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## The activities of the Organisation for Economic Co-operation and Development (OECD) in 2011-2012

### Committee Opinion<sup>1</sup>

Committee on Social Affairs, Health and Sustainable Development

Rapporteur: Mr Márton BRAUN, Hungary, Group of the European People's Party

### A. Conclusions of the committee

1. The Committee on Social Affairs, Health and Sustainable Development broadly welcomes the report on the activities of the Organisation for Economic Co-operation and Development (OECD) in 2011-2012, prepared by Mr Jean-Marie Bockel on behalf of the Committee on Political Affairs and Democracy. Further to the Parliamentary Assembly's reform in 2011, the report in question reflects the transfer of reporting responsibility to the latter committee and its attempt to concentrate more on the political evaluation of the OECD's work, by exploring more closely the national and institutional responses to the eurozone crisis and co-operation with countries in South and South-East Mediterranean region.
2. The Committee on Social Affairs, Health and Sustainable Development notes that the report contains a detailed description of the current economic situation and outlook for development in the OECD countries, mainly based on the OECD's own analysis and views. For some issues, such as on the prospects for a global financial transactions tax and on the role of rating agencies, reference to other sources could have been useful.
3. The Committee on Social Affairs, Health and Sustainable Development appreciates the fact that the draft resolution refers to its work concerning the effects of the financial and economic crisis on young people, on local and regional authorities and on social rights. As the committee's report on "Restoring social justice through a tax on financial transactions" is being debated by the Assembly during the same part-session as the report on the OECD activities, it could be referred to, as well as earlier Assembly proposals on this matter. The issue was notably raised in Assembly [Resolution 1833 \(2011\)](#) on the OECD's activities in 2010-2011, [Resolution 1888 \(2012\)](#) on the crisis of democracy and the role of the State in today's Europe and [Resolution 1884 \(2012\)](#) "Austerity measures – a danger for democracy and social rights". Such a reference would echo the Assembly's earlier position on this issue and ensure a coherent stand in recommending stronger political action by member States in this respect.
4. The Committee on Social Affairs, Health and Sustainable Development presents several amendments to the draft resolution intended to make some factual corrections and with a view to helping make the report more comprehensive.

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1. Reference to committee: Reference 3845 of 29 June 2012. Reporting committee: Committee on Political Affairs and Democracy. See Doc.13019. Opinion approved by the committee on 2 October 2012.



## B. Proposed amendments

### *Amendment A (to the draft resolution)*

In paragraph 6, replace the last sentence with the following:

*“The enlarged Assembly believes that it is necessary to review national taxation systems, better target support programmes for the most vulnerable population groups and pursue reforms aimed at reducing labour market segmentation and ensuring more jobs of higher quality.”*

Explanatory note: the amendment lays emphasis on the enlarged Assembly's support for national reforms of taxation, welfare systems and labour markets.

### *Amendment B (to the draft resolution)*

After paragraph 6, insert the following paragraph:

*“The enlarged Assembly is concerned about continued tax evasion and tax avoidance that deprive State budgets of essential revenue. Referring to the Assembly's [Resolution 1881 \(2012\)](#) and the report on promoting an appropriate policy on tax havens, the enlarged Assembly urges the OECD to intensify its work in these areas and to seek synergies with relevant international partners, notably the European Union and the International Monetary Fund, in order to help States eliminate harmful tax practices, narrow the gap between the taxation of income from capital and from work, and improve regulation of the financial sector so as to better manage international capital flows.”*

Explanatory note: this proposal naturally stems from the Assembly's ongoing work on tax justice and its co-operation with the OECD on tax-related and regulatory challenges and refers to previously adopted texts.

### *Amendment C (to the draft resolution)*

After paragraph 7, insert the following paragraph:

*“In the light of current demographic trends and repercussions from the financial crisis, notably in Europe, there is an urgent need to enhance the sustainability of pension systems and the adequacy of pension levels in many countries, not least as a result of austerity measures that have escalated social inequalities. Referring to the Assembly's [Resolution 1882 \(2012\)](#) and [Recommendation 2000 \(2012\)](#) on decent pensions for all, the enlarged Assembly calls for the OECD and the Council of Europe to work together with a view to promoting good practices in this field and preparing practical instruments (such as guidelines) for advising member States in their ongoing or forthcoming pension system reforms.”*

Explanatory note: the amendment underscores the pertinence of adjustments to national pension systems and pleads for more collaboration between the Council of Europe and the OECD in this field.

## C. Explanatory memorandum by Mr Braun, rapporteur for opinion

### **1. The lingering financial and economic crises expose growing inequalities in society and shortcomings in socio-economic policies**

1. The report of the Committee on Political Affairs and Democracy presents an overview of development trends in the OECD countries, policy responses to crisis-induced problems and co-operation with countries in the South and South-East Mediterranean region. As the rapporteur for opinion on behalf of the Committee on Social Affairs, Health and Sustainable Development, I wish to concentrate more on the social and other implications of growing income and wealth inequalities in society.

2. The OECD findings show that economic stagnation, or recession in some countries, has not only depressed labour markets, causing a persistent jump in unemployment, in particular long-term unemployment, but has also led to policy measures resulting in drastic cuts in social expenditure and yawning inequalities in income and wealth. At the same time, as the report admits, “Rising inequality began long before the financial recession, but the slackening of growth has heightened its political resonance”. Both OECD studies and other research sources<sup>2</sup> find widening welfare gaps within most European countries and reveal that tax and welfare

systems have become less redistributive with the onset of globalisation and financial liberalisation from the mid-1990s. In fact, a widespread trend of more favourable taxation on capital gains versus income from work accentuated inequalities even in the most egalitarian countries.

3. The work of the Committee on Social Affairs, Health and Sustainable Development,<sup>3</sup> together with other research sources, indicates that such inequalities damage the socio-economic cohesion of society and tend to undermine not only social but also economic development and political stability. More unequal societies experience more poverty (especially among the vulnerable population such as children, the elderly, the long-term unemployed, persons with health impairment or disability), poorer physical and mental health, higher rates of violence, lower rates of educational attainment, a rise in extremist and populist political movements, shrinking political participation levels and a weakening of the middle-class social base that underpins liberal democracy.<sup>4</sup> This lowers the population's capacity to adapt to structural adjustments, embrace changes in labour markets and support reform, thus eroding a country's competitiveness and its population's quality of life even further. Government transfers through taxation and social welfare systems continue to play the most important protective role for low-income households.

4. Moreover, many experts maintain that official statistics on inequality largely underestimate the effect of "hidden assets" kept by the world's richest individuals and companies in offshore financial centres and the massive scale of corporate tax avoidance and evasion. Both phenomena penalise States' budgets and ordinary tax payers. In June 2012, the European Commission issued a Communication<sup>5</sup> pleading for stronger measures to tackle tax evasion and avoidance in the light of estimates that the shadow economy represented on average almost one-fifth of gross domestic product (GDP) across the European Union alone or about €2 trillion in total. From earlier studies in this Assembly we know that the underground economy in the central and eastern parts of Europe is even more deep-rooted and widespread.<sup>6</sup> This clearly speaks of the need to tackle – urgently and in a more comprehensive manner – the problem of tax cheating and regulatory havens that subsist within European States and many other countries.<sup>7</sup> The Assembly should therefore encourage the OECD to persevere with its work in this field.

5. In this context, we should also refer to the report prepared by Ms Naghdalyan on "Restoring social justice through a tax on financial transactions" (Doc. 13017) which calls into question the persistence of lower taxation on income from capital than that on income from work. Similarly, various scholarly studies suggest that higher taxation on capital does not necessarily stifle growth as conventional economists argue, but rather that tax rates on capital as high as or even higher than those on labour are susceptible of helping tangibly reduce income and wealth inequality in society.<sup>8</sup>

6. An additional concern against the background of demographic trends and repercussions from the financial crisis, notably in Europe, is the sustainability of pension systems over the long term and the inadequacy of pension levels in many countries, not least as a result of austerity measures that have escalated social inequalities. Referring to the Assembly's [Resolution 1882 \(2012\)](#) and [Recommendation 2000 \(2012\)](#) on decent pensions for all, I consider that there is a scope for the Council of Europe<sup>9</sup> and the OECD to work together with a view to promoting good practices in this field and preparing practical instruments (such as guidelines) for guiding member States in their ongoing or forthcoming pension system reforms.

7. Furthermore, a major international organisation – the International Monetary Fund (IMF) – is currently revising its long-standing position on international capital controls<sup>10</sup> and admits that "capital flow management measures" are acceptable on the way to liberalisation and "in or near financial crises". This important

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2. See, for instance, the OECD's report on "Divided We Stand: Why Inequality Keeps Rising" of December 2011 and the Inequality Edition (volume 7, number 2) of the newsletter of the Tax Justice Network published in July 2012.

3. Notably the report by Mr Andrej Hunko on "Austerity measures – a danger for democracy and social rights" (Doc. 12948).

4. "The Future of History" by Francis Fukuyama, *Foreign Affairs*, Vol. 91, Issue 1, January/February 2012.

5. Communication on concrete ways to reinforce the fight against tax fraud and tax evasion including in relation to third countries, COM(2012)351 final of 27 June 2012.

6. See the report by Mr Viktor Pleskachevskiy on the underground economy (Doc. 12700), Resolution 1847 (2011) and Recommendation 1988 (2011).

7. See also the report by Mr Dirk Van der Maelen on "Promoting an appropriate policy on tax havens" (Doc. 12894) and Resolution 1881 (2012).

8. See articles by Annie Lowrey in the *International Herald Tribune* of 16 April 2012 and in *The Economist* edition of 5 May 2012 ("Economists are rethinking the view that capital should not be taxed").

9. Notably its Drafting Group on the Rights of Older Persons (CDDH-AGE).

message has yet to reach the ears of regulators, politicians and decision-makers. It could also be further studied by the OECD with a view to assessing the effects of financial deregulation and the under-taxation of financial services and products on economic development in general and social welfare systems in particular.

## **2. Responsibility of policy makers for repairing faults and cracks to pave the way to more broadly shared prosperity**

8. I ought to stress a very pertinent recommendation by the OECD – as highlighted in Mr Bockel's report – that it is particularly important not to decrease unemployment benefits, job protection and active pro-employment policies in times of economic stability and growth so as to avoid a backlash on development. According to the OECD, tax reforms aiming to shift the tax burden from labour to consumption or environmentally harmful activities can rapidly improve the employment situation, help support much needed investment in the real economy and thus generate more broadly shared welfare gains across all society. However, this calls for bold policy moves to improve taxation and regulatory mechanisms. Building on public debate and institutional research, policy makers have the responsibility to draw lessons from the lingering crises and past mistakes with a view to paving the way to sustainable recovery and quality growth.

9. A successful conclusion and rapid entry into force of the Protocol amending the joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127) and fruitful collaboration between the Parliamentary Assembly and the European Commission on taxation challenges, advocate further close co-operation between these institutions towards proposing concrete ways of taxation reform in order to better combine economic and social development. The European Commission considers that the OECD-driven Global Forum on Transparency and Exchange of Information for Tax Purposes does not sufficiently deal with the issue of "fair tax competition" which the European Union strongly supports via its Code of Conduct for business taxation. I believe that the two organisations should seek common understanding and promote this concept, as well as co-ordinate action to fight tax avoidance and evasion, in particular by helping States eliminate harmful tax practices and improve regulatory mechanisms.

10. In the light of the earlier work of the Assembly committees and debates in the Assembly, as well as the forthcoming debate on "Restoring social justice through a tax on financial transactions" during the Assembly's 4th part-session of 2012, the draft resolution on the OECD activities could encourage the OECD to further explore the gist of the European Commission and European Parliament proposals on the financial transactions tax, as well as the need to narrow the gap between the taxation of income from capital and from work and a call for more research on the utility of capital controls.

11. I would also like to offer a word of caution in assessing prospects for growth improvements worldwide in 2013. In OECD projections, global growth expectations appear to be essentially driven by the performance of major emerging economies. Yet serious doubts subsist about the veracity of figures concerning China and there is a high risk of overheating in the Chinese and Indian economies.<sup>11</sup> These uncertainties and risks, together with persisting financial troubles in the United States and the eurozone, should compel politicians of these countries to push for stronger measures to improve regulation of financial markets and to invest in quality development by better fructifying social capital and tapping the potential for green growth. So indeed, as the OECD advocates, policies must "go social" and "go green" – in addition to going institutional and structural.

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10. See the IMF study on "Recent Experiences in Managing Capital Inflows – Cross-Cutting Themes and Possible Policy Framework" by the Strategy, Policy and Review Department of 14 February 2011 and the discussion paper on "Managing capital inflows: what tools to use?" by Jonathan D. Ostry, Atish R. Ghosh, Karl Habermeier, Luc Laeven, Marcos Chamon, Mahvash S. Qureshi, and Annamaria Kokenyne of 5 April 2011, as well as the announcement of 5 April 2011 in the IMF Survey Magazine.

11. This is reminiscent of misleading indications by the rating agencies in the run-up to the 2008 world financial crisis: wrong ratings had flawed risk perception, market assessment and decisions by various stakeholders – market players, politicians, regulators, etc.