

Foreign Aid¹ Flows, 2000

	Millions of US\$	% of GNI ²
Australia	987	0.27
Austria	423	0.23
Belgium	820	0.36
Canada	1,744	0.25
Denmark	1,664	1.06
Finland	371	0.31
France	4,105	0.32
Germany	5,030	0.27
Greece	226	0.20
Ireland	235	0.30
Italy	1,376	0.13
Japan	13,508	0.28
Luxembourg	127	0.71
Netherlands	3,135	0.84
New Zealand	113	0.25
Norway	1,264	0.80
Portugal	271	0.26
Spain	1,195	0.22
Sweden	1,799	0.80
Switzerland	890	0.34
United Kingdom	4,501	0.32
United States	9,955	0.10
Total DAC	53,737	0.22
Average Country Effort		0.39

Notes: 1. Aid refers only to flows which qualify as net official development assistance (ODA).
2. DAC Members have introduced the new System of National Accounts, which replaced gross national product (GNP) by gross national income (GNI). As GNI is generally been higher than GNP, ODA/GNI ratios are slightly lower than previously reported ODA/GNP ratios.
Source: *The DAC Journal: Development Co-operation Report 2001 - Volume 3 Issue 1*, OECD, Paris, 2002.

Foreign Aid Unchanged

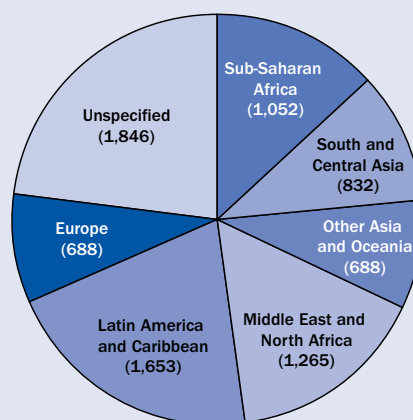
In 2000, foreign aid to developing countries (official development assistance or ODA) by the 22 OECD DAC¹ Members was \$53.7 billion, slightly higher than the preliminary figure of \$53.1 billion. In real terms, the flow was little changed from 1999, down 0.4%. Luxembourg joined Denmark, the Netherlands, Norway and Sweden as the only countries to meet the long-standing UN target for ODA of 0.7% of gross national income (GNI). Japan was the largest donor by volume with a total of \$13.5 billion followed by the US at almost \$10 billion. Fourteen countries reported a rise in aid in real terms in 2000 and the average effort of the countries remained at 0.39% according to the recent *Development Co-operation Report 2001*.

Several DAC Members, including Canada, Greece, Ireland, Sweden, Switzerland and the United Kingdom, have specified targets for raising ODA in the short to medium term. US aid rose by 7% in real terms in 2000 and proposals have been made in Congress to increase aid spending in the medium term. 54% of US aid reached lower middle-income countries, while 44% reached low-income and least developed countries.

Note 1. The Development Assistance Committee (DAC) Members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

OECD, Paris (2001) *The DAC Journal: Development Co-operation Report 2001 - Volume 3 Issue 1*, ISBN: 9264-19187-9, \$50.00.

US Foreign Aid¹ by Region (millions of US\$, 2000)



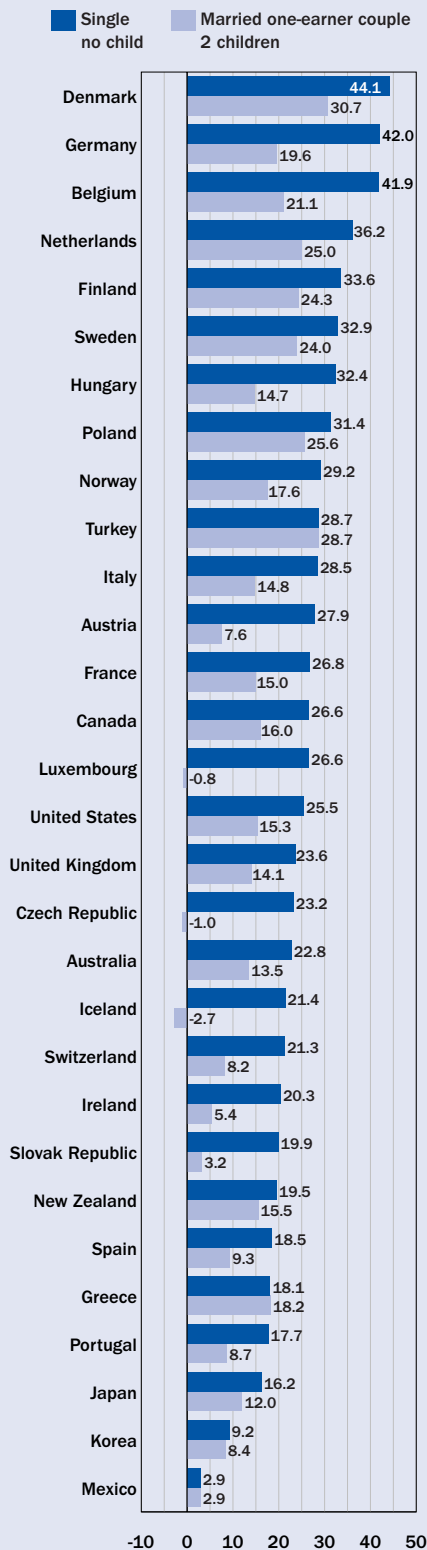
Note: 1. Aid refers to gross bilateral official development assistance (ODA) flows.
Source: *The DAC Journal: Development Co-operation Report 2001 - Volume 3 Issue 1*, OECD, Paris, 2002.

US Top 10 Recipients of Aid¹ (millions of US\$, 2000)

Russia (OA)	1,154
Israel (OA)	967
Egypt	799
Ukraine (OA)	282
Indonesia	194
Jordan	179
Colombia	169
Bosnia and Herzegovina	152
India	148
Peru	136

Note: 1. Aid refers to gross bilateral official development assistance (ODA) and official aid (OA) flows.
Source: *The DAC Journal: Development Co-operation Report 2001 - Volume 3 Issue 1*, OECD, Paris, 2002.

Tax Rates¹, 2000



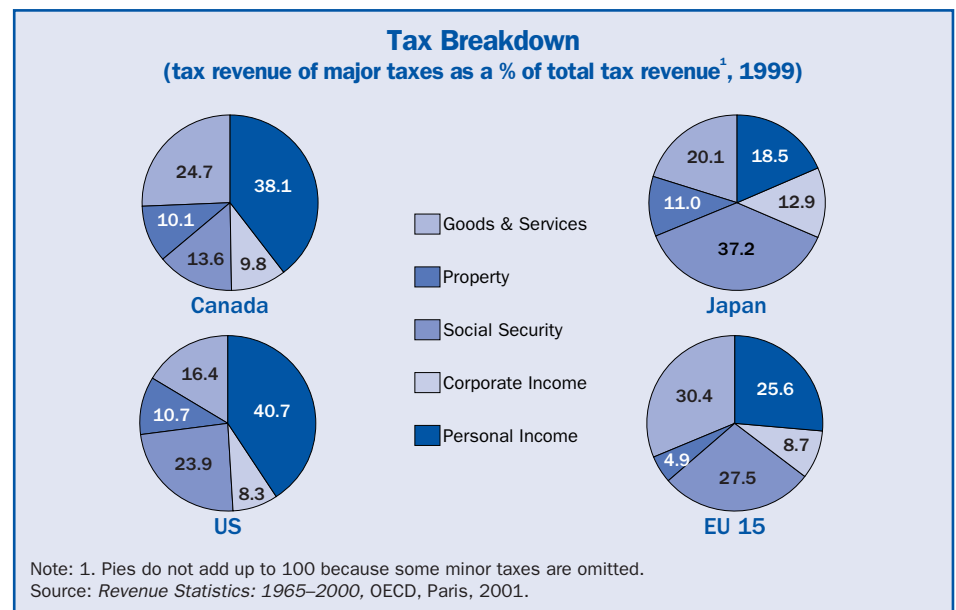
Notes: 1. Income tax plus employee contributions less cash benefits by family-type, as a percent of gross wage for the average earnings level.
Source: *Taxing Wages: 2000-2001*, OECD, Paris, 2001.

The Uneven Tax Burden

Tax revenues increased in OECD countries from 1999-2000, reflecting strong economic growth and despite widespread moves to cut tax rates according to the latest edition of the OECD's *Revenue Statistics*. OECD average tax-to-GDP ratio rose to 37.3% in 1999 from 36.9% in 1998. These ratios are calculated by expressing total tax revenues as a percentage of GDP at market prices. Tax ratios vary considerable between countries, as does their evolution over time. In 1999, five European countries had tax ratios of more than 45% of GDP. In contrast, United States, Japan and Korea had tax ratios in the 20-30% range while Mexico's total tax revenues were only 17% of GDP.

Over 80% of tax revenues come from three sources: income tax, social security contributions and taxes on goods and services. However, the amount collected for each varies widely. In five countries—US, Australia, Canada, Denmark and New Zealand—the share of income taxes in the tax mix exceeds 45%. While taxes on goods and services yielded over 31% of total revenue on average for OECD countries, the share of these taxes ranged from a low of 16% in the US to over 40% in Hungary, Iceland, Korea, Mexico and Portugal.

OECD, Paris (2001) *Revenue Statistics: 1965-2000*, ISBN: 9264-09515-2, \$75.00.



New Report on Tax Rates

Personal average tax rates are defined as income tax plus employee social security contributions as a percentage of gross wage earnings. According to 2000 estimates, at the average earnings level, unmarried workers paid over 40% of their annual wages in personal income tax and employee social security contributions in Denmark, Belgium and Germany. In Greece, Japan, Korea, Mexico, New Zealand, Portugal, Spain, and the Slovak Republic the personal average tax rate was below 20%. In the US, the average tax rate was about 26%. For married one-earner couples with two young children, the gap between gross wage earnings and net take-home pay is generally smaller, with Greece, Mexico and Turkey being exceptions. And in the Czech Republic, Iceland and Luxembourg, when cash benefits for children are taken into account, the net transfer becomes positive according to the annual OECD report, *Taxing Wages*.

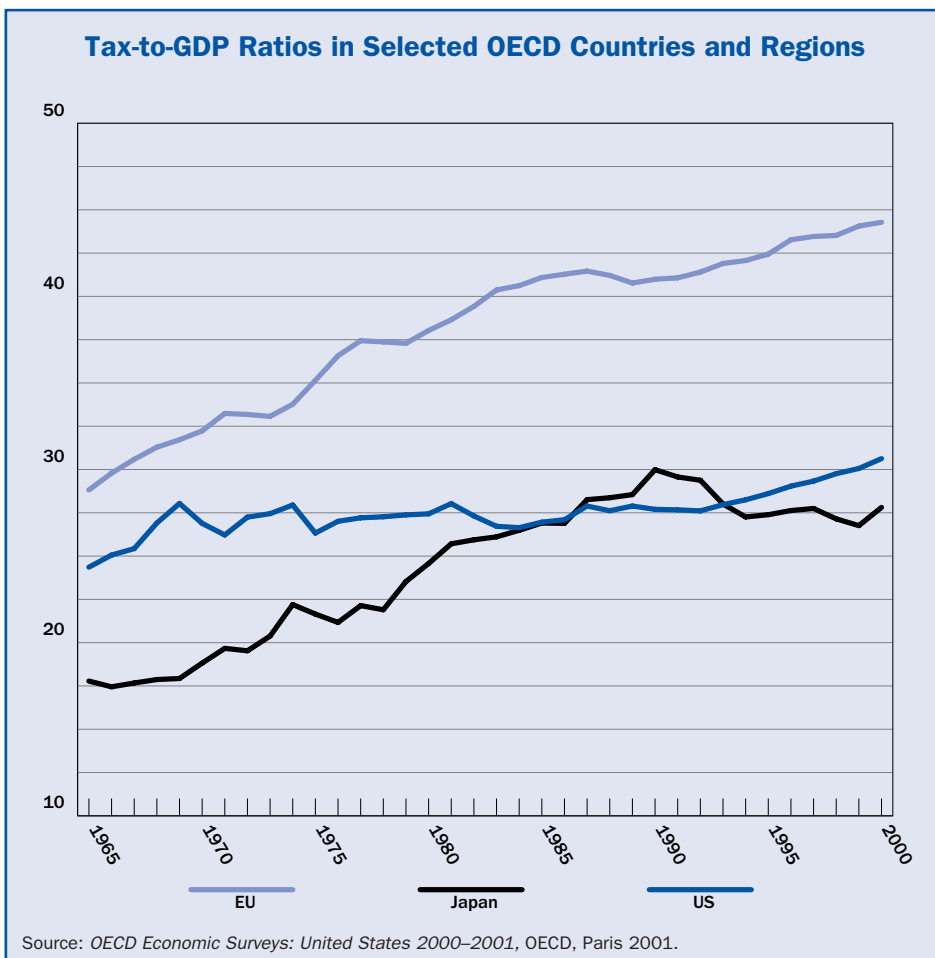
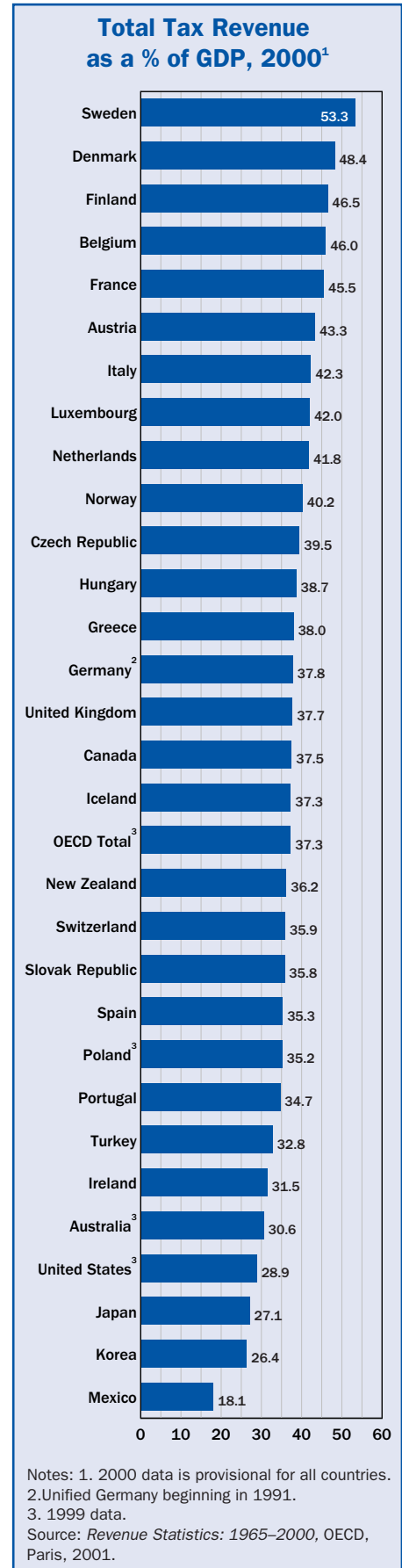
OECD, Paris (2001) *Taxing Wages: 2000-2001*, ISBN: 9264-09684-1, \$76.00.

US Tax System Being Simplified

The United States is a low-tax economy in relation to other OECD countries, with overall taxation representing slightly more than 30% of GDP. Taxation of personal incomes is the main source of revenue for governments in the United States, with contributions to various social programs and personal incomes taxes accounting for 81.8% of federal revenues in 2000. The share of revenues raised from property taxes is also high, reflecting the use of these taxes to pay for a number of local services, notably education. The United States is the only OECD country not to have a national value-added tax and also has particularly low taxation on gasoline, alcohol and tobacco.

Although there is a low level of taxation, the current system is complex and there appears to be considerable room for improving its overall efficiency. The 2001 tax changes will reduce taxes by 1¼ percentage points of GDP when they are finally implemented in 2010 however, the changes introduced in the Act do not amount to a full-scale tax reform. The cuts do move, nonetheless, in a direction that is likely to improve efficiency. Further progress could take two routes. One is to focus on anomalies in the current income tax system with the objective of simplifying the system. But it would seem that a more fundamental reform is called for. The taxation of businesses, capital gains and capital income should be lowered relative to that of income that is consumed. Such a move would be likely to initially increase the income share of the richest groups in US society but should eventually also increase output and real wages.

OECD, Paris (2001) *OECD Economic Surveys: United States 2000-2001*, ISBN: 9264-19680-3, \$34.00.





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Jagdish Bhagwati, Professor, Economics Department, Columbia University, United States



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