

FISCAL COMMISSION

THIRD ADDITIONAL MEMORANDUM ON PROGRAMME OF WORK

Note by the Secretariat

The following document, which bears on Fiscal Methods and Economic Policies, contains the third of a series of notes or working papers intended to illustrate certain problems which the Commission might desire to consider as possible subjects for special studies during its forthcoming session. They should be read in conjunction with "Remarks Concerning the Tasks of the Fiscal Commission" (E/CN.8/6) of 10 May 1947. Other papers in this series are entitled: I. Budgetary Systems and Policies; II. Co-ordination of Central and Local Finance; IV. International Tax Relations.

FISCAL METHODS AND ECONOMIC POLICIES

1. Many countries are at present concerned with the problem of adapting their fiscal systems and methods to the pursuit of certain economic and social objectives. According to the Charter of the United Nations, economic development, economic stability and higher standards of living are considered as among the most important of these objectives. The task of defining general policies for the achievement of such objectives lies in the realm of the statesman and the economist. However, the fiscal expert and administrator should study the fiscal methods by which any such policy can be implemented since highly complex and technical questions of organization and procedure are often involved. Moreover, the technician should advise as to what may be the possible repercussions of the various forms of public spending and financing on the fiscal position of the

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2. The question of adapting the public finance system to the needs of economic development concerns primarily the economically less advanced countries. The fiscal systems of such countries are apt to contain archaic features and as such, do not offer the means of financing the required public expenditure in a way that would at once be adequate, economical and equitable. The technically more perfect fiscal methods of some more advanced countries may not be readily adaptable to other countries, because of difference in density of population, degree of wealth, distribution of property, forms of business and other specific economic and social factors. At the same time, in economically less developed countries the question of fiscal methods to foster the formation, import and investment of capital, either through public or private initiative, arises with particular urgency.

3. The fiscal means tending to assure economic stability are of special concern to the economically more developed countries. The achievement of this aim creates important problems from the standpoint both of financing and spending and consequently adjustments are necessary in the fiscal structure of a country. These adjustments can have wide ramifications in all branches of fiscal administration. It might be found useful, for instance, to re-allocate functions and responsibilities among the various organs of the administration. As a result of increased expenditure, new sources of revenue may be required in conjunction with measures to increase the yield of established resources. In this connection, the selection of taxes and tax rates has to be studied in the light of their possible effects on the policy of economic stability. If the scale of exemptions and relief provisions are found to be inappropriate for the success of the proposed policy, the existing scheme could be reviewed. Since tax bases, methods of assessment and collection procedures have a bearing upon the financing of expenditure, attention should be given to the adequacy of the established forms from the standpoint of flexibility and yield. The problem of

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maintaining an environment conducive to a high level of activity within the economy embraces many factors. Among these may be mentioned the public debt and its management. These aspects of public finance are of particular importance in relation to economic fluctuations. Therefore, co-ordination of measures relevant to the handling of these various elements should be studied from the viewpoint of their effect on investment, consumption and savings within the economy.

4. With regard to either a policy of economic development or economic stability, the problem of inflation must also be given particular consideration with reference to its effects on public finance. In this connection, the problem of financing expenditure through borrowing or taxation or a combination of both is of primary importance. Should expenditure be covered by borrowing, the handling of the public debt must be studied in relation to its effects on the volume of money and credit and on the general price level. Among the factors related to this problem are the size and type of loans. Frequency and timing of issues have to be considered on the basis of prevailing rates of interest and other relevant conditions. Furthermore, attention must be paid to the possible distribution of loans amongst various types of holders. The redemption of the public debt can be considered from the point of view of its effects upon the inflationary forces involved and its bearing upon the public credit. The measures adopted with reference to taxation are dependent on the objectives desired. Collection procedures such as the timing of tax payments can be adjusted to the needs of the Governments pursuing a given economic policy. Moreover, the volume and timing of government expenditure is of considerable importance with regard to the problem of inflation. The possibility of postponing or reducing expenditure must also be taken into account.

5. The study of the problems listed above might perhaps be initiated by a comparative and analytical study of the permanent and temporary fiscal measures which Governments adopted, or planned to adopt, with a view toward serving certain economic and social objectives since the depression of the thirties.