

RICHARD BIRD AND THE STUDY AND PRACTICE OF PUBLIC FINANCE: "YOU MUST PLAY THE BALL AS IT LIES"*

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I AM PLEASED TO APPEAR ON THIS PANEL HONORING Richard Bird for his "outstanding contributions to the study and practice of public finance." My association with Richard goes back nearly 40 years, and our friendship almost as long. (Our association began before our friendship, with a mini-controversy over the design of tax incentives for regional development.¹) Our paths have crossed dozens of times, in the United States, in Canada, in other developed countries, and especially in developing countries. I am particularly pleased that they are crossing here today.

The task of commenting on Richard's contributions is daunting. Reviewing all – or even most – of his writings would be a truly gargantuan task. Richard's CV lists 45 books and monographs, 120 chapters in other books, 127 journal articles, 35 of what he calls "other articles" – a category that includes 13 papers presented at the annual conferences of the NTA and the Canadian Tax Association, an astonishing 40 book reviews, and an even more astonishing 69 "reports not listed elsewhere," primarily reports to various international organizations based on his advisory work in developing countries and countries in transition from socialism. Richard's published works and "reports not listed elsewhere" cover several dozen countries on six continents.

Of course, Richard's contributions to the study and practice of public finance cannot be measured only by statistics. Indeed, I believe they go well beyond his publications in specific areas, such as the value added tax and fiscal federalism,² or even his sage advice to various governments. Rather than discussing such specific contributions, I want to focus on Richard's insistence on particular ways of thinking, which I believe should be at the very heart of the study and practice of public finance but which are, unfortunately, too often ignored. I will quote liberally from Richard's writings to document my case.

"You must play the ball as it lies. You may not move it to a better spot." – The Rules of Golf

*The author wishes to thank George Zodrow and Eric Zolt for their useful comments on earlier drafts of these remarks.

Although I know that Richard believes the study and practice of public finance is much too important to be considered merely a game, one of the fundamental rules of golf describes quite well Richard's approach. The rules state simply, "You must play the ball as it lies. You may not move it to a better spot."

Some members of our profession play the "game" of tax policy and analysis as though always in the middle of the fairway with a clear and unobstructed view of the green and no water hazards and no sand traps. But, as Roy and I have, Richard has spent much of his professional life playing in the rough – in developing countries and in countries in transition from socialism, where there are few unobstructed views and many institutional traps and political hazards. Richard insists that, rather than assuming away the nasty nitty-gritty that makes analysis of policy options difficult, one must "play the ball as it lies," dealing with the world as it is, not as we would wish it to be.

Richard states this clearly in the preface to his 1992 book, *Tax Policy and Economic Development*:

Much fiscal analysis of developing countries is on the following pattern: the academic literature is drawn on to construct a model fiscal system; the existing situation in a particular country is examined to determine how it diverges from the model; and a fiscal reform is then proposed to transform what *is* into what *ought to be*. This approach is deficient because it does not require sufficiently detailed examination of existing reality to ensure that the assumptions postulated in the model are congruent with reality, that the recommended changes can in fact be implemented, or that, if implemented, they will in fact produce the desired results.

In contrast, my approach is first to study in detail exactly *how* the existing system works, and *why* it works that way, in order to have a firm basis for understanding what changes may be both desirable and feasible. My emphasis has thus always been more on what *can* be done than on what *should* be done – if only it could be! This approach is both

time-consuming and tends to induce caution with respect to drastic change. Nevertheless, experience shows that many administrative (and political) constraints must be accepted as immutable in the near term if one is to design a useful tax proposal for any country (Bird, 1992, p. x; emphasis in original).

More recently, Richard wrote in the same vein:

...[O]ne must not ... be unduly constrained by what is. On the other hand, one must equally be careful not to be blinded by a vision of what ought to be, in some non-existent perfect world. Above all, one must, I think, take care to understand what is, and why it is, in order to begin to see what can be (Bird, 2003, p. 340).

“You can tee-up in the fairway.” – Rules of Golf, circa 1956

When I was in high school I attempted to play a bit of golf on the course several miles from my home town in West Texas. Because the fairways were simply a swath of bare earth carved out of the mesquite trees and creosote bushes, golfers were allowed to tee-up in the fairway, in order to avoid destroying their clubs by trying to take divots out of the rock-solid ground. Since there was no grass in that part of the country, the “greens” consisted of oiled sand that could be smoothed out with a rake-like contraption to facilitate putting. (Being teenagers, and living in West Texas, we often put a .22 caliber rifle in our golf bags, in case we ran across a rattlesnake or – as often happened – became bored with golf and decided to hunt rabbits.)

Those accustomed to playing on courses with lush fairways and manicured greens might find these rules (let alone our extra equipment and behavior) strange. But Richard probably would not. Whether in Canada, Colombia, China, or Ukraine, one must play by the local rules. That is, as Richard reminds us, one must take account of local conditions, including the nature of the economy, political institutions, the availability of data, and especially the capability of the tax administration. One would not generally make the same recommendations for countries at all levels of development. Certainly Richard would not.

“Tax administration IS tax policy.” – Milka Casanegra (1990)

The need to play the ball where it lies is no greater than in the area of tax administration. Just

as Milka Casanegra famously said, “tax administration *IS* tax policy,” Richard has said, “No policy exists until it is implemented” (Bird, 1989, p. 326). He notes, “Academic economists discussing policy issues sometimes sound as though they are, in effect, advocating that the way the world works should be changed to fit the conditions assumed in their models. Tax reformers discussing the need to change the institutional context within which a tax system functions often sound equally futile.” (Bird, 1989, p. 320)

By comparison, Richard wisely asserts, “[T]he most rewarding approach to tax reform in most countries is likely to be to design a tax system that can be acceptably implemented by the existing weak administration. Miracles being always in short supply, any other action is, in the end, unlikely to prove successful.” (Bird, 1989, p. 315)

One implication of this view is not to let the perfect be the enemy of the good. Thus, regarding the impulse to introduce a global income tax, Richard advises:

[T]hose who would design a better direct tax system ... should realize that the economic and administrative realities are such that what is really being done is to design a schedular tax. The tax analyst who approaches his task in this way is unlikely to make the same reform proposals as one who does not so take into account the way the world works” (Bird, 1989, p. 329).

Many advisers in countries in transition from socialism, like those in developing countries before them, would have done well to pay more attention to this advice.

“[T]he Iraqi Constitution ... provides for a federal structure ...” Biden and Gelb, 2006.

Richard has also emphasized the need to play the ball where it lies in understanding and designing systems of fiscal federalism. Thus, he writes:

[T]here are few issues in fiscal practice which require more specific institutional knowledge than those related to fiscal federalism. The approach I have suggested ... is, I think often a useful one. But exactly what this approach implies in any particular setting is something that can be decided only on the basis of close study of the local terrain and careful exploration on the ground. In this, as in so many other areas of public economics, what we seem

to need at the moment is less more imaginative sketches of what may (or should) exist than more careful reporting and analysis of what does exist and how it works (Bird, 1993, p. 222).

[S]ince every country is both unique and in some sense constitutes an organic unity, it is only by close study of the whole range of its problems and institutions that an observer can come to appreciate the peculiar characteristics that stem from the interdependence and historical evolution of those institutions, including of course the system of federal finance (Bird, 1986, p. 11).

Writing in the *New York Times* on May 1, 2006, Senator Joseph Biden and Leslie Gelb state, “[T]he Iraqi Constitution, in fact, already provides for a federal structure ...” Given the results of the recent elections, these words have added salience, as Biden is likely to head the Senate Committee on Foreign Relations. One can only hope that those who consider implementing a federal system in Iraq will heed Richard’s advice.

“[T]he Commission will examine the possibility of resorting to the enhanced cooperation mechanism.” – László Kovács, European Commissioner for Taxation and Customs, 2006

For at least 20 years Richard has stressed “to my mind the most important theme emerging from recent studies of federalism and federal finance is the importance of the *process* of federalism rather than its product” (Bird, 1986, p. 239; emphasis in original). Indeed, he contends, “In the end, the process by which fiscal systems are set up and changed is in a real sense the principal institution in any country” (Bird, 1986, p. 231). Elaborating, he says, “The two most important characteristics of fiscal federalism are, therefore, who determines the rules of the game and how those rules are changed – all else follows” (Bird, 1986, p. 246).

In my own work on tax harmonization in the European Union (EU), I have recently encountered the truth of these statements. Corporate income taxes are not harmonized because EU rules on taxation require a unanimous vote of all member states. While the European Court of Justice can and does rule that particular tax provisions of member states invalidate the European Community Treaty, it does not say what should replace them. The European Commission, as “guardian of the

Treaty,” plays a potentially important role in the quest for harmonization. The Commission has suggested that “enhanced cooperation” among as few as eight member states, a procedure that was made easier by a 2001 amendment to the EU Treaty, could be used to get around the unanimity rule and has also said that “soft law approaches” could be used to formulate a harmonization proposal that might be adopted under enhanced cooperation (see McLure, 2006). In other words, process matters.

“*Mirror, mirror on the wall ...*” – The Queen in *Snow White and the Seven Dwarfs* (1937)

Although I agree fully with the sentiments, Richard has expressed in the passages quoted thus far, I sometimes feel – or at least I fear – that I am looking in the mirror when I read indictments such as this:

[E]ven the best-trained economists still seem often all too eager to leap from abstract generalities to specific recommendations for particular settings. It is perhaps not too harsh to say that even the best theoretical analysis can at most yield not clear answers, but rather a set of relevant questions for policy economists concerned with a particular problem in a particular context. One size never fits all in the world of public finance in developing and transitional economies. The questions to be answered may indeed in some sense always be the same. But the feasible and sustainable answers invariably differ from place to place (Bird, 2003, p. 341-342).

I submit many of my own papers to Richard for his comments, which he almost always generously provides. I do not expect Richard to stroke my ego and say “atta boy,” like the mirror on the wall in *Snow White and the Seven Dwarfs*, although he sometimes does. Rather, I know that he may be able to point me to literature I have missed. More important, I know that if he thinks I am all wet, he will not hesitate to say so. Since we see many issues differently, I sometimes shrug off his comments, but I always consider them carefully and my published work is better for it. On one occasion, in commenting on my “Thoughts on Key Elements of a Tax System for Post-Taliban Afghanistan,” Richard said that he had laughed so hard he had to pick himself up off the floor. That paper remains unpublished.

“Think straight, but partake in policy making.”
– E. R. Goldenweiser, quoted in Musgrave (1959, p. ix)

Throughout my career I have benefited greatly from the admonition that Dick Musgrave quotes in the preface to his treatise, “think straight, but partake in policy making.” I do not know whether Carl Shoup ever told Richard the same thing, in so many words, but I am sure he stressed the same idea, as Richard has done both. In an essay entitled “Taking the Low Road,” Richard describes Amartya Sen as someone who has taken “the high road,” quoting Sen’s statement that he has never counseled any government. Richard concludes, “[I]t is, I think, impossible to read Sen’s declaration in any way except as the classical academic view that, so to speak, he knows most whose hands are cleanest because he has never actually tried to do any of the things which he is discussing. The clearest view of development policy, he seems to be saying, is from the ivory tower” (Bird, 2003, p. 338).

Richard goes on to say that his views are more like those of Al Harberger, one of my heroes, that economists are practitioners “who struggle in the field to harness the knowledge and insights of economic science to help improve the economic organization of their countries and the economic life of their peoples.”

“The National Tax Association presents the Daniel M. Holland Medal for outstanding contributions to the study and practice of public finance.”

The Holland Medal is awarded for “outstanding contributions to the study and practice of public finance.” Some, those who take what Richard has called “the high road,” might ask what key theorems he has proven. I am sure that Richard would freely admit that there have been none, and he would probably add that he did not think that it matters very much – that he has contributed in other ways.

Others, not knowing that Richard has worked in “50 or so countries,” might ask what contributions Richard has made to the practice of public finance. Richard has also answered that last question clearly, if not completely:

...I have not myself had to fight any real battles in the fiscal wars, but I have read much about the subject, talked to many who have fought, and spent

considerable time reflecting not only upon what it must be like but also upon how such general knowledge as I and other academics might have can best be put to use to produce better outcomes (in terms of the policy objectives we are trying to achieve) while suffering fewer collateral casualties (in terms of sacrificing other objectives and using up scarce policy resources); (Bird, 2003, p. 340).

Richard says that he has “read much” and has “talked to many who have fought” fiscal battles. This modest comment deserves attention, as it is a substantial understatement. Richard is, in fact, a voracious reader, as well as an amazingly prolific writer. When reading Richard’s work I am always amazed by the amount of literature he has assimilated – literature I did not even know existed. He must surely know the non-technical literature on taxation better than anyone else. Thus, whether talking to a colleague, a graduate student, or a finance minister – and he has talked to a lot of finance ministers – Richard’s encyclopedic knowledge of literature enables him to bring to bear on any given problem much more experience than most of us.³

Although Richard retired a few years ago, he continues to make “outstanding contributions to the study and practice of public finance” at a prodigious pace, both by publishing and by advising. When I learn of his latest trips, and especially when I see his most recent publications, I have various reactions, including assorted varieties of incredulity and some envy. Although Dan Holland knew Richard well, I suspect Dan might share my incredulity, though not my envy. Certainly Dan would be pleased that evidence continues to accumulate that Richard richly deserves to receive the medal that bears his name.

Notes

¹ See Bird (1968), McLure (1970), and Bird (1970).

² On these two topics, see, inter alia, Bird (1986), (1993), and (2000) and Bird and Gendron (1998) and (2000).

³ When someone calls to ask me a question, I often refer the caller to Richard. Similarly, when someone is organizing a conference or looking for someone to undertake an advisory assignment, I suggest that they ask Richard for recommendations. (Usually they have already asked him.)

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