Tax Reform In Latin America: A long term assessment*

by

Vito Tanzi**

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** The author is Honorary President of the International Institute of Public Finance and a former Director of the Fiscal Affairs Department of the IMF.

I. Introduction

Latin American taxation has been one of the enduring and continuing interests in my professional life, an interest that has stretched over a period of half a century. My first published papers on that topic were in the mid 1960s. My most recent ones were published recently. I also coedited a book on the topic for the IDB, published in 2008, and contributed the introductory chapter to another recent book on the same topic. See Bernardi et al. editors, 2008. In addition to this "academic" work, I published two popular books, in 2007 and 2010, on Latin American countries that contain several references to taxes in several Latin American countries.

Over the last five decades I participated in many tax conferences and tax missions to countries that ranged from large countries, such as Argentina, Brazil, and Mexico, to smaller countries, such as Costa Rica, Haiti, and Jamaica. Because of these activities, I feel that I can claim more than a passing interest, or knowledge, of Latin American taxation.

In my talk today, I shall focus my remarks on three questions:

First, have there been significant changes, and in a desirable direction, in the tax systems of the Latin American countries, in recent decades? Second, have there been changes in the tax systems of the Latin American countries that may have made them more progressive? In particular, what has happened to the taxation of personal income?

II. Long-term Changes in the Tax Systems

The changes that take place in the tax systems of countries may be significant for *tax levels*, measures as shares of GDPs, or for the *structure* of the tax systems.

Half a century ago, the "Declaration of Punta del Este" that created the so-called *Alliance for Progress*, mentioned, as one of the important goals to be promoted by that *Alliance*:

"To reform tax laws [in the Latin American countries], demanding more from those who have most…" More specifically, the Declaration stated that it would be necessary to promote: "…the reform of tax structures, including fair and adequate taxation of incomes…"

At the beginning of the decade of the 1960s, the *Alliance for Progress* established, in Washington, an office called the "*Joint Tax Program*" that was charged with the task of promoting tax reforms, in the Latin American countries, along the lines suggested by the Declaration of Punta del Este. The *Joint Tax Program* (the JTP) was financed and monitored jointly by the UN, the IDB, and the Organization of American States with US assistance. For more than a decade, until a change in the US administration reduced the US interest in it, the main actor in the reform of tax systems in Latin America. It relied on leading tax experts, from Latin America, the United States, and occasionally from Europe, to do its work. Its guiding principles were:

(a) To raise tax levels while make the tax systems more progressive;

(b) To advice Latin American governments to keep *current* government expenditure low, in order to generate *current budget surpluses* that could be used to finance public investments to create badly -needed infrastructure that would contribute to the economic growth of countries;

(c) To promote *private* investment through the use of tax incentives.

Therefore, (a) the level of taxation, (b) the revenue from income taxes, and (c) the tax incentives were the main variables to influence, in desirable directions, through the tax reforms. It should be recalled that this was the time when the "Harrod and Domar" and the "Solow growth models" were very popular. These models gave prominence to the share of investment (both public and private) into Gross Domestic Product, as the main promoter of growth. They assumed that countries that invested a larger share of their GDP grew more rapidly than those that invested lower shares, ceteris paribus. The government was seen to have an obligation to promote growth, by contributing to higher public investment (through higher tax levels) and to higher private investment (through tax incentives).

However, the needed increase in the tax levels was expected to come mainly "…from those who have most…" because of the highly uneven income distribution that prevailed in Latin American countries at that time. That income distribution concentrated much of the potentially *taxable capacity* in the higher percentiles of the income distribution. See for statistical evidence Tanzi, 1966 and 1974. The uncomfortable truth is that the Gini coefficients, for most Latin American countries, have not changed significantly, since that time. They have remained stubbornly high and generally higher than in most other regions of the world, in spite of some reported, recent, improvements in a few countries.

In the early 1960s, the personal income tax was very popular tax and, in surveys of the US population, it was considered the "fairest of all taxes". It was also highly progressive and was expected to generate a large share of the total tax revenue of countries. That thinking, that was prevalent in the United States and in Europe, inevitably influenced the work of the Joint Tax Program. Through various technical assistance missions to Latin American countries, and through other activities, such as important conferences and publications of books and reports, the Joint Tax Program tried to introduce, in Latin America, income taxes that were similar to the "individual income tax" and the corporate income tax that, at that time, existed in the United States.

However, the progress in this area at that time remained limited, mainly because of political opposition to income taxes by higher income groups in the Latin American countries and because of administrative difficulties, in part to limited financial resources, and to structural characteristics of the economies. In the late 1970s and in later years, the intellectual climate changed and tax reforms and especially reforms aimed at making tax systems more progressive lost their appeal. The objective moved from equity to stabilization and growth.

Let me now move from the decade of the 1960s to the present, focusing on the tax levels and on the tax structures in that order.

Changes in Tax Levels

Various recent papers and especially a highly informative paper, by J. C. Gomez Sabaini and J. P. Jimenez, prepared at CEPAL (2011), have summarized much of the statistical information that has become available in recent years, on tax levels as shares of GDPs and on tax structures for Latin American countries. I shall refer to the mentioned paper for parts of my forthcoming discussion.

As Gomez Sabaini and Jimenez put it:

"[The] tax burden has increased considerably…" However, they add, "…while some countries, such as Brazil and Argentina, currently have tax burdens exceeding 30% of GDP, others, such as Ecuador, Guatemala, and Paraguay, have tax burdens of no more than 14% of GDP." Ibid. p. 11. Because of the latter countries' lower tax burdens, these authors give the impression of being disappointed by the progress made by the Latin American countries in this area.

I do not share their disappointment and would make several pertinent observations on their conclusion.

First, the recent tax burdens of many Latin American countries, as percentages of their GDPs, are at levels comparable or higher than those that had prevailed in the so-called industrial countries until around the time of the Great Depression in the 1930s and the Second world War. For example, in 1929 the tax burden for the US *general* government was only about ten percent of GDP. In 1940, the tax burden of Sweden, the country that today has the second highest tax burden in the world, was still only around 15 percent of GDP. Even in 1960 the tax burdens of Spain, Switzerland, Portugal and Japan were still less than 20 percent of GDP. See Tanzi, 2011.

Second, today's tax burdens in Brazil and Argentina are significantly higher than the tax burden of the United States and there are a lot of complaints from the US citizenry about their high taxes that are largely paid by higher income groups, because of the importance of personal income taxes and the lack of a value added tax.

Third, the tax burdens of the different countries of South America if they were weighted by the countries' populations, they would be seen to have gone up a lot, in recent years. The reason is the large share of Brazil and Argentina's populations in the total. With this adjustment, and because of their lack of progressivity, it is likely that the tax burden in South America, *for the majority of the population*, and not for the majority of the countries, is now higher than for North America (i.e., than for the population of the USA, Canada, and Mexico combined). It should not be forgotten that it is people that pay taxes not countries!

Fourth, some of the countries with lower tax burdens (Mexico, Chile, Peru, Bolivia and some others) have significant revenue from *rents* collected from the governments' ownership of natural resources. Because of these *rents*, they can finance higher spending than indicated by their tax revenues.

Finally, it should never be forgotten that a higher tax burden is not always preferable to a lower tax burden. Whether it is, or it is not, depends on the governments' capacity to use well, *in economically productive and socially desirable ways*, the extra tax revenue generated by the higher tax burden. When the additional revenue is wasted in projects with low economic productivity, or in expenditures with low social justification, one should not praise the governments for the extra fiscal efforts. In these circumstances it would have been better to leave the money in the hands of the taxpayers. This is even more the case when the tax systems are not progressive so that lower income individuals pay taxes similar to those of individuals in higher income classes. This is likely to be the case in Brazil. For elaborations of this argument, see

Tanzi, 2008a. When there are doubts about the productive and socially desirable use of tax revenue the presumption should be in favor of lower tax revenue.

In any case, the comparisons between LAC and OECD countries, as shown in OECD 2011, p. 17, or in Gomez Sabaini and Jimenez, 2011, p. 22, are less revealing than they seem to be. They tell little about the taxation of the *majority* of the *population* (as compared with the *majority* of *countries* of widely different sizes). In comparisons of this kind one should not give the same weight to Brazil and, say, Singapore or Honduras. It is highly likely that now a larger share of the *population* (and not of the *countries*) of Latin America is subjected to higher tax burdens than in the OECD countries.

Changes in Tax Structures

From a superficial look at the tax systems of the Latin American countries, it would be easy to conclude that there has been little change in tax structures over the years in the region. To a large extent indirect taxes were replaced by other indirect taxes, while the share of income and wealth taxes in total tax revenue changed little. However, the superficial look would provide a wrong impression. As with icebergs, the changes may often take place below the visible part and, thus, may not be immediately noticeable.

With a closer look, it could be maintained that the changes that took place over the years, in the tax systems of many Latin American countries, have made those tax systems far better than they had been in the past in some aspects. The reason for this affirmation is that, in terms of the allocation of resources, and in terms of providing the countries' governments with better tax instruments for pursuing stabilization policy (through their ability to introduce more easily revenue changes when needed), the reforms in the tax structures made over the years significantly improved the tax systems of many Latin American countries. However, in terms of vertical equity the changes may have been less desirable.

In recent decades, remarkable and broadly positive changes took place, especially in indirect taxes. See Tanzi, 2008b for a description of some of these changes. The very high excise taxes on “luxury or non essential products”, that had existed in the past and that, except for justifications connected with possible, negative externalities in the use of some of the taxed commodities, had been highly distorting in the allocation of resources, have generally become less important. Import duties (used as highly distorting protective devises for domestic industrial activities) have been largely replaced by, much more allocation-neutral, value added taxes and by lower import duties. Especially the introduction of widely -based value added taxes has represented a tectonic change in taxation. It has been far more successful than anyone would have expected three decades ago. See OECD, 2011, Table B, p. 19 for the VAT’s revenue data. Let me provide a concrete anecdotical example of this change.

In 1990, Argentina was collecting less than two percent of GDP from the VAT. When the members of a technical assistance mission to Argentina from the IMF proposed some changes in the Argentine VAT, and estimated that the reformed VAT might raise the VAT revenue from two to six percent of GDP, incredulous Argentine experts derided them! Such an increase was simply not considered a realistic possibility in a country with the tax administration and the tax evasion that Argentina had at that time. See Tanzi 2007. By 2009, Argentina was collecting close to 11 percent of GDP from this tax, and OECD statistics estimate that in Brazil the revenue from the value added taxes was even higher, 13 percent of GDP.

These are percentages that qualify the above countries for world records! They indicate important legislative changes but also, importantly, that the Latin American tax administrations have become far more efficient than they were in the past. Two other countries, Uruguay and Chile, collect around 8 percent of GDPs from the VAT, and several others more than five percent of their GDPs. These revenues come from a tax that practically did not even exist in Latin America in the decade of the 1960s and that was collecting little until the decade of the 1990s !.

A value added tax is a much better instrument, for both stabilization policy and for the allocation of resources, than the taxes that it replaced. However, its increasing importance is not likely to have made the tax systems more progressive than they were, in spite of attempts by several governments, and especially by the Mexican government, to exempt from it products and services that are important to individuals from low income groups. The value added taxes generally replaced taxes that, in spite of the distortions in allocation that they had created, had been intended to be paid by people at higher income levels, with taxes that are broadly proportional to consumption, being paid by almost everyone. Thus, to some extent the success of the VAT has increased the desirability of relying more on progressive personal income taxes, to make the tax systems more equitable.

The dramatic increase in the share of total tax revenue coming from the value added tax is indirect evidence that the tax administrations of the Latin American countries had improved over the years, and perhaps more than it is realized. The value added tax in is an easy tax to administer. The improvement in the tax administrations has been partly due: (a) to the use of computers; (b) to use of better administrative techniques; (c) to the availability of more resources and better incentives for the tax administrations; and (d) to reductions, compared to the past, in political interference with their work.

At the same time, there have been increasing difficulties for tax administrations coming from the progressive globalization of economic activities global and for the growing role of tax havens that have created different difficulties for tax administrations. For example, the use of transfer prices in cross countries' dealings has created major difficulties. See Avi-Yonah, 2008, and Mercader and Pena, 2008. These difficulties have created what could be defined as "fiscal termites", that have been creating increasing difficulties for tax administrators. See Tanzi, 2001, and 2008b. Therefore, from the above, it should not be concluded that the tax administrations of the Latin American countries have become examples of high efficiency. As the tax administrations in other parts of the world, they are facing new challenges. It simply means that they are more efficient now than they used to be decades ago, even though tax evasion remains a problem, especially in some countries, and has acquired a more global dimension.

The available estimates of tax evasion, as for example those reported in the mentioned study by Gomez Sabaini and Jimenez, 2011, or in the study by Cornia eta al.2011, while useful, should be assessed with caution, because, if taxes are difficult to collect, it must be equally difficult to estimate how much of the taxes not collected are evaded. The national accounts, or even the household surveys, used to estimate tax evasion, may be in part “cuentos nacionales”, or national “fairy tales”, as the cynics used to say about the national accounts data. They may contain large errors.

Over the years, the tax administrations have experimented with various techniques and organizational changes to increase their efficiency. Some of these included the use of, (a) “punto fijo” techniques, (b) “large taxpayer units,”, (c) various forms of “simplified taxes” and other presumptive methods to collect taxes, (d) lotteries for taxpayers who pay their taxes, (e) requirement for sellers to issue invoices or for consumers to ask for them, (f) advance withholding payment for some taxes, (g) reorganization of tax administrations by functions, rather than by tax, (h) systemic rotation of tax inspectors, (i) surveys of taxpayers, to flash out corrupt tax inspectors in some areas, (k) sharing, with the tax administrations, the additional tax revenue collected, to create some incentives for the administrations, and so on. Additionally the increasing use of computers to store or retrieve information has been important. Some of these techniques or reorganizational changes have been failures; but some have contributed to the good results that have led to the increases in the tax revenue mentioned earlier.

This may also mean that the revenue effects of the tax evasion, that is often mentioned by those who write on taxation, have in part been neutralized, or at least reduced, *in a macroeconomic sense*, by extra efforts in other areas. For example, tax evasion on a specific tax may in part be made up by the use of other taxes that would not have been introduced if there had not been the tax evasion. In a macro sense, the revenue lost because of tax evasion in one tax may be made up by the use of other, easier to collect, taxes. For example taxes on cars and on gasoline may make up for revenue losses on income taxes. Thus the *statutory* tax systems would change if there were no tax evasion. But, of course, because of the tax evasion, some taxpayers gain or lose more than some others, while a country loses because it ends up with a tax system different from the one that the citizens would have chosen. In conclusion, tax evasion is always a problem of equity and one of allocation of resources, but may not always one of a macroeconomic problem (of revenue losses) if the revenue losses due to tax evasion in some taxes can be made up by the use of other taxes..

III. On the Revenue Contribution of Income Taxation

Up to the 1980s, and after the attempts in the 1960s, the taxation of income had changed relatively little in Latin America. High inflation, combined with long collection lags, and with the distortion of tax bases due to inflation, had often had a significant, negative, impact on income tax revenue. See Tanzi, 1977. The statistics now available indicate that, in the first decade of the new millennium, when in most countries inflation was no longer a problem, there were significant increases in the revenue from income taxes in some countries. However, much of the additional revenue came from taxes on the income of corporations. Income taxes on individuals have continued to contribute little to tax revenue.

Tables, in the paper by Gomez Sabaini and Jimenez (Table 8, p. 27) and in Cornia et al. (Table 15, p. 35), provide some data for the revenue from individual and corporate income taxes, for the years 2004-2007. The highest revenue, from the taxes on the incomes of *individuals*, was obtained by Brazil – but it was a relatively miserly 2.6 percent of GDP. Mexico and Panama also got revenue of about two percent of GDP. The average for Latin America was 1.4 percent, compared with 9.2 percent for the OECD, and much higher percentages for many of the OECD or European countries. By contrast, the revenue from *corporate* income taxes averaged 3.6 percent of GDP, almost the same as in OECD countries, for which the average was 3.9 percent of GDP. Chile (with 7.3 percent), Peru (with 5.9 percent), and Brazil (with 5.1 percent) got more than five percent of GDP from their corporate income taxes. This was a very high level. In these countries, and especially in the first two, foreign corporations that dealt with the production and the export of mineral resources must have been the largest contributors to the corporate income tax revenues.

The very low contribution of personal income taxes to total tax revenue, accompanied by the low taxes on wealth, almost guarantees that the tax systems of the Latin American countries would contribute little to the lowering of the Gini coefficients. This conclusion is empirically supported by a table (Appendix Table1) on page 39 of the Cornia et al. paper. That table has estimated that taxes play almost no role in changing the Gini coefficients in most Latin American countries, while they play a much more significant role in European and in Anglo-Saxon countries. Among the Latin American countries, the Argentine tax system is estimated to be the most redistributive. In conclusion, Gini coefficients continue to be very high in Latin America. Redistribution *through tax policy* is almost non-existent in the region. See also Table 7, p. 27 of the Gomez Sabaini and Jimenez paper.

Redistribution through the spending side of the budget is also low, especially when compared with OECD countries, as various papers by other scholars have shown, even though some recent programs in Brazil, Mexico, Panama, and other countries have started to make some difference. However, the available estimations may even exaggerate the redistribution that taxes and public spending may generate. There are two reasons for this observation.

The first is that the calculations made for the impact of taxes on Ginis do not take into account the *compliance costs* of taxation that, in several countries for which there are estimates, are high and regressive. See Tanzi, 2012a. As shares of the incomes of taxpayers, the compliance costs tend to be higher for lower income taxpayers. The complexity of the tax systems contributes to this result. However, it is difficult to determine whether this result is as valid for Latin American countries, which may rely less on complex personal income taxes than in more advanced countries. For Brazil at least several studies have shown that compliance costs are very high.

The second reason, that biases the results on the spending side of the budget, is the *inefficiency* and the *corruption* that often accompanies government spending. This aspect has attracted little attention. But see Tanzi, 1974. This aspect is likely to be more important in poorer countries than in richer countries. Because of inefficiency and of corrupt practices, on the part of those who deliver the public services (education, public health, and so forth) the *real* valuable benefits that the citizens receive from a government spending (from the transfer program), that in the methodology usually used by scholars are equated to the budgetary costs and are totally allocated to those who receive the services (school children, patients in health clinics, etc.), are often significantly exaggerated. Because of significant leakages in delivery, the real benefits received by the citizens, and especially by the poorer ones among them, are likely to be less, and at time much less, in real value, than the government spending. Those who deliver the services (school teachers, nurses, administrators) may absorb the (often large) difference. This may occur because of underperformance, or through corrupt practices. For example teachers or nurses may frequently not show up as often as they are supposed to, or may appropriate some of the supplies. Administrators may divert some of the funds. See Tanzi, 1974 and 2008, for a discussion and some evidence of this point.

Returning to income taxation, a logical question to ask is why the Latin American countries have been so successful in raising revenue from the value added tax, that are not easy to administer, and so unsuccessful in raising revenue from the individual income taxes? How could the tax administrations have improved their efficiency in one tax and not in the other? The answers that are often given to this question by experts are not totally convincing. They include: (a) the high degrees of informality in the economy; (b) the low incomes and tax bases; (c) the presumed high tax evasion; (d) administrative corruption; and so on. But why are these more significant for the personal income tax than for the value added tax?

This writer is convinced that, at least in part, the answer is elsewhere, and is a much simpler one. It has to do with two factors. First, with the very low shares of total national income, that go to wages and salaries in Latin American countries compared with other countries. Second, to the low tax rates that are applied on the incomes and, especially, on the incomes that are **not** derived from wages and salaries. See Tanzi, 2008c. To these two factors one could add that the levels of personal exemptions from income taxes are remarkably high in Latin American countries.

In Latin American countries, the shares of national income received by dependent workers in the form of wages and salaries are unusually low, generally less than 30 percent of the total. These shares are much lower than in most industrial countries in which they often exceed 60 or even 70 percent of total income. In Latin America, an overwhelming share of national income is received in the form of rents, dividends, interest payments, profits, capital gains, or informal incomes received by individuals who make their living in the informal economy and who do not receive incomes high enough to be taxable. This is where much of the potentially taxable money is. This is the first part of the explanation, for why individual income taxes are so low in Latin America.

The second part is that, as I described in some detail in a recent paper, (see Tanzi, 2012b), there has been, in the USA, over the last three decades, a process of *dismantling the* earlier *architecture of the income tax,* that in the past had been based on the Haig –Simon concept of income. The traditional Haig-Simon (or for that matter the Hicks concept) assumed that all incomes, regardless of the source, are the same and should be treated equally, because they provide spending options for those who receive them. Therefore, they should be taxed in the same way, and possibly with progressive rates, on their aggregated, or "global", total.

However in recent decades, starting in the 1970s, the Haig –Simon concept of taxable income started to be attacked. Over the following two decades, the *architecture of the income tax* was progressively dismantled, because of various, and at times questionable, theoretical arguments. It was replaced by one that made distinctions among different types of incomes, and that gave special treatment to particular forms of incomes, such as dividends, capital gains, "carried trade incomes", and so on. This change in the architecture of the personal income tax helps to explain how Governor Romney could pay a tax of only 13 percent, on an income of many millions of dollars, and presumably without having evaded the taxes due.

Because of the influence that US thinking has on Latin American policymakers, the change in the architecture of the individual income tax must have influenced their tax systems leading to (a) lower tax rates on income in general (see Gomez Sabaini and Jimenez, 20011, p. 25) and (b) to even lower rates on the personal income, generally received by the rich, in the form of dividends, interest income, capital gains, profits, rents, etc. See Table 4.2, p.116, of Velayos, Barreix and Villela, 2008, for some evidence.

If a smaller share of a total income (30 percent versus 60-70 percent) is taxed at normal rates, if the personal exemption for that income is high, and if the larger share (the 60-70 percent) is taxed at very low rates, it should be no surprise that the total tax revenue obtained from taxes on individual incomes will be small. Tax evasion might be of some help, to give this result, but it is unlikely to be the main explanation.

It can be theorized that the improvements in tax administrations that took place over the years in Latin America, that could have led to higher individual income tax revenue, were partly neutralized by the reductions in the tax rates on the incomes of the richer taxpayers that were occurring in those years. It would be a worthwhile project for CEPAL, or for some other institution such as the IDB, to collect the data that would make it possible to test this hypothesis.

Concluding Remarks

It has been a pleasure for me to speak at this conference on issues that have fascinated me for half century. There is little doubt in my mind that, over the 50 years, during which I have been interested in Latin America, the Latin American countries have made a lot of progress on their tax policies. However, when I assess the reply to the questions posed in the yearly surveys conducted by **Latinobarometro,** I am not sure that the progress on the spending side of the budget has been equally good, in spite of some recent worthwhile programs directed toward the poor.

It is important not lose sight of the fact that taxes should always be collected as equitably as possible, but also that *higher* taxes are more justified when the additional revenue collected are well spent by the governments that collect them. This is especially so when the tax revenue has not been collected with progressive taxes but with taxes that are broadly progressive on average but that suffer from significant vertical inequities. There are some doubts whether the revenue obtained are used in the best way possible. See Tanzi a, 2008.

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The Latin American debt crisis in the 1980s was triggered by. a fall in the relative price of goods produced in Latin America. Which of the following items is NOT an example of an expenditure switching policy? Which of the following items is NOT an example of an expenditure reducing policy? Tax increase. Currency devaluation or depreciation.Â Prebisch-Singer predictions, which can be termed "export pessimism," referred to the prediction that Latin American exports would fall due to (Quiz?*) the decline int he terms of trade between primary commodities and manufactured goods. Structural reform focuses on. making resources allocation more efficient by privatizing state enterprises, liberalizing trade and improving the regulatory environment. "Tax system and tax reforms in India," POLIS Working Papers 45, Institute of Public Policy and Public Choice - POLIS. John Scott, 2014. "Redistributive Impact and Efficiency of MexicoÃ¢â‚¬â„¢s Fiscal System," Public Finance Review, , vol. 42(3), pages 368-390, May.Â Hallerberg, Mark & Scartascini, Carlos, 2017. "Explaining changes in tax burdens in Latin America: Do politics trump economics?," European Journal of Political Economy, Elsevier, vol. 48(C), pages 162-179. Hallerberg, Mark & Scartascini, Carlos, 2015. "Explaining Changes in Tax Burdens in Latin America: Does Politics Trump Economics?," IDB Publications (Working Papers) 7205, Inter-American Development Bank. Branko Milanovic & Sean Higgins & Nora Lustig & Whitney Ruble & Timothy M. Smeeding, 2016. Latin Americaâ€™s short-term economic prospects currently look more promising than they have for some time. As the global economy strengthens, a pickup in activity is well under way in most countries in the region, after two years of weakness. This study comes at an important juncture, since it is easier to tackle underlying economic weaknesses and introduce reforms when the outlook is more buoyant. But reforms need to be carefully targeted, to deliver macroeconomic stability that will increase resilience to outside shocks and so make it possible to sustain higher growth rates and thus reduce po Corporate tax functions in companies that conduct business in Latin America (or are exploring an expansion to the region) can take a page from a celebrated Chilean novelist when untangling the multifaceted complexities of withholding taxes in Argentina, Brazil and Mexico. Roberto BolaÃ±o, who also lived in Mexico for a time, has been described as the most important Latin American literary voice of his generation. Although his themes of art, politics, philosophy and crime never veered into tax management narratives, BolaÃ±oâ€™s depiction of the speed and impact of change, certainly resonate with th Latin American countries had very little autonomy in terms of tax policy during the colonial period. Tax policies set by the Spanish and Portuguese aimed to extract revenue from their colonies. The policies gave preference to the landed elite over the majority of the population and allowed wealth to concrete well into the post-colonial period.Â Yet the reforms can be considered incomplete: indirect taxes still comprise a far higher share of tax revenue in Latin America compared to advanced economies. Latin American governments should increase the contribution of direct taxes, which is low in comparison to the international norm, and promote revenue mobilization and progressivity by increasing the contribution of property taxation, above all on real estate.