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Tax Systems in the OECD: Recent Evolution, Competition and Convergence[1]

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I. Introduction

The popular view is that taxes are imposed to finance the activities of governments and public sectors. They are the prices paid for the (generally free) services that citizens receive from their governments. This view remains popular and finds its way in the writings of economists and tax experts. However, with the passing of time it has become a little detached from reality for at least two reasons. First, governments finance at least part of their activities with non-tax revenue such as public debt, sale of assets, earnings from publicly-owned natural resources, incomes from publicly-owned monopolies, fees, fines and so on. Second, tax policies have increasingly been used to promote non-revenue objectives. These

[1] Paper presented at the conference on "Tax Systems: Whence and Whither"(Recent evolution, current problems and future challenges), sponsored by FUNCAS and UNICAJA, Malaga (Spain) September 9-11, 2009. I wish to thank the tax program of the OECD for the provision of data.

may be to stimulate or, at times, slow down some activities, enterprises, regions, social behavior, and so on. Revenue needs, to finance public sectors activities or government objectives, change over time, for the same countries, and, at a given time, are likely to be different across countries. The broader is the economic role of the state, the more revenue a country's government will need at a given time. Much of this revenue will come from taxes. Thus both the share of total tax revenue into gross domestic product – T/GDP—and the share of public spending -- G/GDP -- will have to change. At the same time, reflecting the countries' preferences as well as their economic and other characteristics, the structure of their tax systems will also change.

In this paper the focus of attention will be on the 30 countries that belong to the grouping that goes under the name of Organization for European Cooperation and Development (OECD). This international organization started as a European entity but over the years it has expanded its membership to include several countries from other continents. Its current membership includes countries from all continents with the exception of Africa.

II. Tax Levels in OECD Countries, 1965-2007

In this section we focus on the evolution of tax levels in OECD countries between 1965 and the present. The latest year for which data are now available is 2007. Thus we are able to cover a 42-year period during which many significant changes took place. We shall focus our discussion first around Table 1 that provides data on tax levels for all 30 OECD countries over the period. For countries that joined the OECD in later years, such as Mexico, Korea and the countries from East Europe (Czech Republic, Hungary, Poland, and the Slovak Republic), the data are available only for later years.

In 1965, the highest tax levels were those of Sweden (35.0 percent of GDP), France (34.1 percent of GDP) and Austria (33.9 percent of GDP). A few other countries had T/GDP ratios that exceeded 30 percent. These were the Netherlands, Germany, Belgium, UK, Finland, and Denmark. The lowest levels were those of Turkey (10.6 percent of GDP), Spain (14.7 percent of GDP), Portugal (15.9 percent of GDP), Switzerland (17.5 percent of GDP), Greece (17.8 percent of GDP), and Japan (18.2 percent of GDP). It is difficult to conceive today how the governments of these countries managed with such low tax ratios.

For the whole group of OECD countries the unweighted average, for the share of total taxes to GDP, in 1965 was 24.2. By 2007 only Mexico and Turkey had tax ratios lower than the 1965 average. After 1965 the changes in tax ratios were mostly up, at least until recent years. In recent years there is some indication that tax levels started to go down; or, at least, they stopped going up. We shall return to this point below.

By the year 2000 taxes had gone sharply up in the majority of the OECD countries and especially in Spain where the share of total taxes into GDP had increased from 14.7 percent to 34.2 percent, more than in any other country in the table over that period. The unweighted average tax level for the OECD increased by 11.9 percent of GDP, reaching 36.1 percent in 2000, above any country's level in 1965.

In some countries, the T/GDP had reached extraordinarily high level. For example in Sweden it was almost 52 percent, probably a record in the history of the world. In four other countries (Denmark, Finland, Belgium, and France) the T/GDP had come close to, or had exceeded, 45 percent of GDP. Excluding a few countries with different economies or traditions, such as Mexico, Korea, and Turkey, and, perhaps some of the Nordic countries, that had to finance expensive welfare states, the differences in tax levels among the countries

of Europe had been much reduced showing a significant degree of convergence in tax levels over this period.

Before leaving this discussion of tax levels in OECD countries, it may be worthwhile to call attention to a recent trend that has attracted less attention than it deserves. This is the inversion in the upward movement of tax levels that had taken place until the end of the millennium. Until around the year 2000 the trend in tax levels had been clearly and continually upward. However, in the more recent years, the earlier, uniform, upward movement came to an end. This change can be shown, as done by the OECD,[2] by taking several periods, 1965-1975, 1975-1985, 1985-1995, 1995-2006, and showing graphically the increases and the decreases in T/GDP for each country and for each of these periods. The OECD charts show that, as one moves from the earliest to the latest period, the number of countries that show some reduction in T/GDP increases.

There is, perhaps, a more powerful way to show the change in this trend. It is by taking, for each country, the year in which the T/GDP reached the highest level and comparing that level with the level reached in the latest available year. This is a better approach because it recognizes that the change in trend in different countries may occur at different times, though mostly around 1998. The results of this exercise are shown in Table 2.

[2] See Revenue Statistics, 1965-2007 (OECD: Paris 2008) pp. 49-52.

Table I
Total Tax revenue as Percentage of GDP, 1965-2007

Country	**1965**	**1975**	**1985**	**1990**	**1995**	**2000**	**2005**	**2006**	**2007 provisional**
Canada	25.7	32.0	32.5	35.9	35.6	35.6	33.4	33.3	33.3
Mexico	n.a.	n.a	17.0	17.3	16.7	18.5	19.9	20.6	20.5
United States	24.7	25.6	25.6	27.3	27.9	29.9	27.3	28.0	28.3
Australia	21.0	25.8	28.3	28.5	28.8	31.1	30.8	30.6	n.a.
Japan	18.2	20.9	27.4	29.1	26.8	27.0	27.4	27.9	n.a.
Korea	n.a	15.1	16.4	18.9	19.4	23.6	25.5	26.8	28.7
New Zealand	24.0	28.5	31.1	37.4	36.6	33.6	37.5	36.7	36.0
Austria	33.9	36.7	40.9	39.6	41.2	42.6	42.1	41.7	41.9
Belgium	33.1	39.5	44.4	42.0	43.6	44.9	44.8	44.5	44.4
Czech Republic	n.a.	n.a.	n.a.	n.a.	37.5	35.3	37.5	36.9	36.4
Denmark	30.0	38.4	46.1	46.5	48.8	49.4	50.7	49.1	48.9
Finland	30.4	36.5	39.7	43.5	45.7	47.2	43.9	43.5	43.0
France	34.1	35.4	42.8	42.0	42.9	44.4	43.9	44.2	43.6
Germany	31.6	34.3	36.1	34.8	37.2	37.2	34.8	35.6	36.2
Greece	17.8	19.4	25.5	26.2	28.9	34.1	31.3	31.3	n.a.
Hungary	n.a.	n.a.	n.a.	n.a.	41.3	38.0	37.2	37.1	39.3
Iceland	26.2	30.0	28.2	30.9	31.2	37.2	40.7	41.5	41.4
Ireland	24.9	28.7	34.6	33.1	32.5	31.7	30.6	31.9	32.2
Italy	25.5	25.4	33.6	37.8	40.1	42.3	40.9	42.1	43.3
Luxembourg	27.7	32.8	39.5	35.7	37.1	39.1	37.8	35.9	36.9
Netherlands	32.8	40.7	42.4	42.9	41.5	39.7	38.8	39.3	38.0
Norway	29.6	39.2	42.6	41.0	40.9	42.6	43.5	43.9	43.4
Poland	n.a.	n.a.	n.a.	n.a.	36.2	31.6	32.9	33.5	n.a.
Portugal	15.9	19.7	25.2	27.7	31.7	34.1	34.7	35.7	36.6
Slovak Republic	n.a.	n.a.	n.a.	n.a.	n.a.	33.8	31.8	29.8	29.8
Spain	14.7	18.4	27.6	32.5	32.1	34.2	35.8	36.6	37.2
Sweden	35.0	41.2	47.3	52.2	47.5	51.8	49.5	49.1	48.2
Switzerland	17.5	23.9	25.5	25.8	27.7	30.0	29.2	29.6	29.7
Turkey	10.6	11.9	11.5	14.9	16.8	24.2	24.3	24.5	23.7
United Kingdom	30.4	35.2	37.6	36.1	34.5	37.1	36.3	37.1	36.6
OECD Total	24.2	29.4	32.7	33.8	34.8	36.1	35.8	35.9	n.a.

Notes: n.a.: indicates not available.
Source: OECD: Revenue Statistics 1965-2007/Statistiques Des Recettes Publiques 1965-2007, OECD/OCDE 2008

The second column shows the highest tax levels reached and the years when those levels were reached. The third column shows the most recent levels, generally for 2007 except for a few countries for which only data for 2006 are available. The last column (column 4) shows the differences between the highest levels reached by the T/GDPs and those reached in the most recent year.

1998 was the average year when the highest levels of T/GDP were reached. However, the highest levels were reached earlier by some countries (New Zealand, Ireland, the Netherlands, Norway, Sweden, and to some extent the UK), and later by other countries (Spain, Portugal, Mexico, Italy, and Iceland). The reduction in tax levels by the first group were generally connected with major economic reforms aimed at reducing the spending role of the state in these countries. The earlier increases in the other group were mainly connected with attempts at enlarging the spending role of the state.

As shown by Table 2, 24 countries, out of 30, had in 2007 levels of taxation lower than the highest levels reached in earlier years. Six countries had either higher levels in 2007 than in the past, or the same levels. The largest reductions in T/GDPs were shown, in decreasing orders by the countries in Table 3:

Table 2
Total Tax revenue in Selected years
(Percentages of GDP)

Country	**1965**	**Highest Level and Year Reached**		**2007**	**Level in 2007 less Highest Level**
Canada	25.7	36.7	(1998)	33.3	–3.4
Mexico	n.a	20.6	(2006)	20.5	–0.1
USA	24.7	29.9	(2000)	28.3	–1.6
Australia	21.0	31.1	(2000)	30.6[a]	–0.5
Japan	18.2	27.3	(2001)	27.6[a]	+0.3
Korea	n.a	24.6	(2004)	28.7	+4.1
New Zealand	24.0	38.0	(1989)	36.0	–2.0
Austria	33.9	44.0	(1998)	41.9	–2.1
Belgium	31.1	45.2	(1999)	44.4	–0.8
Czech Republic	n.a	37.8	(2004)	36.4	–1.4
Denmark	30.0	50.1	(1999)	48.9	–1.2
Finland	30.4	47.2	(2000)	43.0	–4.2
France	34.1	45.1	(1999)	43.6	–1.5
Germany	31.6	37.2	(2000)	36.2	–1.0
Greece	17.8	35.9	(1996)	31.3[a]	–4.6
Hungary	n.a	45.7	(1993)	39.3	–6.4
Iceland	26.2	41.5	(2006)	41.4	–0.1
Ireland	24.9	36.8	(1988)	32.2	–4.6
Italy	25.5	43.3	(2007)	43.3	0.0
Luxembourg	27.7	39.4	(1998)	36.9	+0.5
Netherlands	32.8	45.5	(1987)	38.0	–7.5
Norway	29.6	44.5	(1986)	43.4	–1.1
Poland	n.a.	38.8	(1993)	33.5[a]	–5.3
Portugal	15.9	36.6	(2007)	36.6	0.0
Slovak Republic	n.a.	36.5	(1998)	29.8	–6.7
Spain	14.7	37.2	(2007)	37.2	0.0
Sweden	35.0	52.2	(1990)	48.2	–4.0
Switzerland	17.5	30.0	(2000)	29.7	–0.3
Turkey	10.6	26.1	(2001)	23.7	–2.4
United Kingdom	30.4	38.1	(1986)	36.6	–1.5
Average	25.6	38.1	(1998)	34.4	–3.7

Notes: p. 2007 is provisional
a 2006
Source: Adapted from Revenue Statistics, 1965-2007, Paris: OECD.

Table 3

Countries that Experienced the Largest Reductions in Taxes

Netherlands	– 7.5
Slovak Republic	– 6.7
Hungary	– 6.4
Poland	– 5.3
Ireland	– 4.6
Greece	– 4.6
Finland	– 4.2
Sweden	– 4.0
Canada	– 3.4
Turkey	– 2.4
Austria	– 2.1
New Zealand	– 2.1

Source: See text.

The only country showing a significant increase in T/GDP in recent years was Korea that, as shown by Table 1, had had an unusually small tax level. It had also gone through a major financial and economic crisis in the late 1990s. It came out of that crisis with a high fiscal deficit and significant expenditure needs. It should be noted that several of the previously high tax countries reduced the tax level in recent years. In 2007, the highest tax

levels in OECD countries were in Denmark (48.9 percent) and Sweden (48.2 percent). The lowest levels were in Mexico (20.5 percent) and Turkey (23.7 percent). There is of course no theory that can tell us what should be the optimal level of taxation for a country. That level would depend on (a) how well governments use the tax revenue; (b) how good are the tax laws used to collect the revenue; (c) how good is the tax administration; and (d) how citizens react to the inevitable disincentive effects that high tax rates generate. Danish taxpayers are likely to react differently from Mexican or even American taxpayers.

Today the name of Keynes is often called to justify high public spending and high tax levels. However, it may be worthwhile to mention that in 1944, in a letter sent by Keynes to the then influential Australian economist Colin Clark, Keynes agreed with Clark, who had argued, in a publication, that 25 percent of GDP was probably the maximum level of taxation that the citizens of countries would tolerate, before various psychological and economic reactions against high taxes would be set in motion.[2]

As Table 1 shows, with the exception of Mexico and Turkey, countries are now well above that maximum tolerable level. The author of this paper had argued elsewhere that with a spending of 30 percent of GDP, governments should be able to promote most of the objectives which can be legitimately and efficiently assigned to them. See Tanzi and Schuknecht, 2000.

III. Evolution of Tax Structures

The previous section addressed the evolution of tax levels in OECD countries for the period from 1965 to the present and showed the remarkable increases in those levels that

[2] Keynes had agreed that "25 percent [of GDP] as the maximum tolerable proportion of taxation may be exceedingly near the truth". See Clark, 1964, p. 21.

occurred over the period in the majority of OECD countries. It can be expected that the changes in tax levels would be accompanied by significant changes in tax structures. The evolution of tax structures is the focus of attention in this section.

Table 4 shows the shares of the major tax categories in total tax revenue over the 1965-2006 period. Because the taxes are aggregated in major categories, the table gives an impression of more stability in the structures than in fact took place. However, as we shall show, this is largely a statistical illusion because, as with icebergs, much of the action may take place below the visible part of tax systems. One of the conclusions of this paper will be that economists have concentrated too much on broad or macro variables and have ignored the many micro and often largely invisible changes that go on continually below the visible parts of tax systems and that, over many years, may significantly change the systems. In any case, the macro changes are described first.

The main changes shown by Table 4 are the following. First, is the decline in importance of the personal income tax since the decades of the 1970s and 1980s. The other two categories that also declined in importance over the period are "specific consumption taxes", that saw their share fall from 24 percent of the total in 1965 to 11 percent in 2006, and "property taxes" that declined from eight percent in 1965 to 5-6 percent in later years. Categories that increased significantly are "social security contributions" and "general consumption taxes". These two categories, combined, saw their share of total taxes grow from 32 percent in 1965 to 44 percent in 2006. Because these were growing shares of growing total taxes in GDP, the important of this change is particularly significant.

Table 4

Shares of Major Tax Categories in OECD, 1965-2006
(Percentages of Total Taxes)

	1965	1975	1985	1995	2006
Personal Income Tax	26	30	30	27	25
Corporate Income Tax	9	8	8	8	11
Social Security Contributions[1/]	18	23	22	25	25
(employee)	(6)	(7)	(7)	(8)	(9)
(employer)	(10)	(14)	(13)	(14)	(15)
Payroll Taxes	1	1	1	1	1
Property Taxes	8	6	5	5	6
General Consumption Taxes	14	15	16	18	19
Specific Consumption Taxes	24	18	16	13	11
Other Taxes	1	0	1	3	3
Total	100	100	100	100	100

Note: 1/ Includes contributions by independent workers.

Source: OECD, Revenue Statistics 1965-2007 (Paris: 2008)

A few general comments may be helpful in explaining some of the above changes. First, the increase in the share of "general consumption taxes" was largely the outcome of the introduction of the value added tax (VAT) in the 1960s and later decades. The VAT replaced, in many OECD countries, the turnover taxes and some specific excises. The introduction of the VAT was one of the truly major "technological innovations" in the tax systems for both OECD and developing countries. It provided an alternative to the personal income taxes that had been popular and had been pushed by American tax advisors in their technical assistance to countries. The VAT was first introduced in France as early as 1948 and then, in the 1960s, in Denmark (1967), Germany (1968), the Netherlands and Sweden (1969), and, in the 1970s, in Luxembourg and Norway (1970), Belgium (1971), Ireland (1972), Austria, Italy and UK (1973). In Spain it was introduced later (in 1986).[3]

Except for the United States, all OECD countries now use VATs that generate revenues that often exceed seven percent of GDPs and in some cases (Denmark, Iceland, Norway) approach ten percent of GDPs. These latter countries use the highest nominal rates. In Europe the "Standard" VAT rate tends to be around 20 percent. A few countries (Belgium, Denmark, Finland, Iceland, Ireland, Norway, and Sweden) have higher rates. A few other countries (Greece, Spain, Switzerland, and UK) have rates somewhat lower. The highest rate now in use in OECD countries is 25 percent (Denmark, Norway, and Sweden). Many countries apply reduced rates on some basic products believing that this helps poorer families. Tax experts have been generally skeptical regarding these claims and have supported VATs with single rates. Administratively a VAT with a single rate on the broadest possible base is considered preferable.

[3] The concept of the VAT was also exported to Africa and Latin America in the 1960s.

The VAT has provided countries with a powerful instrument to raise revenue but also with a potentially very good instrument to pursue stabilization policy, a fact that has not attracted attention. Unlike personal income taxes that generally include many features that would need to be assessed when making policy changes, VAT revenue can be changed by modifying a single feature (its rate). Furthermore, the change can have an immediate effect on revenue because the revenue from the VAT is not subjected to any significant collection lag as is the case for personal and corporate income taxes.[4] The effect on revenue of a VAT rate change is thus almost immediate.

Another desirable feature of the value added tax is that it lends itself less easily to "social engineering" on the part of policymakers bent on influencing the behavior of citizens. "Tax expenditures" and other tax preferences can be more easily promoted through income taxes. However, the campaign on the part of the French government to reduce the VAT rate applied to restaurants, on the argument that it would stimulate employment, may be interpreted as an example of a "tax expenditure promoted through the VAT". The same is for the zero-rating of food on the part of the British.[5]

In recent years, because of the elimination of customs controls on trade between countries belonging to the European Union, there has been increasing concern and evidence of tax evasion and, especially, of tax frauds linked to fake exports within EU countries. The increasing use of internet commerce, combined with the increasing trade in virtual products that do not have a physical content has also facilitated tax evasion. These concerns have raised questions about one of the claimed virtues of the VAT, namely its self-enforcing

[4] In most countries, those who withhold the VAT taxes are required to submit the taxes withheld to the tax authorities within a short time, normally 30 to 60 days.

[5] There are now several good treatments of the VAT. See Ebrill et al, 2001; Schenk and Oldman, 2007; and Bird and Gendron, 2007.

quality. Several studies for various countries have attempted to estimate tax evasion for the VAT (See Ceriani, 2009). The growing globalization of the world economies, and the fall in the share of GDPs accounted by the sale of large industrial enterprises, have contributed to the difficulties encountered in the use of value added taxes. Still the VAT remains one of the important workhorses of tax systems and is likely to remain so.

Let us now turn our attention to the personal income tax. There was a time, especially in the 1950s and 1960s, when the personal income tax, especially in its version of a "global, comprehensive and progressive tax' was seen as the fairest and the best of all taxes. At the time taxpayers' surveys in some countries indicated the strong preference that citizens had for this tax while tax experts promoted its comprehensiveness by attempting to include in its base all incomes, including unrealized capital gains. The income tax could be made as equitable as desired through its progressive rates; it could allow some governments (and especially those of Anglo-Saxon countries) an alternative to high public spending, through the provision of "tax expenditures". At that time there were almost no studies that had quantified negative incentive effects that might be attributed to high tax rates. Furthermore, most incomes received by citizens were from domestic sources and, had a physical content. Thus, they were, presumably, easier to ascertain and tax. Phenomena such as tax evasion (both domestic and foreign) and underground economic activities and tax havens had not yet attracted the attention of economists and policymakers.[6] Finally conservative economists and policymakers had not acquired the influence that they would acquire in later years.

[6] The author of this paper was always puzzled by the fact that the main public finance or taxation books of the time did not have tax evasion in their indexes.

With the passing of time, and starting in the 1970s, attitudes vis a vis highly progressive, personal income taxes started changing and became progressively more negative.[7] Also, the ongoing process of globalization started to have an impact on tax systems. Economists started to find growing evidence of tax evasion and of underground economic activities stimulated by high tax rates. See Tanzi, 1980a. Questions started to be asked as to whether the existing personal income taxes were truly "the fairest of all taxes". Pressure groups (lobbies, etc) and politicians had discovered that the income tax was an ideal tool for permanently promoting certain preferred activities, through the use of "tax expenditures" rather than through public spending that needed legislative approval each year. "Tax expenditures" were justified on grounds that they improved equity and promoted some worthwhile objectives. This made income taxes progressively more complex and, horizontally and perhaps vertically, less equitable.

So-called "second generation" econometric studies, that used more sophisticated econometric techniques, started to discover disincentive effects connected with these taxes, effects that had been missed by earlier studies. These disincentives had to do with work participation (especially for second workers within family units), with number of hours worked, with the choice of activities, with the propensity to save and to invest, with the choice of assets in which to invest, and so on.

What came to be called the "supply-side revolution", the powerful political and intellectual movement that became popular especially with the election of President Reagan and Prime Minister Thatcher, and the increasing influence of some prominent conservative economists, such as Milton Friedman, generated politically powerful economic concepts,

[7] For a very early attempt at determining the (negative) impact of the income tax on economic growth in industrial countries. See Tanzi, 1969.

such as the "Laffer curve" and similar ones, that started to influence tax policy in several countries. President Reagan and Prime Minister Thatcher became strong advocates against large public spending and high taxes, and especially against progressive income taxes. At the same time, an increasing number of individuals started receiving their incomes, or part of their incomes, from foreign sources, as a consequence of the accelerating pace of globalization. This was also the period when corporations extended their reach globally. Multi-national corporations with "global reach" became normal features. These developments complicated the task of the tax administrators and opened the way to international tax competition and to international tax evasion. In some way, the tax base that countries, and especially small countries, could try to tax started to extend to the global economy.

The U.S. 1986 Tax Reform promoted by President Reagan became a watershed event that within a short time set in motion major changes to the tax systems of many countries. The 1986 Tax Reform dramatically reduced the marginal tax rate for the personal income tax in the United States from 50 percent to 28 percent. It also aimed at widening the national income tax base by eliminating tax incentives and "tax expenditures" and helped establish a strong preference for low tax rates. This reform had a powerful "demonstration effect" on other countries. See Tanzi, 1987. It set in motion a process that within a few years would bring a sharp fall in income tax rates in many OECD and other countries.

Table 5 provides information, for selected years, for the top marginal personal income tax rates for the 1975-2007 period. Comparing 1975 with 2007 it is easy to see the remarkable reductions in these rates. In 1975 there were still many countries with rates equal to or above, 70 percent. Two countries (Sweden and United Kingdom) had rates still

Table 5
Top Marginal Personal Income Tax Rates, 1975-2007: Selected Years
(Percentages)

Country	**1975**	**1981**	**1986**	**1992**	**1996**	**2000**	**2007**
Australia	65	60	60	47	47	48	46.5
Austria	62	62	62	50	50	45	50.0
Belgium	60	76.32	71.13	55	55	64	53.5
Canada	47	62.78	34	29	29	46	46.4
Czech Republic	--	--	--	55	40	32	32.0
Denmark	40	70	39.6	68	65	60	59.7
Finland	51	51	51	39	39	55	50.5
France	60	60	61.35	56.5	--	5.	47.8
Germany	56	56	56	53	53	54	47.5
Greece	63	60	63	50	45	45	40.0
Hungary	--	--	--	40	48	40	36.0
Iceland	--	--	--	33	--	45	35.7
Ireland	77	60	60	52	48	44	41.0
Italy	72	72	62	51	51	46	44.9
Japan	75	93	70	50	50	50	50.0
Korea, Republic of	--	79.05	55	50	40	44	38.5
Luxembourg	57	58.43	57	50	50	47	38.9
Mexico	--	55	55	35	35	40	28.0
Netherlands	71	72	72	60	60	60	52.0
New Zealand	60	60	66	33	33	39	39.0
Norway	73	65.4	40	13	13.7	48	40.0
Poland	--	--	--	40	45	40	40.0
Portugal	--	77.5	60	40	40	35	42.0
Slovak Republic	--	--	--	--	42	35	19.0
Spain	62	65.6	66	53	56	48	43.0
Sweden	87	85	80	20	30	55	56.5
Switzerland	44	42	11.5	11.5	11.5	43	42.1
Turkey	68	--	50	50	55	36	35.6
United Kingdom	83	60	60	40	40	40	40.0
Untied States	70	69.13	50	31	39.6	47	41.4

Note: The rates include sub-national income taxes. For specific comments on the data, the original sources must be consulted.

Source; 1975-1999: World tax database, Office of tax Policy research. Downloaded from http//www.wtdb.org/inex.html on July 16, 2002.

2000-2007: OECD Tax Database, Table 1.4 http//www.oecd.org/dataoecd/44/2/1942506.xls.

above 80 percent. In the 1960s the rates had been even higher. By 2007 there was no country with rates higher than 60 percent and only seven countries had rates equal to, or higher than, 50 percent. Only Denmark, Belgium, the Netherlands and Sweden had rates above 50 percent. There was also significant convergence in the top rates. Ignoring the countries form East Europe, most countries had marginal income tax rates in the 40-50 percent range. At the same time the number of income brackets to which different rates were applied had been significantly reduced in most countries.

Countries attempted to maintain needed tax revenue by widening the tax bases but they were not always successful. Statutory tax bases remained smaller than theoretical, fully-comprehensive bases. Furthermore, revenue requirements to finance higher different spending needs in some countries left many rates higher than policymakers would have liked. When the personal income taxes are combined with social security taxes, the tax wedges on most dependent workers in many countries are very high.[8]

Table 6 shows the tax wedges in 2007, for a worker with an average income, in OECD countries. These wedges vary from 20 percent in Mexico, and 30 percent in Korea, to more than 60 percent in Belgium, Hungary, Sweden and Austria. Workers with higher than average incomes have higher tax wedges. These wedges indicate the extent to which the workers' degrees of freedom, in how to spend their before tax incomes, are reduced by these taxes.

In 2006 tax revenue from personal income taxes, as shares of GDP, ranged from very low levels in East European countries to 24 percent in Denmark, 15.7 percent in Sweden and 14.9 percent in new Zealand. The shares were more than 10 percent of GDP also in Canada,

[8] Tax wedges are the differences between the cost of labor to the employers and the take home labor incomes that workers receive in cash.

Table 6
Total Tax Wedges for An Average Worker in OECD Countries in 2007
(percentages)

Country	Tax Wedge
Australia	35.4
Austria	60.1
Belgium	66.4
Canada	40.8
Czech Republic	51.4
Denmark	49.2
Finland	55.1
France	51.2
Germany	55.7
Greece	53.4
Hungary	64.8
Iceland	37.6
Ireland	33.2
Italy	53.6
Japan	34.1
Korea	30.0
Luxembourg	54.3
Mexico	20.9
Netherlands	50.2
New Zealand	33.0
Norway	51.1
Poland	45.2
Portugal	47.1
Slovak Republic	44.4
Spain	48.2
Sweden	63.4
Switzerland	36.0
Turkey	44.5
United Kingdom	40.6
Untied States	43.3

Source: OECD: Taxation of Wage Income (2007).

USA, Australia, Belgium, Finland, Iceland, Italy, Switzerland, and the Untied Kingdom. The OECD average was 9.2 percent of GDP. For Spain it was 6.9 percent. Some of the countries with the highest personal income tax shares in GDP, such as Australia, New Zealand and Denmark, do not have social security taxes because they finance basic public pensions with revenue from personal income taxes or from general taxation rather than from social security taxes. For this reason, the tax wedges for these countries are not higher than in other countries. In fact for Australia and New Zealand, they are lower.

As mentioned earlier, tables such as Table 5 provide useful information but they may still hide some significant differences or some major developments that may be going on below the visible surface. A first aspect to mention is that the same marginal tax rate may be more or less harmful to the incentives of individuals, and more or less productive of tax revenue, depending on the threshold of income at which it is applied. Table 7 provides some information related to this aspect. It shows that while the top marginal tax rates (TMTR) that applied to employees with average wages varied significantly among countries, (from 28 percent in Mexico to 56.5 per cent in Sweden), the level of income at which the rate applied also varied significantly (from 0.3 percent of an average wage in Iceland to 8.7 percent of average wage in the U.S.A). Naturally, given the TMTR, the higher is the threshold at which it is applied the less damaging it must be to incentives. This aspect, while perhaps obvious, does not seem to have attracted the attention that it deserves on the part of tax experts. There must be some income level at which incentives are especially sensitive to the tax rate.[9] This level and not the marginal tax rate, per se independently of the income level to which it is applied, should be the focus of attention of

[9] It can be argued that at very high levels, incomes become almost rents because the individual who receive those incomes would probably continuing performing their activities

Table 7
Top Marginal Tax Rates (TMTR) and Thresholds Levels at Which They Apply: 2007 in OECD Countries

Countries	TMTR (Percentage)	Threshold (Multiple of Average Wage)
Australia	46.5	2.6
Austria	50.0	1.9
Belgium	53.5	1.0
Canada	46.4	2.9
Czech Republic	32.0	1.5
Denmark	59.7	1.0
Finland	50.5	1.9
France	47.8	2.8
Germany	47.5	5.9
Greece	40.0	3.7
Hungary	36.0	0.8
Iceland	35.7	0.3
Ireland	41.0	1.1
Italy	44.9	3.5
Japan	50.0	4.5
Korea	38.5	3.2
Luxemburg	38.9	0.9
Mexico	28.0	1.4
Netherlands	51.0	1.3
New Zealand	39.0	1.3
Norway	40.0	1.5
Poland	40.0	3.3
Portugal	42.0	4.4
Slovak Republic	19.0	0.5
Spain	43.0	2.6
Sweden	56.5	1.4
Switzerland	42.1	3.5
Turkey	35.6	3.0
United Kingdom	40.0	1.2
United States	41.4	8.7

Notes: The TMTR is for employees.
Source: OECD: Taxation of Wage Income, 2007 (Paris).

with the same intensity even if they were subjected to higher tax rates. This may not be true for lower income levels. It is doubtful that , say, top tennis players or opera singers, or heads of corporations, would reduce their effort if the marginal tax rates were higher. Marginal tax rates may be more important for individuals on their way to positions that pay high incomes rather than for individuals who have already reached those positions.Thus, the level at which the marginal tax rate becomes effective is very important.

tax analysts.[10] Table 6 indicates that the United States, Germany, Japan, Greece, Italy and Switzerland have the highest thresholds, while Iceland, Luxembourg, Belgium and Denmark have the lowest. Increases in thresholds may have essentially the same impact on the incentives of many individuals as reductions in top marginal tax rates. Unfortunately, there is no easily accessible information on what has happened to the levels of thresholds, over the years.

Three other developments related to personal income taxes merit some mention, although a full discussion of them is not possible in this context. These developments signal major departures from the thinking that prevailed in the past. These are:

(a) The progressive abandonment of the attempt to introduce comprehensive, progressive, income taxes. There has been over the years a gradual movement toward the schedular income taxes that had been common in continental Europe in the early part of the last century. This movement has been in part forced by globalization and by tax competition.

(b) The introduction of dual income taxes (DITs) by Nordic countries, first, and subsequently, by other countries, including Spain.

(c) The growing popularity of flat rate taxes (FRTs) and their introduction in a number of countries.

The growing movement towards a schedular approach to income taxation is evident from several changes introduced in tax system in recent years. For example there has been little interest in taxing unrealized capital gains while this issue monopolized the attention of

[10] It can be argued, also, that when incomes become very high they contain an element of rent because those who receive them would not change their profession or effort if part of the income were taxed away.

many tax experts in the 1960s. Additionally, several countries now tax realized capital gains at different, and often more favorable, rates than labor income; dividends are also often taxes differently. DITs are conceptually consistent with a schedular approach.

The Dual Income Taxes (DITs) impose lower flat tax rates on capital income while they maintain higher and progressive rates on labor income. The DITs have been introduced to simplify tax administration and to reduce the incentives for capital flight toward tax havens and low-tax countries. These incentives are particularly strong when capital incomes are taxed at the top marginal tax rate within a comprehensive income tax. See Sorensen, 1994 and Boadway, 2005. The assumption behind the DITs has been that labor is internationally less mobile so that high, progressive tax rates on labor income do not encourage the emigration of workers, especially when the high taxes are used to pay for good, free, social services that the workers receive.[11] It should be added that especially the Nordic welfare states could more easily simplify their tax systems because they had less need to provide "tax expenditures" for health, education, housing, and so on because these services were provided free or were highly subsidized by the state. Thus DITs, with withholding at the source for capital incomes, and with few "tax expenditures" for labor incomes, could be made simple administratively. Of course, highly skilled individuals who can earn high incomes globally and who are less likely to benefit from public services may still have strong incentives to emigrate. As the world becomes more globalize, this becomes more of an issue. See Tanzi, 1995, chapter 4.

Flat-rate Taxes can be considered children of the supply-side revolution. See Hall and Rabushka (1985) for the original proposal. They are often linear taxes that maintain a

[11] However, DITs do not prevent the migration of labor into underground economic activities.

nominally fixed personal exemption (i.e., a zero rate bracket) and tax the income above the exemption at one, flat rate. This provides them with some progressivity. However, given the need for tax revenue, the higher is the size of the exemption, the higher must the tax rate.[12] These taxes are based on a conservative philosophy that assumes that a flat, and presumably low tax rate, reduces the pressures by lobbies and special interest groups to ask for preferential tax treatments. It is claimed that this makes it possible to simplify the tax system while making it more efficient and more pro growth. See, for example, Slay, 2009. However, the claim of simplicity has little to do with whether an income tax system has one or more tax rates but with whether the tax base can be made comprehensive. Most complications come from the identification of the tax base and not from the number of rates. Even with a single rate, the higher is the personal exemption and the greater are the country's revenue needs, the higher must be the tax rate and the stronger the pressures for special tax treatments. Also a single tax rate that is relatively high, and that applies at a relatively low level of income, may create strong disincentive effects. It might apply at the level of income where the disincentive effects are most sensitive to the tax rate.

There are now 24 countries that have introduced flat-rate taxes. They include Iceland, Turkey and Slovakia among the OECD countries. Given future revenue needs of most OECD countries, and the growing concerns about poverty and income distribution in many of them, it is not likely that flat-rate taxes will become a common feature among OECD countries. If they did become common features in OECD countries, the flat rate would have to be very high. Russia, not a member of OECD, and Turkey are the only major countries that have introduced flat rates.

[12] This can make the step between untaxed income and taxed income quite steep thus potentially encouraging tax evasion.

The Corporate Income Tax (CIT) is the next tax that will be discussed briefly. In spite of its relatively modest contribution to revenue, this tax receives now more attention than any other tax. It has been claimed, in several theoretical papers, that it is destined to "disappear" because of global tax competition. Some theoretical papers have also been written about its presumably strong, negative impact on economic growth. Some economists and business pressure groups consider it the most damaging tax. Over the years, some economists have questioned the rational for its existence. If the owners of corporations could be fully taxed for the corporate earnings, the rational for the CIT would largely disappear. However, this imputation of earnings to individual taxpayers is very difficult especially when many of the owners are foreigners. We shall not discuss these theoretical questions but only report on a few points connected with the use of corporate income taxes in OECD countries.

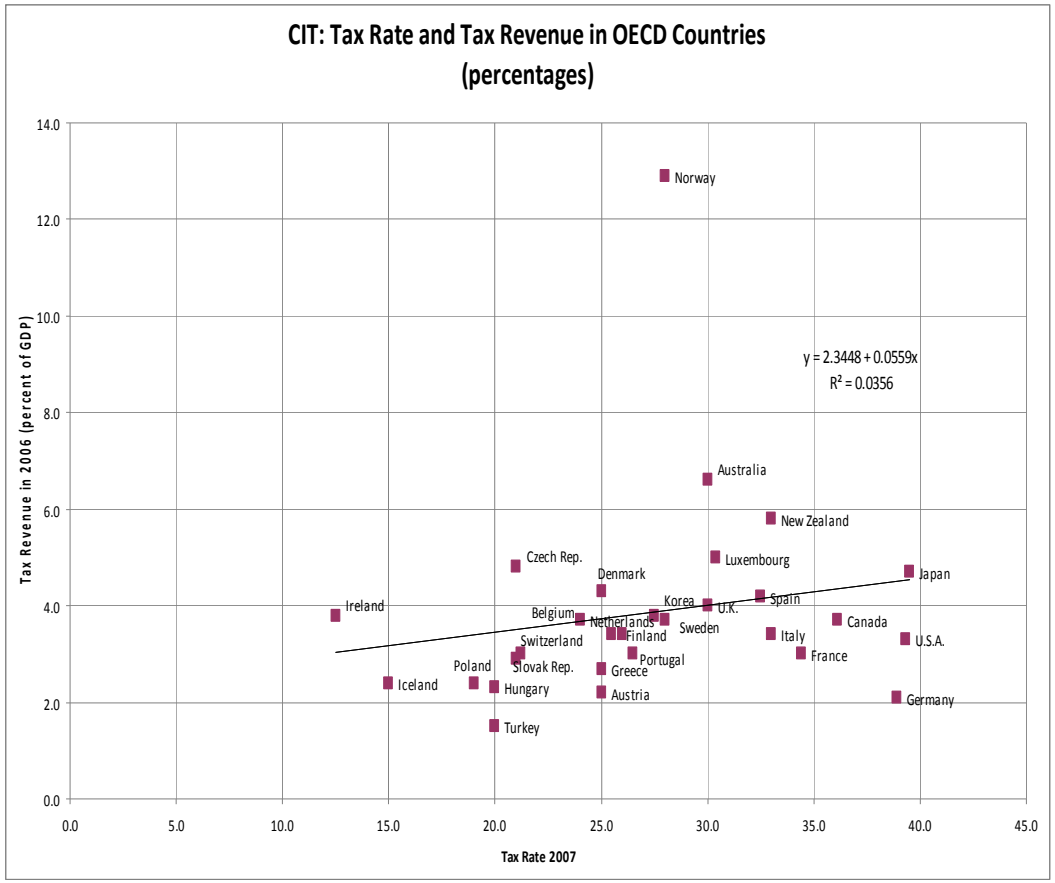
Let us start with the tax rates. In 2008, the CIT rates for OECD countries ranged from a low rate of 12.50 percent, in Ireland, to maximum rates of around 39 percent, in Japan and the United States. These rate include taxes levied by sub-national governments. Larger countries have higher rates and smaller countries have lower rates. This is consistent with the conclusions of economic theory.[13] Ten countries had rates of 30 percent or above. Six countries had rates of 20 percent or below. The latter are all small countries in terms of income if not in terms of population, because they include Turkey and Poland. The tax rates provide evidence of tax competition. The very low rates in Ireland (12.50 percent) and, to a lesser extent, in Iceland (15.00) have attracted a lot of attention. Some studies have shown

[13] Small countries may gain more by attracting foreign capital to them with low rates than they lose in revenue because of the low rates

that some profits earned in other countries are often allocated to these countries, where they are taxed at lower rates.

Since the 1980s, the tax rates on corporate income have fallen considerably. The trend continued in 2008 when several countries cut the CIT rate, some significantly (Germany by 8.7; Italy by 5.5; and Canada, Spain, UK, and the Czech Republic by 2-3 points). However, the significant cuts in tax rates over the years have not resulted in reductions in tax revenue from these taxes. For the OECD as a group, the tax revenue collected from CITs has grown continually since the mid 1960s. In 2006, the last year for which data are available, CITs generated almost 4 percent of GDP for the OECD countries. The range was from 1.5 percent of GDP for Turkey to 12.4 percent for Norway, the latter high revenue due to taxes on profits from high oil prices. Excluding Norway, the largest revenues were received by Australia (6.6 percent), New Zealand (5.8 percent), Luxembourg (5.0 percent), and the Czech Republic, Denmark, Spain, and the UK (4 percent or more).

There is relatively little correlation for the OECD countries between tax revenue, as percent of GDP, and tax rates. See scatter diagram. It has been argued that in OECD countries the revenue-maximizing corporate income tax rate is 33 percent. See Clausing, 2007. If this estimate is correct, it implies that most OECD countries could increase their revenue by increasing the rate to around 33 percent. However, an other study has found that while in the 1980s the revenue maximizing corporate tax rate was 34 percent, it has now declined to 26 percent. See Brill and Hasset, 2007. Thus, especially the United States and Japan should reduce the rate to get more revenue, according to this study.



CIT: Tax Rate and Tax Revenue in OECD Countries (percentages)		
		Tax Revenue in 2006
Country	Tax Rate in 2007	(percent of GDP)
Canada	36.1	3.7
Mexico		
U.S.A.	39.3	3.3
Australia	30.0	6.6
Japan	39.5	4.7
Korea	27.5	3.8
New Zealand	33.0	5.8
Austria	25.0	2.2
Belgium	24.0	3.7
Czech Republic	21.0	4.8
Denmark	25.0	4.3
Finland	26.0	3.4
France	34.4	3.0
Germany	38.9	2.1
Greece	25.0	2.7
Hungary	20.0	2.3
Iceland	15.0	2.4
Ireland	12.5	3.8
Italy	33.0	3.4
Luxembourg	30.4	5.0
Netherlands	25.5	3.4
Norway	28.0	12.9
Poland	19.0	2.4
Portugal	26.5	3.0
Slovak Republic	21.0	2.9
Spain	32.5	4.2
Sweden	28.0	3.7
Switzerland	21.2	3.0
Turkey	20.0	1.5
United Kingdom	30.0	4.0

IV. Growing Sand in the Machinery of Tax Systems

Several of the changes introduced over the years in the tax systems of the OECD countries have been in what many tax experts would consider the right direction. For example the replacement of many excise and turnover (cascades) taxes with non-cascading value added taxes was probably a major step in the right direction, because VATs distorts less the prices at which goods are sold. The greater dependency on the VAT, rather than on income taxes, was also probably a step in the right direction at least in terms of allocative efficiency because the VAT exempt saving. The same can be said for the lowering of tax rates, for both individuals and corporate taxpayers because this lowers the welfare costs of income taxes. The reduction in the number of tax rates, in the tax systems of the countries' personal income taxes, was also probably a change in the right direction even though one can be skeptical that fewer rates automatically mean simpler tax systems. The introduction in some countries of Dual Income Taxes and the recognition that in today's world it is no longer possible (or desirable) to aim for a "global, comprehensive and progressive personal income tax" have also been considered positive developments. Finally, the fact that inflation came down significantly in most OECD countries over the years, eliminated a problem that was considered serious in the past. This was the way in which inflation distorts tax systems. See Tanzi, 1980. Finally, by and large, at least in a superficial sense, there has been some convergence among countries in both tax levels and tax structures.

While many of the above changes in tax systems, introduced in the last two decades, have been in what many would consider a clearly desirable direction, other problems have

appeared that have complicated matters. I shall mentioned some of these problems and then focus on a couple of them, namely tax competition and especially, growing tax complexity.

A first problem to mention is that the trend toward growing fiscal decentralization and toward fiscal federalism that has characterized many OECD countries in the past couple decades (Belgium, Italy, Spain, Mexico, others) is having and will continue to have consequences for the tax systems. When sub-national governments acquire political control over some tax decisions, or over shares of some taxes, the national governments inevitably loses some of the degrees of freedom in tax matters they had before, as happened in India, Argentina, Brazil, and some other countries. This may have negative consequences for tax system. Fiscal federalism can also create tax competition among sub-national governments leading to potential problems. This has happened in several countries, both within and without the OECD.[14]

A second problem is that of the increasing overlap of "national" tax bases with the "global" tax base. The global tax base has acquired some characteristics of "commons", that is of common grounds that can be exploited by, especially, small countries. This leads to attempts by some countries to export taxes by attracting foreign capital, foreign consumers, and foreign high income individuals including pensioners. This "tax competition" is aimed especially at mobile tax bases. It can be pursued by lowering tax rates on capital (but also on labor) income and on consumption for highly priced products. It can also be pursued through the erosion of the taxable base, especially for corporate income. This erosion explains in part the large differences that exist between corporate income tax rates and shares of corporate income taxes into GDP for some countries. For the corporate income tax, tax competition today is taking place through base erosion as well as through rate

[14] For a brief survey of the American experience, see Chapter 3, in Tanzi, 1995.

reduction. Base erosion is less visible and because of that it attracts less attention. However, it increases significantly, especially for small enterprises, the compliance cost of operating in different countries. Just think of a small enterprise operating in many countries and expected to deal with the complexity of each country's tax system. Large corporations can afford to have accounting departments prepared to deal with different tax systems. Small enterprises do not have that luxury. It should be possible to deal with this kind of tax competition through international agreements. The definition of the base for taxing enterprise profits should be a purely technical matter. Therefore, it would be advantageous and, perhaps, possible, especially for countries belonging to the European Union or the OECD, to agree on the definition of the corporate income tax base. Then, if countries wished to compete, they could do it more transparently through the tax rate.[15]

There are different shades of tax competition. From the transparent one carried out through the level of tax rates; to the less transparent one, carried out through the manipulation of tax bases; and through the "unfair competition" carried out through bank secrecy laws and other tools used by tax havens and by off-shore centers. This latter kind of tax competition has opened the way to major cross-country tax avoidance and global tax evasion, now estimated in the hundreds of billions of euro or dollars.

Tax evasion and tax avoidance are increasingly becoming global phenomena rather, than largely domestic ones as in the past. They are often connected with bank secrecy and with special regulatory treatments of foreign companies. In a recent statement, President Obama noted that 18857 (sic) U.S. businesses had reported to be housed in one single building in the Cayman Islands! They had all reported the same address. It must have been

[15] It could be argued that the tax base may not be the same in different countries. For example, depreciation allowances may have to reflect weather conditions. But agreements could take account of these differences.

a very large building! Bloomberg News (May 4, 2009) and The Financial Times (May 5, 2009) reported that in 2003 a third of the foreign profits of American corporations came from just three small countries, Bermuda, Netherlands, and Ireland. It was also reported that U.S. companies paid an effective tax rate of just 2.3 percent on the $700 billion earned in foreign profits in 2004. This 2.3 percent must be compared with the almost 40 percent statutory U.S. Corporate Income Tax Rate.

A huge problem for tax systems in a globalized world is that it is now possible for multinational corporation to earn their profits in one country but, through various accounting strategies or, in some cases, by simply "checking a box", to allocate the profits to an other country where the tax rates are very low or zero or where it is possible to hide the identify of the real beneficiaries of the profits.

As the author of this paper argued almost two decades ago, it is time to reconsider some of the rules that have guided tax arrangements in recent years. See Tanzi, 1995. The reliance on the residence principle, without effective exchange of information, can lead to large tax avoidance. The future is likely to see a move towards arrangements that depend on source-based taxation and/or on a fuller exchange of information. This, however, will require that institutions such as the European Union, the OECD, the United Nations or others can force reluctant countries to behave in a responsible way in a more globalized world. The existence of a World Tax Organization capable of monitoring tax developments and facilitating international agreements would help. See Tanzi, 1999 and 2008.

A final problem to be mentioned and one that, in the judgment of the author of this paper, is a major and growing one is tax complexity. As was mentioned earlier, economists tend to focus on the general structures of tax systems while many micro changes in those

systems are promoted by interest groups and are implemented by tax lawyers. Many of these changes are individually so small and seemingly insignificant that they often do not attract the attention of citizens or even of economists. Over the years these changes can have the cumulative effect of termites. They weaken the structure, increase the complexity of the systems and the cost of compliance, and reduce the efficiency and the equity of the tax systems. This issue is discussed briefly in the next section.

V. Growing Complexity in tax Systems

The complexity of tax systems has different origins and different consequences.

As Gary Becker, the Nobel Prize winner in economics, put it:

> "Complications in the tax code are an excellent example of the conflict that sometimes arises between what is rational at the individual level, and what is rational to society as a whole. Each interests group lobbies to promote the interests of its members, although their interests advance usually at the expense of the interest of others. When many groups succeed in promoting their interests, losers vastly outweigh winners since each group gains from what they do, but loses from what is done to them by hundreds of other powerful interest groups." The Becker-Posner Blog, April 16, 2006.

Putting it differently, simplicity in taxation is a pure public good and, like most public goods, does not have a specific constituency to promote it. At the same time, there are many strong constituencies that push for provisions (tax incentives, tax expenditures, etc.) that benefit them but create complexity. These provisions are always justified on grounds of promoting equity, efficiency and other worthwhile objectives. The work of the constituencies is helped by the existence of asymmetric information vis a vis the specific tax changes that are advocated. Those who push for them know their content much better than

the general legislatures that must approve them. [16] The changes are often pushed by specific members of parliament, or, at times, by specific ministers, who are responding to the pressures of the vested interest behind the changes.[17]

The above argument implies that there is a cumulative process at work that, with the passing of time, brings increasing complexity to the tax system, unless specific governmental action puts a stop to it. Attempts to stop it, however, are not likely to succeed because of the difficulties involved, the time and effort required, and the absence of political pay off for government that try. Reagan tried in 1986 and failed. Within a few years the simplification of the 1986 Reform was erased. The Bush administration gave up even before trying in 2005. See Advisory Panel on Federal Tax Reform, 2005. The governments of some countries, including Australia and France, expressed the intention to simplify their tax systems. They did not get far. For Australia, see McKerchar, 2007; and Krever, 2003.

For the United States there are some data provided by the Tax foundation, by Tax Analysts, by the Urban Institute, the Cato Institute and other institutions that provide some information on tax complexity. A report of the Tax Foundation for example states that:

> "In 2005 individuals, businesses and non profit [organizations] will spend an estimated 6 billion hours complying with the federal income tax code, with an estimated compliance cost of over US$265.1 billion" [or about 22 percent of the income tax collected]"

The report estimates that 56 percent of the total compliance costs are born by businesses and the rest by individuals. It also estimates that the compliance costs are regressive. They amount to 5.9 percent of income, for taxpayers with adjusted gross income less than

[16] There is a lot of evidence that many of those who vote do not even read the bills on which they are voting unless they have a specific interest for them. At times the changes are hidden in bills that may appear to have little bearing for taxation.

[17] By the way this is a far greater problem for income taxes than for other taxes.

US$20,000, and 0.5 percent of income for those with income above US$200,000. Thus, complexity becomes a regressive tax.

The complexity of the tax system affects the growth of the economy because of overhead costs and opportunity costs. The overhead costs consist of (a) tax planning; (b) tax audits and litigation; and (c) tax compliance. Opportunity costs consist mainly of time and effort allocated to tax matters. The report states that complexity is caused mostly by difficulty in defining income and of determining to whom to assign income and expenses.

Chris Edwards (2006) of the Cato Institute has estimated the number of pages of U.S. Federal income tax rules between 1913, when the income tax was introduced, and 2006. In 1913 there were 400 pages. These rose to 504 by 1939. By 1945 there were 8,200. by 1984 there were 26,300. These had increased to 66,498 by 2006. The Special Report of the Tax Foundation has calculated that the number of words in the U.S. Tax Code and IRS Regulations between 1955 and 2005 increased from 718 thousand to 7.1 million. The increase was once again due to difficulties in defining the tax base.

The problem of growing complexity is, of course, not just an American problem. It affects most countries. We report below a few comments on some other countries to give a sense of how the problem is seen elsewhere.

In Britain, instability, "inefficiency, and absence of fiscal coherence characterizes the tax system" (Steinmo, 1993, p. 48). "No one would design such a system on purpose and nobody did. Only a historical explanation of how it came about can be offered as justification. That is not a justification, but a demonstration of how seemingly individually rational decisions can have absurd effects in aggregate" (J.A. Kay and M.A. King, The British Tax System, Oxford, 1978, p. 1). This is essentially the point made by Gary Becker.

According to a 2001 report to ministers, the New Zealand Tax Code instills 'anger, frustration, confusion, alienation" ("The case for flat taxes", The Economist, page 59 ,April 16, 2005). Some years ago, Eugenio Scalfaro, when he was president of Italy, stated publicly that the income tax declarations that Italian taxpayers were required to fill could only have been designed by "lunatics". It was also reported that some Italian taxpayers have taken advantage of tax amnesties, not necessarily because they had evaded taxes, but because they were not sure whether they had succeeded in complying with all the complex rules and requirements of the Italian tax laws. By paying a penalty for a violation that they may not have committed, they eliminate the risk and the worries of being audited and penalized at some later date.

VI. Concluding Remarks

This broad paper has dealt with various developments in the tax systems of the OECD countries in recent decades. The paper has shown the remarkable growth of the tax levels over five decades, the main changes in the tax structures, the process of gradual amalgamation among the countries' tax structures, the growing tax competition, associated with globalization, and some other significant developments. The paper has stressed that the superficial similarity in developments may hide micro changes that were not the same for all the OECD countries. The paper concluded by calling attention to a disturbing development that could have damaging consequences in the future: the continuously growing complexity of the tax systems. This complexity has the effect of a hidden and regressive tax. Over time it can make the systems less efficient and less fair. In the view of the author of this paper, this is an aspect that deserves urgent attention on the part of tax experts and economists.

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