Jomo Kwame Sundaram

TAXATION AND ECONOMIC DEVELOPMENT

От редакции

Мы продолжаем начатую в предыдущем номере «Международной аналитики» публикацию статей известного малайзийского экономиста Джомо Кваме Сундарама, в прошлом — помощника Генерального секретаря ООН по экономическому развитию (2005—2012 гг.) и помощника Генерального директора Продовольственной и сельскохозяйственной организации ООН (2012—2015 гг.), в настоящее время — профессора малайзийского Института стратегических и международных исследований.

Настоящая подборка посвящена влиянию налоговых систем на экономическое развитие, а также проблемам безработицы. Статьи, любезно предоставленные редакции автором, публикуются на английском языке.

Taxation for Development

In recent decades, many developing countries have experienced declines in fiscal revenue as a share of national income. There is an urgent need to reverse this trend, with greater revenue collection to finance the realization of developing countries' developmental aspirations. The pursuit of development objectives depends crucially on government spending which, in turn, is constrained by fiscal revenues, especially taxes. But tax revenues in most developing countries are typically low, much lower than in developed countries.

In many sub-Saharan African and Latin American countries, the tax to GDP ratio has actually declined, with declining tax revenues from import tariffs and, less often, export duties. Taxes on international trade have long been the easiest taxes for governments to collect. Such revenue, indeed the share of trade taxes, has fallen with trade liberalization in recent decades, often encouraged, if not required by the Washington-based international financial institutions. Typically, other taxes have not grown enough to compensate for lower trade taxes.

Tax revenues are mainly from three sources in most developing countries: domestic taxes on goods and services (general sales tax, excises), foreign trade taxes (mostly import duties) and direct taxes, mainly income taxes, as estate duties and other such taxes have declined in significance. Wealth and property taxes as well as social security contributions make variable contributions, often reflecting 'path dependence' or historical precedence.

In most developed countries, income taxes (mostly from individuals rather than corporations) and consumption taxes make the largest contributions (around a third each on average), while social insurance contributions account for about a quarter of total tax revenue on average, with trade taxes quite insignificant.

Although there is growing trend towards standardizing tax practices, varying circumstances and hence revenue potential suggest that developing countries should not seek to emulate developed economies in trying to generate tax revenue. No one size fits all, even among developing countries, and certainly not for all time. Tax systems should evolve with economic conditions and circumstances. For most revenue authorities, nonetheless, a key consideration is to ensure effective, regular and adequate tax collection.

There has also been a push to broaden or diversify the national tax base, posing dilemmas for countries with limited revenue collection capacities. In recent decades, indirect taxation has tended to increase while direct, especially income tax rates have declined, ostensibly to promote investment and growth despite dubious empirical support for this claim which has further reduced tax revenues.

Non-tax revenues have mainly been important for petroleum rentier states and the few countries with large, well-run state owned enterprises. Such ratios are typically low, even in countries with considerable non-petroleum mineral resource extraction activities, typically to minimize or even avoid corruption.

Hence, it is imperative for developing countries to take steps to increase their revenues after considering various relevant options for doing so. In recent decades, most developing country governments have been advised to lower, rather than to increase tax rates. The presumption was that lower rates would ensure better compliance and also encourage greater investment, thus resulting in higher tax revenues.

Strengthening Domestic Taxation

Tax revenue can be increased in several main ways: widening the domestic tax base; reducing tax avoidance and evasion; and securing new sources of international taxation.

There is no reason to be overly pessimistic about direct taxation as tax reform can significantly improve the contribution of direct taxes to overall revenue in many countries. It is certainly possible to enhance tax revenues by increasing the share of direct taxation of the well to do through more progressive income taxes in developing countries.

However, there should also be greater effort to ensure better compliance with, and higher collection of existing taxes. Limiting the discretionary authority of tax officials could also help improve compliance and reduce evasion. Computerization of tax administration can help limit corruption, as it makes it harder to tamper with records.

Improved tax administration can increase the contribution of personal income taxes to total revenue. Every individual who is a house owner, vehicle owner, club member, credit card holder, passport, driving licence or identity card holder and telephone subscriber can be required to file a tax return. Expanding the scope for tax deduction at source has been very effective in taxing those otherwise hard to reach.

VAT revenue has been much less than expected at the time of its introduction in developing countries owing to their generally larger informal sectors. Aggressively widening the VAT base would hurt the poor who are typically more engaged in the informal sector, both as consumers and producers. The administrative costs of having multiple VAT rates and exemptions are also higher in developing countries.

Excise taxes are another important source of revenue in developing countries as they have a buoyant base and can be administered at low cost. They are typically levied on products such as alcohol, tobacco, petroleum, vehicles and spare parts. From a revenue perspective, they are convenient, involving few producers, large sales volumes, relatively inelastic demand and easy observability.

Excises may be levied on quantities leaving the factory or arriving at ports, thus simplifying measurement and collection, ensuring coverage, limiting evasion and improving monitoring. Excise taxes currently amount to less than two per cent of GDP in low-income countries, compared to about three per cent in high-income countries.

International Tax Cooperation Crucial for Development

It has become clear that the South, including the least developed countries, has little reason to expect any real progress to the almost half century old commitment to transfer 0.7 percent of developed countries' income to developing countries. But to add insult to injury, developing countries have, once again, been denied full participation in inter-governmental discussions to enhance overall as well as national tax capacities.

The ability to pursue development policies depends crucially on available fiscal space, which relies mostly on domestic revenues, especially taxes. However, tax revenues in most low- and lower middle-income developing countries are low. The average tax-GDP ratios in low-income and lower-middle income countries are around 15 and 19 per cent respectively, compared to the OECD average of around 34 per cent.

Although non-tax revenues may add significantly to total revenues in some countries, these ratios are typically low even in countries with considerable non-petroleum mineral resource extraction activity. Therefore, low- and lower-middle-income countries should take steps to increase their revenues after considering various options for doing so. This is necessary because the main approach in recent decades has been to increase tax rates only if unavoidable. It was presumed that lower rates would ensure better compliance with tax laws, and thus raise revenue.

The prevailing tax wisdom also favoured broadening the tax base, even when taxation capacities are modest. Thus, indirect taxation has tended to increase while direct taxation of corporations and individuals has tended to decline. The latter was supposed to be good for investment and growth although the empirical support for this presumption is dubious.

In the vast majority of countries in sub-Saharan Africa and Latin America, the tax to GDP ratio has actually stagnated or declined, as international trade taxes accounted for the largest share of tax revenue. As tariffs and export duties declined with trade liberalization, the share of trade taxes has fallen.

Unfortunately, other taxes have not grown to compensate for the lower trade taxes. There is an urgent need to reverse this trend, with greater commitment to revenue generation in order to improve social protection, create employment and otherwise contribute to sustained economic recovery.

For many developing countries, total tax revenues were mainly from three sources: domestic taxes on goods and services (general sales tax, excises), foreign trade taxes (mostly import duties) and direct taxes (mostly from corporations, rather than individuals). Wealth and property taxes as well as social security contributions continue to make modest contributions.

For rich countries, however, income taxes (mostly from individuals) make the largest contribution (around 34 per cent), with consumption taxes at the around the same level, with social insurance contributions accounting for 26 per cent of total tax revenue, and trade taxes quite insignificant.

With their different economic circumstances, it does not make sense for developing countries to simply emulate developed economies in trying to generate revenue. Even among developing countries, no one size fits all. And certainly not for all time, as tax systems must evolve with changing economic circumstances. A key question is: which taxes are most likely to meet the requirements of effective collection, buoyancy and stability?

Globalization and Tax Evasion

Revenue losses due to globalization need to be addressed. There are three main reasons for revenue losses: first, capital movements increase opportunities for tax evasion because of the limited capacity that any tax authority has to check the overseas incomes of its residents; evasion is easier as some governments and financial institutions systematically facilitate the concealment of relevant tax information from home tax authorities.

Where dividends, interest, royalties, and management fees are not taxed in the country in which they are paid, they more easily escape notice in the countries where the beneficiaries live. There have been large non-resident aliens' bank deposits in some countries like the US that imposes no taxes on interest from such deposits.

Second, avoidance (not evasion) may increase, given international differences in tax rules and rates, because of the choice of tax regime that international-tax-treatment of enterprise income commonly offers. This is more likely for taxation of profits from corporations' international operations. Transfer pricing for goods, services and resources moving among branches or subsidiaries of a company provides opportunities for shifting income to minimize tax liability.

Third, international competition for inward foreign direct investment may lead governments to reduce tax rates and increase concessions for foreign investors. Income tax rates have fallen sharply since the 1980s. The tax rates that governments can impose are thus constrained by international competition. They are reluctant to raise rates or to tax dividend and interest income for fear of capital flight. Yet, it has long been known that direct-tax concessions have little or no effect in diverting international investment, let alone in attracting such flows. Hence, such tax concessions constitute an unnecessary loss of revenue.

Beggar-thy-neighbour policies have led to revenue losses for many developing countries in a race-to-the-bottom also involving labour and environmental standards, which in turn erodes the prospects for balanced, inclusive and sustainable development.

Finance ministries and tax authorities in developing countries need to cooperate among themselves and with their counterparts in the OECD economies to learn from one another and to close existing loopholes in their mutual interest. With the huge and growing size of public debts and the real and imagined fiscal constraints to sustained global economic recovery, inclusive international tax cooperation is more urgent than ever.

Fiscal austerity is slowing, not accelerating, economic recovery

Instead of concerted and sustained efforts for a strong, sustained economic recovery to overcome protracted stagnation, the near policy consensus on fiscal austerity in the G7 and the G20 OECD countries, except for the US and Japan, has dragged down economic recovery in developing countries.

The bogeyman is public debt. Much is being made of high levels of sovereign debt on both sides of the Atlantic and in Japan although the fiscal challenge remains long-term, not immediate. While Japan has the highest debt-to-GDP ratio among rich countries, this is not a serious problem as its debt is mainly domestically held.

The international community has, so far, failed to develop effective and equitable arrangements for restructuring sovereign debt, despite the clearly dysfunctional and problematic consequences of past international public-debt crises. This prevents timely debt workouts, effectively impeding economic recovery.

High public debt is also being invoked in support of fiscal austerity in many developed countries. But, rather than helping, the rush to cutting expenditure is blocking, or even reversing earlier recovery efforts. With private-sector demand still weak, austerity is slowing down, not accelerating, recovery.

It has already reduced growth and employment. And, while financial markets insist on deficit reduction, the recent decline in equity and bond prices -- and the loss of confidence that this reflects -- suggests that they also recognize the adverse implications of fiscal consolidation at a time of weak private demand.

Opponents of fiscal stimulus cynically claim that all such efforts are bound to fail, citing as evidence then US President George W Bush's 2008 tax cuts! Others deny that the US Fed's "quantitative easing" efforts have been successful, denying its stronger recovery compared to other G7 economies. While undoubtedly mitigating the impact of the crisis at the outset, Europe's "automatic stabilizers" are now acknowledged not to have sustained recovery very much beyond 2009.

Slower growth means less revenue and a faster downward spiral. Most major countries' fiscal deficits nowadays reflect the collapse of tax revenues following the growth collapse, as well as very costly financial-sector bailouts.

And yet, many policymakers insist on immediate action, not only to close fiscal deficits, but also trade imbalances and banks' balance-sheet weaknesses. While these need to be addressed in the longer term, prioritizing them now has effectively stymied stronger, sustained recovery efforts.

Bad public policies can induce recessions. This happened in 1980-1981, when the US Federal Reserve raised real interest rates, ostensibly to kill inflation, but inducing a protracted global economic downturn. This contributed not only to sovereign-debt and fiscal crises, but also to protracted stagnation outside East Asia, including Latin America's "lost decade" and Africa's "quarter-century retreat".

Another distraction has been the exaggerated threat of inflation. Recent inflation in many countries was the result of higher commodity prices, especially fuel and food prices. In these circumstances, domestic deflationary policies only slowed growth and failed to stem imported inflation. This is now evident with the recent collapse of oil prices and its aftermath.

Unfortunately, the urgent task at hand -- of coordinating and implementing efforts to raise and sustain growth and job creation -- continues to be ignored. Meanwhile, cuts in social and welfare spending, demanded by the austerity fetish, are only making things worse, as employment and consumer demand fall further.

The pressure on employment and household budgets is likely to persist. Strident calls for structural reforms mainly target labour markets, rather than product markets. Growing worker insecurity, exacerbated by further labour market liberalization, is imagined to be the basis for a healthy economy. This belief not only undermines remaining social protection, but is also likely to diminish real incomes, aggregate demand, and, hence, recovery prospects.

Moreover, according to Piketty, in recent decades, profits have risen, not only at the expense of wages, but also with much more accruing to finance, insurance, and real estate compared to other sectors. The outrageous increases in financial executives' remuneration in recent decades have exacerbated financial sector focus on the short term (recently termed 'quarterly capitalism'), while worsening risk exposure in the longer term, thereby worsening systemic vulnerability.

Growing income inequality in most countries before and even after the financial crisis has only made matters worse, by reducing household savings and increasing credit for consumption and asset purchases, rather than augmenting investment in new economic capacity.

Unfortunately, current policy is justified in terms of "pro-market", i.e. effectively pro-cyclical choices, although counter-cyclical efforts, institutions and instruments are sorely needed instead. Global leadership today seems to be held hostage by financial interests and associated media, ideologues and oligarchs whose political influence enables them to secure more rents and pay lower taxes in what must truly be the most vicious of circles.

Indeed, the menace that now confronts us is not public debt or inflation, but a downward economic spiral that will be increasingly difficult to reverse. The international financial institutions were created after World War II to ensure not only international monetary and financial stability, but also the conditions for sustained growth, employment generation, post-war reconstruction and post-colonial development.

But this has not been their delayed reward for sticking to policies prescribed by conventional wisdom as claimed by some latter-day apologists for the structural adjustment programmes of the last two decades of the 20th century. Instead, a more favourable international environment, including higher commodity prices, low interest rates and renewed aid flows, along with accelerated growth in China and India, have been the main reasons.

Recent trends need to be seen in longer historical context if the right lessons are to be drawn. Economic growth in the 1980s and 1990s was generally slower than in the preceding two decades. But despite the spectacular growth of several developing countries, mainly in Asia, sub-Saharan Africa lost a quarter century from the late 1970s and Latin America lost at least the 1980s to stagnation.

Government policies from the 1980s – ostensibly to conform to 'market expectations' – often cut public spending, primarily social expenditures. As national-level inequalities grew in most countries from the 1980s, inter-national inequalities among countries continued to grow. Economic welfare in developing countries has been further squeezed by demographic pressures including rapid urbanization.

Nascent industrialization in many countries was aborted by structural adjustment and economic liberalization. Premature trade liberalization has thus exacerbated de-industrialization, unemployment and fiscal deficits without generating alternative sources of economic growth. Hence, low income countries as well as failed and failing states are generally characterized by modest industrialization which, in turn, retards structural transformation and more inclusive sustainable development.

The negative developmental implications of policies and programmes forced on developing countries, regardless of historical circumstance and economic context, are now well known. There is a world of difference between measured liberalization from a position of economic strength, as in newly industrialized East Asia from the 1980s, and their forced adoption, to meet World Trade Organization or loan obligations. Despite pious official rhetoric claiming the contrary, multilateral rules are far from supportive of sustainable development and need to be reformed accordingly.

Since the late 19th century, adverse terms of trade movements – favouring manufactures over primary commodities, temperate compared to tropical agricultural products, or manufactures from developed countries against those from developed countries – have meant that many developing countries have been producing and exporting much more, but earning relatively less from doing so.

International financial liberalization was supposed to attract private capital to fill financing gaps. But instead, it has resulted in net capital flows from the 'capital poor' to the 'capital rich', increased financial volatility and slower economic growth. Bitter experience has also shown that 'shock therapy' – often involving financial system 'big bangs' – has generally caused more harm than good.

Considering their greater vulnerability to external vicissitudes, developing countries must have greater fiscal space to ensure countercyclical capacity as well as sustained public spending for needed investments in physical and social infrastructure and human resources. Strengthening the tax base, ensuring more reliable sources of international finance and channelling aid through national budgets can be crucial.

Instead of the current fetish with eliminating fiscal deficits, a more balanced and appropriate approach to macroeconomic stabilization is needed, to minimize disruptive swings in economic activity and external balances, while fostering a virtuous cycle of greater macroeconomic stability, investment, growth and employment generation. Developing countries need to strengthen their capacities and capabilities and to ensure sufficient 'policy space' in order to pursue appropriate reforms favouring sustainable development.

It has often been claimed that development could only be attained through retrenchment of the state. In much of the developing world, however, this has left choice-less illiberal democracies and frustrated disenfranchised citizens. Instead, democratically accountable governments should consult widely among their citizens to promote investments for structural transformation and better employment.

The global economy now risks continuing its downward spiral into protracted stagnation. The International Monetary Fund's improved surveillance mechanisms have not led to better international macroeconomic coordination, as touted. Instead, the path to sustainable development remains blocked by self-imposed deflationary policy constraints and a refusal to provide needed aid or to cooperate to increase taxation for all.

Decent Work Crucial To Eliminating Poverty and Hunger

Over the eight years since the onset of the global financial crisis in 2008, the ranks of the unemployed have swollen to over 200 million worldwide. That number captures only a fraction of those who remain vulnerable and insecure, since more than four-fifths of the global workforce is outside the formal sector, with poor access to unemployment or other traditional social security benefits.

In order to survive in the absence of social protection, unemployment is not an option for most poor people in the world. Instead, their fate is more likely to be that of the working poor -- of low incomes due to underemployment, low productivity or limited survival options. According to the latest estimates of the World Bank, the number of extreme poor (living on no more than $1.25 per capita a day) has declined from 1.93 billion in 1981 to 1.91 billion in 1990 and 1.01 billion in 2011, projected to 835.5 million in 2015.

With the worsening global economic slowdown, especially following the collapse of agricultural commodity prices since late 2014, many wonder whether the bases for the Bank's projections make sense. Evidently, the economic growth the global economy enjoyed in the half decade before 2008 did not bring enough jobs in terms of quantity or quality, catalyzing the 'jobless growth' discourse.

Briefly, in 2009, significant resources were deployed by rich countries to save their financial systems, reflate their economies and strengthen social safety nets. But only a few rich countries have eschewed excessive fiscal austerity. Apparently successful expansionary monetary measures by the US Fed have been belatedly emulated by other rich countries with mixed consumers.

Employment conditions

Beyond the rising number of the unemployed and underemployed, the conditions of many of those employed have been deteriorating as well. Globally, informal employment and short-term contracts, which give workers few entitlements and little security in their jobs, are becoming the norm for far too many. Outsourcing and subcontracting have become more common, causing more insecurity for workers, now dubbed the 'precariat'. Such worsening employment conditions have been taking place in many countries, especially for workers with low education and low skills.

National policies aimed at counteracting these trends and lowering unemployment have had limited success at best. In their desire to remain or become competitive, governments and employers around the world have taken many steps to increase labour market flexibility, thus increasing insecurity among most workers. Such labour market flexibility has exacerbated economic insecurity and inequality, undermining prospects for decent work.

Meanwhile, the employment share of the service sector in total global employment exceeded the share of agriculture over a decade ago. For decades now, the world has seen employment increasingly dominated by the service sector, in which many jobs are low-paying and precarious, and not covered by formal social security provisions. Thus, entitlement to unemployment benefits has ceased to be a social right for many in the developed world.

Decent work for all

Still elusive for the working poor, the goal of decent work for all, introduced by the International Labour Organization in 1999, means productive, rewarding and secure occupations with fair income and social protection for the employed and their families. Decent work implies equality of opportunities and treatment, and offers good prospects for both personal development and social inclusion. It ensures freedom for people to express their concerns, organize and participate in decisions that affect their lives.

Strategies promoting productive employment and decent work must address income and other inequalities. They should promote social progress and ensure equal treatment for all regardless of gender, culture, age or national origin, as well as protect the rights of persons with disabilities. Policies should ensure that conditions of work steadily improve, especially for the lowest-paid and those facing the most unacceptable and hazardous employment conditions.

Governments should employ those needed to provide basic services, including for infrastructure construction and maintenance as well as for social services, expected by the people and needed to ensure human resources for sustainable development. Greater incentives are needed to encourage private investments while better regulations can help improve employment opportunities.

Civil society and the private sector can play vital roles in promoting decent work for all. Governments and the private sector should step up efforts to promote corporate social responsibility to help realize decent work for all. Through full employment and decent work, the benefits of economic recovery and growth can be better shared within as well as among countries.

Ultimately, people will judge changes by what it brings to their lives. Secure and decent employment is surely on top of most personal agendas, and should also be national and international priorities. Decent work is the surest way for the poor to escape poverty, and must therefore be a priority of any serious effort to reduce hunger and poverty on a sustained basis.