International Budget Partnership

Budget Brief

Promoting equity through taxation in developing countries: What do we know? And what role can civil society play?

Paolo de Renzio | June 2020*

KEY POINTS

- Governments need to give more attention to promoting equity through taxation. The mobilization of domestic revenues is increasingly seen as fundamental in governments' strategies to finance the Sustainable Development Goals (SDGs). Increasing revenue collection without recognizing the distributional impact of taxation, however, can undermine efforts to tackle poverty and inequality.
- Equitable taxation can mean different things. Theories of both distributive justice and public finance provide important insights into what more equitable taxation might look like in practice.
- In recent years, a lot of work—by NGOs, academics and international organizations—has gone into devising ways to measure and assess the equity aspects of taxation and to define specific and promising areas of reform. These efforts point towards an emerging agenda on pathways to improved equity through taxation.
- Putting these reforms into practice may entail political challenges. Yet, enhancing civil society's capacities and skills to engage in tax reform and supporting the push for more equitable taxation can shift the balance of power and overcome political opposition, paving the way for a reduction in inequality and the promotion of just societies where everyone has opportunities to flourish.

*NOTE: This brief was completed before the onset of COVID-19 and therefore does not make any reference to it. The basic premise of the brief remains valid, and in fact may even be reinforced by the current crisis. Nonetheless, considering the extraordinary challenges posed by the pandemic, IBP's work on taxation is being reviewed, and all future activities and publications will adequately reflect this strategic reorientation.

Introduction

How a society distributes resources among its members—and how large of a gap it allows to exist between rich and poor—is at least partly a reflection of its prevailing conception of economic or distributive justice. This may vary from country to country. In recent years, however, many have argued that our societies have let that gap grow beyond measure and that such high levels of inequality are not only grossly unjust but are also undermining social cohesion and trust, and are detrimental to economic growth.[1] A broad set of ethical, political and economic reasons support the emerging global consensus on the need to promote more equitable societies, reflected in the Sustainable Development Goals through SDG 10, which calls for "reducing inequality within and among countries" (UN 2015).

The most common way to measure inequality is to look at disparities in individual incomes. Based on available data on income distribution across countries, the global trend is positive, with levels of inequality falling – but mostly due to faster growth of incomes in the developing world, especially China. If one looks at disparities within countries, however, the picture is a lot more varied. On average, inequality remains high across the developing world (especially in Sub-Saharan Africa and Latin America) when compared to more developed countries. Inequality has also been growing across a range of countries, including some of the most populous ones in the developing world (e.g. China, India and Indonesia). In others, most notably across Latin America, inequality has been decreasing. For most developing countries, however, data sources are scarce and often unreliable, making it difficult to identify clear trends.[2] If wealth—and not just income—is taken into account, the picture tends to get considerably worse, as wealth (defined as the ownership of both tangible and intangible assets) tends to be very concentrated in the upper echelons of the income distribution ladder. This is confirmed by data from the World Economic Forum's *Inclusive Development Index*, which further finds that wealth inequality has been increasing in about half of the countries for which data are available.[3]

Inequality manifests itself in many other dimensions beyond income or wealth, though. These may include gender, race, religion, and other characteristics of individuals or groups that are often excluded, marginalized and discriminated against in their countries. Such bias affects levels and dynamics of income and wealth inequality, and shapes the social, economic and political opportunities that different people face in each society.

Levels of inequality—across its multiple dimensions—are determined by many factors, some of which may have deep historical and socio-political roots. However, governments have a number of policy tools at their disposal to

[1] Piketty (2013), Stiglitz (2012), Atkinson (2015), Scanlon (2017), UNDP (2019), IMF (2017).
[2] For more details on all of the data and trends provided, see IMF (2017) and Alvaredo et al. (2018). See also Lakner and Milanovic (2016), Simson (2018), Alvaredo and Gasparini (2015) and World Bank (2016).
[3] WEF (2018). It is important to note that accurate data on wealth might be even more difficult to come by than data on income, especially in the developing world. On global wealth inequality, see also Zucman (2019).

promote more equitable societies. Among these, fiscal policies are probably some of the most important and powerful ones. How much tax different individuals pay, and how much they get back in public services or transfers of different types, can have an important effect on the overall distribution of income, wealth and economic and political opportunities—and determine how fair and equitable a society is.

In the face of the significant projected costs of achieving the SDGs and of stagnating foreign aid, an increasing focus has been put on the mobilization of domestic revenues as a way to ensure that governments have adequate resources at their disposal to promote better development outcomes. However, much of the attention so far has been put on *how much* governments should raise in additional revenues, rather than on *how* this is done, and on the impact that this can have on poverty and inequality. For example, revenue collection in developing countries relies heavily on indirect taxes, such as those on consumption, that tend to be regressive. In such contexts, the burden of mobilizing additional revenue might fall disproportionately on the poor, worsening inequality and undermining governments' efforts to achieve a number of the other SDGs.[4]

International initiatives designed to support developing countries in their revenue mobilization efforts—such as the Addis Tax Initiative—have not given enough attention to these equity considerations. While this has recently been pointed out by a number of international actors, it is ultimately at the level of each individual country that this debate needs to happen, and CSOs have an important role to play in shaping and contributing to such debate.[5] At the end of the day, as Murphy and Nagel put it,

> "*Taxes are not just a method of payment for government and public services: they are also the most important instrument by which the political system puts into practice a conception of economic or distributive justice […] How much should be paid by whom, and for what purposes, what should be exempt from taxation […], what kinds of inequalities are legitimate […]—these are morally loaded and hotly disputed questions about our obligations to one another through the fiscal operations of our common government*."[6]

The International Budget Partnership (IBP) has worked with citizens and civil society organizations across the world to promote more equitable fiscal policies that can contribute to reducing poverty and inequality. Historically, IBP has focused more of its work on the spending side of the budget, for example through supporting budget analysis, monitoring and advocacy in key social sectors, ensuring that citizens have a say in the formulation and execution of public policies, and that the impact of government expenditure on poor and marginalized groups is taken into account. However, it is becoming increasingly obvious that looking at spending, without understanding how this spending is financed, misses half of the picture and the complementarity and importance of taxation as a tool to

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[4] In most developing countries, tax/GDP ratios are well below those of richer countries. Raising more revenues will therefore inevitably be an important part of a developmental fiscal agenda, alongside making public spending more effective and equitable. These issues, however, go beyond the scope of this brief.

[5] https://www.internationalbudget.org/2019/07/tax-to-finance-the-sdgs/.

[6] Murphy and Nagel (2002: 3).

promote equity. This was highlighted in a recent consultation with a number of IBP's partner organizations who saw a clear role for IBP in working with civil society groups to support the development of more transparent, effective, and equitable tax systems in developing countries. Consequently, IBP is now starting to engage more deeply and strategically with the revenue side of the budget, with a specific focus on domestic—rather than international—aspects of taxation. [7]

This brief is intended as one of IBP's initial steps in its own thinking on how to support CSOs in their efforts to improve equity and influence domestic tax reform processes. It also builds on previous efforts at promoting a stronger focus on equity and justice issues in debates around public finance and fiscal policies.[8] Drawing on existing literature and evidence, this brief sees what can be learned from past debates and experience, outlines a possible policy agenda, and reflects on what kind of support IBP might most usefully provide to CSOs in developing countries working on promoting equity through taxation.[9]

Equity in taxation: what does it mean?

Discussions around what equity in taxation means, and how it can be promoted, can be framed in at least two different ways: based on theories of distributive justice and their policy implications, or based on the theory and practice of public finance. In the rest of this section, we look at each in turn, before considering their policy implications.

Equity in taxation and distributive justice

Distributive justice is concerned with the fair distribution of both the benefits and burdens of social cooperation and relates to fundamental questions about the role of the state and the relative boundary between the individual versus the collective in organizing social life. People may disagree on the legitimate ends of government as a mechanism for promoting social cooperation, and therefore on the quantity and kinds of public goods and services that need to be provided and financed through taxation. For example, there are clear differences between the size of the public sectors in the United States and Scandinavian countries. Total government revenues represent about

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[7] See more details about IBP's Tax Equity Initiative here. The consultation raised the issue that many other actors, including international institutions and NGOs, are already involved and active in debates and advocacy around international taxation issues. Therefore, this should not be the main focus of IBP activities, although IBP recognizes the importance of international taxation issues as drivers of global inequality.

[8] de Renzio and Lakin (2019).

[9] This brief focuses exclusively on taxation and on how tax policies can be used to promote equity. Some argue that in order to assess the distributional impact of government interventions, one has to look at taxes and spending together, as it is their combined effect that will determine whether government policies are progressive (i.e. reduce inequality) or regressive. If, however, the objective is not to assess, but to maximize the impact that government interventions can have on equity, it makes sense to focus on the promotion of more equitable taxation independently from spending policies. This is one of the starting points for this brief.

30 percent of Gross Domestic Product in the USA but represent between 50 and 60 percent across Scandinavia.[10] These numbers well illustrate radically different visions of what the state is expected to provide, e.g., in terms of healthcare or social welfare, and ultimately, how much citizens are willing to contribute to pay for these services. Of course, these differences originate from political and institutional development processes that have spanned centuries and have shaped not only people's views and preferences on the role of government but also the rules and procedures that govern the management of public resources, including taxation.[11]

Beyond this more general question, there can also be many different opinions on how the costs of financing government action—at whichever level—should be distributed across individuals in society. Different theories of distributive justice come up with different definitions of what 'fair' and 'equitable' taxation mean. Libertarian philosophers claim that redistributive taxation should be kept to a minimum, as it defrauds individuals of resources that they have rightfully earned and are entitled to spend as they see fit, and they should not be forced to contribute to government activities that may benefit others.[12] More liberal (or more egalitarian) thinkers, on the other hand, will argue that richer individuals should be taxed more, and therefore contribute more than the poor to the financing of state activities, so as to bring about less unequal societies.[13] More generally, these divergencies of opinion are reflected in political views where "one party will describe redistributive taxation as forcibly taking what belongs to some and giving it to others [while] the other party will describe it as using the system of law to […] help realize a just socioeconomic order."[14]

Such contrasting views stem from diverging opinions, both personal and political, on whether individual autonomy—i.e. the right of each person to hold on to the fruits of her labor—should take precedence over interpersonal responsibility—i.e. the right of all people to a minimum living standard, for example—or the other way around, and on the extent to which governments, through taxation, should be responsible for upholding those rights and how. To further complicate the picture, arguments can be made about the extent to which individuals actually deserve to keep the fruits of their labor, depending on whether they stem from genuine personal effort or from personal privileges due to circumstances—such as birth, luck and access to opportunities—that are not available to all. Or about the level at which minimum living standards should be set.[15]

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[10] https://www.imf.org/external/datamapper/rev@FPP/.
[11] Steinmo (1989) and (1993).
[12] Robert Nozick, for example, once famously remarked that "taxation is on a moral par with forced labour" (Nozick 1974: 169).
[13] John Rawls' *Theory of Justice*, arguably the most important work on distributive justice in the liberal egalitarian camp, does not say much about taxation as such (see Rawls 1971). For a discussion of the implications of Rawls' work for taxation, see Sugin (2004), for example.
[14] Murphy and Nagel (2002), page 59.
[15] For a comprehensive account and discussion of the application of justice theories to economic matters, on which this section is partly based, see Konow (2003).

In other words, what a 'just socioeconomic order' should look like in practice, and how much more tax rich people should pay compared to poor people to help bring it about, is likely to be the subject of endless political and philosophical debate. Should the tax system be designed to maximize equality of opportunity or equality of outcome? Should people who decide to work more be taxed more, therefore disincentivizing their efforts? And what about inherited wealth? Are individuals fully entitled to benefit from it, or should it be heavily taxed as 'unearned' income?

None of these questions have a single, straightforward answer, and theories of distributive justice can render widely different views on each of them. While this may seem discouraging, it simply points to the fact that debates around taxation and tax reform are often so heavily contested not only because they involve the redistribution of resources but also because they stem from contrasting visions of what a just society looks like. As a consequence, while theories of distributive justice can provide useful parameters and criteria for assessing tax policy options, they cannot deliver a final opinion on which option should be chosen. Such decisions belong to the realm of politics, where those contrasting visions—and their supporting narratives—play out, seek support and are reconciled through the rules of the political game.

Equity in taxation and public finance

Public finance is the study of the role of government in the economy. In the classical definition provided by Richard Musgrave, this includes three main functions: (a) allocating resources; (b) distributing income; and (c) keeping the economy stable.[16] Principles of fairness in taxation are seen as particularly important for the distributional function. In many public finance debates, however, equity criteria have often been treated as secondary to those of efficiency. This is partly due to the complexity of coming up with a shared definition of tax fairness, but it is also due to the argument that it might be better for governments to use efficient, rather than equitable, taxes in order to raise resources which can then be used to compensate losers through other measures, e.g. targeted public spending programs.

In fact, taxation is an important tool for several different public policy objectives. Cobham summarized them as the "4 R's":

1) **Revenue generation**, or raising the necessary resources to finance public spending,
2) **Redistribution** of resources to limit inequality and reduce poverty,
3) **Representation** as the key building block of state-citizen relations and accountability,

[16] Musgrave (1957).

4) **Repricing** of economic alternatives as a tool to influence the behavior of individual and corporate actors (for example, incentivizing savings or reducing pollution).[17]

While efficiency criteria may be particularly relevant for the first and last objectives, equity considerations are clearly central to the second and third ones. Governments not only have to decide how much to redistribute through taxation, but also have to reckon that these decisions will affect their legitimacy as representatives of the interests of different groups, as well as the level of trust that they will enjoy among their citizens, who will either feel they are being treated fairly—or not.

Equity discussions in public finance often center around the notions of 'vertical' and 'horizontal' equity.[18] *Vertical equity,* often considered synonymous with progressivity, is predicated on the principle that people should be taxed based on their ability to pay. In other words, equity in taxation demands that better-off individuals should pay a larger proportion of their income in taxes than poorer individuals. This is based on the reasonable assumption that the richer a person is, the smaller the benefit experienced with any additional amount of money—i.e. the diminishing marginal value of money. As aptly explained in a brief by the California Budget Project,

> "*Lower-income households spend most or all of their incomes on necessities, while higher-income households have more discretionary income and can afford to pay more in taxes without cutting into what they can spend on shelter, food, health care, and other basic needs*."[19]

The principle of progressivity based on 'ability to pay' is very widely accepted and has even been enshrined in the constitutions of some countries including Germany, Italy and Spain. What the principle does not say much about, however, is *how* progressive a tax system should be. Again, that is a decision that will need to be made on a country-by-country basis, based on a domestic debate and contestation.[20]

Horizontal equity deals with another important aspect of fairness and calls for the equal treatment of taxpayers in similar situations. According to this principle, individuals with the same level of income should pay the same amount of tax. Once again, despite the fact that this seems like a simple and uncontroversial principle—and that, like vertical equity, it is widely accepted—it is interesting to note how often it is disrespected or disregarded. Given the differential tax treatment of different forms of income, people who earn a larger share of their income from investment may pay less tax than those with the same overall income who earn more through wages. In places like Brazil, for example, where assets and capital gains are not taxed at all, this generates a tax system that is clearly

[17] Cobham (2005).
[18] Steuerle (2002).
[19] Bliss (2012).
[20] For a review of empirical work on how much inequality people think should exist, see Lakin (2019).

unfair according to both horizontal and vertical equity standards, given that richer people tend to earn more of their income from returns on investment rather than wage labor.[21]

Another clear example of a violation of the horizontal equity principle is the widespread use of so-called "tax expenditures" by governments. These are special provisions like tax exemptions and deductions, or fiscal incentives that give specific individuals or companies a differential tax treatment, for a variety of policy purposes. For example, in many countries, foreign companies bringing in investment are given a favorable tax treatment that is not available to domestic companies. In Argentina, members of the judiciary are exempt from paying income tax. In both cases, the governments treat similar actors differently, foregoing equity in favor of other considerations – some of which may be more justified than others – and undermining the overall fairness of the tax system.

To some extent, the overall acceptance and recognition of the principles of vertical and horizontal equity in public finance might provide a more solid ground for arguments in favor of more equitable tax systems than theories of distributive justice given widely differing worldviews on the latter. However, even these principles are open to interpretation and debate and will need to be weighed against other criteria that are important for tax policy decisions.

Promoting equitable taxation: moving towards a shared agenda?

Existing debates around what tax equity means and why and how it should be promoted do not lead to the identification of an easy set of policy prescriptions that apply generally across different country contexts. On the contrary, key tax policy decisions are seen as inherently political and are likely to be hotly contested. The outcomes of such decisions will depend on a society's predominant view about the role of government and acceptable levels of inequality, and on the distribution of power across different social groups at a given time.

Nevertheless, in recent years a lot of work has gone into coming up with ways to measure and assess equity aspects of taxation and define specific reform areas that seem particularly promising for those interested in promoting equity through taxation. As IBP starts to engage in this new area of work, it is important to take stock of existing studies, initiatives, and proposals. Here we take a closer look at some of them to see what they have done in terms of assessing tax equity and identifying key reform areas.

[21] Salvador (2016). A similar case was made by billionaire Warren Buffett in the US, where he famously denounced that he was paying a lower share of his income in taxes than his secretary. See https://money.cnn.com/2013/03/04/news/economy/buffett-secretary-taxes/index.html.

Commitment to Reducing Inequality Index *(Oxfam)*[22]

First published in 2017, and reissued with an updated methodology in 2018, Oxfam's CRI Index ranks the efforts of more than 150 governments across the world in reducing the gap between rich and poor by assessing their efforts in three policy areas or 'pillars': social spending, taxation, and labor. For taxation, the index measures the progressivity of the tax system by looking at:

a) the progressivity of taxes on personal and corporate income (looking at maximum and minimum rates and thresholds) and VAT (looking at rates, exemptions and thresholds),

b) the incidence of taxation on inequality, multiplying the share of revenues collected through different types of taxes by global coefficients that rate their progressive/regressive nature,

c) the levels of tax collection, looking at measures of tax productivity and tax effort, and

d) the presence of harmful tax practices, like tax holidays and deductions for corporations, and of measures to reduce the impact of corporate tax avoidance.[23]

Oxfam recognizes that the index is based on a number of assumptions that could be deemed questionable, and on incomplete measurements and data for some of its components. Nevertheless, the CRI provides an initial, interesting attempt at pulling together data on different aspects of government policy that affect inequality. The 2018 CRI results for taxation show South Africa, Georgia and Malawi ranked in the top ten alongside a number of OECD countries, while Singapore and Uzbekistan are ranked last.

Fair Tax Monitor *(Oxfam and TJN-Africa)*[24]

This initiative is part of the 'Make Tax Fair' campaign and takes a closer look at key characteristics of tax systems in a small number of developing countries. The 2016 pilot covered four, and in 2018 coverage was extended to 11 countries.[25] The FTM scores countries on six clusters: (a) the progressivity of the tax system, (b) the amount of revenues collected, (c) the effectiveness of tax administrations, (d) the pro-poor nature of public spending that revenues finance, (e) how accountable public finances are in terms of transparency and citizen engagement opportunities and (f) how well-governed tax exemptions are. For each cluster, the FTM methodology is based on a comprehensive set of questions that the campaign answered in collaboration with local partners in each country. These cover, among other things, tax rates and brackets for personal income taxation, whether wealth is taxed or not, how VAT works, gender aspects of taxation, possible sources of tax leakages, the resources and capacities of

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[22] Oxfam (2018) and http://inequalityindex.org/.
[23] More details on the CRI methodology can be found here.
[24] https://maketaxfair.net/ftm/.
[25] The 2016 pilot covered Bangladesh, Pakistan, Senegal, and Uganda. In 2018, Tunisia, Nigeria, Mali, Zambia, Cambodia, Vietnam, and the Palestinian Territories were included. Brazil and Egypt will be added in 2020. However, only five of the full country reports were publicly available at the time of publication.

tax authorities, government spending on health and education, public availability of tax information, how large tax exemptions are, and how opaque and discretionary the process for granting them is.[26] For example, in 2016 Nigeria scored 6/10 on the progressivity of its tax system and on the effectiveness of its tax administration but only scored 2/10 on the governance of tax exemptions and on how pro-poor its public spending is.

Progressive Taxation Briefings *(Action Aid)*[27]

In 2018, Action Aid published a series of briefings analyzing the progressive potential of seven different types of taxes. Some of these taxes—like VAT, or excise and trade taxes—are often considered regressive, while others—like taxes on property or wealth—are seen as means to increase the progressivity of a tax system to make it more equitable. For each different type, the briefs look at key issues related to using the tax for raising revenue in a more equitable manner and present interesting examples from country practices. For example, the brief on property taxes illustrates their potential as a progressive revenue source (e.g., OECD countries collect more than 5 percent of their revenue from property taxes, compared to less than 1 percent in Sub-Saharan Africa), and highlights ways in which the tax can be made even more progressive with the use of thresholds. Further examples include Malawi and Sierra Leone, where a point system was established for assessing the value of—and ultimately the tax due on—different kinds of property, and from Nepal, where exemptions were introduced to encourage female ownership of land.

Agenda for Equitable Taxation *(International Centre for Taxation and Development)*[28]

Again in 2018, drawing on its extensive research on taxation in developing countries, the International Centre for Tax and Development published a brief summarizing existing debates and outlining proposals for promoting more equitable taxation in developing countries. The list includes strengthening taxation on personal incomes, property and multinational corporations; improving the progressivity of consumption taxes and the transparency of tax exemptions; curbing regressive informal taxation; and encouraging civic engagement in tax policy.

Fiscal Monitor on Tackling Inequality *(IMF)*[29]

The whole issue of the October 2017 *Fiscal Monitor*—one of the IMF's flagship publications—is devoted to tackling inequality, which is seen as an increasing threat to countries' economic and financial stability. While recognizing that developing countries have more limited space for redistribution through fiscal policy, given their low tax to

[26] The FTM common research framework is available here.
[27] https://actionaid.org/publications/2018/progressive-taxation-briefings. A previous study conducted by Action Aid UK had looked at specific characteristics of tax systems in five countries (Kenya, Tanzania, Nigeria, Cambodia, and Nepal) and identified relevant tax reform measures for improving equity in each country. See the report here.
[28] Prichard (2018) on Equitable Taxation.
[29] IMF (2017).

GDP ratios, the IMF argues for more progressive taxation of income, noting how in recent years the progressivity of tax systems has decreased substantially. It also argues for increasing taxes on capital income and on wealth, showing that the evidence points to negligible efficiency losses.

Of course, the above examples do not represent an exhaustive list of all existing initiatives around the topic of equitable taxation, but they cover some of the main ones that are more directly relevant for IBP's work. They are all very recent, illustrating how interest around this topic has increased in the last few years and generated a lot of ideas and debate. And they come from a variety of organizations, from international NGOs to academic outfits to international financial institutions. Interestingly, they also share a good degree of overlap regarding some of the key policy options that governments have at their disposal for promoting equity through taxation. Six policy areas stand out as the main components of a shared agenda:

1) Shifting the **composition of revenues** collected by government toward more progressive forms of direct taxation, such as personal and corporate income taxes, and including taxes on wealth and property, or establishing them where they do not exist.

2) Improving the **progressivity of existing taxes**, by setting rates, thresholds and exemptions for both direct and indirect taxes that shift more of the tax burden to the richer strata of the population, and take into account their impact on disadvantaged groups (e.g., based on gender, age, race, etc.).[30]

3) Reducing **tax evasion** and **tax avoidance**, as these tend to worsen the *de facto* regressive nature of tax systems, given that tax evasion and avoidance practices tend to be more concentrated among the rich.

4) Reviewing and reducing **tax expenditures**, so that tax incentives and exemptions are limited to a few well-justified circumstances, and their equity implications are measured and considered.

5) Enhancing **transparency** and **participation** in tax policies and processes or getting decision-making processes around tax policy to be much more open, both in terms of public availability of information to allow for public debate and in terms of adequate spaces for citizen engagement.

6) Strengthening **tax administration** to make it more efficient and effective, ensuring it has adequate resources and capacities to tackle the above reforms and that equity concerns are incorporated into its policy agenda and performance criteria.

[30] On gender and race aspects of tax equity see, for example, Grown and Valodia (2010) and Leachman et al. (2018).

All these policy areas are broadly in line with progressive conceptions of distributive justice – without necessarily being too radical – and with recognized principles of equity and fairness in public finance. It is therefore no surprise that they are supported by a range of actors. However, the existence of a sufficient consensus around them does not mean that related reforms will be easy to implement. In fact, the challenges that they are likely to face are quite daunting. These range from the administrative difficulties of, say, putting into place mechanisms for assessing the market value of properties to the technical challenges of evaluating levels of corporate profits, or the distributional impacts of different fiscal policies, to – even more importantly – the power struggles and political obstacles that any redistributive reform is bound to come up against. It is to this set of challenges that we now turn our attention.

The political challenges of promoting equity through taxation

It is no mistake that current tax systems in many countries are regressive: they were created and maintained by elites and powerful interest groups aiming to protect their interests. Rich individuals and large corporations often use their economic and political muscle to ensure that they pay as little tax as possible, by influencing tax policy debates, pursuing aggressive tax avoidance strategies or lobbying to obtain fiscal benefits and incentives, among other strategies.

The challenge that reformers interested in making tax systems more equitable face is common to many other reform areas. The elites who are likely to lose from the reforms are a relatively small group, but they are rich, powerful and organized, and ready to mobilize to defend their position, given that the cost to them is direct and concentrated. On the other hand, the majority who stand to gain are much less influential and organized, making it more difficult to mobilize them despite their number, and their likely benefits are often diffuse and indirect. When faced with tax reform proposals that hurt their interests, elites—and the businesses that they own—can deploy what Fairfield has called 'investment power', or the threat of reduced investment or capital flight; this in turn may hurt growth and employment—and 'political power', which manifests itself through political connections, the lobbying power of business associations, influence on the media and other means that are used to steer tax policy in a direction that is favorable to them.[31] As an example, Prichard argues that African elites have "deployed their political influence to prevent […] effective income and property taxation", thwarting any possibility of more progressive taxation regimes.[32] Poor and marginalized groups, on the other hand, have limited access to policy makers and cannot use other channels of influence to affect tax policy decisions. Prichard goes on to sum up the results of these political challenges in very clear terms:

[31] Fairfield (2013).
[32] Prichard (2019), page 9.

"Governments frequently face acute revenue needs but are nonetheless reluctant to pursue ambitious tax reform efforts. […] Median voter models suggest that there should be popular support for reform, particularly targeting the wealthy. But unwillingness of governments to confront economic elites instead reveals the strong hold of elite-driven patronage politics, and the comparative weakness of traditional democratic channels of accountability."[33]

While Prichard's work is mostly focused on Africa, the description applies more widely and not just to the developing world.

Despite the evidence of the daunting political challenges that equitable tax reforms face, there are, of course, successful cases where more progressive taxation regimes were introduced. Fairfield (2013), for example, looks at a number of reforms to increase taxation on richer strata of the population across Latin America and develops a typology of strategies that reformers adopted to circumvent elite resistance. These focus on either strengthening support for the reforms or weakening opposition to them, or both. The first strategy seeks to mobilize broad public support for reforms by framing reform issues in terms of increasing equity or by linking increased revenue to spending on popular benefits. The second strategy focuses on tempering elite antagonism, for example by delaying or attenuating the impact of the reforms, obfuscating some of the evidence, and providing some level of compensation. Fairfield illustrates how a combination of these strategies were used in Chile and Argentina to successfully introduce reforms even in very unequal contexts where elites wield a lot of influence.

This discussion shows that promoting elements of the equitable taxation agenda identified in the previous section might be possible, but will likely require a careful assessment of the prevailing political challenges, to ensure that both the desirability and the feasibility of any reform is taken into account. Civil society organizations can of course play an important role in this process. We look now at how IBP can help that happen.

How can IBP best support civil society work on promoting equity through taxation in developing countries?

Debates around the equity aspects of taxation have been around for some time, but the actual involvement of citizens and civil society groups in tax policies and tax reforms – i.e., those who have a direct stake in how (in)equitable taxes are – has lagged behind, and is still an area in need of further support and encouragement. As already mentioned, IBP's past support to civil society engagement with government budgets has mostly focused on the expenditure side of the government budget, with the aim of improving the impact of public spending on those living in poverty and other marginalized groups. Over the past couple of decades this work has seen significant shifts in public perception and policy debates – increasingly recognizing the right of citizens to access information

[33] Prichard (2019), page 12.

on public finances and the need to engage them in budget decision making – and brought forth important victories on the influencing of budget policies in various countries.

The same cannot be said about the revenue side of the budget. Tax policy decisions are still seen as the almost exclusive purview of governments, who often make them under intense lobbying by the business sector, with limited input by citizens, and, in particular, by those living in poverty and other marginalized groups. Moreover, many aspects of taxation still suffer from a lack of adequate transparency.[34] In the face of such circumstances, IBP and other organizations interested in promoting equity through taxation need to build on the work done on public expenditure – thinking about the lessons that can be applied to revenue-related work – while at the same time recognizing some of the peculiarities that might affect how citizens and civil society get involved in debates around domestic taxation, including the political challenges that they are likely to face.

To guide IBP's own thinking and programming in the new area of promoting equity through tax work, it is helpful to begin with the six policy areas highlighted earlier and think of ways in which IBP can support civil society groups to promote debate and design domestic campaigns at the country level. As in previous work on the expenditure side of the budget, this can most usefully happen in four areas.

1) The first area is that of helping civil society organizations **develop tax reform proposals** that are most likely to have a positive impact on equity in their country context and supporting them in **designing and running advocacy campaigns** around such reforms. This should be based on an in-depth assessment of the specificities of a country's tax system, of its progressiveness and impact on equity, on the identification of specific tax reform options – e.g., drawing on the list of reform areas identified above – and on an assessment of their technical and political feasibility, including ways to garner broad political support and weaken opposition.

2) The second area is that of **building the capacities and skills** within civil society organizations necessary to fruitfully engage in and influence domestic tax debates. In some cases, these efforts are likely to involve building basic knowledge of tax systems and reforms. In others, they may cover more advanced analytical skills (e.g. fiscal incidence analysis), strategic communications, and political economy analysis. Networking and peer learning among groups working on tax issues from different countries will also be part of this work.

3) The third area is that of working with civil society organizations to **improve the openness of tax systems** across countries. This would include both aspects of transparency and access to adequate levels of

[34] This applies, for example, to tax expenditures. See de Renzio (2019).

information on taxation, tax policy and tax reforms, and of participation and citizen engagement, making the case for more and better opportunities for citizens and CSOs to engage with tax policy at the country level. This could be done both internationally, through IBP's longstanding work around the Open Budget Survey, and at the country level, working with partners on specific initiatives identified as important.

4) A fourth and final area relates to working with partners in **developing new narratives** around taxation and equity in public finance, to help shift the terms of the public debate in a direction that might be more favorable to equitable forms of taxation. This might involve, for example, countering the oft used narrative that keeping taxes low on the rich or handing out fiscal incentives and tax exemptions to companies will spur investment, promote growth, and create jobs. It might also mean drawing on theories of distributive justice and fairness in public finance to promote the view that more equitable taxation is necessary not only to address growing inequality but also to generate resources needed for promoting more inclusive development.

Taxation is a relatively new area for civil society to engage in, but one that is fundamental to addressing inequality and promoting just societies where everyone has opportunities to flourish. In this brief, the most important policy areas needing civil society's attention have been identified, alongside some entry points through which IBP can support civil society groups in developing countries to engage with and influence domestic tax reforms.

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