see Michael C. Webb, "Reconciling Practice and Structure: US Regulaton of Transfer Pricing by Transnational Firms," and Tony Porter, "Negotiating the Structure of Capital Mobility," both in Timothy J. Sinclair and Kenneth P. Thomas, eds., Structure and Agency in International Capital Mobility (Houndmills, Basingstoke: Palgrave, 2001).

4.Personal interview with Vito Tanzi, International Monetary Fund, Washington, D.C., 31 August 2000.

5.See the detailed explanation in my book _Competing for Capital: Europe and North America in a Global Era_ (Washington: Georgetown University Press, 2000), Chapter 2.

6. Charles Lindblom, _Politics and Markets_ (New York: Basic Books, 1977); Adam Przeworski and Michael Wallerstein, 'Structural Dependence of the State on Capital', _American Political Science Review_, Vol. 82 (March 1988).

7.Frederic S. Pearson and Simon Payaslian, _International Political Economy_ (Boston: McGraw Hill, 1999), p. 422.

8.Commission of the European Communities, _Taxation in the European Union: Report on the Development of Tax Systems_, COM(96) 546 final, 22 October 1996, p. 2.

9.Kenneth P. Thomas, "'Corporate Welfare' Campaigns in North America." _New Political Economy_ 2, March 1997, pp. 117-126.

10.For a detailed analysis of Sweden's experiences using debt financing of the welfare state, see Jonathon Moses, "Bonded Polity: The Distributional Consequences of Relying More Heavily on Bond-Financed Social Policies," in Timothy J. Sinclair and Kenneth P. Thomas, eds., _Structure and Agency in International Capital Mobility_ (Houndmills, Basingstoke: Palgrave, 2001).

11.Another example is the reaction of citizens' groups in North America to campaign against tax breaks and subsidies for business. See my "'Corporate Welfare' Campaigns in North America," _New Political Economy_, March 1997.

12.OECD, Fiscal Affairs, "What's new: Tax Competition," OECD Web site, http://www.oecd.org/daf/fa/taxcomp.htm

13.Personal interviews with officials in Europe.

14.Guy de Jonquieres, "Drive to Stamp Out Tax Havens Hits Snag," Financial Times, 29 April 1998, p. 5.

15.John Kurt Jacobsen, Chasing Progress in the Irish Republic: Ideology, Democracy and Dependent Development (Cambridge: Cambridge University Press, 1994), p. 99.

16.Industrial Development Authority, Annual Report 1979 (Dublin: IDA Ireland, 1980), p. 93. See also 10th Report on Competition Policy, point 173. The European Commission also objected to ESR on the grounds that it was an operating aid.

17.Anthony Browne, "You Can Run Low Taxes But You Can't Hide; The OECD Has a Message for Cut-Price Nations," The Observer, 17 May 1998, p. 4.

18.For example, see William Hall, "Cotti Reassures Swiss Bankers," Financial Times, 6 September 1997, p. 2.

19.See the previous note for Switzerland, and the issue of theft from Jews during World War II. On Luxembourg, see "Relishing Life on the European Stage: Survey - Luxembourg," Financial Times, 2 June 1998, p. 3.

20.See Michael C. Webb, "Reconciling Practice and Structure: US Regulation of Transfer Pricing by Transnational Firms," in Timothy J. Sinclair and Kenneth P. Thomas, eds., Structure and Agency in International Capital Mobility (Houndmills, Basingstoke: Palgrave, 2001).

21.Personal interview with Steven Clark and Chris Heady, OECD, July, 2000.

22.OECD, Harmful Tax Competition: An Emerging Global Issue (Paris: OECD, 1998), p. 8. For the statements by Luxembourg and Switzerland, see pp. 73-78. An OECD official described the Irish 10% tax rate as "the political limit to this study." A French official with whom I spoke indicated a preference for addressing tax competition in the most comprehensive way possible, meaning inclusion of the Irish tax regime as well as that of Luxembourg. EU tax competition work seems to do this. See Thomas, Competing for Capital: Europe and North America in a Global Era (Washington: Georgetown University Press, 2000).

23.Browne, "You Can Run Low Taxes, But You Can't Hide," p. 4.

24.OECD, Harmful Tax Competition, pp. 23, 27.

25.Personal interview with Steven Clark and Chris Heady, Paris, July, 2000.

26.Personal interview with Steven Clark and Chris Heady, Paris, July, 2000. For the 35 jurisdictions which had not made commitments to revise their tax practices, and the six which had, as of June 2000, see OECD, Towards Global Tax Co-operation (Paris: OECD, 2000), pp. 17 and 29, respectively. In early 2001, three more countries made advance commitments. See OECD Online, www.oecd.org/daf/fa/harm_tax/advcom.htm

27.Some examples of presumably targeted tax regimes are Belgium's "coordination center" law, for headquarters and financial and other services; Dutch advance tax rulings; and a wide variety of regimes for the banking sector in the U.S., Canada, Australia, Japan, Luxembourg, and Switzerland. Other members have dependencies which may be categorized tax havens, such as the U.K.'s Channel Islands, or the Netherlands Antilles. See Browne, "You Can Run Low Taxes But You Can't Hide."

28. OECD, <u>Harmful Tax Competition</u>, Recommendation 19, pp. 58-59.

29.Richard Lapper, "OECD Scrutiny Latest in String of Challenges," <u>Financial Times</u>, 22 February 2000, Survey p. 1.

30.Lapper, "OECD Scrutiny;" Richard Lapper and Michael Peel, "Bahamas Plans Tougher Financial Regulation," <u>Financial Times</u>, 31 January 2000, p. 12.

31.Personal interview with Vito Tanzi, Washington, D.C., 31 August 2000.

32.Personal interview with Howell Zee, Washington, D.C., 7 September 2000.

33.OECD, <u>Toward Global Tax Co-operation</u>, pp. 25-6; Lapper, "OECD Scrutiny."

34.Personal interview with a European tax official, 22 May 1998.

35.Commission of the European Communities, <u>Taxation in the European Union: Report on the Development of Tax Systems</u>, COM(96) 546 final, 22 October 1996, p. 2.

36.Commission, <u>Taxation in the European Union</u>, p. 6.

37.Agence France Presse, "EU Puts Corporate Tax Breaks Under the Spotlight," 30 November 1998; Patrick Smyth, "EU Efforts to Eliminate Tax Conflict Get Bogged Down," <u>Irish Times</u>, 19 April 1999, p. 18; David Wighton, "Joint Group Launched to Consider EU Tax Reform," <u>Financial Times</u>, 8 June 1999, p. 12.

38.Patrick Smyth, "Study Identifies 'Harmful' Company Tax Regimes in EU," Irish Times, 20 November 1999, p. 19.

39.Personal interview with Gaston Reinesch, Director General, Luxembourg Ministry of Finance, Brussels, 25 July 2000.

40.Personal interview, Brussels, 24 July 2000.

41.Note that the manufacturing rate had been renewed several times, and it was not a foregone conclusion that 2010 would have passed without a further renewal. The government-commissioned Culliton Report in 1992 had recommended terminating the 10% in 2010, but no decision had been taken prior to reaching an agreement with the Commission on the 12.5% rate. See Douglas Yuill et al., European Regional Incentives 1993-94 (London: Bowker-Saur, 1993), p. 5.

42.Personal interview with Liam MacGabhann, Brussels, 24 July 2000.

43.Philip Webster, "Brown Confronts the Tax Havens," The Times, 7 October 1999; Christopher Booker, "Christopher Booker's Notebook: Island Tax Havens Get Ready to Go It Alone," Sunday Telegraph, 14 November 1999, p. 20.

44.Personal interview with Richard Jacques, Office of the Permanent Representative of the United Kingdom to the European Union, Brussels, 20 July 2000.

45.Emma Tucker, "Deal Is Clinched on EU Tax Code," Financial Times, 3 December 1997, p. 2.

46.Personal interview with Gaston Reinesch, Luxembourg Ministry of Finance, Brussels, 25 July 2000.

47.Personal interview with Richard Jacques, Brussels, 20 July 2000.

48."OECD Says Switzerland Should Fix Tax System to Meet International Standards," AFX News, 5 August 1999.

49.Personal interview with Vito Tanzi, Washington, D.C., 31 August 2000.

50.Reinesch also argues that with Ireland's economy now flourishing, the political basis for the low tax rate no longer exists. Personal interveiw, Brussels, 25 July 2000.