

Taxation, Inequality and Development

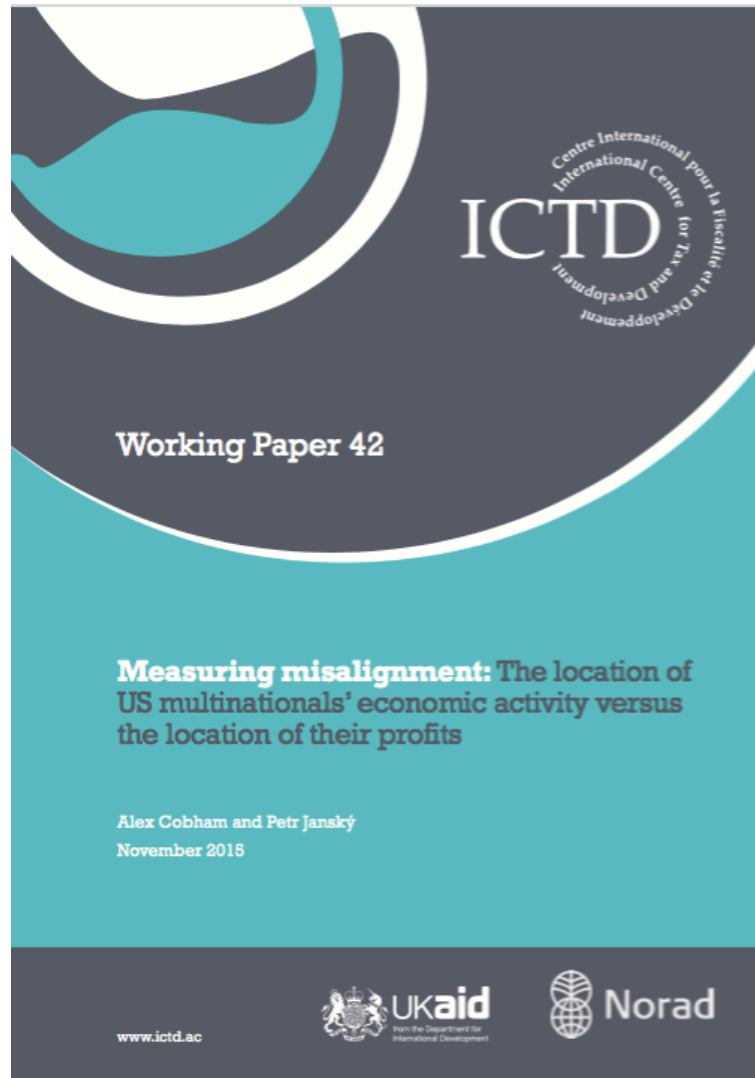
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Outline

- If we succeeded in reforming global corporate taxation would the world become more equal?
 - Where would 'missing' tax revenues go?
- What kind of tax policy/politics produces more equality?
 - Models from the developed world: Sweden v US
 - Taxation in the Global South

Where would 'missing' tax revenues go?



Where would 'missing' tax revenues go?

**Additional
gross profits,
\$ bn**

| | |
|-------------------|--------|
| Rest of the world | -151.2 |
| 1 Netherlands | -151.8 |
| 2 Ireland | -93.6 |
| 3 Luxembourg | -93.6 |
| 4 Bermuda | -76.1 |
| 5 Switzerland | -38.5 |
| 6 Norway | -22.0 |
| 7 Singapore | -13.7 |
| 8 Indonesia | -7.3 |
| 9 Hong Kong | -3.9 |
| 10 Denmark | -2.8 |

**Missing
gross profits,
\$ bn**

| | |
|----------------|-------|
| United States | 463.0 |
| Germany | 25.8 |
| Canada | 23.5 |
| China | 15.0 |
| Brazil | 14.3 |
| France | 13.9 |
| Mexico | 13.7 |
| India | 11.4 |
| United Kingdom | 9.2 |
| Italy | 8.6 |
| Spain | 8.2 |

Would reform lead to greater global equality?

- May not reduce global inequality between developed and developing countries
- Might reduce inequality within developed/emerging market countries....

Domestic Politics

- What kinds of tax policy/politics produces lower inequality?
- Sweden: high redistribution, low inequality
- US: low redistribution, high inequality

Sweden v US

(Steinmo 1993)

- Sweden: regressive tax structure – taxes corporations less, bulk of tax burden on the middle and lower classes, VAT
- US: progressive tax structure – taxes corporations more, bulk of tax burden not on middle and lower classes, no national sales tax

Domestic politics

- Why is Sweden more redistributive despite having a more regressive tax structure?
- Redistribution happens on the spending side of the equation
- Fiscal contract: we pay taxes in return for services
- State provides services to those who pay tax
- If the rich pay tax, then the services the state provides are those the rich want (Timmons 2005)

Sweden

| | | |
|------|---------|---------|
| 1766 | 1000000 | 1000000 |
| 1767 | 1000000 | 1000000 |
| 1768 | 1000000 | 1000000 |
| 1769 | 1000000 | 1000000 |
| 1770 | 1000000 | 1000000 |
| 1771 | 1000000 | 1000000 |
| 1772 | 1000000 | 1000000 |
| 1773 | 1000000 | 1000000 |
| 1774 | 1000000 | 1000000 |
| 1775 | 1000000 | 1000000 |
| 1776 | 1000000 | 1000000 |
| 1777 | 1000000 | 1000000 |
| 1778 | 1000000 | 1000000 |
| 1779 | 1000000 | 1000000 |
| 1780 | 1000000 | 1000000 |
| 1781 | 1000000 | 1000000 |
| 1782 | 1000000 | 1000000 |
| 1783 | 1000000 | 1000000 |
| 1784 | 1000000 | 1000000 |

Swedish tax register, 1740s



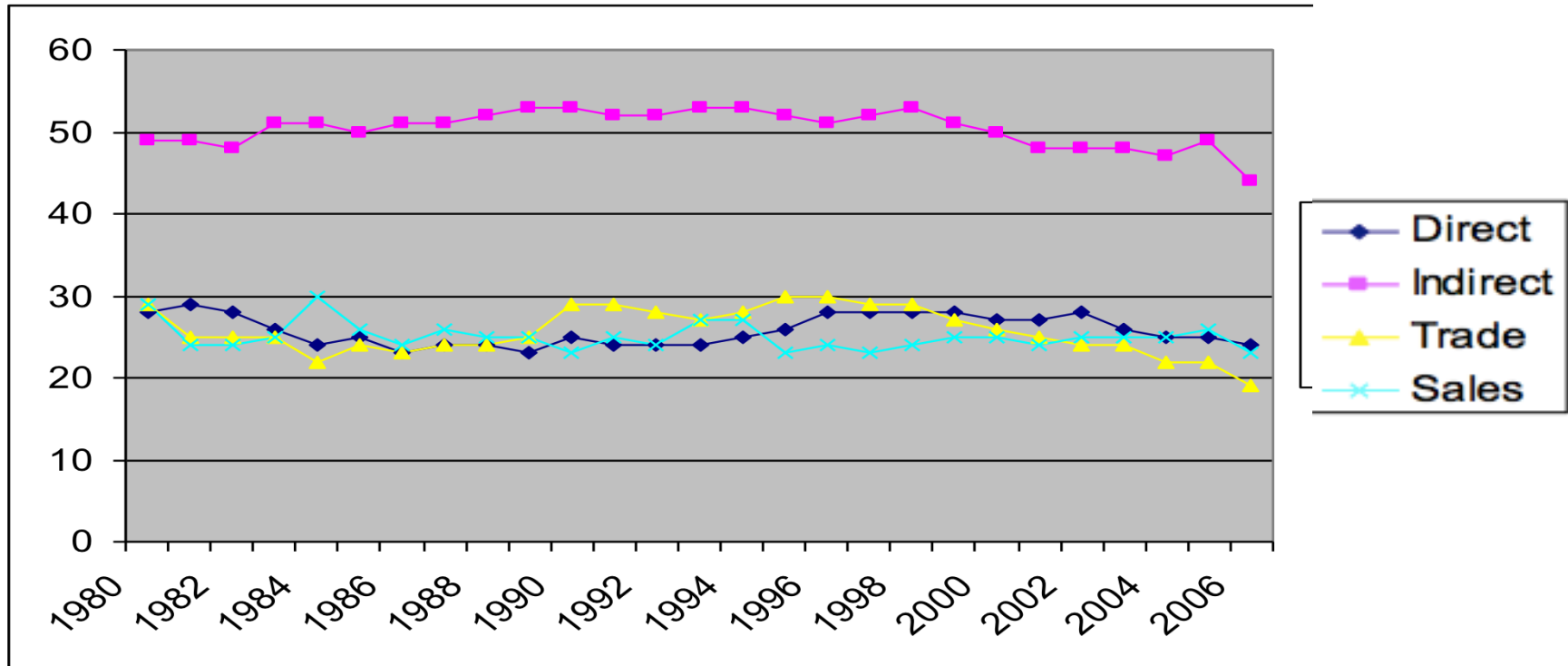
Cadastral map, 1628

Taxation in Developing Countries

- What kind of fiscal policy reduces inequality?
- Strong fiscal contract: broad based taxes, universal services
- Not what we see in most developing countries:
 - Most tax revenue from import, corporation, sales taxes
 - Bulk of population outside the tax net -> no fiscal contract
 - Difficulties providing services -> trapped in sub-optimal low compliance equilibrium

Taxation in Developing Countries

Tax Structure in SSA, 1980-2006



Source: World Bank ADIs

Note: Each category is as a percentage of overall revenue

Taxation in Developing Countries

- Registered tax payers: 400,000 (.0088%)
- 2005: 70 % of the domestic revenues from 286 large taxpayers
- Tax % GDP: 15%
- ODA % GDP: 10%



Motto: We make it easy to pay tax
and make lives better



Taxation in Developing Countries

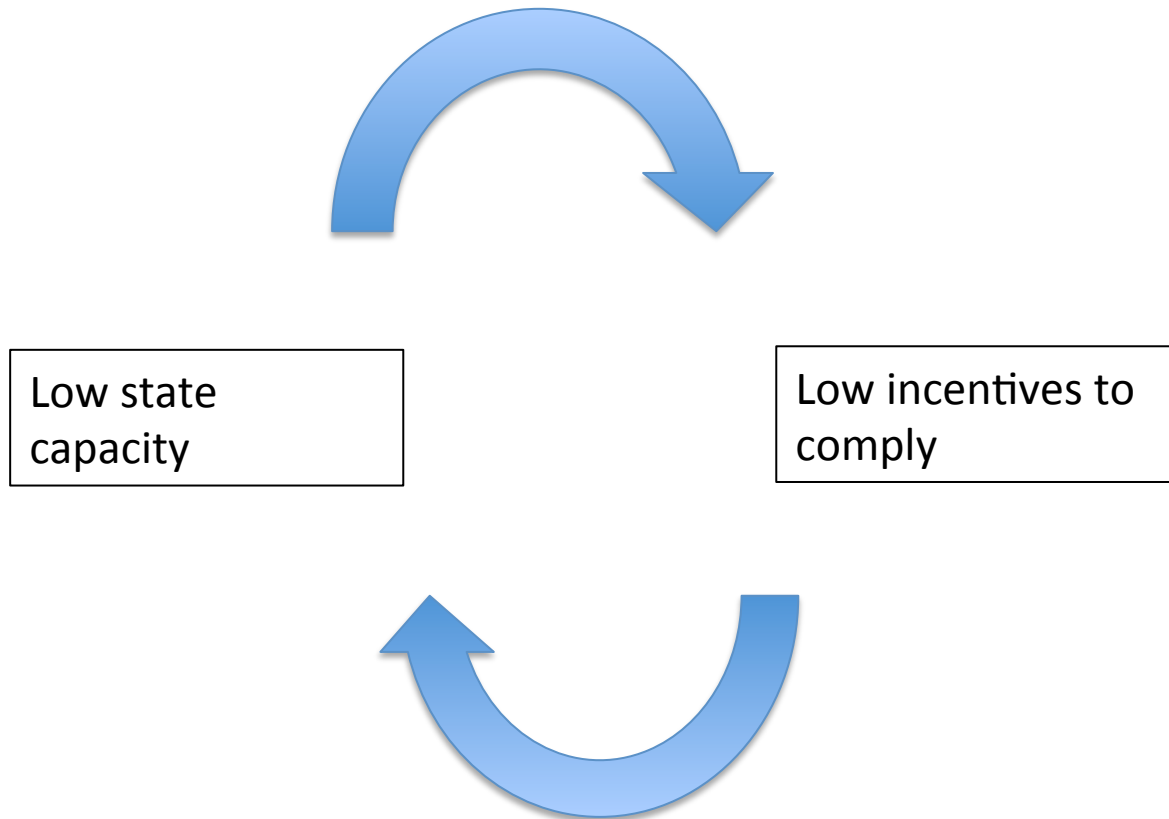
Efforts to extend the tax net:

- Tanzania, Rwanda: 'Block management system'
- Nigeria: modernization of Lagos

Challenges:

- Politically sensitive
- Low administrative capacity
- Poor public services
- Competing service providers

Vicious cycle: An equilibrium



Taxation in Developing Countries

- Shallow, narrow fiscal contract
- Exacerbated by unearned windfall revenues from external actors:
 - Natural resources
 - Aid (Moore 2004, Djankovic et al 2008)

Conclusion

- Global corporate tax reform probably not a solution to inequality
- Domestic politics critical:
 - Strong fiscal contract: broad based taxes, universal services
- What can external actors do?
 - Recognize where their actions impede development of strong fiscal contract
 - [Support supply-side state capacity building](#)

Thank you!

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