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Articles

Globalisation and Developing Countries – a Shrinking Tax Base?

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Abstra

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Notes

1. Developing countries' reliance on easy to collect taxes has been explained by their limited institutional capacities, political instability, and polarisation. Studies explaining the reliance on easy to collect taxes in developing countries include Phelps (1973), Vegh (1989), Cukierman et al. (1992), Giovannini and De-Melo (1993), Aizenman and Guidotti (1994), Emran and Stiglitz (2005), and Gordon and Li (2007). The impact of globalisation on the pattern of taxation in the OECD countries has been the focus of Rodrik (1998); see also Tanzi and Zee (2000) and Ebrill et al. (2002). Space considerations limit our coverage of the large background literature dealing with public finance in developing countries. See Aizenman and Jinjarak (2006), Slemrod and Yitzhaki (2002) and Slemrod (2007) for a comprehensive survey and discussion.

2. This w … iderations, the initi … rpose of our analysis … s to test which of … nay increase economi … tries operate on the ‘p … uld reduce the tarif …

3. Lo … is based on income … (http://w … rica: Cameroo … frica***, Zambia* … nar*, Thailand … Czech Republic … nania**, Russian Federation***, Turkey***; Latin America: Argentina***, Bolivia**, Brazil**,

Chile***, Colombia**, Costa Rica***, Mexico***, Nicaragua*, Paraguay**, Peru**, Trinidad and Tobago***, Uruguay***, Venezuela***; Middle East and North Africa: Iran**, Morocco**, Tunisia**, South Asia: India*, Nepal*, Pakistan*, Sri Lanka**. High-income countries are: Australia, Canada, Cyprus, Denmark, Iceland, Israel, Japan, Malta, Norway, Slovenia, Sweden, Switzerland, United Kingdom.

4. India, Nepal, Pakistan and Sri Lanka.

5. A review of these methods can be found in Schneider (2004) and Alm et al. (2006).

6. See Fisman and Wei (2004) and Aizenman (2004) for fiscal implications of trade mis-invoicing.

7. Though interesting, there are no formal tests on the relationship between firm size distribution and tax evasion across countries.

8. Admittedly, Institutional Quality covers a wide range of aspects.

9. We should also note that there is another, hard to measure but easy to collect tax – government revenue from financial repression. Government can impose controls on international capital flows and domestic financial intermediaries as a form of taxation. The resultant wedge between effective external and domestic interest rates of public debt is the financial repression tax, which is essentially a subsidy on interest payments on gove … here are also
potentia … niorage
because … nterest
savings … vings
increase … revenue is
calculate … ancial
repressi … etween the
effec … may be
negat … domestic
interest … tic
borrowi … high
positive … ancial
repressi … from
financial … dealing with

easy to collect taxes. Hence, these figures tend to understate the shrinking of easy to collect taxes in our sample.

10. See for example Anderson and van Wincoop (2003) and Helpman et al. (2007).

11. A simple fixed effect regression of gravity trade share on time trend shows a statistically significant increase of 0.3 per cent per year from 1980 to 1999.

12. Argentina, Cameroon, Chile, Colombia, Costa Rica, Hungary, India, Indonesia, Mexico, Morocco, Pakistan, South Africa, Thailand, Trinidad and Tobago, Tunisia, Turkey, Uruguay, Venezuela, Zambia and Zimbabwe.

13. The pan-European VAT system and tax base harmonisation debated in the European communities is a good example. See for example Financial Times (2006) and Financial Times (2007).

14. For example, a standard deviation of the Trade Openness for developing countries is 2.2 per cent. Using the coefficient estimate of Trade Openness on hard to collect taxes from Table 2, which is 0.8 and statistically significant, the effect of a one standard deviation change of Trade Openness is to increase hard to collect taxes by $2.2 \times 0.8 = 1.7$ per cent of GDP.

15. See Rodrik (1998) for some discussion on globalisation and the size of government expendit … onomy in general … d Vegh (2005) s … ic policies in developi … es of taxes also hav … ment spending

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