Higher productivity from eliminating barriers that hold more productive firms back could lift real GDP growth by roughly 1 percentage point a year for 20 years.

For emerging market and low income developing countries, ¼ of these gains could potentially be realized by upgrading the design of the tax system.

Estimated annual real GDP growth gain from improving allocation of capital and labor

TWO EXAMPLES OF POSSIBLE BARRIERS

Taxing machinery and buildings differently can steer investors away from investments that would be better for productivity.

Companies that cheat on their taxes hurt total productivity because they reduce the market share of more productive, tax-compliant businesses.

For more please see: “Upgrading the Tax System to Boost Productivity,” Chapter 2, Fiscal Monitor April 2017