

## History matters in assessing African tax systems

*In her book entitled *Taxing Colonial Africa: The Political Economy of British Imperialism* (Oxford University Press, 2012), LSE's Leigh Gardner explores a much-neglected area of Africa's economic past.*

A key priority in addressing the problems of development in Africa is building effective institutions for the collection of taxes. With few exceptions, governments of African countries collect less tax revenue as a percentage of GDP than their counterparts in Asia or Latin America. Limited administrative capacity is thought to be a key cause of the low rates of tax revenue collection, and current efforts to reform tax systems focus on improving their administration (see for example [OECD initiatives](#)).



Sierra Leone currency circa 1796

An extensive literature has documented the impacts of limited fiscal capacity. Weak tax systems force many African states to rely on foreign aid to support expenditure on vital public services such as education and healthcare. The dependence of other states on resource revenue or revenues from taxes on exports subjects public budgets to the uncertainties of global markets for export commodities, and may limit the accountability of states to taxpayers.

Few studies of current fiscal challenges in Africa look farther back than the transfer of power in the 1950s and 1960s, ignoring the older roots of the problem. Post-independence states inherited the fiscal institutions established by colonial administrations. Though colonial taxation is often described anecdotally as highly extractive, recent research finds that the fiscal capacity of colonial states was weak, and tax burdens were lower than in Asian colonies as well as in the developed world.

The limited revenue which African colonial states could raise had significant consequences for the quantity of public funds which could be dedicated to expanding infrastructure and social services. Further, the precarious fiscal position of colonial governments led many to prioritise investment in infrastructure and other one-off projects over the provision of ongoing social services like education and health care, which required annual budget commitments.

As is the case today, most of the blame for the limited fiscal capacity of colonial governments attaches to administrative failures, which both reduced the amount of revenue which ultimately reached the colonial Treasury and increased the costs of raising it. Evasion rates were high and the colonial state had very little information on the incomes of African taxpayers with which to set appropriate tax rates. Tax collection was concentrated in centres of trade and production, particularly where large companies could pay tax on behalf of their employees.

In the last decades of the colonial period, administrations in British Africa attempted to use decentralisation to increase both revenue collection and accountability. While these efforts were successful in generating increased revenue in more affluent local areas, they also created considerable opportunities for rent-seeking by local officials which limited their effect. The same is true of many attempts to devolve fiscal authority to local governments since independence. This is perhaps an example of where lessons can be learned from a longer historical perspective.

It might be argued that the colonial state's lack of legitimacy undermined tax collection before independence, but that the greater accountability of post-independence regimes would encourage more voluntary payment of taxes. If this were the case, one should expect a substantial increase in the public revenue following independence. Such an increase is difficult to document. Coalitions built by nationalist movements often disintegrated shortly after the transfer of power. In the context of building new democracies, government budgets were often used to reward supporters or attempt to win them.

More visible than the impact of a change in legitimacy is the continued impact of administrative incapacity on tax collection. Current efforts to focus on improved tax administration in African countries are thus particularly welcome when taking the long view. However, such efforts should be informed by a more comprehensive study of the history of African fiscal systems. This may help avoid repeated patterns of failed reforms and put African states on a path to more effective fiscal institutions.

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November 19th, 2012 | [Economics](#) | [0 Comments](#)

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