

such price distortions between capital and labor so as to encourage more efficient allocation of resources. This implies not only the avoidance of tax measures that tend to distort comparative costs, but also, where appropriate, to compensate by taxes or subsidies for price distortions due to structural or institutional imperfections in the market.

It should be apparent that tax policy is only one of many government policies that impinge on comparative factor costs. Among the most important affecting the cost of capital are policies governing interest rates, rationing of credit, and exchange rates. It is important, therefore, that all relevant measures should be coordinated and directed toward the same end if the market cost of capital is to be brought into better alignment with its social opportunity cost.

Against this background, I propose to examine how tax policy in Latin American countries may affect the comparative utilization of capital and labor, and to formulate guidelines to tax policy that may achieve a better balance between these factors in the future. It should be recognized in advance that this analysis takes a narrow view of the whole problem of balanced growth. Not only is it limited to one aspect of tax policy — that relating to capital and labor — but it does not embrace other relevant economic policies.

2. The diversity of conditions in Latin America precludes generalizing about the wage structure and the level of wages in relationship to their accounting or social opportunity cost. In many countries labor may be so organized as to maintain a level of wages above their social opportunity cost; and some countries maintain minimum wage levels, especially in urban areas, that lie above a free market rate. Other factors combine in many countries to raise the cost of labor, including severance pay, liberal vacation pay, and Christmas bonuses. In addition, absenteeism tends to run high. It is, of course, impossible to measure the disparity of wages with what would govern in a more freely competitive market. Harberger has attempted to define this in terms of differences between wages in what he calls the protected and unprotected sectors of the urban market, the latter lying somewhat above the level of farm wages and attractive enough to induce a steady stream of migration (7).

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(7) ARNOLD C. HARBERGER, «On Measuring the Social Opportunity Cost of Labour», in International Labour Office, *Fiscal Measures for Employment Promotion in Developing Countries* (Geneva, 1972), pp. 3-24.