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Government Capacity of Levying Taxes in Peripheral Countries: The Example of Direct Taxation*

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THE PROBLEM

Independent of the specific development strategy pursued, countries in the periphery must make certain investments, in coordination with a variety of other measures, in various public and private sectors of society. Given those specific constellations, these investments, designed to bring about changes in internal and external structures which impede development, can only be made by the government. One of the most important government sources of capital accumulation is the imposition of taxes. By definition, the less developed a country is, the greater are the institutional, economic, and social constraints which only the government can overcome. This, consequently, necessitates an expansion of government activities. In order for the state apparatus to avail itself of, as well as to carry out this function politically and administratively, it must be fairly significant in size and this must, of course, also be financed. The financing of government activities normally requires the levying of taxes (fiscal goals of taxation). All forms of government in peripheral countries are subject, to a greater or lesser extent, to the necessity of assuming these functions in order to initiate the development process. In addition to the two above-mentioned functions, the government has the possibility of using the imposition of taxes and the tax receipts as a policy instrument for guiding development in order to influence certain development measures regarding their trend and intensity (for example, to pursue goals of allocation, distribution, stabilization, and growth, as well as other goals).

The extent to which these three taxation functions are carried out in specific peripheral countries depends on the prevailing political views and the role played by the state. They also depend on the level of economic development, institutional requirements, the development strategies actually pursued, and the ways and means of achieving established goals. It is for these reasons that each developing country should pursue its own specific taxation policy. It is, nevertheless, possible to ascertain a series of commonalities within the group of developing countries with regard to tax structures and taxation policies which are consequent upon their economic and political conditions.

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On the whole it can be stated regarding peripheral countries that the volume of compulsory capital formation brought about through taxation would have to be very large in order to finance essential investments. These investments are tied to considerable structural changes such as direct investment in the productive sector and transport infrastructure. In addition, the creation of economic, social, educational, scientific, administrative, and political institutions which are adequate for development would be necessary. This necessity for compulsory capital formation is connected with the financing of a considerable state sector which has the function of initiating and executing development measures. These functions require a large share of the national income to be handled by the government budget which generally means a large taxation share in the national product. On the other hand, the volume of taxation is limited by the existence of certain tax bases which themselves are symptoms of low economic activity and a specific economic structure. These, in turn, again influence the tax structure of a country.

The consequences resulting from the necessity of taxes absorbing a large share of the national product and the existence of certain tax bases in peripheral countries determine the existing taxation systems. This of course takes into account the capacity of the government to enforce certain tax policy measures politically and administratively. The taxation systems in developing countries are characterized by the dominance of indirect taxation, measured on the basis of the number of different taxes, and the volume of revenues. However, a necessary increase in the share of taxes in the national product is possible to a limited extent only by increasing indirect tax revenues. This is mainly achieved through a change in the taxation system in which direct forms of taxes increase in importance. Increasing direct taxation also enables an immediate implementation of concepts concerning justice and the way in which the tax payers' ability to pay, however this may be determined, is taken into consideration.

The capacity of governments in peripheral countries to expand direct taxation and the restrictions occurring as a result of this will be examined in some aspects. Before doing so, however, we will discuss the level of taxation and the dominant tax structures in developing countries as a basis for further discussion.

VOLUME AND STRUCTURE OF TAX REVENUES

As can be seen from Table 1, the share of tax revenues in the gross national product at market prices (tax ratio) amounting to between 10 and 20 percent is relatively low in peripheral countries compared to industrialized countries. Some are even lower in this margin but there are also some countries with ratios of more than 20 percent (Tunesia, Pakistan, Brazil, Zambia). The trend is that the level of the tax ratio correlates positively with the level of incomes in individual countries. However, the connection between the two variables is not significant due to the wide variation in tax ratios. A sequential analysis shows, that only a few countries were in a position to increase their tax ratios substantially (for example, India, Malaysia, Pakistan) and in some the share of

Table 1
Tax Ratios of Selected Developing Countries*

Country	Periods 1966-1968	1969-1971	1971-9172
Chad	13.7	-	-
Ghana	13.3	15.8	-
Kenya	13.9	14.4	-
Mali	15.0	-	-
Sudan	13.0	-	-
Tanzania	14.4	13.9	-
Tunesia	20.7	21.7	-
India	11.6	13.4	15.6
Iran	19.4	-	9.3@
Malaysia	16.8	19.3	20.1
Pakistan	8.3	8.8	12.8
Philippines	9.8	9.2	11.3
South Korea	11.8	15.4	13.3
Sri Lanka	15.7	17.7	19.3
Thailand	12:8	12.4	12.1
Argentina	14.8	13.4	-
Brazil	20.6	22.9	-
Chile	19.4	19.6	-
Ecuador	12.6	13.4	-
Guatemala	7.9	7.9	-
Mexico	9.9	7.1	-
Paraguay	9.5	10.9	-

*Tax revenues (without social security contributions) as a percentage of the gross national product at market prices.

@Without income from oil.

Source: Chelliah (1971), p. 254 ff; Chelliah/Baas/Kelly (1975), p. 187 ff revenues in the national product even declined (Argentina, Mexico, Thailand).

The low tax ratios in many developing countries are, to a large extent, the consequence of a small national product and the uneven distribution of incomes. As a result, the overall tax bases are very small.

In addition, the wide variations between peripheral countries seem to justify the suspicion that in many cases the present taxation capacity is not fully utilized, due to the political and administrative inability to increase taxes and to administer the existing tax structure.

The tax structure in peripheral countries is characterized by the dominance of indirect taxes (see Table 2), while in highly industrialized countries a high proportion of taxes comes from direct taxes. In the developing countries shown in Table 2, the share of indirect taxes in total tax revenues is generally between 60 and 90 percent and in some countries even above 90 percent (for example, Somalia, Iraq, Nepal, Argentina). The relative shares of indirect taxes have developed very unevenly in developing countries since 1960. In some countries the importance of indirect taxes went up considerably (Kenya, Malawi, Zambia, Argentina, Peru), while in other countries it decreased markedly (Nigeria, Togo, Indonesia). However, in the majority of the countries only limited changes had been effected (see Table 2).

Table 2

Indirect Taxes as a Percentage of Total Tax Revenues in Selected Developing Countries (1960, 1970, 1975 & 1976-78)[1]

Country	Other Revenues[2]	Indirect Taxes as Percentage of Revenues[3]			
		1960	1970	1976	Last Available Data (Year)
Chad	2	–	72.1	64.2	66.2 (76)*
Congo	2	78.4 (62)	85.0	41.6	60.9 (76)
Egypt	3	75.0 (64)	60.5	63.0	–
Ethiopia	3	66.8 (61)	72.8	70.2	–
Gambia	2	–	85.8	82.8	86.4 (78)
Ghana	1	98.3	80.5	79.2	78.4 (77)
Ivory Coast	2	–	89.2	85.4	86.8 (76)
Kenya	2	20.2	57.3	61.0	60.6 (76)*
Malawi	3	12.9	53,3	53.8	53.4 (76)
Niger	2	58.2 (63)	59.3	67.6*	69.2 (78)*
Nigeria	2	87.4	76.5	50.3 (73)	–
Ruanda	2	–	72.8	75.6	80.3 (76)
Senegal	2	–	69.9	74.1	65.6 (76)
Somalia	2	91.3 (61)	90.2	90.3 (72)*	–
Sudan	3	95.5	84.1	84.5*	–
Tanzania	2	65.7	70.1	70.1	71.7 (77)*
Togo	2	91.5	82.3	54.5*	61.1 (77)*
Zaire	1	–	70 6	64.7*	–
Zambia	2	28.2	61.9	64.4 (74)	–
Afghanistan	3	77.9 (62)	86.1	85.5	82.5 (76)*
Bangladesh	2	–	91.2 (73)*	84.3*	85.5 (77)
Burma		69.2	49.5	60.3 (72)*	–

Table 2 (continued)

India	3	69.1	77.4	80.1	79.1 (77)*
Indonesia	1	68.2 (61)	62.0	27.2	26.6 (77)
Iraq	2	93.4	89.1	96.4[4]	–
Iran	4	89.0	88.9*	89.7 (74)*	–
Jordan	4	85.0	78.7	32.2*	63.7 (76)*
Korea (South)	2	76.1	59.4	68.3	67.4 (77)*
Malaysia	2	78.8	63.6	61.2*	–
Nepal	3	–	92.5	92.2	86.5 (78)
Pakistan	2	77.7	81.5	87.4	86.7 (77)
Philippines	2	77.8	70.7	76.9	75.1 (77)
Saudi Arabia	1	39.4	37.2	40.2	–
Sri Lanka	2	81.2	81.0	80.7	81.5 (77)*
Syria	4	85.5	58.5	70.2	68.3 (77)*
Thailand	2	88.9	84.9	81.1	79.4 (77)*
Turkey	3	64.3	66.1	66.0 (72)	–
Argentina	2	70.3	74.2	93.6	90.3 (77)
Bolivia	2	80.8	57.8	63.1	61.4 (76)
Brazil	1	60.4	73.6	68.5 (74)*	–
Chile	1	63.8	58.2	60.4	60.3 (76)*
Columbia	1	42.6	49.1	51.1	58.2 (77)
Costa Rica	1	83.1	77.5	76.7	75.7 (78)
Dominican Rep.	1	83.0	70.6	69.6 (74)	–
Ecuador	2	85.1	81.4	71.4	63.2 (76)
El Salvador	2	86.6	75.6	71.5	75.6 (76)*
Guatemala	1	88.7	83.6	79.2	86.1 (77)*
Haiti	1	77.6	89.2	82.8*	82.4 (78)*
Honduras	1	83.5	71.6	71.8 (74)*	–
Jamaica	2	60.6 (62)	58.7	50.9	49.6 (78)*
Nicaragua	2	82.3	89.1	84.8	81.7 (76)
Panama	2	69.1	53.1	50.8	52.7 (76)
Paraguay	2	79.6	74.1	85.8	81.8 (77)
Peru	2	39.4	62.2	[illegible]2.5 (73)	–
Venezuela	1	63.0	48.9	32.9*	34.1 (77)*

[1] Partially calendar years, partially fiscal years.

[2] Shares of "other revenues" in the total revenues of the state budget (other revenues and tax revenues make up the total revenues). 1 = below 10 percent of other revenues, 2 = 10–33 percent, 3 = 33–50 percent, 4 = above 50 percent of other revenues. The revenues are average figures of the years stated.

[3] Years which deviate from this are given in brackets.

[4] April to December.

* Preliminary results or estimates.

Sources: United Nations, Department of International Economic and Social Affairs, Statistical Yearbook, Issues 13–29 (1961–1977), New York 1961–1978. Data taken from above sources were occasionally supplemented by data from the Statistisches Bundesamt Wiesbaden, Allgemeine Statistik des Auslandes: Länderkurzberichte; Stuttgart and Mainz. Various countries and years.

An examination of the correlation between average per capita incomes and the share of indirect taxes shows that at an income of less than US $ 500, the average share coming from indirect taxes is above two-thirds (measured on the basis of the total tax revenues) but that within those low income brackets no relationship exists between income and the share of indirect taxes. It is only at an income of more than US $ 500 that the share of indirect taxes dicreased markedly. In countries with an average income of more than US $ 850, it only amounted to one-third. The proportion of direct taxes increased correspondingly. In industrialized countries where the mass of the population has large incomes, the importance of indirect taxes increases again because the high turnover of goods and services provides the basis for determining tax levels.

Table 3

Customs Revenues as a Percentage of Total Tax Revenues in Selected Developing Countries[1] (1970,1975,1976-78)[2]

Country	1970	1975	Last Available Data (Year)
Chad	38.7	48.3	51.5 (76)*
Ghana	62.1	54.1	39.3 (77)
Ivory Coast	41.8	54.6	57.1 (76)
Niger	50.8	43.6*	46.3 (77)
Nigeria	72.8	27.5	–
Ruanda	51.8	75.6	80.3 (76)
Zaire	51.9	38.4*	–
Zambia[3]	60.7	43.8 (74)	–
Afghanistan	43.5 (73)*	48.8	54.3 (76)*
Bangladesh	82.6	35.2*	40.2 (77)*
Iraq[4]	45.7	94.0[5]	–
Malaysia	56.1	38.5	–
Nepal	28.3	35.6	33.0 (78)*
Pakistan	–	45.2	43.6 (77)
Philippines	31.1	48.8	31.9 (77)
Syria	40.5	41.6	42.4 (77)*
Thailand	57.1	32.1	28.7 (77)*
Bolivia[3]	31.9	61.0	59.3 (76)
Costa Rica	46.9	32.0	27.9 (78)
Dominican Repblic	57.5	52.3	–
Ecuador	42.9	46.3	41.0 (76)
El Salvador	28.0	37.8	46.3 (76)
Guatemala	56.5	30.4	44.5 (77)
Haiti	32.2	50.0	57.1 (78)
Honduras	36.2	36.0 (74)*	–
Paraguay		34.6	32.0 (77)

[1] Only those countries were selected which received at least one-third of their tax revenues in the given years from customs duties.

[2] Partially calendar, partially fiscal years.

[3] Including royalties from minerals.

[4] Including revenues from oil.

[5] Only April – December.

* Preliminary results or estimates.

Source: Same as Table 2.

In developing countries not only is the share of indirect taxes very high in comparison with industrialized countries but, in addition, the tax structures in many countries are marked by the dominance of revenues from import and export taxation (customs and other external trade taxes). In these countries, it is particularly the export sector (agricultural raw materials, minerals, petroleum) which is the most important basis for assessing taxes. The large share of customs revenues in these countries cause strong fluctuations in the government budget depending upon the world market situation for the dominant export products. Table 3 shows those countries where customs revenues constitute more than one-third of total tax revenues. The relative shares fluctuate considerably in the individual years shown, due largely to the fluctuations in export prices.

FACTORS DETERMINING PRESENT TAX STRUCTURES IN DEVELOPING COUNTRIES

The low tax ratios in most developing countries despite the great need for financial means can be traced back to a few fundamental causes:

- low taxation capacity;
- political and administrative difficulties in exhausting present tax capacity;
- conscious political decisions;
- economic structure.

The present tax structure in which indirect taxes dominate is both the consequence of other causes and itself responsible for the low tax share in the national product. This is due to the peculiarities of direct and indirect taxes.

Taxable Capacity

The most important cause of the low absolute and relative level of taxes is probably the result of the overall low taxable capacity in most developing countries. This low capacity is the result of low-level overall economic activities and the existing economic and political structures in the national as well as in the international context, to mention only few of the most important factors. These causes determine, among other things, the structure of bases for tax assessment (taxable income, for example), and in addition to the political and administrative capacity of government power to enforce taxes, the dominance of indirect taxes in the tax systems of peripheral countries. For example, the preponderant majority of low-income earners, who live at subsistence level, is incapable of giving even part of their income for taxes. This is especially the case because they cannot expect that a comparable equivalent will be returned to them via the government budget. There seems to be a certain correlation between the existence of specific tax bases and the level of economic development. These are modified, however, by the historical background of the colonization of developing countries, as well as by the role of private land ownership in the autochthonous societies, among other things.

Finance Administration

Besides the overall limited taxable capacity in the peripheral countries, the potential is often not fully exhausted for middle and high income groups due to political and administrative obstacles to the enforcement of existing tax regulations or the introduction of new and more appropriate tax laws.

The undifferentiated application and enforcement of tax laws via direct taxation in peripheral countries are almost impossible due to a general lack of administrative infrastructure as well as the structure of the fiscal administration which itself depends on the structure of the economy. In the rural areas there are a multitude of very small enterprises which produce largely or exclusively for subsistence requirements in the agricultural sector and are generally only partially integrated into the market economy. Apart from producing low incomes, these units are barely accessible for taxation. In addition, they often cannot even be reached physically due to the poor transport infrastructure. Groups of the medium and high income brackets are more easily reached by the tax administration but, on the other hand, they have the knowledge and power to avoid taxation. When applying existing direct taxation laws administratively, especially in rural areas, specific problems arise in the following areas:

- determining the number of tax payers;
- determining the size or volume of the taxable object (income, property, land;
- assessing the taxes;
- collection and control.

The fields of tax collection discussed are almost exclusively handled at the lower administrative levels. Thus the quality of tax collection is directly dependent upon the quality of local government. Here, we cannot discuss questions of local administration but only deal with a few selected problems for finance administrations which emerge within the framework of taxation.

The enumeration and listing of all tax payers according to administrative units may present the least amount of difficulties in developing countries if one considers all the other administrative shortcomings. The registration of nomads, for example, is only possible through intensive administrative efforts.

Closely connected with the identification of tax payers, but far more difficult, is the determination of the tax object according to type and more especially according to size. Identifying income for wage or salary earners presents almost no difficulties. Determining income from self-employment or from capital assets, on the other hand, is often only possible through estimates. There are certain aids which help to determine the value of the immobilized capital to be assessed; for example, the land register or aerial photography in the case of land ownership. It is particularly the determination of land ownership in rural areas which presents problems which range from passively hindering to forcefully evicting the land surveyor. It is here that aerial photography offers many as yet untapped possibilities for assessing property.

Since tax systems in most countries are contradictory in themselves, there is considerable leeway not only in the determination of taxable objects, but also in the assessments of taxes. In rural areas, a collusion often exists between local tax collectors and taxpayers ranging from a reduction of the assessment to a massive use of force by certain groups in order to reduce the amount of taxes or to avoid an assessment.

All of the above-mentioned areas necessitate that tax laws (especially those pertaining to direct taxation) be simple, without internal contradictions, and clear - especially from a local perspective - if they are to be effective despite the limitations. In the following fields of tax collection the selected problems discussed above occur with varying consequences. They are not necessarily peculiar to taxation but are a general characteristic of underdevelopment:

- Subsistence economy: In pre-colonial times there existed predominantly only taxes in kind for local or tribal administration. Predominant today, on the other hand, are centrally levied cash taxes. For subsistence enterprises, the produce tax form is more appropriate. For a central administration, on the other hand, pure subsistence enterprises are barely accessible. However, in order to bring these enterprises into the market economy (at least partially) cash taxes are imposed on them. Through this forced taxation they must sell a share of their products on the market in order to obtain cash.

- Transport infrastructure: Due to inadequate transport infrastructures, people in isolated areas are, if at all, only irregularly accessible to tax authorities. Thus losses in tax revenues occur. On the other hand, some tax collectors who have been assigned to these areas are not controllable so that a part of the taxes is again lost on the way to the central tax authority.

- Administrative infrastructure (especially fiscal administration): There is a series of weaknesses at all levels in the administration of developing countries in general and of fiscal administrations in particular (from central to local administrations). These include, for example, insufficient education, training, and experience of tax collectors; low pay and thus too few posts filled in the finance administration. These are combined with a totally ineffective system of controls and tax collectors are thus prone to corruption. Moreover, for the same reasons, civil servants often totally depend on powerful local groups. It is these difficulties which make the establishment of a well-trained finance administration in developing countries a real necessity. On the other hand, this would generate such high costs that they would not correlate with the target level of tax revenues. For the mentioned reasons, it is necessary that the tax systems not be too complicated for the fiscal administration in developing countries. Tax officials with a high degree of personal integrity should assume key positions. An improvement in the pay of tax collectors as well as the introduction of effective controls would be of primary importance. Due to the potential for self-enrichment, tax collectors' posts are often assigned according to political considerations (sinecure). In addition, in some countries it is especially the local tax officials who have a large amount of power concentrated in their hands since the contradictory tax laws often make tax assessments an arbitrary matter. These weaknesses in fiscal administration result in a tendency in most developing countries toward concentration in the areas of tax assessment and collection. According to a United Nations publication, one of the causes for the tendency toward administrative centralization of all financial transactions is the attempt to prevent or reduce corruption.

- Literacy: Literacy is not a prerequisite for an effective tax system but it does make taxation easier since tax payers can be located more readily. Illiterate citizens, on the other hand, can only be contacted verbally by a tax collector, which is one of the reasons why taxation methods in rural areas are highly labour intensive.

- Bookkeeping and Accounting: An accounting system, which facilitates tax assessments is available only in a few, mainly industrial, enterprises in developing countries (this is, in fact, not confined to developing countries only). This is why, for example, all income taxation is only possible through making estimates and these in turn again require an effective tax administration. Estimates, of course, also give the tax official a greater leeway in regard to the amount of taxes to be paid.

- Tax Morality: The willingness to pay taxes is not very high in many countries for a variety of reasons. It is particularly in rural areas that the necessity for taxation is not readily accepted since the utilization of the taxes is decided upon or the taxes are spent in the capital city despite the fact that the taxes are levied locally. In many cases the authority of the central government is not recognized and the necessity for tax payments is thus either denied or payments are actively refused. It is for this reason also that indirect taxation as a form of unnoticed taxation is preferred in many developing countries.

The creation of adequate tax laws and their undifferentiated application would undoubtedly mean an increase in tax burdens for the urban and rural elites in most developing countries. These are the same groups, of course, which in the other hand have the power to block the applicable laws in appropriate national, regional, and local bodies, or to prevent their application at all administrative levels. Since these urban and rural elites either themselves hold power within the state or have identical interests with those who do, they carry, in overall terms, a very low share of the tax burden. Additionally, the predominance of indirect taxes results in regressive tax systems.

Political Power Relations

Besides the difficulties in determining the taxable objects and tax assessments due to administrative deficiencies, it is particularly the existing power relationships which prevent or delay the assessment and collection of taxes. The influence of power groups with regard to taxation takes place at different levels, some of which will be discussed briefly:

- Prevention of tax reforms (often by pointing to administrative deficiencies) at the level of central government (parliament, ministries)

- delaying the implementation of existing tax laws through the absence of administrative rules or preventing new laws from being made public (forestalling the flow of information from the central tax authority to local tax officials);

- physical prevention or obstruction of the work of tax officials at local level.

Besides the blocking of tax assessments and collections due to the influence of powerful groups at central and local government level, there exist for the same reasons no legal possibilities or only vague ones in most developing countries for punishing tax evasion. Because of the lack of such penalties, tax officials have no possibility of enforcing tax collection through government pressure.

In view of these difficulties in tax collection, coupled with a poor and weak tax administration, existing power relationships were, in the past, used in many developing countries to carry out taxation by introducing a system of tax leaseholding. The state (colonial administration, autochthonous leader) transferred the authority to collect taxes in a particular rural area to influential persons (mainly large landowners). The tax leaseholders received a share of the revenue and thus had an interest in enforcing the tax laws.

On the Indian subcontinent, for example, there were in the past many different manifestations of the tax leaseholding system, of which the Zamindary system is the best-known example. The British colonial administration in 1793 transferred to the Zamindars the formal landownership titles for the land for which they had hitherto only collected taxes. As shown by the Indian example, the system of tax leaseholding strengthened the existing power relationships in rural areas. Due to the deficiencies in the overall tax system discussed above, tax leaseholding led to the unfair and despotic exploitation of peasants. The poorer sectors of society in particular were without influence and were exploited through the payment of too many taxes due to high assessments or exaggerated interest payments in the case of tax deferment. The large landowners or other powerful rural groups, on the other hand, even today often still enjoy tax privileges since the administration is dependent upon them. The system of tax leaseholding has been legally terminated in most countries (for example in India since 1951). *De facto*, however, it continues to exist in many areas since the prevailing power relationships in rural areas have not changed and the implementation of laws thus runs into difficulties.

After the land reform in Ethiopia the right to assess and collect taxes in the traditional tax districts, to the extent that they existed, was transferred to peasant associations in the areas concerned. The peasant associations receive two percent of the tax revenues for their work. Thus, they were, on the one hand, supposed to assist the lower-level tax administration and, on the other, help prevent tax evasion on the part of farmers because they knew them well. By participating financially in the revenues, the peasant associations thus have a potential organizational interest in the implementation of tax laws, even against their own members. It is impossible to estimate at this point in time to what extent the associations are misused as instruments of power by the central government.

The Dominance of Indirect Taxation

The reasons discussed above for the low tax ratios are also, along with other factors, the causes for the predominance of indirect over direct taxes in the tax systems of developing countries. The predominance of indirect taxes vis-a-vis their share in total tax revenues (see Table 2) is the result of specific characteristics of this category. The demand for an expansion of direct taxation is also a consequence of the characteristics of this category.

Indirect taxes, as "invisible" taxes, are easy to implement both politically and administratively; i.e., resistance to tax collection is relatively low. Administratively this type of tax is easily collected since in every case there are only a few instances of transfer of goods and services which have to be controlled by the tax authorities. Thus only limited tax evasion is possible and the costs involved in collection both qualitatively (in terms of qualifications of the personnel involved) and quantitatively (in terms of number of personnel) are low. The ratio between revenues and costs in the collection of indirect taxes is thus very wide. Conscious political decisions are generally the reasons behind the predominance of indirect taxes in developing countries.

Indirect types of taxation, however, are tied to a series of constraints on socio-economic development. The government does look for opportunities to switch the tax system in favour of direct taxation. At least with regard to the priority of the financial purpose of tax collection, indirect taxes are strongly regressive. Through taxes on the volume of goods and services, population groups with low incomes must pay the same amount of tax per purchased unit as purchasers with higher incomes. Another important disadvantage of indirect taxation, particularly in a growth-oriented economy, is its inelasticity. In a growing national income the tax share expands disproportionately. An increase in the tax ratio is not automatically possible (as it is with progressive taxation) but needs special changes in the tax laws or tax rates with all the political implications resulting from this.

Additionally, since revenue from customs is very important for most developing countries (see Table 3), the size of the budget in these countries is directly dependent on the prevailing position of export goods on the world market. For most products the amount of customs duties is determined by the value of the products. It is thus that customs revenues are influenced in several ways by the widely fluctuating world market prices. A decrease in world market prices for export goods directly reduces customs revenues and foreign exchange earnings. The reduction in foreign exchange leads to a decrease in the volume of imports with resulting lower import customs revenues and lower incomes from other indirect taxes (sales and turnover taxes). An increase in the world market prices for import goods does bring an increase in customs revenues per unit, but the shrinking demand produces an overall reduction in the revenues from customs and other indirect taxes on imported goods. The most serious consequence of rising import prices for vital goods (e.g., oil), however, lies in the increasing rate of inflation. This of course could be compensated for by reducing tax levies which, in turn, would lead to a reduction in tax revenues. An increase in the world market prices for export goods and the lowering of prices for imported goods has the opposite effect. On the whole, the dependence of customs revenues on world market prices makes any estimation of future revenues very uncertain and thus also makes the planning of long-term expenditures insecure.

The reasons for the low volume of direct taxes in the peripheral countries lie primarily in their "visibility" and thus in the resistance tax collection.

Besides the non-existence of conventional bases for direct tax assessment (for example, incomes at broad levels), the uneven distribution of incomes is simultaneously an important obstacle to taxation. High income earners, given the conditions in developing countries, are as rule also the owners of the means of production. They have also accumulated the power to prevent an assessment of their taxes (political and administrative obstruction or prevention of the implementation of certain tax laws). The lower income groups, on the other hand, are accessible to direct taxation to a limited extent only due to the high costs of assessment in proportion to the returns. Moreover, tax evasion is relatively simple in the case of direct taxes since control is insufficient due to the inadequate administrative structure.

The amnesty program for tax evaders in India in 1976 offers an impressive example of the volume of possible tax evasions through either not registering the taxable object or doing so falsely. After the central government of India had assumed dictatorial powers in 1975 it threatened harsh punishments for tax evasion but then attempted to ascertain previously hidden incomes and property by declaring an amnesty for tax evaders. According to estimates by Indian tax authorities, roughly one-fifth of the suspected and previously not declared incomes and property were declared as a result of this measure, which corresponds to a sum of roughly 14.5 billion Ruples or DM 4.2 billion.

Earlier studies of tax evasion in India determined that in these cases which had been discovered (which in fact only represented a minute share of actual cases of tax evasion), only one-seventh of actual income had been reported. In the mid-Fifties the Indian finance administration estimated that overall income tax evasions were higher than actual payments. A very similar situation prevails in Pakistan.

On the whole, a system of direct taxation, provided it is run properly, corresponds to concepts of social justice regarding tax burdens since the ability to pay on the part of tax payers, however this may be defined and calculated in individual cases, is being considered. In connection with the expansion of certain bases for tax assessment in the course of socio-economic development, this is an important motivation in attempting to introduce direct taxation. High incomes would lead to high tax levies in such a system and this provides an important motive, particularly to high income earners, for preventing the implementation of such tax laws.

PROBLEMS IN THE EXPANSION OF DIRECT TAXATION

Different types of direct taxes have entirely individual characteristics which make them appear to be appropriate for certain tax policy measures. On the other hand, different reasons exist for the generally low share these taxes constitute in the total revenue in the peripheral countries. For the most important types of taxes, some of the problems that arise will be analyzed without discussing in detail any of the specific circumstances pertaining to individual countries.

Income Tax

Personal income taxes integrate the important advantages necessary for exhausting taxable capacity since they are able to take into account the tax payers' individual abilities to pay. This is the case since, in the final analysis, it is income which provides the basis for the tax payments. In the case of personal income tax the levying of taxes occurs at the source of a person's income (as opposed to taxes on objects). Tax payers thus must be personally registered and their ability to pay be considered individually. An appropriate structure for the income tax system (for example, progressive taxation) can achieve a high level of flexibility which would allow for a disproportionate tax levy in instances of higher income, and vice versa.

Despite these indisputable advantages, the problems discussed in Section 3 concerning direct taxation arise in very pronounced ways in the peripheral countries in the case of personal income taxes. These problems include those of administrative tax levying and political implementation due to the existing economic and power structures.

Varying types of income tax laws have been passed in different societies. This is a result of the fact that imposing a personal income tax on low income earners in developing countries would involve costs totally disproportionate to the revenues to be gained. Another reason is that socio-political reasons preclude the taxation of this population group.

(One of these two arguments is usually used depending upon circumstances.) Thus some countries have opted for a limited income tax. Through establishing high exemption levels the majority of low income earners are excluded from taxation and only medium and high income groups are taxed. This is the case in the majority of countries. Others have chosen of a limited income tax in which only certain easily measurable assessment criteria (schedules) are used for taxation purposes. In these cases entire sectors, such as agriculture, or sometimes only certain parts of it, are excluded from taxation (Pakistan, Bangladesh, some Indian states). In some developing countries, those groups or sectors excluded from, or not accessible for, income taxes have a special tax imposed on them which is similar to an income tax. These include such taxes as poll and hut tax, and/or the various types of personal taxes used in the majority of African countries. In the agricultural sector there is sometimes a special "agricultural tax" which is merely a simplified income tax (for example in Ethiopia, parts of India).

When levying personal income taxes in peripheral countries, the target groups are the medium and high income earners. On the other hand, however, these groups also have the power to reduce or somehow evade their tax payments. Thus the number of taxpayers is low in most developing countries since the majority of the population is either subject to exemptions or able to evade tax payments.

According to the United Nations, for example, in 1955 the proportion of the population paying progressive income taxes in Peru amounted to 0.05 percent, in Brazil and India 0.5 percent, in Ceylon 0.6 percent, in Chile, Columbia, and Venezuela 0.9 percent, and in Argentina 1.5 percent. In India in 1957/58, half of the income taxes were collected from only 7,000 persons. In this case it was estimated that income tax was collected from roughly one percent of the population only. Some authors have estimated that those countries in Africa and Asia involved in the Colombo Plan had only one to two percent of potential tax payers actually paying income taxes. As reflected in the following data even these probably represent the upper limit. In 1959, only 0.13 percent of the population of Sierra Leone and in 1963 only 0.34 percent of the populations of the three East African countries, Kenya, Uganda, and Tanganyika, had paid income taxes. In the Central American countries of Costa Rica and Honduras only 1.9 percent in 1966/67 and 0.6 percent in 1965 of the total population (this represented 7.1 percent and 2.2 percent respectively of the economically active part of the population) paid personal income taxes. In this, Costa Rica and Honduras headed the countries of Central America. These obsolute data have maintained their validity up to the present. What should be mentioned in this regard is that useable data about the number of taxpayers and levels of taxation in the various types of income taxes are rarely included in national statistics.

The difficulties in levying income taxes as the most important form of direct taxation, coupled with the necessity of collecting taxes which somehow take into account individual incomes, have led to the introduction of an expenditure tax in India and Sri Lanka. This tax is a direct tax on consumer expenditures of wealthier segments of the population and is meant to be a supplementary tax to existing income taxes. Consumption expenditures are the basis for this tax. This was meant to put a limit on high expenditures for consumer products on the part of high income earners in favour of an increase in the rate of savings. The tendency has been, however, that this tax has promoted concentration of wealth. In both countries this tax caused high administrative costs with limited yields. At the end of the Fifties, only 6,000 persons in India were affected by this tax.

Corporate Taxes

Corporate taxes as a form of income tax for corporations vary in importance in peripheral countries. In most countries the share of revenues received from this direct tax in the total budget is very limited due to the small number of enterprises and the generally low tax schedules. In a number of developing countries tax concessions for several years are granted to subsidiaries of multinational corporations and/or newly founded national firms in order to promote investments. This can mean, for example, that no corporate taxes are being paid.

In some other countries, however, corporate tax receipts represent a large volume in proportion to the total government budget. These countries mainly export raw materials (oil, minerals). Since extraction and export are often handled by foreign firms, they usually still have to make additional payments (for example in royalties) to the treasuries of exporting countries. The reasons given for these additional duties are often that the resources of these countries are being exploited and are not available for the development of their own economies.

Corporate taxes only play a subordinate role in the agricultural sector of developing countries. Taxation of large corporations, which are often foreign-owned, is of considerable importance for the total tax revenues of some individual countries which have an extensive plantation economy. In Costa Rica and Honduras, foreign banana growing and exporting firms such as United Fruit and Standard Fruit are excluded from general income taxes. Both of these firms must pay the government a special tax on the net income acquired in the country. The level of these taxes was determined in licence agreements. Since 1954 in Costa Rica and 1955 in Honduras, 30 percent of the declared net income must be paid in taxes. Taxes prior to that time were much lower still. In Costa Rica the tax advantages granted to foreign corporations was also given to domestic firms which held banana growing areas larger than 2,000 hectares. A small export duty is paid on banana exports. The share of duties paid by both foreign companies in the total income tax revenues of Costa Rica in 1968 amounted to 9.6 percent (10.3 percent in 1970), and in Honduras 34.7 percent.

Property Tax

A general property tax (without land tax) exists only in some developing countries. Even in these countries, however, revenues derived from it are minimal. The reasons for levying a property tax do not lie in its fiscal yields any way. As a direct object tax, this property tax is supposed to assess income from property which would otherwise not be considered, or else the property itself. A general property tax which would also include fixed capital other than land is either unknown (e.g., Peru. Pakistan) or, if such types of taxation exist, it is not a progressive tax (e.g., Sri Lanka, India).

Property transfer taxes (for inheritance, gifts, sales) which are used to reduce the concentration of wealth and thus to prevent the accumulation of economic power are non-existent or their administrative implementation is impossible due to the prevailing conditions in most countries. It is for the latter reason, for example, that such a tax was again revoked in Kenya.

Traditionally, the most important type of investment in most countries is the purchase of land. This is why the most important type of property tax in developing countries is the land tax. Historically land tax is only important in those countries in which private landed property is known or has been predominant such as, for example, in Europe, North Africa, the Middle and Far East, and also in Latin America as a result of Spanish and Portuguese colonization. In sub-Saharan African countries, where the prevailing land tenure system is communal ownership and not private, a land tax generally has not existed up to the present time (this is why they have various types of personal taxes there). The only land that is subject to this tax is privately used land in urban areas (for example in East Africa).

Land taxes are subject to strong political pressures from powerful landowning groups in peripheral societies. Besides those active and passive obstructions to tax assessments already discussed in Section 3 above, there is a multiplicity of problems concerning evaluations. This is the case since this type of taxation as a rule simultaneously satisfies several purposes. The difficulties in administration and tax assessment have led to a drastic reduction in the importance of land tax in favour of other taxes, particularly indirect taxes, in most countries. For example, according to the latest available statistics, revenues from land taxes had slipped to only 18 percent in Nepal (1968), 16 percent in the People's Republic of China (1959), 11 percent in Taiwan (1968), 10 percent in Ecuador (1968), and 8 percent each in Ethiopia, Korea, Egypt, Columbia, and the Philippines (1968) as a share of total tax revenues.

Land tax revenues became less important despite the great theoretical value of this tax in certain development concepts (dualistic theories) and the development strategies based on them. In these concepts a land tax played an important role when financing industrialization in developing countries as well as when activating agriculture. These were both based on the great capacity of land taxes in theoretical terms. In reality, however, a correspondingly high level of taxation was never realized either through administrative or political pressure.

The levying of land taxes in most societies was not only to tax landed property, but land ownership additionally served as a mechanism for assessing agricultural incomes. Thus several purposes were pursued by the land tax which led to a multiplicity of types of land taxes in individual countries with regard to the basis for measurement as well as methods of assessment and payment. In this regard, there existed in the past and even today, much overlapping with other types of agricultural taxation (e.g., product and/or income taxes). In some countries heavy land taxes are used to achieve certain goals in development policy. Examples of these goals are the reduction of absenteeism (Argentina, Taiwan), cultivation of fallow land or its intensive use (Guatemala, Columbia), and the partition of very large estates (Egypt, some states in India, Pakistan, South Korea, Thailand, and some South American countries). In practice the desired results have not occurred at all or are only in the nascent stage since the tax measures could either be easily subverted or the political and administrative implementation was impossible due to the conditions in rural areas in peripheral countries. This is so because these measures especially affected those groups which had the political power and influence to prevent the undifferentiated application of these tax laws.

CONCLUSIONS

Every government in peripheral countries faces the problem of having to expand the tax ratio at minimal costs against the resistance of political groups. As a rule this question is settled via indirect taxation. On the other hand, this solution collides with the concepts of social justice since indirect taxes overwhelmingly have a regressive effect. Moreover, the readjustment of the tax system in favour of a higher share of direct taxes is not only more just, but allows the assumption that the overall tax receipts can also be expanded because high income earners could be given a heavier share of the burden. However, such a readjustment would only have limited effects, since the administrative costs would increase simultaneously. On the whole, a marked increase in the tax share would only be achieved if the taxable capacity, that is, the economic activity, were expanded. It is a naive assumption that would suggest that changes in the tax system in favour of direct taxation or the undifferentiated application of existing tax laws would increase tax receipts so drastically as to solve problems of this type in the future. The raising of taxes by means of the two measures of implementing existing laws and expanding direct taxes, admittedly has considerable success in increasing the tax burden, but this, however, is no doubt less then the level of expectations.

Problems in expanding the taxable capacity touch upon general questions concerning development and will not be discussed further in this essay. An undifferentiated execution and application of existing tax laws, by improving the fiscal administration, brought some remarkable increases in tax revenues, as was shown in some of the examples. This first step is also a necessary one in order to expand government activities to such an extent as to enable it to become active in regard to an expansion of the taxable capacity.

Expanding direct taxation will, besides the increases in tax revenues already mentioned, probably also lead to benefits which are much more important in the long term. These lie, on the one hand, in the socio-psychological area of implementing a more just system. On the other hand, they lead to a reduction in the fluctuations of revenue from customs duties brought about by a dependence on the world market. As was shown at the beginning of this discussion, not only indirect taxes but especially customs duties predominated in tax systems in developing countries. Customs revenues are subject to strong variations in volume due to fluctuations in prevailing world market prices and the result of reactions to them. This makes long-term budget planning very difficult. On the other hand, a conversion of the tax system in favour of a higher share of direct taxes also has a built-in flexibility which allows tax revenues to grow automatically and disproportionately with increases in income.

As an analysis of tax system shows, when weighing the difficulties between the necessity of expanding direct taxation and the fiscal purpose of the government, that approach is chosen which holds the least amount of political and administrative resistance. Despite the fact that there are a number of countries with modern income tax concepts and progressive rates of taxation with increasing incomes, these laws have not been enforced. For low income groups, especially in sectors of the rural areas, administrative problems often lead to a generous handling of exemptions which lead to a situation where the lower income earners as a rules are not burdened by a tax. Moreover, in many countries only rough estimates of income are made in the agricultural sector in order to reduce administrative costs. It is precisely in the agricultural sector, however, that some alternatives for direct taxation exist (such as the land tax, for example) though they are subject to the same administrative and political difficulties for their implementation.

On the whole, it can be concluded that in most peripheral countries the existing power relationships and administrative deficiencies, which themselves are marks of underdevelopment, have a direct effect on tax systems. On the other hand, however, it is naive to assume that the implementation of "just taxes" can itself be more than a component of the overall development process and thus cannot be considered independent of it.

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