Continental Drift: OECD’s Imported Fiscal Policies for America

By Michael Tasselmyer and Demian Brady

Introduction

This summer, the multi-national partnership known as the Organization for Economic Cooperation and Development (OECD) released its latest Economic Survey of the United States, an analysis of current economic conditions in America accompanied by recommendations for policymakers about how to improve them. The OECD, which gets 21 percent of its funding from American taxpayers, has proposed measures ranging from a mix of positive ideas like tax reform and simplification, to those that should raise red flags like an expansion of federal spending by upwards of $70 billion annually as well as calls to raise taxes and stifle tax competition between nations.

I. Background: What is the OECD?

The OECD began as the Organization for European Economic Cooperation (OEEC) in 1948. Established as a council of 18 European governments, the OEEC was tasked with implementing the Marshall Plan, the U.S.-funded recovery effort designed to lift Europe out of the economic rubble of World War II. Canada and the United States joined the organization in late 1960, and by 1961, the OEEC was formally designated the OECD.

There are currently 34 member countries. 6 other nations, including Russia, China, Brazil, and India, are either negotiating membership or are closely connected to OECD initiatives without full-fledged membership. Combined, those 40 countries account for almost 80 percent of global trade and investment; the 34 official member countries alone produce over 60 percent of the world’s goods and services. OECD headquarters are located in Paris, France, and the organization consists of three main entities: the Secretariat, a collection of economists and scientists who conduct research, harvest data, and draft reports; the nearly 200-odd Committees (made up of over 40,000 government officials and subdivided into 13 directorates focusing on specific policy topics such as gender, green growth, or tax and anti-bribery standards) which review and comment on the Secretariat’s work; and the Council, made up of representatives from member countries. The Council meets annually to discuss research and set the agenda and budget for the upcoming year. Only the Council has decision-making power within the OECD.

The OECD’s budget funds two types of programs: Part I programs, which affect all member nations and which all countries contribute towards; and Part II programs, which are only of interest to a limited number of members. Each member country provides funding for Part I programs based on a formula that takes into account the relative size of its economy. In 2014, the OECD’s budget was set at €357 million (roughly $460 million), 53 percent of which was devoted to Part I
programming. The United States was the largest contributor and provided 21.2 percent of the Part I budget; the next highest contributor was Japan at 12.86 percent, and the lowest was Iceland, at 0.33 percent.

As the OECD does not distribute any grants or loans, its entire budget is used to support its bureaucracy and to produce statistical and economic reports. The Organization’s Secretariat employs over 2,500 full-time economists, lawyers, scientists and analysts. Employees are paid in Euros and salaries range from €2,102 per month for junior staff ($2,660, or $31,920 per year) up to €11,399 per month for directors ($14,400, or $172,796 per year). Including salaries and benefits, the OECD spent about €288 million ($364 million) on personnel costs in 2013. The OECD is one of several dozen international organizations and institutions in which the United States participates. In 2014, the U.S. contributed a total of $2.6 billion to international financial institutions such as the International Bank for Reconstruction and Development and the Inter-American Development Bank, and an additional $1.3 billion to other global organizations including the United Nations, the International Labor Organization, and APEC, the Asia-Pacific Economic Cooperation forum.

In 2014, the U.S. contributed $87.4 million to the OECD, exceeding the $70.6 million provided toward the administration of the North Atlantic Treaty Organization (NATO). From 1994 through 2001, average U.S. annual funding totaled just under $54 million (see the figure above).
Since then, the level has averaged nearly $85 million a year, with 2008 being the high water mark when $104.7 million was provided to the OECD. Spending then gradually declined before the uptick in 2014.

II. The OECD’s Recommendations

Every two years, the OECD publishes Economic Survey reports for each member nation. The series analyzes several macroeconomic areas such as taxation, public spending, health care, and labor markets, and then proposes policies that could improve the country’s economic situation. Researchers from the OECD Secretariat visit the country in question and meet with policy experts and government officials to make initial assessments before each report is written. The team of researchers in turn uses its findings to draft a report, which is reviewed during the year prior to publication by the Economic and Development Review Committee.

One member on the Committee is from the country being examined, and input is gathered from officials from that country several times over the course of the review. According to the OECD:

This is important, because the discussions during the examination aim at creating common ownership for the policy recommendations. However, the committee’s conclusions as summarized by the chairman at the end of the one-day meeting do not necessarily mirror the wishes of the country being reviewed. Indeed the value and integrity of Economic Surveys rests on the sharpness of the pen with which they are written, and their assessment and recommendations often introduce new perspectives to the national policy debates.7

The OECD released its latest Economic Survey of the United States in June 2014, making several recommendations to “[strengthen] economic growth,” “[improve] well-being,” and “[make] the best of new energy resources.”8 Many of these recommendations closely track legislation that has been introduced in Congress or has been included in President Barack Obama’s budget proposals. As a result, these items can be matched up, and NTUF is able to bring its longstanding fiscal research capabilities to bear on the question of how much OECD’s agenda could cost taxpayers. Table 1, below, summarizes the average annual price tag based on the first five-year costs of the proposals that the OECD urges the United States to enact. In total, the OECD specified fifteen proposals (of which NTUF was able to assign cost estimates for eight items) that would, if enacted into law, increase spending by at least $68.1 billion per year.
Table 1. The Annualized Cost of Proposals in the OECD’s 2014 Economic Survey of the United States

<table>
<thead>
<tr>
<th>Proposal Category</th>
<th>Proposal Cost ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy, Transportation, and Infrastructure Subtotal</td>
<td>$8.1</td>
</tr>
<tr>
<td>Enact Comprehensive Tax Reform</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Standardize and Expand Adult Job Training Programs</td>
<td>$1.5</td>
</tr>
<tr>
<td>Reform Disability Insurance Eligibility Requirements</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Establish a Federally-funded National Family and Medical Leave Program</td>
<td>$2.2</td>
</tr>
<tr>
<td>Expand the Earned Income Tax Credit</td>
<td>$4.4</td>
</tr>
<tr>
<td>Increase the Minimum Wage</td>
<td>(Low Cost)</td>
</tr>
<tr>
<td>Education, Science, and Research Subtotal</td>
<td>$8.28</td>
</tr>
<tr>
<td>Expand Access to Early Childhood Education</td>
<td>$8.28</td>
</tr>
<tr>
<td>Improve Tuition Assistance and Income Support for Workers with Families</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Energy, Agriculture, and the Environment Subtotal</td>
<td>$51.696</td>
</tr>
<tr>
<td>Pursue Export-Oriented Energy Strategy</td>
<td>(No New Funding)</td>
</tr>
<tr>
<td>Invest in Renewable Energy Development</td>
<td>$0.156</td>
</tr>
<tr>
<td>Institute Emissions Pricing Policies</td>
<td>$51.54</td>
</tr>
<tr>
<td>Study, Regulate New Energy Sources</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Government Reform Subtotal</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Implement Pre-filled Income Tax Statements</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Health Care Subtotal</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Increase Federal Government’s Role in Promoting Work-Life Balance</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Homeland Security Subtotal</td>
<td>(Unknown)</td>
</tr>
<tr>
<td>Pursue Immigration Reform</td>
<td>(Unknown)</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$68.076</strong></td>
</tr>
</tbody>
</table>

Note: Full source documentation for the cost analysis of each proposal is available in the Appendix.

A. Comprehensive Tax Reform

1. The Recommendations

The OECD’s recommendations for tax reform in the U.S. focus on four main objectives.
• **Cut marginal corporate tax rates and expand the base by phasing out allowances.**

  The OECD aptly notes that the marginal corporate income tax rate in the U.S., at 39.1 percent, is higher than in any other member nation, and significantly higher than the average of 25.5 percent. Combined with the fact that rates vary widely between business sectors and the tax base is relatively narrow, revenue is limited and investment in certain industries is heavily distorted. The OECD argues that as corporations seek ways to minimize their tax burdens, the tax burden is shifted to others (which is only true to the extent that the government does not adjust its spending policies to match its declining revenues).

• **Prevent corporations from shifting profits to low-tax international jurisdictions.**

  The high corporate income tax rate at home incentivizes many U.S. multinational corporations to employ legal provisions that allow them to shift some of their profits to foreign jurisdictions with lower tax rates. As a result, the corporate tax base is further limited. The OECD cites research that shows as much as $1.9 trillion in corporate profits are held offshore. Using language similar to that of the Obama Administration, the OECD also makes the case for corporate tax reform on a moral plane, saying it’s important that multinational corporations pay “their fair share” in order to “[level] the playing field,” especially as taxpayers experience a “severe loss of trust in institutions.”

• **Make the tax system more redistributive by phasing out deductions that mostly benefit highest-quintile earners.**

  OECD cites research from the Congressional Budget Office (CBO), published in 2013, that showed more than half of the combined benefits from tax incentives like the mortgage interest deduction and employee-sponsored health insurance exclusions would go to earners in the highest quintile. OECD argues that the mortgage interest deduction should be reduced, citing the success of similar policies in the United Kingdom and France.

• **Simplify the system to reduce compliance costs.**

  As research from National Taxpayers Union staff has shown, compliance under the current tax system carries enormous costs for individual and corporate taxpayers. This year, the economy lost an estimated $224 billion and 6.1 billion hours in compliance-related activity. Additionally, more than 90 percent of taxpayers opted to pay for preparation software or services; even then, error rates are still high. OECD has taken notice, and suggests that simplifying the personal income tax system “would raise the efficiency of taxation and lower the cost of tax compliance.”

2. **Benefits of Tax Reform**

  Representative David Camp’s (R-MI) Tax Reform Act of 2014 is one of the most comprehensive tax system reforms before the 113th Congress. Stopping short of instituting an entirely new system and instead proposing several initiatives to streamline and simplify the existing
Code, the Camp proposal would consolidate the existing seven personal income tax brackets into three. The bill would repeal the Alternative Minimum Tax (which essentially requires some taxpayers to complete their taxes twice), and modify or eliminate dozens of other tax credits and deductions. The OECD suggests that a simpler system incorporating some or all of these provisions would reduce monetary and logistical burdens on U.S. taxpayers. The Joint Committee on Taxation (JCT) has estimated that the bill would increase revenues by nearly $23.5 billion on net over the 2014-2018 period.\textsuperscript{14}

Congressman Camp’s legislation would also institute a 25 percent corporate income tax, consistent with the OECD’s recommendations that doing so would reduce incentives to shift corporate activity and profits overseas, thereby expanding the corporate income tax base. To further that goal, the Tax Reform Act also creates an exemption system designed to eliminate the “double taxation” of some corporations’ profits, which occurs under current law when U.S. corporations earn income via foreign subsidiaries (which is taxed) and then transfer those earnings to the U.S. in the form of stock dividends (which is taxed as well). JCT estimates cutting the corporate income rate to 25 percent would reduce revenues by about $169.5 billion over the 2014-2018 period, while establishing an exemption system for foreign income would raise about $20.1 billion in that same time.

\textbf{B. Red Flags in the Tax Reform Recommendations}

\textbf{1. The Problem with Pre-filled Tax Returns}

The OECD suggests that making pre-filled tax returns available for certain filers would “go a long way towards easing the burden of taxpayers,” noting that similar policies are in place in countries such as France and Sweden. In the U.S., pre-filled returns have been attempted at the state level, most notably through California’s ReadyReturn program. To qualify for ReadyReturn, filers must be single or heads of households, have fewer than five dependents, have only wage-related income, and claim only the standard deduction.\textsuperscript{15} ReadyReturn offers these taxpayers, should they request it, a pre-filled form based on information submitted via previous returns and the Form W-2.

California’s Franchise Tax Board reported that just 75,000 taxpayers used the program to file 2013 returns.\textsuperscript{16} While the program was still in its pilot stage, National Taxpayers Union expressed concern that ReadyReturn might encourage an unnecessary increase in collection agency access to taxpayers’ sensitive information,\textsuperscript{17} hardly a trivial concern given that, at the federal level, the IRS reported nearly 642,000 cases of tax-related identity theft in 2012.\textsuperscript{18} And even if the program were secure, it is probably not necessary: an existing public-private partnership known as the Free File Alliance was established in 2003, and has saved the federal government over $92 million in return processing costs. Establishing a federal pre-filled tax form program would likely undermine some of those savings.\textsuperscript{19}

According to the IRS National Taxpayer Advocate, just about half of all OECD countries provide pre-filled forms. However, the recommendation to institute such a system in the U.S. ignores
the reality that the current Tax Code is far too complex to allow pre-filled returns in most cases. The Advocate examined the issue and determined that “a fully populated return for most taxpayers is not possible in the United States given the current state of the Internal Revenue Code. There are too many unverifiable provisions in the Code….”

The current legal and regulatory landscape would make instituting a cost-effective, secure, and accurate pre-filled return system extremely difficult to implement on the national level. Given the complications involving joint returns and the allowance of itemized deductions, it would still be a challenge to effectively implement this type of proposal unless the Tax Code was significantly simplified.

In 1996, the General Accounting Office (since renamed the Government Accountability Office) reported that moving to a system of pre-filled tax forms could eventually save the government money, especially for processing and compliance (auditing) costs. However, this would provide a strong disincentive for taxpayers to challenge or modify their government-filled forms because this could increase the likelihood of receiving the dreaded audit notice from the IRS. There is also an inherent conflict of interest involved with having the tax collector act as the tax preparer.

2. Higher Tax Rates

To the extent that the Tax Code is simplified through the elimination of certain brackets or deductions without a corresponding reduction in overall rates, many taxpayers would see a higher tax rate after reform is enacted. In addition, the OECD explicitly and implicitly calls for new or higher tax rates.

As noted below, the OECD advocates a hike in payroll taxes to finance a new entitlement program that could cost as much as $2.2 billion per year. The OECD also calls for taxes on energy development and use, including what would essentially be a tax on emissions. In addition, the remaining new spending programs backed by the OECD would result in an expanded budget for social welfare programs and a larger federal government.

3. Stifling of Tax Competition

The OECD report includes several items that ought to give policy makers pause. The OECD echoes the calls of many politicians in Washington, D.C., including President Obama, in saying corporations ought to pay their “fair share of taxes.” As the OECD notes, there are facets of the U.S.’s current tax policy that provide incentives for multinational firms to keep their profits abroad. This is a result of the high corporate tax rate (the highest among OECD nations) and because of the way income earned abroad is treated.

The U.S. is one of the few nations that taxes income regardless of where it was earned, as opposed to a “territorial” tax system that would only attempt to collect taxes on income earned within the national borders. Rather than subject themselves to this additional taxation (as the income was already taxed within the country where it was earned) companies will withhold these earnings abroad. As a result of this, the federal government misses out on tax revenue (an ironic side effect of
high tax rates), and the national economy forgoes billions of dollars worth of funds that could otherwise be invested in new jobs or productivity gains.

The OECD refers to this activity of seeking out low-tax jurisdictions as “base erosion” and urges the U.S. to “[a]ct towards rapid international agreement and take measures to prevent base erosion and profit shifting.” Through such agreements, the OECD would have countries harmonize their tax policies to close “gaps in tax rules,” thus shielding countries from effective competition from low tax jurisdictions. As Dan Mitchell of the CATO Institute wrote, “Simply stated, we need to subject governments to competitive pressure to at least partially offset the tendency of politicians to over-tax and over-spend.”

Tax competition protects taxpayers by encouraging politicians to set responsible tax policies. Rather than stifling such competition, the OECD should advocate for more of it. Thus is the nature of competition. Just as states compete to create business-friendly environments to attract corporations and industry, so should nations.

C. Energy Resource Management and Regulation

The United States is rich in natural resources, most notably coal, oil, and natural gas. OECD’s recommendations for United States energy policy going forward involve taxing production of traditional “fossil fuels” in order to research and develop renewable technologies.

On the one hand, OECD is optimistic about the economic benefits to be gained from shale gas production and the role that hydraulic fracturing (“fracking”) technology has to play in that industry. “Proven shale oil and gas reserves now account for 10% and 40% of total oil and gas proven reserves in the United States,” more than double the previous estimates, according to OECD’s findings. Data from the U.S. Energy Information Administration cited in the report indicate that employment in the oil and gas sector has increased by nearly 66 percent since 2003. OECD makes a point to mention that as U.S. energy prices become cheaper relative to international sources, “[t]he Administration should ensure that energy exports are promptly approved” in order to capitalize on potential trade benefits.

However, OECD is also wary of environmental concerns, noting that “while the shale gas boom could provide the ‘bridge fuel’ towards a lower carbon economy, flanking measures (emission pricing, subsidizing renewable energy innovation, supporting renewables and developing smart electricity grids) will be required to ensure this outcome materializes.” In other words, OECD advocates greater investment in renewable energy research and development to compliment any increase in shale gas or oil extraction. To that end, the Survey includes numerous recommendations that would increase the taxation and regulatory burdens on the energy production industry.

The OECD’s recommendations to “[p]romote innovation in energy saving and low carbon technology” and “[p]ut a price on greenhouse gas emissions” are not accompanied by much in the
way of specific policy details. Nevertheless, there are several possible legislative initiatives that Congress might pursue should it heed the OECD’s report.

Earlier in the 113th Congress, Senator Bernard Sanders (I-VT) introduced S. 332, the Climate Protection Act of 2013. The comprehensive environmental legislation would impose a carbon tax on any manufacturer, producer, or importer of carbon-releasing substances; the tax would initially be $20 per ton of carbon emitted, and would gradually increase by 5.6 percent over the next ten years.

In addition to the tax provisions, Senator Sanders’s legislation would implement several regulatory reforms aimed at preventing potential environmental damages from fracturing technology. Under current law, the Environmental Protection Agency (EPA) cannot regulate underground fluid emplacement used in the process of hydraulic fracturing. The Climate Protection Act would eliminate those exclusions and give EPA the authority to collect penalty payments from any company that violates the regulations it creates. Additionally, it would require the disclosure of any and all chemicals used in the fracturing process.

Also, in provisions that mirror the OECD recommendations to “[i]nvest in [renewable energy] skills and infrastructure,” S. 332 proposed $1 billion per year in clean energy-specific job training. An additional $5 billion per year would be dedicated to financing electric vehicle infrastructure as well as rail, transit, and public transportation alternatives that reduce greenhouse emissions.

The Climate Protection Act’s impact on government spending and revenues would be considerable: NTUF estimated the legislation would require additional spending of $20.5 billion per year, including $15.5 billion for enforcement and implementation costs alone. The tax could generate as much as $1.2 trillion in revenue over the next ten years, which would presumably be used to finance renewable energy research and development via an entirely new trust fund managed by the EPA. Reducing other types of taxes with this revenue is not part of this proposal’s design.

D. Labor-Related Initiatives

The OECD claims that, while the average U.S. citizen enjoys a high income and self-reported level of happiness, an uneven distribution of wealth is hindering well being for low income families. To increase and supplement the average worker’s income, the OECD proposed several labor-related reforms in the 2014 Survey.

1. Expand the Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is one of the government’s primary means of alleviating poverty. It is a subsidy equal to a fixed percentage of earnings until a maximum level is reached; as earnings increase beyond the maximum, the subsidy amount eventually begins to decrease. Families and single filers alike can receive the credit, and are eligible for higher maximum
amounts depending on how many children they have. Filers must be 25 years old to receive the credit.26

Under current law, a single filer or married couple with three or more children can receive a maximum of $6,143, while childless filers can receive up to $496. Many lawmakers and economists have proposed reducing the eligible age to 21, and increasing the amount offered to childless workers. OECD has endorsed these reforms, too, suggesting they would make the program “even more effective in helping to bring non-participating and irregularly-participating people to the labour market.”

OECD’s recommendations made note of the fact that expanding access to EITC benefits by relaxing eligibility requirements for childless workers could increase earnings for many lower-income individuals. Proposals to do so are currently before the House and Senate, in measures introduced by Congressman Richard Neal (D-MA) and Senators Sherrod Brown (D-OH) and Richard Durbin (D-IL). H.R. 2116 and S. 836 would reduce the EITC eligibility age for childless workers from 25 to 21 years, and increase the maximum credit and phase in/out range.

President Obama advocated for similar measures in his Fiscal Year 2015 budget proposal.27 Specifically, his plan would set the maximum credit for such workers at $1,000 (double the current allowance) and increase the income allowed before benefits phase out to $18,000. The White House claims that doing so would “[d]irectly reduce poverty and hardship for 13.5 million low-income workers struggling to make ends meet.”28 In addition to reducing tax revenues, this provision would actually have an outlay effect because the EITC is a “refundable” credit that can be claimed by a filer whether or not he or she owes any income taxes. According to JCT, these provisions would increase spending by about $20.4 billion over fiscal years 2015-2019, and a total of $47.1 billion over ten years.29

2. Increase the Minimum Wage

Since July 24, 2009, the federally mandated minimum wage for nonexempt workers has been $7.25 per hour. OECD recommended increasing the minimum wage in order to “[h]elp workers benefit more fully from the EITC,” because although the EITC appears to increase labor force participation among single filers, the increase in labor supply (i.e., more people willing to work more hours to obtain the credit) means employers are likelier to reduce wages or hold off on increasing them. According to research cited by OECD, as much as 40 percent of the EITC is captured by employers due to lower compensation.

Minimum wage increases have been the subject of heated debate in the 113th Congress. S. 1737, the Minimum Wage Fairness Act, was introduced by Senator Tom Harkin (D-IA) and would increase the federal minimum wage to $10.10 per hour within three years of enactment. Additionally, it would gradually raise the minimum pay for tipped workers to 70 percent of the wage, with the intent of reducing restaurant and service workers’ reliance on gratuities to make up for their relatively lower hourly earnings.
The Congressional Budget Office recently published a report that underscored just how uncertain many economists are regarding minimum wage increase proposals. While CBO expects a $10.10 federal minimum wage would lift about 500,000 American workers’ incomes above the poverty line, it could come at a cost of up to one million lost jobs by the time the measure was fully implemented (in this case, 2016). CBO reported that the effects of raising the minimum wage on the federal budget deficit were “uncertain” at best, because while the increased earnings would result in more tax receipts from some individuals, lost income and increased federal benefit payouts from unemployment may or may not offset those revenues.30

3. Standardize and Expand Adult Job Training Programs

Job training has been an ongoing focus of the Obama Administration as unemployment levels and workforce participation rates remain a concern in the wake of the financial crisis. The OECD Survey offers support for these programs broadly, but especially those that encourage cooperation between employers, educators, and governments at the federal, state, and local level.

President Obama’s Budget Proposal for Fiscal Year 2015 included funding for the Community College Job-Driven Training Fund, which would offer grants designed to help local employers establish job training programs. The programs would be administered with the assistance of local community colleges, offering apprenticeships to students and other qualified job seekers. The Fund would offer a common set of evaluation standards to help local business identify prospective candidates. According to White House’s Office of Management and Budget (OMB), the program would require $6 billion over four years to finance the grant program, an average of $1.5 billion per year.

4. Establish a Federally funded National Family and Medical Leave Program

By providing paid leave benefits for workers with caretaking obligations, OECD suggests that the U.S. government could enhance the work-life balance of American workers; it claims that low- and middle-income workers, in particular, are over-stressed and over-worked, which can lead to lower economic productivity.

The Survey explicitly supports legislation already introduced in the 113th Congress: the Family and Medical Insurance Leave (“FAMILY”) Act. The FAMILY Act would increase payroll taxes by 0.2 percent in order to finance a new Federal Family and Medical Leave Insurance Trust Fund. The Fund, to be administered by the Social Security Administration, would provide payments to eligible workers (those who qualify for Disability Insurance and have earned income in the past 12 months) to offset their loss of income resulting from absence from work due to caretaking obligations.

While an official cost estimate for the legislation is not yet available, NTUF calculated that the proposal could cost taxpayers an additional $2.2 billion per year. The OMB expects the federal government will spend about $5.6 trillion over the 2015-2019 period on existing social insurance and retirement programs. Increasing those amounts by the 0.2 percent payroll tax hike would
increase federal revenues by an additional $11.2 billion over that same time period, which would be directed to the new Fund to provide benefits under the FAMILY Act. While outlays over the first five years may actually be higher or lower than that amount (a cost estimate is unavailable), the program’s advocates state that over the long-term, revenues and outlays would be balanced. An in depth accounting is available in the appendix of this document.

5. Expand Childcare Services to Support Working Families

In the same way that OECD advocates a federal paid leave program for workers with caretaker obligations, it supports the idea of expanding existing childcare services in order to provide better work-life balance for low- and middle-income families. The OECD praises the Obama Administration’s proposal to expand pre-school education for four-year-olds. Included in the President’s 2015 Budget Proposal, the expanded pre-K program would cost nearly $26 billion ($5.2 billion annually) over its first five years of full implementation, and would be financed by an increase in excise taxes on tobacco.

The OECD also urges the expansion of pre-school for younger children as well, and specifically advocates expanding Head Start, Early Head Start, and home-visiting programs. Related legislation has been introduced in Congress and included in the President’s budget.

S. 2452, the Strong Start for America’s Children Act, would create a “Learning Quality Partnerships” program to improve existing Early Head Start childcare programs for children aged 0-3 years. A CBO analysis of the bill determined that the proposal would require an additional $12.4 billion in funding over the first five years, an average of over $2.48 billion per year.

The President’s 2015 budget proposal also requests additional funding to expand home visitation programs, through which families would receive in-home education services for younger children not yet in grade school. In its first five years of full implementation, the program would require over $3 billion in new federal spending.

6. Additional Proposals

The OECD’s 2014 Survey goes on to cover several more labor-related initiatives aimed at either improving work-life balance, boosting low- and middle-income workers’ wages, or providing expanded social insurance programs. Among the additional proposals are a reform of disability insurance eligibility requirements and tuition assistance for workers with caretaking obligations; NTUF was unable to determine a cost estimate for either of these suggestions, as they lack a certain degree of specificity.

The OECD also notes a “worrying” decline in the labor force. As the latest jobs figures from the Bureau of Labor Statistics show that unemployment has fallen below 6 percent (for the first time since 2008), the civilian labor force participation rate remains stuck at 62.8 percent, the lowest it has been since the late 1970s. The OECD states that this decline “calls for policies to encourage the participation of those outside the workforce” and that “policies such as immigration
reform … reduce the mismatch between the supply and demand of skills”. While the Organization does not specify what such reform should entail, the immigration reform bill passed by the Senate last year, S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act, would increase border security costs by $46.3 billion over the next decade, and entitlement spending for new immigrants and guest workers by about $258.1 billion over that same time.

III. Conclusion

The United States is one of 34 OECD member countries, representing 2.9 percent of its membership yet providing 21 percent of its Part I budget and acting as chair of 29 committees within the Organization. Perhaps not coincidentally, then, many of the suggestions formulated in the OECD’s latest Economic Survey of the United States are already being considered in the halls of Congress as well. Many of those policy proposals, while promoted by OECD as essential to the nation’s economic well being, carry high costs with uncertain benefits for U.S. taxpayers.

The OECD does offer some positive reforms. Regarding income taxes, a simplified system would have numerous benefits for taxpayers that would minimize the deadweight loss of time and money currently devoted to compliance and enforcement of a complex and often confusing Tax Code. However, the OECD tends to emphasize policies that would increase the redistribution of revenues rather than finding ways to reduce the overall burden of taxation.

Similarly, a reduction of corporate income taxes would be a boon to the economy and remove the current penalties that incentivize U.S. companies that earn a profit outside of the national borders to keep those profits abroad. But at the same time, the OECD would like to see the U.S. harmonize its tax policies with other nations in ways that would stifle competition between high-tax countries and low-tax countries.

The Organization also advocates for the U.S. to establish new energy-related taxes as well as a higher payroll tax to fund a new federal entitlement program. Altogether the proposals in the Survey could lead up to upwards of $70 billion in new annual spending, which would have to be paid for in addition to existing budgetary demands with higher taxes or more borrowing. Moreover, there is already a large long-term imbalance between budgetary resources and obligations for entitlement programs including Social Security, Medicaid, and Medicare.

The Survey also tends to support a top-down approach to policy, globally and domestically. As noted, the OECD’s positions would undermine tax competition between countries by emphasizing harmonization of tax policy over liberalization. But it also seems to favor a larger role for the federal government, trumping competition between the states regarding economic and regulatory policies. For example, it calls for the establishment of a new federal paid leave benefit program and new higher national minimum wage (even though such a hike is forecast to cull jobs). Certain states and localities are already considering related provisions. The states, as the noted “laboratories of democracy” are better able to craft policies to suit local needs, and, more importantly, many states have constitutional provisions requiring balanced budgets, while all too
often the federal government creates fiscal crises and kicks the can down the road to future generations.

The OECD espouses a commitment to improving society through market economies and democratic institutions, which is no doubt a noble goal. However, given the recent average of $85 million in annual funding that American taxpayers contribute towards the OECD’s research and to formulate its recommendations, the U.S. should carefully consider whether those resources are actually generating new and beneficial policy proposals.

About the Authors

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Notes

9 Ibid.
28 Ibid.