hy Has Domestic Revenue Stagnated in Low-Income Countr

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There’s a fascinating new report come out of SOAS. Its Centre for Development Policy and Research has published the report under the title "Why Has Domestic Revenue Stagnated in Low-Income Countries?” The summary says:

There has been miserably slow progress in increasing domestic revenue in low-income countries since the 1990s. In order to find out why, this Development Viewpoint draws on an extensive analysis of disaggregated revenue data for low-income countries in sub-Saharan Africa, South and Southeast Asia, and Central Asia.

Based on this analysis, we contend that the reigning 'tax consensus' has placed an inordinate emphasis on boosting domestic indirect taxes, and the value added tax (VAT) in particular. These taxes cover domestic goods and services in the formal sector.

At the same time, the 'consensus' has advocated eliminating import taxes (in order to liberalise trade) and lowering tax rates on corporate profits (in order to compete with other rate-cutting countries). Consequently, trade taxes have been particularly hard hit while increases in direct taxes, which cover mainly personal income and corporate profits, have generally been anaemic.

Overall revenue has ended up stagnating because of the resultant reliance on boosting revenue from only one major component, i.e., taxes on domestic goods and services. The pre-eminent instrument for this purpose has been the VAT, which has replaced sales taxes (as well as import duties) in many countries.

The full impact of this switch has yet to be felt by developing countries. It is anther development disaster waiting to happen.