

**INITIATIVE FOR POLICY  
DIALOGUE AT COLUMBIA**

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The Initiative for Policy Dialogue (IPD) at Columbia University brings together academics, policy makers, and practitioners from developed and developing countries to address the most pressing issues in economic policy today. IPD is an important part of Columbia's broad program on development and globalization. The Initiative for Policy Dialogue at Columbia: Challenges in Development and Globalization presents the latest academic thinking on a wide range of development topics and lays out alternative policy options and trade-offs. Written in a language accessible to policy makers and students alike, this series is unique in that it both shapes the academic research agenda and furthers the economic policy debate, facilitating a more democratic discussion of development policies.

Observed tax structures among developing countries are sharply different from both those observed among developed countries and those recommended by conventional models of optimal tax policy. Excise taxes have played an important role among developing countries, with tax rates differing substantially by industry. Yet the optimal taxation literature argues for uniform tax rates. The corporate income tax plays a large role, presumably creating large distortions to investment decisions within these countries, contrary to the conventional wisdom that a country should take full advantage of gains from trade in the world capital market. Tariffs are also commonly high, raising similar questions.

The objective of this book is to examine the economic pressures that have generated such tax structures. The book contains detailed studies of six developing countries: Argentina, Brazil, India, Kenya, Korea, and Russia. These six countries constitute a diverse group of developing countries, coming from all parts of the globe, both large and small, and including some of the poorest and some of the richest among developing countries. Yet they share many key attributes of their tax systems. Their tax structures have been changing over time, and the chapters lay out the pressures generating such changes.

The book includes two additional chapters that reflect on the nature of the economic pressures leading to observed choices for the tax structure. One chapter argues that a uniform VAT fails to take into account the implicit differential tax rates faced in the formal versus informal sectors. The other additional chapter argues that the problems of enforcing taxes, leading to a large informal economy, may be the key explanation for the seemingly anomalous choices for the tax structure, with structures evolving toward those forecast by the theory as informal activity becomes less attractive.

The intended readership is anyone interested in tax reform among developing countries. The analysis is nontechnical, focusing instead on the many conflicting economic pressures faced by the tax authorities in these six countries.

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