

# Richard Musgrave in Colombia: The Art of Tax Reform in a Developing Country<sup>1</sup>

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Richard Musgrave's work in developing countries has received little historical scrutiny. At the twilight of the development decade, Musgrave chaired an important fiscal reform mission in Colombia, whose report later served as a roadmap for the 1974 Colombian tax reform. Drawing from archival and published sources, this paper reconstructs the intellectual baggage that Musgrave brought on his travels to Colombia. While tax principles have been invoked by reformers for centuries, Musgrave and his colleagues provided a new articulation of equity that reflected their liberal faith in the capacity of democratic governments to improve welfare through fair taxation. This liberal worldview was shaped by their experience of US policy since the New Deal, but the instruments adapted for developing countries differed.

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*“People are willing to delegate decisions on surgery to doctors with few questions asked. However, the presumption of our democratic system on political matters is that the people know—which, of course, is something that is an extremely valuable assumption in the protection of the democratic process ... Yet it has to be placed in the realistic context in which a government solves these difficult, technical problems.”*

Musgrave in an interview with *The Christian Science Monitor*, 1964

## 1. Introduction

Public finance was an art before it became a science. In the nineteenth century, discourses on money, banking, and the public finances were systematized in hefty treatises, rationalizing the legal, economic, and administrative practices of national states in terms of principles (Silvant and Arrupe 2020). In the early twentieth century, following capital flows from rich to poor countries, money doctors traveled the world to offer remedies to financial crises (Drake 1988; Flandreau 2003). War planning bolstered economists’ confidence in their capacity to control the economy (Goodwin 1976; Bernstein 2001). The passage of the Employment Act in 1946 signaled a new era for American economists: At home, they advised the President and the Congress about the best ways to reduce unemployment and steer the economy to a sustained growth path; abroad they offered their expertise to recovering European and to developing countries (Hirschman 1989; Daunton 2013).

Richard A. Musgrave (1910-2007) was one of the most respected public finance scholars of his generation (Ott et al. 2008; Sturn 2016). He is today remembered mostly as the Harvard professor who wrote the leading mid-century treatise that modernized public finance (Mieszkowski 2008; Atkinson et al. 2008). Less well known is the role he played in advising numerous countries on tax policy. From 1949 until his retirement at the end of the 1970s, he wrote small memoranda and large reports recommending improvements in the tax system of Colombia, West Germany, Burma, Japan, Puerto Rico, Korea, Chile, Bahamas, Taiwan,

Nicaragua, Indonesia, and Bolivia. In particular, Musgrave's engagement with Colombia spanned a longer period and his influence in the Latin American country was also more significant. Colombia was the "laboratory" of development policy, attracting relentless scrutiny and hopes from American experts during the Cold War (Alacevich 2009; Offner 2019). Colombia is also an interesting case study because of the influence of technocrats whose ideas, beliefs, and values mattered more than elsewhere to understand the evolution of economic policy (see Guiot-Isaac 2022). Amongst all areas of policy, taxation has been a continuing focus of international experts in the Andean country. As Bird et al. (2005) remarked, "it is difficult to think of a developing country that has had more commissions, reports, and discussion or tax reform" (see also Junguito and Rincón 2004). Musgrave's 1968 mission to Colombia served as a model for later tax reform missions (Bahl and Bird 2008). Yet, scholarship on the history of American economists in Colombia barely mentions Musgrave (Brownlee, Ide, and Fukagai 2013, p. 10 n.4).

What role did Musgrave play in Colombia? To understand the nature of his advice, we must pay attention to the baggage he brought with him on his travels (see Morgan 2022). As a key member of the US tax expert community, Musgrave shared the liberal spirit of the age: A belief that a rationally structured tax system could contribute to social stability and empower governments to achieve progressive goals. Musgrave had contributed to the postwar rearticulation of tax policy. Normative principles and empirical estimations of the adequacy of a tax system could be translated directly to Latin America, but the recommended tax mix would depend on the growth target, the availability of tax handles, and on political constraints.

Musgrave did not leave many traces of his work abroad, nor did he reflect systematically on his experience as a foreign adviser. As a contribution to the history of economic thought and policy, this paper reconstructs the art of tax reform in the 1950s and 1960s, contextualizing

the recommendations made by Musgrave in Colombia in 1969 and contrasting them with other proposals in subsequent decades. It also assesses his impact on future tax reforms. While originality and brilliance are prime marks of academic achievements, when it comes to tax reform, the capacity to convince and build a consensus among the parties involved matters more.

Following a chronological order, the paper draws from various original archival sources, newspapers, and published books and articles.<sup>2</sup> Section 2 summarizes key aspects of Musgrave’s intellectual background and his position in the US tax expert community involved in Latin America. Section 3 deals with the 1968 Musgrave mission to Colombia. Section 4 reviews its legacy.

## 2. Background

### 2.1. Musgrave’s background and the postwar tax discussion

Musgrave was born in Königstein, near Frankfurt, Germany in 1910 to a cosmopolitan family of Jewish background. Growing up in the Weimar Republic, he was sensitive to the fragility of democratic institutions. After studying in Munich, Exeter, and Heidelberg, he received his *Diplom-Volkswirt* in 1933. He took classes in economics, law, sociology, politics, history, and philosophy. In his PhD dissertation written at Harvard, Musgrave recognized the “political

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<sup>2</sup> Harvard University Archives, World Bank Group Archives, Richard A. Musgrave papers at Princeton University Library (thereafter RAM Papers), Lauchlin B. Currie papers at Duke University Library (thereafter LBC Papers), Stanley S. Surrey papers at Harvard Law School (thereafter SSS Papers), IMF archives, DAS reports from the Ford Foundation Records (Grants H-K, reels 4248, 4661), Rockefeller Archive Center, Sleepy Hollow, NY; as well as an interview with Miguel Urrutia conducted via Zoom on 13/12/2021.

character” of the public economy which meant that “justice considerations” had to be taken into account (Musgrave 1937, p. 80 ff.).<sup>3</sup>

During the New Deal, Musgrave participated actively in the Fiscal Policy Seminar convened by Alvin Hansen and John Williams at Harvard (Desmarais-Tremblay and Johnson 2019). For Musgrave, Abba Lerner (1943) went too far when he argued that taxes were merely a lever to control the level of employment. Taxation was also a means to pay for important social expenditures (Musgrave 1996b, p. 252). Equity concerns were at the heart of the progressive income tax defended by American public finance economists like Robert M. Haig, Henry C. Simons, Harold M. Groves, and Roy Blough, just as it would be for Musgrave throughout his life. Still, the field of fiscal policy opened a new set of functions for taxation.

After serving three years as an instructor at Harvard, Musgrave joined the Federal Reserve in Washington. He provided economic advice on monetary and fiscal issues. He participated actively in inter-departmental discussions on postwar Federal taxation, eventually becoming Head of the Government Finance Section in the Division of Research and Statistics. When he returned to academia at the University of Michigan, Musgrave embarked upon an ambitious study of the distribution of the fiscal burden by income groups. Despite highly progressive Federal taxes on paper, Musgrave et al. (1951) found the overall tax burden roughly proportional to income. Their finding was criticised by conservatives on methodological grounds, but it was also praised in congressional hearings throughout the 1950s by Democratic politicians who fought against more regressive proposals (Desmarais-Tremblay and Johnson 2023).

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<sup>3</sup> On the early life of Musgrave and his German academic background, see Musgrave (1996a); Sinn (2009), as well as Desmarais-Tremblay (2021a; 2021b) and references herein.

Musgrave was pulled into development policy by President Truman's 1949 declaration that the United States would provide "technical knowledge" to help "freedom-loving" but "underdeveloped" nations grow. The World Bank sent a mission headed by Lauchlin Currie to study the structure of the Colombian economy and lay out recommendations to foster its development. Currie picked Musgrave as chief economist, putting him in charge of public finance and monetary policy. The Currie mission was not the first time American economists traveled to Colombia. Edwin Kemmerer had recommended the creation of a central bank in 1923 and the establishment of an income tax in 1930 (Drake 1988). However, the remit of the Currie mission was much wider than the earlier money doctor mission. The goal was to identify ways of raising the standard of living of Colombians. Public expenditures in sanitation, healthcare, education, and housing were a priority for Currie. Investments in electricity generation and transport infrastructure were also crucial to break the vicious circles. Considering the paucity of national savings, foreign capital was welcomed for large infrastructure projects, but as Musgrave cautioned in the final report, it would be better to fund day-to-day expenditures through taxation (IBRD 1950, p. 557). Increasing taxes on luxury goods would have multiple benefits. Substantial import duties on some goods would free foreign exchange that could be channeled in more useful investments (*ibid.*, p. 555). High excise on those produced locally would encourage household saving and contribute to capital formation. Moreover, taxing luxury consumption would reduce income inequality. In line with the rising economic culture of growthmanship (Collins 2000), the report argued that growth was a better strategy to increase the standard of living than tax-and-transfer redistribution.

Back in the USA, politicians appealed to economists for the best fiscal policy to maximise growth to beat the Soviets. Musgrave pressed that the tax system should be fair, independently of temporary tax rates adjustments to stabilize the economy. He criticised

attempts to introduce consumption taxes in rich countries, such as Kaldor's revamped proposal for an expenditure tax (Musgrave 1957). Musgrave believed that a broad-based progressive income tax should be the cornerstone of the American tax system. Under the leadership of tax lawyer Stanley Surrey, Musgrave and other experts scrutinized the increasing number of provisions and exemptions that punctured the tax base and made citizens cynical about the real progressivity of the system. They also criticised the injustice between taxpayers who had comparable income but ended up paying radically different amount of taxes because of the ability of some to exploit loopholes.

In his *Theory of Public Finance*, Musgrave (1959) synthesised various strands of European, British, and American public finance and welfare economics literature. Economists today remember his tripartite division of the fiscal functions of the public budget (allocation, distribution, stabilization), but Musgrave also transformed the ability-to-pay discussion by introducing the dual concepts of horizontal and vertical equity. In a characteristically unpretentious fashion, he clarified the issues at stake in the tax equity policy discussions of the 1950s.

In private, Musgrave and others gave tax policy advice to Democratic candidate Adlai Stevenson. Stevenson lost the 1956 Presidential election, but in 1960 Surrey and Musgrave were called by the Kennedy team to propose a tax program for the presidential hopeful (Surrey 2022). After the election, they wrote for Kennedy another report stressing the importance of a major tax reform for 1962, alongside more urgent temporary tax cut and an investment credit to fight the recession.

## 2.2. The Development Decade

In 1960, the Organization of American States (OAS) signed the Act of Bogotá to achieve “prosperity, higher standards of living and social justice to every inhabitant of Latin America”. In part to counteract the influence of Cuba, Kennedy created the Alliance for Progress, to promote economic and social development, more equitable distribution of national income, more investments, price stability, agricultural productivity, adult illiteracy, higher life expectancy, and the construction of low-cost housing. Latin American countries agreed to design development plans that involved tax reforms towards a better taxation of large incomes and real estate, an improvement of tax administration, increases in the public expenditures to match developmental needs, and incentives to private savings. In exchange, the United States promised assistance, including the funding of technical assistance missions.<sup>4</sup>

In their pre-presidential task force report, Surrey, Musgrave, and E. Cary Brown had urged Kennedy to support tax reforms in Latin America. To exchange information, garner support and identify the practical challenges, they proposed two conferences on tax administration and on tax policy in 1961 and 1962. This plan had been brewing at the Harvard Law School International Tax Program, headed by Surrey. When appointed Assistant Secretary to the Treasury in 1961, Surrey went ahead and coordinated efforts with the OAS, the ECLA, the US Treasury, the IRS, AID, the Harvard International Tax Program and the Ford Foundation. Musgrave served as an occasional consultant to the Treasury, working under Surrey. In 1961, he opened the Buenos Aires conference on Tax Administration with a paper on the distribution of the fiscal burden in Latin America, applying the methodology used in his US study, a decade earlier (Musgrave 1965).

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<sup>4</sup> Text of the Charter: [https://avalon.law.yale.edu/20th\\_century/intam16.asp](https://avalon.law.yale.edu/20th_century/intam16.asp)



The Harvard Program, then directed by tax law professor Olivier Oldman after Surrey's departure for Washington, wanted Musgrave to be a keynote speaker at the next conference in Chile, but for some reason he did not attend.<sup>5</sup> In his speech for the Santiago Conference, Surrey stressed the need for Latin American nations to increase the size of their public sector and to better distribute their fiscal burden. The region needed more "engineers" of taxation: economists, statisticians, and lawyers, but the "the contribution of foreign technicians [would] be much more lasting if they help[ed] countries to develop their own staff".<sup>6</sup> To be successful, basic tax reforms must "come from within Latin America itself", remarked Surrey. The report of the Santiago Conference stressed that "increased revenue [was] essential to enable the countries of Latin America to spend more on purposes essential for development and on the mitigation of social and economic inequality" (Joint Tax Program et al. 1965, p. 419).

In the meantime, Musgrave had moved to Johns Hopkins University, closer to the action in Washington, but stayed only a short while, moving again to the newly created Woodrow Wilson School of Public Policy at Princeton, in 1962. As vice-president of the AEA, he was at the heart of a profession that had achieved a high level of public authority. Oldman was keen to recruit Musgrave in the Harvard International Tax Program (Robbins 2007). Musgrave had hoped to go back to Cambridge for many years. In 1965 he was the first professor of economics appointed at the Harvard Law School, jointly with the Department of Economics.

Harvard was the nexus of tax expertise and Latin America policy. Even before the creation of the Alliance for Progress, the International Tax Program had produced a 500-page survey of Colombian tax law, part of a World Tax Series for experts engaged in international

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<sup>5</sup> Oldman to Surrey, 7/11/1961, SSS Papers, Box 210, Latin America Tax Problems.

<sup>6</sup> SSS Papers, Box 209, Latin America on Tax Policy 1962, p. 10.

comparative work, but also serving as a reference for American firms doing businesses in Colombia (Eder, Chommie, and Becerra 1964). In the early 1960s, the Ford Foundation supported the creation of the Harvard Development Advisory Service (DAS) (Mallon, 2000). In 1964, Richard Bird joined the DAS staff as an expert in fiscal policy, directly advising the Colombian Ministry of Finance. Bird had completed a PhD at the University of Columbia under the supervision of Carl Shoup in 1961 (Bird in Alford et al. 2009). Before he left for Colombia, Bird edited a collection of *Readings on Taxation in Developing Countries* with Oldman. Oldman and Musgrave also co-taught a seminar on “Tax Reform in Developing Countries”.<sup>7</sup>

As the decade progressed, the challenges of achieving ambitious structural reforms became more apparent. In the US, Surrey and Musgrave never saw the basic tax reform they had hoped for. Congress reduced income tax rates in 1962 and in 1964 with some degree of base broadening, while also introducing new exemptions. Surrey continued to support the Alliance for Progress: “The experience gained in studying tax problems and in formulating tax policy in the United States can be usefully transferred to Latin America”.<sup>8</sup>

Musgrave’s involvement in developing countries intensified. In 1965, he acted as a consultant on fiscal reform for the Korean government. In 1966, he participated in a Harvard International Tax Program and USAID tax reform mission in Chile directed by Oldman.<sup>9</sup> In 1967, he advised the Bahamian government to undertake a major reform of their property and company licensing taxes. The same year, he wrote a memo for the UN Fiscal Division in which he outlined his normative framework for fiscal reform in developing countries. Given a non-inflationary growth rate target, one could calculate the required level of savings. If private savings were too low, public saving would have to rise through increased public revenues. With

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<sup>7</sup> Official Register of Harvard Law School, 63(4), April 1966 for 1966-1967, p. 91.

<sup>8</sup> SSS Papers, 02/1967, Box 211, Latin America Tax Problems.

<sup>9</sup> RAM Papers, Box 4, own work 1966.

the revenue gap identified, one could estimate the tax structure gap to be bridged through reform. The ratio of tax revenue to GNP was the simplest test to compare the performance of countries at comparable stages of development (Musgrave 1967).

Musgrave then expanded this work into a comparative study of *Fiscal Systems*, in which he contrasted the theory and empirical patterns of tax and expenditure development. His book provided a cross-section econometric analysis of countries by income level. Musgrave also drew from works in development economics and growth theory by Lewis, Nurkse, Solow, Rosenstein-Rodan, Kuznets and Myrdal. He made it very clear that demographic, political, social, and cultural factors affected the pattern of public expenditure development. Musgrave referred to different stages of development, each with its own challenges and with its own “tax handles”. In low-income countries where agriculture dominated, the informal nature of the economic processes made presumptive taxes a useful tool (Musgrave 1969, p. 126). As the economic structure changed with development, “the great bulk of income and output now move[d] through the market and transactions [were] valued in money terms. The income-expenditure flows may be tapped at almost any point, and revenue be diverted to the treasury” (ibid., p. 131). The progressive income tax lay at the horizon of economic development. However, in low-income countries, transfer policies conflicted with the need for sustained private saving and capital accumulation (ibid., p. 81).<sup>10</sup> In the early stage of development, commodity taxes on luxury items were the most effective way of tackling income inequality, while favoring savings (ibid., p. 129). But even if the ratio of saving to consumption was raised, growth needed an increase in productivity and/or an increase in the level of employment of resources. Raising productivity, in turn, called for “increased capital formation, including investment in human skills” (ibid., p. 208). Contrary to rich countries where the problem of

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<sup>10</sup> See also Musgrave and Musgrave (1973, p. 728) and Musgrave (1987).

unemployment could be solved by increasing consumer demand, in poor countries, the issue was rather underutilization of land resources and the low productivity of investment, for which a different fiscal policy was needed (ibid., p. 212-6).

As the “decade of development” progressed, it became clearer that some of the high hopes could not be attained.<sup>11</sup> Musgrave and his like-minded colleagues shared the mid-century developmentalist perspective that “all good things come together” (Hirschman 2013). In Latin America, the hope was that political stability and democracy would follow from development-oriented American assistance. This was integral to the liberal democracy vision of many high-minded American intellectuals during the Cold war. In 1968, Musgrave showed no sign of a waning progressive spirit, but having taught the subject, contributed to the academic literature, and advised governments, he was fully aware of the challenges facing tax reform in developing countries.

### 3. The Musgrave Mission

#### 3.1. Musgrave’s Mission to Colombia

In April 1968, President Carlos Lleras Restrepo, an expert on finance himself, created a technical commission to propose a reform of Colombia’s tax system (Musgrave and Gillis 1971, 3).<sup>12</sup> The President made it clear that the commission would be an independent body and the government, not accountable for its conclusions.<sup>13</sup> Musgrave, appointed chair of the commission,<sup>14</sup> hired foreign experts: Oldman, Alan Peacock (Uni of York), and Paul Senf

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<sup>11</sup> On the development decade, see Kennedy’s address at U.N. General Assembly, 25 September 1961, <https://www.jfklibrary.org/learn/about-jfk/historic-speeches/address-to-the-united-nations-general-assembly>

<sup>12</sup> On Lleras Restrepo’s technocratic politics, see Álvarez, Fajardo, and Hurtado (2024).

<sup>13</sup> Miguel Urrutia, interview with the author.

<sup>14</sup> DAS Report, December 1967– March 1968. I am indebted to Andrés Guiot-Isaac for sharing the DAS reports with me.

(Saarland Uni) (Oldman and Surrey 1972, p. 282).<sup>15</sup> The four Colombian academics chosen by the President were Abel Cruz-Santos (Uni Externado), Carlos Echeverri Herrera (Uni Nacional), Humberto Mese Gonzalez (Uni Nacional), and Eduardo Wiesner Duran (Uni Los Andes).<sup>16</sup> Two other Colombian advisors and a technical staff of 23 individuals, including Richard Bird, Malcolm Gillis, Charles E. McClure, Miguel Bermúdez, and Dick Netzer supported the commission by writing staff papers. With a PhD in economics from Harvard, Netzer had some direct knowledge of the Colombian fiscal system having spent the previous summer working at the DAS on local finance problems. One of the Colombian staff members, Enrique Low Murtra, had spent one year at Harvard on a Rockefeller fellowship, working on a PhD thesis about tax policy for development under the supervision of Musgrave.<sup>17</sup> Miguel Urrutia Montoya acted as a coordinator of the commission and liaison with the Ministry of Finance. Compared to previous tax missions in Colombia, this was a very large enterprise.

Upon his arrival in Bogotá, in April 1968, Musgrave was presented in the press as a Harvard Professor of Public Finance and former adviser of Kennedy with a wide experience in tax reform. While a part of the Colombian elite considered itself already overburdened by taxes, Musgrave declared that he was seeking “moderate taxes that everyone could pay” which was preferable to “high taxes that no one pays”.<sup>18</sup> In an interview, he argued that people must be “aware of the need to contribute, individually and collectively, to finance the basic structure on which the economic and social future” of the country would be built. Before even starting the

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<sup>15</sup> *El Espectador*, 5/04/1968; 9/04/1968, p. 8A, RAM Papers, Box 7, Press.

<sup>16</sup> *El Espectador*, 18/04/1968, RAM Papers, Box 7, Press.

<sup>17</sup> Rockefeller Foundation Records. Fellowship Files, Record Group 10.1, Series 311, Box 145, folder 2320, Rockefeller Archive Center, Sleepy Hollow, NY.

<sup>18</sup> *El Espectador*, 4/04/1968, 5/04/1968; RAM Papers, Box 7, Press.

commission's work, Musgrave claimed that to achieve a "rapid and harmonious" development, the country's tax base must be "equitable and highly productive".<sup>19</sup>

The commission officially met for two weeks in May 1968 to "deliberate on some of the major fiscal issues facing Colombia" (Oldman and Surrey 1972, p. 283). The discussions were not always easy as each member had a different background, and some only spoke Spanish and others, including Musgrave, only English.<sup>20</sup> By the end of August, more than a thousand pages of staff papers had been produced (Musgrave and Gillis 1971, p. xvi). The commission reconvened in mid-September 1968 for two weeks of discussion on the recommendations. In its September report, the DAS noted that "The Commission's recommendations are still being very closely held in order to reduce the complications of obtaining maximum agreement among Commission members and to facilitate future management of the bill".<sup>21</sup> The Colombian members did not take an active role in the formulation of the recommendations, but Musgrave broke new grounds on, at least nominally, asking members to vote on them (Oldman and Surrey 1972, 283). With the help of a few staff members, Musgrave wrote the report between October and December 1968. At the end of the year, it was translated into Spanish and shared with members of the commission for review. Each signed the final report, submitted to President Lleras in February 1969, but some expressed dissenting opinions on specific issues in footnotes and short appendices. Meanwhile, Oliver Oldman assembled a team of six lawyers (three Colombians, three foreigners) to draft tax "illustrative legislation" to implement some of the recommendations (Musgrave and Gillis 1971, p. xviii). At the same time, the Colombian

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<sup>19</sup> *El Tiempo*, 5/04/1968, RAM Papers, Box 7, Press.

<sup>20</sup> See Currie to Ruthven, 16/11/1949, LCC Papers, Box 33, Folder 10; confirmed by Miguel Urrutia in interview with the author.

<sup>21</sup> DAS Report, July-September 1968.

Congress adopted a constitutional reform that gave the President full prerogatives over taxes and public expenditures (Berry 1980).

The report was structured along a set of objectives reflecting the priorities of Colombia's development plan and echoed the goals of the Alliance for Progress. The fiscal system was to support a real GNP per capita growth rate of 2.5%, internal and external stability, and a broadly shared distribution of income and wealth (Musgrave and Gillis 1971, p. 7). To achieve these goals, the report made recommendations that would increase revenues by at least 15%, up to 22% depending on the options selected by politicians. The 130 recommendations ranged from repealing the excess profit tax and imposing a flat rate of 40% on business income, to strengthening the net wealth tax and broadening its base by incorporating more types of assets. To increase tax yield and to reduce inequalities, the Musgrave mission advocated a heavier reliance on luxury taxation, rather than making the income tax schedule substantially more progressive. It proposed higher rates for the newly introduced national sales tax, from a schedule of 0 to 15%, to one ranging between 0 and 50% (p. 115).

In some respects, the recommendations echoed those of an earlier *Fiscal Survey of Colombia* sponsored by the OAS and the IDB under the direction of Milton C. Taylor, a professor at Michigan State University. Taylor's report had made a number of progressive reform proposals to improve equity and increase government revenues (Taylor and Richman 1965). Yet, it did not articulate those recommendations to an explicit economic framework like Musgrave (Bird 1970, p. xiv; Shoup 1973).

Concerning land, the Musgrave report proposed to revise cadastral value and strengthen the property tax. As the Taylor report, it proposed a presumptive tax on income from agriculture based on an assumed annual yield of 10% of the cadastral value. By disallowing the possibility of agricultural loss to offset other sources of income, the tax would incentivize

productivity, and improve horizontal equity by tapping a source that avoided taxation (Musgrave and Gillis 1971, pp. 66-67). In a chapter on intergovernmental fiscal relations, the report recommended improving access to healthcare, the construction of transport infrastructure, and a minimum of five years of public education (ibid., p. 168–92). Expenditures in education were justified by the high return on investment in human capital.

### 3.2. Normative and Positive Elements in the Musgrave Report

Most of the recommendations contained in the report were not original. Some had been suggested in the 1950 IBRD report, while others were proposed by Taylor in 1965. Before convincing the wider public, what mattered was the possibility of forging a consensus within the commission. In his own time, Kemmerer prided himself of always managing to “iron out the differences” between experts (Kemmerer 1927). By putting proposals to the vote, Musgrave exposed himself to bigger challenges. Perhaps Musgrave had the required leadership qualities, as Samuelson later suggested in his eulogy when he remarked that he “always sat at the head of the roundtable” (Ott et al. 2008).

Musgrave’s concern for equity and its articulation into vertical and horizontal equity was reflected in the Colombian report. It called for adjustment to the definition of taxable income to bring it more in line with ability to pay, by including more sources of income and canceling some special exemptions: “The result would be an improvement in horizontal equity and a broadening of the tax base” (Musgrave and Gillis 1971, p. 35). Vertical equity would be improved mostly by raising the level of personal exemption that had been eroded by inflation (ibid., 36). However, horizontal equity was a more pressing concern for the Commission, notably because of large variations in the effective incidence of taxes between individuals with similar abilities to contribute, due to widespread tax avoidance (ibid., p. 33-5). Incentive



provisions had often created inequalities in the distribution of the tax burden between firms and between individuals, not to mention misallocation of resources and erosion of the tax base (ibid., p. 92).

Horizontal equity and vertical equity are formal concepts that help to structure discussions of tax reform by expressing normative judgments on alternative tax proposals. Yet, to convince each other, economists also appealed to positive analysis. In developing countries, the production of data is an important part of foreign missions (Drake 1988). First, to understand what is going on and to work toward a shared representation of the economy between the experts and the local politicians. Second, objective knowledge helps convince others that the recommendations are both feasible and advisable. Foreign advisers can be distrusted by local economists, politicians, and the broader civil society, and accused of providing irrelevant advice for the country. Thus, the production of objective knowledge on the economy helps communication by reducing the cultural distance separating the foreign advisers and the local experts and politicians (see Porter 1995, p. ix).

The staff of the Musgrave mission, helped with Colombian civil servants, spent a great deal of time compiling data on the Colombian economy. For instance, national income accounts, projections of expenditures, as well as detailed tax returns by citizens all fed into the calculation of fiscal deficits forecast, on which proposals of increases to the tax rates depended.

Two key tables of Musgrave's report show how empirical estimates could convince members of the commission and readers that the Colombian tax system was not very progressive (Table 1), and that its fiscal burden was low by international standards (Table 2).

The procedure to estimate the tax burden by income group pioneered by Colm and Tarasov (1940) and refined by Musgrave et al. (1951) involved three steps. First, estimating the distribution of income. Second, allocating tax payments to different classes of income based

on the knowledge of incidence. Third, calculating effective tax rates by income brackets. Since the second step involved numerous assumptions about the shifting of various taxes, Musgrave described the whole procedure as “quantification of theoretical deductions” (Musgrave 1965, 31).

Effective Rates of Taxation by Income Brackets, 1966

| Income Bracket<br>(thousands of pesos) | Personal<br>Income Tax <sup>a</sup><br>and Transfer<br>Taxes<br>(A) | Corpo-<br>ration<br>Income<br>Taxes<br>(B) | Sales<br>Tax<br>(C) | Property<br>Taxes<br>(D) | Alcohol,<br>Tobacco,<br>and Beer<br>Taxes<br>(E) | Motor<br>Vehicle<br>Taxes<br>(F) | Import Duties<br>and Other<br>Indirect<br>Taxes<br>(G) | Exchange<br>Earnings<br>on Coffee<br>(H) | Total<br>Taxes<br>(I) |
|--|---|--|---------------------|--------------------------|--|----------------------------------|--|--|-----------------------|
| 0 - 2.9                                | 0.04  | 1.02                                       | 0.94                | 0.43                     | 6.96   | 0.17                             | 3.11   | 0.12                                     | 12.81                 |
| 3.0- 5.9                               | 0.01  | 2.20                                       | 0.93                | 0.75                     | 3.53   | 0.22                             | 3.71   | 0.50                                     | 11.93                 |
| 6.0- 9.9                               | 0.07  | 2.90                                       | 1.43                | 1.01                     | 2.15   | 0.21                             | 5.17   | 1.09                                     | 14.13                 |
| 10.0- 39.9                             | 0.80  | 2.70                                       | 1.39                | 0.94                     | 1.18   | 0.18                             | 5.27   | 0.90                                     | 13.34                 |
| 40.0- 79.9                             | 4.29  | 2.60                                       | 1.32                | 0.90                     | 1.35   | 0.17                             | 5.00   | 0.71                                     | 16.41                 |
| 80.0- 99.9                             | 6.10  | 2.90                                       | 1.11                | 0.97                     | 0.98   | 0.17                             | 5.01   | 0.43                                     | 17.68                 |
| 100.0-199.9                            | 7.55  | 2.90                                       | 0.93                | 0.95                     | 0.77   | 0.17                             | 4.43   | 0.02                                     | 17.75                 |
| 200 and over                           | 7.08  | 3.20                                       | 0.75                | 1.01                     | 0.17   | 0.17                             | 4.45   | —  | 16.84                 |
| Average                                | 2.03  | 2.55                                       | 1.16                | 0.87                     | 2.15   | 0.19                             | 4.60   | 0.59                                     | 14.16                 |

Table 1 Source: Musgrave and Gillis (1971, 32)

In the Colombian commission, Charles E. McLure, Jr. was in charge of estimating the distribution of the fiscal burden. McLure had just received his PhD two years earlier at Princeton under the supervision of Musgrave. Estimating the distribution of income in Colombia was not easy. McLure extrapolated from tabulations of income tax returns of Bogotá residents prepared by Carol A. Taylor on a previous DAS appointment in Colombia.<sup>22</sup> McLure also used national accounts for 1964, and the 1964 population census (Musgrave and Gillis 1971, p. 240; see also Berry and Urrutia 1976, p. 18–19). The second step involved first making decisions about which taxes to include, then, allocating part of the receipts of these taxes to different economic agents based on theoretical models of incidence, and finally attributing them to income brackets based on tax returns and estimations of spending patterns made in a recent IMF study of the Colombian sales tax. Effective tax rates were then obtained by simple division

<sup>22</sup> DAS Report, December 1967-March 1968.

(see Table 1). For Musgrave, and for most of the commission members, the picture was clear: “The tax structure is roughly proportional at the lower end of the scale, is progressive in the P 40,000 to P 80,000 range, and then flattens out. Thus, the present tax system seems to do little to redistribute income” (Musgrave and Gillis 1971, p. 30).

A staff paper comparing the Tax revenues and tax Burden in Colombia with other Latin American nations was prepared by Peter S. Griffith, a Harvard Law School graduate with experience in developing countries, and Miguel Bermúdez, an economic adviser in the Ministry of Finance. The calculation of the ratio of tax revenues to GNP was much more straightforward, but its interpretation was no less delicate. The normative use of international tax burden comparison had a long history. Musgrave once remarked that it has been used in the Treaty of Versailles in 1918 to evaluate Germany’s capacity to pay reparations (Musgrave 1937, p. 168). The expression of “tax effort” to designate the ratio echoed the patriotic language of tax sacrifice used by Musgrave and others during the Second World War (see, Musgrave and Seligman 1944).

| Ratio of Tax Revenue to Gross National Product <sup>a</sup> |                             |  |          |  |
|---|-----------------------------|--|----------|--|
|   | Ratio of Revenue to GNP (A) | Ratio As Percentage of Average Ratio (B) | Rank (C) | Difference Between Actual and Presumptive Ratios Allowing for Per Capita Income <sup>b</sup> (D) |
| <i>Average for 1963-1965</i>                                |                             |  |          |  |
| 1. Colombia   | 11.5                        | 69.3                                     | 6        | -26 <sup>c</sup>   |
| 2. Brazil   | 21.4                        | 128.9                                    | 1        | 49   |
| 3. Chile  | 20.9                        | 125.9                                    | 2        | 16   |
| 4. Argentina  | 20.1                        | 121.1                                    | 3        | 8  |
| 5. Ecuador  | 16.7                        | 100.6                                    | 4        | 16   |
| 6. Peru   | 16.0                        | 96.4                                     | 5        | 3  |
| 7. Mexico <sup>d</sup>                                      | 9.9                         | 59.6                                     | 7        | -38  |
| 8. Average  | 16.6                        |  |          |  |
| <i>Colombia, Recent Years</i>                               |                             |  |          |  |
| 9. 1966 <sup>e</sup>  | 11.8                        |  |          |  |
| 10. 1967 <sup>e</sup>                                       | 12.3                        |  |          |  |
| 11. 1968 <sup>e</sup>                                       | 11.7                        |  |          |  |
| <i>Colombia, 1971 Projection</i>                            |                             |  |          |  |
| 12. Present rates   | 11.6 <sup>f</sup>           |  |          |  |
| 13. Increase of P 3.0 billion                               | 13.8                        |  |          |  |
| 14. Increase of P 4.5 billion                               | 14.9                        |  |          |  |

Table 2 Musgrave and Gillis (1971, 25)

Colombia relied more on direct taxes than other Latin America countries. However, the individual income tax was still mostly collected from public sector employees and middle-class professionals and salaried employees in cities. The agricultural sector largely avoided taxation. The portrait painted in Table 2 was clear: “At present, Colombia’s tax effort ... is among the lowest in a group of comparable countries ... Although such comparisons are difficult to make, the picture nevertheless indicates that the scope of the proposed increase should be attainable.”

As persuasive as these empirical results might seem, they did not convince everyone. In a dissenting footnote in the final report, Eduardo Wiesner stated: “I do not think that the evidence under consideration permits the conclusion that the Colombian tax structure contributes very little to the redistribution of income.” (Musgrave and Gillis 1971, p. 34).<sup>23</sup> Wiesner also opposed the interpretation of Table 2: “I do not agree with the conclusion that ‘Colombia’s tax effort ... is relatively low’” (Musgrave and Gillis 1971, p. 28). The report did acknowledge that a high tax revenue to GNP ratio was not a “sign of virtue”, but the expression of ‘tax effort’, used by Musgrave conveyed a more positive image than that of ‘tax burden’. While care was needed in making such comparisons, Musgrave, Oldman, and Senf believed that the wording of the report did not go far enough: “We consider that a higher tax-to-GNP ratio is necessary to finance economic development in Colombia, and we interpret the fact that its present tax-to-GNP ratio is quite low (relative to other Latin American countries) as highly relevant in judging the feasibility of better performance.” (ibid., p. 28).

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<sup>23</sup> A Colombian economist who obtained a master’s degree from Stanford on a Rockefeller fellowship, Wiesner had participated in the Taylor mission a few years earlier. In 1968, at 34 years old, he was Dean of the Economics Faculty of the Universidad de los Andes in Bogotá (Offner 2019, p. 131).

## 4. The Legacy of the Musgrave mission in Colombia

### 4.1. The Reception of the Musgrave report

The Musgrave report was much discussed in the Colombian public, leaving “no one” “immune” according to the Minister of Finance, Abdón Espinosa Valderrama (1970, p. 240). Espinosa disagreed with some of the recommendations, but he nonetheless praised the professionalism of the commission and the usefulness of its work, especially the quantitative analysis on the distribution of income in the country (Espinosa Valderrama 1970, p. 237, p. 241). Many Colombians opposed the idea of increasing taxes, but Miguel Urrutia, former Secretary of the Musgrave commission, defended its recommendations. The son of a former Colombian Ambassador to the U.S. and the UN, Urrutia had graduated from Harvard in 1961 and received a PhD in Economics from Berkeley in 1967. After the mission, he worked at the Monetary Board of the central bank. He was invited by a prominent Liberal politician, Alfonso López Michelsen, to give a public lecture to explain the mission’s report. The Society of Economists also invited him to debate the President of the National Federation of Retailers and Wholesalers (Fenalco). José Raimundo Sojo Zambrano raised doubt about Musgrave’s knowledge of the Colombian economy and about the applicability of his proposals to the country. Urrutia retorted that every proposition was put to the vote and that some Colombian experts had to support them to get a majority (Ayala 1969).<sup>24</sup>

By the end of 1969, a few minor recommendations had passed through Congress. The personal exemption was increased and made subject to a vanishing formula at higher incomes, the list of special exemptions had been reduced, and business tax withholding was improved. Congress also confirmed the expiration of the investment incentives adopted earlier in the

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<sup>24</sup> In interview with the author in 2021, Urrutia denied that voting systematically took place in the commission.

decade, as well as transferred some revenue sources to subnational units, as the report recommended (Gillis in Musgrave and Gillis 1971, p. 230–31).

However, the substantial tax-increasing proposals were shelved as the international coffee price surged in late 1969. Besides the increased revenues from the export tax, improvement in the foreign exchange reserves allowed greater imports that, in turn, contributed to an increase in import duty revenues (*ibid.*, p. 229). In 1970, Lleras's presidency ended with the election of the Conservative Misael Pastrana.

With the benefit of hindsight, a few commentators criticized Musgrave's revenue targets. Espinosa wrote that the extra revenue target of P 3-4.5 M was an "error" (Espinosa Valderrama 1970, p. 238). Currie later questioned whether such an increase was necessary considering that the deficit was well covered by external borrowing and that the economy attained a growth rate of 6% by the end of the decade without the additional revenues and investments called for by the report (Currie 1981, 108). Currie suggested that "if the Musgrave Commission had stuck to 'reform' in the narrower sense of the term, by reducing some items to offset the abolition of certain tax exemptions and by lessening evasion in other items", its main propositions would have had a better chance of rallying the political class (*ibid.*, p. 108). Yet, Currie also acknowledged that the commission's plan for five years of universal education called for substantial extra revenues. Indeed, in his staff paper, Urrutia had estimated that the measure would cost up to P 2.9M in 1971 (Musgrave and Gillis 1971, p. 794). Extra revenues were needed, not merely to balance the books, but to increase public savings to invest in infrastructure and increase spending in health and education, a view that was common amongst developmentalist tax experts, from Goode (1951) to Kaldor (1963) and Musgrave. These goals were also shared by the government of Lleras and, at the time, supported by the IMF and the US Treasury as part of the Alliance for Progress.

## 4.2. The 1974 Tax Reform

During the Pastrana presidency, the fiscal deficit increased, generating inflation above 25%. In the April 1974 election, the Liberal candidate Alfonso López Michelsen promised to tackle inflation and reduce the deficit without cutting welfare expenditures. Elected with an absolute majority, López Michelsen immediately assembled a team of young technocrats to plan a tax reform. Rodrigo Botero, future Minister of Finance, led the discussions in the office of the Foundation for higher education and development (Fedesarrollo), a private research think tank he had co-founded in 1970 (Flórez Enciso 2009, p. 201; see also Dargent 2014, p. 79-80).

The Musgrave mission report served as a “roadmap” for the working group of young technocrats.<sup>25</sup> In fact, Urrutia had just translated into Spanish the version of the report edited by Malcolm Gillis that included the staff papers. In his prefatory note, he argued that the publication was important because “even today the adoption of many of the recommendations contained in these pages would contribute to creating a more just society in Colombia” (Urrutia in Musgrave and Gillis 1974, p. 11). Directly advised by Urrutia, President López Michelsen declared in his inaugural address: “We have one of the lowest indices in the world in terms of fiscal participation in GNP, barely 8.5 per cent, which by any standards, is one of the lowest in America and in the world” (Cited in Urrutia 1989, p. 261).

Upon taking power, the President used a constitutional provision to declare a state of economic emergency, allowing passing the tax reform without debate in Congress.<sup>26</sup> Although

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<sup>25</sup> Interview of Urrutia with the author.

<sup>26</sup> The necessity to obtain a two two-third majority for important bills in Congress meant that over the years, many presidents imposed a state of exception. See Junguito and Rincón (2004, p. 59).

the tax reform took them by surprise, many elements of civil society supported the newly elected government (*ibid.*, p. 275). López Michelsen and his young technocrats still had to convince all his ministers. Some cabinet members fixed the details of the reform proposal during breakfast at the Central Bank with Botero, Urrutia and Guillermo Perry Rubio, the future director of the tax office (Urrutia 1989, p. 270). Many trade associations and labor unions expressed strong reservations about certain measures, but all decrees were adopted before the end of 1974.

The principal revenue-generating measure was a revamping of the sales tax with a broader base and an improved credit-invoice system (McLure 1989, p. 62). In line with the Musgrave report, rates on many luxury goods were increased. As Musgrave had recommended in a 1951 memo for the Colombian government, the complex corporate income tax was simplified (McLure and Zodrow 1997, p. 58).<sup>27</sup> The excess profit tax was finally repealed. The reform also eliminated the exemption of various kinds of income from the individual income tax base, as well as eliminating exemption of types of wealth from the base of the net wealth tax (Gillis and McLure 1978, p. 238). The top marginal income tax rate was raised from 52 to 56% and the top rate on net wealth from 1.5 to 2.0% (*ibid.*). One of the cleverest measures was to include in the tax base a presumed income of 8% of net wealth (McLure and Zodrow 1997, p. 71). Whereas the Musgrave report had proposed a presumptive tax on income from agriculture, Ivan Obregón suggested a presumptive tax on all types of income from wealth, to preempt criticism that a presumptive tax on agriculture would be discriminatory (Urrutia 1989).

The first challenge to the reform came from the Council of State that ruled some decrees unconstitutional (Gillis and McLure 1978, p. 249; McLure and Zodrow 1997, p. 69). Nonetheless, in the short run, the reform generated substantial new revenues. In one year, the

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<sup>27</sup> “Tax Policy of the National Government”, Musgrave 15/02/1951, LBC Papers, Box 32, Folder 2.



tax to GDP ratio climbed from 8.1% to 11.1% (Urrutia 1989, p. 267). During the four years of López Michelsen's presidency, poverty declined in Colombia and income inequalities shrank (*ibid.*, p. 286). On paper, the new Colombian tax structure was certainly of the best in the developing world (McLure and Zodrow 1997). Yet, the lack of rigorous auditing and serious enforcement made it much less effective than it could have been. In 1975, personnel of the Ministry of Finance went on strike to block administrative changes that would have improved the wages of tax officials and allowed to recruit highly qualified and honest tax accountants. Many Colombian taxpayers eventually found creative ways to evade taxation. In the subsequent years, tax revenues increased slower than inflation (Urrutia 1989).

#### 4.3. The Long-term Legacy

What was the long-term legacy of the Musgrave mission? In the 1980s, the pendulum swung toward more pro-market views in economic policies (see McLure 1988; Bird 1992; Musgrave 1994b). In tax reform proposals more emphasis was put on efficiency, simplicity, neutrality at the cost of equity (Gillis 1989b; McLure and Zodrow 1997). The two-way flow of economists between Colombia and the US explains the joint evolution of the conventional wisdom. As Musgrave (1990) remarked, "tax reformers are a closely-knit community extending across national borders". Indeed, many Colombian economists pursued graduate studies in the US, while American economists such as Bird and McLure were invited to advise on new tax reforms in Colombia. Thus, the goals of tax reform and the tax instruments privileged during the 1980s in each country had more in common with each other than they had with those of the 1960s in both countries.

In Colombia, political pressure from vested interest in Congress also contributed to a series of "counter reforms" that partly dismantled the progressive advances of the previous

decades. In 1983, the presumptive income tax was reduced for land assets. A tax credit on corporate dividends was also granted (McLure and Zodrow 1997, p. 72). Like in the US, Colombia passed a major revenue-neutral tax reform in 1986 (McLure 1992). Dividends were excluded from the individual income tax and the top rate was brought down to 30%. Invited in 1986 to a forum on tax reform in Bogotá, Musgrave noted the similarity with the rate-cutting and base broadening reform in the US, but he also remarked that the Colombian reform would shift part of the burden from high-income to low- and middle-income individuals.<sup>28</sup> The net wealth tax established in 1935 and supported by Musgrave and Currie in 1950 and later by the Musgrave mission in 1969 was abolished in 1989 (McLure and Zodrow 1997, p. 64). As a result, the tax to GDP ratio did not grow substantially after the 1960s. By the end of the 1980s, the Colombian “tax effort” was still among the lowest in Latin America, and still much lower than in high income countries (Urrutia 1988a; McLure and Zodrow 1997).

In the 1980s and 1990s, drug-related violence dominated the political landscape, creating periodic crises. As the century came to a close, proposals for reforms put forward by American experts aimed at strengthening political institutions, liberalizing markets, broadening the base of the VAT and the income tax, while reducing income tax rates (Alesina 2005; Bird, Poterba, and Slemrod 2005). Across the world, concerns over international tax competition led to a shift of the burden from corporate income to consumption, but without the rate differentiation advocated by Musgrave and tax reformers of his generation (Thirsk 1997). In Colombia, successive governments implemented many piecemeal reforms that rarely matched the coherent vision of the local and foreign experts (Castañeda 2018).

At the turn of the 1970s, some economists questioned the postwar consensus that economic growth would bring an end to poverty and started directly studying inequality

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<sup>28</sup> *El Tiempo*, 13/11/1986, 18/11/1986, RAM Papers, Box 6.

(Prebisch 1969, Desmarais-Tremblay et al. 2023). But it was only in the second decade of the twenty-first century that increasing inequalities in the West became an important subject of economic research and a key political issue in many countries. In 2015, Miguel Urrutia and Guillermo Perry participated in a commission of Colombian experts that recommended a tax reform to improve the equity and the competitiveness of the tax system. In their report produced by Fedesarrollo for the Ministry of Finance, they argued that Colombia was in urgent need of a structural tax reform guided by the principles of collection sufficiency, horizontal equity, vertical progressivity, as well as economic and administrative efficiency (Rojas et al. 2016, p. 25). For Urrutia, the 2015 report followed the “gist” of the Musgrave commission.<sup>29</sup> It argued that the Colombian tax burden was low in comparison to other Latin American countries and proposed higher taxes to increase public expenditures in education, protection of childhood, health, pensions, and development in rural regions most affected by violent conflicts (Rojas et al. 2016, pp. 25–26, 31). Among the most important problems identified was a lack of “horizontal equity” and “vertical equity” partly due to exemptions and tax evasion (ibid., 27). However, the tax law passed by Congress in 2016 did little to simplify the tax system or to reduce the horizontal inequities arising from the widespread use tax-avoiding cash payments (Castañeda Rodríguez 2019).

In 2019, another commission of local and foreign experts proposed a reform of the tax system to increase public revenues and remove tax expenditures that had been creeping over the years (OECD, DIAN, and Ministerio de Hacienda 2021). Soon after, President Iván Duque proposed a revenue-increasing tax reform bill in 2021 (Torrado 2021). Drawing from the previous two expert reports, it prioritized equity and fiscal sustainability over efficiency and simplicity. With the Covid pandemic, higher inflation and unemployment, and failure to

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<sup>29</sup> Interview with the author.

implement the peace deal with the FARC, the President lost political capital (Fergusson and Hofstetter 2022). With a Minister of Finance damaged by scandals, the tax bill which would have lowered the income tax threshold and revoked some VAT exemptions sparked mass protests in which dozens of people died. A more modest tax bill increasing corporate income tax finally passed through Congress in September 2021 (EY 2021).

Growing discontent over traditional political elites led to the election of left-leaning Gustavo Petro in the Presidential election of 2022. He appointed former Director of Fedesarrollo and UN official José Antonio Ocampo as Minister of Finance. Taking power in August 2022, they proposed a tax reform which was not radically different from the April 2021 bill of Duque, but put more emphasis on environmental sustainability and fighting inequality. Presented as a reform for “equality and social justice”, it renewed with some themes of the 1974 reform. They again argued that Colombia had one of the lowest levels of tax collection as a proportion of GDP compared to OECD and Latin American countries (Ministerio de Hacienda y Crédito Público 2022). Besides increasing revenues, and reducing negative health and environmental externalities, the main goals were to “promote equity, progressivity, efficiency, and simplicity”. More specifically, improving “horizontal equity” and “vertical equity” (*equidad horizontal y equidad vertical*) was the first objective listed in the Ministry of Finance document motivating the proposal (ibid.). With some amendments the tax reform was approved by Congress and enacted by the President in December 2022. The Law includes a host of measures, but the largest revenue gains are likely to come from a surtax on corporate income from extractive industries (coal, oil), as well as a new graduated net wealth tax, with rates going up to 1.5% (Vargas 2023).<sup>30</sup>

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<sup>30</sup> Ley N° 2277 13 Dic 2022, [https://www.minhacienda.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC\\_CLUSTER-221667%2F%2FidePrimaryFile&revision=latestreleased](https://www.minhacienda.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC_CLUSTER-221667%2F%2FidePrimaryFile&revision=latestreleased)

Even if Musgrave's touch is not directly perceptible in the structure of the Colombian tax edifice today, the most recent tax reform was partly justified in the normative language of tax equity he had articulated more than five decades earlier. Thus, his legacy is to have "lifted the level of the debate" on matters of taxation, both amongst experts and the general public (Bahl and Bird 2008, p. 285). The Musgrave report was published in English and Spanish and was widely read among tax experts in Latin America and in the United States. Some of the lessons learned were also directly taught to students. For instance, Enrique Low, part of the Colombian staff of the Musgrave mission, later co-wrote a textbook on fiscal policy that was used for many years in Colombia (McLure and Zodrow 1997, p. 120; See Low Murtra 1972). Back at Harvard, Musgrave and Oldman taught tax officials from all over the world in the International Tax Program. In 1973, Musgrave and Musgrave published the first edition of their introductory public finance textbook that contained a chapter on "Development finance". Going through five editions, the textbook distilled the lessons Musgrave drew from his experiences of tax reform, combining them with the recent academic literature on tax policy in developing countries and the received wisdom in the community.

## 5. Conclusion

The economist's activities have been compared to many trades, from doctor, to engineer, dentist, and even plumber (Su and Colander 2021). Edwin Kemmerer himself likened the work of the foreign economic adviser to a doctor who "diagnoses the difficulties, prescribes remedies, and then goes away, either leaving to the nationals of the country itself the full responsibility of administering the treatment, or perhaps recommending the appointment of advisers" (Kemmerer 1927, p. 5). Calls for foreign advice on tax reform after World War II

were often motivated by broader development ambitions that could only be achieved, if ever, in the long term (see Gillis 1989a; McLure 1992). In the heyday of structuralism, the work of tax reform can be compared to architectural design. Tax reform takes time and needs to be redone afresh every few years as the economic structure changes. Likewise, major European cathedrals took decades if not centuries to build and additions and alterations were made by different generations of artisans. Musgrave himself compared the Canadian Carter tax Commission report of 1967 to a cathedral: “The spire of vertical equity reaches into the heaven of non-discretionary income; the nave of horizontal equity is sweeping in its purity of accretion; and the transepts of constructive realization and integration complete the unity of Simonesque design.” (Musgrave 1968, p. 159).

Hirschman and Berman (2014) argue that economists are more likely to be influential on policy when they can frame the problem in technical terms, but they are less likely to have a direct impact when the issue is highly public, like tax policy. Yet, tax policy involves highly technical matters which is why technocratic governments in Colombia have over the years called to external experts to propose fiscal reforms. Foreign advisers bring technical knowledge often lacking at home. More importantly, they produce a report to which no one is accountable. At opportune time, politicians can seize and implement pieces of reform inspired by reports waiting for their time (Bird 1970, p. 190; Thirsk 1997, p. 27). But this client relationship does not explain how economists mobilize their intellectual baggage to produce their expertise. The values held by the economist shape their worldview, their normative principles, but also their positive knowledge, to the extent that scientific values guide the methods of inquiry and define what constitutes acceptable scientific beliefs. But, of course, their influence will depend on the presence of other like-minded technocrats in institutions, and the autonomy of these institutions over a domain of politics.

The economist sets foot in the foreign country with a preconceived view of what is a “good tax structure”. Musgrave repeated that tax reformers must have “their eyes fixed on a distant star” (Musgrave 1976; 1981; 1987). Their views on equity supporting the recommendations must be acceptable to the country, but as Musgrave remarked, “pragmatism alone will not do”; reform must be guided by principles (Musgrave 1979, p. 27). Thankfully, the economist is also part of the society, and their values will overlap with those of many members of the visiting community. Although Musgrave’s knowledge of the challenges of tax policy in developing countries grew over his career, there is no evidence of a substantial change in his worldview, nor in the broad direction of tax policy he advocated between 1950 and the late 1960s. He believed in public agency: increasing the fiscal resources of states could allow them to invest in capital, including human capital, allowing poorer nations to develop and tackle poverty. In a democracy, for this collective sacrifice to be acceptable, a fair distribution of the burden was required, but for Musgrave the tax system was not primarily a means to take from the rich to give to the poor.

With the changing generation of economists, the normative criteria and the positive knowledge evolved. In the 1980s, new empirical work on the incidence of taxation and on the failure of some tax instruments to achieve their goals led to changes in the positive part of public finance. But there was also a shift in the values and thus in the norms guiding tax reform: from a focus on growth and equity in the 1960s, more attention was paid to efficiency, simplicity, and neutrality from the 1980s until recently (Musgrave 1981; 1994a; McLure and Zodrow 1997). This transformation applied both to Colombia and the United States. Lately, calls have been made for the tax system to directly address inequalities of income and wealth.

Is technocratic governance opposed to democracy? Although there is certainly a tension, Musgrave did not believe they stood in opposition. He believed that sound public

finances supported democratic institutions. This meant accepting that at the end of the day, politics trumps expertise and thus tax reform is a never-ending process (Musgrave 1954; 1979). The tedious work of tax advising can bring one close to power, but it is not recognized by academic awards granted for the originality of one's contribution to scientific research. The art requires to communicate effectively with fellow academics, but also with lawyers and policy-makers, a set of skills that Musgrave possessed (Surrey 2022, 102). In the long run, what mattered to Musgrave was the thought of having contributed, albeit very modestly, to build a better society. As Sijbren Cnossen remarked upon Musgrave's passing, "he, like the architect of Chartres, wouldn't care if his name were forgotten" (Atkinson et al. 2008, 154).



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