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Tools for Economic Stability - More Equitable Tax Structures in the Ivory Coast

by Peter Newton

From 1960 to 1980 the economy of the Ivory Coast grew rapidly at a time when its cocoa and coffee exports earned large amounts of foreign exchange. But when commodity prices crashed in 1980, the Ivory Coast, like other developing countries, was saddled with high foreign debts.

However, since the country could not raise the extra tax revenue to pay these debts, the foreign deficit soon became a fiscal or government deficit. The result was major fiscal instability, with a government budget deficit climbing to over 10% of gross domestic product.

In order to minimize the effects of fiscal instability induced by events such as a debt crisis, researchers in seven developing countries, allied with colleagues at the University of Western Ontario (UWO), are trying to design tax structures and other economic tools suited to developing countries.

Dr Guillermo Perry of Colombia's Foundation for Higher Education and Development (FEDESARROLLO) and Dr John Whalley of UWO's Centre for the Study of International Economic Relations (CSIER) are coordinating the cooperative project with researchers in Argentina, Colombia, Ivory Coast, Mexico, the Philippines, and South Korea. The main goal of the project, funded by IDRC, is to help improve fiscal reform by combining quantitative analysis of the economic effects of fiscal reform with an institutional analysis of the political and administrative problems faced by tax reformers. Dr Perry is organizing and monitoring the institutional analysis. Part of the research looks at fiscal reforms introduced or imposed on many developing nations as a result of the debt crisis. One such reform is the emergence of value-added taxes (VATs) in nearly 70 countries. Fifteen years ago only a handful of countries imposed VATs.

HOW SUCCESSFUL?

The taxes were meant to ease the fiscal crises in many developing countries. However, there has been little analysis of their success in raising revenue or promoting economic efficiency, long-term economic growth, and income distribution. Policy makers need to know whether the rich or the poor reap more benefit from economic policies such as VATs. This analysis will help build more equitable tax structures.

Dr Whalley is training researchers from the seven countries in computer-based general equilibrium modelling. These systems allow researchers to break down the economic performance of their countries and measure the impact of fiscal and tax reforms.

"There are a number of modelling projects being undertaken by developing country scholars. They're trying to develop model-based analyses of the impact of tax reforms in their own countries. We're basically assisting and helping them," says Dr Whalley.

The researchers visited Dr Whalley's lab for a month to learn to use the modelling techniques. In 1993, the participants will return to UWO to present their preliminary findings, followed by a formal meeting in September in New Delhi.

Dr Whalley says capacity building is a major goal of the project. "There is a real feeling that these models being developed could grow into multipurpose kinds of models," which the researchers will use to address other problems. He also stresses the importance of South-South linkages. "It's amazing when you go to meetings in the developing world and you realize that many countries' scholars have not been to other developing countries."

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