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PUBLIC FINANCE AND ECONOMIC DEVELOPMENT:

AN ANNOTATED BIBLIOGRAPHY

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I. EXECUTIVE SUMMARY

Seminal contributions to the literature on public finance in developing countries generally accepted the proposition that public sector activities were important aspects of development efforts. They focused attention on taxation, spending and borrowing in pursuit of macroeconomic stabilization, sustainable longer-term economic and social development, efficiency in resource allocation, and equity in output distribution. Classical writers paid a great deal of attention to effectiveness in tax system design and implementation. Some expressed concern that the pace of government activities exceeded the rate of real economic growth required to support expanded public sector activity.

Seminal works (e.g. those containing or contributing the seeds of later development) took two basic forms: first, country-specific studies of fiscal systems; and second, general works focusing on an array of topics. Each provided a rich legacy to more modern theorists whose works were published during the 1978 to 1985 period.

The more modern contributors took a particular interest in the stabilization aspect of macroeconomic management. This was due to three factors: first, the global disturbances of the 1970s and early 1980s made it difficult for developing countries to manage external current account and internal budgetary gaps; second, the IMF undertook an active role in assisting countries to manage external gaps under conditional terms; and third, those conditions tended to commit governments to fiscal restraints. Critics of a shorter-term focus on stabilization felt that, in the extreme, longer-term development momentum could be interrupted.

Modern writers were aware that government outlays outpaced overall economic growth during the early 1980s after having leveled off in the late 1970s. Total government outlays for non-oil development countries reached 31.5 percent of GDP in 1981, up from 27.0 percent in 1974. During the period, the average tax ratio went from 18.5 to 20.2 percent.

However, modern writers also recognized that there were reasons that compelled continued substantial government involvement in the economic activity of developing countries. They argued forcefully that such involvement was mandated by the logic inherent in modern micro-public finance. The logic yielded these arguments favoring public economic activity: government should provide collective goods, equate externalities, take advantage of natural monopolies, assume social risks, and intervene when private markets fail to function competitively (and therefore efficiently).

Supply-side theorists sharpened the debate by arguing that over-involvement by government generated disincentives to spending, saving, investing and producing. Such disincentives, they contended, account for slower growth in developing countries than were warranted by their resource endowments.

The more traditional writers also were mindful of the potentially serious disincentive effects associated with ill-designed and badly administered tax systems. Their efforts were directly aimed at evaluating tax systems in developing countries from the viewpoint of raising revenue sufficient to cover appropriate levels and compositions of spending without resulting in serious disincentives. Their evaluations were made within the

context of revenue adequacy and other tax criteria such as equity and ease of administration. Their writing focused on the taxation of the external sector, individual and enterprise profits, wealth, property and consumption.

Perhaps the most useful works are those directed toward reforming tax systems, particularly when viewed from the perspective that donors could assist governments in their reform efforts. On the matter of which reforms to foster, the literature reaches no broad consens . In a sense, this is not a shortcoming but a virtue because it leaves open to discussion and debate the matter of deciding on specific reforms within an individual country's situation.

II. INTRODUCTION

The purpose of this report is to present an annotated bibliography and topic summary of major works and recent contributions to the field of public finance in developing countries. The works and contributions annotated and summarized cover the period 1978 to 1985, and also include seminal works published prior to 1978. They are annotated and summarized in four subsections: seminal works; fiscal policy and economic development; taxation of the external sector; and taxation of income, wealth and consumption. A discussion and synthesis of the broad trends and developments in the literature over the period precedes each subsection. Each subsection provides a bibliographical listing, with each entry accompanied by a short summary describing the work and, where appropriate, making a judgement of its contribution.

The bibliography's preparation is in response to A.I.D.'s expressed need for a technical study to support and enhance its efforts in the area of public finance as a tool to promote sustainable growth and development in developing countries. The bibliography is prepared for the Agency's technical staff which reflects a makeup of individuals representing a variety of scholarly fields. Therefore, its preparation is based upon the need to reach both economists and other professionals. The selection of works for inclusion in the annotated bibliography is governed by three considerations: the work has a public finance focus, it has a developing country focus, and it is of scholarly substance.

III. THE SEMINAL WORKS

A. An Activist Fiscal Approach.

Throughout the 1950s and 1960s a body of literature was developed by a cadre of public finance economists whose attention was attracted by the problems of developing countries. By and large, the cadre shared the perspective that government has a substantive role to play in the development process, and that fiscal policy is an integral aspect of how that role is (or should be) played.

By the mid- to late-1960s, Wald (1959), Bird and Oldman (1964), Hicks (1965), Peacock and Hauser (1965) and Bangs (1968) had created and shaped the general view that fiscal measures can assist governments in their efforts to maintain and stabilize aggregate levels of economic activity, to provide or at least encourage capital formation required for longer-term growth, to improve efficiency in resource allocation, and to improve equity in the distribution of output among geographic regions, economic sectors and groups of individuals. The particular measures discussed had to do with (a) choosing an appropriate spending level, (b) opting for a particular mix of spending among development projects, programs and policy implementation, (c) selecting tax policies designed to raise required revenues without generating economic disincentives, (d) linking domestic revenue acquisition to obtaining financial flows from abroad, and (e) planning, executing and administering fiscal measures in sound and effective ways.

An early concentration in the literature was on points (c) and (e), particularly the impact of taxation on development processes. Bangs (1968)

made the point that the literature on taxation was about legalized seizure by government of money or property, or, by another name, taxation. So long as governments have existed, taxes have been extracted, forcibly when necessary, from citizens. This taking of property is without direct compensation, although the indirect compensation may be substantial.

It is not, however, only about the history of taxation that the literature focused. It dealt with fiscal policy, e.g. government policy concerning taxation and public expenditure. The term "fiscal" derived from the old Greek word for basket which symbolized the public purse. The Renaissance Italian word "fisc," meaning the Treasury or Exchequer, sounds sufficiently like the English word fist to connote the sometimes violent nature of the process of extracting taxes from a reluctant public. The Renaissance Italians were among the first of the modern writers on fiscal policy, Bangs (1968).

The books cited herein pulled together a set of thoughts about taxation and fiscal policy which were scattered in academic journals, and data contained in public documents. The pioneering works also included country-specific studies examining tax structures and their role in the development of specific countries: Adler, et al, (1951 for Guatemala) and Wallich, et al (1951 for El Salvador). They used the concepts developed in the literature, and after their inquiries, concluded that there were both strengths and weaknesses inherent in each tax system. On the latter score, they expressed such particular concerns as these: taxes often favored speculative rather than productive investment; taxation often costs a great deal of money and were administratively inefficient; and fiscal experiences

have shown that the level of tax receipts may be too low if government intends to carry out its objectives: additional sources of revenue may have to be tapped.

In considering new taxes, as well as other changes in the tax structure, two fundamental issues must be faced and, if possible, resolved both by writers on taxation and public officials. One is the problem of determining whether, or to what extent the growth in the level of consumption of the population as a whole can be, and should be, retarded in order to devote a larger proportion of the gross national product to the formation of capital. The other issue pertains to the use to which the resources available for investment can, and should, be put. The latter is probably the key issue as its solution involves, on the one hand, a reconsideration of expenditure policies of the government and an improvement of its administrative practices. On the other hand, it suggests the formulation of tax policies which would discourage the investment of private savings in speculative and traditional lines, such as urban real estate and landed property, and encourage the expansion of industrial activities. It must be realized, however, that even the most efficient fiscal practices cannot assure the success of the government's development policies, unless they are accompanied by, and coordinated with, proper monetary policies.

Individual country tax systems continued to receive attention by Shoup (1959 for Venezuela and 1970 for Liberia) and Musgrave and Gillis (1971 for Columbia). Indeed, a tax system's need for sound fiscal reform probably received its clearest, most cogent, useful and durable treatment

in Richard Musgrave and Malcolm Gillis' classic 1971 work, Fiscal Reform for Colombia. They noted that taxation and public expenditure formed a process wherein resources were transferred to public use. On the macroeconomic side, the purpose underlying such transfers was to raise the material standard of living via growth processes. The processes featured high levels of employment, high degrees of price-level stability and expansion in the output of goods and services. On the microeconomic side, distributional goals involving both family units, geographic regions and economic sectors received consideration. Musgrave and Gillis went on to note:

> Taxes, no matter how well-meaning the statutes enacting them, are no better than the quality of administration. Improved administration is an important aspect of tax reform. Improved administration involves simplification wherever feasible. It sometimes requires more complex procedures in order to secure even enforcement. In both cases, the aim is to eliminate unnecessary administrative burdens and to secure a more equitable and effective application of taxes. The morale and cooperation of the taxpayer as well as of the tax official will be improved and a better revenue structure obtained. Increasing resources devoted to administration should be contemplated where appropriate.

Keeping these needs in mind, their primary assignment was not to devise and recommend administrative improvements, but rather to develop structural tax reform and to reconsider the fiscal arrangements prevailing among levels and units of government. They point out that tax reform cannot be adopted to a single objective, such as adequate revenue, simplicity, or equity. All these must be kept in mind, as must the broader objectives of economic development, stability, and a fair sharing of tax burdens and the fruits of growth. Tax reform is a continuous and sensitive process, which, at its best, fosters the orderly development of tax laws

responsive to changing economic and social conditions and to the changing balance among and emphasis on public policy objectives.

Tax reform depends upon the revenue target in various ways. First, if revenues are to be increased, rates will have to be higher and/or bases broader. This requirement applies to all the major taxes, such as income tax, the sales tax, and the property tax. Second, the required levels have some bearing on the internal structure of each tax. Third, different revenue targets call for different configurations of the tax structure; different degrees of emphasis upon various taxes is required.

Country-specific fiscal analyses, concentrating on the structure, performance and need for change in tax (or general revenue) systems, occupied only a part of the cadre's attention. Other writers were more interested in examining broad issues, and developing broadly applicable principles. Regarding this more general focus, a particularly useful set of volumes were co-edited by Bird and Oldman. The first appeared in 1964, the second in 1967, and the third in 1972. The volumes' contents provide superb insight into what was occurring in the field. The substance of each volume reflected the work of the leading and most influential classical writers. Their topics revealed changes in what such writers felt were the most pressing issues, and most useful principles. Indeed, the three editions reflect the core of the seminal works, and their contents set the stage for the 1978-1985 period's developments in the literature.

Walter W. Heller's "Fiscal Policies for Underdeveloped Countries" led off the first edition. His work outlined the essence of the approach to developmental fiscal policy taken by most of the cadre of early writers.

He stated that fiscal policy, like other governmental policy, derives its meaning and direction from the aspirations and goals of the society within which it operates, of the people whom it serves. The aspirations of the peoples of the underdeveloped countries are clear: economic betterment and stability to provide the material soil within which human dignity and political freedom can grow.

In essence, the work of Adler, Musgrave and Gillis, Shoup and Wallich were pioneering efforts noting individual country variations, and providing diagnoses and recommending cures for fiscal and economic ills. In addition, international agencies and donors emphasized the importance of fiscal measure and fiscal reform in development. They supported and published works emphasizing diagnoses and recommendations: United Nations (1954), Peacock and Houser for the OECD (1965) and the I.L.O. (1974).

The Bird and Gillis work, introduced by Heller's essay, stressed the positive role of fiscal policy and taxation in respect to capital formation, equating social costs and benefits, assuming social risks, providing for economic stabilization, managing balance of payments and foreign-exchange shortfalls, and redistribution of output based upon the humanitarian interest in sharing output more equally as conditioned by the need to maintain sufficient inequalities of reward to serve as incentives.

Heller's essay emphasized features and settings of what he called underdeveloped countries as they affect the tasks of tax systems and government spendings. He noted that the tax systems of such countries placed heavy emphasis on commodity taxation and taxes on exports and imports (because of the degree of openness of such economies). The net

impact has been toward regressivity and retarded growth of progressive instruments of taxation. In those underdeveloped countries to which the British system has in part or in whole been exported, the tendency is to rely somewhat more heavily on income taxation.

As early as 1951, Goode focused analytic attention on the tax problems of LDCs, the traditional objectives of progressivity and equity in taxation, reinforced by the modern economic objectives of taxation, have pointed strongly to more aggressive use of net income and wealth taxation. However, in recent years, there has been a growing sensitivity to the institutional framework within which technical assistance efforts are to be applied. There is a growing realization that conditions within which the most modern, equitable and flexible instruments of taxation thrive do not yet prevail in many of the underdeveloped countries and that substantial modifications of the fiscal techniques applicable in developed countries are necessary to adapt them to the underdeveloped economy. To translate this point into specific terms, Heller, in the essay previously noted, referred to Goode who set forth the conditions for successful use of income taxation side by side with the conditions actually found in LDCs.

> 1. The existence of a predominantly money economy. The subsistence farmer cannot be satisfactorily reached by an income tax because the greater part of his real income cannot be satisfactorily assessed.
>
> 2. Another condition is a high standard of literacy among taxpayers. Illiteracy, like exclusion from the money economy, is most characteristic of the poorest farmers, but often wage earners, independent craftsmen, and small shopkeepers cannot read and write well enough to fill out the simplest income tax return with the guidance of printed instructions. Wage earners may be covered by withholding, but in any refined system they must be able to file claims for exemptions and refunds.

3. Prevalence of accounting records honestly and reliably maintained is an important condition for satisfactory income taxation. In most LDCs many businessmen keep no books at all; others maintain two or more sets. Vigorous tax administration can do much to improve accounting standards if combined with an educational campaign, but more trained personnel and office equipment are essential.

4. Success in income taxation requires a large degree of voluntary compliance by taxpayers. The best administrative organization cannot satisfactorily collect income taxes from the self-employed when, as in many countries, evasion is generally the norm.

5. The environment most favorable to progressive taxation seems to be one of free political democracy. In many LDCs wealth groups have enough political power to block tax measures that they consider threats to their position.

6. Honest and efficient administration is needed for any tax, but minimum acceptable standards appear to be higher for income taxes than for many other levies. Difficult as the task of establishing a satisfactory administration may be, it is probably the condition for successful income taxation that can be met most quickly. (See Richard Goode, Proceedings: Fourth Annual Conference of the National Tax Association, (New York: 1951, pp. 213-215.)

Heller went on to note that a recitation of such limitations is, of course, a counsel of caution, not of despair.

It is fair to conclude that Heller's work reflected the views of writers who envisioned (a) an expanded role for government expenditures based upon development needs, (b) an option to make tax (and fiscal) systems more progressive in terms of net incidence, and (c) tax yields to increase as proportions of gross domestic product as new tax capacities were generated.

B. Challenges To An Activist Fiscal Approach.

Serious and important writing began to emerge which, at least in part, disagreed with the above assessment. For example, John H. Adler, a

contributor to the first Bird and Oldman edition, cautioned that (a) the need for additional public revenue in low-income countries is not necessarily a reflection of the need for economic development expenditure but is due in part also to the higher unit cost of public expenditure. Second, because of that, and because of the limitations on the ability to raise revenue, every effort should be made to avoid "frills" in public expenditures. Third, although the governments of many low-income countries are constantly under pressure to expand the scope of their activities, the high unit cost of functions which only public authorities can perform (such as the maintenance of law and order, the provision of educational facilities, public health, and sanitation) are strong reasons for limiting the scope of government operation.

Adler states that some of the basic ideas which, in the last fifty years, had been evolved as "principles of public finance" have in recent years been questioned with increasing frequency, and challenged as to their general validity. This process of reappraisal of what was considered a generally accepted body of ideas was the logical consequence of the reintroduction of dynamic considerations into economic thinking. Three propositions in particular have been seriously challenged.

The first principle is that the only equitable form of taxation is a tax, or a system of taxes, which is at least moderately, but preferably steeply, progressive. This principle, the fiscal application of the concept of the diminishing marginal utility of income, has been challenged on the ground that the growth of an economy requires a certain rate of capital formation and that at least private capital formation depends

largely on the concentration of resources in the hands of a limited number of economic units in the system. A related argument against a progressive system of taxation is the contention that progressive taxation has serious disincentive effects on productive effort in general, and entrepreneurial willingness to take risks in particular.

The second principle is that all "normal" government expenditures are exhaustive in the sense that they did not produce any benefits comparable to the benefits which could be derived form private expenditures of the same amounts, either for consumption or investment. Only in the case of capital expenditure for self-liquidating projects was it admitted that a return for the economy as a whole could be expected. The result of this way of looking at public expenditure was that it became an objective of public policy to keep government expenditure to a minimum; the smaller the share of government in the national product, the better for the economy.

Adler (1951) went on to note that the desirability of keeping government expenditure to a minimum at all times has been challenged on two grounds. In the first place, it has been argued that under some conditions the economy stands to benefit from an increase in public expenditures. For instance, even such "wasteful" outlays as those for the maintenance of law and order or for public buildings may have a favorable effect on the efficiency of the economy as a whole and enhance total output.

The third basic principle of public finance which has been completely modified in the last twenty-five years is the stipulation that all expenditures other than those for self-liquidating projects must be

paid for by current receipts, except in unusual circumstances such as war or a natural disaster (Adler, in Bird and Oldman, 1964). The sanctity of the balanced budget has been challenged by what may be termed the Keynesian principles of public finance. They suggest that, within the limits imposed by balance of payments considerations, the government has the task of maintaining a level of economic activity close to full employment, and impose upon the government the obligation to supplement by public outlays in excess of public revenues the expenditures of the private sector wherever the latter are inadequate. The logical corollary of this Keynesian concept of deficit financing is, of course, the accumulation of Treasury surpluses and the retirement of the public debt to the banking system, whenever total outlays of the private sector threaten to exceed the supply of goods and services.

The works by Heller and Adler tend to reflect two positions at opposite ends of the spectrum of thinking about public finance and development. Their statements set the stage for discussions arising during the 1978-1985 period in which writers representing both the traditional optimal public finance and the supply-side positions debated a range of fiscal policy and tax issues.

Throughout the 1960s and early 1970s, the literature on fiscal policy and development continued to stress taxation. Two new dimensions emerged in the literature. One was a shift away from a predominantly Latin America regional focus to one encompassing African and other emerging states: (Due, 1963 and 1970) and Taylor (1970). Another was an emerging focus on intergovernmental fiscal relations, Hicks (1961). Perhaps the

most important development in the literature had to do with the idea of an optimum tax structure from the administrative point of view.

C. The Tax Structure.

The clearest and most cogent expression of the concern about an effective tax structure was John F. Due's chapter, "Requirements of a Tax Structure in a Developing Country," contained in Bird and Oldman's second edition. In that 1967 volume, Due wrote that the optimum tax structure for a developing economy must be based upon the characteristics of the particular economy. However, he stated, seven useful generalizations. First, the tax structure must reduce private consumption and investment which contributes less to economic development than governmental use of the funds, to the maximum consistent with maintenance of incentives for economic activity. Thus, the tax structure must do much more than merely absorb funds which would be saved and kept idle. Taxes related to consumption may offer less danger to incentives for economic activity, since the taxes can be avoided by refraining from consumption.

Second, Due argues, the tax structure must concentrate on imports for consumption and non-development-oriented investment use. Restriction of import purchases, rather than taxation of domestic goods, avoids the danger of interfering with production and investment by curtailing market size.

Third, the impact of taxation upon the profits of firms whose investment makes the greatest contribution to economic development must be held to a minimum.

Fourth, in view of the primary importance of increasing economic activity, the impact of taxes at the margin must be minimized; for example, with any form of income tax, it is desirable to avoid high marginal rates. The basic rates tend to encourage additional work, the marginal rates to discourage it. Taxes based upon potential results of use of resources are always preferable from the standpoint of economic growth to those based on the actual results. Thus, taxes upon land, based on value determined in terms of market forces, are to be preferred to taxes on the output of land. Land is a particularly attractive object of taxation, within reasonable limits, since the supply is fixed.

Fifth, in view of the importance of taxing away a substantial portion of additional income, the elasticity of the tax structure is significant, especially in light of the slowness with which governments revise their tax structures. In a relatively short period of time, the direct response of the base of the tax to rising national income is the determinant of revenue elasticity; thus, income taxes and taxes on consumption goods of high income elasticity are preferable to taxes on land, subsistence consumption expenditure, or subsistence income. In addition, if income taxes are not introduced early, serious obstacles, in the form of opposition by vested interests, may bar subsequent establishment.

Sixth, the tax structure must be capable of reasonably effective administration with minimum use of resources for compliance and collection. Few types of personnel are so scarce in developing economies as accountants and administrators. Considerations of equity must, of course, be weighed against those of simplicity.

Lastly, the tax structure must be designed and administered in such a way as to gain general acceptance. One obvious requirement for this is conformity with the standards of equity regarded as important in the contemporary society. Thus, almost certainly, progression is required--and perhaps more than might be desired in terms of direct economic effects. Education of the population about the taxes, and of the importance of tax revenue for economic development are important. Also, some variety in the tax structure is preferred to exclusive reliance on one source. Using several taxes is likely to result in more satisfactory burden distribution and minimization of adverse effects. On the other hand, multiplication of taxes beyond a few basic forms results in dilution of administrative effort and waste in compliance.

Due went on to note the existence of problems in the establishment of an optimum tax structure. He stated that the first of these is the inevitable conflict, in developing economies, between the need for refined policies and the ability to execute them. Because of the urgencies of economic development, a complex structure of taxation is of primary importance. For example, investment decisions which can be left to the market in mature economies must be subjected to governmental influence in developing economies if growth is to be maximized. Yet the capacity to implement these policies is much less in the latter; the environment is less conductive to refinements, and simplicity is of utmost importance.

Second, the various requirements of the tax structure are likely to be highly contradictory. Reduction in consumption is imperative if resources are to be freed for economic growth, but it reduces economic

incentives and can easily interfere with the growth of markets large enough to permit profitable investment. Attainment of usual standards of equity and political acceptability of tax measures requires taxation of income at progressive rates, and such taxes, over time, have the highest degree of revenue elasticity. But they will be absorbed largely from savings and may easily reduce the incentives to save and to invest in business activity. One method of encouraging additional saving is to allow greater inequality of income; but such a policy is politically intolerable.

Thirdly, problems arise out of the wide variation in the characteristics of the developing economies, which influence the nature of the optimum tax structures. As a consequence, there is a danger that utilization in one area of experience gained in another where conditions are different will have disastrous results. The greatest hazard of this nature is the attempt to transfer the tax structure of highly developed nations to ones in earlier stages of growth. Likewise, generalizations about optimum tax structures in developing economies are much more difficult to make. Some of the major differences among countries which influence the nature of the tax structure are listed below:

1. The degree of urbanization,
2. the levels of education,
3. the patterns of land ownership and use,
4. the extent of income inequality,
5. cultural patterns and traditions, and
6. attitudes toward taxation, and toward government generally.

Due went on to conclude that, while the tax structure for a developing economy must be designed in terms of the precise economic, cultural, and political features of the country, the general outlines of the structure indicated in the previous section are generally applicable:

1. Primary reliance in most developing economies, particularly those in early years of development, must be placed upon commodity taxes: first customs duties; then gradual introduction of excises on liquor and tobacco products, motor fuels, and perhaps a few other key commodities such as motor vehicles; and ultimately, as development continues, the introduction of a simple broad-based sales tax, without cascade features, placed as near the retail level as possible.

2. An almost universal direct levy, in the form of a graduated personal tax, applied at low rates with simple graduation, locally assessed under central supervision, with emphasis upon potential income.

3. An income tax applying initially to a relatively small portion of the population, but automatically expanding rapidly in coverage as incomes rise; simple in structure with very few deductions and adjustments, except to encourage education and, if possible, savings and investment, and to penalize export of capital and purely speculative activity. Establishment of the principle of income taxation at an early stage is crucial.

4. A corporate income tax, recovering for the economy a portion of the earnings of expanding business enterprise, particularly those foreign-owned, with concessions for investment along preferred lines, and for reinvestment of earnings within the country, and penalty for forms of investment considered less important in terms of development planning. Concessions should be established by class of firms, not upon application by individual firm.

5. Taxation of exports at significant rates only when world prices of the products rise above accustomed levels.

6. Taxation of urban land, primarily, but not entirely, upon a site-value basis; taxation of rural land where feasible, especially as a supplement to income taxation on large landowners. The graduated personal tax is a better means of reaching small landholders.

7. Stress, in all levies, upon simplicity of structure and operation.

8. Avoidance of a variety of miscellaneous minor taxes, such as taxes on receipts and checks, which are a source of nuisance all out of proportion to the revenue and sabotage the enforcement of major levies.

9. Limitation of marginal tax rates to reasonable figures, which will not destroy incentives and create political unrest.

10. A variety of taxes offers greater revenue potentialities and thus greater absorption of purchasing power than a system involving heavier relative reliance upon one source.

11. The relative importance of consumer-based levies in the earlier years of development should minimize the dangers of adverse incentive effects and maximize the reduction in consumption. At the same time, administration is facilitated.

12. The relatively heavy tax burden on imports, particularly on luxury consumer goods, should facilitate importation of capital equipment and lessen exchange difficulties, as well as giving some progression to the tax structure. Relatively heavy taxes on motor fuel will, in most countries, serve the same ends, and other important purposes as well.

13. The use of both a graduated personal tax and a sales tax, when the latter becomes feasible, provides a very broad base for the tax structure, thus requiring some contribution to support of government from virtually all families.

14. The income tax, while covering relatively few families initially, will automatically grow in importance as the economy expands, and will provide greater equity, under usual standards, and increase acceptance of the tax structure. It also provides a means of reaching gains from speculation in land, of penalizing the export of capital, and encouraging investment of savings.

15. While the customs duties will automatically decline in importance as development continues, the excises, the sales tax, and the income tax will automatically expand, the yield rising more rapidly than national income.

16. The corporate income tax recovers for the country a portion of the earnings of foreign enterprises, and it can be used to channel investment into desired channels and encourage reinvestment of earnings within the country.

17. The taxes on land will yield considerable revenue with a minimum of adverse incentive effects, and check the rise in land prices, which hinders development. The presumptive income features of the graduated personal tax, especially for small farmers, produce favorable, rather than unfavorable, incentive effects.

18. The stress on simplicity should facilitate both compliance and administration.

Throughout the latter 1960s and into the 1970s, the literature continued to add dimension but generally within the context of a dominant focus on the taxation side of fiscal policy and public finance: specific emphasis was placed on taxation on agriculture, Bird (1974); on industrial sectors, Geithman (1974); on urban finance as a part of intergovernmental fiscal relations, Hicks (1976); on fiscal policy, development and the external sector, Adler and Mikesell (1966); and on tax administration, Bird and Oldman (1972, Part Eight). There was some movement towards a fuller integration of taxation into a more general optimal fiscal policy approach, David (1973). Each work, to some degree, embraced the need for an optimal tax structure as stated by Due, to reach the type of objectives articulated by Heller, within the constraints laid down by Adler.

Work such as Heller's set the stage for fuller and broader developments; e.g. optimal public finance theory, in the tradition represented by Heller's work, supply-side concerns for which work such as Adler's were predecessors, country-specific analyses such as Adler, Shoup and Wallich undertook, and optimal tax systems such as outlined by Due. These and other foci, developed and refined during the 1978 to 1985 period, represent the core themes contained in the following section, one dealing generally with fiscal policy and development. Prior to turning to that section, the reader's attention is invited to the set of bibliographic annotations listed below.

D. Bibliographic Citations.

1. Core Works.

Adler, John H., et al, Public Finance and Economic Development in Guatemala (Stanford: Stanford University Press, 1951), pp. 277.

The purpose of this study is twofold: to analyze the fiscal operations of the Guatemalan government in the course of the last decade in order to determine their impact on the Guatemalan economy; and to evaluate these operations with a view toward determining to what extent they have affected the rate of economic development and to what extent the fiscal system can contribute, in its present form or with suitable modifications, to the success of the government's policy of encouraging and actively supporting those improvements in the country's material and social welfare which are generally summed up under the term *fomento*.

The authors note that the interaction between fiscal operations and economic development has always been recognized as an important subject to discussion and inquiry. But the expansion of government activities in recent years has resulted in renewed emphasis on the role of fiscal operations with regard to a country's economic progress and well-being. The new techniques of aggregative analysis which have been developed in the last two decades are designed primarily, though by no means exclusively, to throw significant light on the interaction of fiscal operations and the rhythm of economic life of the community.

This study of the fiscal structure of Guatemala and its impact on the country's economic development is an application of the techniques of analysis and experience in research and presentation.

Bangs, Robert B., Financing Economic Development: Fiscal Policy for Emerging Countries (Chicago: University of Chicago Press, 1968), pp. 212.

The subject of Bang's book is fiscal policy's long-range relationship to the level and character of economic activity in countries in various stages of economic development. His was an early effort at showing what the stages of development are, and what fiscal measures are appropriate in those stages. His concern is with setting up fiscal mechanisms which can adopt to changing circumstances lest commitments to outworn fiscal schemes impede the development process. The strength of the book is the historical perspective within which the author places public finance and its role in economic growth and development.

Bird, Richard M. and Oliver Oldman, Readings on Taxation in Developing Countries (Baltimore: Johns Hopkins University Press, 1964, pp. 556, 1967, pp. 560, and 1975, pp. 555).

Ten years prior to the 1975 edition, the first edition of this book appeared. At that time, the literature on taxation and development was not extensive. Much of it was in the reports of international agencies and the proceedings of various conferences. A principal function of the first edition was to bring together the best of this material in a form that would be more accessible to both student and practitioner, particularly in developing countries where library facilities are generally meager. The book fulfilled this role adequately, and three years later, when the original printing was exhausted, the authors undertook a revised edition, taking advantage of the marked increase in both quantity and quality of the literature that had occurred in this short period to replace over one-third of the original sections with new material.

The literature explosion has since continued in the field to the point where this third edition must really be viewed as an almost entirely new book. Of the total of forty-eight selections included in one or both of the first two editions only seven have survived to the third edition. For the most part, they constitute classic treatments of their subjects. In contrast to the earlier editions, the 1975 edition includes several survey papers, a few seminal statements that have subsequently given rise to significant later work, more theoretical and empirical work than before, and, in general, a good deal of evidence that the subject of development taxation has become a recognized field of study.

For the same reason, relatively more of the selection in the 1975 volume are taken from scholarly journals and monographs and relatively fewer from report dealing with the problems of particular countries than in the earlier editions. The authors have tried to retain enough of the latter to give the reader the needed flavor of reality without which, they think, he will be unable to savor the more abstract arguments.

Hicks, Ursula K., Development Finance; Planning and Control (New York: Oxford University Press, 1965), pp. 187.

This book is one of the first to survey the fiscal and financial aspects, simply, systematically, and comprehensively, for courses in economic development and public finance. After discussing general development strategy, the author turns to the subjects of choice in the public expenditure program, presenting it as an exercise in the allocation of economic resources; the importance of building the financial infrastructure; taxation, the most appropriate taxes for development and the most effective devices for assessing and collecting them; budgeting; and expenditure control.

The book is written in nontechnical language so that it may serve as a practical guide for policy-makers, planners, and administrators, and their assistants. Drawing on her own experience as an adviser to a number of developing countries and as the lecturer at Oxford University, the author displays an authoritative sense of contact with the realities of developing countries and recognition of both the variety and similarity of their problems.

Musgrave, Richard A. and Malcolm Gillis, Fiscal Reform for Columbia (Cambridge: Law School of Harvard University, 1971), pp. 853.

The volume embodies the results of a highly successful experiment in international technical cooperation. The venture began in 1968 when Richard A. Musgrave accepted the invitation of the President of Colombia to assemble a group of foreign and Colombian tax experts to study Colombia's fiscal system and make specific proposals for its reform.

Appearing first in this volume is the report containing the final recommendations that the Colombian Commission on Tax Reform submitted to the government of Colombia. The report is the end-product of lively debate and controversy among economists and lawyers with widely differing ideas and approaches.

Virtually every aspect of Colombia's fiscal system was investigated by the Commission's expert technical staff, which numbered thirty-two at its peak. These investigations and the reform alternatives that were formulated for consideration by the Commission are presented in the second part of this volume.

The spectrum of topics covered and the many innovative aspects of the methods and results, particularly the Commission's attention to revenue needs and to overall social and economic objectives, make this volume useful to a broad audience of students, tax administrators, and fiscal and development specialists in both economics and law. Its importance to the literature is clearly recognized; it reflected not only pioneering effort, but also one which covers virtually every aspect of fiscal policy and development.

Peacock, Alan T. and Gerald Hauser, Government Finance and Economic Development (Paris: Organization for Economic Cooperation and Development, 1965), pp. 314.

This book contains the papers and proceedings of the Third Study Conference on problems of economic development, held at Athens, in December 1963, under the auspices of the Development Department of the O.E.C.D.

The papers are arranged in two parts, the first dealing with the general theme and the second concentrating on more specialized

subjects. An effort was made to relate the findings to the problems of the O.E.C.D. development countries in Southern Europe. Each of the papers if followed by a summary of the discussions. The final section of the book sets forth the conclusions and the recommendations adopted by the Conference. The work's importance is inherent in the fact that the book is an early, systematic attempt to analyze the present state of knowledge on fiscal policy as applied to the problems of developing countries.

Peacock, Alan T. and George K. Shaw, Fiscal Policy and the Employment Problem in Less Developed Countries (Paris: Organization for Economic Cooperation and Development, 1971), pp. 133.

The purpose of this study was to provide an analysis of the use of public finance as a policy instrument designed to influence the level of employment in developing countries. It assumed throughout that the analysis was to be applied to those developing countries in which population growth, and therefore, the growth in the potential working population, is rapid but there are severe limitations in the growth of the capital stock. Personal consumption cannot be cut further in order to release resources for increasing the stock of capital and imports of capital equipment are subject to a constraint through the amount of foreign exchange (whether originating from exports, loans or foreign aid) available.

The importance of the assumptions is that potential output may grow at a slower rate than the growth in potential working population. This suggests that, if attention is to be paid to the problem of improving employment opportunities, the emphasis in recent discussion of the use of fiscal policy in developing countries needs to be shifted away from the study of such measures as promote growth and towards those measures which promote employment. Whether or not there is a "trade-off" problem when growth and employment are identified as separate objectives is a matter which is fully discussed later. There may be scope for a reassessment of fiscal measures in the light of the introduction of the employment objective.

Prest, Alan R., Public Finance in Underdeveloped Countries (London: Weidenfeld and Nicolson, 1972), pp. 208.

Since its first publication in 1951, this book has become established as a standard survey of the fiscal problems of the developing world. In 1962, A. R. Prest completely revised the book, incorporating recent research and developments. In particular, the later book concentrates more clearly upon public finance in the stricter sense. Chapters are devoted to income-based, consumption-based and capital-based taxes; other revenue sources; public expenditure issues; legislative and administrative aspects; and regional (including federal) financial issues. An appendix is included on the specific public finance problems of small countries.

Its value as a seminal work is its comprehensive organization of various topics which remained scattered throughout reports, documents, etc., prior to their systematic inclusion in this books' first and second edition. In the book, the author covers the problems of direct and indirect taxation in their various forms; government grants and subsidies; monetary and debt policy; legislative and administrative procedures; and the special issues of federal finance. The discussion embraces both theoretical and empirical matters but is pitched at such a level that it is readily comprehensible to the layman.

Wald, Haskell P., Taxation of Agricultural Land in Underdeveloped Countries (Cambridge: Harvard University Press, 1959), pp. 231.

This book is an early comprehensive study of methods of taxing agricultural land in a modern economic development context. Drawing heavily upon information that has only recently become available, the book reviews the present status of taxes on agricultural land in the underdeveloped countries and provides basic policy guides for modifying these taxes to have them serve more effectively as instruments of development financing.

The book is divided into three parts. It begins with a detailed description of the different methods of land taxation throughout the world. The second part analyzes the principal types of taxes from (1) the viewpoint of equity, (2) the viewpoint of economic policy, and (3) the viewpoint of administration. Finally, the author shows that a properly conceived and applied land tax offers a promising solution to some pressing fiscal problems of underdeveloped countries, including the problem of mobilizing savings in the agricultural sector.

It remained for some time a valuable book for the classroom and for people interested in the economic problems of underdeveloped countries and in the work of the United Nations and other agencies providing technical assistance to them. This volume presents methods of analysis which constitute a model for studying many problems of taxation in the less developed areas of the world.

Wallich, Henry C. et al, Public Finance in a Developing Country: El Salvador, A Case Study (Cambridge: Harvard University Press, 1951), pp. 346.

In their summary and evaluation, the authors state that the fiscal structure of a country naturally reflects the basic features of its economy. El Salvador is an export economy, with coffee, the chief crop, constituting about 82 percent of total exports. Although the production of coffee is the economically and politically dominant activity of the country, it accounts for only about 12 percent of the total gross national product, which amounted to 435 million colones ($174 million) in 1946. A sizable part of

the gross national product is derived from agricultural activities only loosely connected with the market economy, with the result that large sectors of the population are relatively self-sufficient in most of the basic needs.

These facts go far to determine the structure of the fiscal system and particularly the tax system. The government has to rely heavily upon taxes on foreign trade and other indirect taxes; income taxes and other direct taxes yield only small amounts. The total tax capacity of the economy is limited by the same circumstances. At the same time, the country's relative self-sufficiency helps to explain how, despite the vulnerability of its export economy, it has been able to withstand economic fluctuations successfully enough to maintain a balanced budget, a stable exchange rate, and freedom from exchange control for over fourteen years.

2. Supplemental Works.

Adler, Robert W. and Raymond E. Mikesell, Public External Financing of Development Banks in Developing Countries (Bureau of Business and Economic Research: University of Oregon, 1966), pp. 65.

The manuscript is a relatively brief yet cogent and precise statement about the need to integrate public finance and balance of payments analysis in highly open developing countries which concurrently face both public revenue and foreign exchange constraints. It points to a two-fold role for government to play: first, setting a framework within which private [illegible] public borrowing from external sources can take place; and secon[illegible] analyzing the borrowing process from a public finance perspective where government's revenue shortfall is partly in foreign exchange terms. This work represents an early but not widely known contribution to an area not widely covered up to the point of its publication. His theme is that, as societies grow and become more complex, government's role in the economy expands, including in the area of fiscal policy. In this sense, his work is generally consistent with Wagner's Law.

Bird, Richard M. and Juan M. Teran, Bibliography on Taxation in Developing Countries (Cambridge: Law School of Harvard University, 1968), pp. 184.

The bibliography was prepared by the co-authors from journal literature, books and public reports and documents. It is a particularly valuable source of pre-1968 works in various aspects of taxation's role in micro- and macroeconomic approaches to development. Some effort toward synthesis is provided in the book, but its main usefulness is in respect to identifying the sources contributing to the literature capsulized and analyzed in the seminal works cited herein.

Bird, Richard M., Taxing Agricultural Land in Developing Countries (Cambridge: Harvard University Press, 1974), pp. 301.

The author notes that agriculture is the largest economic sector in most countries of Latin America, Africa, and Asia, and the taxation of agricultural land is a potentially important instrument in the development policies of such nations. But there is a large gap between theory and practice, a gap that needs explaining. In addition, there have been interesting changes in thought on the role of such taxation in development. Bird argues that the tax system of each country, in order to be effective as part of development policy, must be tailored carefully to the peculiar circumstances and objectives of that country.

Bird, Richard M., Taxation and Development (Cambridge: Harvard University Press, 1970), pp. 277.

The volume represents Bird's work studying a particular tax system--that of Colombia--just prior to the broader work of Musgrave and Gillis. The book by Bird, however, can be treated as a classic in that it reflects a country-specific focus undertaken by one of the truly important contributors to the broad and general field of public finance and development.

Conference on Fiscal Policy, Fiscal Policy for Economic Growth in Latin America (Baltimore: Johns Hopkins Press, 1965), pp. 462.

Approximately seventy experts in tax and fiscal matters attended this conference. The meeting allowed a free, and at times vigorous, exchange of views between academicians and high government officials charged with administrative responsibilities in many of the areas discussed. The discussion was aided by the fact that all who attended the Conference did so in their personal capacity and not as spokesmen or representatives of any institution or government. The Conference evoked a broader and deeper analysis of the technical and practical issues of fiscal policy and tax reform than had heretofore been undertaken in Latin America.

The volume may be considered a survey of the general features of the tax reform measures required by the Latin American countries as one of the keys to accelerate their development process.

David, Wilfred L., Public Finance, Planning and Economic Development: Essays in Honor of Ursula Hicks (London: Macmillan, 1973), pp. 349.

In this book of essays, a set of distinguished economists and men of affairs drawn from all parts of the world honor Ursula Hicks, the renowned Oxford and international academic figure. The contributions to this book can, of course, provide us only with a microcosmic representation of Ursula Hicks' more pathbreaking

efforts in the fields of public finance, public policy and economic development.

The first section deals with theoretical and conceptual issues and contains papers by Professors Martin Feldstein, John Head and Alan Prest. Martin Feldstein presents a new method of analyzing the benefits and costs of externally financed investments in developing countries. John Head introduces a new dimension into the modern theory of public goods by examining its implications for multi-level government, and Alan Prest gives a typically modern analysis of the distinction between direct and indirect taxes.

The contributions contained in the second section - Fiscal Policy and Development Finance - are a representative sample of Ursula Hicks' work in this field. Enoch Anyanwu analyzes the influence of fiscal policy on Nigeria's industrialization; and Nizar Jetha looks at the fiscal situation in Kenya.

Due, John F., Indirect Taxation in Developing Countries: The Role and Structure of Customs Duties, Excises and Sales Taxes (Baltimore: Johns Hopkins University Press, 1970), pp. 201.

Indirect taxes are major revenue sources in nearly all developing economies. In this first comprehensive analysis of their use, Due discusses in detail the three principal indirect taxes, e.g. customs duties, excise taxes, and sales taxes, and their implementation during progressive stages of economic growth. A widely known expert on taxation and advisor to a number of governments, the author draws on extensive first-hand observations of tax structures in Venezuela, Honduras, Chile, the Philippines, Zambia, and other Commonwealth countries in Africa. He reviews their application of different forms of indirect taxes and analyzes the significance of their experiences both for them and for other countries. Where pertinent, the experiences of more developed nations are discussed as well.

Due's analysis of revenue aspects of customs duties is most thorough, and he stresses both potentialities and dangers inherent in their use. Half the volume is devoted to a discussion of sales taxes, concentrating on the question of the optimal form and structure of taxes under varying circumstances. Administrative and structural considerations are also discussed, with an emphasis on delinquency control, auditing and the use of electronic data processing.

Due, John F., Taxation and Economic Development in Tropical Africa (Cambridge: MIT Press, 1963), pp. 172.

In this book, Due examines the role of tax policy in relation to economic development in eight African countries which were or are British colonies - Sierra Leone, Ghana, Nigeria, Kenya, Uganda,

Tanganyika, Zanzibar, and Rhodesia. The author discusses problems of economic development in these countries, surveys their tax systems and the tax adjustments designed to aid development, and analyzes the role of taxation in each growing economy. Income taxes, personal taxes, customs and excise duties, and land taxes are described in considerable detail, and problems of each tax structure, compliance, and administration, are examined.

Geithman, David T., Fiscal Policy for Industrialization and Development in Latin America (Gainesville: University Press of Florida, 1974), pp. 370.

The central theme of the Twenty-First Annual Latin American Conference, held at the University of Florida in 1971, was the analysis and evaluation of the interaction among fiscal problems, fiscal tools, and fiscal systems in the industrializing economies of Latin America. There were nine working sessions at the conference, with a formally prepared major paper and comments, followed by general discussion, at each session.

Geithman edited the proceedings and, in the book various authors discuss many aspects of economic development bear upon fiscal policy, and a conscious attempt was made to include related issues in the papers and discussions - an attempt which was reinforced by the round-table format of the conference. This arrangement was designed to encourage scholars who had been working independently on related research to share insights and develop conclusions which will benefit all concerned with the economic and social development of Latin America.

Hicks, Ursula K., Development From Below; Local Government and Finance in Developing Countries (Oxford: Clarendon Press, 1961), pp. 549.

Hicks, Ursula K., Federalism and Economic Growth in Underdeveloped Countries (New York: Oxford University Press, 1961), pp. 185.

Hicks, Ursula K., Intergovernmental Relations With Special Reference to the Less Developed Countries (Syracuse: The Maxwell School, 1976), pp. 68.

Hicks' three works collectively examine intergovernmental arrangements in less developed countries. Her distinct focus in on evaluating revenue transfer mechanisms via which local initiatives can be supported by national-level activities. The works note the need for local-level activities, the inability of local-level governments to support them, and the need for soundly designed and administered national-level mechanisms to transfer support to local governments. Her work was pioneering, in that it shifted primary focus away from the national to the local level while maintaining a collateral focus on the fiscal linkages between or among various levels of government.

Hicks, Ursula K., Development Finance; Planning and Control (New York: Oxford University Press, 1965), pp. 187.

This book is one of the first to survey the fiscal and financial aspects, simply, systematically, and comprehensively, for courses in economic development and public finance. After discussing general development strategy, the author turns to the subjects of choice in the public expenditure program, presenting it as an exercise in the allocation of economic resources; the importance of building the financial infrastructure; taxation, the most appropriate taxes for development and the most effective devices for assessing and collecting them; budgeting; and expenditure control.

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Newlyn, Walter T., Financing Economic Development (Oxford: Clarendon Press, 1977), pp. 374.

Newlyn's book came along at a time when a great deal of empirical work had been done on the financial aspects of economic development. However, the results were scattered throughout academic journals and public documents. The aim of his book was to consolidate and add cohesion to the existing body of knowledge. He did so in a comprehensive framework, a book which drew upon continuing research on development finance in the School of Economic Studies at the University of Leeds. Its publication was designed to consolidate and integrate the growing empirical knowledge of various aspects of this subject and attempts to fill as many of the gaps as possible. The objective in preparing the book was to present the most important results in language comprehensible to anyone with a basic economics training but without specialist knowledge in the field of money and finance. The editor hoped that it would be helpful to students and teachers and to potential and practicing politicians and civil servants in developing countries; and would reach a wider readership among those in developed countries who are sufficiently concerned to inform themselves on specific rather than general aspects of the predicament of the Third World. With this in mind, the theoretical base has been made explicit where necessary, mathematical presentation and manipulation avoided, and statistical techniques confined to regression analysis.

Organization of American States, Problems of Tax Administration in Latin America (Baltimore: Johns Hopkins University Press, 1961), pp. 555.

The volume noted that, with tax evasion widespread in Latin America, the need for enforcing tax administration is urgent. Obstacles to an efficient tax administration of tax burden, and ways to eliminate tax evasion are some of the aspects explained in this record of the first of two pivotal fiscal conferences in the Americas.

The use of automatic data processing devices in tax administration is surveyed in an essay that notes some of the special characteristics of digital computers used for the purpose of storing and processing data, explores the kinds of assistance such computers offer to tax administrators, and considers some of the steps that must be taken and problems that must be solved when a tax administration decides to reshape its methods of handling data in order to take advantage of the benefits the computer offers.

The peculiar structure of organizations in nations partaking of one culture rather than another or at one stage of industrial and social development rather than another is discussed, especially as it may affect the administration of a tax program. Accounting, auditing, and other business practices are described with an investigation of tax evasion and examination of methods of reducing its degree.

Organization of American State, Fiscal Policy for Economic Growth in Latin America (Baltimore: Johns Hopkins University Press, 1962), pp. 454.

Originating in an Inter-American Conference on Fiscal Policy held in Santiago, this volume contains papers by many of the most distinguished economists of the hemisphere.

The concentration in the Conference was upon taxation, but a wide range of fiscal problems was studied in addition. These proceedings represent the fullest and most recent record of thought in the Americas on the relations between taxation and economic development.

Shoup, Carl S., The Fiscal System of Venezuela (Baltimore: Johns Hopkins Press, 1959), pp. 491.

Shoup, Carl S., The Tax System of Liberia (New York: Columbia University Press, 1970), pp. 189.

Professor Shoup's two books examine the fiscal systems of Venezuela and Liberia which pertained at the time of the inquiries

he headed. Each volume goes beyond a descriptive exercise to one that links the overall design and administration of development and the fiscal system's role in the process. He proposes both policy and administrative modifications and, at the time he made his points, he was among the initial cadre of distinguished public finance economists to deal with specific country fiscal structures and problems.

United Nations, Taxes and Fiscal Policy in Underdeveloped Countries (New York: U. N. Technical Assistance Administration, 1954), pp. 141.

This United Nations document was among the first publicly sponsored efforts to bring scholarly thought to bear on the matter of taxes and general fiscal policies and their impact in underdeveloped countries. The document contained the thoughts of public finance economists who were concerned with a set of issues ranging from fiscal policies' impact on growth, capital formation, distribution to balance of payments situations. While the book broke no new ground, its importance as a classic is inherent in the fact that it reflected an international body reaching out to, and publishing the ideas of, professional economists whose interests involved fiscal policy and development.

Taylor, Milton C., Taxation for African Economic Development (New York: Africa Publishing Corp., 1970), pp. 556.

Taylor assembled this collection of readings for teachers and students who are particularly interested in the principles and problems of public revenue systems in undeveloped countries. However, as the volume's editor, he maintains that there is evidence that an imbalance in the attention given to government revenues as compared to expenditure has been a limiting factor in the economic development of many African countries. It is hoped, therefore, that it will also be read by planning offices and ministries of finance.

No attempt has been made to present a case for any one approach to taxation, but the papers were selected to outline varying theories and points of view. There are instances of direct contradictions between selections. Professor Taylor writes that such controversy is in the nature of public finance, and should be part of a student's education.

This is a book which has some considerable diversity and comprehensiveness despite the ways in which it is circumscribed. While the principal emphasis is given to domestic revenue resources, Part I is deliberately broad in order that the role of taxation may be viewed in the broader context of fiscal policy in an African setting. Part II is also broadly conceived; considering general or overall issues of tax policy and economic development. Parts III and IV present a specialized treatment of particular revenue

resources, following the conventional classification of direct and indirect taxes. Part V, the concluding sections, gives consideration to issues of taxation.

Wald, Haskell P., Taxation of Agricultural Land in Underdeveloped Countries (Cambridge: Harvard University Press, 1959), pp. 231.

This book is an early comprehensive study of methods of taxing agricultural land in a modern economic development context. Drawing heavily upon information that has only recently become available, the book reviews the present status of taxes on agricultural land in the underdeveloped countries and provides basic policy guides for modifying these taxes to have them serve more effectively as instruments of development financing.

The book is divided into three parts. It begins with a detailed description of the different methods of land taxation throughout the world. The second part analyzes the principal types of taxes from (1) the viewpoint of equity, (2) the viewpoint of economic policy, and (3) the viewpoint of administration. Finally, the author shows that a properly conceived and applied land tax offers a promising solution to some pressing fiscal problems of underdeveloped countries, including the problem of mobilizing savings in the agricultural sector.

It remained for some time a valuable book for the classroom and for people interested in the economic problems of underdeveloped countries and in the work of the United Nations and other agencies providing technical assistance to them. This volume presents methods of analysis which constitute a model for studying many problems of taxation in the less developed areas of the world.

International Labor Office, Fiscal Measures for Employment Promotion in Developing Countries (Geneva: I.L.O., 1972), pp. 342.

This volume, containing papers and practical suggestions prepared in connection with a meeting of experts convened by the ILO, is concerned mainly with a much less familiar topic, namely how fiscal measures can increase employment through influencing the product mix and the choice of production techniques. In this volume, the ILO expressed a concern that a number of features characteristic of many developing economies combine to bias the decisions of entrepreneurs, private and public, in the direction of choosing capital-intensive rather than labor-intensive products and techniques. Systematic analysis of these distortions and of possible ways of counteracting them remains largely uncharted territory, to whose discovery this volume makes a significant contribution, the ILO concluded.

IV. FISCAL POLICY AND ECONOMIC DEVELOPMENT

A. The Macroeconomic Perspective.

During the 1978-1985 period, a predominant theme, one inherited from the classical writers, was that governments have assumed substantial responsibility for economic management. Indeed, the predominant theme not only took on a "positivist" dimension, but it also took "normative" overtones which sought to justify such actions. The literature stressed that governments in developing countries continued to use fiscal instruments to advance the objectives of macroeconomic growth and development and aggregate economic stability: Goode (1983, Chs. 10 and 11), Lewis (1984, Part I--annotated in Section VI) and Exhag (1983). In this sense, government action was not unlike what was occurring in developed countries where governments sought stable growth. However, two factors distinguish developing countries--they are highly open economies susceptible to external shocks, and their administrative and economic management structures are weak.

The focus on the stability aspect of macroeconomic management became particularly important because of the global economic disturbance of the 1970s, and because the IMF undertook an active role in assisting countries to manage external gaps under conditional terms. In almost all cases, conditionality stressed fiscal components: Aghevli and Khan (1978), Beveridge and Kelly (1980), Heller (1980), Kelly (1982 and 1983), Tanzi (1982) and Chand (1984). However, the writers did not lose sight of the growth aspect of fiscal measures undertaken mainly to stabilize national economies. Their writing tended to link stabilization and growth via their

focus on financial gaps. The above cited contributors and others, whose works are viewed collectively, focused attention on what they thought to be an important limitation on development: a shortage of foreign exchange, as a result of which countries are unable to acquire from abroad the goods and services necessary to promote domestic development. Their approach became known as the "two-gap" approach because it operates in two dimensions. First, it continues to argue that development is a function of investment; second, it holds that such investment, which requires domestic savings, is not sufficient to ensure that development takes place. It must also be possible to obtain from abroad the goods and services that are complementary to those available at home. In most developing countries, the structure of the economy is so simple that it can produce only a limited range of products when relying solely on domestic sources. In these circumstances, an act of saving, by itself, even though it releases resources for investment purposes, may not make available the correct kind of resources. Domestic saving, they noted, was two-fold: those generated via market activities and those generated from government command decisions, e.g. through taxation. Unless domestic savings can be used, in part, to purchase the necessary goods and services from overseas little progress can be made: McKinnon and Mathieson (1981) and Hawkins (1984).

Calculations of capital requirements for growth were part of the dual focus on shorter-term stability and longer-term growth. The calculations proceed on the basis of projections of the four important magnitudes: savings, investments, exports, and imports. A target rate of growth is specified, and then the amount of additional capital that will be

required in order to reach that target rate of growth is estimated. This gives a figure for capital requirements which can be compared with the likely availability of domestic savings. At the same time it is possible to make projections of the likely behavior of exports and imports. The former will depend on the supply of goods and services available, or likely to be available, for export from the domestic economy, the state of the world markets, and the economic health of the developed countries which are the markets for such exports.

FitzGerald (1978), Holbik (1982) and Hawkins (1984) note that a variant on the two-gap approach employed a three-phase approach, where an attempt was made to specify in quantitative terms the constraint on development arising from the limit of absorptive capacity. This work has had a considerable influence on discussions of the subject. The writers noted that various constraints--a savings constraint, the foreign exchange constraint, and the limitation of absorptive capacity--come into operation for a particular developing economy at various stages of its growth. They focus special attention on two aspects: first, the savings behavior of the economy concerned, or its ability to refrain from consumption and allocate additional resources to investment; and second, the question of absorptive capacity, viewed, in this instance, as a performance factor. In other words, if absorptive capacity is increasing over the years, it can be regarded as a measure of the improved economic performance of the country concerned, and of its ability to make better use of capital from abroad.

Beveridge and Kelly (1980), and Kelly (1982 and 1983) call attention to the fact that three factors characterizing most LDCs limit their

capacity to pursue macroeconomical stabilization: first, the economies are highly "open," policy-making capacities are limited, and administrative structures are weak (Goode, 1983; and Lewis, 1984). Even when policies are effective, weak economic linkages among sectors limit the economic impact of appropriately designed and implemented fiscal measures (also see Caiden and Wildavsky, 1980; Giles and Jennings, 1982; and Bird, 1984).

Beveridge and Kelly, Hawkins (1984), McKinnon and Mathieson (1981) point out that a country's balance of payments and budget deficits are clearly linked. A country's current account deficit position (M-X) is equal to the gap between national savings and investment (or between domestic income and expenditures). The gap is both public (G-T) and private (I-S); e.g. M-X = (I-S) + (G-T). However, if public spending exceeds taxation and private investment exceeds savings, then the country needs recourse to external borrowing from private and public sources.

A question emerges: can the country convert the external resources into the level of economic activity required to manage the debt incurred because it needed to acquire external resources? If not, adjustments are required and, in inflationary gap situations, they are accompanied by significant foreign exchange shortages. Restrictive fiscal measures are a part of IMF conditionality, particularly on the spending side.

The practice of including fiscal performance clauses in Fund programs increased during the 1970s and in recent years has become almost universal. Kelly pointed out that, between 1978 and 1981, all but four of the 78 upper credit tranche and extended arrangements approved by the Executive Board included a fiscal performance clause. The most usual was a

ceiling on domestic bank credit to the government or the non-financial public sector. The second most frequent clause was a ceiling on the size of the overall fiscal deficit. Other clauses covered such areas a measures to reduce government payment arrears, specific government taxation, expenditure measures, and public enterprise pricing policies.

An analysis of 77 standby arrangements in the upper credit tranches between 1971 and 1980 suggested that almost half the average reduction in the balance of payments current account deficits in the program countries was a result of reduced fiscal deficits. More to the point, in those countries whose current account deficit fell, a reduction in the fiscal deficit was the main reason, and in those where the current account deficit rose, the primary culprit was the increasing fiscal deficit. Although economic performance can be measured in a variety of ways, and a reduction in balance of payments deficits does not always suggest that effective adjustment is taking place, this study found that, to the extent adjustment did require reduced current account or overall balance of payments deficits, small fiscal deficits made a significant contribution to achieving them.

Goode (1983) makes the point that cyclical fluctuations in less developed countries originate mainly in the balance of payments and political disturbances. These cannot be compensated by stimulating and retarding aggregate demand through fiscal actions. A stablilizing fiscal policy for a less developed primary-producing country can aim at spreading the use of export earnings more evenly over time and thus avoiding disruption of domestic activity. It may rely especially on flexible export

taxes, relatively stable government expenditures, and careful management of foreign debt and international reserves. A possible norm for a stabilizing budget policy would set allowable government expenditures by reference to a neutral revenue trend and would let actual revenues fluctuate with current exports, thus producing variable budget deficits. Goode goes on to note these points.

First, stabilization programs allegedly have taken too little account of growth and development objectives and have sometimes worked against them. Admittedly, the relation between inflation and growth is ambiguous, through countries suffering from inlation frequently take palliative actions that are harmful to growth and development. The correction of distortions attributable to the palliatives, the liberalization of foreign trade, and the adoption of a realistic exchange rate are essential to efficiency and growth. The resolution of a balance-of-payments crisis may allow a quick revival of activity. However, some high-cost industries previously operating behind protective barriers may have to be cut back or eliminated.

Second, it has been charged that stabilization programs often increase inequality of income by reducing real wages and increasing prices of necessities. The programs do affect income distribution and relative prices, and inevitably they result in the disappointment of expectations because to be successful they must restrict income and consumption claims that previously exceeded the capacity of the economy to meet.

On the matter of reducing governments' overall expenditures, Heller (1980 and 1985) notes that a set of answers to key questions need to be forthcoming:

(1) Do the different elements of the government's investment program realize an adequate social rate of return and do they efficiently further the government's medium-term economic objectives?

(2) Which groups in society benefit from the different components of the government's recurrent expenditure program and at what costs are these benefits provided?

(3) Is the balance between investment and recurrent expenditure appropriate, both in macroeconomic terms and at the sectoral level?

(4) Does the government, broadly defined, produce particular goods and services efficiently?

(5) What are the dynamics of growth of particular categories of expenditure?

(6) How sustainable are particular expenditure policies?

(7) What effect will a given expenditure (say a subsidy on a largely imported product) have on the balance of payments?

Heller and Cheasty (1984) went on to point out that policy recommendations flow from an appraisal of the relative productivity of different expenditures. The effects of these expenditures on the allocation and distribution of resources, the relative costs of achieving different objectives, and the relative priorities of the authorities as between different objectives.

Precise and comprehensive answers to these questions requires analytical and statistical resources beyond the means of policy analysts in many developing countries. However, economists can nonetheless carry out an approximate or intuitive analysis of the implications of particular policies for resource allocation and distribution, as whether they are consistent with the stated policy objectives, and point out the financial costs of those policies. Goode (1983), in concluding his superb work, pointed out that strengthening LDC's policy-making and administrative

capacities are absolutely crucial if fiscal measures are to be optimally useful as tools of macroeconomic management in developing countries. Goode suggests that, in this area, donors could provide badly needed technical assistance and training.

Clearly, two consequences arising from restrictive fiscal measures in pursuit of stability are to be avoided (or at least minimized): first, significant disruptions in longer-term growth capacities (or, as Chenery and others refer to them, absorbitive capacities); and second, negative impacts on efficiency in resource allocation and output distribution. One of the leading critics of Fund-sponsored fiscal restrictions is Tony Killick (1984). Killick summarizes his concerns by starting with

> ...the objectives of the Fund, as stated in Article I. These include: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy" and "To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."
>
> There is an immensely strong case in present-day circumstances for an organization such as the Fund to pursue these goals and the main question is about the Fund's ability to achieve these desirable ends. Lest there be any confusion, I am not suggesting that the Fund be converted into another international aid agency for the financing of long-term development. Note, however, that Article I identifies multiple objectives, with employment, income, and economic development designated as primary objectives. The balance of payments is seen as a constraint on the achievement of these objectives, rather than an end in itself. However, over the years, the Fund's emphasis on correcting disequilibria in the balance of payments has often meant that the primary objectives have been pushed into second place. I suggest that this pursuit of a single balance of payments objective, against the multifaceted goals of national governments, is an avoidable source of friction between the Fund and some developing countries.

> Virtually without exception, programs are built around a balance of payments objective; any targets for such variables as economic growth and inflation are strictly subordinate to the balance of payments goal. Income distribution objectives do not feature at all. Yet there are potentially large economic costs involved in seeking to achieve economic restructuring largely by means of demand management (although such management certainly has an important role to play). I suggest that the Fund should be more willing than it has been in the past to accept development and the other "primary objectives" identified in Article I as imposing constraints upon the design of adjustment programs, and make a more conscious attempt to design programs which achieve adjustment in a least-cost manner.

Killick's emphasis on longer-term and broader growth and development goals is a critical point in the literature. Indeed, the work of Hicks and Kubisch support his concern. They show that capital formation is a likely casualty of restrictive fiscal measures. Set in a "three-gap" context, the restrictions could have negative growth consequences by disrupting a growth momentum: McKinnon and Mathieson (1981); Biehn, et. al. (1983); and Exhag (1983).

Writers, then, offer juxtaposed appraisals of the role of fiscal policy and shorter-term economic stability, and longer-term economic growth and development. One appraisal is that expansionary fiscal measures are required to ensure longer-term progress (e.g. Beveridge and Kelly, 1984). Rather than to focus primarily on narrowing the "two gaps" in the more immediate period, the concentration is on managing the gaps via sound fiscal, monetary and commercial policy measures designed to generate local resources and to supplement them with external resource flows. The proponents of this view are concerned that overly restrictive fiscal measures designed to close the gaps could slow down the process whereby absorbitive capacities are enhanced in the longer term (using the

"three-gap" model associated with Chenery's work). They are, however, mindful of the need to maintain stability at the macro level in terms of price stability and full employment.

The other appraisal is that restrictive fiscal measures, reasonably designed and implemented, are required to stabilize economies in the shorter term (Killick, 1984). Stabilization is particularly important, this view holds, with respect to closing balance of payments, budgetary and inflationary gaps, and improving investment climate in order to stimulate private sector investment. This view, then, does not altogether exclude a longer-term perspective, even though the primary target is the shorter-run.

One other topic covered in the literature has to do with the impact of national defense spending on shorter-term macroeconomic stability and longer-term economic and social development. The debate is about where such expenditures pose an opportunity cost whereby development projects are foregone, and whether the external benefits derived from defense (or security) spending more than compensates for such losses via generating external social, political and economic benefits: Ball (1983 and 1984), Faini, et. al. (1984), Pluta and Rittenoure (1978), and Whynes (1979). The debate poses serious issues without generating a definitive conclusion.

B. The Microeconomic Perspective.

The literature's focus on microeconomics accepts, in general, the point that, when developing countries put into place a set of microeconomic policies and measures, their implementation places "floors" under the level of overall government expenditures: efforts to explain why such "floors" come into being range from concentrating on institutional structure, Bhatt (1978 and 1984), Caiden and Wildavsky (1980), Caiden (1980), to economic structure, Christiansen (1981), Heller (1984), Morrison (1982), and to demography, Bolnick (1978 and 1982). However, the writers' primary concentration continues to be on developing a set of economic principles to analyze why governments are involved in certain types of economic activities, and why they should--or should not--be involved in them. One particularly noteworthy emphasis is the one on public sector (or parastatal) enterprises: Goldschmidt (1984), Sarmad (1984), and, in particular, Saulniers (1984).

Public sector enterprises were seen to play an important role in production. The rationale for these enterprises was that, at early stages of development, private sectors were not able to undertake a number of economic functions. Over the years, public enterprises in several countries incurred substantial losses, borne either directly or indirectly by the central government budget. When authorities have reviewed carefully the operations of public enterprises and, invariably, the consensus has been that the enterprises had to operate more efficiently. In a number of cases, operations were streamlined. In others, where the public enterprises were not considered viable on efficiency grounds, their

operations were discontinued. Clearly, public enterprises could not be judged solely on the grounds of profitability, as a number of these enterprises provided vital social services. In effect, then, the writers note that the government sector, through current and capital operations, have played dominant roles in the economies of most developing countries. In many, revenues failed to cover expenditures and, as a consequence, governments resorted to domestic and foreign borrowing to finance budgetary deficits. Financial stability could not be restored without first tacking the excessive expansionary impact of fiscal policy.

Caiden and Wildavsky (1981), Caiden (1980), Goldschmidt (1984), Saulniers (1984) and other writers note that development requires a mix of private, public, and parastatal activities, and technical criteria for the appropriate allocation of projects between these three sectors need to be carefully formulated. The following categorization may provide a useful basis for more detailed analysis:

> The private sector, where: (i) the output is divisible among consumers; (ii) the market is likely to be sufficiently competitive in order to ensure economic efficiency; (iii) the impact of the enterprise is not likely to lead to intolerable inequities in the distribution of income and wealth; and (iv) the output is useful to meet either the basic needs of consumer (e.g. foodstuffs) or the material inputs linked to the production of needed items.
>
> The parastatal sector, where: (i) the output is divisible among consumers; (ii) the market is likely to be either non-competitive and/or to have an intolerable impact on the distribution of income and wealth; (iii) the capital costs and periods of amortization discourage private investors; (iv) the size of the market and structure of costs produce a 'natural monopoly' situation; and (v) the externalities in the form of benefits or costs (social objectives) cannot be covered by the market price.
>
> The government sector, where: (i) the output is not divisible among consumers, e.g. as in the case of national defense; (ii) the social objectives are not compatible with commercial risk-taking; and (iii) the social costs and benefits can be equated more effectively by direct government action.

Government plays a positive role in mixed economies founded on the primacy of private marketplace activities. However, often private markets fail and need to be supplemented by public sector activity, but activity guided by sound principles. The task of the writers was to develop normative economic principles underlying the expansion of activity in the public sector. Goods ought to be produced publicly, or at least publicly provided, when any of the following conditions prevail: (1) goods can only be distributed collectively (that is, when they are not divisible); (2) there is a divergence between private and public benefits and costs; (3) there are natural monopolies; (4) the production of goods entails extraordinary risks and/or long amortization periods and have exceptional public merit; and (5) private marketplaces have failed to achieve the objectives of economic efficiency and/or equity: Jones (1985), Lewis (1984), Sahni (1983), Saulniers (1984), Whynes (1979), Willoughby (1981).

C. Wagner's Law.

The macro and microeconomic principles previously discussed provide analytic bases for activist fiscal approaches in LDCs. Mann (1980), Murphy (1981), and Pluta (1981) pursued a different approach to "explaining" the rise of an activist fiscal approach. They focus on "Wagner's Law" as a general way of accounting for the expansion of public sector activities in LDCs. Given the previous principles and macroeconomic factors, the literature notes that, during the late nineteenth century, the German economist Adolf Wagner set forth what he took, and what many economists have since taken to be, a contingent social law. The law was contingent

upon the existence of an increasingly complex and developing society. The law was arrived at inductively; that is, it was developed from an analysis of actual social trends rather than derived from the axioms of an economic or political model. Pigou pursued the latter course: the behavior of government to him, as was said above, was comprehensible within the framework of deductive economic theory. Wagner, however, had simply observed a pervasive social fact and attempted to explain it; e.g., his explanation was his "law." What Wagner observed was this: in a number of industrial countries, the level of public spending had, over an extended period, tended to increase. But, more importantly, public spending had increased at a faster rate than community output. In short, government tended over time to control a larger and larger share of society's resources. Wagner's facts were undoubtedly correct. Indeed, the tendency he observed has been maintained since his time, not only in Europe but in the United States as well. In 1900, for example, public spending in the United States comprised some 8 percent of GNP. By 1968 the amount had risen to some 28 percent. No one, surely, can predict when, if ever, the expansion of government relative to society will be stabilized or reversed. Certainly nothing in Wagner's formulation suggests the possibility of reversing this trend. If Wagner were correct about the facts of the matter, his explanation of the facts is something else again.

There are several aspects of Wagner's argument, some of which are consistent with rather widely accepted notions about the expansion of governments. One of his propositions, however, seems to fly in the face of common sense, or at least the common sense of political scientists. This

is his belief that government will grow relative to economy regardless of the political character of the society. Whether the political system is liberal or conservative, democratic or authoritarian, capitalistic or noncapitalistic, makes no difference.

As Murphy suggests, Wagner's Law held that there are more fundamental forces, rooted in the nature of economic and political systems, that determine the tendency he observed. In the main, these forces were not adduced from a theory of collective choice - a theory, that is, that rational men will choose over time to collectivize more of their resources.

D. The Supply-Side Theorist's Response.

The rise in the level of economic activity in the developing countries, based upon optimal public finance principles and "explained" by Wagner's Law, engendered what could be called a "supply-side" response during the 1980s. This literature focuses on the importance of the economic behavior of productive agents to aggregate supply and macroeconomic policies. The writing has both a political and an economic content, and is based upon these concerns: tax ratios do not always correlate to economic development, Abizadeh (1979); tax capacities are acutely limited in low-income countries, and this limitation should be noted and accounted for in fiscal programs, Bolnick (1982); budgeting and administration weaknesses push up tax ratios in ways unrelated to development - particularly in low-income countries, Caiden (1980), Doh (1984), and Sjaastad (1983); and, to a lesser extent, public enterprise policies often yield perverse distribution, Jones (1985) and Sahni (1983). In particular, supply-siders are acutely concerned about empirical findings

such as Landau's (1983), e.g. a significant negative relationship between government consumer expenditures and the rate of growth in per capita income. However, Newlyn (1985) suggests an alternative methodology for measuring tax effort, one that stands in contrast to Landau's.

Politically, supply-side thinking is based on a belief that free markets allocate resources most efficiently under most circumstances, that governments tend to grow big and are inherently inefficient, and that politicians or bureaucrats in a policy-making position cannot be trusted to act effectively in the community's interest.

Supply-side writings voice concerns that many government regulations aimed at protecting the consumer and worker are so costly that they are indefensible in terms of cost-benefit ratios, and eliminating them would therefore improve resource allocation; welfare and other programs discourage work effort, and limiting access to such programs to the needy would restore work incentives; and income taxes are biased against work efforts as well as savings and investment.

In general, supply-side writing is aimed at minimizing the distortions seen in regulations, subsidies, and high and progressive taxes injecting into market choices. They believe that their removal would encourage savings and production by allowing the economic incentives of a free market to work. They also believe that the private sector, by itself, is capable of bringing about sustained economic growth, and that there is a need to reduce the role of the public sector in developing countries. The concern is the tax impact on incentives to invest, produce, consume, and save.

E. Bibliographic Citations.

1. Macroeconomics: Core Works.

Beveridge, W. A. and Margaret R. Kelly, "Fiscal Content by Financial Programs Supported by Standby Arrangements in the Upper Credit Tranches," I.M.F. Staff Papers, Vol. 27 No. 2 (June 1980), at p. 205.

In their lengthy article, the authors discuss the perceived need for fiscal policy provisions to be important aspects to economic stabilization programs supported by the Fund. With respect to developing countries, they survey extensively the theoretical and policy issues, and empirical evidences, regarding the role of fiscal policy with adjustment efforts.

Biehl, Dieter, Karl W. Roskamp, and Wolfgang F. Stolper, Public Finance and Economic Growth: Proceedings of the 37th Congress of the International Institute of Public Finance, Tokyo, 1981, (Detroit: Wayne State University Press, 1983) Pp. 427.

The book contains 23 previously unpublished papers (three in French). The proceedings were organized around the topic, public finance and economic growth and the question of how, to what extent, and at what time governments in market economies can enhance economic growth. Papers range from discussions of the main causes of problems in the area of economic growth to proposals for optimal measures for solving these problems. Urban growth problems are also addressed.

Chand, Sheetal, "The Stabilizing Role of Fiscal Policy," Finance and Development, Vol. 21 No. 1 (March 1984), at p. 38.

The author points out to the reader that, in the period since World War II, many countries have sought to use the budget to stabilize the economy, reflecting the Keynesian revolution in economic thinking. This policy has been controversial in regard to such questions as whether fiscal policy can smooth out fluctuations in the business cycle and related changes in employment growth. This analysis reviews certain aspects of a stabilizing fiscal policy with emphasis on how to measure and evaluate its stabilizing effects. Fiscal policy should be regarded as only one tool for stabilizing real output growth. It is essentially of a short-term nature, and it is necessary to maintain a longer-term perspective on the appropriate budget profile. A focus on stabilization can cause deviation from the norm compatible with medium-term growth and stability. A useful corrector is an attempt to assure that the sum of each year's budget balance averages to that of the norm over a period of years to even out cyclical effects.

Exhag, Eprime, Fiscal and Monetary Policies and Problems in Developing Countries, (New York and Melbourne: Cambridge University Press, 1983), Pp. 287.

The book examines the potential of fiscal and monetary policies for promoting economic development in developing countries and assesses the extent to which this potential is exploited; confines the analysis to developing market economies. The role of local and monetary policies is examined largely within the framework of two models: the Keynesian model of income determination and a model of financing investment in a mixed economy. It analyzes the role that fiscal and monetary policies can play in providing adequate reserves for financing a target volume of investment without engendering price inflation. The book focuses on the problems of augmenting investment resources through domestic savings and foreign capital and with the influence of fiscal and monetary policies on the pattern of investment, i.e., its sectoral and geographical allocation. The author analyzes the nature of imbalances commonly experienced in developing countries and indicates remedial measures, and examines the monetary approach to imbalances, concentrating on the approach of the I.M.F. It concludes that most developing countries fail to adequately exploit the development potential of fiscal and monetary policies, often because of institutional and sociopolitical obstacles to their adoption and implementation. Tables provide information on capital flows and on the external debt of developing countries in the 1970s.

FitzGerald, Edmund V. K., Public Sector Investment Planning for Developing Countries, (London: Macmillan, 1978), Pp. 200.

This is an exceptional textbook on social cost-benefit analysis and public investment planning for developing countries. Restricts the treatment of the social dimensions of public sector project analysis to assessment of project impact on national objectives, such as income redistribution and autonomous industrialization. The material presented in three sections: the first covers analysis of public sector projects and includes some recent problems and advances in cost-benefit analysis; the second treats the planning of public investment, including intertemporal analysis, capital budgeting, and the relationship between plans and projects; and the final section consists of supplementary material, including a case study and examination questions. Analytical points are illustrated by numerical examples.

Goode, Richard, Government Finance in Developing Countries, (Studies of Government Finance: Second Series, No. 19. Washington, D. C.: Brookings Institution, 1983), Pp. 334.

This volume presents a survey of current theories and practices in fiscal affairs (budgeting, expenditure analysis, taxation,

borrowing, and government financing through money creation) from the standpoint of institutions and problems in developing countries. It underscores the shortcomings in methods of budgeting, expenditure control, and taxation despite innovations in the developing countries, where governments have assumed large responsibilities. Concludes that the successful execution of fiscal policies depends on the quality of public administration and on the formulation of policies realistically adopted to available resources. Administrative resources can be increased by staff training and supplemented to a limited extent by technical assistance.

Goode's book is sufficiently important to warrant including the review of it by George Break as an entry to this bibliography.

Hawkins, E. K., "Public Financial Aid: Calculation of Capital Requirements," in Leading Issues in Economic Development, edited by Gerald M. Meier, (New York: Oxford University Press, 1984), at p. 283.

The author focuses attention on the two-gap approach involving the shortage of foreign exchange within the context of the argument that development is a function of investment. This requires domestic savings which, when it is insufficient to support the needed investment, must be supplemented by funds flowing from abroad. Such funds are needed to cover the foreign exchange costs of obtaining resources from abroad.

The brief article is important because it highlights cogently and succinctly the two-gap approach as a basis for seeing budgetary and balance of payments gaps as inter-linked.

Heller, Peter S. and Adrienne Cheasty, "Sectoral Adjustment in Government Expenditure in the 1970s: The Educational Sector in Latin America," World Development, Vol. 12 No. 10 (October 1984), at p. 1039.

The paper notes that, as a consequence of economic stagnation and the increasing difficulties faced by developing country governments in financing their budgets, it might be expected that the education sector in these countries would suffer cutbacks. On the other hand, in most countries the education sector has high political, social and economic priority and is therefore one of the more difficult sectors within which to make adjustments. This paper examines the experience of 18 Latin American countries in terms of how educational spending has evolved at each educational level during the period 1965-78. A comparison is made of the periods before and after the adjustment of the 1970s. The authors evaluate the form that expenditure adjustments have taken and conclude with some remarks on the patterns which emerged.

Heller, Peter S., "Impact of Inflation on Fiscal Policy in Developing Countries," Monetary Fund Staff Papers, Vol. 27 No. 4 (December 1980), at p. 712.

Heller, Peter S., "Analyzing and Adjusting Government Expenditures in LDC," Finance and Development, Vol. 22 No. 2 (June 1985), at p. 2.

In the two articles cited above, the author concludes that unsustainable government expenditures are often a cause of balance of payments difficulties and, therefore, controlling such expenditures is frequently an important element in policy packages adopted to bring about adjustment. In Fund-supported programs the Fund staff, in cooperation with officials of the member country, and often drawing on work done by the World Bank, analyze the country's fiscal policy (including government expenditure) and may make certain recommendations. The ultimate choice, however, will be governed by the size and structure of the budget deficit, the severity of the overall adjustment that is needed, and, most important, the government's priorities concerning the various elements of its expenditure policy.

Holbik, Karel, "The Public Sector and Capital Formation in Developing Countries in the 1970s," Rivista Internazionale di Scienze Economiche e Commerciali, Vol. 29 No. 4 (April 1982), at p. 289.

The author's article points out clearly and sharply the role that the public sector plays in the formation of capital stocks in developing countries. The analysis is conducted within an optimal public finance framework which focuses on the respective and joint roles of the private and public sectors.

Kelly, Margaret R., "Fiscal Adjustment and Fund-Supported Programs, 1971-1980," I. M. F. Staff Papers, Vol. 29 No. 4 (December 1982), at p. 561.

The paper utilizes national income and monetary survey identities to examine the relationship between fiscal and balance-of-payments adjustment. For country programs covered, results show that (1) external imbalances in pre-program years tended to be associated with large fiscal imbalances and (2) reductions in external imbalances during Fund programs were associated with reductions in fiscal deficits. Some programs showed large adjustments in the nongovernment sector. The paper also examines the effects of revenue and expenditure policies designed to reduce fiscal deficits on growth and medium-term external performance, but concludes that a more disaggregated analysis is required.

Kelly, Margaret R., "Fiscal Deficits and Fund-Supported Programs," Finance and Development, Vol. 20 No. 3 (September 1983), at p. 37.

The author points out that a country's current account deficit position is equal to the gap between national savings and investment (or between domestic income and expenditure), e.g. M-X = I-S. When investment and savings are split between the public and government sectors, the private sector financial gap and the overall government deficit are equal to the current account position, e.g. $(I_p - S_p) + (I_g + S_g) = M-X$. Her work provides a concise, logical and systematic basis for understanding the shared role of government and the I.M.F. in adjustments under Fund-supported programs.

Killick, Tony, "The IMF's Role in Developing Countries," Finance and Development, Vol. 21 No. 3 (September 1984), at p. 21.

Killick criticizes the I.M.F. because, he argues, virtually without exception, its programs are built around a balance of payments objective; any targets for such variables as economic growth and inflation are strictly subordinate to the balance of payments goal. Income distribution objectives do not feature at all. Yet there are potentially large economic costs involved in seeking to achieve economic restructuring largely by means of demand management (although such management certainly has an important role to play). He suggests that the Fund should be more willing than it has been in the past to accept development and the other "primary objectives" identified in Article I as imposing constraints upon the design of adjustment programs, and make a more conscious attempt to design programs which achieve adjustment in a least-cost manner.

McKinnon, Ronald I. and D. J. Mathieson, "How to Manage a Repressed Economy," Essays in International Finance, No. 145 (Princeton: December 1981), Pp. 25.

In their essay, the authors advance a second-best strategy for managing a repressed economy. For a given fiscal deficit, they propose financial guidelines to minimize the necessary rate of inflation without unduly penalizing exporters and without crowding out the private capital market more than is necessary. The main elements in this strategy are:

1. Government authorities should replace general usury restrictions with direct interest subsidies to certain preferred borrowers, and these should be included in the Treasury accounts. Once other interest rates are freed, the true fiscal deficit can be calculated more accurately.

2. In the open part of the capital market, a comprehensive non-interest-bearing reserve requirement against term deposits should vary directly with the size of the fiscal deficit.

3. Flows of private capital both to and from the rest of the world should be subject to exchange controls or reserve requirements.

4. If the minimum necessary rate of domestic inflation exceeds the country's principal trading partners, the exchange rate should be indexed by a passive downward crawl.

Their work, focusing on integrating balance of payments and budgetary gaps, highlights the importance of treating the issues jointly within the context of long-term development strategies.

Meerman, Jacob, Public Expenditure in Malaysia: Who Benefits and Why, (World Bank Research Publication. New York; Oxford; Toronto and Melbourne: Oxford University Press for the World Bank, 1979), Pp. 383.

The author examines public spending for education, medical care, public utilities, and agriculture so as to estimate the distributive effects of such expenditures as well as their importance in meeting basic needs. The writing is based on data on the costs of government outputs and a sample survey of 1,465 households in Peninsular Malaysia carried out in 1974 of the use of the services by households, and finds in part that: (1) the total resources devoted to education are seriously underestimated, with more than one-seventh of total resources being used for that sector; (2) the government's goal of making medical care available to all has been achieved; (3) the distribution of utilities in Malaysia is similar to other countries, yet more subsidies may be needed to aid those families not utilizing these services due to income constraints; and (4) both the variety and the density of public activity in agriculture are high, and there are no pronounced patterns of discrimination in services between the rich and poor. Information on additional material used is appended.

Musgrave, Richard A., Fiscal Reform in Bolivia: Final Report of the Bolivian Mission on Tax Reform, (Cambridge, Mass.: Harvard University Law School, International Program, 1981), Pp. 593.

This report of the Musgrave Mission to the Government of Bolivia is based on 36 staff papers prepared by an international group of researchers selected by the author and invited in 1975 by the Bolivian government to study fiscal reform in the context of Bolivian development efforts. The first part examines Bolivia's macroeconomic and development patterns, distribution of income, national accounts, as well as other aspects of the country's economic setting. The second part discusses budget and expenditure policy and focuses on the budgetary process, public enterprises, and agricultural development. The final section provides an overview of the tax and tariff structure. In addition to describing and assessing key tax instruments, this section analyzes income tax

administration, the taxation of hard-to-tax groups, and tax initiatives.

Premchand, A. and Jesse Burkhead, Comparative International Budgeting and Finance, (New Brunswick, N. J., and London: Transaction Books, 1984), Pp. 231.

The book contains fourteen papers, solicited from educators and practitioners in both developed and less-developed countries and published in Public Budgeting and Finance issues from summer 1983 through summer 1984. The papers concern national government budgets and financial management in the context of the economic conditions of the late 1970s and early 1980s in, for example, the ASEAN countries, India, South Korea, Malaysia, Mexico, and the Philippines. Focus is on changes in budget and financial management techniques as a result of the recent worldwide recession, including multi-year budgeting systems, planning for reduced expenditure growth, improved reporting and management systems, and improved cash management systems. The papers also analyze the factors contributing to fiscal stress, discuss the policy and institutional responses, and evaluate successes or failures of new budgetary techniques.

Saulniers, Alfred H., The Public Sector In Latin America, (Austin: University of Texas, 1984), Pp. 235.

In this excellent work, the editor notes that the state traditionally has played a major role in Latin American economic systems. During the colonial period state control was particularly strong in the areas of access to resources, commercial networks, and trading opportunities. In order to regulate production, distribution, and consumption policy, instruments such as land grants, loans and grants of funds or basic inputs to private enterprises, price controls, and government production monopolies were employed. Though such control was relaxed somewhat during the independence period and in the years immediately thereafter, the period from 1850 to 1914 witnessed an even stronger role for the state, involved as it was in rehabilitating devastated infrastructure and disrupted trade sectors. Government-sponsored land redistribution, major production subsidies, port improvements, provision of utilities and railroads, and portfolio investment in a nascent manufacturing sector were commonly used tools.

During this period one particular policy instrument - the semiautonomous agency - began to assume greater importance. Such agencies are market by a juridical existence separate from the central government. Since World War II, the Latin American state has relied increasingly on this particular tool. Growth in the number of such agencies as well as in the scope of their activities has been noted in all nations.

The public sector archives of the Office for Public Sector Studies (OPSS) indicate that at present there are more than six thousand semiautonomous government agencies in Latin America. They range from large petroleum firms with annual sales exceeding $15 billion U.S., to small, individual trust funds with a cash flow of several thousand dollars per year. These agencies share only one general characteristic - their great diversity. The work focuses on the fact that they differ in such aspects as age, type of goods or services produced, impact on the balance of payments, amount of value added, employment generated, pricing policy, social impact, and redistributive effort.

Sjaastad, Larry A., "Failure of Economic Liberalism in the Cone of Latin America," World Economy, Vol. 6 No. 1 (March 1983), at p. 25.

The article discusses the wave of economic liberalism that swept the Southern Cone of Latin America during the 1970s as obvious reactions to the total failures of the preceding economic ideologies. An analysis of the experiences of Uruguay, Argentina, and Chile, indicates a significant shift in emphasis of economic policy away from incentives for wealth creation and toward income redistribution. This shift, which started in the 1930s, greatly magnified the role of the state in economic affairs. The objectives of the new economic liberalism policies seem to have been to: (1) rationalize resource allocation, (2) restore economic growth, (3) reinstate economic incentives, and (4) reduce inflation. An effort was made to accomplish these objectives by: (1) tariff reduction, (2) fiscal reform, (3) restoration of free-market prices and interest rates, (4) elimination of state enterprises, and (5) state intervention and establishment of an open exchange-rate regime. It is suggested that these policies failed, not as a result of the key elements of that approach, but rather because of the implementation of the stabilization programs.

United Nations, The Integration of Tax Planning Into Development Planning in the Escap Region, (United Nations; Economic and Social Commission for Asia and the Pacific: Thailand, Bangkok, 1983), Pp. 451.

This study shows that there is a need for greater integration of tax planning into development planning, an issue that has been raised intermittently for many years. In 1981 a project on this integration was initiated in Bangladesh, India, the Philippines, Republic of Korea, Sri Lanka, and Thailand. The book contains analyses of national experiences and issues concerning the harmonization of tax policies with development objectives and strategies, the integration of tax variables into development plans, and the coordination at the administrative level of ministries.

von Furstenberg, George M., "Inflation, Taxes, and Welfare in LDCs," Public Finance, Vol. 35 No. 2 (1980), at p. 183.

The author presents an investigation of views in the literature that inflation in developing countries can be a means of taxation to raise domestic saving and capital formation. Tax-maximizing rates of inflation in steady growth. Time path of inflation during transition between steady states. Welfare considerations, parameters required for empirical estimate of tax maximizing, growth-maximizing and welfare maximizing rate of inflation are examined and discussed.

Whynes, David K., The Economics of Third World Military Expenditure, (Austin: University of Texas Press, 1979), Pp. 165.

In this book, the author analyzes the impact on Third World economic development of military expenditure; examines developing countries' defense expenditure data to determine the causes of the growth in military spending, assesses the real resource costs by focusing on interface between the military and civilian economy, and discusses the specific issues of military aid and military intervention. He concludes that current levels of defense spending impose considerable economic and social costs onto the Third World. The book provides a review of possible methods of effectively reducing the burden of military expenditure while maintaining internal and external security.

2. Macroeconomics: Supplemental Works.

Abizadeh, Sohrab, "Tax Ratio and the Degree of Economic Development" Malayan Economic Review, Vol. 24, No. 1. (April 1979), at p. 21.

The author traces the ratio of taxation to the aggregate level of economic activity in developing countries. His data reveal that, for all but the very least-developed countries, there is a tendency for Wagner's Law to hold in most cases.

Adedeji, Adebayo, Nigeria's Federal Finance (New York: Africana Publishing Co., 1979), Pp. 308.

This volume contains an extensive description and evaluation of the nature of revenue collection, public spending and federal to state revenue transfers in Nigeria. The description and evaluation are viewed from the state level. The volume points to the political and administrative complexities inherent in formulating and implementing sound fiscal measures in a country as large and varied as Nigeria.

Afxentiou, Panayiotis C., Patterns of Government Revenue and Expenditure in Developing Countries and Their Relevance to Policy, (Series No. 35. Athens: Center of Planning and Economic Research, 1979).

This essay contains an examination of two bodies of theory concerning the size of the public sector, "Wagner's Law" and the "Displacement-Effect." Wagner's Law focuses on the expenditure side of state activity and hypothesizes a relative expansion of state activity during industrialization; the displacement-effect views the expansion of the public sector as driven by tax revenues and "public sector disequilibrium" resulting from the divergence between desired public spending and the tax burden. It analyzes theoretical and empirical work relating to these theories and attempts to determine the patterns of public revenue and expenditure appropriate to various levels of economic development. The essay concludes that the theories and empirical studies neglect important relationships between the public and private sectors and that the empirical studies are formulated on too aggregate a level to serve as useful guides to fiscal policy-makers.

Aghevli, B. B. and M. S. Khan, "Government Deficits and the Inflationary Process in Developing Countries," I.M.F. Staff Papers, Vol. 25 No. 3 (September 1978), at p. 383.

This paper examines the relationship between government deficits and inflation in developing countries. The basic hypothesis is that an increase in inflation increases the real value of the fiscal deficit, owing to the fact that expenditures keep pace with inflation while revenues tend to lag behind. The financing of this deficit increases the money supply, thus generating further inflation. The model is estimated for Brazil, Colombia, the Dominican Republic, and Thailand, and the results tend to validate the hypothesis. The study underscores the need for an actively anti-inflationary fiscal policy as well as tax reforms designed to eliminate revenue lags.

Aspe, Pedro and Paul E. Sigmund, The Political Economy of Income Distribution in Mexico, (New York and London: Holmes & Meier, 1984), Pp. 552.

The book contains sixteen previously unpublished papers which focus on the impact of public policy instruments in Mexico on the distribution of income. In the introduction, the editors stress the difficulty of producing significant changes in income distributions in a political system that attempts to achieve both equity and growth, social transformation and political stability, through a ruling party that is both revolutionary and non-revolutionary and the conclusion that most of the redistributive efforts have affected the modern rural and urban sectors rather than the traditional rural

areas. The papers examine the evolution of income distribution policies and the consequences for income distribution both of programs that had other purposes and of programs aimed directly at improving the welfare of low-income groups.

Bailey, John C., "Public Budgeting in Mexico, 1970-1982," Public Budgeting and Finance, Vol. 4 No. 1 (Spring 1984), at p. 76.

The author notes that, in general, public budgeting is everywhere under stress, and crisis is a much overused term. But in Mexico, now entering three years of imposed austerity following a robust oil boom, there is crisis. The nature of the crisis extends quite beyond fiscal policy narrowly considered and concerns the nature of Mexico's overall development strategy. More precisely, the central issue concerns what are to be the respective roles of the public and private sectors in generating rapid, balanced, and equitable growth, and what stance Mexico should adopt with respect to the world economic order. Budget process and policy, as received wisdom teaches, reflect broader institutional and policy dynamics, and we can best comprehend the specifics of budgeting if we take into account the relevant context.

His article attempts to sketch an overview of public budgeting in Mexico in recent years. As a "middle-income" developing country, Mexico has employed fiscal policy as a major instrument to promote rapid growth since about 1971. The result has been a pattern of "boom and bust," as rapid growth has been accompanied by high rates of inflation and assorted economic disequilibria. Petroleum development after 1976 has, in fact, exacerbated the pattern. The scope of this article is limited to the national level, with only incidental comments on state and local trends.

Ball, Nicole, "Defense and Development: A Critique of the Benoit Study," Economic Development and Cultural Change, Vol. 31 No. 2 (April 1983), at p. 507.

The author examines critically a study which Emile Benoit prepared for the U. S. Arms Control and Disarmament Agency. Benoit's study supported the contention that military expenditures may have some net positive developmental effects in those developing countries having substantial public expenditure commitments to defense. The author's criticism is founded upon the notion that such expenditures carry opportunity costs associated with the use of domestic and foreign resources used in the production of military goods.

Ball, Nicole, "Military Expenditure and Socio-Economic Development," International Social Science Journal, Vol. 35 No. 1 (1983), at p. 81, and

Ball, Nicole, "Measuring Third World Security Expenditure: A Research Note," World Development, Vol. 12 No. 2 (February 1984) at p. 157.

The two articles cited above point to the growing evidence that important amounts of security expenditure may not enter the budgets or the national accounts of many developing countries. Five of the most common mechanisms used by governments to obscure their security-related outlays are: double bookkeeping, use of extra-budgetary accounts, highly aggregated budget categories, military assistance and governmental manipulation of foreign exchange. The author contends that these practices fail to yield appropriate opportunity cost values in the calculation of the efficacy of such spending.

Bhatt, V. V. and Jacob Meerman, "Resource Mobilization in Developing Countries: Financial Institutions and Policies," World Development, Vol. 6 No. 1 (January 1978), at p. 45.

The authors trace the progress made by developing countries in raising their rates of saving and investment, 1950-75. Topics include public saving, growth of taxes, tax structure, public enterprises, consumer subsidies. Structure of saving, non-corporate sector saving, institutional framework for financial policies, money and capital market integration, mobilization of external capital are analyzed from statistics of 39 developing countries.

Bird, Richard M., "Taxation and Employment in Developing Countries", Finanzarchiv, Vol. 40 No. 2 (1982), at p. 211.

The author offers a review of some of the large relevant literature on the use of tax policy to influence employment, and of the effects of taxation on the composition of output from the view-point of increasing employment. Consideration of factor market unification and of the effects of taxation on factor prices, are also contained in the essay.

Bird, Richard M., Intergovernmental Finance in Colombia: Final Report of the Mission on Intergovernmental Finance, (Cambridge, Mass.: Law School of Harvard University, International Tax Program, 1984), Pp. 414.

This is the English translation of the final report submitted to the government of Colombia in July 1981 and published under the title, Finanzas Intergubernamentales en Colombia. The report analyzes intergovernmental fiscal relations and formulates proposals for improving the efficiency with which the resources of the public sector are used, in order to improve the distribution of income and in order to achieve an appropriate regional balance in the provision of public services. It concentrates on problems related to the

budgeting and managing of public expenditures, intergovernmental fiscal transfers, departmental and municipal revenues, and the control of parastatal entities. The report describes the structure of the Colombian public sector and its effect on the aims of public policy, and attributes Colombian political, administrative, and economic problems to the fragmentation of official functions and the confusing system of fiscal flows between different parts of the public sector. Recommendations on a range of monetary and fiscal reforms are included.

Blomquist, A. G., "Urban Unemployment and Optimal Tax Policy in a Small, Open Dual Economy," Journal of Development Studies, Vol. 15 No. 2 (January 1979), at p. 147.

This paper is an analysis of optimal tax policies in a two-sector model of a developing country for cases where an employment subsidy in manufacturing and/or taxes on international trade are the only feasible instruments. Comparisons are made with results obtained for similar models.

Bolnick, Bruce R., "Demographic Effects on Tax Ratios in Developing Countries," Journal of Development Economics, Vol. 5 No. 3 (September 1978) at p. 283.

Bolnick, Bruce R., "A Test of Tax Constraints on Fiscal Development," Public Finance, Vol. 37 No. 1 (1982), at p. 18.

The papers test the hypotheses that tax capacity constraints are especially acute for low-income countries, using a regression model that distinguishes tax supply influences from demand factors affecting the desired division of resources between the public and private sectors. The statistical results indicate significant demand influences on tax ratios even among low-income countries and strengthening of certain tax supply influences when middle-income countries are added to the sample. These findings call into question certain "stylized facts" of fiscal development. The results also raise questions about a number of common generalizations regarding economic-demographic interactions.

Break, George, "Review of Richard Goode's Government Finance in Developing Countries," Journal of Economic Literature, Vol. 23 No. 1 (March 1985), at p. 124

The review notes that Goode has produced a masterful book, destined to be widely regarded as a classic in its field. The author, who served as first director of the Fiscal Affairs Department of the International Monetary Fund from 1965 to 1981, was in a unique position to study the problems involved in financing the governments of developing countries and to participate in the search for solutions to them. He has here distilled the kaleidoscopic experience of those years, maintaining throughout a balance between

technical and practical aspects. His articulate commentary is directed at fiscal practitioners and what he calls the small but highly prized class of general readers with wide interests and considerable patience. Small as that class tends to be for the great majority of books on economics, this volume should have wide appeal. The subject matter has long been of high importance and is becoming increasingly so in today's world. It is treated here in a manner both judicious and concise; each chapter has a helpful, informative summary and a well selected bibliography of high quality.

Calden, Naomi and Aaron Wildavsky, Planning and Budgeting in Poor Countries, (New Brunswick, N.J., and London: Transaction Books, [1974] 1980), Pp. 371.

The authors analyze the budgetary and economic planning processes of over eighty developing nations with per capita GNPs of less than $800 a year. They also survey the lessons drawn from theories of economic growth and development and analyze the poverty and uncertainty that characterizes economic and political environments in poor countries.

Calden, Naomi, "Budgeting in Poor Countries: Ten Common Assumptions Re-examined," Public Administration Review, Vol. 40 No. 1 (January/February 1980), at p. 40.

In the article, an assessment is presented of ten of the most common assumptions of the budgeting literature that concerns small countries. They are: (1) A common pattern of budgeting exists that will fit all circumstances. (2) National economic planning is the aim of all budgeting. (3) Improved budgeting is dependent upon adequate resources. (4) Budget decisions and policy decisions can be easily separated from each other. (5) Whatever is best is coordinated best. (6) Comprehensive decisions are better than partial decisions, and complex solutions are preferable to simple solutions. (7) The prerequisites of budgeting are a matter of will and techniques rather than the product of environmental conditions. (8) Economics are more important than politics. (9) Good budgeting is a matter of regulation. (10) Budgeting is relevant to development. Guidelines to improve budgeting for poor countries include: (1) Means of budgeting should be developed that are not carbon copies of those used in large countries. (2) The criteria of budget performance should be worked out. (3) A comparative typology of countries should be developed to be used in making budgeting recommendations.

Doh, Joon-Chien, "Budgeting as an Instrument of Development: The Malaysian Experience," Public Budgeting and Finance, Vol. 4 No. 1 (Spring 1984), at p. 64.

The author notes that Malaysia is a country in which the

national budget constitutes a substantial percentage of the GNP, and over time the policy decisions on both revenues and expenditures have far-reaching implications for the well-being of the people and their economy. Taxation measures, including the grant of tax incentives to specific types of industries, have an important effect on the pattern of development in the economy. On the expenditure side, budget allocation decisions in relation to the choice of programs and their beneficiaries have a significant impact on equity, economic growth, employment, manpower development, and the standard of living for the masses. In short, whether the financial policies embodied in the budget of a country relate to revenue measures or expenditures programs, by virtue of its size and impact, budgeting has implications for all.

Budgeting serves objectives which are in line with the aspiration of a nation, and this can only occur if policy planning and budgeting complement each other so that the role of the latter becomes one of mobilizing the needed resources for funding programs which will contribute to the accomplishment of the planned objectives of the nation.

Faini, Riccardo, Patricia Annex, and Lance Taylor, "Defense Spending, Economic Structure, and Growth: Evidence Among Countries and Over Time," Economic Development and Cultural Change, Vol. 32 No. 3 (April 1984), at p. 487.

The authors point out that there is no way of telling from economic theory whether a greater military effort will slow down or accelerate output growth. The results of a single empirical study have been used to support the widely held belief that in poor countries a high share of defense in GDP is associated with a high growth rate. Their paper shows that, as is often the case, such conventional wisdom is wrong: across countries, a greater defense burden is associated with slower growth. In a regression equation estimated for 69 countries over some or all of the period 1952-70, they show that an increase of 10 percentage points in the defense burden (share of defense in GDP) leads to a reduction of annual growth by 0.13 percent, a nontrivial loss. In addition to slowing the growth rate, a changing defense burden has other macroeconomic effects. For the same sample of countries and time period, increases in military spending are associated with lower saving and investment shares in GDP, a greater tax burden, and a shift in economic activity from agriculture (including food production) toward the manufacturing sector. When estimated econometrically, the extent to which defense spending replaces investment is consistent in magnitude with growth rate reductions.

Fitzgerald, M. S., M. Jengo and A. Riyami, "East African Budgets," Africa Economic Digest, Vol. 5 No. 25 (June 22, 1984), at p. 2.

Kenya, Tanzania and Uganda presented their 1984-85 budgets on the same day. All have been hit by economic recession and other

factors, but their prospects are very different. Kenya and Uganda, looking forward, cautiously, to growing revenues, have increased spending and cut deficits. Tanzania has also upped spending, but in a desperate attempt to boost flagging production. Its deficit is expected to increase and drought threatens agriculture.

Hicks, N. and A. Kudisch, "Cutting Government Expenditures in LDCs," Finance Development, Vol. 21 No. 3 (September 1984), at p. 37.

The results of this study indicate that, when faced with difficult choices in reducing public expenditures, governments consider a wide range of factors, including political and economic costs, present versus future consumption, and the potential impact on employment, distribution, and welfare. The empirical evidence suggests that, when governments in developing countries implement austerity programs, they do not apply across-the-board reductions in expenditures. Within both capital and current budgets, the social and administration/defense sectors appear to be relatively well protected, while infrastructure and production absorb disproportionately larger reductions.

Hope, Kempe R., "The Role of Domestic Savings in the Financing of Economic Development in Developing Countries," Economic Affairs, Vol. 25 No. 11 (November 1980), at p. 257.

The author's inquiry is into the need for public finance and general development policies to be cognizant of the roles they play in generating savings in developing countries. The article is one of the first to combine an optimal public finance/supply-side debate.

Infante, E. F. and J. L. Stein, "Money-Financed Fiscal Policy in a Growing Economy," Journal of Political Economy, Vol. 88 No. 2 (April 1980), at p. 259.

The paper examines the trajectories of the economic variables when government expenditures are financed by changes in the money stock. It is shown that government budget balance is not a condition for equilibrium. If the nominal rate of interest changes by about as much as the expected rate of inflation, a rise in real government purchases per capita has the following effects: there will be a positive impact upon output per capita but steady-state output per capita and the capital intensity will decline, and there will be a rise in the inflation tax on real balances and steady-state rate of inflation.

Landau, Daniel L., "Government Expenditure and Economic Growth: A Cross-Country Study," Southern Economic Journal, Vol. 49 No. 3 (January 1983), at p. 783.

This paper examines the relationship between the share of

government consumption expenditure in DGP (GS) and the rate of growth of per capita GDP (GY). It is a cross-section study for the period 1961-76 for 104 countries using estimates of I. P. Kravis from the UN International Comparison Project. Sub-samples and periods are also examined. The principal results of the regressions are: a significant negative relationship between GS and GY, a significant negative relationship between per capita income and GY, and a significant positive relationship between investment in education and GY.

Lim, David, "Instability of Government Revenue and Expenditure in Less Developed Countries," World Development, Vol. 11 No. 5 (May 1983), at p. 447.

The author offers a presentation of estimates of instability in government revenue and expenditure. He examines the impact of revenue instability and other factors on expenditure instability, and estimates the contributions of the various sub-categories of expenditure to the instability of government spending for a group of 45 developing countries over the period 1965 to 1973.

Lim, David, "Government Recurrent Expenditure and Economic Growth in Less Developed Countries," World Development, Vol. 11 No. 4 (April 1983), at p. 377.

In this brief note, the author presents a neatly argued point to the effect that levels and compositions of recurrent expenditures impact on economic growth. It is written within the general intellectual genre of optimal public finance theory as applied to developing countries. It is a capsulized argument, and one which deals with both empirical and theoretical materials.

Mansfield, C. Y., "A Norm for a Stabilizing Budget Policy in Less Developed Export Economies," Journal of Development Studies, Vol. 16 No. 4 (July 1980), at p. 401.

The article develops a norm to measure whether fiscal policy achieves the stabilizing norm. Empirical results for some LDCs show contractionary in good export years, expansionary in bad years.

Morrison, Thomas K., "Structural Determinants of Government Budget Deficits in Developing Countries," World Development, Vol. 10 No. 6 (June 1982), at p. 467.

The article contains the author's examination of the possibility that certain structural factors make some developing countries more likely to incur government budget deficits than others. The study uses public finance data for 31 developing countries from 1961 to 1975.

Morgan, D. R., "Fiscal Policy in Oil Exporting Countries, 1972-78," I. M. F. Staff Papers, Vol. 26 No. 1 (March 1979), at p. 55.

This paper shows that the conventional presentation of fiscal and monetary accounts is inappropriate for examining the impact of fiscal policy on the domestic economies of oil exporting countries. An alternative presentation is provided that focuses on the domestic budget deficit and its implications for domestic liquidity creation. Application of the alternative framework to six major oil exporting countries for the period 1972-78 provides strong support for the propositions that the domestic budget deficit is the primary determinant of movements in domestic liquidity and inflation and that fiscal policy must be the primary instrument of demand management.

Newlyn, W. T., "Measuring Tax Effort in Developing Countries," Journal of Development Studies, Vol. 21 No. 3 (April 1985), at p. 390.

The author notes that the traditional methodology, as established by the International Monetary Fund, for measuring tax effort over time and in relation to estimated taxable capacity, is based on the tax ratio. The objects of the article are: (a) to demonstrate that government policy cannot be deduced from the buoyancy of tax revenue as reflected in the observed rates of growth or relative magnitudes of the tax ratio; and (b) to propose an alternative measure based directly on policy determined discretionary changes in tax structures, with which the IMF taxable capacity measure, correctly interpreted, could be complementary.

Pillai, Vel, "External Economic Dependence and Fiscal Policy Imbalances in Developing Countries," Journal of Development Studies, Vol. 19 No. 1 (October 1982), at p. 5.

The author analyzes Jordan's situation as a non-oil exporting, middle-income country having a serious and persistent budgetary imbalance and, as a consequence, needing to acquire external assistance in managing its fiscal gap. The author makes an important point, e.g. that budget and balance of payments deficits in such countries are both chronic and linked. This requires government to seek external support to manage the dual gaps.

Pluta, J. E. and R. L. Rittenoure, "Public Expenditures and the Changing Role of the South American Military: Implications for Regional Development," Nebraska Journal of Economics and Business, Vol. 17 No. 3 (Summer 1978), at p. 3.

The author argues that, despite the growing sociology and political science literature on the Latin American military, public finance economists have had limited interest either in budgetary

patterns within developing regions generally or in the military and defense budgets specifically. In an attempt to address both oversights, this paper examines public expenditures for defense and nondefense purposes within a comparative time-series framework for the post-World War II period in Brazil, Colombia, Chile, Ecuador, and Peru. Tests on income elasticity coefficients for various expenditure functions reveal that statistically significant structural shifts in defense expenditure elasticities occurred in four of the five countries. In comparing empirical results with brief accounts of the political history of each of the countries, it is argued that the role of the military is changing as it develops a more favorable attitude toward domestic economic and social expenditure.

Pluta, J. E., "Real Public Sector Growth and Decline in Developing Countries," Public Finance, Vol. 36 No. 3 (1981), at p. 439.

The author reports on recent tests of Wagner's Law that raise questions about appropriate deflators to various components of government spending, and about differences in public sector behavior in industrialized and developing countries. When a previously developed weighted price index for government expenditure is used, Wagner's Law is upheld in thirteen and rejected in seven developing countries for which data are currently available. Since real income grew in nearly all countries, declining real public sector size was due to declining real levels of government consumption expenditure. While declining real public sector size was found to be unrelated to the real level of economic development or rate of economic growth, proxy measures for productivity suggest that the public sector productivity was generally greater in those countries with declining real public sectors.

Selowsky, Marcelo, Who Benefits from Government Expenditure? A Case Study of Colombia, (World Bank Research Publication. New York; Oxford; Toronto and Melbourne: Oxford University Press for the World Bank, 1979), Pp. 186.

In this essay, the author evaluates the distributive direction of government expenditures for publicly provided services, whose consumption by households can be identified, in Colombia. Identifies the beneficiaries of services (excluding the typical "public good" such as defense and justice); measures the subsidy received by households from the consumption of education, health, housing, water, sewage, roads, and other public services; and explains the present distribution of consumption in terms of the availability of supply and the constraints on demand. Some results show that (1) the total subsidy to education is distributed evenly across income quintiles; (2) the health subsidy is relatively similar across households, but the per capita subsidy to the richest quintile is 1.6 times larger than to the poorest quintile; (3) new investment in electricity, water, and sewage has been more

redistributive than in the past; and (4) half of Colombia's urban households do not use electricity, water, and sewage services because of demand constraints. Data comes from a 1974 country-wide survey of 4,019 households on the consumption of public services by income groups and by rural and urban location.

Sisaye, S. and E. Stommes, "Agricultural Development in Ethiopia: Government Budgeting and Development Assistance," Journal of Development Studies, Vol. 16 No. 2 (January 1980), at p. 156.

The authors trace the linkages between budgeting by government and the donations of official development assistance in terms of their changing role in impacting upon the country's agricultural sector. They note that both budget and ODA policies have not been sufficient to spur agricultural output during the pre-draught region because of such factors as poor pricing policies.

Stolper, Wolfgang F., "Public Finance and Development," Weltwirtsch Arch., Vol. 118 No. 1 (January 1982), at p. 174.

In this brief five-page note, the author--a distinguished development economist--traces the macro- and microeconomic relationships between public finance and development. The author lays out a modified optimality model of government's involvement as a resource allocating, output distributing, and revenue collecting agent.

Tanzi, Vito, "Fiscal Disequilibrium in Developing Countries," World Development, Vol. 10 No. 12 (December 1982), at p. 1069.

In this article, the author reviews empirical data and explores alternative explanations of the fiscal disequilibrium faced by most developing countries. He discusses the mechanisms available to developing-country governments in their effort to close and/or manage fiscal gaps.

Toye, John F. J., Taxation and Economic Development, (London: Frank Cass, 1978), Pp. 299.

The book contains twelve papers (ten previously unpublished) on assessing the tax performance of a developing country in relation to the growth and distribution functions. Part one looks at some "simple-minded" approaches to the measurement of tax capacity and tax effort; part two considers tax revenue as related to economic growth; and part three examines tax policy as it affects income distribution. The last part explores the use of the rice export premium tax in Thailand as a means of stabilizing domestic rice taxes and fiscal incentives in developing countries generally.

Toye, John F. J., Public Expenditure and Indian Development Policy, 1960-1970, (Cambridge South Asian Studies No. 25: New York and Sydney, Cambridge University Press, 1981), Pp. 270.

The study analyzes public expenditure at the national and state levels for the 1960-70 period, tracing the relationship between changes in public expenditures and the implementation of macroeconomic planning in India. Discusses the extent of the responsibility of public authorities in causing the industrial recession in the late 1960s by their expenditure programming. The study also examines the centralization of public expenditures and interstate differences on the growth rates of public expenditure and capital formation. Argues that mimetic nationalism in the context of the policy of state accumulation, which attempted to produce an output structure that would match the domestic demand structure without foreign trade. Further contends that decentralization of control over public finance makes the state accumulation policy more difficult.

Truong, Tham V. and Dennis N. Gash, "Less-Developed Countries' Taxable Capacity and Economic Integration: A Cross-Sectional Analysis," Review of Economics and Statistics, Vol. 61 No. 2 (May 1979), at p. 316.

The authors present an advanced statistical analysis of the varying capacity of developing countries to generate tax bases and apply rate structures to them. Their work requires considerable background in statistical analysis in order for a reader to gain insights from their article.

von Furstenberg, George M., "The Uncertain Effects of Inflationary Finance on Growth in Developing Countries," Public Finance, Vol. 38 No. 2 (August 1983), at p. 232.

The author begins by pointing out that the literature on inflationary finance in developing countries has been divided between empirical work refuting the notion of a trade-off between inflation and growth and theoretical work deducing such a trade-off. This paper shows that inflationary finance, instead of rebounding to higher growth, can raise real interest rates and lower saving (motivated by the net worth objectives of households) in a model with interest-bearing money, claims to depreciable and nondepreciable assets, and government bonds. It therefore provides reasons for expecting higher inflation to lower the output potential of developing economies eventually, although not immediately upon occurrence.

Wilford, D. S. and Walton T. Wilford, "On Revenue Performance and Revenue Income Stability in the Third World," Economic Development and Cultural Change, Vol. 26 No. 3 (April 1978), at p. 505.

The authors make the observation that developing nations must mobilize their internal resources to promote economic growth, and one way of doing it is through fiscal policy. Two criteria are hypothesized that may be quantitatively measured to evaluate fiscal performance over time in emerging nations. Both utilize the concept of the revenue-income elasticity coefficient. The first criterion is the ability of the tax structure to generate proportionately higher revenues, both through discretionary action and through revenue growth that is automatically generated through economic activity. This is the revenue performance criterion. The second criterion relates the responsiveness of revenue yields to stability or flexibility of revenue sources as gross domestic performance moves over the cycle. El Salvador is used as the study sample.

3. Microeconomics: Core Works.

Aharoni, Yair, Markets, Planning and Development: The Private and Public Sectors in Economic Development. (Cambridge, Mass: Lippincott, Ballinger, 1978), Pp. 323.

The book examines the roles played by the private and public sectors in the process of economic development. It is concerned with what level of output of each sector is optimal under the current conditions of less developed economies, rather than with the issue of whether private or public ownership of the means of production is best. The first four chapters establish the framework of analysis by detailing the dimensions of interrelationship and contrast between the two sectors. The following chapter reviews the recent history of economic development in the LDCs, particularly with regard to investment and governmental forced savings, to import substitutions, and to exchange rate policy. The last five chapters comprise a detailed analysis of entrepreneurship, direct foreign investment, multinational enterprises, and state-owned enterprises.

Christiansen, V., "Evaluation of Public Projects Under Optimal Taxation," Review of Economic Studies, Vol. 48 No. 3 (July 1981), at p. 447.

In this brief article, the author demonstrates in highly vigorous and analytical fashion a theory of optimal taxation and the evaluation of public project. The article points out the need to evaluate projects collectively in terms of revenue requirements, and the impact of collecting such revenue on the nature of economic activity.

Goldschmidt, Douglas, "Financing Telecommunications for Rural Development," Telecommunications Policy, Vol. 8 No. 3 (September 1984), at p. 181.

As an inept effort to use maximally the public sector, the author notes that developing nations have seriously underinvested in telecommunications infrastructures, especially for rural areas, substantially hampering their economic development. The availability of foreign exchange financing has been the major constraint on telecommunications investment in developing nations. The major sources of foreign exchange financing, including supplier credits, multilateral lending agencies, and such bilateral assistance agencies as the U. S. Agency for International Development, are examined. Governments of developing nations must make serious political commitments to rural telecommunications expansion and partially finance expansion through surplus revenues generated from urban telephone services. Rural telecommunications must be communicated as a strong development priority and a major focus of development borrowing in negotiations with financing agencies. Multilateral and bilateral financing agencies must make more funding available for rural telecommunications expansion, and industrialized nations must increase economic assistance toward this objective.

Jones, Leroy P., "Public Enterprise for Whom? Perverse Distributional Consequences of Public Operational Decisions," Economic Development and Cultural Change, Vol. 33 No. 2 (January 1985), at p. 333.

The author demonstrates the existence and pervasiveness of perverse distributional consequences of many public-enterprise operations. Some are unintended consequences of decisions made by managers, others are desired consequences stemming from the intentions of policy-makers. The identification of perverse consequences, and establishing whether or not they are intended, offers either administrative or political options to deal with the distributional perversions.

Murphy, N. R. V., "Wagner's Law of Public Expenditures: An Empirical Investigation of the Indian Economy," Indian Economic Journal, Vol. 28 No. 3 (January-March 1981), at p. 86.

The author uses the Wagner's Law concept to investigate the growth of India's public sector. Similar to other efforts to explain such complexities using the law, the results are unclear. However, the article is a fundamental addition to the literature in that it is an innovative, and in a sense pioneering, effort to understand the factors underlying the growth in public expenditures in India.

Sahni, Balbir S., "Public Sectors in Less Developed Countries: Development Goals and Efficiency," Annals of Public and Cooperative Economy, Vol. 54 No. 3 (July-September 1983), at p. 325.

The article evaluates the degree of efficiency attained by developing countries in terms of their implementation and administration of public finance measures - both micro- and macroeconomic - as based upon principles of optimality. It concludes that, while some countries have done a good job, not surprisingly most need to improve economic management and administration.

Willoughby, Christopher R., "Infrastructure: Doing More with Less," Finance and Development, Vol. 18 (December 1981), at p. 28.

The author points out that development constraints, or barriers, include poor physical and social facilities, and this raises project costs and reduces the productivity of workers. Weak infrastructure, one of the characteristics of developing countries, can seriously impair the growth and efficiency of activity by private entrepreneurs in agriculture, commerce and manufacturing. As a result, the expansion and improvement of public infrastructure - such as transport networks and terminals, communications facilities, energy and water production and distribution works, and waste collections and disposal systems - has always properly occupied a prominent place in national development efforts. The central problem in expanding infrastructure today is a shortage of financial resources, a more serious shortage in most developing countries than existed a few years ago.

He states that, first, the capital costs of building new infrastructures have to be lowered and existing facilities have to be made longer-lasting. Second, the recurrent costs of maintaining and operating infrastructural projects have to be lessened.

4. Microeconomics: Supplemental Works.

Bahl, Roy and Barbara D. Miller, Local Government Finance in The Third World: A Case Study of the Philippines, (New York: Praeger, 1983). Pp. 260.

Seven previously unpublished papers based on field work in the Philippines examine the possibilities for increased fiscal participation of local governments. Topics include: budgeting and financial management of local governments; the real property tax; the business license tax; intergovernmental fiscal relations; the use of local government public enterprises; and credit financing by local governments. The final chapter assesses the feasibility of programs to increase the efficiency of local government operations and strengthen revenue mobilization. It finds that the basic system

of local government is fundamentally sound and that the quality of public administration is quite good compared to other developing countries, and suggests improvements in financial management and budgeting, local taxation, the allotment programs, and the use of public enterprises and of credit financing.

Bhatt, V. V., "Institutional Framework and Public Enterprise Performance," World Development, Vol. 12 No. 7 (July 1984), at p. 713

The purpose of this paper is to derive, on the basis of available literature on successful enterprises, some conjectures - tentative generalizations - with regard to the strategic factors and, in particular, the characteristics of the decision structure and processes that account for good public enterprise performance in the mining and manufacturing sector. It finds that there are some successful enterprises in a number of countries. The studies of such enterprises show that: public enterprises can be quite successful and sometimes their performance can be more or less similar to that of the private enterprises functioning in a similar context; they can be innovative in technology as well as product improvement; and with regard to price and quality, they can be competitive in international markets.

Giles, B. D. and A. Jennings, "Project Appraisal and the Multiplier: The Pulp Mill Project in Malawi," Oxford Economic Papers, Vol. 34 No. 2 (July 1982), at p. 390.

In their article, the authors focus on an important point, e.g. the multiplier effect and its impact on the broader economy via the financing of a particular project. The case study which they present is an important contribution to the literature, which seeks to foster an understanding of the phenomenon in the minds of government decision-makers.

Killick, Tony, "The Role of the Public Sector in the Industrialization of African Developing Countries," Industry and Development, Vol. 7 No. 1 (1983), at p. 57.

In this concise and cogent paper, the author presents a solid analysis of the important - indeed critical - role that the public sector has played - and must continue to play - in the industrial development of Africa. The importance of this particular work is that it shows clearly and systematically that there are mutually compatible roles for the private and public sectors to play in the industrial development process.

Linn, J. F., N. Lethbridge, and S. Whitehead, "Urban Public Finance in Project Preparation: An Operational Approach," UMBC Economic Review, Vol. 14 No. 2 (1978), at p. 66.

The authors explain the major issues encountered in analyzing urban finances in LDCs which affect urban projects. Development of an operational framework for analyzing these interactions is outlined.

Mann, Arthur J., "Wagner's Law: An Econometric Test for Mexico: 1925-1976," National Tax Journal, Vol. 33 No. 2 (June 1980), at p. 189.

The author uses Wagner's Law to explain the rise in the level of, and the increased complexity of the composition in, public sector activities in Mexico. He concludes, with some reservation, that using the Law is a useful framework via which to explain Mexico's situation.

Meerman, Jacob, "Public Services for Basic Needs in Malaysia," World Development, Vol. 7 No. 6 (June 1979), at p. 615.

In this article, the author was one of the first to comment on the fiscal implications of a basic needs approach to development. He focused on the need to finance the provision of items designed to meet such needs in the absence of an opportunity to charge market prices to consumers. Doing so would discourage consumption and thereby fail to meet consumption objectives. The author noted the longer-term and non-financial nature of the basic needs approach and cautioned that public expenditures must be considered as a key element to a successful basic needs strategy.

Sarmad, Khwaja, "The Profitability of Public Enterprises in Pakistan," Pakistan Development Review, Vol. XXIII, No. 2 and 3 (Summer-Autumn 1984), at p. 147.

The author traces the importance of the profitability of public enterprise for capital expansion and development as highlighted in various studies. In Pakistan, the increasing role of the public sector in resource mobilization points to the need for analyzing public enterprise profitability because of its immense importance for capital financing and growth. His paper analyzes the profitability of public enterprises in Pakistan, using a ratio analysis methodology which chooses performance indicators on the basis of their sensitivity to the operational health of the enterprises. The profitability ratios were derived from the public enterprise balance sheets and constitute the choice set from which four ratios have been selected on the basis of their predictive power. In this way, the arbitrariness involved in the choice of the appropriate ratios for analyzing enterprise profitability is over-

come, even though profitability measurement may still be distorted to such an extent that effective prices diverge from opportunity costs.

Wells, R. J. G., "Producer Subsidies in the Dairy Industry in Malaysia," Journal of Economic Studies, Vol. 8 No. 2 (1981), at p. 57.

The author analyzes the impact of public sector subsidization of a largely privately structured industry supplying milk to the Peninsular part of Malaysia. The author very neatly lays out the argument that at issue is the optimum subsidization on the production side to meet consumer-side needs.

V. TAXATION OF THE EXTERNAL SECTOR

Writings on fiscal policy and development continued to reflect a pronounced focus on the taxation, or the revenue-raising side of fiscal and general development policy during the 1978 to 1985 period. This tendency, rooted in the classical literature, continued to have the search for an optimum tax structure as its cornerstone. The literature evaluated particular taxes and tax structures in light of tax criteria. Some important works include Aguirre, et. al. (1981), Goode (1983), and Lewis (1984). The writers note that, of the criteria for evaluating taxation, the ability to raise revenue is fundamental. Rarely can a tax that yields little or no revenue influence allocation or distribution significantly. In examining the revenue potential of taxes, two main aspects are the magnitude of the base relative to alternative bases and to the economy, and the elasticity of the tax. The latter includes the elasticity of the base in relation to gross domestic product (GDP), the elasticity of the tax in relation to the base, e.g. the mineral sector, and in relation to GDP.

In examining the potential of taxing a base with reference to resource allocation, the prime concern is that a tax is either neutral in its allocative effects or positive in its impact on development of the economy and optimum use of resources. In examining equity and distribution effects, two important concerns are that the vertical equity (among different income groups) of the system not be lessened and that as few horizontal inequities (across comparable income groups) as possible are created.

The ease of administration is another concern. Tax bases that cannot be reached adequately through available administrative resources are inappropriate even though, in theory, such taxation would have advantages with respect to resource allocation and distribution of income and wealth: Aguirre, et. al. (1981).

Goode (1983), Lewis (1984), and Aguirre, et. al. (1981) note that, with respect to levies on imports and other consumption goods, heavy reliance on import tariffs for revenue has been, and still is, characteristic of many developing countries. This is due to scarce revenue bases other than imports, and import taxation is likely to remain an important revenue source for some time. An objective of import duties, on occasion, is to protect in order to develop domestic production over time. In using import tariffs as protective instruments, caution is needed to avoid overprotecting domestic industries for political rather than for economic development purposes. Excessive levels of effective protection result in low economic efficiency: Aguirre, et. al. (1981) and, in particular, Lewis (1984).

In evaluating a tax, or a tax system, three major principles of tax are employed: equity, efficiency, and administrative feasibility. The principle of equity requires that taxation conform to the community's sense of fairness. Economic efficiency, as used here, means that taxation should not impose avoidable real costs on the community; it should not unnecessarily interfere with the attainment of the prime economic objectives of growth, stability, equitable distribution, and independence and, if feasible, should promote them. Administrative feasibility implies

that revenue is collected without excessive costs for the government or for taxpayers: Aguirre, et. al. (1981), Goode (1983), and Lewis (1984).

Goode (1983) points out that, although the principles are widely accepted in general terms, differences of opinion and conflicting interests affect their specific interpretation and application. Particular measures may be both praised and condemned by appeal to the general principles. Furthermore, inconsistencies or competition between the principles may occur. Preoccupation with equity may lead to harmful economic effects and excessive costs of administration and compliance. Attempts to promote growth and economic independence may result in unfairness. Giving priority to administrative feasibility may cause the rejection of innovations that would improve equity and economic efficiency. As in other areas, tradeoffs or compromises are necessary in designing a tax system. The principles, nevertheless, offer a needed framework for organizing analysis and arguments: Lewis (1984--annotated in section VI).

Goode (1983) also notes that some less developed countries give preeminence to raising adequate amounts of revenue. This approach stresses the use of available "tax handles"--opportunities to obtain revenue with relative ease--by concentrating on import and export duties and traditional excise taxes. In substance, the approach emphasizes administrative feasibility with some admixture of political expediency. It is less pragmatic than it may appear, however, because other concerns may be neglected and because revenue needs might be better served by an elastic tax system including some nontraditional taxes.

Since 1978, one focus of the writing on the external sector has been on incentives granted to foreign investors in natural resource-rich middle-income developing countri. . (See, for example, Campbell and Lindner, 1985.) The focus has been on taxes levied on exports, a critical point neglected neither in public finance literature nor development policy. While the topic does not affect every developing country, it is of substantial importance to some of them, particularly because such resource endowments provide a basis for longer-term growth and development.

A. Export (Natural Resource) Levies and Foreign Investment.

The World Bank's World Development Report (1979) noted that problems besetting the mineral economies spring from their tendency to neglect the development of non-mineral sectors, especially agriculture. The Report found that structure incentives in such countries are biased heavily against agriculture and most mineral economies did little to compensate for such biases through investments in agricultural infrastructure, extension, research or credit. Potential agriculture-based development has received less direct attention in those countries, e.g. mineral-based, export-lead growth ones, dominated by public investment strategies.

The Bank reached two conclusions on this score. First, the importance of investment strategy, especially public investment strategy in mineral economies derives in part from the potentially strong fiscal linkage between mining and the rest of the economy. The strength of this fiscal linkage in practice depends on the willingness and ability of developing country governments to tax or otherwise participate in the

incomes originating in mining. Second, the mining industry in most developing countries is characterized by the presence of large trans-national corporations and by the existence of a substantial element of rent in the market value of minerals. The Report went on to conclude that these two facts imply that mineral economies must pay particular heed to mineral taxation, participating in the mining industry, and negotiations with transnational mining corporations.

Anthoine (1979), Balsubraman (1984), Gillis (1982), Kohlhagen (1979), and Wulf (1978) all focus on an aspect of such negotiations - the granting of tax and other incentives. They point out that, by granting incentives, the government would forego revenue that it would otherwise have received. It cautioned that the benefits accruing to the economy - and to the government - because of the actions induced by the incentive must be worth the sacrifice or else the incentive is inefficient. The incentive must increase (or redirect) domestic supply sufficiently to justify its costs. This is the key point: e.g. whether the additional revenue would have accrued to the potential tax base if the incentive had not been granted; (and) if the additional revenue had not accrued in the form encouraged by this incentive, would some equally productive alternate increase in the base have arisen?

Forging strong fiscal linkages, then, centers on the government's ability to appropriate investable surplus (or economic rent) from mining companies, mainly from the foreign-owned companies that they host: Palmer (1980) and Heaps (1985). The appropriation of investable surplus from a mining industry must be seen within the context of broader fiscal and

development policies: IMF (1980) and Dominic (1980). As such, collecting revenue from mining companies must be conducted as one of a set of tax measures that determine the revenue elasticity for a country; that is, the proportion of public revenue collections to gross domestic product. And taxing the modern mining sectors involves two risks for mineral-rich countries. The first is the trade-off between revenue elasticity and incentives to development. The most elastic tax bases are often the parts of the economy that the government wishes to grow as rapidly as possible, giving them encouragement if necessary by exempting them from taxes. The second, and closely related problem, is the conflict between equity and certain goals related to resource allocation and development. If the modern sector is taxed lightly in order to encourage rapid development, then inequities in income and property taxation between the modern and traditional sectors may be increased.

In the writings, then, there was a rather pronounced bias toward not giving up too much as a set of investment incentives in the area of fiscal policy towards the external sector. However, some analysts take a substantially more conservative view, arguing caution with respect to harsh taxation and nationalization schemes: Marti (1980 and 1981). The more cautious literature argued that mineral sectors' fiscal support to general development depends, in large measure, on how well governments can avoid creating disincentives to foreign investment while, at the same time, refraining from extending overly generous tax incentives.

The impact of the initiatives that promote greater tax elasticity could presumably be a disincentive to investment: Curry (1984), Emerson

(1982), Gillis, et. al. (1978), Matsebula (1979), and McCormick (1983). This impact, of course, is something that governments seek to avoid. As writers note, virtually all less developed countries offer tax incentives which are aimed primarily at attracting foreign resources such as capital, technology and managerial expertise. They do so to increase employment opportunities and to provide more and better basic amenities. The latter derives importantly from public revenues collected from the companies that transfer the resources to mining and other sectors. This raises a generally relevant point: Does this lead to an unnecessary revenue sacrifice by government? Or, put a somewhat different way, does government give up too much of what it attempts to generate by offering too liberal an incentive package to foreign investors: IMF (1981) and World Bank (1979)? The link, of course, is how responsive investment is to changes in tax rates. Investment might, or might not, respond strongly to such an incentive. There is disagreement among writers on the matter: Al-Kadi (1981); Cloete and van Reusburg (1984); Emerson (1982); Garnaut and Ross (1983); McCormick (1983); Touche Ross (1979); Wilson (1984); and Wai and Wong (1982).

B. Export and Import Taxes: A General Perspective.

Export taxes, levied on agricultural, forestry and mineral sectors, are found in many developing countries, but such taxes do not often account for a significant portion of a country's public revenue collection. The tax is imposed because export-generated revenues afford countries generally convenient tax bases. They are convenience in terms of providing, and in

their simpler form they are easy to administer. However, some revenue generation is not the only attraction such taxes feature.

Export taxes have played roles other than this dominant one associated with obtaining revenue. For example, an export tax could hold down a domestic price of an item relative to its export price, e.g. it would be lower than the domestic market (supply) price for the same item. This occurs because, unless otherwise taxes, producers pay no revenue to government out of the domestic market (supply) price. For countries interested in keeping agricultural, mineral and forestry products at "home" and adding value to an item via local processing, a dual price system would serve to encourage production for the domestic market rather than export market. The key question to keep in mind, according to the literature, is whether there will be inefficiencies in resource allocations forthcoming from this dual price system: Aguirre, et. al. (1981), Booth (1980), Goode (1983), and Greenaway (1984).

A serious set of problems are associated with the non-revenue roles which are occasionally assigned to export taxes. One has to do with the administrative complexities associated with levying the tax for such purposes. Another has to do with the potentially distorting effects that such taxes could have on market prices, and therefore resource allocation and overall longer-term, sustained development. Lewis (1984), in the preface to his book, offers a set of sound observations which go to the core of effective market intervention measures. His book is an introduction to the analysis of tax policy in developing countries. It differs significantly from most discussions of tax policy and development.

Its central focus is on an open economy and the ways in which openness to international trade and capital and skilled labor movements influence the scope for, and the effects of, tax policy. He notes that the literature has begun to take more interest in international taxation, e.g. fiscal harmonization in common markets, including value added taxes, and the problems of taxing multinational corporations.

Aguirre, et. al. (1981), Goode (1983), Lewis (1984), and Tanzi (1978) treat import levies in a manner similar to taxes on consumption. However, some features of import taxes are unique. Similar to expenditure (consumption) taxes, first, selective rather than comprehensive taxes are more preferable--particularly on distribution criteria and price elasticities of demand. When these two factors are considered, selective taxes can be levied either to raise revenue or to impact on consumption patterns. Second, import tax bases are convenience in that they are revealed when goods either cross national boundaries or are imported through port facilities

Goode (1983) provides a superb summary of points made in the literature. He notes that, in evaluating protection, a distinction should be drawn between the nominal rate of import duty and the effective protection provided by a tariff (a tax on imports). Effective protection is the increase in remuneration for an activity that is made possible by the tariff. For manufacturing it is the increase in the selling price of the product measured in relation to value added by manufacture that would be generated in the absence of tariffs (not in relation to the price that would prevail under free trade).

When value added is only a small fraction of final value, because the cost of material inputs is large, the rate of effective protection may be much higher than the nominal duty rate on the finished product. An import duty on the material inputs will reduce the rate of effective protection, but the effective rate will remain higher than the nominal rate so long as the duty on the inputs is lower than that on the finished product. Although practical difficulties are encountered in measuring effective protection, the general implications are clear. Countries that follow the prevalent practice of adopting tariffs combining high rates on finished products with low or zero rates on material inputs may provide higher than intended rates of effective protection for processing, assembly, and repackaging operations.

As a means of limiting imports, taxes are superior to quotas or licenses. In the absence of effective price controls, which rarely exist for more than a brief time, prices paid by consumers will be similar under both systems. However, the state obtains revenue from taxes, but under quantitative controls the differences between domestic prices and import costs go to importers and distributors.

The taxation of imports, by curtailing the volume of imports, reduces the demand for foreign exchange. This tends to make the foreign-exchange value of the local currency greater than it would otherwise be. This is true over the medium term, even if the exchange rate is fixed in the short run rather than set by market forces. Thus, the taxation of imports makes exporting less profitable. That result can occur regardless of whether the taxes take the form of import duties or excises on goods that are not provided locally.

C. Bibliographic Citations.

1. Export (Natural Resource) Levies and Foreign Investment: Core Works

Anthoine, Robert, Tax Incentives for Private Investment in Developing Countries, (New York: Kluwes, 1979), Pp. 272.

Published on behalf of the Tax Committee, Section on Business Law of the International Bar Association, this is a comparative analysis of the tax laws of developed countries as they bear upon direct private investment in developing countries. It is a representative sample of developing country laws bearing on the receipt of such investments throughout the developing world. Particular attention is paid to the way that foreign income earned by corporations operating in developing country settings is taxed in the home (developed country). It points out that such tax policies can act as deterrents to, or incentives for, developed country-based firms to invest abroad in lower income countries.

Balasubraman, V. N., "Incentives and Disincentives for Foreign Direct Investment in Less Developed Countries," Weltwirtschaftiches Archiv, Vol. 120 No. 4 (1984), at p. 720.

The author evaluates the effects of the policies of LDCs on both the magnitude of inflows of foreign direct investment into developing countries and its con' ibution to the development process. There appears to be a growing realization on the part of countries that such investment can make a positive contribution to the development process. The incentives they have offered appear to have been largely ineffective in attracting investment. The taxation policies of several developing countries towards foreign firms have been highly inept and inefficient. The author is concerned that in such cases the investment climate has been damaged and the tax effort has been hampered by poor policy design and inept administration.

Campbell, H. F. and R. K. Lindner, "A Model of Mineral Exploration and Resource Taxation," Economic Journal, Vol. 95 No. 377 (March 1985), at p. 146.

This paper models the choice of exploration effort by a firm that follows Bayesian procedures in assessing the value of sample information. When firms are risk averse, it is shown that increasing risk aversion need not result in higher levels of exploration. The model is used to delineate the conditions required for a resource rent tax scheme to be neutral in its impact on exploration effort and to analyze the relationship between the tax rate and expected government revenue from the resource rent tax.

Dominic, M. P., Income Taxation and Foreign Investment in Developing Countries: A Comparative Study of Income Tax Treatment of Foreign Investment in Asian Commonwealth Countries, (International Bureau of Fiscal Documentation: Amsterdam, 1980), Pp. 400.

The author analyzes tax policy for foreign investment, e.g. company income tax systems: their provisions; income tax base: their provisions; taxable income, business income, distribution to shareholders; interests; premiums; discounts; disinvestments; income tax rate structures; incentives. He analyzed the combined effects of provisions and incentive tax treatments in Hong Kong, India, Pakistan, Malaysia, Sri Lanka and Singapore. The author analyzes the investment climates in the South East Asian states in terms of the impact of tax incentives to foreign investors, mainly companies investing directly in the region.

Gillis, Malcolm, "Evolution of Natural Resource Taxation in Developing Countries," Natural Resources Journal, Vol. 22 No. 3 (July 1982) at p. 619.

This is an extensive study of national tax systems of a range of developing countries. It is a historical analysis of their development and it covers a full range of policy issues and administrative problems with respect to the taxation of economic rents in extractive industries.

Kohlhagen, Steven W., "Investment Incentive Schemes and the Pattern of Foreign Investment in Asia," Journal of Contemporary Business, Vol. 8 No. 2 (1979), at p. 37.

The author points out that the Asian countries have been relatively more aggressive than the rest of the developing world in developing incentives for foreign investment. Such incentive schemes are a major part of overall development programs and generally have been designed for three purposes: to attract foreign investment; to enable foreign investment to operate outside the confines of other government market restrictions or taxes; and to channel investment into preferred types of economic activity or locations. Most Asian investment incentive schemes promote exportation. There are a number of benefits made available to firms with increasing or high export content, such as special extensions of tax holidays, accelerated depreciation arrangements, and concessions on import duties or licenses required for imported equipment and machinery. Most incentives schemes are complex, and there have been problems in implementing and administering them.

Marti, Mary Mercedes, "Latin American Limbo Taxation of Limbo Money," Tax Executive, Vol. 32 No. 2 (January 1980), at p. 164.

The author notes that Latin American countries attempt to restrain the return from investment by foreigners by either imposing a high tax on profits in excess of a certain percentage of the registered foreign capital or by prohibiting the remittance of profits in excess of certain percentages of the registered foreign capital. Under the tax method, the foreign investor must relinquish the greatest part of the excess profits, but can bring home the small after-tax remainder. Under the limit method, the foreign investor cannot remit nor register the excess profit as reinvestment; presum- ably the funds are retained in the same enterprise, contributing to a further increase of unremittable profits. Although they are governed by the same rules on foreign investment, three countries of the Andean Pact, Colombia, Peru, and Venezuela, have completely diverse approaches to taxation of unremittable profits.

McCormick, Barry, "Optimal Tax Policy if a Direct Investor Exercises Monopsony Power," Australian Economic Papers, Vol. 22 No. 41 (December 1983), at p. 352.

The author points out that, although direct foreign investment is of considerable and increasing importance in many countries, optimal tax strategies for capital importing countries have received relatively little attention in recent studies of taxation and direct investment. Furthermore, whereas economists concerned with the practical design of tax/subsidy policies for capital importing countries, and especially LDCs, have stressed the need to take various market distortions into account, studies to date have been limited to competitive economies. The purpose of his paper is to investigate the tax policy of a capital importing country when the direct investor borrows a fraction of its capital in the host country, and to focus upon an aspect of this problem which is of general significance for the taxation of foreign earnings. The direct investor commonly faces a less than perfectly elastic supply of capital in the host country, so that a "monopsony" rent is acquired. Similarly, a monopsony rent may also accrue if, for example, a plantation or mining company employs relatively large tracts of land, or employs relatively large fractions of the local labor force. Some have considered the implications of monopsony rents, but only for the taxation policy of the capital exporting country, reaching the conclusion that no intervention is optimal. In contrast, his analysis suggests that the capital importing country should not overlook these rents when setting foreign earnings tax rates; nor should it overlook whether monopsony rents accrue to overseas residents when choosing a subsidy to correct for the allocative distortion arising from the monopsonistic factor market.

Palmer, Keith F., "Mineral Taxation Policies in Developing Countries: An Application of Resource Rent Tax," I.M.F. Staff Papers, Vol. 27 No. 3 (September 1980), at p. 517.

In this article, a practical fiscal framework is proposed based on the resource rent tax concept in combination with company tax and a conditional accelerated depreciation provision. A monte-carlo simulation model is used to investigate the properties of the proposed tax. Comparison of the relative impact of three alternative taxes on investor risk and expected government rent.

Wai, V. T. and C. Wong, "Determinants of Private Investment in Developing Countries," Journal of Development Studies, Vol. 19 No. 1 (October 1982), at p. 19.

The authors point out that fiscal incentives, as part of a broader incentive package, are seen to be important in attracting foreign investors. The authors point out both the efficacy and limitations inherent in the application of such incentive schemes in developing countries.

Wilson, John, "Taxing Mineral Resource Projects: Papua New Guinea, Indonesia and the Philippines," Resources Policy, Vol. 10 No. 4 (December 1984), at p. 251.

The article contains an examination of the impact of individual fiscal instruments, and the total fiscal package on investor risk perceptions. It analyzes investor returns and government receipts in the context of a case study of three Asia/Pacific countries. It centers on mineral taxation regimes, notably in Papua New Guinea, Indonesia, and the Philippines. It shows that under conditions of uncertainty and risk aversion on the part of investors, significant gains in expected government revenues can be achieved without seriously affecting the land of investment.

Wulf, Luc-De, "Fiscal Incentives for Industrial Exports in Developing Countries," National Tax Journal, Vol. 31 No. 1 (March 1978), at p. 45.

The author points out that developing countries use export incentives in an attempt to stimulate industrial exports, to alleviate balance of payments problems, and to diversity the economy. These incentives can also promote export activity by increasing the export revenue of the exporter, by reducing input costs, or by lowering or eliminating the profit tax liability of the exporter. Fiscal export incentives are defined as tax provisions or government grants intended to stimulate exports. Available export schemes are such that they cannot be compared by policymakers. This study used the concept of effective export subsidy because it

provides a framework that facilitates the comparison and the evaluation of the different export incentive schemes and permits a comparison of the production incentives given to the export and the non-export sectors of the economy. Effective subsidy is to the export sector what effective protection is to the domestic market.

2. Export (Natural Resource) Levies and Foreign Investment: Supplemental Works

Al-Kadi, Ahmed A., "Fiscal Policies of the Middle East States with Respect to Foreign Investment," Bulletin for International Fiscal Documentation, Vol. 36 No. 12 (December 1982), at p. 557.

The author's focus is on fiscal theory and policies in the Middle East with particular attention paid to the impact of tax policies on the inflow of international investment. The author is mainly concerned with describing the impact of such flows in the long term, and with tracing the development of, and need to improve, longer-term capital markets.

Brean, Donald J., "Multinational Firms, Transfer Pricing, and the Tax Policy of Less Developed Countries," Malayan Economic Review, Vol. 24 No. 2 (October 1979), at p. 34.

The author uses economic development models and theories and applies them to the taxation of profits earned by multinational companies in less developed countries. He argues that profit bases are influenced by transfer pricing mechanisms whereby multinational firms are able to transfer profits out of a less developed country. They do so via a combination of high unit costs assigned to inputs transferred to less developed countries by firms, and low unit prices paid by their parent firms operating in developed countries where marginal tax rates are relatively low. Tax burdens thereby decline and profits are brought to within "arms reach" of parent companies.

Cloete, S. A. and W. C. J. van Reusburg, "South African Gold Mining Taxation: An Example of Resource Rent Tax," Resources Policy, Vol. 10 No. 4 (December 1984), at p. 263.

The authors point out that the South African mining industry has some unique features which increase the risk of mining relative to other industries and should be taken into consideration in the tax treatment of mines. The benefits of maximizing tax revenues must be compared to the cost taxes impose on future mining activities, as well as to the advantages of using the tax system to reach specific goals. Such goals are the maximum extraction of mineral deposits, the encouragement of exploration and development, and the promotion of local processing. These are seen as leading to the generation of value added, income and employment.

Curry, Robert L. Jr., "Problems in Acquiring Mineral Revenues for Financing Economic Development," American Journal of Economics and Sociology, Vol. 43 No. 1 (January 1984), at p. 37.

During the 1970s Zambia granted tax incentives to transnational mining companies (thereby foregoing some revenue) in order to achieve expected investment benefits to the economy and government. The government also acquired ownership interests in the companies via asset acquisition. Global market forces turned against Zambia's interests, and expected benefits were not forthcoming because company profits had become the sole tax base in the mineral sector. Zambia's experience from 1970 to 1978 suggests that it and other mineral export countries should (a) evaluate carefully whether reducing the effective tax rate on company profits actually induces investment and (b) consider thoroughly whether a tax scheme that includes a proper mix of profit, mineral and export levies is more appropriate than a single tax base.

Emerson, Charles, "Mining Enclaves and Taxation," World Development, Vol. 10 No. 7 (July 1982) at p. 561.

The author presents a review of existing evidence on the linkage effects of foreign investment in mining projects in developing countries, and examination of certain macroeconomic effects of major mining projects in Papua New Guinea. The importance of applying fiscal arrangements which can be expected to appropriate a large share of the mineral rent from intra-marginal mining projects while preserving the incentive to invest is stressed. The trade-off situation, e.g. between revenue losses and investment gains, is neatly conceptualized.

Garnaut, Ross and Anthony Clunies Ross, Taxation of Mineral Rents, (New York; Oxford; Toronto and Bombay: Oxford University Press, Clarendon Press, 1983), Pp. 342.

The authors describe the operation and analyze the strengths and weaknesses of various forms of taxes on mining. They develop a broad model of a tax system in order to provide a starting point on which variations can be made to meet special circumstances. They argue that it is possible to improve the trade-off considerably between encouraging mining projects and reaping large revenues. They discuss approaches to stabilizing the flow of revenue or at least its effect on the economy. They also include country-specific case studies showing the various impact of taxation on economic ctivity.

Gillis, Malcom, M. W. Bucovetsky, and G. P. Jenkins, Taxation and Mining: Nonfuel Minerals in Bolivia and Other Countries, (Cambridge, Mass.: Ballinger, 1978), Pp. 380.

The book features an analysis of tax policies toward natural resources in general, and toward nonfuel minerals in Bolivia and other developing countries. The book examines the macroeconomic impact of the mineral exporting sector on a developing economy. It compares mining tax structures of Bolivia and other mining countries. Alternatives for the mineral tax reform, related policies, mining cost accounting and profitability are examined.

Golub, S. S. and J. M. Finger, "The Processing of Primary Commodities: Effects of Developed-Country Tariff Escalation and Developing-Country Export Taxes," Journal of Political Economy, Vol. 87 No. 3 (June 1979), at p. 559.

The authors present an analytical model of north-south commodity trade which they use to estimate the effects of reciprocal elimination of trade barriers for eight commodities. Comparison between magnitudes and effects of developing country export taxes with those of developed country import tariffs are analyzed.

Heaps, Terry, "The Taxation of Nonreplenishable Natural Resources Revisited," Journal of Environmental Economics and Management, Vol. 12 No. 1 (March 1985), at p. 14.

The author calls attention to the point that the theory of nonreplenishable resource extraction has been extended to allow for extraction costs which increase as deposits are increasingly depleted. In these cases, profit maximization may result in the cessation of extraction before reserves are totally exhausted. The effect of various taxation policies on optimal extraction patterns in these models are derived. With a few exceptions, the results are that the imposition of a tax will cause operators to extract at faster rates over shorter periods of time and to reduce the total amount of ore extracted. The analysis allows for an output price which increases over time, a strategy important to many middle-income developing countries.

Kumar, R. and G. Walrend, "Capital Allowance Schemes for Mining Projects in LDCs," Resources Policy, Vol. 9 No. 3 (September 1983), at p. 155.

The authors point out the importance of capital allowances in affecting the decisions of multinational companies to invest in a mining project in developing countries. Using the capital allowance structure of Sierra Leone, Tanzania, Zambia, Botswana, Papua New Guinea and Malaysia, a financial model is developed and the effect

of capital allowance on foreign investor and host government cash flows under various cost-price conditions is examined. The authors conclude that there are relationships between depreciation allowances as a matter of tax policy, investment climates, and selection of investment sites by international mining companies.

Lim, David, "Export Instability and Revenue Instability in Less Developed Countries," Malayan Economic Review, Vol. 26 No. 2 (October 1981), at p. 46.

Lim, David, "Fiscal Incentives and Direct Foreign Investment In Developed Countries," Journal of Development Studies, Vol. 19 No. 2 (January 1983), at p. 207.

Lim, David, "Tax Incentives and Resource Utilization in a Small Less Developed Country," Australian Economic Papers, Vol. 19 No. 34 (June 1980), at p. 22.

Collectively Professor Lim's three articles cited above are based primarily upon his work on Malaysia, with substantial attention being paid to other developing countries. In such countries, Lim has found little if any support for the belief by the governments of main developing countries that the provision of fiscal incentives is necessary to attract direct foreign investment, and that the greater the generosity of these incentive programs the greater would be the level of such investment. His work is a serious challenge to the conventional wisdom that such a relationship exists in a broad range of mineral-exporting developing countries.

Matsebula, M. S., "Tax Incentives in Botswana, Lesotho and Swaziland," Journal of Southern Africa Affairs, Vol. IV No. 1 (January 1979), at p. 45.

The impact of the initiatives that promote greater tax elasticity would presumably be a disincentive to investment. This impact, of course, is something that governments seek to avoid. Michael Sisa Matsebula noted that virtually all less developed countries offer tax incentives which are aimed primarily at attracting foreign resources such as capital technology and managerial expertise. They do so to increase employment opportunities and to provide more and better basic amenities. The latter derives importantly from public revenues collected from the companies that transfer the resources to mining and other sectors. Matsebula's essay, while directed toward Swaziland, raises a point generally relevant to Southern Africa, e.g. whether tax incentives lead to an unnecessary revenue sacrifice by government; or, put a somewhat different way, whether the government gives up too much of what it attempts to generate by offering too liberal an incentive package to foreign investors. The link, of course, is how responsive investment is to changes in tax rates.

Marti, Mary Mercedes, "Survey of Changing Attitudes in Latin American Tax Policy," International Tax Journal, Vol. 8 No. 2 (December 1981), at p. 115.

The author contends that the multinational companies have discerned a variance in the attitudes of Latin American countries toward foreign investments in recent years. A survey conducted in the region focused on major policies adopted in many of the Latin American countries over the past two years, with emphasis on changes in tax and other fiscal policies. Areas where such changes have had a significant impact include: (1) transfers of technology, (2) discrimination for tax holidays, (3) tax sparing provisions, (4) tax on excess profits over registered capital, (5) import duty relief, (6) taxes credited against income tax liability, (7) altered brackets of taxable income, (8) employer contributions to Social Security programs, and (9) changes in tax administration policy. Most nations in the region have significantly ameliorated the tax implications for foreign companies doing business, and some - for example, Peru - have taken great strides. However, others, most notably Mexico and Venezuela, continue restrictive policies, denying tax benefits to non-resident taxpayers.

Touche Ross, Tax and Trade Profiles: South and Central America, (Touche Ross International: New York, 1979), Pp. 164.

The book profiles such basic data as: Government and economy, exchange controls, restricted business practices, investment incentives, formalities for their establishment, finance and taxation, business entities, labor trade practices, accounting, and auditing. It focuses on Argentine, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Panama, Peru, Uruguay, and Venezuela.

Walde, Thomas, "Third World Mineral Development in Crisis," Journal of World Trade Law, Vol. 19 No. 1 (January-February 1985), at p. 3.

In the article, the author points out that, in considering and in negotiating the various fiscal instruments, it is essential to view them as components of a single package, irrespective of their name, i.e. taxes, export duties, royalties or free equity. The employment of the methods of scientific negotiation and comprehensive financial analysis enables negotiators to understand the impact and the interplay of the various fiscal levies. In some countries with no previous exposure to the mining industry, considerable efforts are necessary to coordinate the concerned state agencies - the Ministry of Mines, the Ministry of Finance, the Central Bank and others - to allow the formulation of a consistent and comprehensive government policy. In the following paragraphs, some issues are highlighted.

Royalties, as a value-based charge on mineral production, have not disappeared, as has often been predicted. They provide stabilized revenue, are a minimum charge for depletion of non-renewable resources, and constitute in several mining countries the main source of revenue. A number of countries have found that extensive royalty-like payments independent of profitability (export taxes, sales taxes, artificial exchange rates) can erode the company's ability to reinvest and to maintain productivity.

World Bank, 1979 World Development Report, (Washington, 1979), Pp. 99-102.

The 1979 report noted that problems besetting the mineral economies spring from their tendency to neglect the development of non-mineral sectors, especially agriculture. The Report found that structure incentives in such countries are biased heavily against agriculture and most mineral economies did little to compensate for such biases through investments in agricultural infrastructure, extension, research or credit. Potential agriculture-based development receives less direct attention than agriculture in countries where mineral-based export-lead growth has dominated public investment strategies.

The World Bank reached two conclusions on this score. First, the importance of investment strategy, especially public investment strategy, in mineral economies derives in part from the potentially strong fiscal linkage between mining and the rest of the economy. The strength of this fiscal linkage in practice depends on the willingness and ability of developing country governments to tax or otherwise participate in the incomes originating in mining. Second, the mining industry in most developing countries is characterized by the presence of large transnational corporations and by the existence of a substantial element of rent in the market value of minerals. The World Bank's Report went on to conclude that these two facts imply that mineral economies must pay particular heed to mineral taxation, participation in the mining industry, and negotiations with transnational mining corporations.

3. Export and Import Taxes: Core Works

Booth, A. G., "The Economic Impact of Export Taxes in ASEAN," Malayan Economic Review, Vol. 25 No. 1 (April 1980), at p. 36.

The essay is written in the tradition of optimal tax literature which, when applied to an open economy, assumes that export taxes are paid by non-residents, and nationally based taxes are paid by residents only. The author notes that no such neat classification is fully warranted in the type of open economies with ASEAN. The article discusses the various types of impact that fall upon residents due to a tax imposed upon exports and presumably non-residents.

Greenaway, David, "A Statistical Analysis of Fiscal Dependence on Trade Taxes and Economic Development," Public Finance, Vol. 39 No. 1 (1984), at p. 70.

The work contains a number of cross-section studies of the relationship between fiscal dependence on trade taxes and economic development which have indicated that they are inversely related. The present study employs a large sample of countries to confirm that this relationship continues to hold in the mid-1970s, in particular, for middle-income countries. The present paper goes beyond this, however, to explore the implications of separating trade taxes into import taxes and export taxes, and to consider whether time-series analysis can offer any further insights on the question.

International Monetary Fund, "Taxation in Sub-Saharan Africa," Occasional Paper No. 8, (Washington: October, 1981), Pp. 35.

The International Monetary Fund pointed out that, by granting incentives, the government foregoes revenue that it would otherwise have received. It cautioned that the benefits accruing to the economy and to the government because of the actions induced by the incentive must be worth the sacrifice or else the incentive is inefficient. The incentive must increase (or redirect) domestic supply sufficiently to justify its cost. The key point is whether the additional revenue would have accrued to the potential tax base if the incentive had not been granted; (and) if the additional revenue had not accrued in the form encouraged by this incentive, would some equally productive alternate increase in the base have arisen? The I.M.F. went on to point out that taxing modern mining sectors involves two risks for a mineral-rich country: The first is the trade-off between revenue elasticity and incentives to development. The most elastic tax bases are often the parts of the economy that the government wishes to grow as rapidly as possible, giving them encouragement if necessary by exempting them from taxes. The second, and closely related problem, is the conflict between equity and certain goals related to resource allocation and development. If the modern sector is taxed lightly in order to encourage rapid development, then inequities in income and property taxation between the modern and traditional sectors may be increased.

Tanzi, V., "Import Taxes and Economic Development," Economia Internazionale, Vol. 31 Nos. 3-4 (August-November 1978), at p. 252.

The author presents a systematic discussion of the role of import taxes and economic development. He focuses attention on import taxes in terms of the following purposes for which they are levied: revenue-raising, sumptuary purposes, affording protection to domestic industry, and having an external trade balance impact.

4. Export and Import Taxes: Supplemental Works

Asher, Mukul G., Revenue Systems of ASEAN Countries: An Overview, (Singapore: Singapore University Press, 1980), Pp. 66.

This is a comparative study of central government revenue structure of the countries belonging to the Association of Southeast Asian Nations (ASEAN). It focuses on an empirical description of the level and trends in revenue and finds, in general, that the tax structures, which differ greatly among ASEAN countries, need to be simplified and rationalized. In particular, the analysis implies that: (1) policy makers should not look automatically to tax sources for raising revenues but also consider nontax sources; (2) there is a need to differentiate between nominal, actual, and effective progressivities in tax structures; and (3) reduction of the complexity and nominal progressivity of the tax system would help achieve equity and efficiency without an adverse effect on revenues. Included are tables of statistical data on tax revenues of the ASEAN countries.

Asher, Mukul G. and Anne Booth, Indirect Taxation in ASEAN, (Singapore: Singapore University Press, 1983), Pp. 242.

The book describes the points of similarity and the degree of divergency between the indirect tax systems of the member countries of ASEAN, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The authors compare the systems of indirect taxation (in particular sales, excise, and foreign trade taxes) in the five countries with reference to the following criteria of tax evaluation: impact on domestic resource allocation; revenue productivity; impact on macroeconomic stabilization; equity; and administrative ease. They discuss feasible structure and other changes that could be made to make their economic impact more compatible with the economic development objectives of the individual ASEAN countries. They argue that full harmonization in ASEAN is impossible because of the differences in economic policy orientation among its member countries. A limited agreement on preferential trading arrangements, on the other hand, should be feasible, the authors conclude.

Byrne, W. J., "The Elasticity of the Tax System of Zambia," World Development, Vol. 11 No. 2 (February 1983), at p. 153.

In his article, the author notes the importance of taxation placed upon the mineral sector - mainly copper - during the 1966 to 1977 period. He points out that the elasticity of Zambia's tax system has been based primarily upon how the government chose to tax mining companies during the period. In particular, he shows the difficulties associated with substituting other tax bases for the country's export-based tax system.

Kostecki, M. M. and David Seek, "Treasury Revenue and Foreign Trade Taxation," Weltwirtschaftliches Archiv, Vol. 118 No. 1 (1982), at p. 166.

The article contains a comparative cross-country analysis of the fiscal importance of trade taxes and its relation to per capita incomes and countries' dependence on trade. The test is based on 1972-1978 data. It covers 93 countries, and is conducted both for global export-import trade and for exports and imports separately (excluding centrally planned economics). It is argued that the fiscal importance of trade taxes will tend to be underestimated for those countries (mostly LDCs) where state trading and multiple exchange rate systems exist.

Mulat, T., "The Revenue Effectiveness of the Ethiopian Coffee Export Taxation," Public Finance, Vol. 34 No. 3 (1979) at p. 375.

The author concludes that, for developing countries economically dependent on few primary exports, export taxation often constitutes a major source of government finance. This short study aims at evaluating the revenue effectiveness of the Ethiopian coffee export taxation. Alternative tax evaluation methods are suggested, and the relevant revenue equations in this study are derived from the tax laws. The conclusion from the study is that the Ethiopian coffee export tax revenue is both price and quantity inelastic and the current tax formula requires constant revisions whenever significant changes in the tax base occur.

VI. TAXATION OF INCOME, WEALTH AND CONSUMPTION

The literature on taxation and development contain two basic foci: first, one evaluates the performance of an overall tax system, the components of which are levies placed on income, wealth (property), consumption (including imports) and exports; the second appraises the role(s) of these levies. The works follow in the tradition of Due's pioneering work on designing and administering an optimum tax structure.

A. The Tax System.

Tax systems and specific taxes are evaluated and appraised with reference to these traditional criteria: (a) adequacy as a revenue source, (b) impact on resource allocation, income distribution, and investment decision, (c) contribution to equity, and (d) ease of administration.

Goode (1983) and Lewis (1984) combine to present a summary of the state of the work on public finance and economic development. Their writing is in the multiple objective framework of optimal public finance, and they reflect a concern about the issues raised by supply-side theorists. Lewis' key points are that the facts of each country situation are important and the place to begin to understand them is with a general description (or tax survey, e.g. identifying tax bases and applicable rate schedules, projecting statistically changes in each, and estimating revenue yields) of the revenue structure of a country. This understanding includes calculating the elasticity of various taxes with respect to national income (or GDP), to various sectoral components of national income (e.g. mining) when they closely approximate tax bases. The next step is to analyze each

tax with respect to its consistency with generally accepted tax criteria (e.g. efficiency, sufficiency, equity, neutrality, etc.). An additional set of steps include focusing on general equilibrium (e.g. resource allocation) effects, net fiscal incidence and macroeconomic impact.

Goode's work is relatively broader and more general in scope. Its focus is on the overall effectiveness and efficiency of policy formulation having to do with both the revenue and expenditure sides of public finance. He notes the wisdom of considering the multiple role that public spending plays, and the need to secure adequate revenues, efficiently and equitably collected and damaging disincentives minimized.

Goode (1983) and Lewis (1984) draw their ideas from a corpus of literature which, when dealing with an overall tax system, begins by noting that tax systems and policies have limitations. Raising revenue is limited by possible undesirable effects on resource allocation and income distribution which tend to grow stronger as the ratio of taxes to gross domestic product (GDP) rises: Aguirre, et. al. (1981). This is especially true for the developing countries which, due to the lack of administrative resources, encounter difficulty in raising sufficiently large amounts of revenue from relatively complex taxes placed, for example, on individual and business income. These taxes, because of their more direct impact, tend to have the least undesirable side effects, or at least the effects are more predictable and therefore manageable: Subrahmanyam and Kamaiah (1983).

Administrative constraints and small-sized tax bases impose limits on the ability of the governments to use tax systems positively to

influence resource allocation and the distribution of income and property: Plasschaert (1983), Tait, et. al. (1983), and Mann (1980). In addition, political process and the political and ideological nature of each society: Rau (1979) impose additional constraints that limit the degree to which and the manner in which the tax system can be used both to raise revenue and carry out policy. The literature notes that government's use of other instruments also impacts on tax policy, e.g. monetary and credit policies can have strong expansionary or contractionary impact on taxes bases. Such policies and their economic impact have a considerable effect on tax revenues and on policies of open economies where foreign trade is the most important tax base. Also, tax policy, especially tax incentives and such devices as tax rebates at export, can affect monetary, credit, and exchange policies: Tait, et. al. (1979).

In addition to discussing the limits to tax bases (particularly with respect to direct taxation) and the impact of other policy measures on expanding (or contracting) such bases. clearly the ability to raise revenue is fundamental. Rarely can a tax that yields little or no revenue influence allocation or distribution significantly. In examining the revenue potential of taxes, in the form of a World Bank paper (1981), two main aspects are involved: first, the magnitude of the base relative to alternative bases and to the economy; and second, the elasticity of the tax (e.g., the percentage change in tax revenues which occur concurrently with a percentage change in income or gross domestic product). The latter includes the elasticity of the base in relation to income, gross domestic product (GDP), or the elasticity of the tax in relation to a sectoral base such as mining, industry, or agriculture: Aguirre, et. al. (1981).

B. Taxation of Income.

Lewis (1984) argues in favor of taxing income directly where it is feasible to do so. He points out that such a levy is consistent with the aims of economic development.

Other arguments in favor of income taxation are that if the income tax automatically generates a rising share of national income in the form of taxation as national income rises, it would be possible to have a constant tax environment for individuals and businesses for reasonably long periods of time.

Another desirable feature of an income tax over many other forms of taxation related to generality: Plasschaert (1983). The more general and comprehensive the tax base, the fewer the undesirable side effects as compared with a tax on a particular type of good, service, transaction, or piece of property: Bhargava and Jains (1982), Editor, Business Asia (1983) and Lee (1979).

With respect to income taxation, the literature's primary focus is on levies placed upon individual income. However, substantial reference is also made to the taxation of corporate (or business) income. On this point, writers note two primary constraints to imposing such taxes: first, administrative problems associated with determining profit bases upon which to apply rate schedules are acute, Bird (1983); and second, levies could become serious disincentives to business expansion: Gillis and McClure (1979) and Shome (1978).

Lewis (1984) points to two inherent administrative questions in implementing an income-based tax. How should income be defined: should

individual income be unadjusted gross income, adjusted net income, or income (adjusted or gross) plus or minus a change in net worth (or wealth)? What degree of progression (if any) should the tax rate schedule take in order to meet both allocation and distribution objectives in developing countries?

C. The Taxation of Wealth.

Limited income tax bases and administrative problems prompt most developing countries to use indirect methods of taxation. One such levy is placed upon wealth (or the ownership) of real property. Lewis (1984), Goode (1983), Bahl (1979), Linn (1980), and Riew (1983) make a series of observations about wealth and property taxes. They note that, as with income taxes, taxing authorities begin with the attempt to impose a fairly general tax, one with fewer substitution effects. Such impositions would be more neutral with respect to resource allocation, and they can be assessed in a progressive manner with respect to ability to pay. Problems of assessment and administration and differences in the particular types of taxes chosen from the family of wealth and property taxes, lead to a lack of generality and a series of less desirable side effects in the case of many such taxes.

Goode (1983) and Singh, et. al. (1979) discuss taxation of agricultural land. They point out that such taxes have decreased with changes in economic structure and the development of other taxes. The absolute yield of tax on land probably has fallen in real terms in some countries. Interest in the subject, however, continues and two strands of

thought give the subject more prominence than the current fiscal role of agricultural land taxes would appear to warrant. One is that agriculture must be taxed heavily to transfer resources from that technologically backward sector to more progressive sectors in order to foster growth and development. Goode (1984) notes that the agricultural sector is large in countries at early stages of development and asserts that disguised unemployment in rural areas is great, that farmers do not need much capital, and that they are unresponsive to price incentives.

Goode (1984) points to a second strand, e.g. the belief that land taxes can induce more active use of agricultural land and the breakup of large holdings. This possibility has received special attention in Latin America, where in several countries land ownership is highly concentrated. Proposals to carry out this nonfiscal function call for progressive taxes on individual or family holdings. On occasion, they call for overt discrimination against land that is not cultivated or that produces less than its full potential output.

D. The Taxation of Consumption.

Sales taxes and excises are the two most important tax instruments that can be levied on consumption in terms of revenue generation. Aguirre, et. al. (1981), Asher and Booth (1983), McClure and Thirsk (1978), Wilford and Wilford (1979) note that the levies must impact equally on both imports and domestic production in order to avoid unintended and undesirable protection of inefficient local industries.

General sales taxes generally become the main tools for producing revenue as countries continue to develop: McClure and Thirsk (1978). To avoid administrative complications and distortions in resource allocation, Aguirre, et. al. (1981) argue that a general sales tax should have the broadest possible coverage and little or no rate differentiation. As to the most appropriate form of sales tax, experiences in countries both outside and inside the region would seem to indicate either a multistage value-added tax or a single-stage manufacturer-importer sales tax: Wilford and Wilford (1979).

Economic efficiency is served best by tax neutrality with respect to the number of stages in production or importation and distribution. The report and the literature note that, if this is achieved, there will be no discrimination against items produced with taxable inputs or items requiring a long change of production and distribution stages: Due (1984). Mechanisms have been used to avoid this, e.g. taxes on values added avoided the problem, since they allow producer-taxpayers to credit sales taxes paid on inputs against taxes due on sales. Production taxes applied by some countries provide a deduction from gross sales of the value of raw materials and intermediate goods incorporated in the product. Some countries levy manufacturer-importer sales taxes to allow producers to buy inputs tax free, to apply for refunds, or to compute a credit equal to the tax on inputs and apply it against the tax due on sales: Aguirre, et. al. (1981), Cnossen (1978), and Asher and Booth (1983).

It is generally argued that exemption of these goods from sales taxation is necessary to avoid cascading, since otherwise tax would be paid

on a final product whose cost would already include part of the tax payable upon purchase of the capital goods. On the other hand, as Aguirre, et. al. (1984) point out, taxation of capital goods has been advocated to counteract the effects of too many exemptions granted to users of capital goods under incentive schemes and to encourage increased utilization of labor.

E. Intergovernmental Finance.

Bahl and Miller (1983), Bird (1978), Long (1981), and Ubogu (1982) focus on fiscal decentralization and revenue transfers from national to local jurisdictions. They point out that the structure and importance of government activity varies greatly from country to country, and so do the policy objectives and instruments of intergovernmental fiscal relations. They found that in the past few decades municipal expenditures grew in importance relative to central government expenditures in such countries as Korea, the Philippines, Sri Lanka, Kenya, Tanzania, and Colombia. Largely, this is a result of rapid urbanization and much of the expenditure by subnational governments in these and other countries was financed by intergovernmental fiscal transfers.

There is a wide variation of circumstances in developing countries: during the 1960s and 1970s, in Syria and Panama, for example, subnational governments received only 4 percent of total government revenues, while in Brazil they received 60 percent. The proportion of their revenues that subnational governments received from the central government in grants and shared taxes ranged from nil in Paraguay, where local government is

insignificant, to 90 percent in Indonesia. The literature note. that it is difficult to discern any general relationship between the reliance on central government financing and the form of government or the relative importance of subnational government finance.

There is also no apparent relation between fiscal decentralization measured in this way and the degree to which political power is centralized. In addition, Long (1981) notes that the degree of urbanization is an important factor in explaining the relative significance of subnational spending in some developing countries. The level of development, on the other hand, is not significant. The apparent lack of correlation between fiscal and political centralization more likely reflects the difficulty of measuring centralization than it reflects a valid finding from statistical analysis. The literature notes that no simple measure of fiscal centralization can adequately measure how far local governments are independent of central governments. The degree of real local autonomy, in the sense of independent decision-making authority, cannot be assessed simply by considering the relative importance of local revenues or expenditures in the public sector budget as a whole.

F. The Tax System's Reform.

Tax system reform probably received its clearest, most cogent, useful and durable treatment in Richard Musgrave and Malcolm Gillis (1971). Set within the optimal public finance framework, their points were extended and amplified by more recent writers such as Ahmad and Stern (1984). They note that taxation and public expenditure formed a process wherein

resources were transferred to public use. On the macroeconomic side, the purpose underlying such transfers was to raise the material standard of living via growth processes. The processes featured high levels of employment, high degrees of price-level stability and expansion in the output of goods and services. On the microeconomic side, distributional goals involving both family units, geographic regions and economic sectors received consideration. In addition, the transfers were to support allocative efficiency based upon sound principles (equating externalities, taking advantage of natural monopolies, assuming public risks, providing indivisible goods and correcting market imperfections).

The Musgrave and Gillis concern with administrative efficiency and disincentive avoidance are themes consistently articulated in the optimal public finance literature during the period 1978 to 1985. However, the supply-side writers elevate such concerns to a new level of prominence in the literature. They differ markedly from the views of optimal public finance theorists who propose a more activist fiscal policy approach to development. In essence, they see taxes as increasing costs, acting as disincentives to work, investment, savings, capital formation and production. These disincentives thereby have negative macroeconomic consequences in terms of employment, price stability and output.

A basic premise of the optimal tax theorists' tax policy prescriptions is that people are concerned with after-tax incomes and they respond to incentives affecting them. Government tax policy has important effects on individual incentives, and a reduction of tax rates, especially a substantial and visible reduction, would significantly increase

incentives to work in the short run and thereby raise aggregate supply. A reduction in marginal income tax rates would increase the supply of labor significantly by inducing shifts from leisure to work, and from nonmarket to market activity. This would increase output and slow the rate of inflation. It would increase the supply of savings and capital via encouraging shifts from consumption, thereby lowering interest rates. This could redirect resources from unproductive investment and nonmarket activity (seeking tax avoidance) to more productive uses of capital and market activity. This would lower unit costs, raise productivity and remove supply-side constraints.

G. Implications for Donors.

Goode (1983) makes the following three points which have implications for donors of official development assistance in country-specific cases where activist fiscal policies are pursued.

1. Fundamental to effectiveness and efficiency in policy formulation is the character of the policies adopted. Policy formulation includes the selection of one or more objectives and the choice of an action or actions to carry out the decision, though the means of implementation need not be specified in detail in advance. The clarity and realism of policy formulation are vital to success...In less developed countries the character of the political process frequently causes political leaders to fail to formulate clear and enforceable policies. Administrators try to fill the gaps and in doing so engage in essentially political action. When this happens, politicians discover that the laws and rules they adopt, thinking they are policies, are not actually carried out and often assume that the failure is due to willful obstruction. The politicians then become excessively involved in the details of administration, sacrificing a distinction between politics and administration that is useful and characteristic of highly developed systems, though never complete.

2. Governments of developing countries may be able to increase the effectiveness and efficiency of policies by drawing on foreign

experts to assist in their formulation and execution. The assistance may take the form of advice or operational services. A government may obtain the services of foreign experts by contracting with individuals or with economic or management consulting firms, legal firms, or accounting firms. Or it may apply to an international organization or a friendly foreign government. For technical assistance in public finance, the most active international organizations in recent years have been the International Monetary Fund, the Organization of American States, and the United Nations. Technical assistance on public finance matters has been provided occasionally by the Inter-American Development Bank, the Asian Development Bank, and the Colombo Plan.

Governments may seek assistance to resolve a specific technical problem or to overcome general fiscal difficulties manifesting themselves in excessive budget deficits or lack of finance for desired projects. They may believe that receiving technical assistance will improve their prospects for obtaining loans or grants. The identification of subjects on which assistance is most likely to be productive, the choice of source and form of assistance, and the establishment of priorities merit more careful consideration than usually is given to them.

3. Much depends on the quality of leadership and on external events and chance. But superior leadership and good luck cannot be ensured. The best course is to seek practical means of overcoming or compensating for some of the handicaps to policymaking and administration present in many developing countries. Prominent among these are the weakness or absence of nongovernmental organizations that can articulate and aggregate various interests. There are also few if any independent research organizations concerned with public affairs, and university studies usually are not oriented toward immediate issues in government finance. These conditions deprive the government of information and analysis that could assist the evaluation of objections and obstacles to policies under consideration and the appropriate specification of decisions.

   These conditions could be mitigated by the creation of one or more small advisory groups, located in the ministry of finance or budget office or possibly in the office of the prime minister or president, with the function of studying selected problems of government finance and preparing recommendations for the consideration of policymakers at opportune times.

Goode (1983) points to a role that donors might play more actively and effectively. They have to do with providing more technical assistance and training to public finance and fiscal policy efforts in developing countries. Early contributions by Adler, Wallich, Shoup, Musgrave and Gillis and their colleagues--cited in the bibliography under seminal works--provide such assistance in quite useful fashions. Their efforts occurred while the field of study was developing and maturing. That development and maturing process has witnessed--since 1978--a substantial expansion in the state of knowledge. This improvement offers a basis for offering improved assistance and training in the near future.

Superb works such as those provided by Aguirre, et. al. (1981), Goode (1983) and Lewis (1984) exemplify the improved and expanded state of knowledge in the field. While they and other writers provide no fixed set of answers to all pertinent questions, their works provide collectively major intellectual resources which could be used by donors to assist developing countries to design and administer fiscal policies rationally and effectively. Such assistance could improve the development impact of assistance donated in an effort to support balance of payments and budgets, to bring about sectoral adjustments and to sustain development projects and programs.

H. Bibliographic Citations.

1. The Tax System

Aguirre, Carlos, P. S. Griffith and M. Z. Yucelik, "Taxation in Sub-Saharan Africa," Occasional Paper No. 8, (Washington, D.C.: International Monetary Fund, October 1981, Pp. 51.

This study, prepared by members of the staff of the Fiscal Affairs Department, completed in March 1981, draws extensively on the work of the Department on the administration and implementation of taxation policies in sub-Saharan countries since 1964. The study identifies some taxation problems most frequently encountered by Fund member countries in sub-Saharan Africa and seeks solutions that may be useful either to the region as a whole or to groups of countries in the region. It is a superb work and it has been used and drawn from extensively in the preparation of this report.

Ahmad, Ehtisham and Nicholas Stern, "The Theory of Reform and Indian Indirect Taxes," Journal of Public Economics, Vol. 25 No. 3 (December 1984), at p. 259.

The authors make the point that, given a set of value judgements and a model of the economy, one can ask whether some feasible tax change would increase welfare. The authors do this by defining the marginal cost in terms of welfare of raising an extra rupee from the ith good. The inverse optimum problem is the calculation of nonnegative welfare weights on households, which imply that the initial state is optimum. If no such welfare weights exist, then a Pareto improvement is possible. The concepts and results are illustrated using data from the Indian economy for 1979-80. Tax reform for a number of specific social welfare functions and for Pareto improvements are presented.

Asher, Mukul G., Revenue Systems of ASEAN Countries: An Overview, (Singapore: Singapore University Press, 1980), Pp. 66.

This is a comparative study of central government revenue structure of the countries belong to the Association of Southeast Asian Nations (ASEAN). It focuses on an empirical description of the level and trends in revenue and finds, in general, that the tax structures, which differ greatly among ASEAN countries, need to be simplified and rationalized. In particular, the analysis implies that: (1) policy makers should not look automatically to tax sources for raising revenues but also consider nontax sources; (2) there is a need to differentiate between nominal, actual, and effective progressivities in tax structures; and (3) reduction of the complexity and nominal progressivity of the tax system would help achieve equity and efficiency without an adverse effect on revenues. Included are tables of statistical data on tax revenues of the ASEAN countries.

Bahl, Roy and Barbara D. Miller, Local Government Finance in The Third World, (New York: Praeger, 1983), Pp. 260.

In their co-edited work, the authors present a series of seven essays dealing with various aspects of local government structure, financial management, and fiscal conditions in the Philippines. The essays focus on the real property tax, the business license tax, intergovernmental fiscal relations, local government enterprises and local government public enterprises. The book concludes with a summary essay on establishing the need for, and suggesting a method of, strengthening the fiscal performance of Philippine local governments. The book provides one of the most thorough and useful examinations of intergovernmental and local finance in a country setting.

Bird, Richard M., "Intergovernmental Fiscal Relations in Developing Countries," The World Bank: Staff Working Paper No. 304, (Washington, D. C.: World Bank (October 1978), Pp. 1-100.

This study considers a broad range of issues relating to intergovernmental fiscal relations in developing countries, with particular attention to their implications for the provision of urban services. It is designed to assist country economists and project analysts in dealing with intergovernmental fiscal relations in the context of urban sector or public service sector studies, and in assessing the implications of projects for urban institutions, and vice versa. A review of the literature suggests than in the past overly facile solutions were proposed for what are extremely complex political, economic and administrative issues. This emphasizes the need for explicit recognition of potentially conflicting objectives of fiscal policy, for a careful analysis of each fiscal policy instrument for each objective, and for consideration of the institutional reality of the country or city for which policy recommendations are to be made. Particular attention is paid to the design of the most important instruments of intergovernmental fiscal policy: the organizational structure of the public sector, direct controls by higher-level government over local authorities, urban tax policy, and intergovernmental transfers.

Herschel, F. J., "Tax Evasion and Its Measurement in Developing Countries," Public Finance, Vol. 33 No. 3 (1978), at p. 232.

The author presents concepts and explanations of tax evasion, the measurement of tax evasion in Argentina: the gap approach which relates taxable income to national accounts, information gathered through a special amnesty, data around 1959. He also analyzes policies and procedures to fight evasion.

Jha, R. and U. Lachler, "Optimum Taxation and Public Production," Journal of Economic Development, Vol. 9 No. 3 (December 1981), at p. 357.

In their contribution, the authors develop a model which relates the production of goods in the public sector to an optimum taxation scheme. The authors search for, and present, a version to such a model which is consistent with - indeed one based upon - the optimal public finance literature. Their contribution to the literature stands out in terms of clarity and coherence of presentation.

Kahn, Ahmad, Taxation in the ASEAN Countries: A Comprehensive Guide and Analysis, (Singapore: University of Singapore Press, 1984), Pp. 251.

This book contains twenty-eight contributions by B. Wall, A. Yoingco, R. Lee, H. Gillet, M. Rozario, C. Gison, A. Sow, F. Morgan, S. Sivalingam, and V. Tantayakul. They focus on various aspects of taxation in the ASEAN countries, including personal and corporate taxation; withholding taxes; incentive programs; taxation of investment income such as interest, dividends, royalties and rentals, bilateral tax treaties and taxation of shipping; and income taxation.

Lewis, Stephen R. Jr., Taxation for Development, (New York: Oxford University Press, 1984), Pp. 306.

The book offers an introduction to the analysis of tax policies in developing countries from a perspective that focuses on an open economy. The concentration is on trade and resource movements as affected by tax policies. The key point to the work is the extent to which policy-makers continually understate the real economic costs of employing tax policies to subsidize or otherwise protect particular economic sectors.

The book introduces the role of taxation within the development process, and then it develops a general analysis of income taxes placed on individuals and corporations. The author also discusses indirect taxes placed upon wealth, land, property, other assets, and on consumption.

Some fifty policy problems are discussed in this superb and virtually encyclopedic volume. The case studies within which the analyses are presented allow readers to apply tax theory principles to actual tax policy issues.

Lima, E. G. and R. V. Costa, "Taxation in Latin America," Steel News, Vol. 38 Nos. 8-9 (August-September 1984), at p. 367.

The authors present the fundamental legal principles applies to taxation in the Latin American countries, the international tax aspects and the structures of the various tax systems. They discuss the basis of the constitutional legal system, general concepts of tax legislation, taxation criterion, tax treaties, the importance of direct and indirect taxation, tax revenues, structures of main taxes: income tax, net worth tax, and sales tax. Statistics are presented for the 1970-82 period.

Longo, C. A., "A Note on Local Tax Revenues: The Case of Brazilian Municipalities," Public Finance Quarterly, Vol. 9 No. 3 (July 1981), at p. 343.

In this brief note, the author points out the problems facing Brazilian municipal jurisdictions in gaining access to bases for revenue generation. While the focus is on Brazil, the implications for municipalities throughout the developing world are suggested.

Matsebula, M. S., "Tax Ratios in Africa," South African Journal of Economics, Vol. 47 No. 2 (June 1979), at p. 156.

The author presents variations in the tax ratios of African countries where estimates are made by pooling cross-section and time-series data. Determinants of tax ratio differentials, testing of the model for 17 countries, 1969-1973, are also analyzed.

Puri, A. K., "Tax Structure and Developing Economies," Malayan Economic Review, Vol. 25 No. 2 (October 1980), at p. 48.

In this article, the author analyzes tax structures in developing countries. He pays particular attention to long-term capacities to generate public revenues adequate to cover optimum levels of public expenditures in the developing countries under analysis.

Rao, J. G., "Ideological Factors, Political Stability and Tax Revenue Determination - A Case Study of Four States in Indian Federation," Public Finance, Vol. 34 No. 1 (1979), at p. 114.

The paper attempts to examine empirically the impact of ideological leanings and stability of the parties in power besides economic factors on the changes over time in tax revenues of four States in Indian Federation. The effects of various factors have been segregated in a multivariate regression model. The political effect is quantified through the dummy variable technique. The interstate differences in tax effort are also estimated in a covari-

ance model. The results lend support to Downs' hypothesis that "...the desire to obtain and keep power per se plays a larger role in the practical operation of democratic politics than the desire to implement ideological doctrines."

Singh, J., I. S. Chata and T. Singh, "Taxing the Farm Sector in India," Economic Affairs, Vol. 24 Nos. 5-7 (May-July 1979), at p. 149.

In this three-page note, the authors point out that taxes placed on farm sectors can, in combination with pricing policies, negatively impact food and agricultural output. In their concise and brief statement, the authors pose a note a caution to tax authorities not only in India but also to other developing-country governments.

Srivastava, D. K. and P. K. Aggarwal, "Measuring Tax Revenue Centralization in Federal Fiscal Systems: A Case Study of India," Public Finance, Vol. 34 No. 3 (1979), at p. 414.

In this article, the authors present an adopted form of Herfindahl's index of concentration for the measurement of tax-revenue centralization in federal fiscal systems. Tax bases of all participating governments are viewed as interdependent as if they were firms sharing a common market. An empirical counterpart is provided by a study of tax revenue centralization in India. Central- ization before and after tax devolution is measured. A greater centralization in direct taxes is observed. The responsiveness of the centralization index to changes in relevant variables is measured in terms of various partial and total elasticities. The reduction in centralization due to devolution is found to be highly responsive to the levels of central tax revenues and tax transfers.

Stern, Nicholas, "Tax Reform: Income Distribution, Government Revenue and Planning," Indian Economic Review, Vol. 18 No. 1 (April 1983), at p. 17.

The article is a general analysis of the need for, and the pursuit of, tax reform in developing countries. Its focus is on reform in the pursuit of development objectives. It is an excellent blend of both optimal tax theorist and supply-side concerns about the impact of taxation on economic growth and development.

Surrey, Stanley S., "Tax Expenditure Analysis and Tax and Budgetary Reform in Less Developed Countries," Law and Policy International Business, Vol. 15 No. 3 (1983), at p. 739.

This article is a virtual companion to the previously cited one and, in combination with it, provides a concise analytical background to discussing public finance, taxation and development.

Subrahmanyam, Ganti and Bandi Kamaiah, "Administrative Costs and Tax Substitution: Some Econometric Evidence," Public Finance, Vol. 38 No. 3 (1983), at p. 282.

This study maintains that governments of less developed countries with traditional public finance motives employ their tax structures to maximize net revenue per unit of collection and administration (compliance) costs to pay for increasing public expenditures. Using the standard cost-minimization theory of firm, a translog cost function framework was employed to compute, for the first time, substitution elasticities among customs duties, union excise, income taxes, and other central taxes for India over 1950-51 - 1966-67. Empirical results indicated that, while union excise seemed an overall substitute, customs duties and income taxes were substitutes between themselves but complementary with other taxes. Throughout, the elasticity estimates stood almost below unity.

Tait, A. A., W. L. M. Gratz, and B. J. Eichengreen, "International Comparisons of Taxation for Selected Developing Countries, 1972-76," I. M. F. Staff Papers, Vol. 26 No. 1 (March 1979), at p. 123.

The paper reviews the controversial measures of "tax effort," updates previous studies, and compares current results to earlier findings. Some trends in taxation are described. A new, broader sample of countries is used to show the vulnerability of absolute tax indices to changes in the sample. However, rankings provided to be relatively stable.

Wagstaff, Peter, "The Cost of Maximum Revenue Trade Taxes," Economica, Vol. 51 No. 201 (February 1984), at p. 43.

The author employs the application of dual or indirect techniques to analyze the costs of trade taxation in LDCs, in particular maximum revenue trade taxation, in an n-good general-equilibrium model of a small open economy. It is highly mathematical and not appropriate to the interest of a general reader. However, it is a solid work.

Ubogu, R. E., "Fiscal Decentralization and Economic Development Among Nigerian States," Journal of Economic Development, Vol. 7 No. 1 (July 1982), at p. 93.

In this article, the author analyzes available data with respect to fiscal decentralization, tax effort, public spending, and economic growth and development in Nigeria. The analysis is from a perspective which notes the relationship between these variables among the states in Nigeria.

In concluding this set of annotated references, attention should be called to the informative material often contained in issues of the Bulletin For International Fiscal Documentation. The issues occasionally touch upon theoretical and policy matters which have general applicability, but they normally focus on specific countries and their tax and budget policies. There are too many such articles to cite here, but the following is presented by way of example. The papers to which reference is made are from special collections of country studies contained in the Bulletins in 1978 and 1979. Each paper is valuable for two reasons: separately, each describes and analyzes the overall revenue system of each country covered in the study; and collectively, they evaluate the nature of the tax systems in the more rapidly growing part of the developing world.

Ahn, C. S., "Republic of Korea: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 6 (June 1978), at p. 263.

Bhatt, M. C., "India: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 7 (July 1978), at p. 315.

Dewan, K. A., "Bangladesh: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 7 (July 1978), at p. 309.

Dominic, M. P., "Thailand: Taxation of Corporate Foreign Investment Income," Bulletin For International Fiscal Documentation, Vol. 32 No. 11 (November 1978), at p. 491.

Forbes, H. "Western Samoa: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 Nos. 8 and 9 (August-September 1978), at p. 391.

Hong, L. F., "Singapore: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 6 (June 1978), at p. 269.

Hong, L. F., "Singapore's 1979 Budget - A Summary," Bulletin For International Fiscal Documentation, Vol. 33 No. 4 (April 1979), at p. 181.

Jao, K. C., "Hong Kong: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 6 (June 1978), at p. 251.

Jehle, E., "The Tax System of Tahiti," Bulletin For International Fiscal Documentation, Vol. 38 No. 8 (August 1983), at p. 358.

Qureshi, N. M., "Pakistan: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 7 (July 1978), at p. 321.

SivapraKasam, C., "Sri Lanka: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 No. 7 (July 1978), at p. 329.

Soemitro, R., "Indonesia: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 Nos. 8 and 9 (August- September 1978), at p. 375.

Thimmiah, G., "Tax Reform in India," Bulletin For International Fiscal Documentation, Vol. 33 No. 2 (February 1978), at p. 51.

Yeoh, C. S., "Malaysia: The Real Property Tax Act, 1976," Bulletin For International Fiscal Documentation, Vol 33 No. 3 (March 1979), at p. 100.

Yoingco, A. Q., "Philippines: Tax Structure and Fiscal Policy," Bulletin For International Fiscal Documentation, Vol. 32 Nos. 8 and 9 (August-September 1978), at p. 383.

2. The Taxation of Income

Bird, Richard M., "Income Tax Reform in Development Countries: The Administrative Dimension," Bulletin for International Fiscal Documentation, Vol. 37 No. 1 (January 1983), at p. 3.

It is argued that improving income tax administration is an essential part of income tax reform and that the tax should be kept as simple as possible in structure if it is to be implemented effectively. The author analyzes the potential for using withholding and current payment on estimated income as tools to improve tax administration.

Editor, "Comparison of Corporate Tax Rates in Asia," Business Asia, Vol. 15 No. 27 (July 8, 1983), at p. 214.

The editor describes corporate tax bases, income taxes on locally incorporated companies, major local income tax rates, income tax on branches, tax loss carry forwards, depreciation, value of inventory, and annual tax on capital and dividend taxes. The

article is a report to managers and executive officers of Asian and Pacific operations.

Gillis, Malcom and C. E. McLure, Jr., "Excess Profits Taxation. Post-Mortem on the Mexican Experience," *National Tax Journal*, Vol. 32 No. 4 (December 1979), at p. 501.

This article examines a tax on "extraordinary income" (defined as the increase in profit margins on sales over those in a previous period) levied by Mexico from 1977 to 1979. The rate of tax rose with the increase in profit margins, so that tax burdens rose with the square of the increase in margins. The tax involved anomalous patterns of tax burdens, undesirable incentive effects, and administrative difficulties. It would be a poor pattern for other countries to follow.

Lee, Sheng-Yi, "Income Distribution, Taxation and Social Benefits in Singapore," *Journal of Developing Areas*, Vol. 14 No. 1 (October 1979), at p. 71.

The discussion presented in the article focuses on taxation, public expenditures, and net fiscal redistribution in Singapore. The author attempts to measure improvements in social benefit distribution via a "net incident" impact on the distribution of money income. While the conclusions are mixed, the author concludes that some progress has been made in generating a "more desirable" redistribution of income.

Mann, Arthur J., "The Mexican Tax Burden by Family Income Class," *Public Finance Quarterly*, Vol. 10 No. 3 (July 1982), at p. 305.

Mann, Arthur J., "Economic Development and Tax Structure Change: Mexico, 1895-1975," *Public Finance Quarterly*, Vol. 8 No. 3 (July 1980), at p. 291.

The author deals with the main features of the new tax laws of Mexico. They are descriptive essays and deal mainly with concepts such as taxable persons, concepts of income, computations of net profits, tax rates, measures to avoid double taxation, taxation of particular types of income, and taxation of income derived by non-residents.

Plasschaert, Sylvain, R. F., "Schedular and Global Systems of Income Taxation: The Equity Dimension," *Bulletin for International Fiscal Documentation*, Vol. 34 No. 7 (July 1980), at p. 287.

The article's focus in on the equity aspects of schedular or global income tax systems with special reference to developing countries. The qualitative discrimination theory is examined as to whether progressive rates reflecting both the ability-to-pay

principle and the income redistribution objective, can be rationally built into a schedular income tax system. The author notes causes and extent of the emergence of impurities in historical tax systems, but defends the appropriateness of the schedular approach for developing countries.

Plasschaert, Sylvain, R. F., "The Comparatively Limited Role of Income Taxation in Developing Countries," Bulletin for International Fiscal Documentation, Vol. 37 No. 4 (April 1983), at p. 161.

The author evaluates the relative importance of income taxation in developing countries, as compared to industrialized or developed ones. He notes the determinants of overall tax ratios and of the income tax ratio, and the economic and administrative obstacles to implementation of income tax in developing countries.

Shome, P., "The Incidence of the Corporation Income Tax in India: A General Equilibrium Analysis," Oxford Economic Papers, Vol. 39 No. 1 (March 1978), at p. 64.

This paper studies the burden of the corporation income tax in India using a two-sector general-equilibrium model. Previously all work in this area has been within a partial-equilibrium set-up, bearing the conclusion that much of the burden of the tax is borne by laborers. This paper concludes, however, that much of the tax burden is, indeed, borne by the companies. Probably two-sector general-equilibrium models suffer from a tendency towards model-specificity in their conclusions; albeit they may be no more unreliable than partial-equilibrium analyses based on a huge *ceteris paribus* segment of the economy.

3. The Taxation of Wealth and Property

Bahl, Roy W., The Taxation of Urban Property in Less Developed Countries, (Publications of the Committee on Taxation, Resources and Economic Development, No. 10, Madison: University of Wisconsin Press, 1979), Pp. 101.

This book consists of twelve papers about successful and unsuccessful experiences with urban property taxation in less developed countries. The author presents a summary of current practice, examines the distributional effects of a flat property tax, the land-use effects of property taxes and betterment levies, the administrative aspects of urban property taxation in developing countries, and presents an overview of the essays on Colombia, South Korea, Taiwan, Jamaica, and South Africa.

Linn, J. F., "Property Taxation in Bogota, Colombia: An Analysis of Poor Revenue Performance," Public Finance Quarterly, Vol. 8 No. 4 (October 1980), at p. 457.

In this article, the author adds an important analytic and empirical piece of analysis to the literature which stresses the relatively poor revenue performances of indirect taxes levied by governments in developing countries. The author notes the political and administrative impediments to the property tax base. The article also points out the resource allocation and output distribution impact of the tax, and concludes that they, too, limit the tax's usefulness.

Riew, J., "Property Taxation and Economic Development: With Focus on Korea," Journal of Economic Development, Vol. 8 No. 2 (December 1983), at p. 7.

The article written by Professor Riew focuses on the property tax as a part of the overall tax structure in Korea. The author analyzes the tax from the standpoint of three basic criteria composing the corpus of logic contained within optimal tax theory. The implementation and administration of the tax in Korea appears not to have hindered the pursuit of the objectives inherent in the criteria, and Korea's experience with the tax could be a guide to other countries.

4. The Taxation of Consumption

Asher, Mukul G. and Anne Booth, Indirect Taxation in ASEAN, (Singapore: Singapore University Press, 1983), Pp. 242.

The book describes the points of similarity and the degree of divergency between the indirect tax systems of the member countries of ASEAN, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The authors compare the systems of indirect taxation (in particular sales, excise, and foreign trade taxes) in the five countries with reference to the following criteria of tax evaluation: impact on domestic resource allocation; revenue productivity; impact on macroeconomic stabilization; equity; and administrative ease. They discuss feasible structure and other changes that could be made to make their economic impact more compatible with the economic development objectives of the individual ASEAN countries. They argue that full harmonization in ASEAN is impossible because of the differ- ences in economic policy orientation among its member countries. A limited agreement on preferential trading arrangements, on the other hand, should be feasible, the authors conclude.

Cnossen, Sijbren, "The Case for Selective Taxes on Goods and Services in Developing Countries," *World Development*, Vol. 6 No. 6 (June 1978), at p. 813.

The author makes a carefully constructed and cogent case for being selective when choosing taxes to imposing using the criteria associated with the optimal tax literature.

Due, John F., "The Exclusion of Small Firms from Sales and Related Taxes," *Public Finance*, Vol. 39 No. 1 (1984), at p. 202.

The question of the exclusion of small firms from sales taxes and related levies is considered, with particular reference to developing countries. While no formal exclusion is provided in typical retail sales taxes in developed countries, exclusion is common with wholesale and manufacturers sales taxes with all forms of sales tax in developing countries. Exemption of firms with sales figures below a specified figure is the most common approach, but it encounters operational problems in determinat.

Kostecki, M. M. and David Seek, "Treasury Revenue and Foreign Trade Taxation," *Weltwirtschaftliches Archiv*, Vol. 118 No. 1 (1982), at p. 166.

The article contains a comparative cross-country analysis of the fiscal importance of trade taxes and its relation to per capital incomes and countries' dependence on trade. The test is based on 1972-78 data. It covers 93 countries, and is conducted both for global export-import trade and for exports and imports separately (excluding centrally planned economics). It is argued that the fiscal importance of trade taxes will tend to be underestimated for those countries (mostly LDCs) where state trading and multiple exchange rate systems exist.

McLure, Charles E. and Wayne R. Thirsk, "The Inequity of Taxing Iniquity: A Plea for Reduced Sumptuary Taxes in Developing Countries," *Economic Development and Cultural Change*, Vol. 26 No. 3 (April 1978), at p. 187.

The article is a comparative economic study involving both more and less industrialized countries, and it offers international statistical comparisons involving countries' national taxation and subsidy programs. It concentrates on presenting the argument that it is inappropriate to tax excessively the differences in earned income among individuals in newly industrializing and other industrial states. It focuses on customs duties, excises, licenses, etc., in, for example, Jamaica, during the fiscal year 1971-72. It deals with taxes on tobacco products and alcoholic beverages: about 27 percent of all indirect tax revenues and about 15 percent of

total tax revenues; undesirable state of fiscal affairs in relation to income distribution, social justice, equity in taxation in developing countries. It points out that there was no appreciable influence on decisions to consume the items mentioned, but a heavy fall on low-income families.

Wilford, Walton T. and D. Sykes Wilford, "Sales, Excise, and Production Tax Performance: The Experience of Central America and Mexico," Journal of Developing Areas, Vol. 13 No. 4 (July 1979), at p. 365.

The authors' examination of the five nations of Central America and Mexico covers a region of the emerging world in which the transition in the fiscal structure is changing from reliance upon the external trade sector to indirect levies on internally produced goods. This study examines available data on the contribution of excise, production, and sales revenues to fiscal structures in Latin America and delineates their role in the five nations comprising the Central American Common Market (CACM). Also examined is the revenue-income elasticity of these revenue sources for the four CACM nations and Mexico over the time frame since 1955, during which economic policy was geared to import-substitution industrial development. In addition, the elasticity of sales and excise taxes in Panama, a Central American nation that has not been dependent on import-substitution development, is studied. Substantial growth in revenue yields from indirect internal levies seems to have accompanied implementation of import-substitution policies in Central America. The elasticity coefficients for Panama and Mexico reported lower elasticities for indirect internal levies. It can be predicted that the buoyancy of such revenues for CACM countries will fall from relatively high levels and approach unity unless discretionary tax policy through tax and base reform continues.