UN MODEL TAX CONVENTION - ARTICLE 26 INFORMATION EXCHANGE: INTERNATIONAL TAX COOPERATION AND RELATED ISSUES

Abstract

1. Both the Ad Hoc Group of Experts on Cooperation in International Tax Matters, at their Eighth meeting, and the Secretariat noted that jurisdictions that offered inappropriate tax conciliations are threats to the tax systems of both developed and developing nations. That they compromise the principle of tax neutrality and that ineffective information exchange among nations aids and abets the undermining of that principle. The Group concluded that the problems stemming from harmful tax regimes could be mitigated if there were a better process for the exchange of information. The development and implementation of a process for tracing or tracking transnational commercial transactions across sovereign jurisdictions will be a challenging task. That challenge derives from a complex set of factors and conditions in which they are applied. Those factors including those that are part technological, part technical, and part environmental. Technological factors include questions of volume, capability, and compatibility of information technologies across countries. Environmental factors include the legal, financial, and economic environments of the interested parties. Technical include education and training, treaty definitions, reporting standards, and other practicalities of the treaty process itself. A major condition that affects each of these factors is diversity. If there is a high degree of parity among the parties involved in establishing a process for such information exchange they will share many of the same goals, they will share most of the same technological capabilities, and their fiscal and regulatory concerns will be very similar. Lacking that parity, those similarities will not be present, and the effect of each of those factors on the development and implementation process is magnified. Further affecting the magnitude of the challenge is the fact that the line blurs between cause and effect, i.e. what is the role of each factor. In some cases a single factor can be both an answer and a hindrance to the process, e.g. a sophisticated technological environment will enhance the data flow capabilities, but may confound compatibility problems, and, more important, make the financial assets at the heart of the problem more mobile. These conditions, or lack thereof, add new levels of difficulty to the challenge of bilateral resolutions. Under such conditions incentive structures do not coincide and that affects either the scope or technology requirements of establishing an equitable and workable process of information exchange. A quantitative analysis is not feasible without economic data. Most data, with the required degree of specificity and detail, on the costs of tax evasion and inappropriate capital transfer is not publically available. The alternative is information from empirical estimates using macroeconomic proxies. What is available is qualitative and anecdotal information. These sources present various perspectives on the need for a solution, the nature of inappropriate tax conciliations, technology issues, proposed courses of action, and related issues. This paper reviews the available information, and attempts to effect synergies from the review towards adding perspective to the breadth and depth of the scope and technology issues. The paper then offers concluding remarks. One very clear question that must be dealt with is what form will the solution take. Will the information exchange process model will be a long term or comprehensive one, a short term model perennially in process, or most likely, some compromise between the two extremes. This paper concludes that either approach can be problematical.

Introduction

2. Globalization is a rapidly growing, multidimensional phenomena of the business community. Some of those dimensions have proven beneficial to developed and developing countries. Some have proven otherwise. In most cases the costs and benefits of globalization are contextual, i.e. costs and benefits vary as conditions vary. Globalization has opened markets that were previously inaccessible, formed international relationships and driven international relations, and has turned economic dreams into realities. It has provided a robust environment for financial creativity. However, it has also provided its share of nightmares. The opening of new financial markets, the development of new financial instruments, and the advent of new technologies has provided unscrupulous businesses and investors opportunities for tax evasion and exploitive tax avoidance. These practices have made a major contribution to a growing multinational competition for tax dollars [OECD (1998), and Crow (1996)]. It is incumbent on tax agencies to protect their national tax revenues, but an overreaction by tax jurisdictions could threaten the very commercial flexibility that provides the essence of globalization. The challenge before the international business and tax communities is to maintain the essence of the process of globalization and its inertia, while removing the threat to sovereign fiscal stability and health.

3. The basic operating premise of the UN Model Double Taxation Convention Between Developed and Developing Countries (hereinafter "Model") is to prevent double taxation of income, and tax evasion and avoidance. The concepts of double taxation and tax evasion, and the benefits to be derived from their prevention are generally understood and are part of the structure of virtually every tax regime in the world. The prevention of tax avoidance, in this context, implies precluding parties in contracting states from engaging in tax strategies that exploit opportunities in a tax system to inappropriately reduce their tax liability. Avoidance, in the general use of the term, is not illegal, and most tax regimes support it, at least in concept, but when strategizing on differences in tax systems rises to the level of exploitation it threatens the very essence of those systems. When it occurs in a multinational setting it threatens all the systems across the international business community.

4. Article 26
EXCHANGE OF INFORMATION

   1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the convention, in so far as the taxation thereunder is not contrary to the Convention, in particular for the prevention of fraud or evasion of such taxes. The exchange of information obtained under the domestic laws of that State. However, if the information is originally regarded as secret in transmitting State it shall be

disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or determination of appeals in relation to, the taxes which are the subject of the Convention. Such persons or authorities shall use the information only for such purposes by may disclose the information in public court proceedings or in judicial decisions. The competent authorities shall, through consultation, develop appropriate conditions, methods and techniques concerning the matter in respect of which such exchanges of information shall be made, including, where appropriate, exchanges of information regarding tax avoidance.

2. In no case shall provisions of paragraph I be construed so as to impose on a Contracting State the obligation:
   (a) To carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;
   (b) To supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;
   (c) To supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy.

5. Article 26
EXCHANGE OF INFORMATION

A. GENERAL CONSIDERATIONS

Article 26 of the United Nations Model Convention reproduces article 26 of the OECD Model Convention with three substantive changes in paragraph 1, namely the insertion of the phrase "and in particular for the prevention of fraud or evasion of such taxes" in the first sentence, the insertion of the phrase "and where originally regarded as secret in the transmitting State" in the fourth sentence and the addition of a new sentence (sixth and last sentence). The latter sentence is the key to the approach advocated by the Group; it would stress the importance of the competent authorities in implementing fairly the provisions on the exchange of information and will give them the necessary authority.

The words "in particular for the prevention of fraud or evasion of such taxes" were inserted at the request of members of the Group, mainly from developing countries, who wanted to emphasize that the exchange of information under article 26 did cover the purpose of preventing fraud or evasion. This insertion is not intended to affect the interpretation of the OECD text of article 26, according to which the exchange of information it provides may be used for the prevention of fraud or evasion, although this

is not expressly stated in the article. It is also clear that this exchange of information for the prevention of fraud or evasion is subject to the general condition embodied in the first sentence of paragraph 1, that the taxation involved is not contrary to the Convention.

Since article 26 of the United Nations Model Convention reproduces the substance of all provisions of article 26 of the OECD Model Convention, the preliminary remarks contained in the commentary of the latter article are relevant. These remarks read as follows: "There are good grounds for including in a convention for the avoidance of double taxation provisions concerning cooperation between the tax administrations of the two Contracting States. In the first place it appears to be desirable to give administrative assistance for the purpose of ascertaining facts in relation to which the rules of the Convention are to be applied. Moreover, in view of the increasing internationalization of economic relations, the Contracting States have a growing interest in the reciprocal supply of information on the basis of which domestic taxation laws have to be administered, even if there is not question of the application of any particular Article of the Convention".

"Therefore the present Article embodies the rules under which information may be exchanged to the widest possible extent, with a view of laying the proper basis for the implementation of the domestic laws of the Contracting States concerning taxed covered by the Convention and for the application of specific provisions of the Convention. The text of the Article makes it clear that the exchange of information is not restricted by Article 1, so that the information may include particulars about non-residents."

"The matter of administrative assistance for the purpose of tax collection is not dealt with in the Article. This matter often forms the subject of a separate agreement, whether bilateral or multilateral, between the Contracting States; alternatively, the provisions on assistance in the field of tax collection may be introduced in the double taxation convention, whenever Contracting States found it preferable."

"Experience in recent years has shown that the text of the Article in the 1963 Draft Convention left room for differing interpretations. Therefore it was felt desirable to clarify its meaning by a change in the wording of the article and its commentary without altering its effects. Apart from a single point of substance the main purpose of the changes made has been to remove grounds for divergent interpretations."

The Group emphasized that in negotiating treaties for the avoidance of double taxation and tax evasion the competent authorities might wish to provide for the exchange of such information as was necessary for carrying out the provisions of the treaty or of the domestic laws of the Contracting States concerning taxes covered by the treaty. In that regard, the Group suggested guidelines for arrangements regarding the implementation of appropriate exchanges of information. Those guidelines are in the form of an inventory of possible arrangements from which the competent authorities under a tax treaty may select

the particular arrangements which they decide should be used. The inventory is not intended to be exhaustive nor is it to be regarded as listing matters of all which are to be drawn on in every case. Instead, the inventory is a listing of suggestions to be examined by competent authorities in deciding on the matters they wish to cover.

The Group also emphasized that the term "exchange of information" included an exchange of documents and that, subject to the provisions of paragraph 2 of the article if specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State should provide information under that article in the form of depositions of witnesses and authenticated copied of unedited original documents (including books, papers, statements, records, accounts, or writings), to the extent that it could obtain such depositions and documents under the laws and administrative practices applying in respect to its own taxes.

6. This is a preliminary paper in that it represents initial stages of research into the general issue of preventing tax evasion and exploitive avoidance, and specifically promoting information exchange but not at the sacrifice of globalization opportunities and benefits. The study is a compilation of information from a wide range of sources rather than empirical research to establish magnitudes and directions of a very complicated problem. Both elements or types of research are necessary before one can conclude, imply, or infer results or interpretations. The goal of this author is to present analysis of some of the salient dimensions affecting the costs and benefit relationships involved. Having said that, the value of compilation and preliminary research such as this is several fold: ① it consolidates a variety of theories and perspectives into a single document, ② the merger of ideas and perspectives tends to flesh out the issue, i.e. gives body to and illuminates the magnitude and direction of the issue, ③ illumination generally leads to testable hypothesis for analytical purposes, and ④ at the very least, if it stimulates dialogue among parties, it adds incremental value to the process.

Changing Times and Changing Issues

7. Prior to globalization, the transnational tax question was whether or not it is acceptable for one country to offer tax conciliations to encourage its own economic development. The answer was generally yes. History is replete with examples of tax holidays and the development of tax preferenced commercial structures. After globalization, the question has been restated, by some, to ask whether or not it is acceptable for one tax jurisdiction to offer a tax structure that encourages capital flight in the form of tax evasion, an inappropriate allocation of tax revenues. Generally the answer is no, but what is it in the process of globalization that would so dramatically change the perspective of the question?

8. A condition that may speak to that is the combination of the diverse incentive structures of the world economies and the phenomena that has been labeled "Tax Competition" [OECD (1998), Crow (1996), and Wunder and Crow (1997)]. While there are a number of dimensions to the tax competition phenomena, the essence is that as countries achieve economic and regulatory parity, tax systems tend to converge towards consistency in the treatment of transnational commerce. This makes it much less likely that taxes distort the business location decision. To illustrate, parity among developed countries has brought about a convergence of tax rates, i.e. a much more narrow range of tax rates across jurisdictions [Wunder and Crow (1997)]. Another example of the effects of parity is the convergence of rules or regulatory patterns of developed countries dealing with the tax treatment of intercompany transfer prices. In a ceteris paribus condition, businesses make business decisions on economic factors since the tax costs are in relative concert, regardless of where commercial activities are located. In the limit, i.e. where tax parity is universal, the role of taxes has achieved a primary goal. That is, taxation is neutral, and basic economic and business factors drive the commercial decision model. However, the international business community is not in such universal harmony. Many member countries are in various stages of economic and regulatory development. Those countries are in a mode to encourage capital growth, and the use of economic or tax conciliations is a historical means of doing so. Problematic in using tax and economic structures in that role is, contemporaneously sustaining the balance between service to the purpose of legitimate capital growth and providing an environment that encourages and abets tax evasion and capital flight.

9. As already noted, there is more than one dimension or perspective that we must bring to bear in examining the globalization process. They include anthropological, economic, legal, and technological dimensions. This attribute of multi dimensionality makes it imperative for proposals dealing with any subset of these dimensions to consider the ripple effect it might have throughout the full set of dimensions of the global structure. For this reason, an evaluation of the cost or benefit on one dimension of a proposal, e.g. specifically, in this case, the United Nations Model Double Taxation Treaty Model (hereinafter UN Model), Article 26, Exchange of Information, must be considered in the contextual framework of the full model, not in a vacuum. That framework should provide the environment to ensure that the drafted products realize: ① the goals of international cooperation and the UN Model, i.e. to prevent double taxation, tax evasion, and the exploitation of tax avoidance opportunities, and ② facilitate the beneficial transfer of capital and international commerce as is consistent with worldwide economic growth and development.

Tax Neutrality and Diversity

10. The UN Model double tax provisions facilitate multinational transactions, in one sense, by preserving tax neutrality. Tax neutrality, for our purposes here, implies that, in the limit, taxes are a necessary cost of doing business, but the structure of the business

should not be driven by tax considerations. Specifically, the model Double Taxation provisions prevent taxation of transactions at both the source, and distribution or "residence" of income (the latter two terms are not necessarily synonymous). There is empirical evidence that such provisions achieve their goal, and that tax neutrality can be preserved in a global regulatory and financial structure. In Meyer (1980) a sophisticated econometric model of cost minimization in a transnational business transaction reflects that result. The study examines alternative forms of capital transfers by a multinational enterprise (hereinafter MNE) to a related MNE, between three countries, ① United States, ② Switzerland, and ③ Germany. Taxes are only one of several cost variables evaluated in the econometric equation. The tax variable is defined by the tax rules of each country and the effects of bilateral tax treaties between the countries. The results of the study show that the cost variable is of little significance in the decision equation, i.e. the selection of a particular capital transfer method, between a specified pair of countries. The more specific result of interest in this paper focuses on the role of tax rules and tax treaties. In concluding remarks, Meyer points out that the core of this phase of the study examined a treaty and non-treaty possibility. Clearly, changes in the treaties could affect the results. The results showed that, in fact, the tax treaties have prevented double taxation and were successful in preserving tax neutrality. That is, while different tax structures may accommodate certain transactions better than others, or vice versa, the intervention of treaties achieved the desired goals.

11. In Crow (1991) a regressions model of securities returns was constructed to examine the effects of a change in tax rules on the equity values of the affected group of financial institutions. The changes involved the revocation of an alleged preferential tax provision for the largest banks in the United States. Specifically, the change examined disallowed deductions for anticipated, but unrealized losses on capital transfers in the form of loans. The institutions affected represented the 50 largest financial institutions in the United States, all of which were engaged in international lending. The premise of the methodology is that investors are efficient and that the price or value of equity will reflect expected changes in costs. If the cost change is significant, the hypothesis posits that the value of the equity of the affected company will adjust, also significantly. In this case the estimated increase in tax costs, as projected by the United States Congressional Budget Office, would represent a 30% increase in taxes for the affected companies. Clearly a significant increase in tax costs. The results of the study showed no significant decreases in the value of the equities of the affected institutions. This is inconsistent with the proposed theory that such a change in costs will be reflected in the equity values, a theory that has been tested many times in other inquiries, and which is supported by the evidence from those inquiries. One interpretation of these results is that due to the sophisticated MNE financial structure of these institutions, the change could be accommodated by adjusting their financial strategies[1]. This speaks to the issue of revenue neutrality in the

[1]Another interpretation was that the tax cost estimates were questionable. This may be the case, but the long term validity of the estimates is intertwined with the ability of the affected institutions to make compensating adjustments in their financial strategies. Accordingly, both

context of the effect of taxes in a sophisticated financial structure. The study concludes that the results of the test are inconsistent with predictions of significant tax costs to the sample financial institutions. However, if the market is unbiased in assessing the economic effects of projected cost changes, these results are consistent with the contention that taxes alone are not the driving consideration in the business decision and investment decision equations and the level of financial sophistication of the parties in interest is a key factor in that result. This is also consistent with the results in previous studies which find the same weak relationships between projected tax costs in explanations of equity values.

12. Wijnen (1997) and Lokken (1995) review tax treaties from the database of the IBFD (International Bureau of Fiscal Documentation) treaty files. For purposes of interpreting the results of the studies it is important to note that those treaties can be distributed among three categories: tax treaties that are ①between developed countries, ② between developed and developing countries, and ③ between developing countries. Lokken found evidence of departure from the language of the provisions of the UN Model in the examination of a sample of tax treaties from group ② and found little variation in the "Information Exchange" provisions in those treaties from the language of the UN Model. Wijnen found more variation in a comprehensive sample of group ② and group ③ treaties

13. In both studies, it was noted that there was some difference between the language of the UN Model and the OECD Model treaty. The UN Model provision, Article 26, Paragraph 1, reads:

> ①"The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention of the domestic laws of the Contracting States concerning taxes covered by the convention, in so far as the taxation thereunder is not contrary to the convention, in particular for the prevention of fraud or evasion of such taxes. ②The exchange of information is not restricted by article 1. ③Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State. ④However, if the information is originally regarded as secret in the transmitting State it shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the

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interpretations can be accommodated by the results

assessment or collection of the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes which are the subject of the Convention. ⑤Such persons or authorities shall use the information only for such purposes but may disclose the information in public court proceedings or in judicial decisions. ⑥The competent authorities shall, through consultation, develop appropriate conditions, methods and techniques concerning the matters in respect of which such exchanges of information shall be made, including, where appropriate, exchanges of information regarding tax avoidance."

14. The OECD Model Article 26 reads (omitted language struck out with new language in parenthesis)

①"The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention of of the domestic laws of the Contracting States concerning taxes covered by the convention, in so far as the taxation thereunder is not contrary to the convention, ~~in particular for the prevention of fraud or evasion of such taxes~~. ②The exchange of information is not restricted by article 1. ③Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State***, and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention.***. ④~~However, if the information is originally regarded as secret in the transmitting State it shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes which are the subject of the Convention~~. ⑤Such persons or authorities shall use the information only for such purposes but may disclose the information in public court proceedings or in judicial decisions. ⑥The competent authorities shall, through consultation, develop appropriate conditions, methods and techniques concerning the matters in respect of which such exchanges of information shall be made, including, where appropriate, exchanges of information regarding tax avoidance."

15. The changes to sentence ① seem significant in that language was specifically addressed in the commentary. In that commentary, the language was added because "...it appears desirable to give administrative assistance...in relation to which the rules of the Convention are to be applied." Further it states that "...it was felt desirable to clarify ..." the meaning of the provision by a change in wording to "...remove grounds for divergent interpretations." The change in sentences ③&④ have the effect of broadening the confidentiality requirements, and the scope of the constraints on disclosure. Both of these changes can be seen as significant in light of the commentary and the scope implications.

16. Lokken found that in"several" of the treaties in his sample, the language of the OECD provision was more closely followed than the language of the UN Model. The treaties in that sample would all fall into Category ②.

17. Wijnen (1997) found 697 treaties that included at least one developing country as a Contracting State. Looking only at the Article 26 provisions of those treaties, 146 had references to "the prevention of tax fraud or evasion,"sentence number ①, 50 of which also contained the secret information language of sentence number ④, and 65 included the implementation language of sentence ⑥. Of the 114 treaties in Group B, i.e. treaties between two developed or OECD countries, only 8 contained the reference to the prevention of tax fraud or evasion, and none referred to the secret information or implementation language of the model articles. Approximately 20% of the treaties that include a developing country include the "...fraud or evasion..." language, while only approximately 7% of treaties between the developed countries contain similar language.

18. The results of these various studies support the contention that, for the most part, tax neutrality, can be preserved through the treaty process, and under specified conditions the treaty provisions serve their purpose with little modification. Meyer (1980) tests, specifically, the effect of treaties in a sample multinational transfer of capital. His findings indicate, under cost minimization objectives, that tax costs are not a significant factor in the decision to do business. In Crow (1991), the results indicate that, in the face of significant projected tax increases as the result of proposed tax changes, the large financial institutions are seen by the market as being able to restructure their affairs such that tax changes, of the proposed magnitude, can be compensated for in the financial structure. Hence, there was no significant change in equity values of the affected entities as a result of the tax changes. The results of both Wijnen (1997) and Lokken (1995) can be interpreted, and are by the author, as providing further evidence that in some cases the model provisions are incorporated into the bilateral treaties with little variation, while in other cases the contracting parties have made clear modifications.

19. However, these results may be interpreted, and are by the author, to also illustrate that the results of all the studies described above may be limited to contextual interpretations. The contextual implications of each study address the unique underlying conditions that are common to elements examined in each of the cases. The general condition that persists in each is a parity, on some attribute, on some level. The interpretation of the results begs the questions, what are those attributes and levels, and what if these parities do not persist?

20. The financial institutions in Crow (1991) and the tax environments in Meyer (1980) exhibit a high degree of parity on common attributes, within their respective samples, which could drive the results of the respective studies. The parity exists in these attributes at very high levels. The conditions under which the studies were conducted

reflect highly sophisticated regulatory environments, globally diverse financial structures, and comparable levels technological expertise.

21. This perspective on the studies raises three questions. First, what is the extent to which disparities exist? Second, how might the results of these studies be affected if we relax the condition of parity between the parties? That is, what happens if the previous analysis was conducted on relationships between two parties that are on different levels in one or more of the attributes? Finally, how are the results of these studies expected to be affected if the same analysis is conducted, under conditions which provide for parity between elements of the sample, but the samples' levels of development on the attributes is different than the levels in the samples in the referenced studies? That is, while comparison or analysis is conducted on samples whose level of development is consistent within the sample, the absolute levels of development for the sample, on the identified attributes of financial structure, regulatory environment, and technological expertise, is different from those levels of the referenced studies? The latter questions can be combined to ask what if the samples do not reflect parity on attributes and/or on levels of attribute development?

22. There is evidence that demonstrates that such conditions and their expected effects exist, and also provides some measure of the magnitude of the effect. That is, results of analyses similar to that conducted in the aforementioned studies, but under conditions in which the strength of the presence of parity is dramatically reduced, or the levels of attribute development are changed reflect the hypothesized effects. Yeung and Mathieson (1998), Crow (1997 & 1996), Wijnen (1997), Kanbur and Keen (1993).

23. Yeung and Mathieson (1998), (hereinafter Y&M) developed a "web" approach for measuring development performance of individual countries. The results of Y&M are clear evidence of the disparities among countries. The essence of their motivation for their inquiry is relevant here. The motivation behind their inquiry stems from the position that before we can establish international policies and strategies and implement them effectively, we must be able to measure attributes and assess congruence. Y&M define variables to represent relative measures of development in: ① economic performance, ② competitiveness, ③ health, ④ education, and ⑤ environment. Arguably any of those factors measured by Yeung and Mathieson can affect international policy and economic development, see Johnson et al (1998) which demonstrates the effects of anthropological factors, e.g. education, culture, and would include health and environment, on the international transfer of technology. Economic performance and competitiveness are measures that correspond to the general thrust of this inquiry, i.e. they proxy for dimensions that have implications for tax policy and capital growth, and are sufficient to demonstrate the diversity at the country level, on a global scale, for those purposes. The rankings presented in the results of the Y&M study are expressed in percentages or scores out of a possible 100. Regional averages for economic performance ranged from 92/100 for newly industrialized Asian (NIC's) countries to 27/100 for emerging African

countries. Latin American countries average score for economic performance was 56/100. Middle East countries averaged 43/100 while the average for such OECD countries as the U.S., Germany, and France was 48/100. The results were no less dramatic for scores on competitiveness foundations. NIC's scored, on average, 82/100, the OECD or industrialized countries scored 70/100, while African and Latin American countries scored 41 and 28, respectively. The authors are quick to mention that the most information is in the relative scores, not absolute numbers. The same would be true for purposes of this paper. Relative scores reflect the diversity in these two critical areas, among countries

24. In Crow (1996) a comparison of a sample of developed and developing countries looked at relative economic development, regulatory structures (in the context of transfer pricing statutes), and tax rules enforcement activities. Two attributes of the results of that comparison are relevant to the current discussion. The first was the degree of diversity among the sample countries, on all of the dimensions. The second was the presence of a pattern of consistency across dimensions for an individual country, i.e. on the levels of development for one country, on each of the dimensions. These results are consistent with Y&M not only in implication, but in terms or relative rankings.

25. Two points, that will carryover into the concluding analysis, can be inferred from these studies. The diversity among developed and developing countries exists on many different dimensions. The levels of development and diversity on one of the identified dimensions is remarkably consistent with measures of development and diversity on the other dimensions, on a country by country basis.

26. With evidence of diversity, we examine the next question: how does such diversity manifest itself in the tax policy of these countries and, more specifically, in the treaty process? Also, can we quantify these effects? Both Wijnen (1997) and Crow (1997) present illustrations of that manifestation.

27. Wijnen's sample of tax treaties examined was divided into two groups. Group A consisted of bilateral treaties whose contracting parties include at least one developing country. Group B treaties consisted of bilateral treaties between OECD countries. In the results of the analysis, the treaties in Group A, wherein the degree of diversity present is expected to be significant, show just that. In a substantial number of treaties, variances between the provisions of the actual treaties and the UN Model were observed. Conversely, in the Group B treaties, there were, relatively speaking, substantially fewer cases in which exceptional language was observed. As stated earlier in the paper, approximately 20% of the Group A treaties reflect what can be interpreted as significant language departures from the UN Model while only about 7% of the Group B treaties contained comparable departures. There was a substantial number of observations in which the language of the UN Model was revised or subsections of model provisions were omitted. In a few cases, additional clauses or subsections were added. The

evidence, as presented in this study, does not distinguish between the treaties with one developing country partner and those with developing countries as both parties to the treaty. However, the presence of the diversity on the identified dimensions is clear and there is some soft evidence of the magnitude of the effects. Further, a review of the commentary remarks as regards the specific terms that were modified would seem to attach significance to such modifications.

28. The results of the review of transfer pricing provisions in a sample of treaties that is limited to treaties between two (or more) developing countries are consistent with the findings in Wijnen. In Crow (1996), the one segment of the sample was limited to treaties in which both contracting parties were developing countries. The results on this sample segment revealed a substantial number of observations in which the language of the UN Model was revised or subsections of model provisions were omitted. In contrast, there were very few cases in which the treaty provisions contained unmodified OECD or UN Model transfer pricing provisions.

29. While Wijnen and Crow appear to be clear support for the inferences referred to in ¶ 25, at first glance the results in Lokken (1995) appear to be an anomaly. However, upon closer inspection, they can be interpreted as consistent with the results Wijnen found in his examination of Group A treaties, under similar parameters. Lokken's is a limited sample of treaties comprised of on OECD partner and a developing country partner. The results note a number of variations in the treaty provisions from the UN Model, but the limited size would preclude comparing a quantitative or substantive analysis to the results of Wijnen. However, the results can be viewed as having similar implications in that both note variation in samples of treaties with at least on developing country as a contracting partner. Further, Lokken's sample is a subset of the Wijnen Group A treaties (i.e. it does not contain any treaties in which both contracting parties are developing countries). By the makeup of its constituents, that sample would be expected to reflect a lower degree of variation. That a priori expectation and the sample size would mitigate help explain what might otherwise appear as anomalistic results. The results of each of the studies offers insights into and evidence of the manifestation of the effects of diversity on the treaty process. The only distinction between the three, as a result of the empirical design, is the level of strength of the evidence for the magnitude of the effects of diversity as reflected in the treaty provisions.

30. There is another possible interpretation of the results of the Lokken analysis. By virtue of the level of sophistication and the intricacies of the regulatory environment in OECD member States, they would not enjoy the same flexibility in policy structure as their treaty partners, hence, one would expect that there would be relatively less variation in the terms of the treaties. That speaks to the effect of the sophistication of the economic and regulatory conditions on the process, but, belies the effect of disparity on generalization of the results.

31. In general, the results of the studies discussed above reveal that the process works. Under conditions of parity the process becomes less complicated and it is easier to achieve treaty goals and preserve neutrality, but the results support the proposition that disparity exists on many dimensions, across countries and between levels. Further, those disparities manifest themselves in a comparison of actual bilateral treaties to UN or OECD model provisions. In a preliminary inference, the results support the position that to develop and implement international tax policy, e.g. the exchange of information, effectively, the policy must be designed to accommodate the economic and regulatory differences that exist in the global community.

The Status and Role of Technology

32. Distinct, perhaps by its absence from the discussion to this point, is a discussion of the role of technology, and of the effects of the technology dimension on the treaty process. As mentioned earlier, there are two elements to the process of making policy, in this case international tax and treaty policy. There is the design phase and the implementation phase. The issues of structural and incentive diversity, tax regime classification, and environment are raised in the design phase of the process. The issues stemming from technology environments are mostly implementation issues. What role does technology play in the process? How is technology part of the solution, and how is it part of the problem? Globalization, mobility, and transnational commerce are phenomena whose dramatic growth can be directly traced to the equally dramatic growth of technology. Without it, such things as global information exchange, or the offshore transfer of capital would be a much more tedious and a much slower process. Technology is at the heart of both the problem and the solution.

33. Is there any evidence that documents the divers levels of technological development across countries, and chronicles the inherent problems associated with that diversity? The existence and some measure of the magnitude of the issue are demonstrated in one article. In 1994, the Transatlantic Business Dialogue (TABD) was taken very lightly in its role as a catalyst for trade diplomacy. It was reported in 1997, [Stern, (1997)], that the TABD role was changing. The TABD is a business driven exercise that focuses on US-EU trade obstacles that facilitates governmental resolution. It is described in the report as a “virtual organization” that tackles these trade obstacle issues. One of the issues it tackled was the Information Technology Agreement and the Mutual Recognition Agreement. Those agreements addresses a series of issues dealing with technology and telecommunications standards, and technological compatibility. It is reported that such agreements would save US-EU technology industry members and consumers as much as $1.37 billion annually in compatibility costs just by trimming the compatibility certification process. If there are such costs in the certification process, the magnitude of the costs of producing and implementing compatibility is staggering

34. Czinkota and Ronkainen (1997), address related questions and develop evidence and commentary that also illustrate the presence and the magnitude of the issue. Substantively they look at international business in the next decade. In terms of business sectors, the large transformations are anticipated in service industries as a result of the "information revolution." A key industry that will be affected is the financial industry. Financial intermediaries will be pressured into expanded roles in packaging financial instruments to make them "easily portable and transferable," and in the increasing use of electronic money. They state that one of the major "...challenges will surface in the form of structures, systems, and the individuals..." who implement them. Implicit in this conclusion is the need for increasing expenditures to achieve international compatibility in this information revolution. Ironically, their study, itself, demonstrates the extent of the compatibility issue. Their research technique involved surveys from various elements of the international business community. Their original plan was to solicit their responses through the use of websites and email. Very early on, they realized they had to abandon these techniques because the required level of technology was available in a limited number of countries, and such a selection bias would impugn the results.

35. There are various measures of technological development. Studies have used such proxies as the concentration of cellular telecommunications, education level, and such macroeconomic measures as GDP per capita. Any such rating is sufficient to show the presence disparities in the level of technological development, even if it does not accurately reflect the relative levels of the sample countries. IFI/Plenum Data Corporation ["IFI/Plenum... (1997)"] reports on a sample of 23 countries and ranks them according to the number of patents for February 1997. The US is ranked number 1 with 2,230 patents, Japan is number 2 with 1,385 patents, and Luxembourg is ranked 21st with 1 patent. Ostensibly, the other countries did not have patents during the month. If this is any reasonable proxy for research and development, hence technology development, it can be seen that there is a wide range of presence in that particular dimension, among the countries of the international community.

36. The role of technology to the process of designing and implementing information exchange policy is critical, and will affect both the practicalities of implementation and the cost. The significant costs associated with technological compatibility and the dynamics of the "information revolution" would seem to indicate that the problem associated with technological diversity across countries is a significant hurdle for the information exchange process, and a short term approach to resolution of the problem will not suffice. The problem is exacerbated by the apparent wide range of technological capabilities among the countries. The results of the studies and reports referred to above are in clear support of that proposition.

Other Relevant Issues and Commentary

37. Tax policy, economic development, and the effects they could have on the process of information exchange and the prevention of tax evasion and tax "avoidance."

38. Many low or zero tax rate countries base such tax policies on the proposition that those strategies are avenues of opportunity for capital infusion, and economic development. The question that researchers formulate becomes; is capital accumulation the solution to the economic development that will sustain successful policy in the long-run? Does the evidence support that proposition, and is accumulation of capital the panacea for economic development? The answer to this question could reveal insights into misplaced emphasis by a developing country on the use of tax policies as a fiscal tool, hence opportunities for developed countries to assist developing countries and package information exchange more attractively.

39. Auerbach (1995) uses a macroeconomic model to address first part of the question. What are the features of developed countries that promote successful policies. Early in the paper, he states that when countries are faced with issues concerning fiscal policies "...developed economies are relieved of many of the economic constraints with which developing countries must deal." The factors that allow that drive these results include: ① greater wealth, ②more stable and credible governments, and ③more advanced financial systems. These attributes give developed countries the edge in making adjustments to resolve fiscal crises, relative to the more limited fiscal tools available to the developing country. The interpretation that is germane to this paper is that in policy design and implementation for developing countries ① what is good for the goose is not necessarily good for the gander, hence, ② the solution to economic development is capital accumulation, but only in conjunction with stability and credibility of the financial structure. This is a testable hypothesis, and is an area in which subsequent examination could yield evidence that would be of incremental value to the policy design and implementation process.

40. While these attributes give developed countries the capacity to solve their fiscal crises through adjustments to their respective tax and spending policies, do such adjustments achieve the desired goal of fiscal reform? If so, do the adjustments to tax policy provide for long-run growth or short-run fiscal policy success? Auerbach's evidence supports the latter interpretation. Engen and Skinner (1995) conclude that researchers and experts really do not know the extent to which tax policy can affect long-run growth, but generally support the same position as Auerbach..

41. This uncertainty in the evidence and commentary on the role of tax policy supports one inference; that the answer lies in a multidimensional model. Auerbach (1995), offers additional evidence of the short-run nature of taxes, from a different perspective. Auerbach says that "Even if taxes and spending are adjusted to achieve..." the desired goals, that is a short run solution in that changing demographics, financial

structures, and information technologies, for example, will cause fiscal policy of today to be unsustainable in the future."

42. The effect of this evidence and commentary, in the context of this study, is that the design of tax policy that accommodates both developed and developing countries is facilitated by proposing a package of short-run and long-run economic initiatives, de-emphasizing the tax conciliations as a fiscal strategy, for stable and consistent economic growth in the long-run. This: ① mitigates the difficulties associated with tax evasion and exploitive tax avoidance by providing convergence of policy interests between developed and developing countries and their interest in information exchange, and ② addresses the growth agendas of developing countries..

43. There is another concern that should be pointed out. Reliance on tax regimes for fiscal or capital development, in a highly dynamic global economy may significantly limit a country's ability to respond to changes [Auerbach (1995)]. The evidence and commentary appears to indicate that tax policy can be used to adjust short-run fiscal policy. In that context, it is a powerful tool, but to prove such worth, the tax structure must be flexible enough to accommodate such adjustments. Over emphasizing the tax policy historically reduces the ability of the sovereign state to adjust. The state loses precious flexibility, and the ability to use an important short-run fiscal tool. This point should not be lost in the packaging of initiatives.

44. "Harmful Tax Regimes"

45. One question that hangs over the process of information exchange and is relevant to the scope and design of any resolution to the problem is that of distinguishing harmful tax regimes. Is a low tax rate necessarily to be associated with tax evasion or exploitive avoidance policies, or are there other factors to consider in the determination? Demonstrating this dilemma, e.g. the following shows how using a low tax rate as a benchmark can be a double edged sword. In his *Financial Times* article of December 9, 1998, Peter Norman reports on an issue raised by the ministers of finance in the EU and the notion of a minimum EU tax rate harmony. The report in reference to the discussion of minimum tax rates stated "In the view of hostile commentators, such taxes threaten to push Britain's attractive average tax rates up to high German levels. Because of its wish to eliminate tax havens." Under the single factor approach, even Britain is being referred to as a "tax haven." That is a result that I believe is unintended in identifying inappropriate tax regimes.

1. In more general terms, in a Financial Times article (December, 1998) Mr. Jim Kelly reports on a meeting of the EU finance ministers in Brussels to discuss the "...cracking down on 'harmful tax competition'..." and what constitutes "harmful." In general the ministers accepted that it refers to a tax regime that distorts the choice of business location. There were certain factors that they identified as associated with the

types of regimes. Those factors included: ①tax conciliations that apply only to non-residents, ② benefits that are ringfenced from the domestic economy, i.e. the transactions do not affect the national tax base, ③ tax conciliations that are available without the beneficiary having any real economic activity or presence, and ④ a lack of transparency.

2. There are other factors that may contribute to the answer to this question. Various authors suggest as evidence that contributes to answering such vexing and important questions investigators look to factors such as: ① do tax revenues pay for government services or at least contribute in the same proportions as would be considered appropriate in other countries, ② is the economy a single dimension economy, i.e. are such low rate transactions a disproportionate share of the economic "output," ③ how does the country compare in economic performance measures to higher rate countries, and ④ using Yeung and Mathieson measures (non tax measures) how does the country compare in "competitiveness" to other higher rate countries?

3. What is the relationship between the comments presented above, themselves, and the issue of information exchange?

4. The issue of the role of tax policy in economic or fiscal development is not unrelated from the question of what constitutes a "harmful tax regime" in the context of this discussion of information exchange policy. If a country is dependent upon tax policy, e.g. low tax rates, as a vehicle for economic development, it may very well appear as a "harmful tax regime." However, to the extent that economic initiatives and fiscal policies can be augmented, the regime sheds its harmful appearance, and that mitigates what would otherwise be a problematic exchange of information If efforts can be focused in such directions, alternative financial structures could be developed to address long term versus short term growth concerns of developing countries and facilitate treaty provisions that would satisfy the needs of the more sophisticated economic and financial countries.

Suggested Solutions and Comments

5. The first of the suggested solutions presented here comes from the OECD.

6. In the OECD observer Perez-Navarro (1999) addressed, at least in part, the scope of international tax evasion and "avoidance." As a measure of the scope, the article reports an estimate the money laundering problem from the Financial Action Task Force, Paris, 1995-96 annual report. The magnitude of the problem was estimated to be in the hundreds of billions of dollars annually. That is only one form of tax evasion, but it seems to place the necessary emphasis on the need for measures, e.g. information exchange, to resolve the problems.

7. In August of 1997 it was reported that an OECD report suggested a plan for information exchange [Spencer (1997)]. It was suggested that two recommendations were issues: They were: ① a proposed solution would be based on the use of tax identification numbers in an international context, and ② the exchange format use the revised standard OECD magnetic format for automatic exchange of information. It was reported there that the incorporating these two elements into the exchange model was observed, by the Council, to facilitate finalization of the design of a new standard for electronic exchange of tax information. This is a case where partnering, sharing of expertise, and financial aid will also be a necessary elements of such a plan. Short of agreement on those points, and a sound plan for implementing such sharing or partnering, an information exchange program will, as pointed out earlier, be a long term project.

8. Perez-Navarro (1999) also addresses the issue of automatic versus spontaneous exchange. Perez reports that under the OECD Model Convention, countries are expected to rely on other sources before making "speculative requests" without showing justification. This is the "specific request"format for information exchange. The automatic exchange referred to in the OECD report generally concerns the reporting of routine, periodic payments, e.g. dividends and interest. Perez pointed out that this is the growing area of interest, and that taxpayers may benefit from such reporting in that it could reduce compliance costs. The problem, based on the earlier parts of this paper, could stem from the limited scope of the solution, and the likelihood that it only addresses one phase of the combined interests of developed and developing countries.

9. Another solution that was referred to above [Norman (1998)], in a different context, is a minimum tax rate agreement. Kanbur and Keen (1993) develop econometric evidence of the effect of such an agreement. They look at "cross-border shopping" in terms of a good or service, where the difference between the two competing states is in their respective tax rates. They make the very important point that if such differentials are left unaddressed, the results are fiscally inefficient for both states. The inefficiencies stem from the resultant tax competition. They conclude that tax cooperation reduces the level of, but does not eliminate inefficiency, but that it is the best solution. Specifically, they look at minimum tax rate agreements as a solution to tax competition. Harmonization is the key, but not at the higher rate of the one country, nor at the lower rate of the other country. In such cases, the loss to the "loser" state is to substantial a cost. It makes tax competition a preferable alternative. They make special note that such inefficiencies are exacerbated by disparities in size between the two states. It introduces a fundamental asymmetry between their respective optimal solutions. They conclude that "...harmonization of the kind often proposed has emerged in a very unfavorable light..." regardless of which country's rate is adopted. Further that "...the imposition of a minimum tax rate, in contrast, benefits both countries: the strategic response of the large country is, in that case, such as to ensure that sufficient "cross-border shopping" remains for the small country also to gain." In and of itself, the minimum rate agreement may not

solve the problem. Its value lies in its role as one element in a compromise package designed to disarm the incentive issues and to include information exchange.

10. The evidence is replete with examples that the treaty process itself works. The following are examples of recent amendments to treaties and new treaties between concerned contracting partners that invoke the spirit, if not the letter, of the information exchange provisions. On September 9, 1994 the San Diego Union-Tribune reported the amendment to the US-Mexico treaty to include exchange of information at both federal, and state and local levels, [U.S., Mexico Expand...., (1994)]. In September of 1994, the US-Israel treaty was ratified which included written assurances on the exchange of bank account information ["US-Israel treaty: no double...," (1994)]. In February of 1996 it was reported that Switzerland and the US had agreed on a new income-tax treaty which resolved a wide range of issues including the issues of bank secrecy and exchange of information. Mexico would be considered a developing country, its Yeung and Mathieson (1998) ratings are approximately on the global average for economic performance, but near the low end of the population for competitiveness. The implication is that developed and developing countries can negotiate treaties that successfully include provisions to provide for information exchange and to prevent tax evasion and exploitive tax avoidance.

11. Although not specifically a treaty solution, there are ancillary agreements on specific types of commercial structures that could be legislated in a manner that would satisfy the information exchange requirements. It may be that a future approach would be to include a menu of commercial structures that would be dealt with either explicitly in the treaty, or through agreement on ancillary legislation. In April 1997 it was reported by the Business Times (Malaysia) the passage of the Labuan Offshore Limited Partnership Act, ["Amendment to Act..." (1997)]. This step was reported to be a major step that would make Labuan a major offshore center wherein parties will be able to take advantage of double tax treaties between the country of residence and that of investment through the limited partnership vehicle. While such a vehicle would seem to present the type of opportunity that begs for tax evasion or exploitive avoidance, the Labuan act is praised for its "transparency" while maintaining tax conciliations and investment incentives that are expected to attract large "offshore" investments and capital.

12. Another approach is reflected in the "Haitian" solution. In December of 1994, the Clinton administration announced that it was planning a series of trade and investment initiatives as part of an economic recovery plan for Haiti, ["Series of US-Haitian..." (1994)]. Included as part of this plan were an agreement on tax information exchange, a US-Haitian Investment treaty, and trade missions and seminars. This is a very good example of the "partnering" concept.

13. There are constantly new developments on the technology side. In August 1998 ["California Franchise Tax Board..." (1998)] American Management Systems, Inc. (AMS), announced the completion of California's innovative Professional Audit Support

System (PASS). PASS is an integrated tax system that uses a central information repository and remote networks that can be accessed from desktop workstations or from laptop computers in remote locations.

14. There are several features that would be relevant to the discussion here. PASS provides the capability to trace taxpayer income, which makes it particularly useful in uncovering complex ownership relationships and "...hidden revenue that may be found in pass-through entities..." such as partnerships, and tracking corporate hierarchies. PASS is the first system of its kind to support people in the field, i.e. remote locations, through laptop computer application. AMS has developed a computer-based training program that allows personnel to "...quickly become proficient..." in using the program. This saves much needed time and much needed resources.

15. The news release indicated that AMS developed PASS as reusable software that can be implemented by other states or countries who are facing similar issues. Further, the hierarchical approach and the focus on complex relationships is well suited to the problem at hand. This type of tool would certainly facilitate information exchange, and appears to be an example of the type of technology that could be adapted to particular uses, for specific countries or organizations.

Concluding Remarks

16. It is imperative to note the conditions that were set out in the beginning of the paper. There has been no quantitative analysis nor has there been any anecdotal data from parties to the treaty process. This is a consolidation of works in the area. It is presented in an effort to illustrate what may be intuitive, but in an effort to be descriptive of the complexities involved in the problem, the evidence that such complexities, and considerations must be accommodated in the process. To the extent appropriate, the paper also presented commentary on how such factors may affect existing proposals for implementing effective information exchange policies and procedures.

17. The implication of diversity is that the extent of its presence between two contracting parties implies that they also differ in incentive structures. The secret to design and implementation of effective international policy between two such different structures is, in part borrowing from Y&M, acknowledgment, measurement, and accommodation of those different incentives. If the differences affecting the incentive structures existed in a single dimension, it would make accommodation a reasonably uncomplicated task. But, as we see, that is not the case.

18. "Havens", (1999), concerns the ending of tax conciliations offered in the Isle of Man and the Channel Islands. Their case is illustrative of the multidimensional problem. It is somewhat unusual in that they are British, but not part of the UK. The point that of interest here is that should their preferential tax and financial structure be removed, their

only source of commercial development is "...mild climate farming and modest tourism..." That is not the base from which economic growth stems. Is this a good place for the Haitian solution? It would certainly seem to be.

19. The author does opine that, based on historical evidence, every aspect of the information exchange dilemma can be addressed, and as with previous dilemmas of this nature, can be resolved with time and a well thought out, comprehensive application of resources, tangible and intellectual.

20. Implicit in the foregoing discussions on comparative dimensions, diversity, and their role in tax policy and international tax treaty processes is the discussion of expertise. In the author's view the party's level of expertise is a factor that is present in and inseparable from each dimension. It may also be a major factor in the successful blending of all the diverse elements making up the global economy toward an environment that will accommodate the wide, but ever narrowing, set of economic and regulatory incentives. As was suggested in the report of the Eight Meeting of the Group of Experts, it is imperative that "...countries with extensive experience in information exchanges provide tools to help countries with less experience to initiate..." information exchange programs.

21. Another element seems to be partnering. Partnering between developed and developing countries on various fronts, reduces the incongruities between incentive structures, fosters international cooperation in such areas as tax policy enhances the move towards the level of parity where countries share tax policy views, and, ultimately, enhances the treaty negotiation process.

22. One key in these types of negotiations is compromise. As was pointed out in Kanbur and Keen (1993) it is unlikely that in the model situation both parties, or either party, walk away with 100% of what is on their wish list. However, through the process these examples demonstrate that the different agendas can be reconciled and incentives can be accommodated in the end.

23. So we see a combination of elements that has led to successful negotiation of tax and information exchange policy. Compromise and partnering are two very strong elements in packaging the process. The best example may be the December of 1994, series of trade and investment initiatives offered as part of an economic recovery plan for Haiti, ["Series of US-Haitian..." (1994)] that included an agreement on tax information exchange. Haiti's economic performance and competitiveness ratings [Yeung and Mathieson (1998)] were 2 and 16, respectively, compared to global averages of 47 and 45 respectively. The use of such partnering techniques requires cooperation and coordination along many fronts and among many contributors, but the "Haitian solution" is a classic example of the benefits to be gained from a "partnering" approach.

24. Combining the above elements that affect the design and scope parameters of the problem can be combined with a program such as the PASS program referred to above or the OECD magnetic reporting format addresses both the design and implementation aspects of the issue. Addressing the technical environments, design and implementation phases of information exchange, specifically, and the larger goal of preventing tax evasion and exploitive tax avoidance, unfortunately, is a task of very large proportions.

25. Finally, the author believes that there are empirical issues that could be examined in an effort to add information to the process. For example, as was suggested earlier, economic analysis can be applied to help refine the definition of "harmful tax regimes" as the term is used in its many contexts. This could also provide incremental information for the "partnering" process.

26. Tax evasion and exploitive tax avoidance is harmful to the tax regimes of both developed and developing countries. The exchange of information is a critical element in the solution to that problem. There are several scope and implementation questions pertinent to the exchange of information that must be answered in the process of formulating that solution. The problem is exacerbated by the disparities in economic and technological development among the interested parties. There is also the question of whether the solution takes the form of a short-run model that represents a crisis oriented solution or a proposal that addresses the wide range of financial instruments, business forms, and technology issues that will ultimately affect its long-run effectiveness. The problem is multidimensional and the evidence supports the contention that the solution must also be multidimensional.

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Therefore, the key to success for developing countries is the assistance from developed countries to help convert the developing economies from a focus on short-run fiscal development through tax policies to long-run growth practices and policies.