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Governance and National Development:

An Economist's Viewpoint

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N. T. Wang

I am honored to have been invited to speak to this august group. In my early incarnation when I came to Geneva many years ago my role was mainly to serve the United Nations delegates from various parts of the world. I rarely expressed my personal views since few diplomats were interested in what I thought. Perhaps more important was that any expression of personal opinion might compromise the strict neutrality of an international civil servant. Now, as an academic, I take great pleasure in reclaiming my individuality and exercising the right of free expression.

Yet the assignment given to me by my good friends — the learned Lichia and Raymond Saner-Yiu — is a bit intimidating. Certainly governance and national development is a subject that is in the minds of every statesman. There is a real question, however, as to whether an economist is qualified to deal with it; after so many years of disregard for disciplinary boundaries, I wonder how many people still consider me an economist. Thus my main objective is to stir up controversy for discussion, or, as the Chinese would say: "I shall throw a stone to attract a jade."

1. Vision

As an economics student of Schumpeter I have always been intrigued by his judgment that David Ricardo, the father of classical economics, had no vision. If by vision we mean a Weltanschauung or a view of things to come, I would have thought that Ricardo was hardly devoid of, which could be said about anyone in rulership or governance, whether Mao at the time of the Cultural Revolution or the warlords during ethnic cleansing. What Schumpeter had in mind, then, must be something more demanding. For the present purpose regarding governance, I shall contemplate the vision of national development.

The common problem with the Schumpeterian lack of vision is the failure to perceive underlying realities and sea changes taking place. For the world as a whole, the post-cold war years have fundamentally altered the external environment of every nation-state. Nations can no longer rely on a client relationship, leaning on one of the superpowers to prevent it from falling into the enemy camp of the other superpower. At the same time, the potential for possible conflict, not only with the superpower but also with lesserpowers, tends to increase, and the mechanism for dealing with it tends to become elusive.

The question arises as to whether those in position of governance have the vision of the new realities: the gap between need and the ability to deliver, whether to keep peace or to project certain values, has widened. In spite of superficial indications to the contrary by events such as the Gulf War, the monopoly of military might no longer exists and the multitude are increasingly unwilling to make the necessary sacrifices to exercise it either in terms of human lives or budgetary resources. Thus the Gulf War would not have taken place if the perpetrator were a country ten times as populous as Iraq, nor could it be sustained if the allies had suffered far greater casualties. Yet the vision revealed by the rhetoric of those in positions of power hardly reflects any major shift from the days of the crusaders.

For lesser powers the irony of competitive military buildup is glaring. While in the short run such a race may raise the cost of would-be aggressors, in the long run all the players suffer from diminished security and continued impoverishment. The impact on national development also differs radically from earlier days when hegemony through conquest was possible and sometimes highly profitable — regionally or subregionally, if not globally; with the fragmentation of power in the post-cold war world, such begger-thy-neighbor vision has become illusory. Even for purely internal purposes, while military power could be used to prop up an illegitimate or unpopular regime, it also sows the seeds of constant factional strife.

The unachronic vision of the world is paralleled by an unrealistic vision at the national level. The most dangerous types are reclaiming the territories of other nations and the goal of ethnic purity. The former may be justified by a unilateral interpretation of territorial reach at some historical juncture that necessarily leads to conflicts not only with those who currently control the territory but also with others who may invoke the same justification. The goal of ethnic purity is even more illusory since the overwhelming majority of existing states are multi-ethnic. Many have evolved over time through conquests and migrations. Most of the newly independent countries, especially in Africa, were created by former colonial powers with little regard for ethnic or tribal boundaries. Moreover, the definition of ethnicity is often open to question. For instance, there are children of mixed blood; the languages of an apparently homogeneous people in a single state may number in the hundreds; some of them may also distinguish themselves by religion or cultural heritage. Indeed, history is full of feuds between major linguistic, religious, tribal, or even more narrowly conceived groups. Consequently, if ethnic cleansing is to be applied generally, few states will escape total disintegration and great turmoil. This should be evident if an ethnic map, however defined. is drawn for the world. Bearing little resemblance to the existing states, it looks more like Swiss cheese with numerous wholes of various shapes.

The horrors of ethnic purity have, of course, been amply demonstrated by the tragic events in the former Yugoslavia and Burundi. What is perhaps not generally acknowledged is that the Wilsonian doctrine of self-determination on ethnic lines is fraught with similar dangers.[1] Admittedly, some ethnic groups have been ruefully treated by others, mostly by the majority. The situation is even worse when the mistreatment is by the minority, since constant vigilance against the turning of the table is required. Yet if the doctrine of self-determination is generally applied, it may lead to tragedies similar to ethnic purity.

The only pragmatic alternative is nation building where the necessary coherence and unity in diversity does not exist, that is, where a state exists but not a nation. This requires a vision of equity and tolerance among all groups, be it ethnic, religious, or cultural. The difficulty in applying this principle is in its implementation. In the United States, for example, racial equality was enshrined in the constitution but was hardly put in practice for more than a century. Moreover, the question arises as to how past wrongs might be compensated for, how many official languages should be recognized; what religious practices are off-limits, and so on.

The achievement of the twin goals of unity and diversity thus requires a delicate balance. Some values must be shared in common. This is sometimes forged by external threats or ideology. Differences must also be respected. These two requirements frequently conflict. For instance, dissent is often severely curtailed or even regarded as traitorous in times of war or a perceived national emergency. A purist ideology, whether religious or secular, would consider dissenters infidels or renegades. For example, if freedom of speech is considered to be an absolute, then advocates of strict censorship should also be allowed and may gain popular support to deny free speech. A case exists, therefore, for some constraints, if for no other reason than to guarantee certain freedoms, such as the freedom of speech.

2. Institution Building

A nation's shared values are ingrained in its institutions. This is generally recognized by political scientists, sociologists, and legal scholars. Curiously, many modern economists appear to have forgotten a similar tradition for their profession. Ever since economics has been treated like a science, there has been a tendency to borrow from physics and mathematics and to shy away from institutional considerations that are regarded as too soft to be precise or to quantify. While the narrow focus has facilitated important advancements in the discipline, as in other sciences, many areas have been left unexplored and faulty conclusions have been drawn by myopic technicians. This is especially damaging to emerging countries in the process of national development. Parallel to a largely political vision in nation building, national development in economic terms requires a set of institutions. Often these institutions do not exist or are rudimentary. The unthinking assumption that they can be taken for granted, as in the developed market economies, leads to grievous errors in policy conclusions, similar to the assumption that atmospheric pressure or gravity exists in space exploration as it does on earth.

Two basic institutions provide ample illustrations. The first is the rule of law. To be sure, laws exist in every society, even in absolute authoritarian regimes. In imperial China, for instance, the emperor was the law. Yet the institution of the court historian, whose duty was to record faithfully whatever the emperor did, was well established. When the emperor did not like the truthful historic record and beheaded the historian in question, the next historian would perform his duties just the same. After a number of historians were similarly disposed of, the emperor gave up. In other words, he admitted that in this case he was not above the law established by his ancestors to discourage behavior unsuitable for an emperor. Yet there is a great difference between countries under the rule of man and those under the rule of law, and most of the emerging countries are in the early stages of transition. In economic transactions, it is not the detailed provision of contracts but the mutual trust that governs. In disputes, it is not the courts but the respected arbiters or the supreme authorities that have the final word. To be sure, there is serious resistance to a speedy transition from the rule of man to the rule of law. Quite apart from the issue of control, the question arises as to whether the rule of law would lead to a litigious society in which legal technicality overwhelms common justice, and recourse to the best legal defence is reserved for the rich. Yet modern economic activities are so complex that to depend on the whims of man would necessarily result in great uncertainty and unpredictability that would entail great economic cost.

The second institution is the market. Markets have existed, of course, ever since societies evolved from absolute self-sufficiency or central allocation. The degree of complexity, however, varies greatly among nations, as does the nature of the markets. The emerging countries, especially the transitional economies, are typically characterized by the nonexistence of markets or by their fragmented or noncompetitive nature. For instance, where securities are virtually nonexistent, so too are the markets for them. Most emerging nations do not have a single common market within their borders. Different provinces, regions, even villages, claim their own markets either because they have been untouched by modern transport or communication or because of artificial restraints, similar to those in international trade. In some cases, monopolies or quasi-monopolies are deliberately created in favour of special interest groups at the expense of national interest.

Thus an essential task for national development is to create markets concomitant with the development of economic activities. It is therefore not sufficient to increase the securitization of the economy by issuing government bonds and bills and permitting enterprises to organize joint stock companies; the path the developed market economies take in perfecting securities markets is too tortuous to be followed. Rather, the time span can be greatly reduced by deliberately creating new institutions such as the securities exchanges, taking advantage of the lessons learned from past experiences. Certainly frauds can be greatly lessened by disclosure requirements, and bubbles can be contained before they reach psychotic proportions. Similarly, in other areas, whether in commodities or services, tangibles or intangibles, the deliberate creation of markets is also needed to cope with development and to anticipate problems.

At the same time one should not assume that efforts to create markets deliberately can be accomplished instantaneously, even with the best intentions and wise counsels. Like the introduction of the rule of law, the establishment of a set of rules and regulations is only the beginning. The general acceptance, as well as meticulous debugging and adaptation to particular circumstances and unanticipated difficulties, can only take place with practice and constant vigilance. Failure to appreciate the time lag between the act of creating a market and its existence and proper functioning has led to disastrous results. I have warned my fellow economists repeatedly about such a disaster in connection with the reform of transitional economies. Blinded by the zeal for change, seduced by ideological attraction, and armed with apparently infallible techniques, some economists have counseled instant price reform in these economies. Certainly they were right in diagnosing the misallocation of resources as a result of long periods of price controls and consequent deviation of the price levels from underlying economic forces. Their error lies in their total lack of understanding that although price decontrol can be brought about instantaneously through neo-Bolshevic decrees, markets cannot be created by similar decrees. Many markets simply did not exist, and where they did they were more likely to be monopolistic than competitive. This was certainly the case where essential inputs, such as energy and steel, were state monopolies and their output were centrally allocated. Even in the presumed burgeoning of the private sector markets were frequently manipulated by a new creed of robber barons, backed by clandestine links with those in power and extortion and murder against any potential threat of competition. The tragic results are predictable.[2] What is often not realized is that although such a disastrous misstep may be smart politics in view of the existing mass psychology and general euphoria, it is surely bad economics not because the advocates are illiterate in the discipline but because they have forgotten the fundamental proposition in economic theory that all theories are always right if they are logically constructed and their assumptions are accepted, but unfortunately they have made the wrong institutional assumption about the market. For, what can be taken for granted in a developed market economy will take a long time to create and nurture in an emerging country, especially a transitional economy.

3. *Market Failure or Government Failure*

The very existence of markets, as well as their proper functioning, is often not the result of atomistic mindless forces but is the product of governance. In the post-cold war period, suddenly almost every nation has rediscovered the usefulness of the market mechanism. Many functions that had been decided by bureaucrats can now be left to the market's unseen hand. The most dramatic changes are to be found in the former centrally planned economies. Producers are no longer to be guided by bureaucrats in decisions about the kinds, sizes, designs, and quantities of their products. Even in areas traditionally reserved for the government in market economies, the ubiquitous nature of market forces is more evident than in other economies. For instance, garbage disposal in municipalities may be contracted to private haulers if for no other reason than to force a comparison of efficiency with public service. Prisons may also be operated by private contractors with reduced cost. The transfer of government functions to the market is therefore virtually unlimited. The dramatic swing in sentiment evidently reflects the general realization of possibilities of government failure. Where government is considered omnipotent, a cross-border comparison is revealing. If government intervention is so useful for a better life, how does it happen that those with less government are far more prosperous in virtually every respect? Are civil servants more efficient or innovative than private workers and entrepreneurs? Is profit motive necessary for incentives?

Curiously, the most glaring example of government failure is government officials' perverse application of the market principle to convert their power into personal gain. In some cases, the conversion is actually collectivized so that a whole government unit is involved and gains are distributed among members much like organized thievery or robbery. The practice is so well established that virtually everyone knows about it, with the possible exception of armchair theorists. When the system is generalized and perfected almost every source of power fine-tunes its technique and practises variations of the theme. Collective and personal extortion is often combined. For instance, a restauranteur not only has to please offices in charge of business permits, health, taxes, and so on, but when he wishes to install a telephone he has to bribe the electricians concerned, and when a food or tax inspector appears he has to "look after" each of them.

The cynics maintains that such practices are unavoidable. They are nearly ubiquitous. In many countries the civil servants are so poorly paid that corruption is akin, for example, to tipping waiters as part of their salary. Moreover, many of these practices have long been accepted by society.

There are reasons to believe that such practices would erode the foundations of trust and legitimacy of government. Although the governed may acquiesce, it is only because they have no alternative, much like an individual being confronted by an armed robber. Where income distribution is highly skewed, as in most developing countries along the early segment of the Kuznets curve, popular resentment is high when one suspects that the rich get richer not through talent, hard work, or luck, but through corruption and abuse of power.

Fortunately, the experience of a number of countries has demonstrated that official corruption can be controlled if not totally eradicated. The basic measures are relatively simple. First, there must be political will at the top. Second, there must be independent fact finding and adjudication so that no one is exempted. Third, there must be transparency in the wealth, incomes, and lifestyles of senior officials. For instance, if the salaries and legitimate official perquisites are known, how can the officials afford extravagant consumption patterns? Indeed, the restraints in conspicuous consumption by senior officials are useful examples for the nation as a whole where high savings rates are required to finance high investment for development.

In spite of the glaring evidence of government failure, it is perhaps not too early to recall areas of market failure before the pendulum swings too far. In this connection, it is important to repeat that most emerging economies still have a long way to go in creating and nurturing a market system. Moreover, many other areas of concern cannot be left totally to market determination because, for one thing, a functioning market system has not been fully established.

Security is an obvious government function that can hardly be divested. The days of the mercenaries are gone partly because modern warfare is too expensive and too dangerous. Although many developing countries misuse security forces for domestic political purposes so that they are both too big and a source of insecurity for the common people, a minimum is certainly required to guard against foreign adventurism as well as domestic armed insurgency. At the micro level the ubiquitous use of private security forces and bodyguards for protection where government fails is not only highly uneconomical but also increases the insecurity of those who cannot afford to protect themselves.

The need to cope with natural disasters is another area where the market is illsuited. I just visited Guatemala where earthquakes routinely devastate entire cities. In China periodic floods from the Yellow River and the Yangtze throughout history have conditioned the inhabitants to accept collective intervention. My recent ship rides have also reminded me that when it is necessary to abandon ship, people do not bid for a place in a lifeboat but are assigned to one according to need.

Disasters also occur for many other reasons. Where personal resources are scanty and insurance is virtually nonexistent, such misfortune does bring destitution. Because most developing economies can ill afford welfare for everyone if those who are destitute are not looked after by their families and private institutions, government support has to be the last resort.

A more farsighted way of dealing with natural disasters is to prevent them. Many developing countries, because of poverty as well as ignorance and neglect, suffer serious environmental degradation. Although their contribution to polluting the world's environment may be limited because of these countries' relatively low levels of production and consumption, the conversion of their immediate environs from "good earth" to "bad earth" through overpopulation, deforestation, and water and air pollution has reached serious proportions.[3] Some damage is irreversible, such as the drastic decline in biodiversity by wanton extermination of whole species. Other damage is costly to undo, such as the disappearance of lakes as natural reservoirs, decertification, and chemical poisoning of underground water. Unfortunately, the environment is an example of a public good that is not amenable to management by market forces alone. Collective or government measures are required to perform major tasks, such as changing the course of rivers to deal with future flooding. More generally, incentives and disincentives must be introduced to internalize external diseconomies, such as establishing penalities for factories that discharge pollutants or differential levies on offending and environmentally friendly consumer goods.[4]

Governance for national development does not stop at damage control. Much of the physical infrastructure that is taken for granted in developed countries must be created. Again, market forces are inadequate to generate the new transport and communication facilities needed to provide the arteries for bringing together people in different localities and promoting national unity, as well as providing a basis for market functioning. True, new technologies may enable present-day developing countries to leap-frog certain historical stages of development. Thus, before roads and rails are built, air transport may provide the link to hitherto inaccessible areas. Before telephone lines are connected, cellular phones or computer networks may be introduced. Yet, the task involved in virtually every developing country is undoubtedly enormous.

One alternative is to open infrastructural development to foreign private finance. It is encouraging that the traditional concerns for sovereignty and control have been greatly eased after much rethinking. Indeed, the concern is frequently that foreign finance would not be interested precisely because infrastructures are so inadequate. In some cases, innovative methods, such as BOT (foreign investors build, operate, and transfer) and BOO (build, operate, and own), have been negotiated that would satisfy both foreign investors and host governments, often involving billions of U.S. dollars and decades of commitment. Evidently a precondition of such arrangements is predictability in governance.

This brings us to another area of governance, namely, macroeconomic management to achieve the twin goals of growth and stability. In this connection, growth is understood to be narrower in scope than development: the former simply means the increase in aggregate output whereas the latter implies structural transformation. Growth is needed to eradicate poverty and provide employment opportunities. Thus it is better than relief or welfare. At the same time, under given conditions, serious constraints exist for achieving reasonable rates. A main objective of governance is to identify the constraints and, if possible, remove them. For example, if the main constraint is lack of human skills, consideration should be given to expanding educational facilities or introducing foreign manpower. Similarly, the provision of public health services is needed to insure a healthy workforce apart from humanitarian concerns. Fiscal and monetary instruments are necessary to stimulate or maintain growth. However, because of system weaknesses in both areas, such as tax collection and the absence of money markets, certain administrative measures may be required.[5] The danger is that when the macroeconomic measures are improperly conceived or administered, they can be counterproductive. For instance, in one developing country the president over-ruled the expert advisers in setting the growth target on the ground that during his reign he could not accept a target inferior to his predecessor's, not considering that circumstances had changed. Consequently, the country suffered serious external and internal imbalances without achieving the growth goal.

Another reason some developing countries attempt to achieve unrealistically high rates of growth is to bring about high levels of employment. Unfortunately, most developing countries suffer from structural unemployment and underemployment. Growth alone is unlikely to bring about full employment.[6] Moreover, the reservoir of workers, especially from rural underemployed and females, is virtually unlimited. The major exception is relatively small export-oriented economies that succeed in indirectly exporting labour through the export of goods with a high labour content.

In spite of limits to growth in most developing countries, the pessimism usually associated with economics — the dismal science — has proved to be unfounded. The track record of a number of developing countries, especially in Asia, has demonstrated that growth rates considerably higher than those achieved by the developed countries at present or historically are not a fluke. The basic reasons for the asymmetry lies first in the Gerschenkron effect of latecomer advantage, that is, they need only to apply existing knowledge without having to reinvent the wheel or wait for a missing ingredient. The second reason is globalization. The transnational corporations are the major actors in the process. The usual resource constraints to growth, whether capital, technology management, or market access, can be overcome if these corporations can be enticed to supply them in line with their global strategy. Although many developing countries will probably miss the boat, no country is condemned to perpetual underdevelopment.

Although economic instability can result from undue pressure for growth, a worse combination is instability without growth. A classic case of such a combination may be found in single commodity export economies subject to violent external fluctuations. Where the Dutch disease exists during periods of boom in abundant natural resources without adequate provision for lean years, both domestic inflation and external payments problems will coexist with long-term stagnation. What is more prevalent is fiscal and monetary mismanagement. The former results from a fundamental asymmetry between fiscal expenditures and receipts. All expenditures, whether defence or social services, appear to be sorely needed, while all taxes are unwelcome. Moreover, the resulting fiscal imbalance is frequently financed by resorting to the printing press. This is especially the case where the central authority is weak and special interest groups dominate political decisions and scratch one another's back. Consequently, there is a tendency to insist on annual fiscal balance and strict monetary targets with the effect of blocking appropriate compensatory fiscal and monetary policies.

The division between macro and micro economic management is often unclear in many developing countries since a few sectors or firms dominate the economy. Although macromanagement already taxes the relatively weak capabilities of governments of most developing countries, selective micromanagement is not totally ruled out. In the export sector, for instance, even in the United States, which has been consistently against micro-management by the state, the "war room" established by the Commerce Department's former Secretary Brown has been generally hailed as useful in aiding exporters if only to counteract state interventions by competitors. The difficulty with micromanagement, as in industrial policy, is its tendency to generalize, that is, every industry claims priority so that a selective approach quickly degenerates into a generalized micromanagement, resulting in resources being fragmented and efforts mutually cancelled out. The key to success in micromanagement is therefore the determination to resist such degeneration.

4. *Toward a Balanced Approach*

The issue of governance is not new. What is new is that the objective conditions have irreparably changed, and many of the established ways of doing things are no longer workable. New theories and paradigms have thus emerged in light of the new challenges. Those who are in search of quick fixes have, however, been disappointed that none of the accepted prescriptions, whether old or new, seems to work. As observed by Haberler, in economic theory one can take the opposite of any theory to form a new theory. Thus collectivism may be replaced by individualism, localism by globalism, discipline by chaos, bureaucracy by deregulation, central direction by participatory decisionmaking, government by market, evolution by big bang, and so on. What is often forgotten is that almost all theories tend to be too idealized and simple to fit given complex situations. The insistence on the purity of any doctrine can lead to a fanatic disregard to reality. Thus the vision of ethnic self-rule could result in endless ethnic warfare; the impatience with price reform could confiscate virtually entire life savings of ordinary people without correcting price distortions; the decentralization of authority could lead to disintegration into a pile of sand, as Sun Yat-san described it.

The contention here is that although theories are like haute couture, yesterday's fashions can be the least fashionable; it is perhaps always useful to consider whether the current theories in vogue are workable. Indeed, as theses are usually replaced by antitheses, both tend to be extremes. There may be ground for intermediate positions that are not necessarily unique golden means. The debate between government and market best illustrates the above. Different countries may very well search for different mixes. In developing countries especially, the very task of creating or improving a predominantly market economy demands huge efforts on the part of the government. True, many traditional government functions may become redundant. Others may need drastic downsizing in order to satisfy new standards of efficiency . At the same time, the prospect of virtually no government remains as distant as ever, if not totally Utopian. What is certain is that the new requirements of governance pose new challenges to a new generation of power holders. Not only are new skills needed to cope with new tasks, but so too is a broader understanding of the external environment as well as of the concerns of the numerous groups within the locality and nation. There is probably no way that all the problems can be neatly solved and all the interest groups satisfied. Like a teacher, no matter how learned, eloquent, and conscientious that teacher is, it is almost impossible to receive unanimous acclaim from both the gifted and the less gifted, the advanced students and the laggards. Here, too, a balance is required to cater to different groups, if even only to leave everyone somewhat dissatisfied.

Under such circumstances, the great danger facing governance is that the selection process of power holders will produce the wrong kind of people for modern governance. Two arch-types amply illustrate the point. One is by seizure of power through the gun barrel. If a process of renewal does not occur, the skills and strategies successful in destroying enemies and the old order will not be adequate for governance for national development in times of peace. The second type is popularity contest which is generally accepted. However, winning through courting voters' favour by any means may result in tyranny of the majority, mass hysteria as well as decay of morality. Although both types do confirm certain leadership qualities for governance, they may not achieve the objective of national development and civilized society for the benefit of all.

Solutions to these fundamental problems have been attempted throughout the ages. Two Chinese models are of interest. One is the model of the founding emperor of the Han dynasty who had the foresight of kicking every general, who helped to win the revolution, upstairs and establishing new teams skillful in new governing tasks. The other model is the selection of bureaucratic leaders by merit, by such means as an examination system open to virtually all social strata. Both have served brilliantly in improving the selection process except for those at the very top. Moreover, it is equally evident that no system is foolproof. As time goes on, abuses cumulate. For instance, the Chinese examination system deteriorated into a test of narrowly defined rote learning not very different from modern TV quiz shows or the one-time popular game, Trivial Pursuit. Even the British system of determination of excellence, whether in Greek or Latin, may imply a bias in the types of senior civil servants selected. There is no alternative, therefore, to constant changes not only to cope with changed conditions but also to ameliorate the very problems brought about by the changes themselves. In the final analysis governance is only a means to achieve the end of well-being for the people and its success or failure must be judged by the achievement of the end.

Notes

1. For a similar view, see Kissinger, Henry, (1994). Diplomacy (New York: Simon and Shuster).

2. For early predictions, see my "China's Economic Reform in Comparative Perspective," paper presented at the First International Conference on Comparative Economic Reform: China and Central/Eastern Europe, Syracuse University, May 18-20, 1992, and "Models of Economic Reform," keynote speech at the Second International Conference on Comparative Economic Reform, Shanghai, May 24-30, 1993.

3. See Smil, Vaclav. (1983). The Bad Earth (Armonk, N.Y.: M. E. Sharpe), and his 1992 China's Environmental Crisis (Armonk, N.Y.: M. E. Sharpe).

4. For examples of tax measures to encourage environmentally friendly activities, see Wang, N.T. (ed.), (1976). Taxation and Development (New York: Praeger Press).

5. Sometime ago I had to veto my expert tax adviser's recommendation in a developing country to abolish corporate income tax on the theoretical ground that it was double taxation in addition to personal income tax. My main reason was that corporate income taxes were relatively easy to collect from a few identifiable entities whereas tax avoidance and evasion was serious in individual income taxes. Although the advice might be a rational long-term goal, its abrupt implementation would result in a serious shortfall in revenues since it would not be feasible to make up the loss of revenue from personal income taxes either by improving collection or adjusting rates.

6. See Wang, N.T., (1972). "The Role of Public Investment in Employment Promotion," Fiscal Measures for Employment Promotion in Developing Countries (Geneva: International Labour Organization).