PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Rebuilding the Global Economy

A series outlining policy priorities and solutions

MEMORANDUM ON

THE OECD'S ROLE IN BUILDING CONSENSUS ON GLOBAL GOALS AND POLICY ACTION

To: The Secretary-General of the Organization for Economic Cooperation and Development
From: Caroline Atkinson
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Background: The Organization for Economic Cooperation and Development's (OECD)[1] particular strength among multilateral institutions is its combination of intellectual focus with deep knowledge and convening power across a broad range of countries and topics. It does not have the power to disburse money, conditional on policies. But through its research and publications, and standard setting, it has established metrics and norms that influence country policies across many areas. Some examples include: the Program for International Student Assessment (PISA) that since 1997 has conducted periodic studies in 79 countries, both OECD and non-OECD members, of student academic attainment at 15 years of age and that is widely used to judge the effectiveness of national education policies; the export credit arrangement, a negotiated framework that limits export subsidies, fostering a level playing field, for example on coal-fired power plants; and the anti-bribery convention, begun in 1999 and strengthened in 2009 and now being reviewed again, which for the first time focused on the firms that offer—rather than receive—bribes as a way to curb corruption, making it a crime in signatory countries for companies to offer bribes to foreign officials for business-related purposes.

The OECD's work can bridge microeconomic and macroeconomic policy, bringing together micro expertise on key sectoral and social issues—critical for rebuilding the global economy—with a macroeconomic lens. Its convening power, through committees of national policy experts, coupled with connection to the G20 summit process, supports consensus on global goals and policy action, including through setting norms and standards.

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1 The members of the OECD are Australia, Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

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KEY PRIORITY: Maintain and build credibility with G20 countries

An overarching priority of the Secretary-General must be to maintain and build credibility with major G20 countries, many of whom are not among the OECD's 37 members.[2] Work should be focused on the following five topics where global coordination is essential and micro-macro coordination is important. The OECD's close relationships with country officials, through its committee structure, combined with its role at the G20, will be particularly important in the first two areas: global taxation of capital and digital technology. The OECD can be the primary forum for agreement on important decisions where major economies come together. In these areas, the OECD is the primary international forum.

OTHER PRIORITIES

1. TAXATION: Work with OECD and G20 members towards fair cross-border taxation of capital to buttress political support for global investment and trade

- The OECD's work on aligning and reforming international taxation of capital, base erosion and profit shifting (BEPS), has made important advances through the G20. But it is at a critical phase, with political consensus fracturing over how to tax digital technology companies.
- This contentious issue—politically appealing to European and other nations without large tech companies but at odds with the underlying notion of taxing profits where the capital that generates them is domiciled—risks jeopardizing broader progress on BEPS.
- The OECD should work with the new Biden administration to see if there is an approach that will address Europe's concerns about untaxed revenues without discriminating against American digital companies.
- At the same time, the OECD should shift focus back to winning broad support, including in the countries where multinational companies (MNCs) are domiciled, for clear and conceptually simple steps to make it much harder for these companies to avoid taxation.
- The OECD should work with OECD and G20 nations on both sides of the BEPS issue: the major economies where large MNCs are headquartered and the smaller countries that have used low (and often specially negotiated) tax rates to attract MNCs—including, for example, EU members such as Ireland, the Netherlands, and Luxembourg as well as Singapore in Asia.
- Key tools to reduce base shifting and tax avoidance include: minimum profit taxes enacted in home countries that reduce the attractiveness of tax havens, and better information exchange among tax authorities and standards for company transparency.

2. DIGITAL TECHNOLOGY: Advise governments on regulatory standards to address concerns about digitization, while exploiting potential gains

Technological innovation holds a key to promoting global growth. But geopolitical divisions between the United States and China, growing protectionism, and concern about the conduct and impact of large—mainly US—technology companies threaten to undermine the smooth operation of the internet and inhibit digital trade and innovation. There is a gap

2 The members of the G20 that are not OECD members are Argentina, Brazil, China, the European Union, India, Indonesia, Russia, Saudi Arabia, and South Africa. G20 members who are also OECD members are Australia, Canada, France, Germany, Italy, Japan, Korea, Mexico, Turkey, the United Kingdom, and the United States.

to be filled on developing agreement around technology standards and "rules of the road." The OECD should use its considerable expertise and public voice on science, technology, and innovation to advise governments and the international community on how best to exploit potential gains from digitization—in sectors from finance to transit to manufacturing to government services—while also developing and adhering to appropriate regulatory standards. Growing internet access should spur global growth and efficiency, and spread the benefits of digital technology.

3. CLIMATE: Provide the analysis and standard setting that can help political leaders fulfill promises to "build back green"

The institution should take a two-pronged approach: economic analysis of macroeconomic tools, notably pricing, that aim at transforming economies while also protecting growth, and building and disseminating microeconomic expertise on the role of regulation, public and private investment, and financing. The OECD has the ability to gather data and conduct research across borders, to consult with business (through the 50-year-old Business and Industry Advisory Committee, BIAC) and to present policy-based findings at all levels of government, including to the heads of G20 governments.

4. HEALTH: Provide the research on the best reforms of national health systems

Ill-equipped global and national health systems contributed to the devastating economic impact of COVID-19 around the world. Reform is essential to rebuild a more resilient global economy and revive trade, international travel, and tourism. OECD research can support best practice national reforms—in particular of public health systems and practices but also of efficient and cost-conscious service delivery. Globally, the OECD should help the G20 fill the gap in pandemic preparedness and response that cannot be met by today's health bodies. Scientific and medical expertise, whether of the World Health Organization or more specialized agencies such as the Gavi vaccine alliance or the Global Fund, needs to be bolstered by economic and policy expertise, as well as by easy access to those at the heart of government, especially at a time of crisis.

5. PRODUCTIVITY: Analyze detailed data on businesses, education, and training to shed light on the effect of policy actions on productivity

Political support in major advanced economies for rebuilding global economic and trade links rests on improving employment opportunities and living standards. A return to the faster productivity growth of earlier decades is essential. The OECD should reinvigorate its growth and productivity project to understand why productivity slowed down and what measures—including education and training to build human capital—would help to revive it. The OECD's access to detailed data on business formation and regulation, its work on competition policy, and the cross-country studies of education and training to build human capital should be used to shed light on policy actions that promote—or inhibit—productivity growth and equitable distribution.