PROVISIONAL

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ORIGINAL: ENGLISH/SPANISH

OAS/IDB/ECLA JOINT TAX PROGRAM

CONFERENCE ON FISCAL POLICY

Santiago, Chile, 5-14 December 1962

PROVISIONAL SUMMARY RECORD OF THE THIRTEENTH MEETING

Held at Santiago, Chile

on Thursday, 13 December 1962, at 10.20 a.m.

Chairman: Mr. MAGAÑA

Contents:

Note:

Participants wishing to submit corrigenda to their statements in this summary record for inclusion in the final printed version are requested to do so in writing to the Editorial Section through the Conference Officer (Miss Eyzaguirre) during the Conference. Subsequent corrigenda should be sent to the Editorial Section, ECLA, Providencia 871, Santiago, not later than 31 December 1962.

GENERAL DISCUSSION: PROVISIONAL REPORT OF THE CONFERENCE ON FISCAL POLICY
(Conference Room Paper 3)

The CHAIRMAN read a statement by Mr. Victor Urquidi, one of the participants at the Conference, whose pressing duties had compelled him to leave Santiago the previous day. Mr. Urquidi felt that the task of the experts at the Conference had not been to speculate on new forms of taxation, ingenious and interesting though they might be, but to deal with fiscal policy within the framework of existing political and social institutions and to guide it into areas which would, above all, increase the resources a Government needed in order to give greater impetus to economic development programmes as soon as possible. A critical examination of Latin American tax systems disclosed major defects, and as a result the countries concerned might be tempted to experiment with fiscal techniques which had been proposed in many parts of the world. He felt that while new possibilities should be studied, the basic course to follow was to improve existing systems, create improved fiscal structures and ensure a more efficient administration in order to overcome the many obstacles to reform, through public acceptance and a full understanding of the objectives sought.

In his view, the Conference had made it clear that most of Latin America was not lacking in the factors needed for a good tax policy directed towards economic development. There was growing awareness of the fact that fiscal policy as a whole - of which tax policy was a part - was but one feature of economic planning. Taxes were conceived in terms of their function in development plans, and that meant that the structure of demand and of supply had to be modified continually without necessarily following the indications provided by the free play of the market. Thus, many of the criteria which had so far prevailed in the more developed countries with respect to fiscal policy, and especially as regards the best way of combining the different taxes, would have to be revised and continually adapted.

/Discussions such

Discussions such as those held at the Conference should therefore continue, with the participation of experts from all over the world and of Latin American government officials and experts. At some future stage a joint meeting should be arranged between fiscal experts and tax administration experts and officials. Moreover, strong encouragement should be given to empirical research in fiscal questions, both in the Latin American countries themselves and in regional agencies such as the OAS, ECLA, the Latin American Institute for Economic and Social Planning and the IDB.

Lastly, Mr. Urquidi pointed out that while tax reform was a very powerful instrument contributing to the economic and social changes to which the Latin American countries had committed themselves under the Punta del Este agreements, there must be a clear definition of the scope of fiscal policy. It was not a question of either instituting forthwith a drastic tax reform, or else suffering a major economic and social catastrophe. There were many other elements militating in favour of the structural changes implied in economic development that were essential to an improvement in social conditions. Once the objectives were fixed, fiscal policy, in conjunction with other measures, could gradually and firmly be directed towards their attainment without having to bear the full responsibility for it. Moreover, it would be irresponsible to construe the delay required in the adoption and practical application of particular reforms as a weakening of the resolute aim of progress and social justice which the Latin American Governments had set for themselves and which were fully supported by the experts at the present Conference.

Speaking in his official capacity, the Chairman explained that the draft report before the Conference (Conference Room Paper No. 3) was an attempt to capture the sense of the participants with respect to the questions discussed, in the hope that the recommendations would prove useful to the Latin American countries. The comments made during the general discussion would no doubt require revision of some of the

/statements in

[illegible]

statements in the provisional report, which would be amended accordingly. The participants should bear in mind that the Conference was being held within the framework of the conclusions reached at the Punta del Este Conference regarding the economic and social objectives of the Latin American countries. The emphasis placed in the report on certain recommendations reflected the guidelines laid down at the Montevideo Conference.

Mr. PAZOS attached importance to Mr. Pinto's table on the social distribution of tax instruments. (See additional note to CPF/SR.8). He suggested that Mr. Pinto's percentage breakdown of the active population (5 per cent for the upper income level, 35 per cent for the middle income level and 60 per cent for the lower income level) should be changed to, say 15 per cent or 20 per cent for the middle income groups and 75 per cent for the lower income groups. He felt that would better reflect the true situation. He also suggested that the tax burden as given for the respective income groups was the desirable objective. The upper income group at present carried only 33 per cent of the tax burden and the lower income group was carrying 60 per cent.

Mr. WEISSEMAN stressed the need to relate fiscal reform to over-all economic and social development, and agreed that there was no dividing line between the legal structure and administrative techniques in the field of taxation. The report should emphasize the dedication of the countries concerned to move ahead in the field of fiscal policy within the framework of their legal structure.

Mr. NAHARRO said that while he realized the work which had been involved in preparing the draft report, recourse should be had to what was known in parliamentary circles as a "drafting committee" in order to correct not only a few drafting errors but also to make some changes relating to concepts.

Thus, with respect to the second paragraph of point 1, private investment and consumption was influenced by State action as a whole, particularly by certain types of action related to well-defined and

/accepted areas

accepted areas such as monetary, labour, industrial policy and so forth. Even if Mr. Urquidi's broad conception of fiscal policy were accepted, some limits must be set since the scope of the concept was somewhat vague. The danger of the text in the draft report was that it was less the exposition of a concept than the drawing up of a list. The solution might be to relate the fiscal instruments proper (revenue and expenditures) to the others by inserting the words "through them" before the reference to private investment and consumption.

In the first sentence of point 3, it was stated that the single most important cause for the insufficiency of public revenue was the failure of the tax system to impose effective levies on the propertied classes. That was but partly true since the insufficiency should also be attributed to deficiencies in tax administration. However, even if the statement were correct, it would seem impolitic to single out a segment of society which, after all, was part of the nation with the same rights as all other citizens. He therefore suggested that the administrative deficiences should also be mentioned, and that such clauses as "one cause" or "another cause", etc. should be used.

With respect to the last paragraph of point 7, he thought that a more suitable place should be found for it in the draft report since it dealt with a thorny subject - the added value tax - on which the views of participants had not been sufficiently aired. It would be wise, in any event, to delete whatever the paragraph included in the way of a potential threat to taxpayers in describing the possible use which the tax authorities could make of the data presented.

At the end of point 12, he suggested the addition of the words "and sometimes put a premium of inefficiency" on the part of enterprises with low yields resulting from poor organization, etc., in other words, the exact opposite of the economies of scale.

Lastly, he deplored the fact that, save for an inadequate reference in point 12, nothing was said in the draft report about the important function of tax incentives.

/Mr. PREST

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[illegible] If, [illegible] the scope of the [illegible] report. The [illegible] of the [illegible] in the draft report [illegible] the [illegible] of a concept than the drafting [illegible] of [illegible]. [illegible] ought to be to relate the fiscal instruments proper [illegible] to the [illegible] by inserting the words "through [illegible] [illegible] and [illegible].

In the first sentence of point 3, it was stated that [illegible] income taxes for the [illegible] of public revenue [illegible] of the tax system be improve effectively increasing the proportion of [illegible] that was but partly true since the sufficiency should also be [illegible] to sufficiency in tax sharing [illegible]. However, even if the statement [illegible] correct, it would seem impossible to single out elements of [illegible] [illegible], the [illegible] of the [illegible] [illegible] other [illegible]. The Secretariat suggested that the [illegible] sufficiency should also be mentioned, and that [illegible] phrases [illegible] or "[illegible] equal", etc. should be used.

With respect to the last paragraph of point 3, he thought [illegible] more suitable place should be found for it in the draft report [illegible].

Finally, a thorny subject - the social value aspect - on which one [illegible] of publication had not been sufficiently stated. He would [illegible] [illegible] about, in which whatever the paragraph included in the [illegible] [illegible] some [illegible] to emphasize the possible use which the [illegible] authorities could make of the [illegible] amounts.

At the end of point 13, he suggested the insertion of the words [illegible] "possible of insufficiency" on the part of [illegible] with low yields resulting from poor organization, etc., in order [illegible] [illegible] aspects of the movements of goods.

Lastly, he disagreed with Prof. Ohlin, who for [illegible] inadequate [illegible] point 12, nothing was said in the draft report [illegible] the [illegible] authorities of the [illegible].

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Mr. PREST said that an economist should not compromise on his technical expertise because of political or allied considerations. There were three levels at which an economist could operate - he could analyse the effects of different taxes on prices, outputs, capital formation, etc., he could advise a Government that if it wished to follow a given policy, it should apply a particular tax or taxes, or he could tell a Government that income distribution should be changed, and indicate how that could be done by taxation. For the last two courses of action detailed statistical data were required, and the third involved political preconceptions. He believed that the lack of substantial statistical data before the present Conference precluded any expression of precise views as to what should be done. Tracing the effects of a tax was something very different from recommending that Governments should adopt it, particularly with reference to twenty different Governments.

With respect to the draft report itself, he was strongly opposed to the first six paragraphs. The first sentence in point 2 seemed to imply that increasing public revenue should take priority over all other political and social changes, and in the light of the declared aims of the conference, appeared sweeping and even somewhat arrogant. The next sentence stated that increased revenue would enable Latin American countries to spend more on development, whereas in fact it would enable Governments to spend more for such purposes; that implied a judgement of a political character which would be out of place in a report issued by the present Conference. The draft report went on to suggest that sizeable deficits in the public accounts in Latin America aggravated the unequal distribution of income and wealth, although no evidence had been produced at the conference in support of that view. There were other statements not thus far supported by any evidence, with respect to the low revenue obtained from high marginal rates (point 9), the tendency towards a growing concentration in the ownership of wealth (point 16), excessive concessions to foreign enterprises (point 17), and the proportion of sales from public enterprises going to private enterprises (point 19).

/In addition,

In addition, there seemed to be possible inconsistencies in the arguments set forth - for example, was agricultural income to be taxed both under personal income tax and under the land tax? And how was it proposed to combine a system of high excise taxes on locally produced goods with the protection of developing local industries? Lastly, he doubted whether it was advisable to go into the degree of detail included in the draft report with respect to certain taxes, such as the specific rates of taxes on income and net wealth.

Having dealt with the faults of the draft report in its present form, he turned to the question of the form it should take, and suggested that it should be confined to a summary of the different views expressed by the participants, including as many shades of opinion as possible, such as the opposing views on whether land taxation should be proportional or progressive, the relative merits of the corporate income tax and the value added tax, and so forth. It would not be advisable to state that the conference as a whole agreed on particular points, or to include detailed recommendations about policy, and the report should go on further than to draw the general attention of the Governments concerned to the issues raised in the papers and discussions. It would be quite inappropriate for a conference organized by respected international organizations to express views that were essentially political rather than economic. If it appeared that other participants did not share his views, and the document retained its present form, he must ask to be disassociated from it.

Mr. MONTERROSO congratulated the sponsors of the conference, and expressed his general agreement with the draft report. However, there were some points on which he disagreed. Firstly, he thought the definition of fiscal policy was too broad, and should be amended as suggested by Mr. Naharro. Secondly, the report did not seem to attach much significance to the redistributive aim that fiscal policy should have, or to give sufficient emphasis to the importance of the role that public expenditure should play both in redistributing income and in economic development in the various countries. Nor was there much

/recognition of

recognition of the importance for under-developed countries of increasing their expenditure on education and on transfer payments, or on the economic effects of public expenditure and of the national debt. Thirdly, he could not agree with the statement in point 8 that there should not be exemptions of income tax on such income as the interest on government bonds; if such exemptions were appropriate in highly industrialized countries such as the United Kingdom, the same type of tax incentives must be regarded as necessary in much less developed countries, where there was only a rudimentary form of stock market. Fourthly, he suggested that the second paragraph of point 7, stating that there was no substantial indirect taxation of home-produced luxury articles, which now accounted for "the greater part of luxury consumption" should be amended so that the reference was to "a large part of luxury consumption", since even the most developed Latin American countries did not produce a substantial proportion of such goods.

Mr. ABINADER thought that it would not be appropriate to suggest specific rates of taxation in the report and that the section on the taxation of agricultural property should be drafted very carefully since it was a controversial subject. He agreed with Mr. Pazo's remarks on Mr. Pinto's table.

Mr. GOODE said that he could not agree with the Chairman as to the relative importance of the report of the conference, and thought that the papers presented, and the record of the discussions, should overshadow the report. It would be imprudent for the Conference to adopt such a specific and detailed document as the present draft.

He did not believe that the statement in point 3 that the failure to tax the propertied classes was the single most important cause of the insufficiency of public revenue was based on confirming evidence, and he would not endorse it as a general proposition applying to all countries. The last sentence in point 7 referred to a universal value added tax, which presumably meant one applying to agriculture and self-employed professionals, as well as industrial and commercial

/enterprises, but

enterprises, but the Conference had never discussed a value added tax of that nature. Nor could he accept the general pronouncement against exemptions such as interest on government bonds or mortgages, in point 8, which though usually inefficient might sometimes be useful. The specific rates mentioned in point 9, though useful as illustrations in the discussions, were out of place in a final report that would be widely read; rates must depend on conditions in the country concerned. The statement in the next paragraph that all change of ownership of capital assets should be recognized and taxed as capital gains was too sweeping. In point 10, the suggestion that there should be a progressive tax on net wealth in addition to a progressive income tax should be represented as advocated by some, or a few, of the participants, rather than a general suggestion emanating from the Conference as a whole. The implication in point 12 that low rates of corporate income tax would favour foreign governments needed further clarification. Although he himself supported the idea of taxing income on a world-wide basis, as suggested in point 18, he was not sure that that view was widely supported by other participants.

His criticisms were based on the fact that he took a different view of what was the appropriate nature of the final report of the Conference, which should be more modest in scope than the present draft.

Mr. VEGA congratulated the Chairman and his colleagues on the draft report now being discussed. He proposed the following amendments:

The last paragraph of point 1 should read as follows: "In this connexion, it should be pointed out that fiscal policy includes all State action which influences the amount and composition of public expenditure, including the problems posed by the external and internal debt, international treaties and common markets and the operations of State agencies. Fiscal policy should, moreover, influence private consumption and investment, in order that these economic factors should contribute to the economic growth of the countries."

/The following

The following

The following sub-clauses should be added to point 6: "(viii) The provision of suitable incentives to private investment with a view to securing a harmonious growth of the economies; (ix) Fiscal reform should include both the legal and administrative aspects."

The following sentence should be added to point 15: "This recommendation is, of course, valid only in those countries where it does not conflict with legal or constitutional provisions."

The following new point should be added to the report: "20. Since capacity to pay is the chief factor in taxation, the Conference believes that some government works and services should be self-financed, either on the basis of well-calculated rates or of taxes related to the principle of the benefit received."

As a general recommendation based on orderly arrangement, he proposed that all the points dealing with the same subject or the same tax should be brought together.

Mr. DESAI agreed with other speakers that the report should include some reference to incentives. There should also be a reference to Mr. Herschel's suggestion that more fiscal research was required. In point 7, a single sales tax with a broad tax base was recommended, in place of excise taxes, but Indian experience suggested that a sales tax was very difficult to administer compared with an excise tax; if the tax was to be broad-based, a value added tax would be preferable. He agreed with Mr. Goode that the reference at the end of point 7 to a universal value added tax was incorrect. In any case, the conference should be cautious in recommending a tax which was comparatively new in practice. He also agreed with Mr. Goode about the inadvisability of including specific rates and suggested that the reference in point 10 should be to a multiple of the per capita income rather than to the specific multiple of twenty. He would like to see in point 16 a reference to his suggestion that gift and inheritance taxes should be combined in a single accession tax. He would also like to see special emphasis on the fact that whatever the fiscal capacity of the

/Latin American

Latin American countries might be, it far exceeded the present revenue collected. There should also be more emphasis on the obligation of Governments to spend wisely. The second paragraph of point 1 seemed irrelevant, and if included in the final report should be redrafted to read: "In this connexion, fiscal policy must be broadly related to all State action which influences...."

Mr. HARBERGER said there appeared to be a difference of views as to the degree of strength appropriate to such a report. He thought that it was generally agreed that Governments needed to spend more on development. That did not imply any conclusion as to what should be the scope of the public sector, since it was recognized that even in accordance with any minimum concept of that scope not enough was being achieved in Latin America, and he cited educational services as an outstanding example. With respect to the criticism that not enough data had been presented at the present Conference to warrant certain types of conclusion, he said that if statements made in the presence of acknowledged experts in the field from the countries concerned were not disputed, they could be regarded as accurate. As for the general tone of the report, he pointed out that the same tone had already been adopted in official agreements signed by all the Governments concerned with the exception of Cuba, and that the Act of Bogota and the Charter of Punta del Este implied acceptance of the facts on which the draft report was based. It did not appear amiss to maintain a tradition already embodied in the official policies of the countries of the hemisphere.

Mr. HERSCHEL considered that the task of experts, far from being confined to an analysis of developments and of institutions, should also include making practical recommendations that Governments could use in working towards their economic development objectives. He explained the reasoning underlying certain parts of the report. He agreed with what Mr. Naharro had said about the last part of point 1, but not with what Mr. Naharro and Mr. Vega had said about incentives, since he himself

/considered that

[illegible]

considered that there had been general agreement at the Conference in condemming the abuses to which a policy of tax incentives could lead. He agreed with Mr. Pinto's suggestion for a systematic integration of the various taxes.

Mr. LEWIS suggested a number of drafting changes, which he said he would hand to the secretariat.

Mr. COSCIANI said that he agreed with the criticisms levelled by other speakers at the second paragraph of point 1, and he proposed that the very broad expression "all State action" should be replaced by the more precise expression "all action relating to the national budget". He did not consider that the reorganization of fiscal systems proposed in point 4 need be "comprehensive"; it would be sufficient if the reorganization were described as extensive. He asked what was meant by "heavier taxation" in sub-section (iv) of paragraph 6. He doubted that the list of purchases compiled as a basis for calculating the value added tax could be used as suggested in the third paragraph of point 7, and said that the system of records employed for that tax in France and Italy did not lend itself to such a use of the tax. He did not think that capital gains should be liable to income tax, as stated in point 8. He also thought the reference to suggested rates of personal income tax in point 9 inappropriate, and that a more general formula based on parameters would be preferable to listing percentages. He was also opposed to a register of transfers of assets, as proposed in the second paragraph of point 11, on the grounds that the system would be incomplete and should not be recommended for under-developed countries. Nor did he agree that personal income from agriculture should be imputed on the basis of the value of the properties concerned, as maintained in point 15.

He concluded by saying that he was not in complete agreement with the draft report as a whole, and consequently reserved the right to dis-associate himself from it, and to make public comments on the work of the Conference.

/Mr. PINTO

Mr. PINTO was generally in agreement with the character of the draft report, which contained recommendations and was not merely descriptive. While he intended to submit a number of suggestions to the executive officers which, in his view, would improve the report, he wished to make a general comment on certain taxes.

With respect to the personal income tax, dealt with in point 9, he asked whether the tax base was to be narrow or broad. That was an important consideration in taking a decision regarding the proposals contained in that point. The intention of the drafters was not clear from the present wording.

Mr. BACA agreed with the general tone of the report, particularly with the emphasis placed on the yield both from the income tax and from indirect taxes in so far as they were levied on the middle and high income groups.

In his view, the wording of point 6 of the draft report could be improved by amending sub-clauses (i) and (iii) and rearranging the order of sub-clauses (iv) and (vii).

He was opposed to the special taxation of articles of luxury consumption which was suggested in the second paragraph of point 7 as a means of augmenting yield.

With respect to points 17 and 18, he was skeptical as to the possibility of obtaining practical results from the information which foreign countries were expected to provide under the recommendation in the draft report.

Mr. DARDON said that he wished to refer only to two points in the draft report. The first was the definition of fiscal policy. He did not believe that it was or should be an essential aim of the experts participating in the Conference to seek a definition, in the strict sense, since that would seem to imply that they did not already have a full understanding of that concept, which was completely untrue. The problem was to analyse what was the scope and content of the concept of fiscal policy that would help in attaining the aims and objectives of the Conference. Consequently he considered that the second part of point 1 of the draft report should be so redrafted as to take account of that view.

/The second

The second point related to the alternative set forth in point 15 of the draft report. As he had stated when the self-assessment procedure had been discussed earlier, it was already used in Guatemala but not in the form of forced sale of properties recommended in point 15. That alternative method conflicted with the right to dispose freely of private property which was enshrined in most of the constitutions of the Latin American countries. To include it in the report might therefore give rise to harsh criticism by the sectors concerned, not only of that particular point, but of the whole philosophy of the report. Consequently he suggested that the paragraph in question should be deleted altogether, in order to obviate criticism that might prejudice the aims of the Conference.

Mr. DESCARTES agreed with those who had suggested that emphasis should be placed in the report on the operating machinery of fiscal policy, in other words the application and administration of fiscal measures. He also supported those who favoured the inclusion of a paragraph on tax incentives, and shared the view of the participants who were opposed to the inclusion of specific rates of taxation. He felt that the reference to the value added tax in point 7 should be toned down somewhat since no agreement had been reached as to the applicability of such a tax.

On point 8, he agreed with Mr. Goode that the objection to exemptions on interest on government bonds or mortgages was not valid.

On point 10, the word "agreed" was too strong. Something like "the view was expressed" was better.

The first sentence in point 15 was more applicable to the least developed countries than to Latin America as a whole. The references to self-assessment gave the wrong impression, since it was at best a short-term measure. That should be pointed out in the report.

With respect to taxation of agricultural land, the support expressed at the Conference for the proposals made in Mr. Wald's paper was not reflected in the report.

/He agreed

He agreed with the views expressed in point 18, but with respect to point 19 he felt that the report should point out that the price of public services in Latin America should not only cover costs but should also provide social benefits.

Mr. KALDOR said it was for the Latin American countries to decide whether or not they agreed with the basic message of the report as drafted, and were willing to face its implications. That message was that the weakness of the Latin American tax systems lay in their inability to get at the income from property, which represented such a large share of the national income. If the system was to be changed so that the propertied classes bore their fair share of the tax burden, radical action was required; capital gains must be treated as income, and there must be a full disclosure of individual wealth to enable the tax authorities to verify individual returns in relation to income from real property or shares, and the possession of capital assets, He did not agree with Mr. Cosciani that bearer shares were an essential requirement in under-developed countries. They should either be abolished, or information about their ownership should be made available through a system of deposit with registered banks that kept a record of owners that would be accessible to the tax authorities. The basic proposition before the conference was that it was wrong for the capitalist classes to escape taxation. The technical question followed of whether it was possible to introduce a system to tax those classes effectively, and if so, what the implications would be. Experience in India and Ceylon showed that it was not impossible to establish a net wealth tax in under-developed countries. The difficulties were political, not technical. Some Latin American participants had said that not enough stress had been placed on income redistribution, which amounted to the same as forcing the propertied classes to surrender to the State their due share of tax.

He agreed that the reference in the draft report to the value added tax should make it clear that the subject was merely aired, without any conclusions being reached. The fact that in France it was not used to

/provide a

provide a framework for the administration of other taxes did not mean that it could not be so used; there was no reason not to take advantage of the potential self-reinforcing features of that tax. He agreed with other speakers that the second paragraph of point 1 was not useful, and thought it could well be deleted.

Mr. RODRIGUEZ MOLINA felt that great care should be taken in the drafting of the report before it was published in order to avoid criticism which might deform and even vitiate it. While there might be agreement on the basic points, he felt that the final report should be limited to the necessary general appreciations and considerations. Several alternatives should be provided so that a choice could be made depending upon the different cases involved and the individual characteristics of each country.

With respect to point 2, he felt that emphasis should be placed not only on the need to increase revenue but also to programme public expenditure and to control it properly so that it might contribute effectively to the desired economic development. A recommendation that State agencies must be efficient should be made.

In connexion with point 3, the general comments made were not quite suitable. Each Latin American country had its own peculiar conditions, and it should therefore be left to each State to make use of tax incentives in the way best suited to its needs.

The meeting rose at 1.25 p.m.

PROVISIONAL

CPF/SR.14
13 December 1962

ORIGINAL: ENGLISH/SPANISH

JOINT TAX PROGRAM OAS-IDB-ECLA

CONFERENCE ON FISCAL POLICY
Santiago, Chile, 5-14 December 1962

PROVISIONAL SUMMARY RECORD OF THE FOURTEENTH MEETING
held at Santiago, Chile
on Thursday, 13 December 1962, at 3.40 p.m.

Chairman: Mr. MAGAÑA

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NOTE: Participants wishing to make corrections in the provisional summary record of their statements, for inclusion in the final printed report, should submit them in writing to the Editorial Section, either through the Conference Officer (Miss Eyzaguirre) during the Conference, or subsequently, by post, before 31 December, addressed to The Editorial Section, ECLA, Avenida Providencia 871, Santiago, Chile.

GENERAL DISCUSSION: PROVISIONAL REPORT OF THE CONFERENCE ON FISCAL POLICY (Conference Room Paper N° 3) (continuation)

Mr. HART said that the value of a report from the Conference lay largely in that it gave the economist participating in a tax reform discussion an insight into the opinions of his colleagues in other countries. From that standpoint, the authors of the provisional report were right to discuss many types of taxes.

It would be desirable to recommend that a strong and well-integrated combination of the suggestions made in the report should be adopted, and to point out that each suggestion had its economic merits and deserved serious consideration in every country where it would be administratively feasible.

In view of those two suggestions, an effort should be made to keep intact the list of objectives in paragraph 6, since if the items were quoted separately they might be misinterpreted. For instance, it might be assumed that to enact a tax was to put it into effect. Defects in administration could so distort a good tax that its application might do more harm than good.

He wished to make a specific suggestion, i.e. that the following sub-paragraph be added to paragraph 6:

"6 (viii) Establishment of an objective and co-ordinated system of administration, using each tax to give more solidity to others, so as to guarantee that the benefits of substantive reforms will not be lost in administration."

Mr. JARACH suggested that a preface should be added to the report in which it would be clearly stated that, although the conclusions reached by the Conference were based on a general consensus of opinion, reservations had been expressed by some of the participants.

With respect to paragraph 2 of the provisional report, the words "the overriding problem" in lines 1 and 2 should be replaced by "one of the overriding problems".

The list of points in paragraph 6 did not include any mention of the co-ordination of personal income tax with the net wealth tax. In point (iv) of

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[illegible] list of points in paragraph 6 did not include [illegible]

[illegible] tion of personal income tax with the net [illegible]

the same paragraph, the words "the imposition of heavier taxation" should be replaced by "the imposition of taxes with particular incidence on real property". Some indication should also be given that the tax on rural property ought to be applied as an alternative, when such co-ordination could not be achieved.

With respect to paragraph 10, he considered that a progressive tax on net wealth would be a little too severe, and that a proportional tax would be enough to serve its purpose with further reference to the same paragraph, he thought that it was dangerous to give examples of low rates. It would be more desirable to define a moderate rate.

Paragraph 15 contained a conceptual error since it was the value of capital that was determined on the basis of potential income instead of vice versa.

Mr. MENDEZ said that it was necessary to amplify paragraph 5, bearing in mind the view put forward by various participants that stress should be laid on the need to rationalize and co-ordinate fiscal expenditure, in order to ensure that it played a useful part in economic and social development and provided an effective instrument for redistributing income.

It had been suggested that the systematic application of integrated development programming and the adoption of public investment plans would be particularly effective for achieving those aims, since they would enable a proper assessment to be made of how far public expenditure could and should in co-ordination with the interests and requirements of the private sector in the process of development, and allow such expenditure to be distributed in the way that would most conduce to a progressive solution of social and economic problems. For the satisfactory implementation public investment plans, he specifically stressed the value of the technique of programme budgeting, which was already being applied in some Latin American countries.

He also pointed out that, as part of the movement towards economic integration, which was already under way in Latin America, studies should be undertaken on the problems of fiscal co-ordination that might arise in the course of integration, in order to prevent certain fiscal practices from distorting trade transactions among the countries concerned.

/Mr. MOISES

[illegible]

[illegible] would [illegible] and then [illegible] particular [illegible] be enough to [illegible] [illegible] in [illegible] case. However, he thought that it was dangerous to place [illegible] of low means. It would be more desirable to realize a moderate rate.

Paragraph 15 proposed a conceptual error since it was the value of capital that was determined on the basis of potential income [illegible] of value terms.

Mr. [illegible] said that it was necessary to modify paragraph [illegible] in order the view put forward by various participants that there should be laid on the need to rationalize and co-ordinate [illegible] activities, in so far as that it played a central part in [illegible] and provided an effective instrument for [illegible].

It had been suggested that the authors [illegible] development programming and the promotion of public investment [illegible] be particularly effective for achieving these aims, [illegible] a proper assessment to be made of [illegible] public expenditure should in co-ordination with the [illegible] and [illegible] order in the programme development, and allow such expenditure [illegible] in [illegible] would not [illegible] and economic [illegible]. [illegible] at [illegible], be specifically [illegible] [illegible] in [illegible], which was already being [illegible] in more [illegible] [illegible].

[illegible] points out that, as [illegible] on the [illegible] [illegible] tion, [illegible] already [illegible] [illegible] the problem of the [illegible] [illegible] of [illegible], in order to [illegible] [illegible] factor [illegible] the transaction [illegible]

Mr. MOISES suggested a new schema for the presentation of the report, going from the general to the particular and from points on which there was unanimous agreement to those with which only a minority concurred, since he had observed during the discussion on the report that the participants agreed on theoretical aspects but differed considerably when they came to deal with specific taxes.

The CHAIRMAN thanked Mr. Moisés for his suggestion but thought that it would be possible to take into account all the views expressed by the participants without changing the presentation of the report.

Mr. PORRAS said that successful achievement of the aims of fiscal policy depended on the instruments used. That was why it was important to improve financial techniques. Changes could be made in the legal structure at any time, but they should be accompanied by a reform of the financial administration. Such a reform would not be easy, but it was essential to break down administrative apathy, and time was needed to perfect the technique and even the hierarchy of administration.

With respect to paragraph 3, he pointed out that equity could be achieved not only through a revision of the tax laws but also through financial administration. It was essential for the tax laws to be codified.

He suggested that the following sentence be added at the end of paragraph 4, in order to make it quite clear that the purpose sought was redistribution of income: "in such a way as to enable highly regressive taxes to be abolished or at least substantially reduced in favour of the lower-income groups that form the bulk of the population".

In relation to paragraph 8, he pointed out that in countries where capital was scarce, incentives had to be created for the purchase of Government bonds by private persons. Accordingly, he thought that the interest on bonds or mortgages created for economic development purposes should be tax-free.

He considered that the rent of owner-occupied property should be assessed and taxed.

The net wealth tax referred to in paragraph 10 would, in his opinion, be difficult to apply in the absence of an efficient tax administration.

/In connexion

In connexion with paragraph 14, it seemed to him that if the objectives of land reform were to be achieved, tax administration should be in the hands of the Central Government.

He was not in agreement with the view put forward in paragraph 14 that the author of a bid that had been rejected should share in the tax increment, because it would be difficult in such circumstances to ensure that the bids made for properties were bona fide.

Mr. RAPOPORT agreed that greater significance should be attached in the report to the management of public funds, particularly since the only way to enlist the co-operation of the private sector was to convince it that the government authorities were make effective use of their funds for useful purposes and were not wasting them through superfluous expenses such as adding unnecessarily to the number of civil servants.

The guidelines laid down by Mr. Pinto regarding the distribution of national and fiscal income served a useful purpose, although he did not think that specific figures should be included. In Argentina the structure was similar to the one presented, although it might be different in other countries.

With respect to the description of rates, he thought that the term "moderate" was inadequate and should be replaced by "equitable, reasonable or fair".

He felt that the tax on net wealth would have a progressive effect even though the rates might be proportional. There was no need to mention specific rates.

Mr. MATUS said that he knew a great many people who were sceptical of the objectives of the Alliance for Progress because they considered them to represent a long-overdue reaction, but until the present Conference he had not encountered conservatives who looked upon the principles of the Alliance as too progressive and opposed income redistribution and planning.

The statement made by Mr. Prest at the previous meeting had led him to doubt the interpretation, since Mr. Prest had seemed to him to be asking for proof of things that were self-evident to everyone. No one present could doubt that tax evasion was practised by the propertied classes

/or that

[illegible]

or that they should make a fundamental contribution to economic development. He fully agreed with Mr. Harberger's replies to Mr. Prest during the same meeting.

There were several gaps in the provisional report that should be filled in. No criticism of market forces had been made nor had any definite statement been made with respect to the general framework of a tax system. In that connexion, Mr. Pinto's should be taken into account and an analysis included of the intercontrol mechanisms that operated among the different taxes. Lastly, the use of taxes to promote development had not been explored. In paragraph 2, reference was made to fiscal deficits in relation to stability. He assumed that the authors of the report were not attempting to suggest that if deficits were eliminated stability would be achieved. If so, the paragraph should be redrafted. Moreover, frequent references were made to the distorting effects of indirect taxes which was absurd since a great deal of distortion already existed. Arguments of that kind should be suppressed or the report would have an old-fashioned flavour. He regretted that more attention had not been paid to the taxation of foreign enterprises.

With respect to public expenditure, he fully supported the remarks made by Mr. Mendez, and adding that greater details should be given on the budget as a short-term plan of action. The examination of incentives in the report was sketchy. The fact that their importance had been exxaggerated in the past did not mean that they should be entirely overlooked in the present.

He also pointed out that the report failed to deal with the fiscal aspects of a common market.

He fully agreed with the political tone of the draft report, which was in line with contemporary thought, but he thought that it smacked too much of the tax expert.

The CHAIRMEN explained that the question of programme budgeting had not been dealt with in detailed for fear of making the report too lengthy. He said that point 7 dealt with the subject of foreign enterprises. An attempt would be made to minimize the tax expert approach criticized by Mr. Matus.

/Mr. CASAS

[illegible]

[illegible] lead [illegible] with respect to [illegible]

In that connection, Mr. Hirode should be [illegible] [illegible] included of the intersectoral mechanisms [illegible] [illegible] there. Lastly, the use of [illegible] to provide [illegible] has been [illegible] forward. In paragraph 2, reference was made to fiscal deficits in relation to stability. He assured that the purpose of the report was not attempt to suggest that if deficits were eliminated stability would be achieved. It was, the main point would be reflected. Moreover, Treasury officers were made to the disappointing effects of inflation in an effort to achieve a great deal of distortion already existed. Accordingly [illegible] [illegible] provided in the report would have no disadvantageous effects. He reported that more attention had been paid to the [illegible] [illegible] effectiveness.

[illegible] the [illegible] the [illegible] [illegible] Finance, and Mr. [illegible] [illegible] [illegible] as the report was [illegible]. The [illegible] [illegible] [illegible] but [illegible] [illegible] in the past did not mean that they [illegible] [illegible] [illegible] in the [illegible].

He also pointed out that the report [illegible] [illegible] [illegible] or a common market.

He fully agreed with the [illegible] [illegible] [illegible] [illegible] contemporary [illegible] [illegible] [illegible] of the [illegible] report.

Mr. [illegible] explained that the [illegible] [illegible] [illegible] in detailed [illegible] [illegible] [illegible] that Item 7 dealt with the [illegible] [illegible] [illegible] would be made to [illegible] the [illegible] [illegible] [illegible].

Mr. CASAS agreed with Mr. Jarach that a paragraph should be introduced into the report explaining that the ideas included did not necessarily represent unanimous views. He suggested that the first sentence of point 2 should read "The participants of the Conference were in agreement that from the standpoint of the aims of fiscal policy the overriding problem of Latin American countries is to increase public revenue both by means of taxation and through an increase in the income of private enterprises". In point 3 he thought that the phrase after "the tax system" should be replaced by the phrase "impose effective levies lower than the the capacity to pay". He considered the idea of compulsory registration of transfers of assets to be naïve. Lastly, he suggested that the report should include a reference to the need for every country to make a careful study of the distribution of the tax burden, and of the methods resorted to by taxpayers to evade income tax.

Mr. GNAZZO thought that the draft report adopted the correct approach, but he agreed with Mr. Jarach as to the desirability of indicating that in some cases there might be basic objections by certain participants. He agreed with Mr. Mendez on the need to expand the reference to public expenditure. He thought that the scheme suggested by Mr. Pinto might be included as an item of general economic policy, but that it would not be useful to include his figures, since those would have to vary according to circumstances. He suggested that a sub-item (vii) should be added to point 6, referring to incentives, the co-ordination taxes on wealth and income, the ideas on tax administration put forward by Mr. Hart, and the need to codify and simplify tax legislation.

Mr. VIDAL supported the idea of including a paragraph explaining that there were differences of opinion, to be found in the summary records and in other conference documents. He also pointed out that there was no reference whatever to tax incentives. Referring to point 4, he said that there should not be any reference to the introduction of new taxes, since the question was rather that of reorganizing the taxation system.

Mr. JATAR agreed that the paragraph on public expenditure should be expanded, and thought it was important to distinguish between incentives, more liberal depreciation allowances and deferred compensation for losses.

/Mr. FERNANDEZ

Mr. FERNANDEZ considered that the report should have referred more directly to the aims and methods of economic development.

Mr. LESSA agreed with Mr. Matus' remarks on price distortion, since the purpose of indirect taxation was precisely to change relative prices. As regards taxes on luxury goods, he thought that the meaning of the term should be clarified. It should be explained that it referred to superfluous consumption over and above that of the mass of the population. With reference to paragraph 12, taxes on corporate income should be based on the rate of return, irrespective of the amount involved.

Mr. PIEDRABUENA said that a special paragraph on inflation should be included. He believed that the net wealth tax should not be a special tax but a complement to income tax. The references to corporations should include some mention of the incorporation of the masses into the capital formation process, as being one of the aims sought. With respect to paragraph 15, he did not agree with the idea of self-assessment or the punitive measures suggested. Other omissions in the report that should be repaired concerned tax policy in relation to ALALC and the question of planning.

Mr. MARTINEZ was of the opinion that the second paragraph of point 2 should not refer to the expansion of revenue to provide more funds for current expenditure, since the phrase was open to misinterpretation. Paragraph 6 should outline a general framework for tax reform, with due regard for the suggestions made by Mr. Matus and Mr. Pinto.

With respect to the mention made in paragraph 3 of the need to tax the propertied classes, some indication should be given that, apart from reasons of equity, such taxes represented the price they should pay for maintaining their privileged position.

Mr. HARBERGER remarked that Mr. Lessa's statement was not incompatible with his own views. The important thing was simply not to lose too much fiscal revenue through the application of the systems in question.

With reference to point 6 (iii) of the provisional report, he suggested that it be recast as follows: "The collection of more revenue from taxes on urban and rural property, which are additional to personal income taxes on the income derived from such property and which should also be co-ordinated with other forms of special taxation of income from property".

/He further

He further suggested that sub-paragraphs (iv) and (vii) be combined and replaced by the following: "Tax incentives are a powerful instrument for channelling the resources of an economy toward the desired ends and preventing their diversion to less important uses. They should nevertheless be carefully studied with a view to ascertaining whether they can obtain results without unduly reducing fiscal revenue. It should also be pointed out that tax incentives are more effective in changing the distribution of investment than in increasing its total amount, owing to the fact that an increment in the said amount can be obtained only if a country's total savings increase".

Mr. KALDOR had two comments to make. Firstly, he agreed with Mr. Harberger's remarks on incentives, but thought they should be rephrased so as to stress the point that true incentives did not imply a loss of revenue but were actually a stimimulus to production.

Secondly, he thought that if the report was to be prefaced by an introduction of the kind proposed by Mr. Jarach, he did not think that the inclusion of the net wealth tax would commit its opponents too deeply. It should not be included as a kind of tax on real property, however, since it was a new idea, which, as some speakers had emphasized, should be integrated with progressive income tax if introduced at all. The need for integration, which would considerably increase the efficacy of income tax, should be underlined in the relevant paragraph of the report.

Mr. GOODE thought that a strong case could be made for the net wealth tax on grounds of economic expediency and justice, but wondered whether it would be possible to apply it in Latin America at the present stage of its tax administration. The tax was not widely used, being most successfully applied in Sweden and the Netherlands where the tax administration was particularly good.

Mr. KALDOR stated, with reference to Mr. Goode's remarks, that he knew of eighteen countries where the tax was being applied in a progressive way and always at a low rate of about 2 per cent. He agreed that it was not an easy tax to apply since it required a full disclosure of property on the part of the taxpayer, but did not consider that it was any more difficult than either income tax or the tax on capital gains. It was necessary to draw attention to the difficulties of application in the report, but no distinction should be made between one tax and another.

The meeting rose at 6.50 p.m.