

accounting system, involving the establishment of a Social Emergency Fund which, in a not particularly transparent manner, interrupts the flow of tax revenues from the federal government to the states as a way of coping with constitutional restraints on its ability to manage fiscal affairs. Moreover, the state and municipal governments and many state corporations run large fiscal deficits independently of the federal government.<sup>6</sup>

Brazil's fiscal situation is widely recognized as the most important problem standing in the way of real reform. Although government revenues are growing, spending is increasing even faster. In addition, many 1994 expenditures were delayed until 1995 to improve Brazil's 1994 budget balance. Brazil is expected to run a large deficit in 1995.<sup>7</sup>

Argentina has done much to reform its tax system in recent years. The Menem government has focused on raising revenue through a few major taxes such as a value-added tax (VAT) and has taken steps to improve tax administration.<sup>8</sup> As a result, revenue as a percentage of GDP for Argentina was 16% in 1990.<sup>9</sup> The tax rate for corporate earnings is 30%. It is not expected that this rate will be increased or that new corporate taxes will be introduced.<sup>10</sup>

In Brazil, taxes take about 22.5% of GDP. With several levels of taxation and over 50 different taxes, the tax system has been described as "a chaos of cascade

---

<sup>6</sup> The World Bank's 1995 World Development Report estimates that Brazil had a central government deficit of one percent of GDP in 1993. However, the IMF notes: "Although inadequate statistical coverage of state, provincial, and local governments dictates the use of central government data, this may seriously understate or distort the statistical portrayal of the allocation of resources for various purposes, especially in countries where lower levels of government have considerable autonomy and are responsible for many economic and social services." *World Development Report 1994*, (World Bank, 1994), p.235.

<sup>7</sup> "Brazil: Economist Intelligence Unit Outlook", Reuter Business Briefing, 5 June 1995.

<sup>8</sup> Shome Parthasarathi, "Tax Reform in Latin America", *Finance and Development*, March 1995, p. 16.

<sup>9</sup> Ibid.

<sup>10</sup> "Argentina: EIU Corporate Tax Regulations", Reuter News Service, 30 May 1995.