TAX AND GROWTH IN A DEVELOPING COUNTRY: THE CASE OF BRAZIL

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EXECUTIVE SUMMARY

This paper analyses the effect of the tax burden over gross domestic product (GDP) per capita and its growth. Our paper follows the recent development in the literature of taxes and growth as stated by Heady *et al*. (2009).

The econometric results pointed out for a negative effect of overall tax burden over both the level and the growth of GDP per capita. In relation to the level of GDP per capita, this negative effect ranges around -0.3. In other words, an increase of 1% in the overall tax burden decreases real GDP per capita by 0.3%. This is a strong and statistically significant negative effect of overall tax burden over GDP per capita. In relation to the growth level of GDP per capita, the change in the overall tax burden has a negative impact close to 0.15.

Furthermore, additional econometric results pointed out that a revenue neutral fiscal policy which changes the tax structure toward consumption taxes and personal income taxes would improve economic growth. Besides that, we strongly recommend against both taxes over the capital stock (mainly the recurrent ones) and the corporate income taxes.

Finally, we were able to demonstrate that both the overall tax burden and its tax mix have negative impact over the labor force participation rate and private investment. And the overall tax burden has negative and statistically significant effects over total factor productivity. Decreasing the overall tax burden and changing the tax mix toward consumption and personal income taxes have the potential to improve real GDP and its growth rate for the Brazilian economy.

REFERENCES

HEADY, C. *et al*. **Tax policy for economic recovery and growth.** University of Kent School of Economics Discussion Papers, December, KDPE 0925, 2009.