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## The activities of the Organisation for Economic Co-operation and Development (OECD) in 2016-2017

### Report<sup>1</sup>

Committee on Political Affairs and Democracy

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### Summary

The report takes a look at the macro-economic outlook for 2017-2018, as analysed by the OECD. The conclusion is that the ongoing economic recovery continues to be slow, sluggish and fragile and that the slightest negative shock could trigger a new downturn. It is therefore important for public policymakers to use their increased fiscal space to carry out structural reforms and break out of this sluggish growth.

The report also examines the progress made in taxation, through the introduction of exchanges of information, which have already helped, thanks to greater transparency, to fight against international tax evasion. The BEPS project, which is designed to prevent base erosion and the shifting of the profits of multinational companies, also contributes to this progress. The redefinition of the international tax system appears to be well under way and is, for the time being, an example of successful multilateralism.

The report considers the link between inequalities and growth as well as youth employment in the OECD before presenting a summary of the activities of OECD parliamentary groups. With regard to inequalities, the report calls on the OECD to continue its work on the link between inequalities in wealth and growth.

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1. Reference to committee: Bureau decision, Reference 4177 of 25 January 2016.



<b>Contents</b>	<b>Page</b>
A. Draft resolution .....	3
B. Explanatory memorandum by Mr Alfred Heer, rapporteur .....	5
1. Introduction .....	5
2. Macroeconomic outlook for 2017-2018 .....	5
2.1. Growth prospects unaltered but not without risks .....	5
2.2. Growth that remains low .....	6
2.3. Policymakers at a crossroads .....	7
3. OECD action in the area of taxation: successful examples of multilateralism .....	8
3.1. Introduction of exchanges of information, a decisive step towards tax transparency .....	8
3.2. The BEPS project: a major overhaul of international tax rules .....	10
3.3. Proposals to make the OECD's recommendations on taxation more effective .....	13
4. How inequality hampers economic growth .....	14
4.1. Widening inequality in incomes and wealth: a clear trend .....	14
4.2. Widening inequality: hampering growth as a likely consequence of reduced social mobility .....	15
4.3. How to unlock growth? .....	16
5. Youth employment in the OECD: investing in education and skills today will generate future employment and subsequent growth .....	16
5.1. Mixed picture regarding young people .....	17
5.2. Fostering youth employment .....	17
6. Monitoring of the OECD parliamentary groups .....	18
6.1. Parliamentary Group on Tax .....	18
6.2. Parliamentary Group on Integrity and Transparency .....	19
7. Conclusion .....	19

## A. Draft resolution<sup>2</sup>

1. The Parliamentary Assembly of the Council of Europe, enlarged to include the delegations of national parliaments of the Organisation for Economic Co-operation and Development (OECD) member States which are not members of the Council of Europe, as well as a delegation of the European Parliament, takes note of the concurring analysis of the OECD and the International Monetary Fund of the current economic environment and projections for 2018. It notes that the recovery in the global economy is continuing, but slowly and slightly faster in the OECD area than in the eurozone. It recognises that the recovery remains fragile and that any negative shocks could trigger a new downturn.

2. The enlarged Assembly agrees with the OECD about the need to tackle this low growth and believes that demand must now be stimulated, but more through fiscal policy than through monetary policy. It urges OECD member States to rapidly seize the opportunity of the exceptionally low level of interest rates to revive public investment, provided that four conditions are met:

- 2.1. the revival in investment is concerted and well co-ordinated across levels of government;
- 2.2. it affects sectors that benefit growth directly such as those recommended by the OECD in its report *Going for Growth 2017*;
- 2.3. it is budget neutral and therefore does not deepen public deficits;
- 2.4. it goes hand in hand with the structural reforms recommended in *Going for Growth 2017*, in particular on the various labour markets.

3. The enlarged Assembly stresses that multilateralism, provided that it is genuinely inclusive and provides scope for States to take action on an equal footing, is the only means of achieving tangible results in the fight against international tax evasion and avoidance, in particular thanks to a greater tax transparency, against base erosion and profit shifting (BEPS) and against aggressive tax planning.

4. In these respects, the enlarged Assembly congratulates the OECD and the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) on the results achieved in the area of exchange of information on request (EOIR) following the first round of peer reviews. It calls on:the

- 4.1. OECD and Council of Europe member States deemed “partially compliant” by their peers to take the necessary corrective measures;
- 4.2. the Council of Europe member States which have not yet undergone comprehensive reviews to do so during the second round of reviews from 2016 to 2020;
- 4.3. the Council of Europe member States which do not take part in EOIR (namely Bosnia and Herzegovina, Montenegro and Serbia) to join the process.

5. The enlarged Assembly welcomes the use of EOIR as a model for the automatic exchange of financial account information (AEOI) and the use of the latter in some actions of the BEPS Project. It is pleased to note that the Common Reporting Standard, which determines the scope of and arrangements for the operation of AEOI, covers a sufficiently broad range of data to effectively combat international tax evasion and avoidance. It encourages the 101 members of the Global Forum which have undertaken to activate it before the end of 2018 to ensure that they have the systems in place and the necessary human resources for processing the information which their tax administrations will receive. In this regard, it welcomes the initiative of the OECD's Forum on Tax Administration to pool their financial resources to procure a Common Transmission System (CTS) to facilitate AEOI. It recommends that those Council of Europe member States which have not yet done so accede to the Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127) drawn up jointly by the OECD and the Council of Europe, which is the legal basis recommended for the introduction of AEOI.

6. With regard to the BEPS Project, the enlarged Assembly reaffirms its commitment to multinational enterprises (MNEs) reporting their profits where economic activities take place and value is created. The concern to avoid the double taxation of MNEs must not result in non-taxation that leads to losses in revenue of \$100-\$240 billion for governments every year, according to the OECD.

7. The enlarged Assembly welcomes the speed with which the OECD was able to implement the 15 BEPS actions it had recommended, including the four minimum standards for which the peer reviews have now started. It encourages OECD and Council of Europe member States to sign and ratify as quickly as

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2. Draft resolution adopted by the committee on 6 September 2017.

possible the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting and the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports so as to allow the automatic exchange of the relevant information from 2018.

8. Drawing on the work of the OECD Parliamentary Group on Tax, the enlarged Assembly calls on the OECD to give in-depth consideration, within the BEPS project, to ways of strengthening efforts to combat aggressive tax planning which ultimately leads to tax avoidance harmful to States. The exercise of fiscal sovereignty must not lead to aggressive tax planning, and practices of this kind are per se to be condemned.

9. The enlarged Assembly is pleased to note that both the Global Forum and the Inclusive Framework on BEPS include more than a dozen developing countries and that the Global Forum has adapted its technical assistance to the latter in connection with EOIR. It proposes to publicise the Global Forum and Inclusive Framework ratings by including updates on them in the biennial report on the activities of the OECD.

10. In addition, the enlarged Assembly also calls on the Parliamentary Assembly of the Council of Europe to give in-depth consideration to the possibility and advisability of increasing the effectiveness of the OECD's recommendations, for instance by amending the Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127) in order to enable an international tax co-ordinating body to impose sanctions.

11. The enlarged Assembly takes note of the link between the continuing increase in income and wealth inequalities over the past 30 years and the reduction in potential growth. It agrees with the OECD that the reduction in opportunities afforded to poorer households because of increasing inequalities prevents them from investing properly in their human capital. It calls on its members:

11.1. not to focus solely on growth while forgetting how it is distributed;

11.2. to take steps to improve human capital that are not confined solely to the 10% of households with the lowest incomes but are aimed at the 40% of households in that position;

11.3. to concentrate on education and skills measures which foster social mobility within societies, in particular: early childcare, policies for families with school-age children, reducing inequality in educational outcomes, upgrading skills to avoid obsolescence and aligning skills supply with business demands for skills among those leaving the education system, as advocated by the OECD.

12. The enlarged Assembly invites the OECD to continue its work on the relationship between wealth inequality and growth and on the existence of thresholds or indicators on inequality which would give States an idea of the level of "sustainability" of such inequality in relation to growth.

13. The enlarged Assembly believes that, as regards youth employment, investing in education and skills today will generate future employment and subsequent growth. It calls on its members to combat the increase in the number of young people not in education, employment or training (NEETs) who are economically vulnerable, in accordance with the Group of 20 (G20)'s goal of reducing the share of young people most exposed to the risk of permanent exclusion from the labour market to 15% by 2025.

## B. Explanatory memorandum by Mr Alfred Heer, rapporteur

### 1. Introduction

1. Since 2011, the Committee on Political Affairs and Democracy has reviewed the activities of the Organisation for Economic Co-operation and Development (OECD) in reports which are examined and debated in a public sitting during the autumn session. On that occasion, the Parliamentary Assembly of the Council of Europe is enlarged to include the delegations of the national parliaments of OECD member States which are not Council of Europe members, as well as a delegation of the European Parliament. The OECD Secretary-General also takes part.

2. In 2014, the Committee on Political Affairs and Democracy slightly altered its practice: it decided to keep to the principle of an annual enlarged debate, but base it alternately on a report by the OECD Secretary General one year and by our committee the next. The committee also agreed that the Sub-Committee on Relations with the OECD and the EBRD would hold an annual meeting at OECD headquarters to exchange views with the Organisation's management. As the OECD Secretary-General agreed to the change, that has been the framework for our activities for three years now.

3. For the record, the Committee on Political Affairs and Democracy presented two reports under the old procedure, i.e. those by Mr Jean-Marie Bockel (France, EPP/CD) in October 2012 and Mr Dirk Van der Maelen (Belgium, SOC) in October 2013, followed by an initial report under the new procedure by Mr Tuur Elzinga (Netherlands, UEL) in October 2015. In October 2014, the OECD Secretary-General, Mr Angel Gurría, presented his report and took part in the annual debate, which the OECD Deputy Secretary-General, Ms Mari Kiviniemi, then did again during the fourth part-session in 2016.

4. After attending the 5th OECD Parliamentary Days in Paris on 8 and 9 February 2017, where many fears were expressed about the future of multilateralism, in particular as regards trade, I believe, given the current economic context, that the weakness and fragility of the economic recovery mean that we as policymakers should come out strongly in favour of an open economy in which competition is the least distorted and hence the fairest possible and in which growth is truly inclusive and benefits the maximum number of people.

5. I have therefore concentrated my report on a brief macroeconomic overview of OECD countries highlighting the current risks and the options available for reducing them, followed by a series of examples of successful multilateralism in the ethically and economically decisive area of fiscal transparency, before looking at the issue of inequalities, which the OECD has shown must be addressed, in particular because of their impact on growth. Lastly, I have carried the issue of inequality forward, with a brief presentation of the youth employment situation in the OECD area. As I also believed that it was important for the members of our enlarged Assembly to be kept abreast of the OECD's parliamentary activities, I have included a section on the discussions which took place during the latest meeting of the OECD Parliamentary Group on Tax, which is monitoring the implementation of the Base Erosion and Profit Shifting project (BEPS), and those of the Parliamentary Group on Integrity and Transparency in politics, which held its first meeting in February 2017.

### 2. Macroeconomic outlook for 2017-2018

6. As of June 2017, the outlook is for a modest improvement in the economic situation, against a background of continuing sluggish growth. To go beyond the latter, the OECD is calling on policymakers to make clear political choices combining revived public investment and structural reforms in a concerted manner.

#### 2.1. Growth prospects unaltered but not without risks

7. In June 2017, the OECD's growth projections<sup>3</sup> for 2017 were 3.5% for the global economy, 2.1% for the OECD area, 1.8% for the eurozone and 4.6% for non-OECD countries. A slight increase was forecast for 2018: 3.6% for the global economy, 2.1% for the OECD area, 1.8% for the eurozone and 4.8% for non-OECD countries.

8. It should be noted that the forecasts by the International Monetary Fund (IMF) for 2017 and 2018 point in the same direction and are on the same level.<sup>4</sup> The findings are therefore the same: world growth is continuing to recover (it was 3% in 2016), but is doing so slowly and at a relatively low level. In 2018, it is likely

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3. OECD Economic Outlook, Volume 2017, Issue 1, p. 20.

to remain under 4%, which was the average level of economic growth over the 20 years preceding the 2007-2008 crisis. Moreover, the slight improvement in the situation owes much to the economic stimulation policies expected in the United States and being carried out in China.

9. The second finding shared by the two global institutions is that not only is the growth weak overall, but it also remains fragile and subject to real risks. The latter, which were already identified by the OECD in December 2016, are confirmed in the interim report: “Disconnects, volatility, financial vulnerabilities and policy uncertainty could derail the projected modest pick-up in growth.”<sup>5</sup>

10. In this connection, the OECD believes that a serious risk is posed by the disconnect between the positive expectations of the financial markets, reflected in high equity valuations, and the modest projections for growth in the real economy, reflected in weak growth in consumption and investment and a slowdown in productivity and wage increases.

11. Moreover, financial market volatility could be compounded by the turning of the interest rate cycle in mid-2016. The increase in long-term interest rates could bring about a sharp correction in financial asset values, whose current level is the result of a long period of historically low interest rates. That could be particularly true on the bond markets.

12. The OECD indicates that financial vulnerabilities arise from over-reliance on monetary policy, which has led to exceptionally low interest rates, rising debt levels in some countries, high asset prices and a search for high yields. It notes that some countries, including Australia, Canada, Sweden and the United Kingdom, have experienced rapid house price increases in recent years, which can be a precursor of an economic reversal.

13. In emerging economies, although the financial vulnerabilities differ across economies, they are related to rapid growth of private sector credit and historically high levels of indebtedness in some countries, notably China, leaving them more exposed to a rise in interest rates despite a slowing of credit dynamics in 2016.

14. Lastly, according to the OECD, there are policy uncertainties relating to electoral factors (with many countries such as France, Germany and the United Kingdom having held or holding elections in 2017), sociological factors (falling trust in national governments), social factors (with rising income inequality undermining confidence in governments) and trade (falling support for free trade among some sections of the population in developed countries). For example, the OECD’s confidence in national governments indicator<sup>6</sup> shows improvements since 2007 in Germany, Japan and the United Kingdom, but slight falls for some OECD countries and more substantial falls in others such as the United States, Mexico and Spain.

## **2.2. Growth that remains low**

15. This low growth is affecting the advanced economies in particular, especially those of OECD member countries.

16. It is reflected in sluggish consumption and investment rates over a period between the medium and long term (seven years) since the financial crisis. This is out of sync with the recovery rates of the global economy following the three previous major recessions (1973, 1980 and 1990). According to the OECD, average growth in consumption over a 10-year period following those three previous crises should be almost twice the estimated increase in growth from 2008 to 2018. In the case of investment, the ratio is likely to be 1 to 3, meaning that by 2018, the increase in investment would be only 33% of the average increase observed over the 10-year period following the three previous major crises. In other words, growth factors in the OECD economies are recovering much more slowly than in the past.

17. In the OECD’s view, this low growth is resulting in a kind of “hysteresis”, which Ms Catherine L. Mann, OECD Chief Economist, sums up well as follows:

*“Business has little incentive to invest given insufficient demand at home and in the global economy, continued uncertainties, and a slowed pace of structural reform ... Lack of investment erodes the capital stock and limits the diffusion of innovations. Skill mismatches and forbearance by banks capture labour and capital in low productivity firms. Sluggish trade prospects slow knowledge transfer. These malignant forces slow down productivity growth, constraining potential output, investment, and trade. In per capita terms, the potential of the OECD economies to grow has halved from just below 2 per cent*

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4. IMF, World Economic Outlook, April 2017.

5. OECD Economic Outlook, Interim Report March 2017, p. 4.

6. Ibid., p. 9.

*20 years ago to less than one per cent per year [in 2016], and the drop across emerging markets is similarly dramatic. The sobering fact is that it will take 70 years, instead of 35, to double living standards.”<sup>7</sup>*

18. In other words, low growth over a lengthy period (7-8 years) reduces growth potential.

### **2.3. Policymakers at a crossroads**

19. “Act now to break out of the low-growth trap and deliver on our promises” is the title of the editorial by Ms Mann opening Economic Outlook Volume 2016, Issue 1. The invitation is clear and compelling. The same is true of the OECD’s proposals for action for the advanced economies.

20. The first point is that, in most of the OECD area, consolidation of the recovery will not involve further easing of monetary policy. The latter has been very accommodating since 2008, as reflected by real interest rates in 2016, both short-term (negative in Japan and the eurozone and near zero in the United States) and long-term (negative in Japan and the eurozone and around 1.5% in the United States). This tool that has been the main instrument used to date to stimulate recovery reached its maximum level of effectiveness a long time ago.

21. An initial interesting recommendation by the OECD concerns the use of fiscal policy to promote growth. In its view, “despite the rise in debt ratios since the crisis ..., the current period of exceptionally low interest rates effectively increases fiscal space in many countries by offering an opportunity for governments to borrow for long periods at very low cost. Almost all countries have room to reallocate spending and taxation towards items that offer more support to growth”.<sup>8</sup>

22. For 2017, the OECD therefore recommended that more expansionist fiscal policies be followed in around 10 countries, including France, Germany, United Kingdom, Switzerland and Australia. Of course, it also calls for the recovery measures to be concerted and gives examples of areas where public investment would benefit growth, including green energy, education, skills and telecommunications, etc. It cites one of its analyses, according to which a permanent budget-neutral increase in public investment of 0.5% of gross domestic product (GDP) in each single economy, assuming fixed interest rates, would have growth effects of 0.3-0.4% in the first year in the major advanced economies. Depending on the modelling approach used, the long-term output gains could amount to between 0.5% and 2%.

23. Three comments may be made regarding this recommendation. First of all, for various reasons, it has not yet been acted upon in some major economies such as France, Germany and the United Kingdom. Secondly, there is the issue of whether the recommendation does not conflict with the eurozone’s fiscal rules. Lastly, if this stimulation policy is to be implemented, action must be taken without further delay, as interest rates have been rising again since mid-2016 and will therefore make economic stimulation of this kind more expensive for public finances in the long term.

24. At the same time, the OECD calls for continued structural reforms aimed at boosting employment and productivity in the long term, while making growth more “inclusive”, i.e. ensuring that it benefits the maximum number of people. In this connection, the Organisation notes a marked slowdown in 2015-2016 compared with previous years. On the basis of the recommendations of the Going for Growth 2017 annual study, which is intended to help OECD countries to prioritise their structural reforms, during the Fifth Parliamentary Days held in Paris in February 2017, the OECD Secretary-General highlighted four areas where further progress could be made: the promotion of infrastructure, increased effectiveness of public spending, improved job protection legislation and increased efficiency.

25. With regard to employment policy, the OECD states that “reforms that initially place downward pressure on economy-wide wages are less likely to offer short-run benefits at a time of weak demand”.<sup>9</sup> Nevertheless, once the recovery gains ground, a supply policy involving greater labour market liberalisation could encourage job creation and, through wage growth, lead to an increase in tax revenues, the surplus from which could be used for investment expenditure.

26. To conclude this first section, the warning by Ms Catherine L. Mann seems quite relevant and should be borne in mind by policymakers: “As it is, a negative shock could tip the world back into another deep downturn.”<sup>10</sup>

7. OECD Economic Outlook, Volume 2016, Issue 1, p. 9.

8. Ibid., p. 42.

9. Ibid., p. 46.

10. Ibid., p. 10.

### 3. OECD action in the area of taxation: successful examples of multilateralism

27. Lux Leaks, the Panama Papers, Bahamas Leaks, the Apple case in Ireland and, more recently, the Malta Files: these various scandals have all demonstrated the shortcomings of the international tax system. The Parliamentary Assembly of the Council of Europe and the enlarged Assembly have looked into them, both in the report by our colleague, Mr Stefan Schennach, on “Lessons from the Panama Papers”<sup>11</sup> and by Mr Dirk Van der Maelen, on the activities of the OECD in 2012-2013, which focused on tax evasion and base erosion and fighting tax havens.<sup>12</sup>

28. As the two rapporteurs noted, international institutions, in particular the OECD, have not been idle here. Since 2010, much has been done in terms both of tax transparency and of combating what could be called aggressive tax avoidance by multinational enterprises (MNEs). In these two areas, 2016 and 2017 have seen remarkable progress in projects led by the Organisation, both as regards information exchanges between States and as regards the BEPS project.

29. In my view, it is important to present them, as I believe they are at a decisive stage as of equally great importance, for instance, as the ending of bank secrecy, in the establishment of an integrated, inclusive and fair international tax system.

#### **3.1. Introduction of exchanges of information, a decisive step towards tax transparency**

##### *3.1.1. The mechanism*

30. This forms part of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), which was set up in 2000 by the OECD and restructured in 2009. The Global Forum has 142 members participating on an equal footing, together with 15 international organisations participating as observers. On account of its size, it includes all the major financial centres. The Global Forum has the dual role of monitoring the implementation of international standards on tax transparency and offering its members technical assistance. Its secretariat is provided by the OECD Centre for Tax Policy and Administration.

31. Two standards have been drawn up. While complying with a number of principles, including the confidentiality of the data communicated, their purpose is to put an end to the information asymmetry between taxpayers on the one hand and tax authorities on the other, which benefits the former and encourages tax avoidance and evasion.

32. The first standard developed was the Exchange of Information on Request (EOIR) standard. Its implementation (both its introduction and its use) is supervised under a peer review process headed by the group of the same name comprising 30 members of the Global Forum. The Peer Review Group presents a report on each member of the Global Forum to the latter for adoption. Until now, the peer reviews are conducted in two phases. Phase 1 involves assessment of the legal and regulatory framework for transparency and information exchanges for fiscal purposes. In other words, the peers check that the jurisdiction (i.e. Forum member) has done the necessary work to update its legislation in line with OECD recommendations. Phase 2 looks into implementation of the standard in practice. From 2010 to 2016, a total of 253 peer review reports were adopted by the Forum.

33. One of the weaknesses of EOIR is that tax authorities from which information is requested are not required to do any more than provide that information, which may prevent disclosure of information that could be of importance to the requesting authorities. This will no longer be the case with the introduction of the second standard, i.e. Automatic Exchange of Information (AEOI).

34. AEOI is based on the Common Reporting Standard (CRS) developed in response to the request by the leaders of the Group of 20 (G20) and approved by the OECD Council in July 2014. The standard “calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions”.<sup>13</sup>

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11. Report by Mr Stefan Schennach on behalf of the Committee on Social Affairs, Health and Sustainable Development on “Lessons from the ‘Panama Papers’ to ensure fiscal and social justice”, [Doc. 14141](#) and [Addendum](#).

12. Report by Mr Dirk Van der Maelen on behalf of the Committee on Political Affairs and Democracy on “The activities of the Organisation for Economic Co-operation and Development (OECD) in 2012-2013”, [Doc. 13301](#).

13. OECD, Standard for Automatic Exchange of Financial Account Information in Tax Matters, Second Edition 2017, p. 3.

35. The financial information communicated is supposed to be sufficiently broad to prevent taxpayers from hiding their assets in institutions or investing in products that in principle are not covered by the exchange of information. The CRS therefore includes investment income such as interest and dividend payments. In addition, the scope of account holders subject to reporting is not confined to individuals but also includes entities or legal arrangements which could enable taxpayers to deduct some of their assets from their income. This enables tax authorities “to look through shell companies, trusts or similar arrangements, including taxable entities”.<sup>14</sup> Lastly, the reporting requirement applies not only to banks but also to other financial institutions such as brokers, certain collective investment vehicles and certain investment companies.

36. The legal basis recommended for quickly establishing the automatic exchange of information is the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127) drawn up jointly by the OECD and the Council of Europe, which currently covers 112 jurisdictions and has the advantage, in particular, of laying down rules on taxpayers’ fundamental rights regarding exchanges of this kind.<sup>15</sup>

37. Implementation of the AEOI standard will be monitored in five phases: monitoring of implementation, covering the adoption by each interested jurisdiction of a framework compatible with AEOI (updating of legislation, including international agreements, deployment of information technology systems and adaptation of administrative structure); monitoring by a panel of experts of compliance with data security and confidentiality prior to the use of AEOI by two jurisdictions; a process of analysis of loopholes in legislation; the establishment of a network of partners, each jurisdiction being required to exchange information with all other interested jurisdictions which comply with the confidentiality and data safeguards requirements; and, lastly, checks on compliance with the technical requirements relating to automatic exchanges. In this regard, the OECD’s Forum on Tax Administration has procured a Common Transmission System (CTS) to facilitate these exchanges between tax administrations.

38. As with EOIR, the implementation phase will be peer reviewed by the Global Forum once the terms of reference and methodology have been developed.

39. As of July 2017, 101 jurisdictions have committed to commence the automatic exchange of information, 49 from September 2017 and 52 in 2018.

### *3.1.2. An initial assessment: encouraging results and two questions*

40. In his 2013 report, Mr Dirk Van der Maelen underlined the crucial difference between EOIR and AEOI. Taking the example of the French tax administration, he said that on the basis of all the multilateral and bilateral treaties signed by France and relevant to EOIR, the administration received information every year on about 50 offshore bank accounts held by French residents, although there were believed to be between 100 000 and 300 000 such accounts. His conclusion was: “It simply means that 99.98% of the work remains to be done.”<sup>16</sup>

41. I tend to agree with him because the increase in EOI requests from 2011 to 2016 remains limited (28% for 21 countries with comparative data<sup>17</sup>). Nevertheless, I would not deny its usefulness.

42. Assessment of EOIR, of which the first peer review cycle was completed in 2016, does show some real progress. Of 116 jurisdictions reviewed, 112 were found to be “compliant” or “largely compliant”, 7 “partially compliant”<sup>18</sup> and one “non-compliant”. The aforementioned 112 include jurisdictions which previously did not care much about transparency, including Andorra, Antigua and Barbuda, the Bahamas, Costa Rica, the Cayman Islands, Dominica, Dominican Republic, Guatemala, Guernsey, the Isle of Man, Lebanon,

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14. *Ibid.*, p. 12.

15. All the member States of the OECD have ratified this convention, with the exception of the United States which ratified the original Convention in 1991 but has not ratified the 2010 protocol yet. This is not the case for the following member States of the Council of Europe: Armenia, Bosnia and Herzegovina, “The former Yugoslav Republic of Macedonia”, Montenegro, Serbia and Turkey.

16. Report by Mr Dirk Van der Maelen, *op. cit.*, p. 18.

17. OCDE, Forum mondial sur la transparence et l’échange de renseignements à des fins fiscales, Transparence fiscale 2016, rapport de progrès, p. 16.

18. All OECD members were deemed “compliant” or “largely compliant”, except for Turkey, which was deemed “partially compliant”. Of the 47 Council of Europe member States, one was deemed “partially compliant” (Turkey), two were not part of the first phase of peer-reviews (Croatia and Ukraine) and four were not members of the Global Forum and therefore did not participate in EOIR (Bosnia and Herzegovina, Montenegro, Republic of Moldova, and Serbia). The Republic of Moldova joined the Global Forum in October 2016 and will therefore undertake a peer review of the EOIR standard, which is planned to start in 2018.

Liechtenstein, Luxembourg, the Federated States of Micronesia, Nauru, Panama, Samoa, the United Arab Emirates and Vanuatu. Following the “fast track” procedure of additional peer reviews which came to an end in June 2017, the remaining “non-compliant” jurisdiction is Trinidad and Tobago.

43. In addition, the OECD’s 2016 report on progress on tax transparency notes that the peer reviewing of the implementation of EOIR has resulted in the gradual elimination of strict bank secrecy and led 33 jurisdictions to abolish or immobilise bearer shares, which enable their owners to conceal their identities from the firms of which they are shareholders.

44. Above all, EOIR is the first practical model for exchanges of information that is both global in scale and operates effectively. Its principles (adoption of a common standard, peer reviews, adoption of terms of reference and a methodology) underpinned the introduction of AEOI and the exchange of information under BEPS Actions 5 and 13 (see below). In this connection, the increase in the number of EOIR relationships among members of the Global Forum, i.e. in agreements between tax administrations concerning EOIR, whether with a bilateral or multilateral legal basis, from approximately 2 500 in 2009 to more than 7 000 in 2016 is a good sign because it means that the relevant administrations are becoming increasingly familiar with the exchange of information. The processing of the data gathered through AEOI should benefit as a result.

45. It is through AEOI that the fight against tax avoidance and evasion is going to take on a new dimension, given the mass of information which tax administrations will now have access to. The OECD believes that, even before implementation, AEOI has already had a dissuasive effect: tax administrations have recovered close to €85 billion in revenue as a result of voluntary disclosure programmes and other similar measures encouraging taxpayers to declare income and assets which they had previously concealed from the tax authorities.<sup>19</sup>

46. As with EOIR, many former or existing tax havens, including the Cayman Islands, Guernsey, Jersey, Liechtenstein, Luxembourg and Panama, have undertaken to commence automatic exchanges in 2017 or 2018, which should make tax evasion more difficult, provided that the commitments made are genuine and that the peer review process has a real impact on recalcitrant jurisdictions.

47. Whether the OECD’s recommendations are effective is a question which I will seek to answer below (see section 3.3).

48. The other question concerns tax administrations’ ability to manage and process the mass of information which they will receive, in particular in developing countries.

49. To conclude this initial assessment, I should like to praise the efforts made for the benefit of the developing countries, which account for over half of the members of the Global Forum. The OECD has adapted its technical assistance to their needs, from the provision of training to the development of long-term programmes, and has contributed to the development of regional programmes such as the African Initiative based on co-operation with the African Tax Administration Forum, within which eight pioneering countries have undertaken to ensure compliance with certain specific deadlines for the practical and effective implementation of exchanges of information. The OECD, in partnership with the United Nations Development Programme (UNDP), is also supporting tax administrations in developing countries which are on the frontline in the battle against tax avoidance through its Tax Inspectors Without Borders (TIWB) initiative, sending tax experts to work directly with local tax officials and providing targeted, real-time “learning by doing” assistance to build their audit capacity.

### **3.2. The BEPS project: a major overhaul of international tax rules**

50. Whereas EOIR and AEOI focus on individuals, the BEPS project concerns MNEs. It stems from a simple observation: “Gaps and mismatches in the current international tax rules can make profits ‘disappear’ for tax purposes, or allow the shifting of profits to no- or low-tax locations where the business has little or no economic activity.”<sup>20</sup>

#### *3.2.1. Basis and elements of the overhaul*

51. What explains these gaps and mismatches? Basically, the fact that the principles which have governed the international tax system were designed to foster trade and investment at a time when national economies were not as closely integrated as they are today. As indicated in the report by Mr Van der Maelen and the

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19. OECD Secretary-General report to G20 Leaders, Hamburg, Germany, July 2017, p. 8.

20. OECD, OECD/G20 Base Erosion and Profit Shifting (BEPS) project, 2015 final reports, Information Brief, p. 3.

OECD's pioneering report on BEPS,<sup>21</sup> the international tax system which prevailed previously was based on thinking developed in the 1920s by the International Chamber of Commerce and the League of Nations, which was implemented in the OECD and United Nations Model Tax Conventions, on which most tax treaties are still based. The main idea was that international trade should be promoted and, to that end, special attention should be paid to the risk of double taxation of companies conducting trade outside their own borders.

52. These rules worked in an economy where the globalisation of trade was limited and where there had been no digital revolution enabling goods to be sold online with two mouse clicks. In the new economy, while MNEs can have a global view of the various national tax systems and act accordingly, in other words, optimise their investments and their tax reporting, national tax administrations rarely have all the information they need to tax multinationals' profits in line with their real levels of activity. In promoting trade, the 1920s rules ended up compounding asymmetries of information to the detriment of governments. As Mr Van der Maelen very rightly said, quoting a report by 58 non-governmental organisations (NGOs) entitled "No More Shifty Business", this structural asymmetry stems from the fact that the international tax system does not deal with MNEs according to the economic reality of their activity but regards them as separate businesses in each country that deal independently with each other.

53. According to the OECD,<sup>22</sup> the total losses resulting from BEPS could be between 4% and 10% of global corporate income tax (CIT) revenues, i.e. US\$100 to 240 billion annually. Estimates of losses in developing countries are proportionally higher than in developed countries, given developing countries' greater reliance on CIT revenues. The OECD also notes that affiliates of MNEs in low tax countries report almost twice the profit rate (relative to assets) of their global groups.

54. Apart from the "revenue losses" for States, which undermine their sovereignty, the scale of these practices entails economic and sociological consequences. They undermine the principle of tax fairness between MNEs and non-multinationals which pay their taxes under national rules. In so doing, they not only introduce distortions in competition between companies but also help to erode the confidence of the various stakeholders in States' ability to enforce their own rules.

55. In order to address these issues, after presenting the various BEPS practices in 2013, the OECD proposed 15 actions to overhaul the architecture of the international tax system. They were adopted by the G20 meeting in Antalya in November 2015. They are designed to ensure that MNEs report their profits where economic activities take place and value is created.

56. The first key reform involved the setting of four minimum standards to offset the negative consequences for other States of failure by one or more States to take action.

57. The first standard makes the application of a preferential regime conditional on the existence of a substantial activity (Action 5). For instance, only taxpayers who themselves incurred research and development expenditures that generated intellectual property-related profits can benefit from preferential regimes for intellectual property. Provision is made for automatic exchanges between tax administrations here.

58. The second standard is aimed at preventing the abuse of tax treaties to inappropriately obtain the benefit of certain provisions of such treaties (Action 6). For instance, it tackles treaty shopping, which involves a business not resident in a contracting State obtaining tax benefits provided for in a treaty to which that State is a party.

59. The third standard (Action 13) introduces a single country-by-country reporting standard for MNEs with consolidated annual turnovers of at least 750 million euros. It requires MNEs to supply tax administrations with a range of information to enable the administrations to better assess the transfer pricing they have put in place, i.e. the prices at which they transfer tangible and intangible assets, or provide services, to affiliated companies (e.g. their subsidiaries).

60. The last standard (Action 14) involves the implementation of mechanisms for the resolution of disputes relating to tax treaties so as to limit the risks of double taxation.

61. Compliance with these four standards is being reviewed and monitored under a process modelled on that used by the Global Forum on Transparency and Exchange of Information and conducted, according to the OECD, "on an equal footing" by peers within the Inclusive Framework, which included over 100 States and jurisdictions as of July 2017.

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21. OECD, Addressing Base Erosion and Profit Shifting, 2013.

22. OECD, BEPS project – Explanatory statement 2015, p. 4.

62. The second element of the reform is the amendment (in some cases, far-reaching) of international tax rules. This is true, for instance, of Actions 8 to 10 (aligning transfer pricing outcomes with value creation), which aim to alter the rules applicable to transfer pricing so as “to reduce the incentive for MNEs to shift income to ‘cash boxes’ – shell companies with few if any employees and little or no economic activity, which seek to take advantage of low- or no-tax jurisdictions”.<sup>23</sup>

63. Reference could also be made to the redefinition of “permanent establishment” (Action 7), which is usually a criterion employed to ensure taxation and which some MNEs circumvent, for example through commissionaire arrangements, i.e. arrangements “through which a person sells products in a State in its own name but on behalf of a foreign enterprise that is the owner of these products. Through such an arrangement, a foreign enterprise is able to sell its products in a State without technically having a permanent establishment to which such sales may be attributed for tax purposes and without, therefore, being taxable in that State on the profits derived from such sales”.<sup>24</sup> Several other components are also included in the BEPS package. Significantly, they take account of the risks of BEPS practices inherent in the digital economy, for instance by facilitating the collection of Value Added Tax (VAT) in the countries where the customers are located.

64. Lastly, as a fundamental element in making this new architecture effective, the procedure recommended (Action 15) for updating the 3 500 bilateral tax treaties is accession to a multilateral instrument that avoids the renegotiation of the individual treaties. Known as the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS Multilateral Instrument), it was drawn up by an ad hoc group of more than 100 countries and jurisdictions, was opened for signature in 2016. It now has 70 signatories. In addition, seven other jurisdictions have already committed to sign the BEPS Multilateral Instrument by the end of 2017.

### 3.2.2. Initial assessment of the BEPS project

65. According to the report by the OECD Secretary-General to the G20 Leaders in July, “2017 is the year of implementation” of the measures delivered under the G20/OECD BEPS Project.<sup>25</sup>

66. Implementation is indeed under way. For instance, the terms of reference and the methodology for the four minimum standards to be covered by peer reviews which will ensure their effectiveness were published in February 2017. Moreover, country-by-country reporting should begin in 2018 with the automatic exchange of information between jurisdictions which have acceded to the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports.

67. It is therefore possible to make an initial assessment in both methodological and substantive terms.

68. The first observation concerns the speed of the process. The OECD succeeded in proposing 15 detailed actions overhauling the international tax system in the space of only two years (2013-2015), and negotiating the BEPS Multilateral Instrument in one year (2015-2016).

69. The speed is all the more remarkable since the entire negotiation process respected States’ sovereignty, was conducted at an economically and fiscally relevant level, and was genuinely inclusive. 100 jurisdictions participated in the negotiation of the BEPS convention, 102 are involved in the Inclusive Framework on BEPS, including several developing countries, a number of tax havens and international and regional organisations, and 64 in the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports. The inclusive approach is an integral part of the peer review system, which operates on the consensus principle.

70. This exercise in multilateralism generates rather than prevents standardisation. The clearest example here is the country-by-country reporting (Action 13): the information which MNEs must supply is specific, comprehensive and standardised<sup>26</sup> and is submitted in accordance with a common reporting standard. This standardisation allows both for the automatic exchange of information and for its easy use by the tax authorities and also facilitates the task of reporting for the MNEs.

71. In substantive terms, if we consider the recommendations made by the enlarged Assembly in [Resolutions 1951 \(2013\)](#) (paragraphs 16 to 17) and [Resolution 2074 \(2015\)](#) (paragraphs 23 to 24), it must be acknowledged that most have been acted upon. The only reservation perhaps concerns Mr Van der Maelen’s

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23. OECD, BEPS project – Explanatory statement 2015, p. 7.

24. OECD, Preventing the Artificial Avoidance of Permanent Establishment Status, Action 7 – Final report 2015, p. 9.

25. OECD Secretary General report to G20 Leaders, Hamburg, Germany, July 2017, p. 5.

26. For a detailed picture, see OECD, Transfer Pricing Documentation and Country-by-Country Reporting, Action 13 – 2015 Final Report, Annex III to Chapter V, p. 29 et seq.

call for the introduction of a system of unitary taxation of MNEs, as set out in paragraph 17.2 of [Resolution 1951 \(2013\)](#). While the country-by-country reports do come closely into line with the obligation to “produce comprehensive global financial reports” referred to in that paragraph, our colleague’s call for a possible “multilateral agreement on a system of unitary taxation of transnational corporations” seems just as impracticable today as in the 1920s, when the question was raised and dismissed for lack of political agreement. It would nevertheless be desirable.

72. Admittedly, questions may be asked about the lack of coercive mechanisms concerning implementation of the measures which are not covered by the four minimum standards but take the form of commitments recommended by the OECD, and calls may be made for more binding procedures than peer reviews. Nevertheless, I believe that the success of the BEPS project lies, above all, in the fact that the vast majority of States have a substantial shared financial interest in implementing the new rules for the tax system and that those content with being free riders do not really have the political weight to maintain their position.

73. The number of “tax havens” which have joined the Inclusive Framework confirms my belief here. The same is true of the European Commission’s decision on 30 August 2016 ordering Ireland to demand the repayment of €13 billion by Apple, as the tax regime granted to the company by the Irish authorities was deemed to have amounted to illegal State aid. For the record, the European Commission’s investigations found that “the tax treatment in Ireland enabled Apple to avoid taxation on almost all profits generated by sales of Apple products in the entire European Single Market. This is due to Apple’s decision to record all sales in Ireland rather than in the countries where the products were sold” and also that “only a small percentage of Apple Sales International’s profits were taxed in Ireland, and the rest was taxed nowhere”.<sup>27</sup> As Apple has appealed against the Commission’s ruling, caution is called for. Nevertheless, aggressive tax planning of this kind respects neither the spirit nor the letter of the BEPS project.

74. In conclusion, I would say that the BEPS project is a good example of multilateralism serving State sovereignty initiated by the OECD with the G20, and being implemented by over half the members of the United Nations.

### **3.3. Proposals to make the OECD’s recommendations on taxation more effective**

75. One of the keys to success lies in the extent to which the peer review recommendations are taken into account. At present, not only does the peer review process not prevent measures being taken that amount to steps backward but it is also not intended to impose dissuasive penalties on unco-operative jurisdictions. What is the risk for a jurisdiction that does not wish to act on the Global Forum’s recommendations? Apart from potentially being subject to restrictions on investments linked to the European Bank for Reconstruction and Development (EBRD) or the International Finance Corporation (IFC) and from reputational risk, sanctions consist simply in being denied access to tax information from the other jurisdictions. Of course, if it believes that tax evasion is costing it a lot, it will think twice before refusing to implement the recommendations. However, if the tax evasion does not cost it anything or if the recommendations affect a key aspect of its “fiscal attractiveness”, the penalty of not being involved in information exchanges will have little weight in encouraging it to implement the Global Forum’s recommendations.

76. That is why I believe that one of the points to look into in future concerns how to ensure compliance with the recommendations by more binding means than at present.

77. At the request of the G20 itself, the OECD put forward five corresponding types of action,<sup>28</sup> which, although they only concern EOIR, could be extended to AEOI or BEPS. Those involving further publicising the Global Forum ratings to amplify their reputational impact would seem to be the right approach. The enlarged Assembly could go further, for instance, by reporting the Global Forum and Inclusive Framework ratings in a parliamentary report, along the lines of what the Parliamentary Assembly of the Council of Europe does regarding the execution of the judgments of the European Court of Human Rights.

78. Another proposal which I fully endorse is that international organisations and development agencies such as the Council of Europe Development Bank, the EBRD, the European Investment Bank and the IFC take the Global Forum or Inclusive Framework ratings into consideration when determining their investment policies.

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27. European Commission press release of 30 August 2016, [http://europa.eu/rapid/press-release\\_IP-16-2923\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2923_en.htm).

28. OECD Secretary General report to G20 Finance Ministers, Ankara, Turkey, September 2015, Annex 1.

79. While the other measures recommended by the OECD are also useful, they all reflect the Organisation's commitment to its existing procedures and its reluctance to promote more controversial mechanisms. In my view, however, if we are to avoid States taking bilateral reprisals which would negate the multilateral practices promoted by the OECD, such as making the implementation of certain recommendations conditional on compliance with the principle of reciprocity, it is necessary to go further. In terms of the automatic exchange of information, this has happened with regard to the United States, which is a member of Global Forum and has ratified the Convention on Mutual Administrative Assistance but not the 2010 amending protocol. Nevertheless, it has decided not to use it in the area of banking data and instead apply its own Foreign Account Tax Compliance Act (FATCA) information exchange system, which requires foreign banks to supply data to the US Treasury Department without full reciprocity of information being transferred in return from US banks to the States which supplied the said data. In response to this American freeriding, most financial centres have removed the United States from the list of their partner jurisdictions.

80. One solution would be to establish a more judicial mechanism for the imposition of penalties, as proposed by the Assembly in [Resolution 2130 \(2016\)](#) on the Panama Papers, in which it encouraged the OECD "to review, together with the Council of Europe, their joint Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127) with the aim of facilitating the creation of an international tax co-ordinating body under the auspices of the OECD, capable of imposing sanctions" (paragraph 5.11). The World Trade Organisation panels of experts could be a further model here.

81. The OECD rightly pointed out that the joint Convention already has a «co-ordinating body», which can, under the aegis of the OECD, "recommend any action likely to further the general aims of the Convention" (Article 24.3 of the Convention). Whether this body, composed of representatives of the competent authorities of the Parties to the Convention, could be the body capable of imposing sanctions or whether another one should be instituted remains open, but making sanctions more judicial seems essential to me. Making the penalties which otherwise would be applied bilaterally more judicial is also means of ensuring more civil international relations. That seems just as reasonable as focusing all efforts on dialogue.

#### **4. How inequality hampers economic growth**

82. Since the 2007-2008 crisis, the issue of inequality has been high on the political agenda in developed countries. It is now combined with a widely shared concern about the inclusiveness of economic development. Growth must benefit the many, not the few. This is now widely recognised within the international community: reducing inequality is Goal No. 10 of the Sustainable Development Goals set by the United Nations in 2015; in addition, at its meeting in Dhaka in April 2017, the Inter-Parliamentary Union Assembly, which brings together parliamentarians from 132 countries, called for inequalities to be redressed so as to deliver on dignity and well-being for all; lastly, the Parliamentary Assembly of the Council of Europe in April 2017 debated the report by our colleague, Mr Andrej Hunko (Germany, UEL), on "Fighting income inequality as a means of fostering social cohesion and economic development".

83. For its part, the OECD highlighted the potentially harmful effects of growing income inequality in 2008<sup>29</sup> and has documented the latter on an ongoing basis since then. In November 2016, it published an income inequality update, the title of which sums up its content: "Income inequality remains high in the face of weak recovery." In May 2017, the OECD Secretary-General also presented the report "A fiscal approach to inclusive growth" to G7 Finance Ministers and Central Bank Governors.

84. The negative impact of inequality on social cohesion and in terms of challenges to the foundations of democracy has been dealt with at length by Mr Hunko. I will therefore focus on what I regard as the particular merit of the OECD's work, i.e. its economic perspective. Beyond the issue of social justice, does inequality boost growth or hamper it? If the latter is the case, what decisions should public authorities take?

##### **4.1. Widening inequality in incomes and wealth: a clear trend**

85. In its study, "In It Together: Why Less Inequality Benefits All" (2015), the OECD noted that income inequality has widened continuously since the 1980s, but under two different processes.

86. Initially, from the 1980s until the recession in 2007, real disposable household incomes rose in all OECD countries (except Japan), for both the richest 10% and the poorest 10%. In three quarters of the countries, however, the growth was greater for the richest 10% of households than for the poorest 10%, which explains that while the population as a whole became richer in absolute terms, inequality grew.

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29. OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD Publishing, Paris.

87. With the crisis, income inequalities were magnified by the decline in poor households' incomes. As the November 2016 inequality update indicated, in 2013-2014, incomes at the bottom of the income distribution were still well below pre-crisis levels, while top and middle incomes had recovered much of the ground lost during the crisis. But the bottom of the income distribution accounts for 40% of the population rather than 10%. In real terms, that means that the incomes of 40% of households have fallen.

88. The result is that, with a few exceptions such as Turkey, Hungary and Chile, where income inequality fell between 2010 and 2016 because of the improvement in the incomes of the poorest households, OECD countries are now much more unequal than in the 1980s. Whether based on the Gini index, which is usually used to measure inequality levels between or within countries, or on the ratio of the richest 10% of households to the poorest 10%, the picture is the same: the OECD area's Gini index was 0.29 in the 1980s and 0.315 in 2015; in 1980, the incomes of the richest 10% were seven times those of the poorest 10%; by 2015, their incomes were almost 10 times those of the poorest 10%.

89. Less generalised because based on data for fewer countries, but equally interesting, is the conclusion of the "In It Together" study on inequalities in household wealth, i.e. those involving financial assets (such as shares) and non-financial assets (usually, real estate or housing). Inequality here is much greater than income inequality, with the richest 10% of households holding over half of total wealth, the next 50% owning almost all of the remainder and the poorest 40% only 3%. As with incomes, the financial crisis seems to have increased wealth inequality both at the top of the distribution and at the bottom.

#### **4.2. Widening inequality: hampering growth as a likely consequence of reduced social mobility**

90. Economic theory has long regarded the existence of inequality as either being harmful or, on the contrary, beneficial to economic growth. On the "anti-growth" side are theories relating to the "accumulation of human capital", with distortions on the financial markets leading individuals to base investment decisions on their incomes or assets rather than on the returns which they should be able to obtain on their investment. For instance, a poor household may decide to stop their child's studies because they are unable to pay the fees, whereas if they did pay, continuing the studies would produce a substantial "return on investment". As a result, the household fails to increase its child's human capital.

91. Conversely, the incentives theory is often cited on the "pro-growth" side. According to this theory, high inequality provides incentives "to work harder and invest and undertake risks to take advantage of high rates of return ... For example, if highly educated people are much more productive, then high differences in rates of return may encourage more people to seek education".<sup>30</sup>

92. The study conducted by the OECD in 2015, of which Mr Hunko rightly quoted one of the conclusions, suggests that there indeed seems to be a negative relationship between widening income inequality and growth: the widening of inequality by two Gini points (0.02) in 19 OECD countries between 1985 and 2005 is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010.

93. Moreover, this relationship applies at the bottom of the distribution, but not at the top. In other words, a reduction of the inequality affecting the 40% of the population on low incomes would have a positive impact on growth, but there would be no impact if it affected the remaining 60% of households.

94. With its extensive data on education, the OECD shows that the more income inequality widens, the less individuals with parents from lower parental educational background<sup>31</sup> are able to increase their human capital. Here the study draws on the fact that individuals' average levels of education – a measure of human capital – depend to a large extent on their parents' levels of education. It notes, first of all, that the higher the Gini index is, the more likely it is that individuals whose parents have low education levels will not enter higher education.<sup>32</sup> That is not true of individuals with parents with middle to high education levels.

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30. OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris, p. 61.

31. Meaning that neither parent has attained upper secondary education.

32. "An increase in inequality of around 6 Gini points (corresponding to the income inequality differential between the United States and Canada in 2010) would lower the probability of individuals with parents of low educational background being in tertiary education by around 4 percentage points", OECD (2015), *In It Together: Why Less Inequality Benefits All*, op. cit., p. 74.

95. This negative relationship between increasing inequality and levels of human capital for individuals whose parents have low educational levels is also qualitative as regards skills. The higher the Gini index therefore, the lower the numeracy<sup>33</sup> and literacy scores<sup>34</sup> of these individuals are. The same applies on the labour market outcomes, where individuals with parents with low education levels are much more likely to not be employed over their working life when the Gini index rises.

96. These findings indicate that widening inequality hampers growth because it reduces the propensity of the least well-off households to accumulate human capital. In other words, if these households making up 40% of the population were able to make different choices and boost their human capital, they would make a greater contribution to growth in GDP.

#### **4.3. How to unlock growth?**

97. This study is useful in three respects. First of all, it emphasises that corrective measures must not be directed solely at the poorest 10% but at the least well-off 40%. Secondly, it provides a purely economic argument for reducing inequality. Lastly, and this is a source of genuine satisfaction for me, in taking a relatively liberal approach, it moves the debate from social justice to social mobility; what matters more in developed countries than the share of the population on low incomes making sure that they do not remain on low incomes. In other words, this brings us back to an old principle: economically healthy societies are ones where there is genuine individual mobility rather than ones where people cannot escape from the socio-economic class they are born into, which determines their human capital and, consequently, their income levels. Equality of opportunity is therefore an excellent economic and political antidote since, as I would point out, it is the opposite of an egalitarian system.

98. The study provides two other major lessons. Firstly, as the OECD indicates, public policies must not focus solely on growth in the belief that it will automatically benefit all sectors of society because, in that case, if inequalities were to increase, they could compromise growth in the long term. Secondly, the redistribution mechanisms based on social benefits and taxation, which are significant in the OECD area in that they reduce income inequalities within the working age population by an average of 26%,<sup>35</sup> must be maintained insofar as they are neutral for growth.

99. In this connection and in order to draw the conclusions from the findings of its study on the accumulation of capital, the OECD advocates a series of measures geared towards skills and education and involving both initial training and continuing training. They focus on early childcare and education, policies for families with school-age children, reducing inequality in educational outcomes, upgrading skills to avoid obsolescence and understanding the demand for skills to ensure alignment with skills supply.

100. In conclusion, I believe that it would be useful to us as policymakers if the OECD were to continue its work in two directions by looking in greater depth at the relationship between wealth inequality and growth and indicating the threshold from which countries can expect income inequality to harm growth. We know that there is no single threshold applicable to all countries, with society in the United States (Gini index in 2014: 0.394), Turkey (0.393) and Chile (0.465), for instance, coping with much greater levels of inequality than in countries such as Slovenia (0.255), Norway (0.252) and Iceland (0.244). Perhaps, however, there are different relevant thresholds for groups of countries sharing certain common characteristics.

### **5. Youth employment in the OECD: investing in education and skills today will generate future employment and subsequent growth**

101. The employment of young people (defined as 15 to 24-year-olds or 15 to 29-year-olds depending on the studies) in the OECD is an issue that carries on from the analysis of inequalities in many respects.

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33. Numeracy is the ability of an individual to understand and use mathematical data at school, at work and in daily life, for instance for using money and drawing up budgets, using cooking measurements and reading maps.

34. Literacy is the ability to understand and use written information in daily life, at home, at work and in the community with a view to achieving personal goals and extending knowledge and skills.

35. 30% in France and Germany, 19% in the United States and 4%-5% in Chile and Mexico, according to In It Together, op. cit.

### **5.1. Mixed picture regarding young people**

102. The employment outlook published in 2016<sup>36</sup> set out two key points: firstly, youth unemployment is very cyclical compared to other sections of the working population, which might suggest that the economic recovery will remove young people from unemployment and, secondly, there are increasing numbers of young people who are genuinely economically vulnerable.

103. Young people were therefore disproportionately affected by the Great Recession: youth unemployment in the OECD area rose from 12.1% in 2007 to 17.3% during the crisis, which was twice the increase for older workers. Conversely, it then fell more quickly than the overall unemployment rate and stood at 13.4% by the end of 2015. However, it was still higher than before the crisis in 26 OECD countries.

104. The youth labour market has been very dynamic since the crisis in the countries where the overall employment market has recovered most strongly. For instance, youth unemployment is still 10 percentage points higher than before the crisis in Spain, Greece, Ireland and Italy and lower than the pre-crisis level in Germany and Israel, where overall unemployment is also lower than in 2007.

105. At the same time, the number of people not in employment, education or training (NEETs) among 15 to 29-year-olds was 14.6% in 2015, as against 13.5% in 2007. That represents 40 million young people in the OECD area, of whom 27 million are not actively seeking employment.<sup>37</sup> Since 2007, the number of NEETs has increased in 24 OECD countries, in particular in Spain, Greece, Ireland, Italy and Slovenia.

106. While this category is still diverse, those concerned are subject to short-term economic vulnerability on account of their family circumstances: in European Union countries, one in four NEETs lives in a household where no one is in employment, whereas the figure is one in 10 for other young people. Moreover, the probability of living in a non-working household is 44% for low-skilled NEETs who have not completed higher secondary education, which puts them at a greater risk of poverty.

107. Obviously, the fear is that these low-skilled NEETs will have great difficulty finding jobs again, including when youth unemployment has fallen back to its pre-crisis level.

### **5.2. Fostering youth employment**

108. At the November 2015 Antalya Summit, the G20 leaders set the goal of reducing the share of young people most at risk of being permanently excluded from the labour market to 15% by 2025. Annex III to the declaration adopted at the close of the summit refers specifically to NEETs and sets out nine principles<sup>38</sup> to guide policies to improve youth employment, which the G20 called on the OECD and the International Labour Organization to follow up.

109. An interesting aspect of these nine principles is that they largely overlap with the nine pillars of the OECD Action Plan for Youth adopted in 2013, while establishing different priorities for the measures to be taken: as the impact of the crisis is weakening, efforts must be focused less on combating youth unemployment in the short term, although that must continue to be done actively, and more on improving young people's long-term employment prospects, which requires policies to boost their education and skills.

110. Such policies are all the more necessary in the OECD area since the Organisation predicts that 23 of its members will achieve the G20 goal by 2025 and 11 will not if current trends in reducing unemployment continue.

111. Improving the long-term employment prospects of NEETs obviously involves fighting inequalities with a view to achieving a positive impact on economic growth in addition to the goal of social justice. The theory of the accumulation of human capital applies in full to NEETs, even more than for young people as a whole. It is a matter of increasing investment opportunities – or quite simply rational economic choices – for an economically vulnerable group

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36. Unless otherwise indicated, the data quoted are from OECD Employment Outlook 2016.

37. Statement by OECD Employment and Labour Ministers, Paris, 15 January 2016.

38. Improving education and skills of youth: 1) ensuring basic skills for all; 2) ensuring school completion; 3) providing greater choice in educational pathways; 4) promoting access to higher education; 5) bringing closer together the worlds of education and work, improve youth employment; 6) strengthening job opportunities; 7) tackling unemployment; 8) avoiding prolonged periods out of work; 9) improving job quality.

112. In its “In It Together” study, the OECD sets out a series of corresponding measures. For instance, it suggests that investment in human capital should start during early childhood, pointing out that the findings of its PISA survey measuring educational levels show that participation in quality education (as measured by the ratio of children to staff, the programme’s duration and spending per child) is associated with stronger reading performance at age 15, especially for children from families with disadvantaged socio-economic backgrounds.

113. It also calls for action to combat early school leaving, quoting the example of New Zealand, where schools send regular reports to the Department of Education about every young person who leaves school either with or without a qualification; the department then refers those requiring additional training or individual support to specialised service providers.

114. It also emphasises the importance of reducing inequality in educational outcomes: for instance, countries such as Canada, Finland, Japan and Korea all have education systems committed to giving equal opportunities to both disadvantaged and advantaged students to achieve strong academic outcomes, which is reflected in good results in reading performance (2012 PISA survey) for all students and better results than expected for disadvantaged students.

115. Other examples are given. They all point in the same direction: education and skills are the key to increasing individual social mobility and building a society that is more prosperous and fairer because it is more inclusive. To quote Mr Helmut Schmidt, investing in young people, especially when they are disadvantaged, paves the way for their future employment and for subsequent economic growth.

## **6. Monitoring of the OECD parliamentary groups**

116. The OECD is keen to involve parliamentarians in some of the issues it addresses. An overview of relevant activities must therefore be provided here. In 2016 and in 2017, two groups met, i.e. those on tax and on integrity and transparency.

### **6.1. Parliamentary Group on Tax**

117. According to the report on its fifth meeting on 2 May 2016, some of the discussions focused on the challenges of, and progress made with, the BEPS project, details of which have been given in this report, along with updated data.

118. Nevertheless, three issues addressed ought to be highlighted. Firstly, while all participants unanimously welcomed the progress made regarding BEPS, some parliamentarians indicated their desire to go further. For instance, the Chair of the European Parliament Special Committee on Tax Rulings and Other Measure Similar in Nature or Effect (TAXE), Mr Alain Lamassoure, called for a common OECD-European Union list of tax havens. This proposal was not endorsed by the OECD Secretary-General. Mr Angel Gurría, seemed to express a preference for an open dialogue and peer reviews to persuade non-compliant countries to become compliant. At the same time, some parliamentarians called for a BEPS 2 project to increase transparency regarding taxation and, above all, combat aggressive tax avoidance. In the long term, I believe that it will, indeed, be necessary to tackle head on aggressive tax practices rather than just tax havens and loopholes in the international tax system.

119. The second interesting issue concerned national parliaments’ roles in improving the system. Ms Michèle André, Chair of the Finance Committee in the French Senate, said that the latter had had no qualms in 2011 about rejecting a tax treaty with Panama which had not offered sufficient safeguards. Ms Meg Hillier, Chair of the Public Accounts Committee in the United Kingdom House of Commons, referred to the inquiries launched by her committee in 2012, 2013 and 2015, which had found that MNEs were avoiding British taxes. She also mentioned the sharp criticism triggered by the £130 million settlement between Google and Her Majesty’s Revenue and Customs (HMRC), as some members of parliament felt that the amount paid did not match the scale of the company’s business in the United Kingdom.

120. Lastly, there were interesting exchanges about the action of the European Union, including the Commission’s launch of its anti-avoidance package seeking to ensure that implementation of the BEPS project was harmonised in the member States and preparing to put forward additional proposals such as relaunching the Common Corporate Tax Base (CCTB). It should also be noted that the proposal to set up a committee of inquiry on the Panama Papers in the European Parliament, which was mentioned at the meeting, has been acted on: the Committee of Inquiry into Money Laundering, Tax Avoidance and Tax Evasion (PANA Committee) began operating in July 2016 and is continuing its work.

## **6.2. Parliamentary Group on Integrity and Transparency**

121. Three points may be noted from the first meeting of this group (February 2017), which focused on ensuring integrity and transparency in politics.

122. The first is that there is a big divide between voters and their representatives: as indicated by Ms Stav Shaffir, member of the Knesset, only 40% of citizens trust their government and the situation is deteriorating in many OECD countries.

123. The second is that the OECD is addressing the issue because it believes that integrity and transparency in public life are an integral part of good governance, which has a direct impact on wealth creation. In this connection, the OECD adopted a recommendation on Public Integrity in January 2017, which it regards as a benchmark and of which a key feature is its cross-cutting approach in introducing a common framework for public officials, business, civil society and individuals with a view to building a coherent “integrity system”. Its representative stressed that accountability was the key to the system and that parliamentarians are expected to lead the way in ensuring compliance. For instance, he mentioned that, not long ago, the vast majority of OECD countries did not have regulations on lobbying.

124. Lastly, the OECD stands ready to help countries which so desire to implement the recommendation, including by setting up peer reviews. Hence, it was asked by member countries, such as Mexico and the Slovak Republic, as well as non-members, such as Argentina, Colombia and Peru, to conduct an integrity review, which led to a number of concrete proposals for action.

## **7. Conclusion**

125. This report has been drawn up in an international context that would not seem very favourable to open globalisation or multilateralism and free trade. 2016 and 2017 have been marked by Brexit with the willingness of the United Kingdom to leave the Single European Market, the calling into question of the Trans-Pacific Partnership between the United States and Asia, the United States’ withdrawal from the Paris Climate Agreement, the US government’s refusal to condemn protectionism in the declaration of the G20 Finance Ministers’ meeting in Baden-Baden in March 2017 and apparent differences in views at the G7 in May 2017 between President Trump and his partners concerning international trade and environmental issues.

126. Nevertheless, as this report shows, multilateralism is needed if globalisation is to be fairer. Without multilateralism, there can be no effective fight against tax evasion, or against base erosion or aggressive tax competition practices. Multilateralism is not only necessary: it works, as demonstrated by the funds returned by tax exiles before the introduction of AEOI. And here it works for globalisation for all rather than just for the few.