Economic development (fiscal policy, taxes) essay

Business

Economic disparities between countries have increased sharply since the beginning of the industrial revolution. The most advanced and least developed lands of today, were either very similar to each other in terms of prosperity for people, or had their roles reversed in terms of wealth, until the start of the 19th century. Countries such as Germany and Japan, which were vanquished at the end of World War II, have recorded amazing recoveries. India and China are more recent examples of remarkable economic growth.

The Korean peninsula is another striking example of how different sets of policies can make for tremendous disparities on two neighboring sides of a territorial border. One may safely conclude that economic policies can be effective in changing the destinies of people, and that all governments have it within their powers to influence most substantially, the course of economic development in their countries (The World Bank, 2006). This concept can serve to inspire and to guide people who live in the Least Developed Countries (LDCs). The World Bank is an invaluable resource for LDCs. The financial resources at this organization’s command are tangible and immediately desirable, but the accumulated experience, and the fund of knowledge at its command, can make greater contributions for structured and sustained economic development, than grants and cheap loans.

The World Bank has a stellar record of achievements, in helping people from distant corners of the globe rise above poverty. Every LDC government can use the World Bank’s services to serve their citizens better. Every LDC is unique. Some are democracies, whereas others have not attained such a status as yet. Some may have hidden natural resources of a particular variety. The degree of poverty, and its spread through the population, may also vary. No single set of prescriptions can work for all LDCs.

The remainder of this document attempts to enunciate some common principles which the World Bank advocates, when it partners country governments, in efforts to develop a tailored approach to a specific economic situation in each LDC. Fiscal Policies for LDCs LDCs should fashion their fiscal policies in ways which attract private capital (World Bank, 2006). The World Bank finds a surge in private capital inflows in to developing countries.

This trend can be emulated by LDCs as well. Similarly, there is encouraging global interest in the bond markets, for issues by well run governments from all over the globe. Growth rates in matured markets are about half those in emerging economies, because of which there is always interest in an LDC which makes a concerted effort for economic development. It is true that key poverty reduction and basic infrastructure programs cannot be measured in commercial terms, but the factors which impress investors also give confidence to lending agencies such as the World Bank on which all LDCs depend for grants and soft loans. Fiscal policies will not produce results for LDCs unless essential non-financial measures are in place. Security, stability, law and order, and essential infrastructure, are some key measures which all investors will consider before considering the numerical merits of projects.

Transparent and consistent governance, with effective measures to counter corruption, can substitute under-development to a large extent, when LDCs compete for attention and funds. Fiscal policies, which encourage private and other international investments in an LDC, must be based on conservatism, moderation, and realism. Policies which go to extremes, which have track records of running up large and unplanned deficits, and populist ambition in setting high social targets, act as dampeners on the interests of investors and lending agencies. The reverse is also true, and the poorest LDC can effectively compete with richer peers for funds, if it displays professionalism and integrity in framing and implementing policies. There are 3 important planks on which an LDC can build fiscal policies for optimizing objectives of national development and attracting private investment funds. The first relates to a taxation regime which is competitive with similar countries, which meets World Trade Organization criteria for membership, and which also reduces glaring disparities in the domestic environment. Such an approach must assume that grants and funds at liberal terms will be available from institutions such as the World Bank for poverty alleviation, education, and health, rather than depend on proceeds from taxes alone.

The second principle relates to expenditure control, keeping all government spending within the limits of actual revenue receipts. The third key aspect of fiscal policy should be to encourage and to facilitate domestic savings, which also has a relationship with tax rates. A related matter is to strike a balance between the long term benefits of liberal credit supply, with the risk of short term failures due to over enthusiasm on this account (World Bank, 2006). Tax Revenues in LDCs Contradictory pressures plague tax proposals and structures in all countries. Pressures from vested interests, regardless of the form of governance, are severe in all LDCs. Systems and rules change frequently, leading to complicated and self-defeating measures in many cases. The World Bank suggestions on taxation policies may appear difficult to implement at first sight, but efforts to build local consensus along the following lines will yield salutary results in due course: 1. Taxes should aim to remove glaring inequalities and discrimination in the existing system.

2. New tax proposals should not create inequalities of their own, or target any vulnerable section of society. 3. The system should be as simple as possible, and have the backing of a rigorous implementation and collection system. The costs of collection should be reasonable compared to the money collected. 4. Foreign manufacturers and service providers should have all the protection required by the World Trade Organization. 5.

Extremes should be avoided so that no section feels greatly aggrieved. 6. Sectors which have to take large risks in the national interest, should receive favorable tax consideration. The World Bank cites financial services as an example. 7. International investors, with many alternatives at their disposal, should find tax systems of an LDC advantageous and realistic from their perspectives.

. The basic approach to taxation should remain unchanged over long periods, so that returns on investments are not jeopardized by sudden and unexplained changes in national laws. It will help the prospects of an LDC if it is able to lay out a road map of tax evolution as the economy expands and develops, so that serious investors can rely on it for their own planning.

Effective taxation for an LDC cannot be autocratic, whimsical, and made in ivory towers, though the absolute powers over a hapless population tempt governments to resort to such measures. Effective communication with all domestic and international stake holders is a non-financial but vital component of taxation in LDCs. LDC Income Distribution The experience in Poland suggests that governments should focus on job creation as the best means of achieving distributive justice (World Bank, 2006).

Reducing unemployment does away with inequalities in the least invasive way. The overall approach to attracting private capital has dramatic effects on poverty alleviation. Income distribution implications need not be abdicated by LDC governments to private interest managers altogether. However, state activities should be more concerned with social protection, rather than trying to destabilize Growth Domestic Product growth. The World Bank suggests the following general LDC government priorities, which indirectly have the same outcomes as income distribution initiatives of highly centralized economies of the last century: A. Improve universal education and basic health services, as well as essential infrastructure. B. Accelerate agricultural growth as a rapid means of reducing inequalities.

C. Create an environment for rapid growth of job markets. D. Reduce if not eliminate unsustainable deficits. E. Implement structural reforms which will unlock new growth avenues. The World Bank has recently suggested the above 5 measures to India, and they can be used by LDCs as well, to promote distributive justice in their countries.

The World Bank experience in Argentina is also important in this respect. The Gini Coefficient, which at zero represents perfect equality, and which at 1 represents extreme inequality, has risen in Argentina from 0. 38 in 1980 to 0. 53 in 2002 (World Bank, 2006). The gender wage gap, hours of work, employment, high inflation, and education levels amongst the working poor, are said to be mainly responsible for widening disparities in the country.

It would appear from the World Bank global experience that popular and ideological actions to achieve distributive justice are less effective than economic measures to grow the economy, and to build sustainable competitive advantage against other nations. Affirmative actions on the twin planes of job creation and essential social security do more to improve the lot of the impoverished. Savings and Investments in LDCs The World Bank recommends a logistics cum extension approach to savings in LDCs, rather than extraordinary fiscal measures (World Bank, 2006). It is clear that taxation policies affect savings, but experiences amongst the urban poor in the Philippines and India show that peripheral micro deposit services need to reach the doorsteps of people.

Savings also rise if there are demonstrable links with projects to improve lives, such as the provision of basic housing for people consigned to slums. Transparency in governance, and the ability to deploy labor flexibly, promotes investments in LDCs most effectively. Infrastructure also plays an important role in attracting investments.

Domestic reforms bring many international trade opportunities in their wake (World Bank, 2006). Conclusions Though each LDC has its own compulsions and priorities, the broad recommendations of the World Bank, based on extensive achievements in many countries, is to work towards attracting private capital for national development. Each LDC should be aware that it has to work for support in a challenging world environment, so it has to work for sustained competition on this front. However, such a business – like approach to economic development does not have to be at the cost of the immediate interests of the poor. There will be no shortage of grants and affordable funds for governments which have capabilities and specific projects to provide social security to vulnerable citizens, and when lenders believe that resources will be used judiciously and with integrity.