



Secretariat

Distr.: Limited
12 December 2003

English only

**Ad Hoc Group of Experts on International
Cooperation in Tax Matters**
Eleventh meeting
Geneva, 15-19 December 2003

**Financial taxation and equity market development: optimal
financial market tax policies for developing countries***

Addendum

Annex

Tables and Bibliography

* The present paper was prepared by Mr. David Sugarman. The views and opinions expressed are those of the author and do not necessarily represent those of the United Nations.

TABLES

Table 1

Issues Publicly Quoted in New York: 1817-1840		
Year	Bonds	Equities
1817	8	21
1818	8	23
1819	9	28
1820	7	28
1821	15	28
1822	15	32
1823	16	36
1824	13	59
1825	16	69
1826	17	82
1827	15	87
1828	19	61
1829	20	61
1830	17	58
1831	16	58
1832	15	66
1833	14	70
1834	12	74
1835	11	80
1836	9	87
1837	9	87
1838	9	101
1839	7	100
1840	5	112

Source: New York Daily Newspaper Quotations 1817-1840

Table 2

NYSE: Average Shares Listed, Reported Share Volume, and Turnover Rate 1910-1940			
Year	Average No. of Shares Listed (Million)	Reported Share Volume (\$ Million)	Turnover Ratio
1910	126.8	161.1	127
1911	140.3	125.9	90
1912	148.8	131.5	88
1913	152.3	82.8	54
1914	154.8	47.4	31
1915	155.8	172.5	111
1916	160.2	232.6	145
1917	179.7	184.6	103
1918	193.9	143.3	74
1919	208.0	318.3	153
1920	251.1	227.6	91
1921	292.7	172.8	59

1922	337.2	260.9	77
1923	393.2	236.5	60
1924	424.8	284.0	67
1925	462.5	459.7	99
1926	538.6	451.9	84
1927	620.3	581.7	94
1928	706.2	930.9	132
1929	942.5	1124.8	119
1930	1212.2	810.6	67
1931	1307.8	576.8	44
1932	1315.3	425.2	32
1933	1302.6	654.8	50
1934	1299.4	323.8	25
1935	1311.6	381.6	29
1936	1339.1	496.0	37
1937	1386.2	409.5	30
1938	1418.1	297.5	21
1939	1429.8	262.0	18
1940	1445.1	207.6	14

Source: New York Stock Exchange Fact Book, 1956

Table 3

Malaysian Equity Market Development 1980-1998				
Year	Number of Listed Companies	Market Capitalization (\$ Million)	Market Capitalization (% of GDP)	Turnover Ratio
1980	182	12,395	50.5	25.6
1981	187	15,300	61.2	26.1
1982	194	13,903	51.8	9.8
1983	204	22,798	76.0	18.4
1984	217	19,401	57.1	10.4
1985	222	16,229	51.9	13.4
1986	223	15,065	54.7	7.8
1987	232	18,531	57.9	22.6
1988	238	23,318	67.2	12.5
1989	251	39,842	105.0	21.8
1990	282	48,611	113.6	24.6
1991	321	58,627	124.6	20.2
1992	369	94,004	161.2	27.3
1993	410	220,328	343.3	94.3
1994	478	199,276	275.0	60.1
1995	529	222,729	255.0	35.9
1996	321	307,179	309.0	65.1
1997	708	93,608	95.0	72.6
1998	736	98,557	--	30.9

Source: IFC Emerging Stock Markets Factbook, 2000

Table 4

Estimates of Effective Marginal Tax Rates by Financing Option - Malaysia 1983-1987					
Year	Bond Financing	New Issues	Retained Earnings	Debt and New Issues	Debt and Retained Earnings
1983	0.0240	-0.0104	0	0.0105	0.0146
1984	0.0240	-0.0093	0	0.0112	0.0148
1985	0.0164	-0.0049	0	0.0089	0.0107
1986	0.0168	-0.0042	0	0.0092	0.0107
1987	0.0174	-0.0076	0	0.0055	0.0091

Source: Broadway, Chua, Flatters (2000)

Table 5

Brazilian Equity Market Development: 1980-1998				
Year	Number of Listed Companies	Market Capitalization (\$ Million)	Market Capitalization (% of GDP)	Turnover Ratio
1980	1040 ^a	9,221	3.8	48.3
1981	1086 ^a	12,574	4.8	52.5
1982	1100 ^a	10,261	3.8	50.9
1983	1098 ^a	15,100	7.3	32.3
1984	1123 ^a	28,994	13.7	34.3
1985	1156 ^a	42,768	18.7	49.3
1986	1140 ^a	42,096	15.0	74.4
1987	1219 ^a	16,900	5.6	41.5
1988	1221 ^a	32,149	8.9	37.8
1989	592 ^b	44,368	9.9	17.9
1990	581 ^b	16,354	3.5	23.6
1991	570 ^b	42,759	10.5	22.0
1992	565 ^b	45,261	11.6	31.5
1993	550 ^b	99,430	22.7	32.6
1994	544 ^b	189,281	34.6	83.4
1995	543 ^b	147,636	21.0	47.8
1996	551 ^b	216,990	28.0	61.1
1997	536 ^b	255,478	31.1	85.8
1998	527 ^b	160,887	20.6	71.0

Source: IFC Emerging Stock Markets Factbook, 2000

^aSao Paulo and Rio de Janeiro Exchanges^bSao Paulo Exchange only

Table 6

Stock Issues as A Percentage of GNP, 1970-1983			
Country	1970-3	1974-9	1980-3
Brazil	0.43	0.11	0.18
France	0.97	0.65	0.90
Germany	0.53	0.42	0.41
Greece	0.38	0.30	0.14
United Kindgom	0.47	0.66	0.60
United States	1.01	0.57	1.20

Source: IMF International Financial Statistics

Table 7

Marginal Effective Tax Rates on Investment, Brazil (1989 Tax System)				
Percentage of Exports in Total Sales	Financed Through Debt		Financed Through Equity	
	Machinery	Buildings	Machinery	Buildings
0 (Base Case)	55.0	39.8	68.1	60.4
10	49.9	35.3	59.4	50.3
40	48.7	33.5	53.2	40.8
50	48.2	32.9	51.0	35.5
100	45.1	28.5	37.6	17.0

Source: Estrache and Gaspar (2000)

Selected Bibliography

- Agenor, Pierre. Development Macroeconomics. Princeton University Press, 1999.
- Bhaduri, Amit. "Implications of Globalization for Macroeconomic Theory and Policy in Developing Countries," in Epstein, Gerald: Globalization and Progressive Economic Policy. Cambridge University Press, 2000.
- Broadway, Robin, et.al. "Indirect Taxes and Investment Incentives in Malaysia," in Shah, Anwar: Fiscal Incentives for Investment and Innovation, Oxford University Press, 1995.
- Chamley, Christophe. "The Taxation of Financial Assets in Developing Countries." In Tax Policy in Developing Countries, OECD Press, 2000.
- Estrache, Antonio and Vitor Gaspar. "Why Tax Incentives do not Promote Investment in Brazil," in Shah, Anwar: Fiscal Incentives for Investment and Innovation, Oxford University Press, 1995.
- Hu, Shing-yang. "The Effects of the Stock Transaction Tax on the Stock Market - Experiences from Asian Markets." Pacific-Basin Finance Journal, 6(1998), pp. 347-64.
- Levine, Ross. "Law, Finance, and Economic Growth." Journal of Financial Intermediation, 8(1999), pp. 8-35.
- Levine, Ross. "Stock Markets, Growth, and Tax Policy." Journal of Finance, 4 (1991), pp. 1445-1465.
- Lyon, Andrew. "Taxation, Information Assymetries, and the Financing Choice of the Firm," in Shah, Anwar: Fiscal Incentives for Investment and Innovation, Oxford University Press, 1995.
- Mishkin, Frederic. "FinancialMarket Reform," in Kreuger, Anne: Economic Policy Reform. University of Chicago Press, 1998.
- Ramos, Joseph. "The Rise and Fall of Capital Markets in the Southern Cone," in Urrutia, Migel Financial Liberalization and the Internal Structure of Capital Markets in Asia and Latin America, United Nations Press, 1988.
- Schwert, William and Paul Seguin. "Securities Transaction Taxes: An Overview of Costs, Benefits, and Unresolved Questions." Financial Analysts Journal, September/October 1993, pp.27-35.
- Sheng, Andrew. "Financial Opening in Malaysia," in Urrutia, Migel Financial Liberalization and the Internal Structure of Capital Markets in Asia and Latin America, United Nations Press, 1988.
- Stiglitz, Joseph. "Taxation, Corporate Financial Policy, and the Cost of Capital." Journal of Public Economics, 2 (1973), pp. 1-34.
- Thirsk, Wayne. "Lessons from Tax Reform: An Overview." In Tax Policy in Developing Countries, OECD Press, 2000.
- United Nations. Emerging Trends in the Financial Markets of Transition and Less Developed Economies.
- Welch, John. Capital Markets in the Development Process: The Case of Brazil. Macmillan Press, 1991.
- Werner, Walter and Seven Smith. Wall Street: A History. Columbia University Press, 1991.