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"Lakes, Oceans, and Taxes: Why the World Needs a World Tax Authority" [1]

By

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Abstract

There was a time when taxation was a predominantly national activity. Governments collected taxes from their citizens without worrying about what other countries were doing, or about the impact of their taxes on other countries. Taxes were neither exported nor imported but were predominantly paid by the country's citizens. If there was tax evasion, it was evasion by the country's citizens with respect to their activities within the country. The fact that the countries' economies were relatively closed made the levying of taxes easier. In richer countries, over the 20th century, the tax burdens rose significantly helping them finance growing government needs. In recent decades, various developments started to make it more difficult for countries to keep raising the tax levels. These developments were connected with globalization, trade liberalization and the use of new technologies. They facilitated tax evasion, especially evasion connected with global economic activities.

The World Trade Organization (WTO) has made it more difficult for countries to use trade restrictions for competitive purposes. Now they find it easier to use the tax system. There is no world institution that monitors closely tax developments and provides "surveillance" over the improper use of tax systems. This chapter argues that the time may have come to establish a World Tax Authority (WTA) that would monitor tax developments that have global implications. It discusses the possible role that such an institution could play. It outlines some obstacles to the creation of such an authority and the shape that it might realistically take, in today's world.

Introduction

This paper deals with the ability of governments to collect the tax revenue that they desire, to perform the economic functions that citizens have come to expect them to perform in today's world. It explains why taxation is now facing challenges that, if not addressed, could progressively and significantly reduce the governments' ability to raise taxes. The paper will argue that fundamental changes in the "architecture" of the world's economic relations may be required. It will ignore the

ideological debate, between those who argue that governments have become Leviathan monsters never satisfied with the tax revenue that they get and those who argue that governments should do more than they do to bring about societal changes and to address issues of poverty and human rights.

The paper has five sections. The first discusses the *supply* of and the *demand* for taxes in the period until about the decade of the 1980s, when globalization intensified. The second discusses developments, in economic structures, in policies, and in some relevant technology, that started having a growing impact on the governments' ability to raise taxes. These developments created what the author of the present paper has described as "fiscal termites". See Tanzi, 2001. These "termites" started to eat away at the foundations of the current tax systems. See Tanzi, 2013. The developments described are affecting all countries. However, some countries, and especially poorer countries with mineral resources, may be more exposed to particular problems of global tax evasion than other countries. In some of these countries major cases of poor governance or corruption (at times by the countries' own leaders) have created particular situations. The third discusses institutional or organizational changes, some affecting the existing economic architecture of the economic relations among countries, that are needed to prevent the growing problems from getting worse and from significantly reducing the countries' ability to raise the revenue that they need. The fourth section describes what a World Tax Authority could do, if it came into existence. The final section provides some brief, concluding remarks.

I. Taxes and the Growth of the Welfare States.

Until the decade of the 1920s, the demand for tax revenue by governments had remained relatively modest, compared with modern times. See Tanzi, 2011. During this period it would have been also difficult for governments to extract large tax levels from the population. Both the *supply* of taxes and the *demand* for taxes met at a low tax level. At that time, assistance to the poor was largely left to churches and charitable organizations and there was no attempt and little interest by governments to

redistribute income, from richer to poorer income groups, or to offer protection against some risks to citizens.

With the passing of time, changes that were taking place in the structure of the economies of several countries, (large firms with thousands of dependent workers, more use of accounting, increased production of manufactured products, more trade with other countries, more people living in larger cities, less informality in the economy) increased the potential for raising higher tax revenues to allow governments to significantly increase their socially oriented activities.

Although there had always been some trade among countries, especially in basic commodities and in products that were available only from particular countries, and there had been also some movement of capital, (loans to governments and funds to finance major infrastructure projects), in this period most products and services were produced exclusively with the inputs of the countries in which they were produced and with the financing provided by domestic sources. Therefore, the value of the products reflected almost entirely the domestic value added, with the exception of the imported basic commodities that were required. There was little capital movement and there was no payment for *parts* of *final* manufactured products produced in other countries and assembled in one country. There were almost no payments for the use of intellectual or intangible property inputs (patents, trademarks, copyrights, insurance fees, services provided by headquarters of corporations, including those for research and development, and so on).

As a consequence of the economic architecture of the world that had prevailed until recent decades, the *tax bases* of sovereign countries could be compared to domestic lakes, the water of which could be exploited only by the national governments of the countries in which the lakes were located. There was no, or little, fear of foreign *tax competition.* The exploitation of the national tax bases by governments was limited only by the traditional resistance from the national taxpayers (domestic tax evasion, political resistance) and by the limitations of the national tax administrations).

While the push toward greater demands by governments, for higher tax revenue into gross domestic products had started before the Great Depression, the policies that were introduced during the Depression and soon after World War Two accelerated that process. The new economic role of the state required more public revenue and, after the Great Depression, tax levels started going up in several now developed countries. The greater demands for tax revenue came at a time when the changed structures of the countries' economies could, more easily than in the past, accommodate those demands. The industrial countries had become less informal and less rural and were fast becoming industrial, creating large firms that hired thousands of workers. This made easier to levy taxes especially in economies that were still relatively close.

Until about the decade of the 1970s, capital movements had remained largely controlled. The rise of a globalized economy, with corporations that would operate and produce in several countries, would come later. In the 1970s or early 1980s large multinational corporations, that produced final products and also services, and not just basic commodities, started growing in importance. In the new century, some large multinational corporations came into existence that produced also *intangible* products using "intellectual property". Some of these corporations (Google, Apple, Microsoft, Facebook, Amazon) became enormous, measured by the market value of their sales, by their profits and by the workers that they employed. By the first decade of the new century trade *among* multinational corporations accounted for more than half of total trade among countries. Before that time, trade among countries and especially among multinational corporations, in particular trade based on intellectual property and on intangible products, had been limited.

II. The Impact of Globalization on Taxes

The relatively tax-friendly environment that for several decades had made it possible for many industrial countries to increase their tax burdens, started to be challenged, especially, in the 1990s. The challenges accelerated in the new century when national economies became much more open and imports

and exports increased sharply, as shares of GDPs, and when capital started to move freely across countries. A global financial system came into existence that, with the help of new technology, allowed trillions of US dollars to cross national borders every day.

The role of multinational corporations, which assembled *final* products from parts manufactures in several countries, increased sharply. The inputs or the parts were assembled in one country (China, Germany, USA, etc.) from where the final products were sold world -wide. This arrangement created difficulties for the national tax administrations, because they could not determine the value of the imported parts that were product -specific so that it was impossible to determine what their value would have been if they had been traded in a competitive market. This exacerbated the problem of "transfer prices". Attempts to rely on the so-called "arms length principle", recommended by the OECD, became increasingly anachronistic. Corporations acquired large scope in manipulating costs, to show higher profits in countries where tax rates were lower, as for example Ireland, and lower profits in those where the tax rates were higher.

Financing through debt, rather than through equity capital, for which the interest payments made to the creditors were deductible costs, while the payments of dividends were not, replaced much equity financing. This created the problem of "thin capitalization" which contributed to lowering the tax liability of many corporations. Furthermore, the loans could be obtained from tax havens, where the interest payments were not taxed. Cross-country use of intellectual property (patents, trademarks, copyrights, etc.) increased and the value of the use of intellectual properties was difficult to determine, leading to further abuses. Internet shopping became common and shopping for intangible products also increased the difficulties of identifying sellers and buyers. Some of the multinational enterprises that sold intangible products (Google, Apple, Microsoft, Facebook, etc.) became some of the largest enterprises in the world. It became also difficult to tax corporations that exploited natural resources especially when the market prices of the commodities fluctuated.

The above developments created easier opportunities for tax avoidance and tax evasion, especially for global economic activities. They encouraged the growth of tax havens, and the use of "tolling" and "triangulation," strategies, in which some products or services are sold to, or are bought by, controlled foreign enterprises and the prices are adjusted up or down to report lower profits. Berlusconi, the former prime minister of Italy, was found guilty, for having presumably used such a system in the enterprise that he controlled.

The arbitrary use of "transfer prices," of "tolling" and other "triangulation" techniques, the arbitrary valuation of intellectual property, the excessive use of loans, instead of equity, and especially of loans obtained from affiliated sources located in tax havens, the manipulation of interest rates in the loans, and of insurance charges, and other such maneuvers have given a strong incentive to enterprises, and to rich individuals, to use "tax planning" to reduce their tax liabilities. Now production decisions by corporations are much influenced by tax considerations and, in many enterprises, personnel that deal with tax planning have become, at times, more important than production engineers or other personnel. This has been the *demand side* of tax avoidance.

There has also been a *supply side* to this tax avoidance process. This has consisted in the growth of a tax advisory industry, made up of individuals working independently or through law or accounting firms, and of "tax havens" and "offshore centers" that have taken advantage of the situation to extract benefits or "rents" from what could be called the "world tax base". This base has progressively become interconnected and, like an ocean, has expanded to include all, or parts of, the previously independent national lakes, that the national tax authorities had been able to exploit, without foreign competition or consideration, in the past. In some sense the ocean that has been created, by the now -connected lakes, has taken some of the characteristics of a "common". As it is known, commons can be subjected to the "tragedy of commons", a tragedy that Garrett Hardin made famous, with a 1968 article in Science. As economists had long known, and as Hardin had made popular among non -economists with his article, "commons" tend to be exploited and at times *overexploited* by those who have access to them.

The exploitation of the “world tax base,” or of the “world tax common” can take different forms. Smaller countries (Lichtenstein, Switzerland, Ireland, Holland, Panama, Cyprus and some others) and some territories (Delaware, Isle of Man and others) may be tempted to introduce domestic tax rules and low tax rates that have the goal of attracting to them a larger share of the “world tax base”, that would have been taxed in the countries in which the enterprises or the individuals had actually produced the taxable base. In addition to the small countries, “tax havens”, of which there are many, aim to attract to them parts of the world tax base. The net effect is that the world tax base is partly diverted from areas where tax rates are high, and from where that base has actually been generated, to places where tax rates are low or even zero.

Real economic activities move much less than tax bases. See on this Tanzi, 1995. Antigua or Bermuda or even Ireland accommodate far less *real* economic activities than the tax bases that are attributed to them and that they can exploit. “Tax planning” by taxpayers (be these enterprises or individuals) exploits (at time legally; at other times less so) the opportunities that are offered to them, by complex or inadequate national laws, to shift taxable income to the areas where the rates are low or are even zero. The losers tend to be the countries that, because of these maneuvers, lose revenue, or that encounter increasing difficulties to keep raising the revenue that they feel they are entitled. This revenue loss can lead to increased public borrowing thus contributing to macroeconomic difficulties.

This problem has forced larger countries to abandon some of the basic principles that had guided tax policies in past decades, especially the principle that *income is income, regardless of the source*, and t all sources of income should be taxed at the same rates. See Tanzi, 2014. Recent decades have been characterized by the progressive abandonment of the Haig-Simons or the Hicks principle, which required the uniform taxation of all income sources, and by a return to the taxes, that had existed in the distant past, when each source of income was taxed separately and often at different rates. The result has been that dividends, profits, interest incomes, capital gains, so-called “carried trade”, and other sources of incomes that are especially important for rich individuals, are now often taxed at significantly lower rates

than wages, thus contributing to, growing income inequality. See Alvaredo et al., 2013. The share of total income going to individuals at the top one percent of the income distributions has increased dramatically since the 1970s, and has reached very high levels in the US and in some other countries. The same has happened to the share received by capital in national income. This change in tax laws and in tax rates has also affected total tax revenues. Among 29 European countries, 25 had lower shares of taxes into GDP in 2010-2011 than they did in 2000. See, European Commission, 2013.

As we described earlier, these difficulties were increased by globalization, by the use of new technologies, and by changes in the structure of economies. When firms that account for large and growing shares of the economy (Google, Apple, Microsoft, Facebook and others), and rich individuals that receive growing shares of total income, pay little in taxes, as it has been reported by recent revelations and statistics, this must affect the levels of taxation that countries can easily collect. The "fiscal termites" have definitely been at work, eating away at the foundations of modern tax systems. If their action is not contained, or stopped, there could be long-run consequences.

III. The Need for a Global Tax Authority

Over the past half century the concept of "public good", a concept that entered theoretical economics in the 1940-1950, (with contributions by Paul Samuelson, Richard Musgrave and others), acquired an increasingly *global* dimension. Inter alia, see Inge Kaul et al. editors, 2003; and Razin and Sadka, editors, 1999. Global "public goods" now include world peace, the global environment, or the absence of global warming, the status of the oceans, stability in the global financial system, global health (i.e. the absence of pandemics), global economic stability, a well-functioning trading system, alleviation of global poverty, absence of crimes against humanity, and so on. Globalization and closer connectivity among people have increased the importance of these "public goods".

To deal with them, in the absence of a world government, over the years, the international community has created various international institutions that act as proxies for ministries that would exist,

if a world government had been created. See Tanzi, 2008. These institutions include: the United Nations, to deal with world peace; the World Bank, to promote the elimination of poverty and global economic growth; the IMF, to promote macroeconomic stability; the World Trade Organization, to promote smoothly- working trading systems; the World Health Organization, to promote good health and the absence of epidemics; and so on. However, there remain gaps in the architecture of the world economic and social system. Two important gaps are the absence of an organization to regulate and deal with the recently created global financial system and an organization to regulate tax relations among countries, to prevent unfair tax competition and to limit the opportunities for global tax evasion. The rest of this paper deals with the latter gap.

In the previous section it was argued that the national tax systems, which had existed in the past, had been similar to *domestic* lakes that could be exploited only by the *national* governments of the countries in which they were located, without the fear of "poaching" by other countries' governments. In recent decades the lakes became progressively and increasingly connected and, slowly, started to resemble a sea or even an ocean. The connection of the lakes started to create a classic "common" making possible for some countries and for some taxpayers to exploit it to their advantage. Some countries saw the possibility of increasing their revenue by exploiting the "common" and many taxpayers saw the possibility of reducing their tax burdens by moving (at times only virtually) their taxable incomes or other tax bases to countries or jurisdictions that had lower tax rates, or even no taxes.

The recent developments in taxation have taken some aspects that also resemble the spreading of bacterial-based epidemics. In taxation, the disease of tax evasion or tax avoidance is spread not by germs or viruses but by the growing industry of tax experts and other roving "tax advisers" that search for ways that can allow taxpayers to reduce or avoid their tax payments, and that allows some jurisdictions to increase their tax take from the world tax base at the expense of other jurisdictions. The Tax Justice Network and other sources have reported frequently on the activities of these advisers, and on the "

contrived transactions" that they have been suggesting to their clients. Some of these "tax advisers" work for large accounting, law firms, or tax departments of banks with global operations.

As with the experience of some "commons", and as described in the seminal work by Elinor Ostrom, that earned her the Nobel Prize in economics, in principle "coordination" among countries could prevent the exploitation of the "world tax base" from becoming a "tragedy of commons", without the need of a supervising or mentoring institution. Over past years some forms of tax cooperation did in fact develop among countries. These included: (a) double- taxation treaties among countries, which included some exchange of information; (b) directives issued by the European Commission; (c) the guidance issued by the Fiscal Affairs Committee of the OECD and related activities, and, more recently, (d) declarations by political groups, such as the G20 and the G8 and unilateral actions by some countries.

Over the years countries have negotiated hundreds of bilateral tax treaties at considerable costs. For example, Mexico has negotiated 49, and Brazil 32 such treaties. They have been directed mainly at protecting foreign investors against double taxation; were generally designed by the tax lawyers of the more advanced countries; and they had bilateral partners. There is now fairly general agreement among experts that these treaties have not helped the less developed countries and have done little to deal with "the tragedy of commons" described above. They have largely reduced the tax burdens on the foreign investors and the tax revenue of the poorer countries.

The various "directives," issued by the European Commission, have been regional in character, being limited to the EU countries, and have had limited impact either on the coordination of tax systems within the EU, where they ought to have had an impact, or on the problems discussed in this paper. Tax competition and lack of tax harmonization remains a problem even within EU.

The role that the Committee on Fiscal Affairs of the OECD has played over the years has been more visible and more important, but not necessarily productive enough. First of all the countries that are part of the OECD are only about 15 percent of the world countries and they are the richest countries.

Their interests inevitably tend to diverge from those of the poorer countries. Second, the Committee has been a forum for discussion and not for decisions. Third, *policy* issues have been much less discussed than *administrative* issues, because those who represent the countries in the regular meetings of the Committee on Fiscal Affairs of the OECD come mostly from the tax administrations and not from the policymaking ministries. Fourth, there has been a feeling, on the part of some observers, that in the past the OECD could have been more forceful, more imaginative, and more inclusive in discussing and in promoting solutions to growing tax problems. Some of its solutions, as for example the strong defense of "transfer prices", or its approach to "tax havens", have been criticized. With its limited staff it has focused on solving past, administrative difficulties, and less on anticipating future ones.

The recent reports about tax avoidance by large multinational corporations, such as Google, Apple, Starbucks, some large pharmaceutical companies, and others, and recent "estimations" (guesses?) of global tax evasion, that run into the hundreds of billions of US dollars, and declarations issued by groups of countries that are part of the G20 or the G8, show concern for a growing problem. They do not suggest convincing solutions. Declarations have focused on better exchange of information, among countries. Such exchanges might be *part of* a solution to the problem. However, they are not likely to solve the problem, as Tanzi and Zee, 2001, argued. There have been useful hearings held in the US Congress and in other legislative bodies that have highlighted some of the developing problems and have called attention to the quantitative dimensions of global tax avoidance. These hearings have increased pressures on some tax havens but have not made much impact yet toward a solution.

These agreements among *some* groups of countries, or unilateral or bilateral measures, have not led so far and are not likely to lead to effective rules about unfair tax competition by some countries and prevent aggressive tax planning, by many multinational corporations or rich individuals. They are not likely to deal with the problem to prevent it from becoming progressively more serious. The actors are just too many and their incentives are too divergent for coordinated or spontaneous solutions to emerge. Something more significant is needed.

Realistic solutions to the problem would have to include some or several of the following reforms: (i) extension of the residence principle to reduce the possibility that simply changing an address can reduce tax liability for some taxpayers; (ii) a greater use of source taxation, as was suggested in Tanzi, 1995; (c) some fundamental reform of corporate income taxation, for example better defining the tax base and using formula apportionment of profits; (d) easier exchange of information among countries; and (e) greater reporting requirements to all the countries in which they operate by corporations and individuals that operate in several countries. These and other possible measures would need a powerful and competent global mentor and referee that can carefully analyze the specific reforms proposed, determine which have merit, refine them and suggest the practical ways in which they could be implemented. Such a mentor can only be some super-national World Tax Authority.

In a paper published more than a quarter century ago, that anticipated future developments and called attention to trends that at that time were still not yet easily visible, the author predicted that future developments would "…make it difficult for countries to maintain their present levels and structures of taxation". The paper concluded "…that the day may come when the countries [would need to] create an "International Revenue" *to collect taxes* that could not be collected by separate governments and to allocate them either to the provision of international public goods or back to the countries. Such an international institution might also collect information on taxpayers for the benefit of the members' tax administrations". See Tanzi, 1988, p. 277.

In a later publication, (Tanzi, 1995), the author wrote that:

"For the world at large, there is so far no international institution that provides a kind of "surveillance" function over the developments in tax systems. There is…no institution comparable to…the…World Trade Organization for trade issues, or comparable to the International Monetary Fund for general macroeconomic issues, despite the fact that tax matters may become as important in relations among countries as trade matters. In fact, in some areas taxes may replace tariffs as instruments for

manipulating trade for promoting the movements of factors of production". Ibid. p. 140. It could be noted that in December 2013 the World Trade Organization accused Brazil of doing what had been anticipated in the above statement two decades earlier. The conclusion that was reached in the 1995 book was that: "There is no world institution with the responsibility to establish desirable rules for taxation and with enough clout to induce countries to follow those rules. Perhaps the time has come to establish one". Ibid. p. 140. It could be added that the current responsibilities of the World Trade Organization are too limited to do all that a World Tax Authority should be expected to do. In the years that followed 1995, it became clearer that in spite of the useful role played by the WTO and by the OECD, there is still no organization that is playing the desirable and sufficient role in tax matters for a world that has become highly globalized and interconnected.

The next section discusses in some detail a realistic and useful role that a World Tax Authority could play. Such an institution would add an important element to the architecture that now lubricates and facilitates the economic relations among countries. It would add a missing "proxy" for a ministry that a World Government, if it existed, would need to have.

IV. What Would a World Tax Authority Do?

If a World Tax Authority (WTA) were created, what would be its mandate? Naturally, there are several possibilities and functions that could be given to such an Authority. They range from relatively modest and realistic, to highly ambitious and unrealistic. The mandate that would be given to such an institution would depend not only on what some think that the world needs but on how much power the countries, and especially the governments of the more powerful ones, that would have to authorize, endorse and finance such an institution would be willing to delegate to it. Taxation is undoubtedly one of the most political of all activities of governments. Therefore, the greater are the powers that one would want to give to the new institution, the lower are the chances that it would ever see the light. To have any chance of being born, the new institution must be seen as useful to help the countries' governments to

solve problems that they want to solve, but not so powerful as to usurp the power that the countries' legislatures and policymakers now have.

The *initial* responsibility given to a WTA should be relatively modest in order to increase its acceptability by the leading countries, and not just by representatives of civil society. If the institution came into existence and proved to be useful, the countries might be willing to give it increased responsibilities over time. To be useful, a WTA should be as representative as possible of the *whole* global community. It should not be seen as the agent of specific groups, be these rich or poor countries. It would need to include a far larger number of countries than does the OECD or the EU. Ideally all countries and all independent jurisdictions should belong to it.

Many commentators from the right tend to see taxes as evil instruments and tax competition as a benign activity that keeps down tax levels. Those who hold these views would inevitably fear that a World Tax Authority could become an instrument for Leviathan governments hungry for higher taxes. They would oppose the creation of a WTA and their effort would attract financial support from conservative, rich individuals and from some corporations. It might be mentioned that, in June 2001, a Report to the "High Level Panel on Financing for Development" (the Zedillo Report), that had been prepared by the president of Mexico for the high- level Monterey Meeting, had included, in the original draft, a proposal for the creation of a "World Tax Organization" based on Tanzi, 1999. A well -organized campaign by opponents to the proposal managed to have it removed from the final Report and from any discussion at the meeting. The WTA had to wait for a better time to be born. A too ambitious proposal would face similar opposition and risk a similar fate today.

It is highly unlikely that any time soon the major countries, which would have to agree to the creation of such an institution, would agree to the creation of one that would have the power to *levy* taxes on the citizens of sovereign countries, as had been proposed in Tanzi, 1988. That time may come one day, but that day is likely still some time far in the future. However, even without the power to tax, a World

Tax Authority could perform many useful tasks that would be helpful at this time to the community of nations. It should be repeated that, if such an Authority were seen to be useful and efficient in what it did, the countries would, over its future life, give it more responsibilities.

The Tanzi, 1999, paper made a list of some of the tasks and functions that such an institution could perform. The list is reproduced below with some updating and some elaboration. The main goal of such an institution would be to reduce *unfair* tax competition, *unfair* exploitation of the "world tax base", and to help reduce the growing problem of tax avoidance and tax evasion that is connected with global activities. Domestic tax problems would not be among the responsibilities of the WTA although the institution should have the expertise and the mandate to provide technical assistance, especially to poorer countries, when they required it as for example in their dealings with multinational corporations.

The *first* task that a WTA would undertake, on a regular basis, would be the identification of major trends and problems in taxation, at the international level, for all groups of countries. Today there is no regular, formal identification of these trends and problems, even though there are occasional publications that report on some of them. Among these reports those by the IMF, the OECD, the CIAT, and the European Commission, are useful as well as reports by the Tax Justice Network, articles by Bloomberg Net and publications by government sources, by accounting firms and by academics.

The *second* task would be that of compiling and making available relevant tax information and statistics for as many countries as possible. The availability of this information has grown over the years but it is still highly deficient. There is now no official institution that has such a responsibility *for the whole world*, although some private and public institutions attempt to do some of it. See for example the Revenue Statistics of the OECD and the IMF Fiscal Monitor and reports such as that by PWC, 2013.

The *third* task would be to publish a periodic, regular World Tax Development Report that would present the tax statistics, identify the trends and the major problems, identify best practices, and suggest solutions to developing problems. This task could be prepared with, and facilitated by, the collaboration

of, institutions such as the OECD, the IMF, the World Bank, the EU, the CIAT and other relevant institutions. It could also include the contributions of major accounting firms.

The *fourth* task would be to develop basic principles and codes of behavior for countries that would aim at minimizing the creation of cross-countries, negative externalities originating from the tax policies of some countries. These principles could not eliminate the freedom that individual countries now have in pursuing tax policies that are desirable for them and in setting the rates for some taxes. However, they would make the countries' policymakers more sensitive to the cross-countries externalities that their policies might create. These cross-countries externalities have become progressively more frequent in recent years and more damaging to the national interests of some countries. Some of them occasionally attract the attention of the World Trade Organization.

The *fifth* task would be the creation of an international tax forum in which the policymakers and the tax experts that represent the different countries would meet and where they could exchange views and ideas on *general* tax matters that are not those often pushed by paid lobbyists, who reflect the interests of specific groups.

The *sixth* task would be to establish an international forum for the discussion of *specific countries' tax policies* and for informal arbitration, when the actual or the proposed tax policies of a country or a group of countries have, or are believed to have, *significant* negative impact on other countries and when they are challenged by the representative of those other countries. Strangely as it seems, such a forum does not exist today. In principle the outcome of the tax arbitration could lead to penalties for the countries that produce the negative externalities. However, the possibility of such penalties might not be acceptable today to many countries. Alternatively, and perhaps more realistically, it could lead to the issuing of official statements that aim at creating influencing behavior, by *shaming* particular countries.

The *seventh* task would be to promote specific rules and to identify limits for exchanging information on taxpayers among countries. Such an exchange might raise difficult logistic and practical difficulties and even constitutional problems for some countries. There is also the danger that requests for information, on particular taxpayers, may not always be promoted by legitimate objectives on the part of the requesting countries. Requests are cheap to make but may be costly for the countries that must provide the information, when that information is not routinely available to them and may be difficult to provide it in a format (and in a language) that would be useful to those who request it. Imagine the US and China exchanging information each in its own language and each using its own definition of taxable income. See Tanzi and Zee, 2001, for elaborations of these points. Therefore, the exchange of information, that is seen by many as the solution to many of the current problems, requires specific and well thought out rules, to prevent fishing expeditions and unreasonable requests by some countries. It must also be recognized that at times requests may be based on political or commercial objectives rather than legitimate needs. Therefore, some filters must exist.

The *eighth* task would be for the experts in the WTA to study various solutions that are suggested by tax experts, including the ones mentioned earlier, to deal with global tax problems. Once the experts at the WTA have settled on the solutions that they consider best, they would promote them and would push the countries to adopt them, providing them with technical assistance, when needed and requested.

Finally, and most importantly, a World Tax Authority would create a system of regular "surveillance" over the behavior of the countries' tax policies. Such a system does not now exist. The complaints about unfair tax competition are often unilateral and ad hoc and major tax reforms by individual countries take place without any global assessment. Such "surveillance", with the results discussed by representatives of *all* countries and made public in a summing up of the discussion, would encourage better behavior by member countries and reduce tax competition, when it risks to become *unfair*.

The "surveillance" function would be similar to the one that now exists at the IMF, over macroeconomic policies, or at the World Trade Organization, over trade policies. As mentioned above, it could be combined with a system of guided arbitration, when the policies of a country lead to complaints by other countries. The basic point is that the existence of a World Tax Authority would make the tax policies of a country everyone's business and not the exclusive business of that country. The impact that such an institution could have would depend on its prestige, the quality of the staff that it would attract, on the resources available to it, on the level of the representation of the countries in its decision-making, and on the impact, legal or simply reputational, of its decisions.

The question of whether to have an arrangement that would give one country one vote, as in the UN General Assembly, or to weigh the vote by the economic size of the country (as the IMF is supposed to do), if occasional voting is required, would be one of the most important issues to decide, should such an institution come into existence. The more democratic arrangements would probably reduce the power of the institution and the chance that it would see the light.

V. Concluding Remarks

This paper has dealt with the increasing difficulties that many countries are encountering to keep collecting, in an equitable and efficient way, the levels of taxes that they need to finance their public spending. The paper has traced some important historical developments: in the structure of the countries' economies; in the expectations of what governments should do for their citizens; and in the economic relations among countries. Over the years these developments (a) progressively increased the need for public resources, (b) facilitated the collection of higher tax levels and, in more recent decades, because of globalization and of some technological changes, (c) created growing difficulties to maintain, or increase, the current tax levels. The difficulties were largely connected with tax competition and with increasing global tax evasion.

The paper has argued that, given the above-mentioned problems, there may be a need for establishing a World Tax Authority, that would not collect taxes, although a time might come for such a role to finance global “public goods”, but that would help bring order in the tax policies of countries, especially in those that have cross-countries’ implications. In the absence of such an institution, some of the problems connected with unfair tax competition, with international tax avoidance, and with the “poaching” of other countries’ tax bases are like to intensify, contributing to progressively more serious macro-economic difficulties for some countries and to the reduction of some governments’ ability to deal with domestic social problems.

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