



ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

ORGANISATION DE COOPÉRATION ET  
DE DÉVELOPPEMENT ÉCONOMIQUES

[www.oecd.org](http://www.oecd.org)

BETTER POLICIES FOR BETTER LIVES

DES POLITIQUES MEILLEURES POUR UNE VIE MEILLEURE

**JEFFREY OWENS**

**DIRECTOR, CENTRE FOR TAX POLICY AND ADMINISTRATION, OECD**

**OPENING CEREMONY**

**65<sup>TH</sup> CONGRESS OF THE INTERNATIONAL FISCAL ASSOCIATION**

**PARIS, 11 SEPTEMBER 2011**

I am very honoured to be asked to make this presentation, which, as Hervé has said, was to have been made by Christine Lagarde in her previous capacity as Finance Minister. I am a poor substitute for her: I'm not a Minister, I'm not French, I'm the wrong sex but I did work closely with her when she was Finance Minister, and after 30 years in France, I consider myself an honorary French citizen. And of course France is the host country of the OECD.

I will use my time to talk about the global crisis that we are facing and the implications for tax since this will provide a framework for our discussions over the coming days. But first, I want to say a few words about global governance. The financial crisis was certainly a wakeup call on the need for greater international co-operation. A blunt reminder that the world has changed and these changes demand constant adaptation of our institutions. The global integration of financial markets, enhanced by the information and communication technology, is demanding a new regulatory framework. The persistence of global economic imbalances is demanding new international monetary agreements. Climate change is pressing for more effective mitigation and adaptation policies and more efficient renewable energies and we now have the new political situation in the Arab world. Today we know that the only way to address these issues is through inclusive multilateral cooperation. The future of the global economy can no longer be decided amongst a few developed countries. Emerging economies must be included in the equation. Their experience, their knowledge and their contribution are essential to finding durable solutions to the crisis. All

of these developments raise some fundamental challenges for international organisations as they confront the crisis.

The outcome from yesterday's G7 meeting confirms that the world economy is emerging from the worst financial and economic crisis in our lifetime but at a much slower pace than expected. Over the last few weeks, we have been pretty short of good news, with the continuing sovereign debt crisis in Europe; the US is in denial over the need for a credible fiscal consolidation package. Japan has a new government which faces old problems; problems accentuated by the recent natural disasters. The BRICs continue to grow but there are fears about whether they will have a soft landing. Will inflation creep up to unacceptable levels? Will oil prices be maintained at their current levels? And many countries continue to face fragile housing markets.

Economists are increasingly concerned that, unlike the exits from previous crises, we are now facing a jobless recovery. This is particularly worrying in Europe and the United States where long term unemployment is increasing and where youth unemployment is now at unprecedented levels. We risk creating a lost generation. No single government can resolve these problems in isolation. It requires coordinated action and must encompass all the players.

The economic crisis has been accompanied not only by a crisis of governance but also a crisis in public finances. Debt to GDP ratios in the OECD area are reaching unprecedented levels with the OECD average exceeding 100% in 2011.

Few now dispute the need for a sustained effort to reduce debt ratios to prudent levels but there is less agreement on what should be the balance between expenditure cuts and revenue increases. And even less agreement over the timing of these measures. Governments are seeking the right balance between supporting the recovery and consolidating their finances. But one thing is clear – the markets need to see a credible long-term consolidation package in place (even if it does not kick in immediately) since governments need to reduce their debt levels. OECD studies show that there is strong evidence that higher debt levels lead to lower growth and higher unemployment in the long-run.

Tax must be part of any fiscal solution but the question is how do governments go about redesigning their tax systems to achieve a higher revenue yield and at the same time avoid harming long term growth prospects and maintaining taxpayers' faith in the fairness of the system? Our work at the OECD suggests that this requires lowering tax rates and broadening the base, shifting the tax structure towards taxing consumption, and recurrent taxes on residential property, taxing environmentally harmful activities and in cracking down on non-compliance. It should be possible to put together a package of measures that both

bring in more revenue and which is perceived to be fair. As countries approach these reforms, their decisions should be driven by solid facts and analysis and not by the need to gain political advantage or anger or envy towards certain segments of society, whether the financial sector or large corporations.

Also, as countries move towards creating a more competitive tax environment, one that encourages innovation and investment, one that creates jobs, governments must agree on what are acceptable and what are unacceptable competitive practises using, I hope, the work that has been carried out by the OECD.

The failure to “do” Doha means that tax policy makers need to do everything they can to avoid that tax becomes the “last trade barrier”. It is all too easy for politicians to use tax as a mechanism to protect their home market. To avoid that tax acts as a barrier to the growth of world trade, we need to put a new emphasis on having a real international consensus on what are the rules of the game. We need to have in place mechanisms that help resolve cross border tax issues before they become tax problems. We need to see more countries moving forward with arbitration. Minimising cross border tax disputes and, when they do arise, resolving them quickly, reduces uncertainty and in today’s environment anything that reduces uncertainty for business is to be welcomed. And governments also need to avoid putting in place schemes that are going to place an unacceptable compliance burden on business and that deviate from international standards.

In this difficult environment, there is a premium on multilateral dialogue among all the stakeholders. Organisations like IFA can help foster a more cooperative international environment. An environment that encompasses all the major economies; not just the G7 or G20 or the OECD. And this cooperation should not be limited to governments but must also extend to the business sector and other parts of civil society. Your annual congress and the work that is done in national branches, and the research that you sponsor, all provide a vital contribution to the debate between these different stakeholders.

Governments do not always agree – even among the 34 OECD member countries. Business also does not always come to a common position as we can see from the debate in the US on worldwide vs. territorial taxation or here in Europe on the common consolidated corporate tax base. But we need the dialogue and in that dialogue, it is not so important to be a good speaker but it is essential to be a good listener. So as we move forward and redesign our tax systems for the 21st century, let’s listen to each other and let’s use this Congress to begin that process.