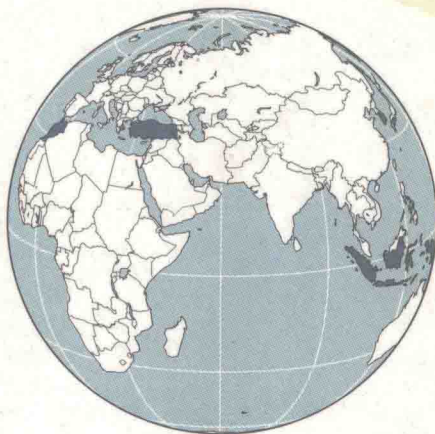
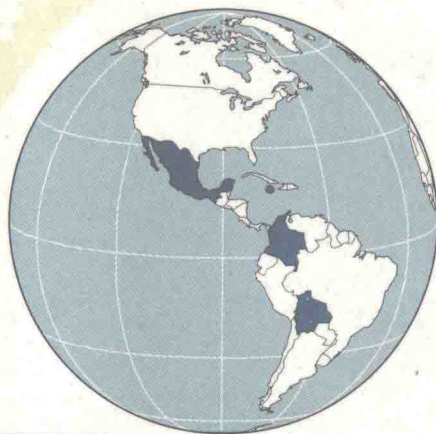


Tax Reform in Developing Countries



EDITED BY

WAYNE THIRSK



Tax Reform in Developing Countries

EDITED BY

WAYNE THIRSK

The World Bank
Washington, D.C.

© 1997 The International Bank for Reconstruction
and Development / The World Bank
1818 H Street, N.W., Washington, D.C. 20433

All rights reserved

Manufactured in the United States of America

First printing December 1997

Second printing June 1999

The World Bank Regional and Sectoral Studies series provides an outlet for work that is relatively focused in its subject matter or geographical coverage and that contributes to the intellectual foundations of development operations and policy formulation. Some sources cited in this paper may be informal documents that are not readily available.

The findings, interpretations, and conclusions expressed in this publication are those of the author and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to the members of its Board of Executive Directors or the countries they represent.

The material in this publication is copyrighted. Requests for permission to reproduce portions of it should be sent to the Office of the Publisher at the address shown in the copyright notice above. The World Bank encourages dissemination of its work and will normally give permission promptly and, when the reproduction is for noncommercial purposes, without asking a fee. Permission to copy portions for classroom use is granted through the Copyright Clearance Center, Inc., Suite 910, 222 Rosewood Dr., Danvers, Massachusetts 01923, U.S.A.

Wayne Thirsk is a director with the Barents Group, KPMG. Previously, he was professor of economics at the University of Waterloo, Canada, and a member of the World Bank's Public Economics Division. Currently he is working on intergovernmental fiscal reform in Kiev, Ukraine, under USAID auspices.

Cover design by Sam Ferro

Library of Congress Cataloging-in-Publication Data

Tax reform in developing countries / edited by Wayne Thirsk.

p. cm. — (World Bank regional and sectoral studies)

Includes bibliographical references.

ISBN 0-8213-3999-0

I. Taxation—Developing countries. I. Thirsk, Wayne R.

II. Series.

HJ2351.7.T38 1997

336.2'05'091724—dc21

97-29643

CIP

Tax Reform in
Developing
Countries

WORLD BANK

REGIONAL AND

SECTORAL STUDIES

Foreword

There is an old saying: "The only sure things in life are death and taxes." Perhaps the aphorism should be rephrased: "The only sure things in life are death and tax *reform*." Countries throughout the world have reformed or are attempting to reform their tax systems. In industrial countries, the impetus has come from the increasing complexity of the tax code, a narrowing tax base, and concerns with horizontal equity. The motivation in developing countries is similar, but the need is much more pressing. The tax base is already very narrow in most developed countries and improvements in the capacity of tax administration make it possible to shift away from inefficient and inequitable but administratively simple tax instruments (such as trade taxes).

The principles of tax reform, developed over the past quarter-century, are well known. But the practice of tax reform, especially in developing countries, has at times deviated from these principles and has certainly varied greatly across countries. This book attempts to learn from this experience by studying tax reform in eight developing countries, with a view toward sharpening our understanding of the principles and their application.

The eight case study countries provide a rich laboratory for studying tax reform in practice. The countries vary not only in per capita income but also in the context within which tax reform took place. They undertook different types of reform and the outcome differed. Yet, some important lessons emerge. For instance, although all countries are often forced to sacrifice the optimal tax structure in favor of a simpler, more uniform system, to conform to the administrative capacity of the country, the sacrifices can be especially large in developing countries. Another theme is that developing-country tax systems need not be overly concerned with equity, since redistribution in these countries is best carried out by public expenditures. Finally, throughout the book we see instances where obviously welfare-improving, even Pareto-improving, tax reforms are not undertaken. While the reason is the usual scapegoat, "politics," this situation illustrates a point that is too often ignored by economists: even reforms that benefit everyone may be opposed by the affected parties who perceive their bargaining power altered (and possibly reduced) in the longer run.

This book also illustrates how it is possible to learn from carefully managed case studies, as opposed to, say, cross-country regressions. The benefit of the case study is the richness of institutional and other details about the country; the cost is that it may be difficult to generalize beyond the case study. By fitting the case studies into a fairly tight analytical framework, this collection of essays proves that one can attain the benefits of the richness of institutional detail and depth of understanding and yet extract, with some confidence, lessons that may be applied elsewhere.

Although the book draws some lessons about the principles of tax reform, it leaves several questions unanswered and raises some new puzzles. Similarly, while the book indicates some general directions for policy, the case studies exemplify the importance of country-specific conditions in the design of tax reform. In short, this book—like other World Bank research products—should be of interest to researchers and policymakers alike.

Joseph E. Stiglitz
Chief Economist and Senior Vice President, Development Economics
World Bank

Contributors

Mukul Asher	Associate Professor of Economics and Public Policy, Department of Economics and Statistics, National University of Singapore
Roy Bahl	Dean, School of Policy Studies, Georgia State University, Atlanta, Georgia
Kenan Bulutoglu	Consultant, Barents Group LLC, Washington, D.C.
Francisco Gil-Díaz	Subgovernador del Banco de Mexico, Mexico City, Mexico
Kwang Choi	Director, National Tax Institute, Seoul, Republic of Korea
Charles E. McLure, Jr.	Senior Fellow, Hoover Institution, Stanford University, Stanford, California
David Sewell	Fiscal Economist, Middle East and North Africa Region, Social and Economic Development, World Bank, Washington, D.C.
Wayne Thirsk	Director, Barents Group LLC, Kiev, Ukraine
George Zodrow	Professor and Chair, Department of Economics, Rice University, Houston, Texas

Affiliations as of July 1997.

Contents

Foreword xiii

Joseph E. Stiglitz

Contributors xv

1 Overview: The Substance and Process of Tax Reform in Eight Developing Countries 1

Wayne Thirsk

Composition of the Tax Reform Sample	2
The Project's Approach to Analyzing Tax Reform	6
The Intellectual Foundations of Tax Reform	8
Prereform Economic Conditions	11
Narrow Tax Bases and High Marginal Tax Rates	11
Inflation and Fiscal Deficits: Tax Reform and Macrostability	13
The Shifting Goals of Tax Reform	15
Constraints on Tax Reform	16
The Pattern of Tax Reform in Individual Countries	18
Tax Reform Model for Developing Countries	24
The Process of Tax Reform	27
Conclusions	29
Notes	31
References	32

2 Bolivia's Tax Revolution 33

Wayne Thirsk

The Tax System in the 1970s	34
The Personal Income Tax	35
The Enterprise Tax	37
Indirect Taxes	38
An Evaluation of the Tax System Prior to Reform	39
The Fiscal Collapse of the Early 1980s	41
The Tax Reform of 1986	44
A Preliminary Assessment of the Tax Reform	49
Lessons	52
Notes	53
References	55

3	Thirty Years of Tax Reform in Colombia	57
	<i>Charles E. McLure, Jr., and George Zodrow</i>	
	Background	59
	Episodes of Tax Reform	63
	The Economic Commission for Latin America Proposals and the 1960 Incentives	63
	The Tax System after the 1960 Reforms	64
	The Taylor and Musgrave Missions	66
	The 1974 Reforms	69
	Counterreform and Further Reform, 1974–86	71
	The 1986 Reforms	73
	The 1988 Report	77
	The 1988 Legislation	79
	Appraisal of the 1988 Changes	82
	Revenue Performance	83
	Tax Effort and Composition	84
	Relative Tax Burdens	86
	Income Distribution, Tax Incidence, and Tax Reform	87
	Tax Incidence	88
	Incidence of Colombian Taxes in 1970	90
	Distributional Effects of the 1974 Reform	91
	Distributional Effects of the 1986, 1988, and 1989 Reforms	91
	Tax Reform and Marginal Effective Tax Rates	91
	Results of the Marginal Effective Tax Rate Calculations	94
	A Note on Marginal Effective Tax Rates Inclusive of the Value Added Tax	100
	Comments on Marginal Effective Tax Rates under the 1974 Law and between 1974 and 1985	100
	Evaluation	102
	Chronological Summary	107
	Simplification	108
	Lessons	110
	Notes	114
	References	121
4	Reforming the Tax System in Indonesia	127
	<i>Mukul Asher</i>	
	Motivations for Tax Reform	127
	Tax Reform Measures	128
	Reforming the Tax System	129
	Historical Review of Tax Reform and Fiscal Policy	129
	Structure of Prereform Taxes	131
	Pressures for Tax Reform	136
	Formulating the Reform Proposals	137
	Objectives of Tax Reform	138
	The Reform Program	139
	The Income Tax	140
	The Value Added Tax Package	145
	Extensions and Modifications to the Original Value Added Tax Package	146
	An Evaluation of Tax Reform	149

Lessons	160
Conclusion	163
Notes	164
References	164

5 The Jamaican Tax Reform: Its Design and Performance 167

Roy Bahl

The Economic and Political Context	168
Macroeconomic Performance	168
Social Conditions	170
Economic Policy	170
Foreign Pressure	171
The Setting for Tax Reform	172
Problems with the Prereform Tax System	174
High Taxes	174
Allocative Effects	176
Equity	181
Administrative Problems	182
Tax, Trade, and Industrial Policy	183
Objectives of the Reform	185
The Individual Income Tax	186
Analysis of the Tax System	187
Tax Evasion	189
The Reform Program	189
Results of the Reform	191
Payroll Taxes	195
The Programs	195
Problems and Proposed Reforms	196
The Postreform Period	197
Company Income Taxation	199
Rate and Base Structure	199
Problems and Reform Needs	200
The Reform Program	203
Indirect Taxes	206
Problems	207
Revenue Performance	209
Proposed Reform	209
Actual Reforms	211
Impacts	212
Property Tax	212
The System	212
Problems	213
Reform Options and Recommendations	214
Conclusions	216
Are Taxes Still Too High?	216
Allocative Effects	217
Economic Performance	218
Equity	219
Administration	219
Lessons	223
Notes	226
References	227

6	Tax Policy and Tax Reforms in Korea	233
	<i>Kwang Choi</i>	
	An Overview of Fiscal and Tax Policy	234
	Background on Tax Policies and Tax Reforms	240
	Independence to Post-Korean War Reconstruction Period	240
	The Development-Supporting Period	242
	The Heavy Industry Promotion Period	244
	The Structural Adjustment and Liberalization Period	245
	Tax Administration and Tax Policy Formulation	248
	Taxation and Resource Allocation	254
	Major Tax Incentives	255
	Effective Tax Rates and Cost of Capital	261
	Tax Policy and Economic Growth	265
	Taxation and Income Redistribution	266
	Some Major Issues	276
	Insignificance of Personal Income Tax	276
	Issues in the Value Added Tax	278
	Real-Name System of Financial Transactions and Tax Policy	279
	Real Estate Speculation and Tax Policy	280
	Lessons and Conclusion	282
	References	284
7	Mexico's Protracted Tax Reform	287
	<i>Francisco Gil-Díaz and Wayne Thirsk</i>	
	The Prereform Period	287
	Tax Reforms: Impetus, Goals, and Constraints	290
	Early 1970s to the Present	293
	The Echeverría Administration, 1972-75	293
	The López-Portillo Administration, 1976-82	296
	The de la Madrid Administration, 1982-88	301
	The Salinas Administration, 1988-89	302
	Inflation, Revenue Yields, and Indexation	304
	Specific Tax Reform Accomplishments	310
	A Broader Individual Income Tax Base	310
	Lower Marginal Tax Rates	311
	A Common Deduction for Personal Income	311
	Taxes on Capital Gains	312
	Dividend Integration	313
	Consolidation of Corporate Results	313
	Corporate Subsidies	314
	Corporate Tax Incentives	314
	Introduction of Consumption-Based Value Added Tax	315
	Elimination of Special Tax Bases	317
	The Asset Tax: A Minimum Tax on Corporate Income	318
	Taxes on Foreign Trade	319
	Stricter Enforcement	319
	A Partial Assessment of the Tax Reforms	319
	Tax Incidence, 1977 and 1980	320
	Effective Corporate Tax Rates	322
	Financial Neutrality	323
	Conclusion	324
	Lessons	324
	Notes	326
	References	326

8	Tax Reform in Morocco: Gradually Getting It Right	329
	<i>David Sewell and Wayne Thirsk</i>	
	Main Features and Flaws of the Tax System before 1986	333
	Income Taxes	333
	Commodity and Sales Taxes	334
	Personal Income Tax Rates and Schedules	335
	Profits Tax	336
	Other Business Taxes	337
	Excise and Trade Taxes	337
	Tax Compliance	338
	Tax Administration	339
	An Assessment of the Prereform Tax System	340
	Tax Reforms after 1986	340
	An Evaluation of Reform Progress	342
	The Value Added Tax	342
	Personal Income Tax	343
	Corporate Profits Tax	344
	Tax Administration	345
	Assessing Tax Reform Using Effective Tax Rate Analysis	345
	Remaining Problems: Tax Incentives and Exemptions	347
	Measuring Tax Incentives	349
	Effective Tax Rates	349
	Housing	351
	Mortgage Deductibility	353
	Taxation and Energy Pricing	355
	Lessons	356
	Notes	359
	References	360
9	Turkey's Struggle for a Better Tax System	361
	<i>Kenan Bulutoglu and Wayne Thirsk</i>	
	Background	361
	Pressures for Tax Reform	367
	Reform of Direct Taxes	371
	Personal Income Taxes	371
	Agricultural Income Taxes	372
	Other Income Tax-Resistant Groups	374
	Taxes on Labor Income	375
	Taxes on Capital Income	376
	Income Tax Returns	378
	Tax Administration	381
	Corporate Income Tax	385
	Tax Incentives	390
	Land and Property Taxes	393
	Reform of Indirect Taxes	395
	Domestic Indirect Taxes	395
	Taxation of Foreign Trade	400
	Extrabudgetary Funds	403
	An Assessment	404
	Lessons	406
	Notes	407
	References	409

Tables

1.1	Structural Characteristics of the Tax Reform Sample	4	
1.2	Central Government Revenue Structures for the Tax Reform Sample	6	
1.3	Reform of Corporate Tax and Personal Income Tax Rates	19	
1.4	Tax Reform Measures: Personal Income Tax Base Broadening	20	
1.5	Tax Reform Measures: Corporate Base Broadening	21	
1.6	Main Features of New Value Added Taxes	22	
1.7	Tax Reform Measures: Inflation Adjustment	23	
1.8	Tax Reform Measures: Treatment of Capital Income	24	
1.9	Indirect Tax Burdens on the Poorest Decile of Households	25	
2.1	Revenue Tax Structures before and after Reform	34	
2.2	Central Government Tax and Spending Efforts	40	
2.3	Macroperspective	41	
2.4	Inflationary Erosion of Tax Bases	42	
2.5	Central Government Taxes before and after Reform	45	
2.6	Tax Structure after Reform, 1988	48	
3.1	Indebtedness of Companies	75	
3.2	Term Structure of Debt of Manufacturing Companies	76	
3.3	Composition of Total Tax Revenues, All Levels of Government	85	
3.4	Buoyancy of Central Government Revenues	85	
3.5	Ratios of Tax to GDP, Colombia and Selected Groups of Countries	87	
3.6	Taxes as Percent of Income, 1970	90	
3.7	Marginal Effective Tax Rates on Investment Financed with New Share Issues	95	
3.8	Marginal Effective Tax Rates on Investment Financed with Retained Earnings	97	
3.9	Marginal Effective Tax Rates on Investment Financed with Debt	99	
3.10	Effects of Changed Provisions, 1974-85	101	
3.11	Comparison of Marginal Effective Tax Rates	102	
3.12	Inflation Sensitivity of the Tax Structures	106	
4.1	Central Government, Selected Revenue Indicators	130	
4.2	Central Government, Composition of Nonoil Tax Revenue	132	
4.3	Number of Taxpayers Registered for Personal and Corporate Income Tax	152	
4.4	Nominal Rates of Income Tax in ASEAN and Selected East Asian Economies, 1989	155	
4.5	Revenue Importance of Sales and Excise Taxes in Selected Asian Countries	157	
A4.1	GDP, Central Government Tax Revenue and Nonoil Tax Revenue	163	
5.1	Selected Indicators of Economic Performance	169	
5.2	The Structure of Taxes	187	
5.3	Individual Income Tax Revenues	193	
5.4	Company Income Tax Revenues	200	
5.5	Distribution of Indirect Taxes	210	
5.6	Distribution of Tax Burdens before and after Reform	219	
6.1	Economic Structure of Korea	234	
6.2	Fiscal Indicators	236	
6.3	Measures of Tax Revenue Growth	237	
6.4	Structure of National Taxes	238	
6.5	Characteristics of the Tax Structure	238	
6.6	Preferential Tax Treatment for Strategic Industries	259	
6.7	Preferential Tax Treatment for Research and Development Expenditures	259	

6.8	Effective Marginal Tax Rate by Sector	262	
6.9	Effective Tax Rate by Asset and Source of Finance	263	
6.10	Cost of Capital by Type of Asset and a Measure of Distortion	264	
6.11	Cost of Capital by Types of Assets and Source of Finances	264	
6.12	Income Distribution	267	
6.13	Distribution of Wealth and Landownership, 1988	267	
6.14	Separate and Global Taxation of Interest and Dividend Income	269	
6.15	Comparison of Factor Income Reported on Personal Income Tax Returns versus National Income Statistics	270	
6.16	Ratio of Underreported Business Income and Tax to Actual Amounts	271	
6.17	Overall Tax Burden in Korea	271	
6.18	Burden of Direct Taxes and the Property Tax	273	
6.19	Burden of Domestic Indirect Taxes	274	
6.20	Burden of the Value Added Tax	275	
6.21	Personal Income Tax Revenue	277	
7.1	Federal Government Tax Revenues and Social Security Contributions	289	
7.2	Effect of Inflation on Tax Revenues	305	
7.3	A Hypothetical Oliveira-Tanzi Calculation	305	
7.4	Numerical Example of the Corporate Income Tax Loss from Interest Deductibility under Inflation	306	
7.5	Domestic Debt and Taxes of Firms	307	
7.6	Share of Wages and Salaries and Fringe Benefits on Total Labor Income, Manufacturing Sector	310	
7.7	Tax Reforms in Mexico, 1978-90	320	
7.8	Tax Collection by Income Level as a Share of the Total Personal Income Tax	321	
7.9	Tax Incidence by Half-Deciles	322	
7.10	Effective Tax Rates on Profits by Economic Sector	324	
7.11	Effective Tax Rates by Firm Size	324	
8.1	Selected Economic and Financial Indicators	330	
8.2	Tax Effort and Government Expenditures	332	
8.3	Tax Structure	334	
8.4	Historical Summary of Changes to Effective Corporate Tax Rates for Domestic Firms	346	
8.5	Aggregate Effective Corporate Tax Rates, 1995	350	
8.6	Tax Expenditures in Capital Gains Tax on Building, 1992	352	
8.7	Distribution of Tax Expenditures for Mortgage Recipients by Income Class and Marginal Tax Rates, 1992	354	
9.1	Macroeconomic Performance	370	
9.2	Central Government Taxes, Total Government Revenues and Expenditures	371	
9.3	Tax Structure Changes	373	
9.4	Inflation as a Tax Collector	376	
9.5	Tax Incidence Estimates by Household Location and Income Bracket, 1968	380	
9.6	Tax Audits and Additional Assessments, 1987	384	
9.7	Estimates of Marginal Effective Tax Rates on Machinery and Buildings by Type of Region and Rate of Inflation	392	

Box

9.1	Outline of Major Tax Reforms	362
-----	------------------------------	-----

Overview: The Substance and Process of Tax Reform in Eight Developing Countries

Wayne Thirsk

Beginning in the 1970s a number of developing countries tried to radically reform their tax systems. What can we learn from these experiences with tax reform? How can any lessons learned be made useful to other countries also on the road to tax reform? The World Bank has studied these questions for several years now, and the chapters in this volume present the fruits of this research. This overview chapter describes the genesis of this research project, outlines the common research framework adopted for each country, and summarizes the findings of the country-specific chapters that follow.

The goal of the tax reform project has been to obtain a better understanding of how developing countries can improve the performance of their tax systems. As the World Bank has become increasingly active in structural adjustment and other types of policy-based lending in developing countries, growing demands have been placed on it to suggest, and sometimes supervise, desirable tax reforms. The tax reform project carefully examines the experience of eight developing countries that have undergone, and in some instances are still undergoing, significant and comprehensive tax reform. Equal attention has been given to the process of tax reform, how it is implemented, and the substance or results of reform efforts. Throughout, the focus is on practical rather than theoretical aspects of tax reform.

It is hoped that the lessons learned provide a better appreciation of why some reform measures have worked reasonably well and others have not and thus will be helpful to other clients of the Bank considering reform. The results of this project may also contribute to the capacity of future Bank missions to analyze different tax systems by indicating the range of issues that need careful attention, the type of data required to reveal how well current systems are operating, and the reform options most likely to help them function better.

The first section of this chapter explains the criteria for selecting the eight tax reform episodes explored in the country-specific chapters that follow. The next section describes the organization and format used to investigate and interpret the tax reform experience of each country.

In the section on the intellectual foundations of tax reform, we see whether or not and to what extent the theory of optimal taxation has either inspired or been incorporated into the body of the reforms studied. Next, to better understand the impetus for reform, prereform conditions in several countries are set out, including the contribution of tax reform to macrostability, and the role of inflation both as a catalyst for reform and as a potential source of revenue. Next, the goals of tax reform and a number of important constraints on reform options are considered, since together these determine the choice of tax reform measures. Then the major elements of tax reform in each country are cataloged in order to profile a model tax reform design. Some observations follow on how governments must behave in order to successfully implement such a design. Finally, there is a summary of lessons learned that may apply to developing countries outside the sample.

Composition of the Tax Reform Sample

The developing countries that have either extensively reformed their tax systems in recent years or are currently doing so are Bolivia, Colombia, Indonesia, Jamaica, the Republic of Korea, Mexico, Morocco, and Turkey. However, within this sample there are two distinct groups. Members of the first group (Colombia, Indonesia, Jamaica, Korea, Mexico, and Turkey) have already carried out at least one comprehensive tax reform and are the major actors in the tax reform project, having consumed the majority of the project's resources. They also lend themselves to an *ex post* evaluation of tax reform and, in many cases, offer a sequence of reforms to examine.

Countries in the second group (Bolivia and Morocco) have either just completed a major reform or are in the midst of large reform efforts. Because their experience is so fresh, they are analyzed from a prospective viewpoint in which anticipated outcomes as well as actual accomplishments are considered. Whereas these countries comprise the minor slate of actors in the tax reform project, they nevertheless provide their own important lessons.

Other countries such as Bangladesh, Zaire, and Zambia were also considered but not included in the sample for the following reasons. At the time the study began Bangladesh had reached only a preliminary stage of tax reform, and the government was still mulling over which elements of a comprehensive reform program to adopt and implement. In Zaire and Zambia insufficient reform had been carried out to warrant a major study.

Tax reform in countries mentioned as major actors has already been investigated (see Gillis 1989; Khalilzadeh-Shirazi and Shah 1991; and Newbery and Stern 1987), making it possible to build on and extend the

findings of earlier research. The authors in this volume revisit some of these earlier investigations and offer fresh insights on the tax reform experience of these countries. For example, in chapter 3 McLure and Zodrow highlight the importance of indexation as a tax reform measure in Colombia. However, for the minor group of countries, where reforms are much more recent in origin, there is a much thinner and relatively inaccessible body of literature to draw from. The approach in this volume parallels the earlier work of Gillis (1989), seeking to extract general lessons from the common core of tax reform successes and failures. In particular, Gillis focused on the broad requirements for successful tax reform, such as the importance of tax administration reform, while this volume emphasizes some of the more technical issues that arise in reforming tax systems.

As table 1.1 illustrates, there is remarkable diversity in the economic track record of the sample countries. While Indonesia and Korea enjoyed relatively high growth rates of per capita output from 1965 to 1990—rates that probably would be considered as implausible or unsustainable elsewhere—other countries, such as Bolivia and Jamaica, display a dismal record of economic growth at negative rates over the same period. Generally, there is a loose but positive correlation between rates of per capita output growth and both the relative level and the growth rate of gross domestic investment. Per capita output levels vary by almost a factor of ten between the richest country, Korea, and the poorest, Indonesia.

Uneven rates of economic growth are matched by equally sharp differences in average annual inflation rates. Bolivia and Mexico appear at the high end of the inflation scale, with Bolivia having undergone the agony of one of the world's few true hyperinflations. Indonesia, Korea, and Morocco, on the other hand, have been models of virtual price stability. In between, another group of countries, including Colombia, Jamaica, and Turkey, have recorded persistent double-digit rates of inflation over the last twenty-five years.

There is also noticeable variation in the proportionate size of the public sector and the manner in which the public sector is financed. In general, the relatively high expenditure countries of Jamaica and Morocco stand out from their lower-spending brethren in Asia and Latin America. Colombia, Bolivia, and Mexico have the lowest spending efforts followed by Korea and Indonesia in that order.

Table 1.2 charts changes in revenue effort and structure for 1972 and 1990, the period during which most of the major reform initiatives occurred. With the exception of Turkey, all of the countries in the sample experienced increases in their revenue effort, minimally in the case of Korea, and substantially for Jamaica. Comparing revenue structures across countries at a point in time, there is no obvious relationship between per capita income and the degree of reliance on direct taxes. Relatively poor Indonesia obtains more than half its total revenue from direct taxes whereas the richer economies of Korea and Mexico rely on direct taxes for only about one-third of their total revenue. However, the poorer the economy,