

Desmarais-Tremblay, Maxime

Working Paper

Richard Musgrave in Colombia: The art of tax reform in a developing country

CHOPE Working Paper, No. 2022-06

Provided in Cooperation with:

Center for the History of Political Economy at Duke University

Suggested Citation: Desmarais-Tremblay, Maxime (2022) : Richard Musgrave in Colombia: The art of tax reform in a developing country, CHOPE Working Paper, No. 2022-06, Duke University, Center for the History of Political Economy (CHOPE), Durham, NC, <https://doi.org/10.2139/ssrn.4112321>

This Version is available at:

<https://hdl.handle.net/10419/260581>

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RICHARD MUSGRAVE IN COLOMBIA:
THE ART OF TAX REFORM IN A
DEVELOPING COUNTRY 1

MAXIME DESMARAIS-TREMBLAY

CHOPE WORKING PAPER No. 2022-06
MAY 2022



CENTER FOR THE
HISTORY OF POLITICAL ECONOMY
AT DUKE UNIVERSITY

Richard Musgrave in Colombia: The Art of Tax Reform in a Developing Country¹

Maxime Desmarais-Tremblay

Institute of Management Studies, Goldsmiths, University of London

M.Desmarais-Tremblay@gold.ac.uk

Abstract: Richard A. Musgrave (1910-2007) is remembered today as the American economist who established modern foundations for public finance theory in the middle of the twentieth century. His work as a tax expert in developing countries has received little historical scrutiny. Musgrave was the chief economist of the 1949 World Bank mission to Colombia chaired by Lauchlin Currie. Twenty years later, he himself chaired an import fiscal reform mission in Colombia, the report of which served as a roadmap for the 1974 Colombian tax reform. Drawing from archival material and published sources, this paper reconstructs the intellectual baggage that Musgrave brought on his travels to Colombia. It situates his policy recommendations in the context of the Cold War developmentalist age and the rise of American expertise in Latin America. Musgrave's worldview was consistent over the period. The paper shows how Musgrave employed normative principles of tax equity and positive knowledge about the economy to make the case for progressive reforms to the tax structure. In the long run, the legacy of the Musgrave mission in Colombia is less visible, but that was to be expected, as the conclusion of the paper argues.

JEL Codes: B20, B41, H20, O10, O23, O54

¹ Research for this paper was conducted while I was a visiting fellow at the Center for the History of Political Economy at Duke University. I am grateful for the feedback I received from the fellows and faculty of the Center. Prior research assistance by James Crumpton is gratefully acknowledged. Miguel Urrutia and Andrés Guiot Isaac gave me invaluable information on the Colombian context of the Musgrave mission. I am also obliged to Steve Medema and Robert F. Conrad for feedback on a first draft. Previous versions of this work were presented at the PPE Seminar at ASU Center for the Study of Economic Liberty on 22 October 2021, at a CHOPE lunch seminar on 12 November 2021, at the HES annual conference on 11 December 2021, and at the GIHPTE seminar on 29 April 2022. I thank all the participants of these seminars for their insightful questions and comments.

“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

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 textbooks and 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, 19–23; Balisciano 1998; Bernstein 2001, Chapters 3-4). 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 nations and to developing countries in the South (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 University professor who wrote the leading mid-century treatise that modernized the field of public finance (Mieszkowski 2008; Atkinson et al. 2008). Less well known is the role he played in advising numerous countries on tax policy. Musgrave was one of many prominent twentieth-century European-born economists who emigrated to the United States and used their international experience to reflect on the institutions that support economic

development.² From 1949 until his retirement at the end of the 1970s, he wrote small memorandums 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.³ Among these developing countries, Musgrave's engagement with Colombia span a longer period of time and his influence in the Latin American country was also more significant. Colombia was the "laboratory" of development policy attracting relentless scrutiny and high hopes from American experts during the Cold War (Alacevich 2009, 11; Offner 2019, 6). 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, 10 n.4).

Twentieth century economists often saw themselves as detached experts merely fulfilling orders from governments (Boianovsky and Maas 2022, 387). What role did Musgrave play in Colombia? In order to understand the nature of the advice he gave, we must pay attention to the baggage he brought with him on his travels (see Morgan 2022). This baggage can be articulated in terms of his general worldview, of positive science and normative principles. Yet, the impact of Musgrave's work in Colombia depended on his professional authority as an economist and the rising technocratic institutions within the Colombian democracy. While originality and brilliance are prime marks of academic achievements, when

² A group which could include Alexander Gerschenkron, Wolfgang Stolper, Albert Hirschman, Paul Rosenstein-Rodan, and Nicholas Georgescu-Roegen, among others. See Bianchi (2011), Boianovsky (2018), Alacevich (2021), Suprinyak and Fernández (2021).

³ This list has been assembled from various documents found in the Richard A. Musgrave Papers at Seeley G. Mudd Manuscript Library, Princeton University, thereafter RAM Papers.

it comes to propositions of tax reform, the capacity to convince others and eventually to build a consensus with the parties involved matters more for success.⁴

Contrary to many of his contemporaries, Musgrave did not leave many traces of his work abroad. He did not reflect systematically on his experience as a foreign adviser in developing countries. As a contribution to the history of economic thought and policy, this paper reconstructs the context of the recommendations made by Musgrave in Colombia and relates them to his theory of public finance. It also assesses the relative impact they had on Colombian tax policy. To do so, it draws from various archival sources, newspapers, and published books and articles.⁵

The paper follows a chronological order. The first part summarizes key aspects of Musgrave's intellectual background before explaining the context of the 1949 World Bank mission in Colombia. The second part deals with the 1968 Musgrave mission to Colombia, highlighting the role that his worldview, his normative principles, and the positive knowledge on Colombia played in the report. The third part reviews the legacy of the Musgrave mission in Colombia. A conclusion on the nature of tax reform follows.

⁴ Mallon (2000, 26–27) contrasts the originality and generality expected from academic work in economics with the mundane, repetitive and unoriginal nature of the output produced in advising developing countries.

⁵ Harvard University Archives, World Bank Group Archives, Richard A. Musgrave Papers at Princeton University Library, Lauchlin B. Currie Papers at Duke University, IMF archives, DAS archives, as well as an interview with Miguel Urrutia conducted on 13/12/2021.

1. The World Bank Mission

1.1. Musgrave's Background

Musgrave was born in 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, among other subjects. His prior knowledge of the European continental traditions in public finance gave him a 'comparative advantage' when choosing the subject of his PhD dissertation at Harvard written under the supervision of H.H. Burbank.⁶

In his dissertation, Musgrave conceptualized the interdependence between the public economy and the market economy, the two main systems composing the national economy (Musgrave 1937, 66, 88 ff.). Both allocated resources to satisfy (mostly) individual wants, the main difference being that decisions about which goods would be produced (or bought) by the public economy were taken by the political leaders, acting on the basis of their knowledge of the social needs. Moreover, the "political character" of the public economy meant that "justice considerations" had to be accounted for in the conceptualization (p. 80).

While Musgrave was wrapping his dissertation in 1937, Alvin Hansen was recruited by Harvard University. Keynes's *General Theory* had been published the year before and Hansen provided young economists at Harvard, such as Paul Samuelson and Musgrave, an institutionalist framework to make sense of it all. While he assisted Burbank in the teaching of

⁶ On the early life of Musgrave and his German academic background, see Musgrave (1996; 1997); Sinn (2009), as well as Harvard University Archives, Graduate School of Arts, Student Record of Musgrave, Richard Abel. On the continental traditions in public finance and how they influenced Musgrave, see also Kayaalp (2004), Sturn (2010), Desmarais-Tremblay (2021b; 2021c), and the references herein.

the undergraduate course in public finance, Musgrave participated actively in the Fiscal Policy Seminar convened by Alvin Hansen and John Williams. (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, and to mitigate inequalities. 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 (on the formers, see Johnson 2014; 2015). Still, the field of Fiscal Policy opened a new set of functions for taxation.

After serving three years as an instructor at Harvard, Musgrave was hired as a research economist at the Federal Reserve in Washington. He wanted to go back to the academic life, but in the intervening six years, he acquired practical experience in monetary and fiscal policy, eventually becoming assistant to the Chairman Mariner Eccles.

1.2. The Context of the World Bank Mission in Colombia

In his inaugural speech of January 1949, President Harry S. Truman sought to debunk the “false philosophy” of communism that stood in opposition to American democracy. He committed America to assist “freedom-loving nations against the dangers of aggression”. Supporting European recovery and removing barriers to free trade would enlarge the extent of the market for American capital and commodities. Truman also announced that the United States would share their “scientific advances” and “technical knowledge” to help “underdeveloped areas” improve and grow.⁷ Retrospectively, this “point four” of his speech has been identified as a key

⁷ <https://www.trumanlibrary.gov/library/public-papers/19/inaugural-address>

event in the birth of postwar development economics (Alacevich and Boianovsky 2018). A few months later, *The New York Times* announced that the International Bank for Reconstruction and Development would start implementing “Truman’s Point Four Program” by sending a mission to Colombia to “investigate ways to increase the wealth of that country”.⁸ The mission would be headed by Lauchlin Currie (Belair 1949). Currie had been an adviser of President Franklin D. Roosevelt. Before that, he preceded Musgrave by a few years, both as a PhD student at Harvard and then at the Federal Reserve where he advised Chairman Eccles during the New Deal. One of the Bretton Woods institutions, the World Bank was initially intended to support the postwar European reconstruction. With the establishment of the Marshall Plan in 1947, the World Bank quickly turned its attention south to “underdeveloped countries” (Alacevich 2009, 2)⁹.

In the late 1940s, Colombia was ridden by a violent conflict between some partisans of the Liberal Party and some partisans of the Conservative Party. In 1948, the assassination of the socialist-leaning Liberal leader Jorge Eliécer Gaitán triggered riots that degenerated into a gruesome decade-long civil war that would later be known as *La Violencia* (Karl 2017, 25). When the first members of the General Survey mission landed in Bogotá in July 1949, Colombia was ruled by an elected Conservative President who had assumed authoritarian powers.

The Currie mission was not the first time American economists would travel to Colombia. Edwin Kemmerer successfully recommended the creation of a central bank in Colombia on his first mission in 1923. Following his second mission in 1930, a substantial progressive income tax was established (Drake 1988). A decade later, Robert Triffin traveled

⁸ In fact, the agreement between the Colombian government and the IBRD was signed in December 1948 (Alacevich 2009, 20)

⁹ See also World Bank Archives, Records of the Latin America and Caribbean Regional Vice Presidency, Folders 1881936 and 1882093.

to Colombia on behalf of the Federal Reserve Board (Maes and Pasotti 2021, 57). However, the Currie mission was by far the biggest study undertaken by the World Bank in its short history. Its remit was much wider than the earlier money doctor missions. It was composed of 14 foreign experts. Currie sought to hire Musgrave as chief economist. Hansen wrote to Currie in support: “Musgrave is first rate both in terms of theoretical competence and practical judgment”. Musgrave agreed to join the mission on a salary of \$1200/month (equivalent to \$14 300/month in 2022).¹⁰ The mission was supported by 14 high-level Colombian civil servants acting as consultants. Some members stayed in Colombia for four months, but Musgrave left in September for the opening of classes at the University of Michigan.¹¹ Musgrave drafted the descriptive chapters on ‘Public Finance’ and ‘Money, Deficit, and Inflation,’ as well as the associated policy chapters on ‘Fiscal Policy’ and on ‘Money Banking, and Capital Markets.’ Currie also solicited Musgrave’s input on various aspects of the report during the winter and spring of 1950.¹² The whopping 700-page report was released in the summer of 1950. Tax reform was not the principal goal of the mission and so the proposals pertaining to the public finances were not all quantified.

At the same time that Currie was finishing the report on Colombia, Truman’s Council of Economic Advisers was pushing for a policy of “maximum production” (Collins 2000, 24). The politics of productivity could appeal to everyone, from consumers, and businesses, to workers, Cold War hawks, and liberal activists (*ibid.*, 39). Although not based on high theory,

¹⁰ Telegrams from Hansen to Currie, 4/06/1949; and from William Howell to Currie, 9/06/1949, Colombia - General Survey Mission - Currie - Correspondence - Volume 1, 1559669, Records of the Latin America and Caribbean Regional Vice Presidency, World Bank Group Archives (thereafter WBGA).

¹¹ Currie to Garner, 5 September 1949, Lauchlin Bernard Currie papers (thereafter LBC Papers), Rubenstein Library, Duke University, Box 33, Folder 10.

¹² LBP Papers, Box 33, Folders 8 and 10. See also various telegrams from April 1950, Colombia - General Survey Mission - Currie - Correspondence - Volume 1, 1559669, WBAG.

it was a technical solution that defused the threats of class conflicts, at home, in Europe, and perhaps also in developing countries (Maier 1977). Harrod's and Domar's growth models had been published, but they did not cause the rise of the culture of growthmanship in the early 1950s (Collins 2000, 27). Thus, it is not surprising that Currie's report did not rely on an explicit growth model, nor did he have a clear theory of development in mind when he arrived in Colombia (Sandilands 1990, 191).¹³

1.3. The Currie Report and Its Aftermath

The goal of the report was to identify ways of raising the standard of living of Colombian people. Public expenditures in sanitation, healthcare, education, and housing were a priority for Currie. He argued that the poor material conditions in which the vast majority of Colombians lived were caused by a low level of productivity across the economy. This, in turn, called for a more efficient use of natural resources, as well as improvement in the training of the workforce and the quality of management (IBRD 1950, 354). The surplus population in the agricultural sector was to be encouraged to migrate to cities to work in industries that promised better wages, faster growth, as well as lessening the dependence on foreign commodity imports (*ibid.*, 357). It was essential to realize that "simultaneous improvements" had to be brought across the sectors (*ibid.*, 356). Investments in electricity generation and transport infrastructure were also crucial to break the underdevelopment vicious circles.

Considering the paucity of national savings, foreign capital was welcomed for these large infrastructure projects, but as Musgrave cautioned in the report's chapter on fiscal policy,

¹³ In fact, even if we can retrospectively identify key contributions to the field of development economics in the 1940s and 1950s, if not earlier, it is probably not recognized as a subfield of economics before the 1960s. Even at the end of the decade, the "basis" of development economics was considered "unclear"; some economists even denied that it constituted a separate field (Reynolds 1969).

it would be better to fund day-to-day expenditures through taxation (ibid., 557). During the war years, restrictions on imports, together with high exports led to sustained inflation in Colombia. This inflow of foreign reserves certainly contributed to capital accumulation; the inflationary environment also led to forced saving. But these funds were not always channeled into long-term investments that would benefit the needs of development (ibid., 294). Deficit finance by the government also contributed to rising price level and income inequality. In the future, Musgrave recommended creating an open market for government securities that would ideally not be bought by the central bank or by the Colombian private banks to avoid creating new money (ibid., 570). 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 for development (ibid., 555). High excise on those produce locally would also encourage individual saving and thereby contributing to private and public capital formation. Moreover, taxing luxury consumption would reduce income inequality. In sum, the report argued that in Colombia, growth was a better strategy to increase the standard of living of the population than tax-and-transfer redistribution.

Musgrave's concern for equity was also reflected in his support for the income tax. Colombia had been one of the first countries in the world to create an income tax, doing so in 1821, but it was not effectual for many years and even when it finally became, it did not bring substantial revenues until it was reformed in 1935 (Taylor and Richman 1965). Although the base was modest in 1950, its reliance on exemptions and progressive rates permitted "a more equitable distribution of the tax burden over the middle and lower income brackets" than indirect taxation, according to the report (IBRD 1950, 553). The increasing government functions proposed in the report required that income tax rates be slightly increased, and the base broadened. In Musgrave's estimation the Colombian income tax had the potential to cover

a larger share of the population, like it did in the United States. Still, like others, Musgrave was convinced that it could not deliver more revenue unless tax administration was greatly improved (ibid, 553).

In the IBRD Report, Musgrave also urged Colombia to improve its budget accounting practices. Classification of public expenditures and their separation between current and capital outlays, as well as clear reporting of public revenues and details of the treasury balances would increase transparency and thus make public officials accountable: “The financial data of the Government should be presented in a form which provides the legislature and citizens with the information needed to formulate an intelligent judgment of the Government's fiscal program” (IBRD 1950, 561).

With the collection and organization of extensive data, the Currie mission and its report contributed to the construction of the Colombian economy as a “national space” and an object of “disciplinary knowledge” with the potential to grow (Offner 2019, 101). Yet, as the title of the report made it clear, it was only a *basis of a development program for Colombia*. The president of the Bank, Eugene Black, pressed the Colombian President Mariano Ospina Pérez to establish a nonpartisan commission to study and discuss the report from a “nonpolitical”, objective, standpoint in the hope that its “major implications are fully understood and that it can enlist broad support from the Colombian people”.¹⁴ The Colombian government did set up a local committee to study the report and propose concrete recommendations. The Comité de Desarrollo Económico was composed of six politicians from the two main parties (Liberal and Conservative). The Comité was generally supportive of the IBRD report and of its policy orientation, but it did not agree with Currie’s proposal for a tax on land that would decrease

¹⁴ Black to Ospina Pérez, 27/07/1950, Colombia - General Survey Mission - Currie - Correspondence - Volume 1, 1559669, WBGA.

with the yield to encourage a more productive use (Alacevich 2009, 47–48). Currie was hired as a consultant; Musgrave also served as an adviser, traveling to Colombia in February 1951.¹⁵ In his memorandum for the Comité, Musgrave restated many of the proposals from the 1950 report. Great emphasis was put on improving tax administration by hiring more personal, better training them and increasing their salaries, especially senior civil servants. Indeed, Colombian people should expect them to “have a high sense of responsibility and public mindedness”.¹⁶ Musgrave also put forward proposals to simplify the income tax system: repealing the excess profit tax, replacing the progressive corporate income tax by a flat rate of 25-30%, simplifying the personal income tax rate schedule and enlarging the base of salaries subject to income tax, as well as including capital gains.¹⁷ Overall, the measures were not aimed at correcting substantially the distribution of income, but rather to simplify the system, to improve its administration, and to increase the total yield to fund new development projects. A capable and efficient fisc was a condition for the state to play its role in improving the welfare of the population.¹⁸

In its final report of August 1951, the Comité adopted measures to simplify the tax system and strengthened tax administration along the lines proposed by Musgrave in the Report of 1950 and in his 1951 memo. However, they shied away from making precise recommendations on the tax rates (Comité de Desarrollo Economico 1951, 53).

¹⁵ Schedule of Meetings, Committee for Economic Development, Bogotá, February 1951, Colombia - General Negotiations - Correspondence - Volume 2, 1559874, WBAG.

¹⁶ “Tax Policy of the National Government”, R. Musgrave 15/02/1951, LBC Papers, Box 32, Folder 2.

¹⁷ Similar proposals of repealing the excess profit tax and converting the progressive corporate income tax into a flat tax were also put forward by Luis Villa, probably an industrialist from Medellín, although his name does not appear as an adviser in the final report of the Comité. The set of measures proposed by Villa appears to be more ‘pro-business’ than the ones made by Musgrave. See LBC Papers, Box 32, Folders 2 and 5; Box 33, Folder 11.

¹⁸ Musgrave’s lifelong trust in the civil service is to be contrasted with the cynical view held by many public choice scholars. See Musgrave (1999, 33–35)

The Comité followed Currie's recommendation by establishing the Consejo Nacional de Planificación in 1952. Currie wanted Colombia to build institutions that would promote public debate and help build a consensus on public policies (Álvarez, Guiot-Isaac, and Hurtado 2020, 282). As he put it in a letter to IBRD Vice-President Robert Garner, the Bank could provide all the technical assistance imaginable, but for "a program [to] ever to have the chance of enthusiastic support and successful execution, many people in the underdeveloped country must acquire an active interest and sense of proprietorship in the program".¹⁹ Currie had envisaged a 3-man council to play a similar role as the CEA in the United States (Sandilands 1990, 174). The World Bank selected Albert Hirschman on behalf of the Colombian government to act as the main economic adviser for the Consejo (Alacevich 2009, 53). However, the Consejo also requested the service of Currie, which led to tensions between the two American economists.²⁰ Over time, the Banco de la República recommended by Kemmerer, the Consejo Nacional de Planificación, or rather its stronger 1960s successor the Departamento Nacional de Planeación, as well as the Ministry of Finance, would act as key institutions of economic knowledge where technocratic policies would be developed by Colombian economists in collaboration with American experts (Dargent 2014, pp. 77 ff.). But in the short run, General Rojas Pinilla overthrew the government in 1953 and instituted a military dictatorship which led to a reduction of the scope of American expertise in Colombia for the rest of the decade. Still, to fund new public expenditures, the populist Rojas Pinilla increased corporate taxes in 1953 and included dividends in the individual income tax base, as Musgrave and others had recommended (R. M. Bird 1970, 192).

¹⁹ Currie to Garner, 22/05/1950, Colombia - General - Technical Assistance - Correspondence - Volume 1, 1559778, WBGU.

²⁰ On this well-studied episode, see Alacevich (2009, 50 ff.), Sandilands (2015) and Álvarez, Guiot-Isaac, and Hurtado (2019; 2020).

Roja Pinilla's popularity declined in the second half of the 1950s and he was replaced by a military junta for one year until the Liberal Alberto Lleras Camargo won the Presidential election of 1958 in an alliance with the Conservative Party that would last until 1974. The National Front was created to end partisan violence and to restore a civilian regime. The traditional elites shared the power, with Conservative and Liberal presidents alternating every four years. Ministerial and judiciary positions, as well as gubernatorial seats were equally shared between the two parties. Lleras Camargo's leadership at the end of the decade brought hope for a lasting peace and the possibility to rebuild democratic institutions (Karl 2017, 33–37). This alliance favored a technocratic politics of compromise over ideological or class-driven positions (Berry 1980; Flórez Enciso 2009). In turn, this created a space for economists which makes a study of their ideas, beliefs, and values particularly important to understand the history of policy in Colombia.

Back in Michigan, Musgrave also studied the US tax structure, showing that it was not as progressive as it appeared (Musgrave 1952). He completed his *Theory of Public Finance* at the end of the decade. Musgrave argued that even if legally the public budget was consolidated, one could conceptualize three economic functions of the state and thus three different functions of tax instruments: paying for public goods, redistributing income, and stabilizing the business cycle (or fiscal policy). Among other things, he rearticulated the century-old discussion on normative tax principles. Taxes could be justified according to the *benefit* principle to the extent that they paid for the provision of public goods. When it came to the redistribution function, applying the benefit principle would defeat its purpose; taxes were rather collected according to *ability-to-pay* and used to make cash and in-kind transfers according to the needs of the recipients. Utilitarian economists had theorized one's ability based on the sacrifice imposed by taxation. An alternative path was given by the natural law concept of equity (see, Musgrave

1959a, 90 ff.). In his *Theory*, Musgrave structured the ideal of equity by introducing two new concepts: horizontal equity (HE) and vertical equity (VE).²¹ Horizontal equity meant that equals should pay an equal amount of tax, while vertical equity called for differentiation among unequals. These tax principles became key concepts used by economists of Musgrave's generation to articulate tax reform proposals. Among them, HE was deemed a "consensus criteria" that could appeal to most economists (Musgrave 1959c, 1218; Musgrave 1967, 45; Goode 1991). Even the young James M. Buchanan—with whom Musgrave disagreed on many things—believed that the principle of "equal treatment for equals" had been widely recognized in the tax literature, even if often only "implicitly assumed" (Buchanan 1950, 587).

With his knowledge of the distribution of the tax burden and his concern for equity, Musgrave supported the initiative of the Chairman of the US House Committee on Ways and Means, Milbur Mills, for a base broadening tax reform (Musgrave 1959c). With his new concepts, Musgrave pointed out the many loopholes that had to be closed for the sake of horizontal equity. The US fiscal system could still grow in size if the population wanted more public services, but everyone had to pay their share (Musgrave 1959b, 21). For Musgrave, a "socially responsible capitalism" was the best alternative to the Soviet system that Americans could offer (Musgrave 1959c).

2. The Musgrave Mission

2.1. The Development Decade

On September 12, 1960, members of the Organization of American States (OAS), with the exception of Cuba, signed the Act of Bogotá setting goals to achieve "prosperity, higher

²¹ Walter Heller (1955) seems to have been the first to use the concept of horizontal equity in print, perhaps after reading a draft of Musgrave's *Theory* that was circulating at the time. For a genealogy of Musgrave's dual concepts of equity, see Desmarais-Tremblay (2021a).

standards of living and social justice to every inhabitant of Latin America”. *The New York Times* reported that the Act was “an evolutionary program, using capitalistic and democratic methods”.²² The Organization had been set up in 1948 to reinforce ties between countries of the American hemisphere and, as far as the United States was concerned, to fend off the threat of communism in Latin America. The former president of Colombia Alberto Lleras Camargo was its first Secretary General. When John F. Kennedy came to power in 1961, he made it one of his priorities to counteract the influence of Cuba in Latin America and announced the creation of an Alliance for Progress. Following on the Act of Bogotá, the OAS organized a large conference in Punta del Este, Uruguay, in August 1961, formally establishing the Alliance (Arthus 2017). The Charter adopted at the Conference listed many objectives to promote economic and social development in Latin America, including per capita growth rates of no less than 2.5%, a more equitable distribution of national income, a higher proportion of the national product devoted to investment, price stability, raising agricultural productivity, eliminating adult illiteracy, increasing life expectancy, and constructing low-cost housing. Latin American countries agreed to design national development programs that involved tax reforms towards a better taxation of large incomes and real estates, an improvement of tax administration, increases in the public expenditures to match developmental needs, and incentives to private savings. In exchange, the United States committed to various forms of assistance, including the funding of technical assistance missions.²³

Private foundations and American-based international organizations directly and indirectly financed many studies and projects in Latin America, particularly in Colombia.

²² NYT, Sept 13 1960, “The Act of Bogotá”, p. 36. Text of the Act:

https://avalon.law.yale.edu/20th_century/intam08.asp

²³ Text of the Charter: https://avalon.law.yale.edu/20th_century/intam16.asp

Harvard University played a pivotal role in the advising network. Already in the early 1950s, Harvard Law Professor Stanley Surrey founded the International Tax Program in partnership with the United Nations Secretariat. Another tax lawyer, Oliver Oldman, took over the direction in 1955 when Surrey left for the US Treasury. The program conducted tax survey and reform missions, but its main vocation was educational: It offered a one-year course in tax law, economics, accounting and public administration to foreign tax officials (Oldman and Owens 1966; Alford et al. 2009). In the late 1950s, the program produced a 500-page survey of Colombian tax law. The World Tax Series volume was prepared for tax experts engaged in international comparative work, but also to serve as a reference text for American firms doing businesses in Colombia (Eder, Chommie, and Becerra 1964).

In October 1961, the OAS, the Inter-American Development Bank (IDB) and the Economic Commission for Latin America of the United Nations (ECLA), with the support of Harvard International Tax Program, organized a conference in Buenos Aires on *Problems of Tax Administration in Latin America*. Musgrave presented a paper on “Estimating the Distribution of the Tax Burden” (more on this below) (Musgrave 1965). The ECLA also helped countries devise multi-year development plans that included fiscal incentives for investment (Urrutia 1988b). President Lleras Camargo launched Colombia’s own plan with a target per capita growth rate of 2.6% in December 1961. One year later, another conference on *Fiscal Policy for Economic Growth in Latin America* was organized in Santiago by the OAS, the IDB and ECLA. This time, Musgrave did not attend, but he cited the proceedings in later work. Uncommon for an academic conference, after extensive discussions, the participants agreed on a report outlining recommendations for fiscal policy in Latin America. Echoing early political declarations, the report stated that “increased revenue is 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, 419). On certain aspects, the draft report written by Arnold C. Harberger, Nicholas Kaldor, and Victor L. Urquidi, with the secretarial help of Mario Ballesteros, was even more progressive. They observed that “the benefits derived from the ownership of capital ... largely escape taxation”. They agreed that “any major reform of the tax system should ensure that the propertied classes, as well as the working classes, should pay their due share in the common burden”, and proposed, among other things, that every country adopts a comprehensive unitary system of progressive personal income tax (ibid, 403). In 1963, the OAS and the IDB also sponsored a *Fiscal Survey of Colombia* under the direction of Milton C. Taylor, a professor at Michigan State University.²⁴ Published in 1965, the detailed study of the Colombian tax system would serve as a basis for later tax reforms. Contrary to the World Tax Series volume, Taylor’s report made a host of progressive reform proposals. The “generally accepted” goals outlined by Taylor echoed those previously stated by the OAS: increasing government revenues to pay for rising government consumption expenditures, stabilizing prices, favoring private savings and investment, “promoti[ng] a more equitable distribution of income and wealth”, supporting development goals, reducing luxury consumption, increasing exports, increasing the efficiency of resource use, as well as abiding to “the traditional canons of taxation, such as neutrality, simplicity, administrative feasibility, and flexibility” (Taylor and Richman 1965, 20). However, its recommendations were not articulated to a comprehensive economic view of tax policy (R. M. Bird 1970, xiv).

Meanwhile, the Ford Foundation supported the creation of the Development Advisory Service at Harvard. Like a diplomatic corps, the institute would be composed of a permanent group of men who would share their time between developing countries and Cambridge. Many

²⁴ Taylor had completed a doctoral thesis on the fiscal system of Puerto Rico at the University of Wisconsin under the supervision of Harold M. Groves (Taylor 1954).

of them Harvard educated, they would bring their expertise to bear on the problems of developing countries and then, hopefully, enrich the teaching and research at Harvard with the hands-on experience they acquired (Mallon, 2000, 25-26).²⁵ The DAS opened its Colombia office with a three-man staff in 1963. 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, after which he was hired as an instructor at Harvard. His two-year mandate was supported by the International Tax Program, directed by Oliver Oldman (Bird in Alford et al. 2009, 1289). Before he left for Colombia, Bird edited a collection of *Readings on Taxation in Developing Countries* with Oldman which testified to the growing importance of the subject and the centrality of Harvard within the field. Oldman himself traveled to Colombia in 1965 to discuss “the need for a permanent arrangement to provide advice on tax policy and implementation”.²⁶

Musgrave had spent the beginning of the decade at Johns Hopkins, quickly moving to the Woodrow Wilson School of Public and International Affairs at Princeton University 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. As a Consultant to the US Treasury, Musgrave continued to support the base-broadening tax reform, but he also supported the CEA proposal of a rapid

²⁵ The DAS became the Harvard Institute of International Development (HIID) in 1974. It was wound up in 2000 after the Schleifer scandal in Russia.

²⁶ Harvard Colombia Advisory Group, Report for the Period Mid-September 1964 to Mid-January, 1965; and Report for the Period May 1964 to May 1965, Ford Foundation Records. Technical and training assistance in Economic Development Planning in Colombia. Grants H-K. Reels 4248 and 4661, Rockefeller Archive Center, Sleepy Hollow, NY (thereafter DAS Reports). I am indebted to Andrés Guiot Isaac for sharing DAS reports with me.

and temporary tax cut to help the economy recover.²⁷ In 1964, Musgrave was invited to participate in a 27-man “Brain Trust” advising President Lyndon B. Johnson.²⁸ The So-called Kennedy tax cut was finally enacted with much delay in 1964, but the broader tax reform was abandoned, to the disappointment of Musgrave (Sperling 1964).

Oliver Oldman was keen to recruit Musgrave in the International Tax Program at Harvard (Robbins 2007). Musgrave had hoped to move back to Cambridge for many years. In 1965 he was the first professor of economics to be appointed at the Harvard Law School, jointly with the Department of Economics. In the same year, Musgrave acted as a consultant on fiscal reform for the Korean government through the firm Robert Nathan Associates, a job he would take again in 1967. In 1966, he participated in a short mission in Chile to prepare the ground for a larger tax modernization project directed by Oldman and sponsored by USAID.²⁹ Oldman and Musgrave also co-taught a seminar at Harvard on “Tax Reform in Developing Countries”, discussing, “economic, administrative, and legal aspects of selected problems in land, sales, and income taxes”.³⁰

In February 1968, Musgrave completed a comparative study on *Fiscal Systems*, in which he contrasted the theory and empirical patterns of tax and expenditure development. The book provided a cross-section econometric analysis of countries by income level, but it also synthesized Musgrave’s own previous theoretical work and recent literature about taxation in developing countries. Musgrave also drew from works in development economics and growth theory by the likes of Lewis, Nurkse, Solow, Rosenstein-Rodan, Kuznets and Myrdal. He made

²⁷ Musgrave to Heller, 7 June 1962, Papers of John F. Kennedy, CEA. JFK Presidential Library and Museum.

²⁸ See newspaper clippings in RAM Papers, Box 6, folder ‘Johnson brain trust’.

²⁹ See RAM Papers, Box 4, Folder “own work 1966”

³⁰ Official Register of Harvard Law School, 63(4), April 1966 for 1966-1967, p. 91.

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, 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., 131). The progressive income tax lay at the horizon of economic development. Across countries, the share of direct taxation to total tax revenues was directly related to per capita income (ibid., 146). But once the set of countries was broken down into sub-groups, the relationship was not significant among low-income countries. For many reasons, the past evolution of fiscal systems in rich countries (Germany, United Kingdom, and the US) was thus a poor guide to understand the current situation of developing countries. Among these reasons was the “demonstration effect” – consumption patterns and ideas about equity in rich countries had contemporary appeal in poorer countries as well (ibid., 136).

However, in low-income countries, transfer policies conflicted with the need for sustained private saving and capital accumulation. In other words, there was a tradeoff between transfers and the imperative of growth (Musgrave 1969, 81).³¹ In the early stage of development, commodity taxes on luxury items were the most effective way of tackling income inequality while favoring savings (ibid., 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

³¹ See also Musgrave and Musgrave (1973, 728) and Musgrave (1987, 472).

investment in human skills” (ibid., 208). Contrary to rich countries where the problem of unemployment could be solved by increasing consumer demand, in poor countries, the problem was rather underutilization of land resources and the low productivity of investment, for which a different fiscal policy was needed (ibid., 212-6).

As the “decade of development” progressed, it became clearer that some of the high hopes could not be attained.³² At a certain level, Musgrave and his like-minded colleagues shared the mid-century developmentalist perspective that “all good things come together” (Huntington 1968, 5, See also; A. O. Hirschman 2013). In Latin America, the hope was that political stability and democracy would follow from development-oriented American assistance. This was a corollary of the image of liberal democracy that many high-minded American intellectuals entertained during the Cold war. In 1968, Musgrave showed no sign of a waning progressive spirit. Still, 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.

2.2. The Context of the 1968 Mission to Colombia

Carlos Lleras Restrepo was a well-known figure of the Liberal Party when he was elected President of Colombia in May 1966. He was a cousin of Alberto Lleras and had served in various important political positions since the 1930s, notably as head of the Colombian Delegation at the Bretton Woods Conference. He had extensive knowledge of the economic and fiscal challenges of Colombia. With rising imports and declining exports, Lleras Restrepo

³² On the development decade, see JFK 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>

inherited an economy on the brink of a foreign-exchange reserves crisis. The IMF asked the Colombian government to devalue its currency to receive the last tranche of credits that had been agreed to in 1965. The President refused. In November 1966, the World Bank and USAID announced that development aid for Colombia would be conditional on a deal with the IMF. Lleras Restrepo went on national television to make it clear that devaluation was out of the question and imposed temporary import and exchange controls to curb the foreign-exchange crisis. He argued that Colombia was on a sound liberalization path and that the economy only needed credits to ease a temporary imbalance of payments (Díaz-Alejandro 1976, pp. 203-205). By standing up to the IMF using a nationalistic tone, Lleras Restrepo was able to bolster his political support (Maullin 1967). The Government responded in the spring of 1967 with further liberalization of exports, and a pegged exchange rate policy. Surrounded by technocrats, Lleras Restrepo was determined to adopt sound economic policies that would put his country on the right development path.

In the summer of 1967, the DAS office in Colombia reported that the chief economic adviser to the Minister of Finance, Miguel Bermudez, had requested the assistance of the Harvard International Tax Program to conduct a tax reform study. Bermudez traveled to Washington to meet with IRS officials and then to Harvard. At the time, the plan was for Bird to be involved, alongside other consultants provided by the International Tax Program.³³ In December, the Colombian Congress authorized the appointment of a special tax study commission made of Colombian and foreign experts.³⁴

³³ DAS Report, March-May 1967.

³⁴ “Staff Report and Proposed Decision – 1967 Article XIV Consultation”, International Monetary Fund, March 29, 1968, SM/68/63, IMF Archives.

In March 1968, the Executive Board of the IMF considered the progress made by the Colombian government in solving its reserves problem. A staff report praised the government for curbing inflation, introducing some flexibility in the exchange rate, restricting luxury imports, diversifying exports, and balancing its budget. The IMF experts who had traveled to Colombia were also pleased with the upcoming fiscal reform mission that would hopefully strengthen revenue and administrative structure, an essential step “to carry out the stepped-up public investment program to which the Government is giving priority”.³⁵ Generally enthusiastic about the direction of economic policy, one member of the board noted that the “review of the tax structure, and the report which was to be produced by the tax commission, would be very important and valuable”.³⁶ Yet, in its 28-point memorandum to the IMF, reporting on the economic policy enacted in the past year, the Colombian government did not mention the establishment of the tax reform commission. There is thus no reason to believe that it was a condition for the drawings, even if it was perhaps part of the general approach of the government to show that the public finances would be put in order. The IMF did release \$35.5M in stand-by credits, which, according to the *NYT*, would help the negotiation of a \$200M aid package from a consortium of the World Bank, the IADB and USAID (Welles, 1968).

Having solved the foreign exchange and monetary problems, President Lleras Restrepo could tackle new challenges. In April 1968, he created by decree the technical commission to study and prepare proposals to reform Colombia’s tax system (Musgrave and Gillis 1971, 3). Following previous discussions between the Director of the DAS and Harvard Economics Professor, Gustav Papanek, and President Lleras Restrepo, Musgrave was asked to chair the

³⁵ Op. cit., p. 8. See also Mares, 1993, p. 465.

³⁶ Minutes of the Executive board meeting of April 19 1968, EBM/68/77 – 255998, IMF archives.

commission.³⁷ The President made it clear that the commission acted as an independent body and the government would not be accountable for its conclusions.³⁸ The commission would be composed of an equal number of foreign and Colombian experts (Oldman and Surrey 1972, 282). Besides Musgrave, the foreign group was constituted of Oldman, Alan Peacock, then at the University of York, and Paul Senf from Saarbrücken. The four Colombian academics assigned by the President were Abel Cruz-Santos (Uni Externado), Carlos Echeverri Herrera (Uni Nacional), Humberto Mese Gonzalez (Uni Nacional), and Eduardo Wiesner Duran (Los Andes). Two other Colombian advisors and a technical staff of 23 individuals, including Richard M. Bird, Malcolm Gillis, Charles E. McClure, Miguel Bermudez, 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.³⁹ 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. He declared in a press conference that he was seeking “moderate taxes that everyone could pay”.⁴⁰ On the next day in an interview to *El Tiempo*, Musgrave argued that “the country must become aware of the

³⁷ DAS Report, December 1967– March 1968.

³⁸ Miguel Urrutia, interview with the author, 13/12/2021.

³⁹ Rockefeller Foundation Records. Fellowship Files, Social Sciences/Humanities. Record Group 10.1, Series 311, Box 145, folder 2320, Rockefeller Archive Center, Sleepy Hollow, NY.

⁴⁰ *El Espectador*, April 3, 1968, p. 1, 4A, RAM Papers, Box 7, ‘Press’.

need to pay taxes”. Before even starting the commission’s work, Musgrave could state that to achieve a “rapid and harmonious” development, the country’s tax base must be “equitable and highly productive”.⁴¹

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, 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 (Ibid.).⁴² By the end of August, more than a thousand pages of staff papers had been produced (Musgrave and Gillis 1971, xvi). The commission reconvened in mid-September 1968 for two weeks of discussion on the recommendations (more on this below). 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” that was hoped to be introduced to Congress in 1969.⁴³ The Colombian members did not take an active role in the formulation of the recommendations. But the Musgrave mission broke new grounds on, at least nominally, subjecting the recommendations to the vote (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, the report was translated into Spanish and distributed between members of the commission for review. Each member signed the final report that was submitted to President Lleras Restrepo in February 1969, but some expressed dissenting opinions on some specific issues in footnotes and short appendices (Musgrave and Gillis 1971, xvii). Meanwhile, Oliver

⁴¹ *El Tiempo*, April 5, 1968, p. 1, RAM Papers, Box 7, ‘Press’.

⁴² See Currie to Ruthven, Nov 16, 1949, LCC Papers, Box 33, Folder 10; confirmed by Miguel Urrutia in interview with the author, 13.12.2021.

⁴³ DAS Report. July-September 1968.

Oldman assembled a team of six lawyers (three Colombians, three foreigners) to draft tax “illustrative legislation” to implement some of the recommendations (ibid., xviii). At the same time, the Colombian Congress adopted a constitutional reform that gave the President full prerogatives over taxes and public expenditures (Berry 1980, 303).

The report’s tax reform proposals were structured by a set of objectives. These reflected the priorities of Colombia’s development plan and echoed the goals set forth by the Alliance for Progress. The fiscal system was to promote growth – 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, 7). To achieve these goals, the report made recommendations on the tax structure that would increase revenues by at least 15%, and up to 22% depending on the options selected by the politicians. The report made 130 recommendations that 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 more progressive.⁴⁴ It proposed to increase the rates of the newly introduced national sales tax from a schedule that went from 0 to 15% to one that ranged between 0 and 50% (p. 115).⁴⁵ Concerning land, the report proposed to revise cadastral value and strengthen the property tax. Following the Taylor report, it also proposed a presumptive tax on income from agriculture based on an assumed

⁴⁴ See also Musgrave (1987, 477).

⁴⁵ The Taylor mission had recommended a broad system of excise of luxury and semi-luxury goods. By the time of the Musgrave mission, the general sales tax introduced in 1965 and reformed in 1966 was a broad-based value-added tax on manufactured goods with a partial invoice-credit system of deduction. See McLure (1989, 58, 62). See also Jonathan Levin, 1967. “The Effects of Economic Development Upon the Base of a Sales Tax. A Case Study of Colombia.” IMF, Fiscal Affairs Department, DM/67/47, IMF archives.

annual yield of 10% of the cadastral value. By disallowing the possibility of agricultural loss to offset other sources of income, such a tax would incentivize gains in agricultural productivity, besides improving horizontal equity by tapping into an income source that largely avoided taxation (pp. 66-67). In a chapter on intergovernmental fiscal relations, the mission recommended improving access to healthcare, the construction of transport infrastructure, as well as a minimum of five years of public education (Musgrave and Gillis 1971, 168–92). The report argued that public expenditures in education were justified by the high return on investment in human capital.⁴⁶

2.3. Normative and Positive Elements in the Musgrave Report

In the late 1960s when consensus on some issues among American economists started to break down the challenge of building a large coalition around ambitious proposals might have been increasingly difficult (see Cherrier and Fleury 2017). Most of the recommendations contained in the report were not so original. Some had been suggested already in the 1950 IBRD report, while others were proposed in the Taylor report of 1965. Before convincing the wider public, what mattered was the possibility to forge a consensus within the commission around important ideas. In his own time, Kemmerer prided himself of always managing to “iron out the differences” between experts (Kemmerer 1927, 6). By putting proposals to the vote, Musgrave exposed himself to bigger challenges. Leadership was needed to build consensus.⁴⁷

Perhaps Musgrave had these leadership qualities himself. At least this is what Samuelson later

⁴⁶ In a staff paper, Urrutia cited a study by Theodore W. Schultz according to which investment in human capital returned 15% a year in Colombia. Musgrave had been an early advocate of the concept of human capital to justify public expenditures in education. See Musgrave (1960) and Cooper (2017, 221).

⁴⁷ On Musgrave’s insistence on the role of leadership in democracy, see Musgrave (1959, 14), and Sperling (1964).

suggested in his eulogy when he remarked that Musgrave “always sat at the head of the roundtable” (Ott et al. 2008, 333).

Musgrave’s concern for equity and its articulation into VE and HE was reflected in the Colombian report. In a 1967 paper, he had argued that the “construction of a fair income tax is well-nigh impossible without the guidance of a basic income concept” (Musgrave 1967, 44). An incorrect definition of income would lead to horizontal inequalities (ibid., 51). Consequently, the 1969 report called for adjustment to the definition of taxable income to bring it in more in line with ability to pay, for instance 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, 35). Vertical equity would be improved by raising the level of personal exemption that had been eroded by inflation (ibid., 36). However, HE 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., 33-5). Some incentive provisions, besides leading to misallocation of resources and eroding the tax base, had often created inequalities in the distribution of the tax burden between firms, but also between individuals (ibid., 92).

HE and VE were formal concepts that could help to structure the discussion of tax reform by expressing normative judgments on alternative tax proposals. They became part of the “cognitive infrastructure” of tax reform, to use the expression of Hirschman and Berman (2014). Yet, to convince each other, economists also appealed to objective facts and positive analysis.

In developing countries, the production of data is an important part of foreign mission (Drake 1988, 42). First, to understand what is going on and to work toward a shared representation of the economy between the experts and the local politicians calling upon them.

Second, objective knowledge serves to convince others that the recommendations are both feasible and advisable. In his presidential address to the AEA, Kemmerer had argued that countries resorted to foreign economic experts because they could address problems, “with absolute objectivity”. By this he meant that they were disinterested and “free from local political bias” (Kemmerer 1927, 2). For Theodore Porter (1995, ix), “objectivity names a set of strategies for dealing with distance and distrust”. I argue that foreign advisers are susceptible to distrust by local economists, politicians, and the broader civil society. They are likely to be accused of providing advice that is not relevant to the specific problems of the country at stake (more on this below). Quantification provides a “technology of distance” that helps communication “beyond the boundaries of localities and community” (ibid.).

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 from the Departamento Nacional de Planeación, as well as detailed tax returns by citizens all fed into the calculation of predictions of fiscal deficits on which proposals of increases to the tax rates depended.

In the rest of this section, I focus on two tables constructed by the Musgrave mission to help convince other members of the commission, as well as Colombian officials and the population that 1) the Colombian tax system was not very progressive, and 2) that the Colombian fiscal burden was relatively low by international standards. These quantitative tools, together with the normative commitments to welfare, growth, HE and VE, led to the recommendations contained in the report along the lines of broadening the base and increasing the burden of the rich.

Musgrave already had some knowledge of the tax burden in Colombia before he landed in 1968. In his 1961 paper, he compared the distribution of the tax burden by income groups

in the United States with that of a few Latin American countries, including Colombia. The estimation relied on a procedure that Musgrave had tested in a seminar at the University of Michigan with a few of his students in 1949, the results of which he then presented in a testimony to the US Congress Joint Committee on the Economic Report in 1951 (Musgrave et al. 1951). It 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”. Still, the question of the distribution of the fiscal burden was so important for policy purposes that “the economist’s informed guess, based on explicit and reasoned hypotheses, [was] to be preferred (with all due allowance for professional modesty) to the implicit and haphazard assumptions of the practical man” (Musgrave 1965, 31).

Effective Rates of Taxation by Income Brackets, 1966

Income Bracket (thousands of pesos)	Personal Income Tax ^a and Transfer Taxes (A)	Corpo- ration Income Taxes (B)	Sales Tax (C)	Property Taxes (D)	Alcohol, Tobacco, and Beer Taxes (E)	Motor Vehicle Taxes (F)	Import Duties and Other Indirect Taxes (G)	Exchange on Coffee (H)	Total Taxes (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. He had written a PhD dissertation on the incidence of US state and local taxes under

the supervision of Musgrave. Estimating the distribution of income in Colombia was not an easy matter. McLure extrapolated from tabulations of income tax returns of Bogotá residents prepared by Carol A. Taylor on a previous DAS appointment in Colombia in 1967.⁴⁸ McLure also used national accounts for 1964, the 1964 population census (Musgrave and Gillis 1971, 240; see also Berry and Urrutia 1976, 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 the recent IMF study on the sales tax. Effective tax rates were then obtained by simple division (see Table 1). For Musgrave, and for the majority 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, 30).⁴⁹

A staff paper comparing the Tax revenues and tax Burden in Colombia with other Latin American nations was prepared by Peter S. Griffith and Miguel Bermudez. The calculation of the ratio of tax revenues to GNP was much more straightforward, but the interpretation of such a ratio was no less delicate. As the GNP was chosen as a measure of the “tax capacity” of a country, the ratio provided an estimation of the “tax effort” of a given country.

⁴⁸ Carol A. Taylor received a BA in economics from Radcliffe College (Harvard) in 1967. See DAS Report, December 1967-March 1968.

⁴⁹ With slightly different data and under different assumptions, McLure (1975) found the tax system to be more progressive than he had concluded in 1968.

Ratio of Tax Revenue to Gross National Product^a

	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 ^b (D)
<i>Average for 1963-1965</i>				
1. Colombia	11.5	69.3	6	-26 ^c
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 ^d	9.9	59.6	7	-38
8. Average	16.6			
<i>Colombia, Recent Years</i>				
9. 1966 ^e	11.8			
10. 1967 ^e	12.3			
11. 1968 ^e	11.7			
<i>Colombia, 1971 Projection</i>				
12. Present rates	11.6 ^f			
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 which would imply it had reached a more advanced stage of fiscal development according to Musgrave's (1969) comparative analysis. 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. Musgrave had already compared the tax to GNP ratio of Colombia to that of other countries in his book. The portrait painted in Table 2 above was clear: "At present, Colombia's tax effort (as measured by the ratio of tax revenue to GNP) 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." Even with a proposed increase of P 4.5 billion in tax revenues needed to close the fiscal gap identified by the commission, the collective "tax effort" of Colombians would have been lower than most other Latin American countries.

As persuasive as these empirical results might seem to us, and to the majority of the commission, 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. Moreover, it would be necessary to see how public expenditures affect the distribution of income and then evaluate the fiscal system as a whole.” (Musgrave and Gillis 1971, 34) Musgrave would certainly have agreed with the last part of the statement: welfare expenditures targeted to the poor did improve their material conditions, and it is the reason he supported them, but he also thought that the tax system could help reduce inequalities to a certain degree. Wiesner also opposed the interpretation of Table 2. In another dissenting footnote, he stated: “I do not agree with the conclusion that ‘Colombia's tax effort ... is relatively low, and that the stipulated revenue targets can be achieved without moving Colombia's ratio out of line with that of other Latin American countries” (Musgrave and Gillis 1971, 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’ they used conveyed a more positive image than that of ‘tax burden’.⁵⁰ Of course, care was needed in making such comparisons. Still, 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., 28). Also considering the fact that Wiesner opposed the repeal of tax exemptions that benefited mostly the high-income earners (ibid., 70-71), it is reasonable to conclude that he was not supportive of the progressive agenda favored by Musgrave and others (see also Urrutia 1989, 273).⁵¹

⁵⁰ In their report of the system of West Germany written in 1951, Hansen and Musgrave noted that the “fiscal burden” could only be considered too high if public expenditures were wasted, or if they did not “reflect the will of the people” (Hansen and Musgrave 1951, 151).

⁵¹ A Colombian economist who obtained a master’s degree from Stanford on a Rockefeller fellowship, Wiesner had participated in the OAS Taylor mission a few years earlier. In 1968, at 34 years old, he was Dean of the Economics Faculty of the University of Los Andes in Bogotá (Offner 2019, 131).

3. The Legacy of the Musgrave mission in Colombia

3.1. The Reception of the Musgrave report

The Musgrave report was highly discussed in the Colombian public sphere. “No one was left immune,” according to the Minister of Finance, Espinosa Valderrama (1970, 240). Espinosa disagreed with some of the recommendations, but he nonetheless praised the professionalism of the members of the commission and the usefulness of their work, especially the quantitative analysis on the distribution of income in the country (Espinosa Valderrama 1970, 237, 241).⁵² Many Colombians opposed the idea of increasing taxes, but Miguel Urrutia, former assistant to the Minister of Finance and Secretary of the Musgrave mission, defended its recommendations. The son of a former Colombian Ambassador to the US 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 in a large room of the Hotel Tequendama in Bogotá 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 thus 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.⁵³ The journalist reporting on the event conveyed some of the recommendations defended by Urrutia, including that income tax “exemptions only allow the

⁵² President Lleras Restrepo broadly supported the recommendations, but years later, having been defeated by López Michelsen as the Liberal candidate for the 1974 presidential election, he opposed the tax reform proposed by the new president (Urrutia 1989, 275).

⁵³ In a recent interview with the author, Urrutia denied that voting systematically took place in the commission.

privileged classes to pay lower taxes”, and that “Colombia has the highest inequality in terms of distribution of national income in Latin America” (Ayala 1969).

By the end of 1969, a few minor recommendations of the report 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 at the beginning of the decade, as well as transferred some revenue sources to subnational units, as the Report recommended (Gillis in Musgrave and Gillis 1971, 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.*, 229).⁵⁴ With the benefit of hindsight, a few commentators criticized Musgrave’s revenue targets. Espinoza wrote that the extra revenue target of P 3-4.5 M was an “error” (Espinoza Valderrama 1970, 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 Musgrave 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 more chance of rallying a larger part of the political class (*ibid.*, 108). Yet, Currie also acknowledged that the

⁵⁴ The fixed exchange rate had been transformed into a crawling peg in 1967. Over time, flexibility reduced inflation and brought stability for coffee exports. By the early 1970s, Colombia ran a trade surplus (Berry 1980, 301; Urrutia 1989, 248–49; Flórez Enciso 2009, 198).

commission's plan for five years of universal education called for substantial extra revenues. Indeed, in his staff paper, Urrutia estimated that the measure would cost up to P 2.9M in 1971 (Musgrave and Gillis 1971, 794). The extra revenues were needed, not merely to balance the books, but to achieve the goals of the Alliance for Progress in 1961, goals that were officially shared by the government of Lleras Restrepo and, at the time, supported by the IMF.

Lleras Restrepo's presidency came to an end with the election of 1970 that saw the Conservative Misael Pastrana coming to power for the last four years of the National Front agreement. During the campaign, Restrepo had appropriated the goal of five years of elementary education for all, making it "a national slogan". The proposal also appealed to other politicians, but no one seemed to have taken serious financial commitments to achieve it, according to Urrutia.⁵⁵ To the surprise of many, General Rojas Pinilla nearly won the election. With a smaller political support than expected, Pastrana did not push for any major tax reform. In retrospect, the bipartisan structure of the National Front favored technocratic governance, but it might also have impeded ambitious economic or social reform (Berry 1980, 289). For instance, a policy encouraging growth could more readily gain support, than an increase in the tax burden of the rich.

3.2. 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. López Michelsen was elected with an absolute majority and immediately assembled a team of young technocrats to

⁵⁵ Urrutia to Musgrave, 18 May 1970, RAM Papers, Box 6, folder 'Colombia (and Argentina)'.

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 with entrepreneur Manuel Carvajal (and the financial backing of the Ford Foundation) (Flórez Enciso 2009, 201; see also Dargent 2014, 79-80). Their goal was to help modernize Colombia through technocratic policies (Botero Montoya 2020).

The Musgrave mission report served as a “roadmap” for the working group of young technocrats.⁵⁶ 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 new 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, 1:11). The President himself seem to have absorbed at least part of the message. In his inaugural address, he stated: “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, 261).

Although the National Front had officially come to an end, many of its structures were still enshrined in the constitution and in political customs. Half of López Michelsen’s cabinet came from the opposing Conservative party (Urrutia 1989, 281). Upon taking power, the President used a constitutional provision to declare a state of economic emergency that allowed him to pass the tax reform without subjecting it to debate in Congress.⁵⁷ Many elements of civil society supported the newly elected government, even if the tax reform proposals took them

⁵⁶ Interview of Urrutia with the author, 13/12/2021.

⁵⁷ 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 Mares (1993).

by surprise (*ibid.*, 275). But López Michelsen and his young technocrats still had to convince all the ministers. Some cabinet members arranged 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, 270). When the extent of the reform became clear, many trade associations and labor union expressed strong reservations about certain measures, but all the 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, 62). In line with the proposals made by the Musgrave mission, rates on many luxury goods were increased. Essential goods such as medicine and food were taxed at 0%, basic goods such as clothing taxed at 6%, most goods at 15%, and luxury goods consumed by the rich, such as cars, jewelry and some durable goods taxed at 35% (Urrutia 1989, 267). Like Musgrave had recommended in 1951, the complex mix of corporate income rates was vastly simplified (McLure and Zodrow 1997, 58). The excess profit tax also criticized by Musgrave in 1951 and again by the Musgrave mission in 1969 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, 238). Personal tax deductions were converted into tax credits, as the Musgrave mission had recommended (Urrutia 1989, 267). 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 most ingenious measures of the reform was to include in the tax base a presumed income of 8% of net wealth (McLure and Zodrow 1997, 71). Whereas the Musgrave report had proposed a presumptive tax on income from agriculture, Ivan Obregón proposed during one of the preliminary meetings of the technocrats in July 1974 to create a

presumptive tax on all types of income from wealth to preempt any criticism that a presumptive tax on agriculture would be a discriminatory measure against one sector (Urrutia 1989, 264).

The first challenge to the articles of reform came from the Council of State that ruled some of the decrees concerning administrative reforms passed under emergency powers unconstitutional (Gillis and McLure 1978, 249; McLure and Zodrow 1997, 69). Nonetheless, in the short run the reform did generate substantial new revenues. In one year, the tax to GDP ratio climbed from 8.1% to 11.1% (Urrutia 1989, 267). During the four years of López Michelsen's presidency, poverty declined in Colombia and income inequalities shrank (*ibid.*, 286). On paper, the new Colombian tax structure was certainly of the best in the developing world (Urrutia 1989; McLure and Zodrow 1997). Yet, the lack of rigorous auditing and serious judiciary enforcement made it much less effective than it could have been (see also Musgrave and Musgrave 1973, 739). 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 the fisc to recruit highly qualified and honest tax accountants (Urrutia 1989, 283). Many Colombian taxpayers that had partly been caught by surprise in 1975 eventually found creative ways to avoid and evade taxation. In the subsequent years, tax revenues increased slower than inflation.

3.3. 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, 19).⁵⁸ The “conventional wisdom” in tax policy put more emphasis on normative criteria such as efficiency, simplicity, neutrality at the cost of equity (Gillis 1989b; McLure and Zodrow 1997).

⁵⁸ On Musgrave's use of the pendulum analogy, see Desmarais-Tremblay and Johnson (2019, 158–59).

The bilateral flow of economists between Colombia and the US explain the joint evolution of the conventional wisdom. Indeed, many Colombian economists pursued graduate studies in the US, while American economists such as Richard Bird and Charles 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 reform” 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, 72). In 1986, the top income tax rate was brought down to 30%. The net wealth tax established in 1935 and upheld by Musgrave and Currie in 1950 and later by the Musgrave mission in 1969 was abolished in 1989. (ibid., 64). The result was that 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 of the Western hemisphere (Urrutia 1988a; McLure and Zodrow 1997, 87).

If Musgrave’s touch is not directly perceptible in the structure of the Colombian tax edifice today, then perhaps his legacy is to have “lifted the level of the debate” on matters of taxation (Bahl and Bird 2008, 285). Musgrave wanted to contribute to a better society by educating public opinion, not unlike other economic experts who cared for democracy (see Álvarez, Guiot-Isaac, and Hurtado 2020, 282). The Musgrave report of 1969 contained a wealth of novel empirical analyses on the Colombian economy, proposals for reforming the tax structure, and instruments to implement them, some of which were put into practice in the 1974 reform. The report was published in English and Spanish and was widely diffused

amongst tax experts in Latin America and in the United States. Some of the lessons learned in tax reform were also directly taught to students. For instance, Enrique Low, one of the Colombian members of 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, 120; See Low Murtra 1972; 1996). 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.

Conclusion

The economist’s activities have been compared to many trades, from doctor, to engineer, dentist, and even plumber (see, Su and Colander 2021). Edwin Kemmerer himself likened the work of the foreign economic adviser to either a general practitioner who “diagnoses the disease, prescribes the medicine, and then undertakes to take care of the patient until he has reasonably recovered”, or to a specialist consultant 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, 5). Yet, money doctors traveled to their patient when there was an acute crisis (Flandreau 2003, 3). 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, 503). In the heyday of structuralism, the work of tax reform can be

compared to architectural design. Tax reform takes time and needs to be restarted 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, 159).

Hirschman and Berman (2014) suggest 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.⁵⁹ For leaders in developing countries, foreign advisers bring technical knowledge often lacking at home. More importantly, they produce a report to which no one is accountable once the commission has completed its work. At opportune time, politicians can seize and implement pieces of tax reform inspired by reports that are waiting for their time (see R. M. Bird 1970, 190). But this client relationship does not capture 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. A focus on values help to understand the agency of the economic experts in the formation of tax policy. But, of course, their influence will

⁵⁹ See Redacción El Tiempo, “La Sabiduría de Tener Misiones Fiscales”, *El Tiempo*, 28 August 2002.

depend on the presence of other like-minded technocrats in institutions, and the autonomy of these institutions over a domain of politics.

The values of the tax economist might differ from those of the politicians calling upon them, which lead to different priorities for tax reform even when there is an overlap on the broad development goals (Goode 1993, 41). The economist sets foot in the foreign country with a preconceived view of what is a “good tax structure”. Musgrave repeated over and over the importance of such a normative guide (Musgrave 1981; 1987). Obviously, the views on equity supporting the recommendations must be acceptable to the country in question, but as Musgrave remarked concerning his work in Colombia, “pragmatism alone will not do” (Musgrave 1979, 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. Over time, with the changing generation of economists, the normative criteria and the positive science evolve, just as the values and beliefs held by society do. In the 1980s, new empirical work on the incidence of taxation and on the failure of certain types of tax instruments to achieve their targets 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 in the 1980s (Musgrave 1981; 1994; McLure and Zodrow 1997). This transformation applied both to Colombia and the United States.

Is technocratic governance opposed to democracy? Although there is certainly a tension, Musgrave did not believe they stood in opposition. Musgrave 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 according to one of his prominent colleagues.⁶⁰ 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).

⁶⁰ Stanley S. Surrey, *Fifty years (a half century?) with the Internal Revenue Code*, unpublished memoir, Harvard Law School Library, HLS MS 1518

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