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Did they learn to tax? Taxation trends outside the OECD

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ABSTRACT

We map trends of tax policy change in developing countries and transition economies since the 1980s, compare them to tax trends in the advanced Western democracies and review some of the explanations offered by the contributions to this volume. We find that non-Western countries follow the lead of Western countries in some important respects but not in others. While non-Western countries brought their general revenues closer to Western levels and copied important features of Western consumption taxation including higher value added tax revenues and lower revenues from trade taxation, they failed to emulate the hallmark of 20th-century Western taxation: a strong and progressive personal income tax. The taxation trends are closely associated with socio-economic changes (as summarized by GDP per capita) and structural factors (as summarized by country size). Yet the impact of political institutions on taxation is non-linear and complex.

KEYWORDS

revenue mobilization; developing countries; public finance; taxation; democracy.

1. HAVE 'UNDERDEVELOPED COUNTRIES' LEARNED TO TAX?

'Will underdeveloped countries learn to tax?' asked Nicholas Kaldor in a famous article fifty years ago (Kaldor 1963). In his view they could and they should. But have they? This special issue offers an excellent opportunity to revisit the question. In this critical conclusion, we present descriptive evidence on recent trends of tax policy change in developing

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countries and transition economies and review some of the explanations offered by the contributions to this volume.

The question Kaldor really meant to ask was whether underdeveloped countries could learn to tax like advanced Western democracies. He seemed to take more or less for granted that the rich Western democracies of the OECD-area embodied the hopes and ambitions of the developing rest of the world (RoW). In order to catch up with the West economically and socially, developing countries had to adopt Western methods of taxation, so Kaldor reasoned. In his analysis this required two things in particular: a considerable increase in total tax revenues, and a stronger reliance on progressive forms of taxation including, most prominently, the personal income tax (PIT).

While the veneer of rich Western democracies has been coming off lately, they continue to serve as the standard reference point for most tax policy analysis and advice. Tax experts routinely compare non-Western tax systems to Western benchmarks in order to identify particularities and shortcomings very much like Kaldor did in the 1960s. And the tax policy advice of international organizations is usually based on the latest consensus view of best Western tax practices. By and large, this advice still echoes Kaldor's call for higher total tax revenues in developing countries. Yet it has largely dispensed with Kaldor's plea for tax progressivity. The new emphasis is on tax neutrality, simplicity and efficiency. Distributive issues are relegated to the spending side of the budget: even regressive taxation is now often considered socially desirable if it serves to efficiently fund progressive expenditure programs (Cottarelli 2011; Fjeldstad and Moore 2008; Swank 2016).

As the contributions to this issue show, developing countries have made some progress in adopting Western ways of taxation. The three workhorse taxes of Western revenue systems, the personal income tax (PIT), the corporate income tax (CIT), and the value added tax (VAT) are now firmly in place in most non-Western countries (Seelkopf et al. 2016). Total government revenues have generally increased even though with considerable cross-national variation. The traditional reliance on distortive trade taxes has been reduced (Bastiaens and Rudra 2016). Yet, as the contributions also show, non-Western developing and transition economies have adopted not only best tax policy practices from Western democracies but also some bad taxing habits. Problems include overly narrow PIT and VAT bases, sprawling CIT incentive schemes (Li 2016) and parasitic tax poaching strategies (Genschel et al. 2016). Finally, in one case at least, non-Western countries eschewed the Western model and implemented a tax innovation that had no precedent in OECD countries and was not supported by Western-dominated international organizations: the flat tax (Appel 2011; Appel and Orenstein 2013).

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The rest of the paper is structured into three parts. Section 2 briefly summarizes some descriptive findings on the direction and pattern of tax policy change in non-OECD economies. Section 3 reviews the contributions to this special issue and discusses how they help to explain the tax trends mapped in Section 2. Section 4 concludes with a brief reflection on whether the OECD-world is still the gold standard in taxation.

2. MAPPING TAXATION TRENDS IN NON-WESTERN COUNTRIES

International organizations such as the IMF, the World Bank or the OECD regularly advise non-Western countries to adopt Western best practices in taxation. This entails prominently the increase of government revenue in general and of tax revenue in particular, the reduction of trade taxes, and the development of broad-based taxes on value added, personal income and corporate profits (e.g. Bastiaens and Rudra 2016; Cottarelli 2011: 10−1; Seelkopf et al. 2016). In this section, we explore the extent to which countries have followed this advice.

Our approach is simple. We take the tax performance of 23 core OECD countries in Western Europe, North America and the Antipodes (OECD-23) as a benchmark against which we compare the performance of 144 countries from the 'rest of the world' (RoW).[1] We focus on two periods of observation, 1980−1985 and 2005−2010. We assess tax performance of the OECD-23 group and the RoW group in terms of total government revenue (i.e. the share of government revenue in GDP) and in terms of the revenue ratios of five major taxes: trade taxes, VATs, PITs, CITs and social security contributions (SSCs) (IMF 2014). Following Cottarelli, we compare the revenue ratios by group medians (rather than group means) to limit the impact of outliers and data gaps (Cottarelli 2011). For heuristic purposes we present our descriptive data from three different perspectives.

In a socio-economic perspective, we sort the RoW countries according to their gross national income (GNI) per capita into a low-income, a middle-income and a high-income group.[2] As a strong tradition in political economy argues, national income and wealth are key determinants of national taxation because they affect various proximate causes of tax level and structure including the social demand for public goods, the taxability of the domestic economy and the administrative capacity of the state. According to German economist Adolph Wagner the demand for public spending and hence the level of taxation will increase as societies grow richer (Wagner 1892). Harvey Hinrichs and others have conjectured that economic modernization (i.e. the formalization, monetarization, industrialization and urbanization of economic exchanges) will increase the taxable surplus of society and thus allow for more buoyant revenues and a more diverse structure of taxation (Hinrichs 1966). Hence, there are various

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socio-economic reasons to expect differences in income level to be associated with different patterns of tax policy (non-)convergence.

In an institutional perspective, we divide the RoW countries into a democratic and a non-democratic group using national Polity Scores as a basis[3] (Marshall et al. 2011). According to the conventional institutional wisdom in political science the domestic regime type influences the level and structure of taxation by shaping the distributive interests of social actors and by regulating their access to and influence on redistributive policy-making (see Cheibub 1998 for a review). Some argue that democracy fuels taxation (Swank 2016: 15). On the one hand, democratic governments depend on the electoral support of relatively poor strata of society and therefore are more likely to give in to the poors' demand for more redistribution (e.g. Meltzer and Richard 1981). On the other hand, the limited character of democratic government provides insurance to the propertied classes against arbitrary expropriation by the state. In this way, democracy may increase the willingness of these classes to contribute to the tax burden (Levi 1989). Others suspect, to the contrary, that autocracies are taxing more than democracies. Autocracies have more coercive resources to overcome tax payer resistance (Bastiaens and Rudra 2016). At the same time, they are less dependent on public approval. Both factors combined allow them to appropriate a disproportionally large share of the social surplus for their own private consumption or that of their supporters (Olson 1993). In any event, institutional theories lead us to expect differences in the tax trajectories of democratic and non-democratic countries.

Finally, in a structural perspective we compare the tax performance of large and small countries (in terms of population size).[4] As various scholars of political economy have argued, country size is a summary indicator of structural pressures on a country's revenue system. These structural pressures include, for instance, the costs of public goods. To the extent that the production of public goods is subject to economies of scale, as arguably in military defense or social insurance, large countries can produce them more cheaply than small countries, and hence have lower revenue requirements, all else equal. Also the exposure to international market pressures varies in country size. At any given level of trade and capital openness, small countries tend to be less self-sufficient and more integrated into the international economy than large countries. This increases their vulnerability to adverse market trends which in turn may fuel demands for social protection and insurance and thus cause higher public spending (e.g. Katzenstein 1985). Yet, it also increases their ability to derive revenue from trade taxation and to snatch capital tax base from larger countries by undercutting their capital tax rates (Wilson 1999). Small country size may also have a positive effect on social cohesion and thus increase

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citizens' willingness to pay taxes. In conclusion then we would expect differences in country size to affect tax policy change.

Note that all our country groups are 'static': countries are grouped according to their income level, regime type and population size at one particular historical date, 2011. A country that is classified as rich, democratic and small for this year is treated as rich, democratic and small for all prior years. There are pragmatic and substantive reasons for this approach. The 'static' approach reduces data requirements and allows for a larger sample size. Income and country size are slow-moving variables. The likelihood that countries that were small and poor countries in the early 1980s are still small and poor in the 2000s is high. Hence, switching from 'static' to 'dynamic' groups (i.e. groups constructed on the basis of moving income, and size scores) would only lead to modest changes in group composition.[5] Regime type, by contrast, is more variable over time. Countries that were non-democratic in the 1980s may well be democratic today, or vice versa. Here the justification of the static approach is substantive. Since we are interested in a historical analysis of national tax trajectories rather than in a cross-sectional analysis of national tax policy features at any particular point in time, it is important to keep group composition stable over time.

2.1. Limited convergence of total government revenues

Based on this methodology, we compare changes in the level of total government revenues in OECD-23 and in RoW countries first. Total government revenue includes all public income from tax and non-tax sources. As Figure 1a indicates the revenue gap between OECD-23 countries and RoW has shrunk since the 1980s. Yet, it is still substantial. As Figure 1b suggests, the speed of this catch-up process varies in income level: the revenue increase is most pronounced in the rich RoW countries. Their median tax take increased by roughly 10 percentage points and almost reached the OECD-23 level in 2005−2010. The increase in the two other income groups is much weaker. Here the group median increased only by roughly 3 percentage points to 29 percent (medium-income) and 19 percent (low-income) of GDP (2005−2010). Unsurprisingly, the country with the lowest revenue ratio (2005−2010) is poor: Bangladesh (revenue ratio of 10 percent). However, also middle-income countries like Guatemala (revenue ratio of 12 percent) and even rich jurisdictions like Hong Kong (revenue ratio of 19 percent) have substantially lower tax revenues than even the OECD-23 country with the lowest revenue ratio, Japan (31 percent). The association between income levels and tax levels is anything but perfect.

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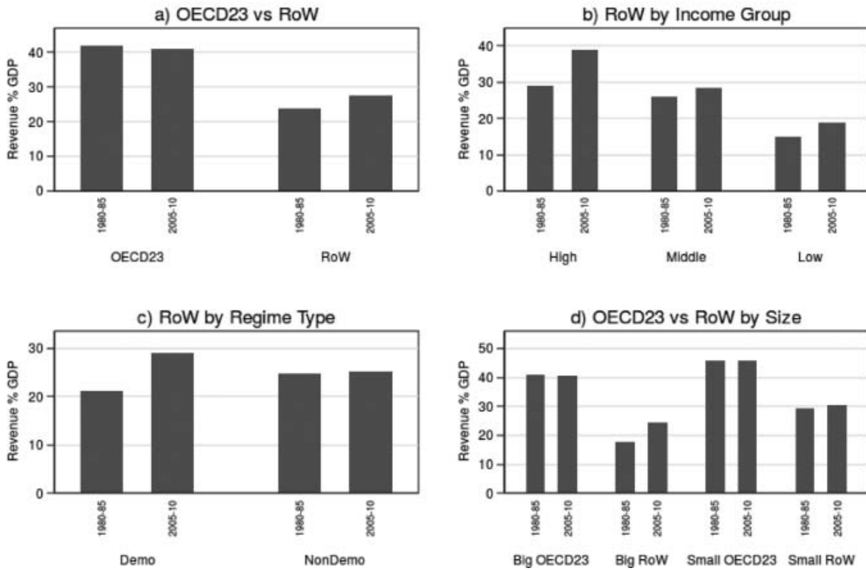

Figure 1 Government revenue as percentage of GDP.

One possible moderating factor between both variables is regime type. Figure 1c indicates notable differences between democratic and non-democratic RoW countries. While the median revenue ratio of non-democratic countries hardly changed since the 1980s, the democratic median has increased significantly. In the late 2000s, it is 4 percentage points higher than the autocratic median even though still 12 percentage points lower than in the median OECD-23 democracy. Yet again, there is considerable variation. Autocratic (rich) Kuwait actually has a higher revenue share (68 percent) than even the OECD-23 country with the highest revenue ratio (Norway, 58 percent).

Dividing the OECD-23 into a 'small' half (including all countries with below median population size) and a 'big' half (including all countries with above median population), Figure 1d shows two differences. First, small OECD-23 countries have higher median revenue levels than their large peers. Second, in neither country group did the revenue level change much since the 1980s. Turning to the RoW, we see that small RoW countries have a higher median revenue level than large RoW countries. However, while the latter were able to increase their revenues since the 1980s, the former were not.

In conclusion, Figure 1 suggests a general upward trend in RoW government revenues. The revenue gap to the OECD-23 is closing. However,

the convergence trend varies in national income, domestic regime type and country size. Rich and/or democratic and/or large RoW countries managed to increase their revenues relatively more than small, poor autocracies.

2.2. The demise of trade taxes

Import tariffs and export duties are administratively convenient sources of tax revenue. They allow tax administrations to focus their monitoring and collection activities on a relatively small number of ports of entry. This allows even states with low state capacity to generate revenue. Trade taxes were a main source of revenue in Western countries throughout the 19th century, but rapidly lost in importance during the 20th century. For the RoW, by contrast, trade taxes remained a main source of revenue. In the early 1980s, the median RoW country still relied on trade taxation for 24 percent of its total tax revenues.

The obvious problem with trade taxes is that they impede international commerce. With the rise of the trade liberalization agenda in the 1980s, they came under attack internationally and often also domestically. As tariff barriers were cut around the world, trade tax revenues have fallen everywhere. As Figure 2a indicates, the median OECD-23 trade tax ratio

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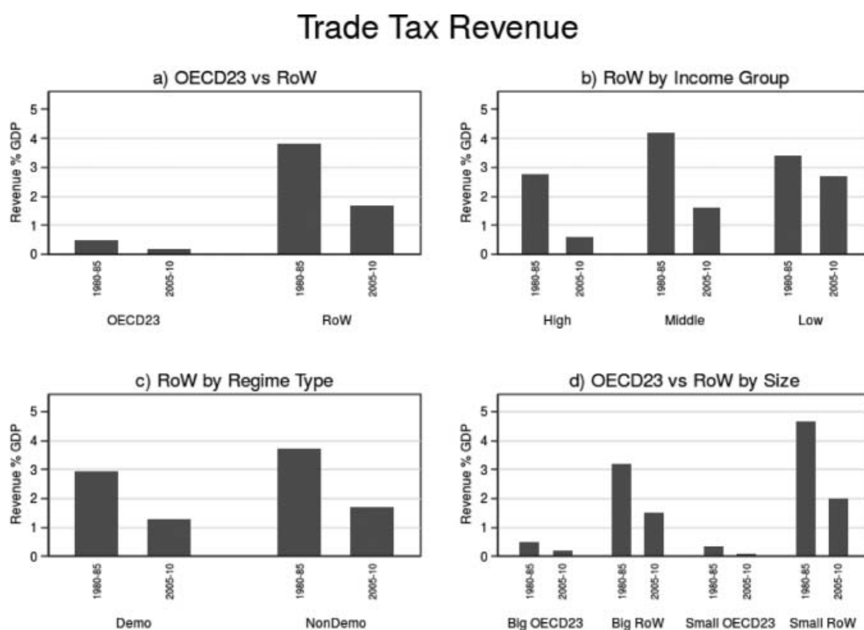

Figure 2 Trade tax revenue as percentage of GDP.

fell from a comparatively low 0.5 percent of GDP in the early 1980s to an even lower 0.2 percent in the late 2000s. The RoW followed the downward trend from a much higher initial level. The RoW median fell from 3.8 percent to a still relatively high 1.7 percent. Again, there are extreme outliers.

As Figure 2b shows, the fall of RoW trade tax revenues and the level of RoW trade tax revenues is associated with income level. Unsurprisingly, it is the poor RoW countries that reduced their trade tax revenues least. In the late 2000s the median poor RoW country raised 2.7 percent of GDP through trade taxation. The median share of trade taxation in total government revenue is still 16 percent for this country group.

Figure 2c reveals no obvious association between trade tax revenues and regime type. Median tax ratios trend downwards in both democratic and non-democratic RoW countries. The remaining differences in median tax ratios appear slight. Figure 2d shows one interesting difference between OECD-23 and RoW countries. While large OECD-23 countries tend to have higher trade tax revenues than small OECD-23 countries, with RoW countries it is the reverse: here it is the small countries that have higher median trade tax ratios. Small countries like (poor) Swaziland, (middle-income) Lesotho or (rich) St Kitts and Nevis have trade tax ratios of 25 percent, 38 percent and 10 percent, respectively, during 2005−2010. Given the high trade dependence of small countries, this pattern is perhaps less surprising than the OECD pattern according to which small countries collect less trade tax even though they trade more than their larger peers (Aizenman and Jinjarak 2009).

To sum up, while trade taxes have fallen around the globe, they remain much higher in RoW than in OECD-23 countries both in terms of share of GDP and share of total tax revenue. The trade tax ratio is inversely related to income level and to size: poor RoW countries have higher ratios than rich countries; small RoW countries have higher ratios than large countries.

2.3. General diffusion of the value added tax (VAT)

The demise of trade taxation hinges critically on governments' ability to make up for the revenue loss. During the 19th and early 20th century, the standard response to falling trade tax revenues was the introduction of the PIT (Seelkopf et al. 2016). Today, by contrast, the standard response is value added taxation (VAT) (Bastiaens and Rudra 2016). The VAT is a general consumption tax which, in contrast to old-style multistage turnover taxes, avoids distortionary cascading effects by allowing a tax credit for VAT paid at earlier stages of the production−distribution chain, i.e. by taxing net value added and not gross sales. In this way, the VAT

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increases the neutrality of consumption taxation: The tax bill is always the same irrespective of the legal status of the producer (corporate or non-corporate), the organization of the production process (integrated in-house production or extensive sourcing from specialized suppliers) and technology (capital-intensive or labor-intensive). Tax neutrality allows for substantially higher rates of tax, more revenue and less efficiency losses (e.g. Ebrill et al. 2001).

Starting in the 1990s, the number of VAT countries has grown rapidly as transition economies in Eastern Europe and Central Asia as well as many developing countries all over the world adopted the tax (Seelkopf et al. 2016). Fiscally, the VAT has been a success. As Figure 3a illustrates, RoW VAT intake has greatly increased since the 1980s and is now almost on a par with OECD-23 levels. In Figure 3b, we see a strong variation of VAT ratios by income group. In the late 2000s, the high-income RoW countries have a median VAT ratio slightly above and the middle-income RoW countries slightly below the OECD-23 benchmark. In fact, the revenue leaders of both groups have higher VAT ratios than any OECD-23 country: compared to high-income Croatia (12 percent), and middle-income Moldova (14 percent), Denmark's ratio (10 percent) appears modest. While low-income countries have also improved their median VAT ratio, they only manage to collect half the revenue of the median

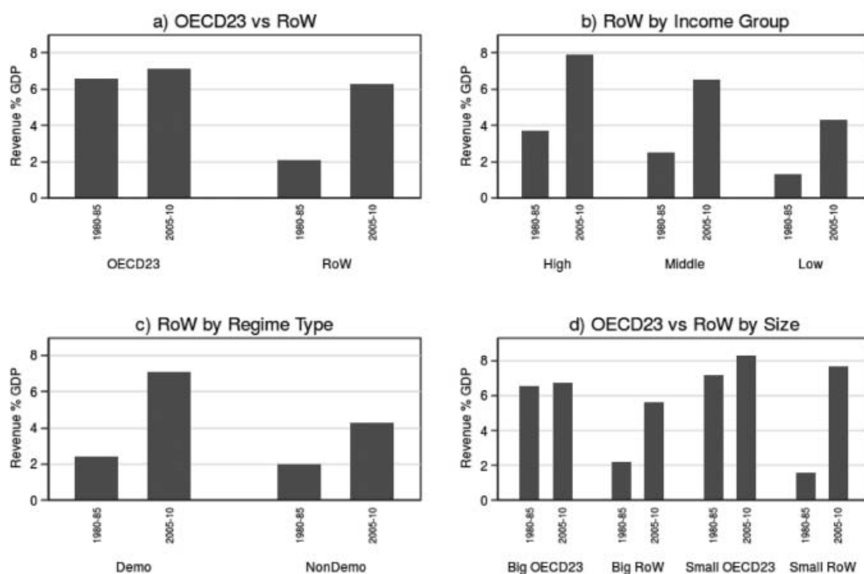

Figure 3 Value added tax revenue as percentage of GDP.

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high-income RoW country. Various explanations are offered for the poor VAT performance of low-income countries: low administrative capacity limiting the effectiveness of VAT collection and enforcement; large informal sectors constraining the macroeconomic tax base; extensive zero rates and generous exemptions reducing the statutory VAT base (Cnossen 2015). In the last respect, however, the low-income countries may be less serious offenders than other countries. According to Cottarelli, low-income countries have fewer special rates than middle-income countries while high-income countries have the most (Cottarelli 2011: 25).

As Figure 3c demonstrates, democratic RoW countries raise more VAT revenue than their non-democratic peers: while the democratic RoW median is at the level of the OECD-23 median (2005−2010) the non-democratic median is substantially below that level. Prima facie, this may appear surprising. After all, the VAT is a regressive tax that falls more heavily on poor consumers than on rich consumers. On closer inspection, however, it is consistent with the standard explanation of high VAT levels in OECD-23 welfare states. According to these explanations, the VAT provides the most efficient funding source for redistributive social expenditure and, therefore, is a preferred tax of the welfare state (e.g. Kato 2003). By implication, we may speculate that RoW democracies rely more on the regressive VAT because it allows them to spend more on the poor at a given level of efficiency loss. Finally, according to Figure 3d small countries inside and outside the OECD have increased their VAT ratios more strongly since the 1980s, and rely more extensively on VAT revenues in the late 2000s than their bigger peers. The negative correlation between VAT revenues and country size allows for various interpretations. For instance, small countries may have higher VAT revenues because they 'win' the VAT competition with large countries, or because they need higher VAT revenues in order to subsidize the low capital tax rates they need in capital tax competition.

In sum, VAT is the fastest growing revenue source and currently constitutes the most important tax in RoW countries. The convergence process to OECD-23 levels is by and large complete, but varies in income level, regime type and size.

2.4. The surge of the corporate income tax (CIT)

Like the VAT, the CIT is a truly global tax. Bar rare exceptions such as Brazil and Colombia and some tax havens such as the Cayman Islands, all relevant countries worldwide have a separate tax on corporate profits today (Seelkopf et al. 2016). The CIT is an important revenue raiser in its own right. Especially in poor countries with large informal sectors and

limited administrative capacity, big companies constitute a rare source of reliable tax revenue. At the same time, more important for high-income and OECD-23 countries, the CIT provides a crucial backstop for the revenue raising capacity of the PIT. In the absence of a CIT, rich individual taxpayers could reduce their PIT burden through incorporation. By plugging this loophole, the CIT protects the PIT base (Ganghof and Genschel 2008).

In important respects, non-Western corporate taxation has followed Western trends. First, as Duane Swank reports in his contribution to this volume, statutory corporate tax rates have fallen by roughly 20 percentage points worldwide since the 1980s. Partly this downward trend is driven by trade liberalization, capital mobility and tax competition. Partly it reflects the global diffusion of neoliberal ideas of 'market-conforming' taxation (Swank 2016: 1 and Figure 1). Second, as Figure 4a shows, the fall in statutory rates did not prevent a general rise of CIT revenues. Various explanations have been offered for these seemingly contradictory trends including statutory tax base broadening in Western countries, a global trend towards higher shares of corporate income in national income, and a commodity boom and rapid economic growth in developing and transition economies (e.g. Abbas and Klemm 2013; Swank 2016).

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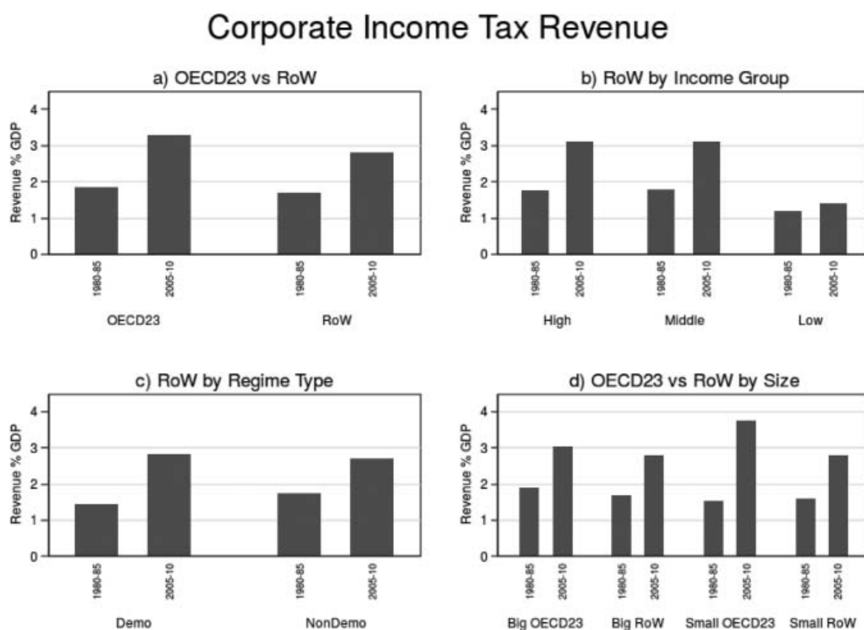

Figure 4 Corporate income tax revenue as percentage of GDP.

As Figure 4b suggests, not all countries have participated equally in buoyant CIT revenues. While the median corporate tax ratios of high-income and middle-income RoW countries have increased dramatically and approach the OECD-23 median in the late 2000s, the median ratio of low-income countries has increased only mildly and remains stuck at half the level of the OECD-23 median. Arguably, relatively low CIT revenues reflect the spread of preferential CIT regimes (i.e. targeted tax incentives for specific regions, corporate activities or sectors) (Li 2006). While Western developed economies made concerted efforts in the EU and the OECD to reign in the use of selective tax incentives (Genschel and Rixen 2015), tax holidays, tax-free zones, investment tax credits, special reduced rates and similar tax perks have proliferated among least developed countries (Keen and Mansour 2010; Keen and Simone 2004). Arguably poor countries are prone to adopt selective tax incentives because they are more vulnerable to interest-group pressure, especially by powerful multinational companies. Also selective incentives allow corrupt governments to extract higher bribes from potent taxpayers than general CIT reductions (Dharmapala and Hines Jr. 2009: 1063).

Interestingly, the countries with the highest corporate tax ratios are resource exporters. This is true for low-income Eritrea (tax ratio of 6 percent of GDP), middle-income Algeria (23 percent) and high-income Brunei (28 percent) but also holds for the OECD-23's Norway (12 percent). Yet, also the countries with the lowest corporate tax takes tend to be resource producers: high-income United Arab Emirates (0.1 percent), middle-income Iraq (0.1 percent) and low-income Central African Republic (0.3 percent). The divergence in CIT ratios reflects different approaches to taxing commodity producers: through the CIT (former group) or through special taxes, royalties and license fees (latter group).

Figure 4c does not reveal any major regime difference in corporate taxation. Also Figure 4d shows little variance in country size. The median CIT ratios of big OECD-23, big RoW countries and small RoW countries develop in fairly similar fashion and reach broadly comparable levels in the late 2000s. The only exception is the small OECD-23 countries. They managed to increase their median corporate tax ratio from the lowest level of all country groups in the 1980s to the highest level by far in the late 2000s. On the face of it, this finding is consistent with the structural 'advantage of "smallness"' posited by the tax competition literature (Wilson 1999: 278). Yet it raises the question why small RoW countries don't profit as well.

To sum up, corporate tax revenues have trended up in all countries and have converged between OECD-23 and high-income and medium-income RoW countries. Small OECD-23 countries have increased their corporate tax revenues most. Poor RoW countries have increased them the least.

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2.5. The two worlds of personal income taxation (PIT)

The comprehensive PIT, i.e. a progressive charge on individual income from all sources (labor, capital, rent, etc.), was the hallmark of the 20th-century Western tax state. It also constituted the core of Kaldor's plea for tax reform in developing countries (Kaldor 1963: 414–6). On paper at least, most countries today have a PIT. Exceptions include oil producers such as Saudi Arabia and the United Arab Emirates as well as tax havens (Seelkopf et al. 2016). Yet, non-Western PIT systems are less progressive than the idealized Western income tax of the 1960s, and they generate significantly less revenue than in Western countries. The gap between Western and non-Western PIT revenues is large and enduring.

As is well known, top statutory PIT rates have fallen massively since the 1980s (Swank 2016: Figure 1). Despite this fall, the OECD-23 median PIT ratio has eroded only very slightly, while the RoW median has actually increased. Despite these convergent trends, the gap in tax levels remains very large (see Figure 5a). The PIT is still the second most important revenue source in the median OECD-23 country behind SSCs and substantially ahead of the VAT. In the median RoW country, by contrast, the PIT raises little more revenue than the trade tax and considerably less than the CIT, SSCs or the VAT. Even rich RoW countries collect only half

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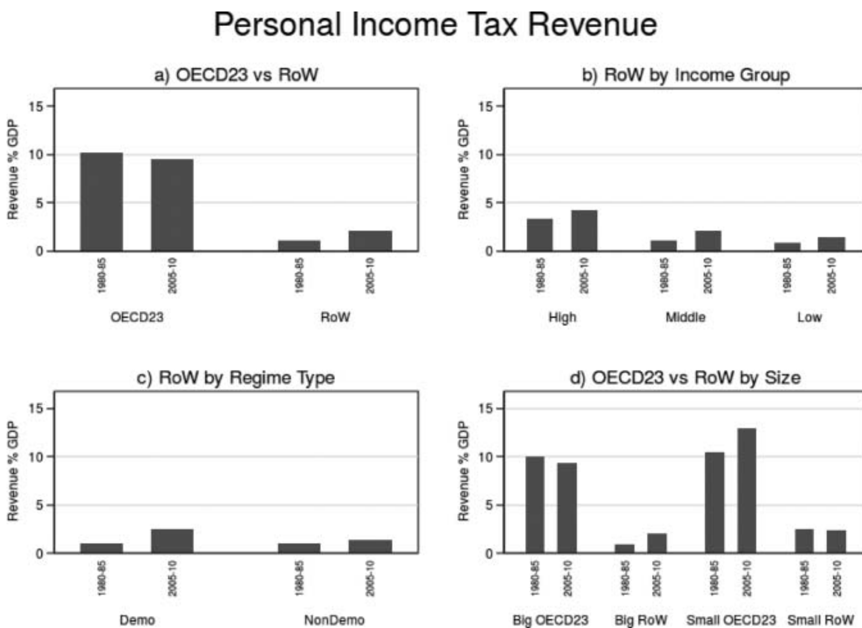

Figure 5 Personal income tax revenue as percentage of GDP.

as much PIT as the median OECD-23 country (Figure 5b). The intake of low-income RoW countries is even lower.

Partly, low PIT revenues reflect large informal sectors and weak administrative capacity in low-income RoW countries. Allegedly, less than 5 percent of the population pays PIT, on average, in developing countries compared to more than 50 percent in developed countries (Cottarelli 2011: 31). Even Kenya, the low-income country with the highest PIT revenues, has a PIT ratio of only 4 percent of GDP. This is less than half of the median OECD-23 ratio. Partly, however, low PIT ratios also reflect a conscious political choice. If rich jurisdictions like Hong Kong (PIT ratio 2.6 percent) or the Slovak Republic (PIT ratio 2.5 percent) collect only one-tenth of the PIT revenue of Denmark (PIT ratio 25 percent), this is not so much for lack of ability to tax individual income than for lack of political willingness to do so. One conspicuous indicator of an explicit political decision against a revenue-strong PIT is the spread of flat taxes since the 1990s: two-thirds of the post-communist countries in Eastern Europe and Central Asia now tax individual income at a single proportional rate (Appel 2011; Appel and Orenstein 2013). The adoption of the flat tax implies not only a symbolic rejection of the old Western ideal of statutory rate progressivity and the associated ideas of 'vertical equity' and 'ability to pay' that fueled the rise of the PIT in Western countries during the early decades of the 20th century. Perhaps more importantly, it also effectively constrains the revenue raising potential of the tax. At current rate levels, flat tax countries can never develop the PIT into the major source of revenue it has traditionally been in Western countries (Ganghof 2006: 44–5). This is why the IMF consistently advised against the adoption of flat taxes (Appel and Orenstein 2013: 137–8).

As Figure 5c reveals, democratic countries have increased their income taxes more and collect higher PIT ratios than non-democratic countries. Yet the difference between both country groups pales in comparison to the OECD-23. Mutatis mutandis, the same holds if we group the RoW countries by country size: small and large RoW countries have more in common with each other than each of them has with the small or large reference group in the OECD-23. As Figure 5d shows, the small OECD-23 countries have increased their PIT ratios considerably since the 1980s and reach a substantially higher median level in the 2000s than their larger peers whose median PIT ratio has actually declined. The opposite applies to the RoW: large RoW countries have increased their PIT intake and are now almost on par with small RoW countries whose PIT revenues have slightly decreased since the 1980s.

In conclusion, the non-OECD world has mostly ignored Kaldor's plea for a strong progressive PIT. While PIT revenues have moderately increased, especially in rich, democratic and/or small RoW countries, the

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PIT yield remains substantially below the OECD-23 norm. PITs inside and outside the OECD are worlds apart.

2.6. The selective spread of social security contributions (SSCs)

The development of the Western welfare state since the late 19th century is closely connected to the rise of SSCs as a new instrument of public finance (e.g. Esping-Andersen 1989). Like other taxes, SSCs are compulsory payments to the government. Yet unlike other taxes SSCs are not unrequited but confer an entitlement to a future benefit such as, for instance, an old-age pension, a sickness benefit or unemployment compensation. The benefit-link allows governments to target spending on politically important supporter groups. The range of SSC payers and beneficiaries is actually often quite small. For this reason, SSCs are sometimes not considered as taxes at all. But this is open to debate. Since the contribution-benefit-link is governed by public law and is subject to unilaterally political change by the government, the difference between SSCs and other personal taxes is often more apparent than real. For this reason, international organizations including the OECD and the IMF treat SSCs as taxes in their comparative revenue statistics (Williams 1996). Leaving them out would greatly distort the picture of revenue mobilization in OECD-23 countries and, as we will see in a moment, in rich RoW countries as well.

As Figure 6a highlights, the ratio of SSCs has been growing in both OECD-23 and RoW countries. Yet the revenue gap remains very large. While SSCs constitute the most important revenue source of OECD-23 governments in the 2000s (ahead of the PIT), in RoW countries they raise little more revenue than the CIT. As Figure 6b reveals, the growth in RoW SSC revenues is almost entirely driven by the high-income group. The high-income median has increased strongly since the 1980s and is now essentially at the OECD-23 level. This process is driven by the formerly socialist transition economies of Eastern Europe which adopted very high SSCs during their transition to capitalism and democracy. The Czech Republic leads this group with an SSC ratio of 16 percent of GDP. Only France reaches a similar level within the OECD-23 group. The other RoW countries have much lower proceeds from SSCs. In low-income RoW countries, SSC revenues even declined from their very low level in the 1980s. Considering the nature of SSCs this is not surprising. SSCs only fall on people in formal employment. The larger the informal sector, the smaller the group of potential payees. In least developed countries, SSCs only affect the most privileged groups of society – civil servants, and the employees of large, mostly foreign-owned companies or NGOs. While these people are relatively rich compared to the rest of society,

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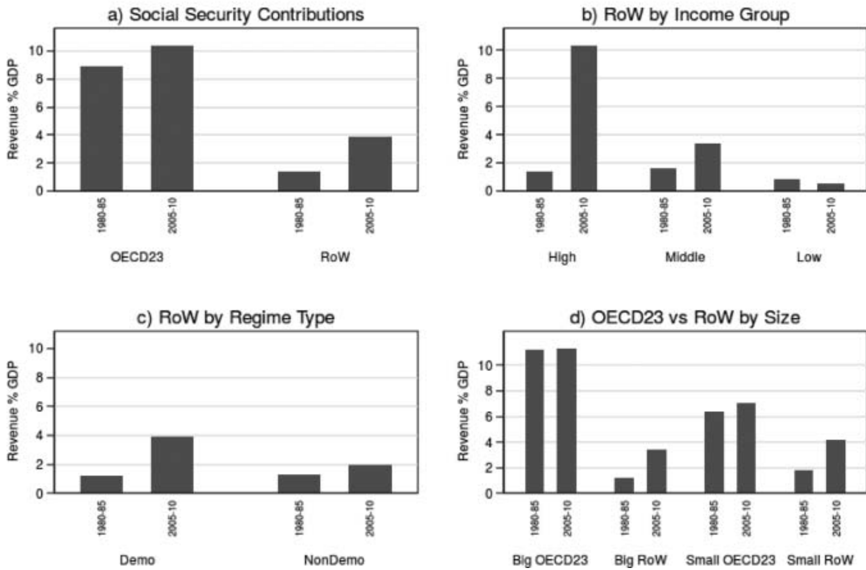

Figure 6 Social security contribution revenue as percentage of GDP.

they are so few in number that their SSC payments don't amount to much relative to the overall GDP.

As Figure 6c illustrates, the growth of SSC revenue varies in regime type. While the median democracy has increased its SSC intake roughly fourfold, the median non-democracy only managed to double it. Again, the difference is driven by the democratic transition economies of Eastern Europe and their exceptionally high SSC ratios. The influence of country size is unclear. While Figure 6d shows pronounced differences between large and small OECD-23 countries in terms of both the growth rate and the level of median SSC ratios, the differences between large and small RoW countries are relatively slight.

In sum, whereas SSCs are a major revenue instrument in OECD-23 countries, their use in the RoW is much more restricted. The level of SSC revenues varies strongly in income and more moderately in regime type. There is no clear association with country size.

2.7. The correlates of taxation in non-Western countries

While Figures 1–6 compared bivariate associations between revenue levels and socio-economic (income level, World Bank 2013), institutional (regime type) and structural (population size) variables, Table 1 explores

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Table 1 Determinants of tax revenue in RoW countries, 2010

	Total revenue	Trade tax revenue	VAT revenue	CIT revenue	PIT revenue	SSC revenue
Ln GDPpc	1.94**	-0.46***	0.46**	0.40	0.40**	1.58**
	(0.76)	(0.14)	(0.23)	(0.24)	(0.17)	(0.61)
Regime type	0.11	−0.05	0.03	−0.05	0.05	−0.02
	(0.17)	(0.03)	(0.06)	(0.05)	(0.04)	(0.12)
Ln population	−1.73***	−0.30**	−0.70***	0.23	−0.09	−0.38
	(0.62)	(0.12)	(0.18)	(0.19)	(0.13)	(0.38)
Observations	110	97	66	83	81	58
R-squared	0.14	0.17	0.31	0.05	0.14	0.14

Note: Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Constant not reported.

these associations in a multivariate regression for the year 2010. The findings reinforce the main messages of the bivariate figures. First, income (in terms of logged GDP per capita) has a strong and fairly consistent effect on taxation: it is significantly and positively associated not only with the total level of government revenues but also with revenues from VAT, PIT and SSC. The effect on trade taxation, by contrast, is negative: the share of trade tax revenues in GDP goes down as GDP per capita goes up suggesting that richer countries have more modern tax systems. These findings are largely in line with socio-economic theories of taxation.

Second, the effect of country size (in terms of logged population) is less pervasive. Country size is significantly and negatively associated with the level of total government revenues, as well as with the levels of trade tax and VAT revenues: larger RoW countries seem to have relatively smaller public sectors and to raise relatively less revenue through customs duties and the VAT. This is broadly consistent with structural theories of taxation. Yet there is no evidence of a systematic relation between country size and revenues from personal or corporate income taxation.

Finally, Table 1 shows no significant association between regime type and revenue indicators. All else equal, the tax systems of democratic and non-democratic countries are not systematically different. Prima facie, at least, there is no support for institutional theories of taxation. Don't political institutions matter?

3. GLOBALIZATION, DOMESTIC INSTITUTIONS AND TAXATION IN NON-WESTERN COUNTRIES

For students of political economy it is an article of faith that political institutions matter. In the short run, they condition the influence of socio-economic and structural variables on taxation and other policy outcomes. In the long run, they have important feedback effects on these socio-economic and structural variables themselves: they influence growth rates, levels of income and resource inequality and, ultimately, even structural factors such as country size (e.g. Acemoglu et al. 2005). It is quite puzzling therefore that not only the previous section but also the other contributions to this volume fail to demonstrate a clear main effect of regime type on tax policy and revenue. Genschel, Lierse and Seelkopf investigate the influence of regime type on statutory corporate tax rates. They find no systematic effect: all else equal, there is no significant difference between democratic and autocratic tax rates (Genschel et al. 2016: Table 1 model 1). Li analyzes subnational tax competition in democracies and autocracies. He finds no evidence that regime type affects the influence of fiscal federalism on the prevalence of tax incentives (Li 2016: Figure 4). Seelkopf, Lierse and Schmitt consider the effect of regime type

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on the likelihood to introduce modern taxes. While they can show that democracies have been more likely to introduce PITs than non-democracies during the past 150 years, they find no regime effect on the introduction of other modern taxes (Seelkopf et al. 2016: Table A2).

How can we resolve the apparent puzzle of strong theoretical expectations and weak empirical evidence of a regime effect? The contributions to this special volume suggest two possible answers. First, domestic regime differences matter but their effect is dominated by international influences and constraints: the regime effect is swamped by economic globalization. Second, domestic regime differences matter but their effect interacts with international variables in complex ways. We discuss both answers in turn.[6]

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3.1. Economic globalization

As Duane Swank notes, one major contribution of this special issue is to interrogate the effects of economic globalization on the tax policy choices of developing countries and transition economies (Swank 2016). The authors focus on four globalization effects in particular: trade liberalization, capital tax competition, cross-border policy learning and the influence of international organizations. Each of these effects has an equalizing influence on national tax policies that can potentially overpower the effects of differences in domestic political institutions.

There is a broad agreement among the authors of this volume that *trade liberalization* has a modernizing effect on taxation: by cutting into trade tax revenues, it forces governments of all stripes to move towards more efficient, but harder to collect taxes including the PIT, the CIT and the VAT (Bastiaens and Rudra 2016; Swank 2016). As Laura Seelkopf, Hanna Lierse and Carina Schmitt show this is not a new phenomenon (Seelkopf et al. 2016). Even before 1945, the level of international trade was significantly associated with the introduction of the PIT.

There is an equally broad agreement that international capital mobility fuels the intergovernmental competition for real, financial and human capital. Arguably, *capital tax competition* has increased as countries worldwide have liberalized their capital accounts since the 1980s. Increased competitive pressure, in turn, contributed to the global fall in statutory corporate tax rates (Genschel et al. 2016; Swank 2016: Figure 1). Tax competition also fueled the global spread of selective corporate tax incentives (Li 2016), and the regional diffusion of flat taxes in Eastern Europe and Central Asia (Appel 2011; Appel and Orenstein 2013). After small democratic countries in the Baltics and in Central Europe had introduced the flat tax in the 1990s to improve their competitiveness, post-communist autocracies like Turkmenistan or Kazakhstan adopted it in the 2000s to

defend their competitive position against the flat tax first-movers. Arguably, the impact of capital tax competition on developing and transition economies is particularly strong (Swank 2016). On the one hand, these economies have higher country risks than rich Western democracies and, thus, are more vulnerable to capital outflows. On the other hand, they are relatively capital scarce and thus have more to gain from capital inflows.

Yet, as the contributions to this volume also show, not all tax policy diffusion is competitive. Diffusion may also result from cross-border *policy learning*: governments observe the policy choices of relevant other countries, copy choices that seem to work and avoid those that seem to fail. As Seelkopf and colleagues find, the likelihood of the introduction of indirect taxes (GST and VAT) is significantly associated to the number of other states in the region that have already implemented that tax, irrespective of regime type or national income level (Seelkopf et al. 2016). While cross-border policy learning often involves information updating and knowledge transfer, it can also be purely imitative: governments copy foreign tax innovations for their symbolism rather than their policy effects. The 'contemporary neoliberal shift' (Swank 2016: 5) towards low statutory top PIT rates partly reflects this logic. In some countries, statutory rate cuts were driven at least partly by a desire to match the rates of lead countries that have come to be seen as embodiments of modern, efficient and desirable policy rather than by precise economic and budgetary calculations. The result may be policy convergence across institutional, economically and structurally diverse countries.

Finally, *international organizations* can exert an equalizing influence on national taxation because they are repositories and standardizers of policy expertise, because they are central promulgators of hegemonic policy ideas (e.g. 'Washington Consensus'), and because they can enforce policy reforms on recalcitrant member states through hard financial sanctions. Since developing countries and transition economies are often short on policy expertise, eager for social approval and dependent on financial assistance, they should be particularly susceptible to the pressure of international organizations. There is evidence to support this view. As Duane Swank notes, participation in IMF programs significantly increases the probability of VAT adoption (Swank 2016). Odd-Helge Fjeldstad and Mick Moore also report a strong statistical connection between IMF programs and the likelihood of domestic tax reforms (Fjeldstad and Moore 2008: 237−8). Yet, there are limits to the influence of international organizations. The flat tax revolution unfolded against the explicit advice of the IMF and the EU (Appel and Orenstein 2013: 137−8). And, according to Ida Bastiaens and Nita Rudra, the effectiveness of international organizations in cajoling developing countries towards tax reform depends on a country's regime type: dictators are by and large

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more compliant than democratically elected leaders (Bastiaens and Rudra 2016). This brings us to the issue of interaction effects between regime differences and other variables.

3.2. Interaction effects

The equalizing force of globalization is not the only, and perhaps not the most compelling explanation for the failure to find clear regime effects. An alternative explanation is that domestic regime differences don't influence tax policy independently of but in interaction with economic globalization. The resulting interaction effects are complex, non-linear and not easily captured by simple, additive models of causation. Three of the empirical contributions to this issue identify interaction effects between international influences and domestic institutions (see Table 2 for an overview).

Bastiaens and Rudra show that the ability of international organizations to assist developing countries with implementing tax reforms varies in the regime type of these countries (and the level of tax liberalization). More specifically they show that authoritarian regimes are more receptive to international tax advice on how to compensate the revenue loss caused by (sufficiently strong) trade liberalization than democratic governments. Purportedly this is because democratic governments are electorally constrained to avoid revenue-increasing reforms. Democratic leaders have to heed the 'demands from middle class and wealthy voters ..., particularly ones associated with firms struggling to compete locally and internationally with foreign goods' (Bastiaens and Rudra 2016: 4). Autocratic leaders can more easily ignore these demands because they are largely insulated from electoral pressure. This gives them a freer hand to implement the reform proposals of international organizations and increase revenues from domestic taxation.

Drawing on earlier work (Li 2006), Li demonstrates that the generosity of tax incentives is positively related to foreign direct investment (FDI) inflows in autocracies but negatively related to FDI inflows in democracies (Li 2016): autocracies tend to have more tax incentives as more foreign capital flows in; democracies tend to have less. He offers three explanations for this finding. First, democracies can offer investors more credible property rights protection than autocracies, simply because democracies are built on the rule of law while autocracies are not. Hence, democracies need fewer incentives to attract the same level of FDI inflows, all else equal. Second, repeating Bastiaens and Rudra's argument, democratic governments are more electorally constrained by the opponents of investment inflows than autocracies. As grievances increase with the level of FDI inflow, the political space to offer tax incentives for FDI decreases for democratic governments.

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Table 2 Regime type as a moderator on tax policy

Paper	Dependent variable	International variable	Regime interaction
Bastiaens and Rudra (2016)	Non-trade tax revenues	International organization, trade liberalization	Regime effect varies in trade liberalization and the assistance of international organizations: international organizations have a positive effect on non-trade tax revenue if trade liberalization is high and the government is non-democratic
Li (2016)	Tax incentives	Tax competition	Regime effect varies in FDI inflow: autocracies (democracies) have more (fewer) tax incentives at higher levels of FDI inflow
Genschel et al. (2016)	Corporate tax rates	Tax competition	Regime effect varies in international competitive position (i.e. country size): small democracies have lower rates than large democracies; tax rates in autocracies are unrelated to size

Finally, autocracies will compete for FDI inflows only if that is in the interest of their support coalition. If the coalition members are interested in inward FDI (as evidenced by high FDI inflows) the government will expand its supply of generous incentives.

Genschel, Lierse and Seelkopf show that the corporate tax rate varies systematically in country size in democracies but not in autocracies: small democracies undercut the rates of large democracies (and autocracies) as the economic baseline model of tax competition would lead us to expect[7]; yet small autocracies don't undercut large autocracies (or democracies) (Genschel et al. 2016). Two explanations are offered. First, democratic governments are more willing to adjust to international competitive constraints (as proxied by country size) because they are electorally constrained to serve the distributive interests of the median voter. In small democracies, the median voter gains from competitive tax cuts because the income gains from tax-induced foreign capital inflows (more employment, higher wages, more growth) more than compensate the income loss from reduced domestic redistribution; in large democracies it is the reverse. Autocratic governments, by contrast, serve the distributive interests of their elite supporters. These interests are unrelated to a country's structural position: if elites profit from FDI inflows they may demand aggressive tax cuts even in a large country; if they feel harmed by FDI they may insist on high rates even though the country is small. Second, echoing Li, Genschel and colleagues surmise that democracies are better able to adjust to competitive constraints. Given the higher credibility of their property rights guarantees, small democracies can attract more foreign capital at low tax rates, and large democracies can retain more domestic capital at relatively high rates than their autocratic competitors.

All three papers suggest that domestic institutions refract the influence of globalization variables on taxation in complex ways. By regulating the access of the winners and losers of globalization to government decision-making, they shape the national tax policy response to external opportunities and constraints. This implies not only that different institutional regimes can trigger different national reactions to similar external conditions, as is conventionally assumed in institutional theory. It may also imply, less intuitively, that same regimes can cause dissimilar reactions to seemingly similar external conditions: not all autocracies react similarly to the international competition for FDI (Li 2006; Li 2016) or to the advice of international organizations (Bastiaens and Rudra 2016), and not all democracies react similarly to international tax competition (Genschel et al. 2016).

Different autocracies may react differently because the composition of their support coalition differs. There is no reason to assume that the ruling elite is always dominated by winners or always dominated by losers

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of globalization. Rather the assumption is that the ruling coalition, however composed, has the power to impose its minority preferences on the majority. For example, a globalization-friendly coalition can enforce its preference for generous tax incentives or radical tax cuts on society even if general welfare and public opinion would require different policies.

In democracies the winning coalition is much larger and more likely to reflect majoritarian needs and preferences. Yet, there is also no reason to assume that the majority will always win or lose from globalization. Rather, Li and Genschel et al. argue that the majoritarian preference for a more or less globalization-friendly tax policy varies in a country's exposure to the international economy and, more specifically, in its exposure to capital inflows. Yet the stories they tell are rather different. Li argues that FDI inflows tend to undermine public support for generous tax incentives because foreign multinationals tend to pursue monopolistic strategies, aim to dominate national markets and increase competitive pressures on struggling domestic industry (most explicitly in Li 2006: 66). Genschel, Lierse and Seelkopf surmise by contrast, that capital inflows tend to consolidate public support for low corporate tax rates because they increase labor demand, push up wages, facilitate technology transfer and invigorate growth (Genschel et al. 2016). Partly, the disagreement is empirical and concerns the effects of capital inflows. Partly, however, it is conceptual and concerns the nature of ruling majorities in a democracy.

Genschel et al. build on the well-known but controversial concept of the median voter. The underlying idea is that democratic governments can't ignore the redistributive interests of low-income voters. The standard reference for this line of thought is the Meltzer and Richard's model of redistribution (Meltzer and Richard 1981). Li, and more explicitly Bastiaens and Rudra assume, by contrast, that 'middle class and wealthy voters … particularly ones associated with firms struggling to compete' (Bastiaens and Rudra 2016: 4) will dominate democratic decision-making. This is in line with recent challenges of the Meltzer and Richard's model such as, for instance, the 'elite-competition approach' of Ben Ansell and David Samuels (Ansell and Samuels 2015). We are not in a position to decide between these different conceptions of democracy. Even if we accept, however, that democratic governments depend more on economic elites than on the median voter this does not imply that these elites are always better off under a democracy as Bastiaens and Rudra seem to imply. According to them, autocracies are more receptive to international advice on how to raise domestic revenue because they can more easily ignore the political opposition of rich elites against high taxes. Yet the elites with perhaps the most pronounced aversion to high taxes are large landowners. And landowners constitute a traditional backbone of non-democratic rule (Ansell and Samuels 2015). Also the domestic bourgeoisie often supports such regimes.

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4. IS THE OECD STILL THE GOLD STANDARD IN TAXATION?

For Nicholas Kaldor it went without saying that Western tax systems were the role model for the RoW. International organizations model much of their tax policy advice on Western experience partly because they are often still dominated by Western countries and partly because the West is still the largest reservoir of tax policy expertise. And also academics tend to take the tax policies of OECD countries as their point of departure simply because most data are available on it. All of this may be changing. Research initiatives such as the present special issue contribute to improving the data availability on taxation in non-Western countries. The composition of international organizations may slowly adapt to more accurately reflect the power realities of the 21st century. And the Western role model may lose its luster. As the contributions to this special issue have shown, non-Western countries have copied a lot from the West. Most importantly, perhaps, they brought their revenues closer to Western levels, they reduced their traditional reliance on trade taxation, and they greatly increased their income from VAT and the CIT. The greatest difference remains in the area in which Kaldor saw the greatest need for a quick catch-up: personal income taxation. To be sure, most non-Western countries levy a tax on personal income. Yet, non-Western PITs rarely reach the symbolic significance and sheer revenue-raising potential they traditionally have in Western countries. The same applies to the second major revenue source of Western welfare states: SSCs. While OECD countries strongly rely on SSCs, there is little indication that the RoW will follow. The only exception are the transition economies in Eastern Europe that combine low PIT levels, by Western standards, with very high levels of SSCs.

In conclusion, non-Western countries have learned to tax. Yet they did not necessarily learn what Kaldor thought they should learn. For Kaldor, a strong and progressive PIT constituted a universal ideal. Today, it looks more like a specifically Western variety of taxation.

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DISCLOSURE STATEMENT

No potential conflict of interest was reported by the authors.

NOTES

1. Table A1 in the appendix provides descriptive information on our country sample.
2. The income groups are constructed by ranking countries according to their GNI per capita at one particular date (2011) and then grouping them according to the World Bank income classification (see https://datahelpdesk.worldbank.org/knowledgebase/articles/378833-how-are-the-income-group-thresholds-determined). The only difference is that we collapse the World Bank's separate categories of lower middle-income and upper middle-income group into one unified middle-income group.
3. The two regime groups are constructed by ranking countries according to their Polity2 Score in 2011. Following the convention in the literature, we sort countries with a Polity Score of 6 or higher into the democratic country group, and countries with a score of less than 6 into the non-democratic group.
4. The size groups are constructed by comparing countries' population size in 2011 to the global median population size of that year (World Bank 2013). The 2011 median country size was roughly 6 million. Countries with larger population are coded as big, countries with smaller populations as small (irrespective of whether they are OECD-23 or RoW countries). Population is a standard measure of country size because it reflects the size of the national labor endowment. Yet it may arguably overrate the size of population-rich but capital-poor developing countries. Genschel, Lierse and Seelkopf use national GDP as an alternative measure of country size but find that it yields broadly similar results as the population measure (Genschel et al. 2016).
5. As Cottarelli reports in his analysis of revenue mobilization in developing countries, dynamic and static income groups lead to broadly similar conclusions (Cottarelli 2011: 12, fn. 18).
6. A third potential answer is that regime differences have a non-linear effect on taxation that is not captured by the dichotomous distinction between democratic and non-democratic countries. For instance, Maria Melody Garcia and Christian von Haldenwang find a U-shaped relationship between Polity Score and total tax revenue in their sample of 131 countries, 1990−2008. Allegedly, full democracies and full autocracies both have higher tax revenues than hybrid regimes (Garcia and von Haldenwang 2015). Since no paper in this volume investigates this possibility, we do not discuss it here.
7. In a nutshell, the economic baseline model holds that small countries have more to gain from tax-induced capital inflows than large countries, and therefore choose lower capital tax rates in the competitive equilibrium (see Wilson 1999 for a thorough review).

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SUPPLEMENTAL DATA

Supplemental data for this article can be accessed http://dx.doi.org/10.1080/09692290.2016.1174723.

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