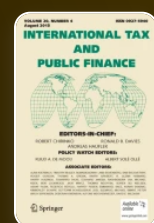



[Home](#) > [International Tax and Public Finance](#) > [Article](#)

Tax-tariff reform with costs of tax administration



Published: 03 August 2007

Volume 15, pages 647–667 (2008) [Cite this article](#)[Save article](#)[View saved research](#) >[International Tax and Public Finance](#)[Aims and scope](#) →[Submit manuscript](#) →[Knud J. Munk](#) ¹ **300** Accesses  **13** Citations  **6** Altmetric [Explore all metrics](#) →

Abstract

As is broadly recognised, the straightforward application of the Diamond–Mirrlees (1971) production efficiency theorem implies that when lump-sum taxation is not available, then it is optimal for the government in a small open economy to rely on taxes on the net demand of households rather than on border taxes to finance its resource requirements. However, the theorem does not hold when taxation is associated with administrative costs. The present paper explores the implications for optimal taxation and for desirable directions of tax-tariff reform of taking into account the costs of tax administration in countries at different levels of economic development. The paper clarifies the reasons for, and lends support to, the criticism by Stiglitz (Presentation to Congress of International Institute of Public

Finance, Prague, [2003](#)) of the IMF and the World Bank's recommendation to developing countries to adopt VAT to replace border taxes.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

Access this article

[Log in via an institution](#) →

Subscribe and save

Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

[View plans](#) →

Buy Now

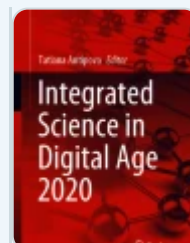
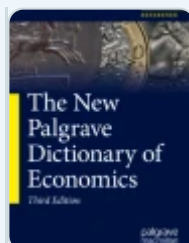
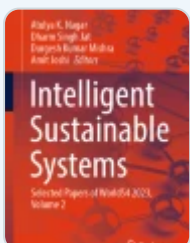
[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

[Institutional subscriptions](#) →

Similar content being viewed by others



The Main Approaches to

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Economics of Innovation](#)

[Fiscal Policy](#)

[General Economical Equilibrium](#)

[Microeconomics](#)

[Public Administration Theory](#)

[Taxation Policy](#)

[Tax Compliance and Evasion Mechanisms](#)

References

Allingham, M., & Sandmo, A. (1972). Income tax evasion: a theoretical analysis. *Journal of Public Economics*, 1, 323–338.

Anderson, J. E. (2002). Trade reform diagnostics with many households, quotas and tariffs. *Review of International Economics*, 10(2), 215–236.

Andreoni, J., Erard, B., & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature*, 96, 818–860.

Baunsgaard, T., & Keen, M. (2005). *Tax revenue and (or) trade liberalisation*. Working paper, IMF.

Bird, R. M. (2005). *Value added taxes in developing and transitional countries*. Working paper, Andrew Young School of Policy Studies, Georgia State University.

Corlett, W. J., & Hague, D. C. (1953). Complementarity and excess burden of

taxation. *Review of Economic Studies*, 21, 21-30.

Dasgupta, P., & Stiglitz, J. E. (1974). Benefit-cost analysis and trade policies. *Journal of Political Economy*, 82, 1-33.

Diamond, P. A., & McFadden, D. L. (1974). Some uses of the expenditure function in public finance. *Journal of Public Economics*, 3, 3-21.

Diamond, P. A., & Mirrlees, J. A. (1971). Optimal taxation and public production I: production efficiency. II: tax rules. *American Economic Review*, 61, 8-27, 261-278.

Diewert, W. E., Turunen-Red, A. H., & Woodland, A. D. (1989). Productivity and Pareto-improving changes in taxes and tariffs. *Review of Economic Studies*, 56, 199-216.

Dixit, A. K. (1985). Tax policy in open economies. In A. J. Auerbach & M. Feldstein (Eds.), *Handbook of public economics* (Vol. I). Amsterdam: North-Holland.

Dixit, A., & Munk, K. J. (1977). Welfare effects of tax and price changes. Correction. *Journal of Public Economics*, 8, 103-107.

Dixit, A. K., & Norman, V. (1980). *The theory of international trade*. Cambridge: Cambridge University Press.

Emran, M. S., & Stiglitz, J. (2005). On selective indirect tax reform in developing countries. *Journal of Public Economics*, 89, 599-623.

Evans, C. (2003). Studying the studies: an overview of recent research into taxation operating costs. *Journal of Tax Research*, 1, 64-92.

- Gordon, R., & Li, W. (2005). *Puzzling tax structures in developing countries: a comparison of two alternative explanation*. NBER working paper.
- Grossman, G., & Helpman, E. (1994). Protection for sale. *American Economic Review*, 84, 833-850.
- Harberger, A. C. (1974). *Taxation and welfare*. Chicago: Chicago University Press.
- Hatta, T. (1977). A recommendation for a better tariff structure. *Econometrica*, 45, 1859-1869.
- Hatta, T., & Ogawa, Y. (2003). *A theory of optimal tariffs under a revenue constraint*. CSIS discussion paper.
- Heady, C., & Mitra, P. (1982). Restricted redistributive taxation, shadow prices and trade policy. *Journal of Public Economics*, 17, 1-22.
- Heady, C., & Mitra, P. (1987). Distributional and revenue raising arguments for tariffs. *Journal of Development Economics*, 26, 77-101.
- Keen, M., & Ligthart, J. E. (2002). Coordinating tariff reduction and domestic tax reform. *Journal of International Economics*, 56, 489-507.
- Kimbrough, K. P., & Gardner, G. W. (1992). Tax regimes, tariff revenues, and government spending. *Economica*, 59, 75-92.
- Laffont, J. J. (2004). Management of public utilities in China. *Annals of Economics and Finance*, 5, 185-210.

Munk, K. J. (1980). Optimal taxation with some non-taxable commodities. *Review of Economic Studies*, 47, 755–765.

Munk, K. J. (1998). *Should governments create production inefficiency*. EPRU working paper 1998-20, University of Copenhagen.

Munk, K. J. (2006a). *On the rationale for the use of border taxes in developing countries*. Working paper, University of Aarhus.

Munk, K. J. (2006b). *Welfare effects of tax and price changes and the CES-UT utility function*. Working paper, University of Aarhus.

Munk, K. J., & Rasmussen, B. (2005). *On the determinants of optimal border taxes for a small open economy*. Working paper, University of Aarhus.

Myles, G. D. (1995). *Public economics*. Cambridge: Cambridge University Press.

OECD (2004). *Tax administration in OECD countries: comparative information series*.

Schneider, F., & Enste, D. H. (2002). Shadow economies: size, causes, and consequences. *Journal of Economic Literature*, 38, 77–114.

Stiglitz, J. E. (2003). *Development oriented tax policy*. Presentation to Congress of International Institute of Public Finance, Prague.

Stiglitz, J. E., & Dasgupta, P. S. (1971). Differential taxation, public goods and economic efficiency. *Review of Economic Studies*, 38, 151–174.

World Bank (1988). *World development report 1988*. Oxford: Oxford University

Author information

Authors and Affiliations

Department of Economics, University of Aarhus, Building 1322, 8000, Aarhus C, Denmark

Knud J. Munk

Corresponding author

Correspondence to [Knud J. Munk](#).

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Munk, K.J. Tax-tariff reform with costs of tax administration. *Int Tax Public Finance* **15**, 647–667 (2008).

<https://doi.org/10.1007/s10797-007-9042-z>

Published

03 August 2007

DOI

<https://doi.org/10.1007/s10797-007-9042-z>

Issue date

December 2008

Keywords

[Optimal taxation](#)

[Optimal trade policy](#)

[VAT](#)

[Tax-tariff reform](#)

[Costs of tax administration](#)

[Informal sector](#)

[Developing](#)

[F11](#)

[F13](#)

[H21](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research