National Tax Levels
And the Rich vs. the Poor

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The Congressional Budget Office reported that U.S. federal (central government) revenues declined from 18.1 percent to 16.3 percent of gross domestic product (1994-2004). While there are several caveats to be made before drawing policy conclusions regarding national tax/GDP ratios, one of the lessons from the global tax literature is that tax/GDP distinguishes a “rich” vs. “poor” country. Because of its higher (and steadier) tax/GDP ratio, the rich group is much better able to carry out the national (central) government role in promoting macroeconomic stability, and economic growth and development.

The data in the following two tables provide two perspectives on the higher tax effort by high income countries.

The first set of comparisons are made for OECD vis-à-vis regions for the period 1990-2000 (Figure 1). Some interesting first-glance relationships are revealed:

- The national tax/GDP ratios of the “rich” OECD countries are consistently higher than that of poor/developing country regions. Moreover, the OECD average of 20 percent to 22 percent of GDP is relatively constant over the decade.
- For the Eastern Europe and Central Asia (ECA) countries that have been making the transition from a command to a market economy, there has been a downward 1990s adjustment to a reduced level of national taxation. Whether a more OECD-like pattern will emerge in the next decade is (particularly from the Central European EU Accession countries), of course, yet to be seen.
- The South Asian region (SAR, 7 percent) and East Asia and the Pacific (EAP, 12.7 percent) display relatively low and declining tax efforts.
- The tax/GDP of Africa (AFR), Latin America and the Caribbean (LAC), and the Middle East and North Africa (MNA) is growing, albeit unevenly.

By reorganizing the country groupings into a series of four “low” to “high” country income categories, one can get a better view of national tax mobilization in the rich vs. poor parts of the globe. Here there is an even clearer pattern showing that higher-income countries make a higher tax effort than do lower-income countries (Figure 2). This is generally true across all income levels and for all three years (1990, 1995, and 2000). The gap in tax performance is significant: In 1995 — the year with the most observations across the four income groups — the tax-GDP ratios ranged from 13 percent in low-income countries to approximately 19 percent in high-income countries.

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