Economic horizons, January - April 2012, Volume 14, Number 1, 57-59
UDC 33 eISSN 2217-9232
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www. ekfak.kg.ac.rs

Book review
UDC: 336.221.4(1-773)(049.32) ; 338.24.021.8(1-773)

TAXATION IN DEVELOPING COUNTRIES: SIX CASE STUDIES AND POLICY IMPLICATIONS

Gordon, R. (Ed.). (2010). New York, NY: Columbia University Press.
ISBN: 9780231148627, 1-320

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The book *Taxation in Developing Countries: Six Case Studies and Policy Implications* is the result of the work of a larger number of economists of the Initiative for Policy Dialogue (IPD) organization, whose founder is Joseph Stiglitz, winner of the Nobel Prize for Economics.

Tax systems of developing countries differ from tax systems of developed countries and are not in compliance with conventional models of an optimal tax policy. The goal of the publication is to investigate economic pressures generated by such tax structures. The analysis was performed on the sample of six developing countries (Argentina, Brazil, India, Kenya, Korea and Russia). The authors began with a presumption that the observed countries are significantly different from each other in demographic and economic characteristics; however, on the other hand, their tax systems have a great number of common characteristics and weaknesses. Taking the above mentioned into consideration, this book determines alternative directions of the tax reform that can be applied to all the observed countries (as well as the majority of developing countries), which represents a special contribution to the economic theory and practice.

The contents of the book are structured in the following manner:

Introduction (Roger Gordon);

1) Development-Oriented Tax Policy (Joseph Stiglitz);
2) Taxes and Development – Experiences of India vs. China, and Lessons for Other Developing Countries (Roger Gordon);
3) Tax Policy in Argentina – Between Solvency and Emergency (Oscar Cetrangolo, Juan Carlos Gomez Sabaini);
4) Tax System Reform in India (M. Govinda Rao, R. Kavita Rao);
5) History of Russian VAT (Sergei Koulayev);
6) Tax Reform in Kenya – Policy and Administrative Issues (Nada O. Eissa, William Jack);
7) Korea's Tax System – A Growth-Oriented Choice (Joosung Jun);
8) Tax Structure and Tax Burden in Brazil: 1980–2004 (Jose Teofilo Oliveira, Ana Carolina Giuberti).

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Although each chapter of the book offers an insight into specific problems which the observed developing countries are faced with, in their efforts to create an efficient and fair tax system, we shall highlight the first and seventh chapters as the key ones.

In the first chapter of the book, Joseph Stiglitz points out the fundamental idea that economists suggesting reforms of tax systems in developing countries, and mostly coming from developed countries, are negligent of differences in the economic and political structures, existing not only between developed and developing countries, but also between individual developing countries. While performing the reform of their tax systems, the majority of countries set goals such as higher efficiency in tax collection, the reduction in tax evasion and fraud, while very few state authorities and economists get to grips with the problem of the corruption of tax authorities, especially present in developing countries. Therefore, Stiglitz puts the forming of a corruption-resistant tax structure as the fundamental principle in the creation of a tax system, so, corruption must be taken as the integral part of the process of creating an optimal tax system.

To illustrate the above stated hypotheses, Stiglitz considers the consequences of developing countries' exaggerated reliance on the value-added tax (VAT) as the main source of tax revenues. According to him, in developed countries, the value-added tax can be efficient as part of the entire progressive tax system, but only if combined with a progressive personal income tax, which helps achieve redistributive goals at low compliance costs. Given the fact that the majority of developing countries have no political-administrative capacity to apply the progressive comprehensive personal income tax, the value-added tax can not only create distortions in economic behavior but a regressive entire tax structure as well (because developing countries, as a rule, have a significant share of this tax in their total tax revenues). An especially significant part of the chapter is the author's assessment of VAT, where he offers analytical and carefully produced proofs that, in a situation when the share of the informal sector in the gross domestic product is well present, this tax always creates significant distortions and can have a negative impact on economic growth and unemployment.

In the seventh chapter, as the fundamental specific characteristic of Korea's tax system, the author Joosung Jun points out that its goals are, first of all, rather non-fiscal and, to a lesser extent, fiscal in character. For the purpose of achieving non-fiscal goals, such as stimulating savings, investments, research and development, Korea offers a large number of tax incentives. On the other hand, as the basic fiscal goal, he mentions the collection of a sufficient level of revenues for financing infrastructure and education, which represents an integral part of Korea's economic growth strategy. Taking into consideration all the above stated, it can be said that Korea may be the only one developing country with a tax system exclusively oriented towards economic growth (Growth-Oriented Tax System). As Korea's specific characteristic, the author also states that multinational corporations are not so much present in Korea as they are in other developing countries. The share of foreign direct investments in the Korean gross domestic product has for years been below the average one for developing countries. That can have favorable consequences for the preservation of tax revenues since multinational corporations, whose goal is to pay tax at lower effective rates, take their profits over the state border (by means of transfer pricing or in some other manner). If we compare Korea's tax system with Serbia's tax system, we can notice that the goals of offering tax incentives are diametrically different because many tax incentives in Serbia (first of all, in the field of the corporate income taxation) are exclusively defined with an aim to attract foreign direct investments, whereas relying on the domestic investment potential is less present.

The authors of the book write, in detail and in a well-argumented manner, about a large number of practical problems which tax policy creators in the observed developing countries come across. The conclusions they draw by analyzing the observed countries can be applied to the majority of developing countries. The book abounds in a large number of data, performed analyses and drawn conclusions and recommendations for economic and tax policy creators, which represents a special quality of the publication. The weak point of the book is in that it insufficiently emphasizes differences between the tax systems of developed countries and those of developing countries. An

improvement would be possible to make by conducting a comparative analysis of taxation in developing countries, which are the focal point of research carried out in this book, and in a certain number of developed countries, which would additionally increase the practical and theoretical significance of already performed researches. Given the fact that for each observed country there is a chronology of changes made in their tax systems as well as the effects that the changes have had on their fiscal and macroeconomic aggregates, this book can serve as an extremely useful instruction in the implementation of the process of reforming Serbia's tax system, all with an aim to avoid making unnecessary mistakes.

Received 6 April 2012,
after one revision,
accepted for publication 27 April 2012

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