

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Paul Clist, University of Nottingham

TITLE: Aid and Tax Revenue: Signs of a Positive Effect Since the 1980s

TIME: 11:30-1:00 PM

DAY AND DATE: Friday, 5th September 2008

PLACE: Conference Room

ABSTRACT: There is some debate regarding the effect of aid on tax effort in recipients, in particular the concern that aid (especially in the form of grants) may discourage recipients from raising tax revenue. Using data for a sample of 82 developing countries over the period 1970-2005 we find no robust evidence for a negative effect of aid (grants or loans) on the tax to GDP ratio. In fact, we find some evidence that the effect of grants on tax revenue is positive (if significant) since a break point in the mid 1980s. Furthermore, when endogeneity is controlled for, grants tend to increase tax revenue over the medium term. Of the two effects (data break and medium term effects), the latter seems to dominate. For aid recipients, grants are to be preferred to loans because they create no future repayment burden and appear, since the 1980s, to support increases in tax revenue or at least have no adverse fiscal effects.