REGIONAL MONETARY STUDIES
CONFERENCE, 1976

TAX STRUCTURE AND DEVELOPMENT:
A Non-Capitalist Interpretation

By

M. A. Odle

INTRODUCTION

A critical question being asked is whether the ex-colonial or newly liberated underdeveloped countries, with their hybrid pre-capitalist and early capitalist structures, can bypass the mature capitalist stage and move towards socialism via a non-capitalist path. The controversial nature of this question stems from the fact that the theory of capital developed by Marx (and Engels) suggests a very high level of development of the productive forces for the transition to socialism to become possible. Only a highly conscious proletariat would be sufficiently organised and motivated to seize political and economic power from the capitalists. This development of the working class is, in turn, dependent on their being an advanced stage of development of the productive forces. However, Marx did not altogether rule out the possibility of bypassing the advanced capitalist stage since he recognized that a committed vanguard party could make up for certain weaknesses in the working class movement. At first, Lenin also vacillated on the issue of whether the colonial territories, once liberated, could move straight to socialism without "having to pass through the capitalist stage". The Second Congress of the Comintern in 1920 finally decided that this was possible "with the aid of the proletariat in the advanced countries"[1]; the Sixth Congress in 1928 maintained this position although it was felt that many of the national liberation movements lacked a revolutionary class content. The post-World War II decolonization process caused renewed interest in this matter and the 81 Communist and Workers Parties at the 1960 World Conference stated that the people will begin to see "that the best way to abolish age-long backwardness and improve their living standard is that of non-capitalist development".[2] Today, most of the learned commentators, bolstered by the experience of China and Indochina, still feel that socialism is possible in poor unindustrialized countries. Sweezy, for example, feels that, even though "the proletariat which Marx saw as the class destined to wage and win the struggle for socialism is relatively small in most of the Third World and practically non-existent in large parts of it and the peasants and impoverished unemployed of countryside and city far outnumber other classes, socialism can still be won given certain conditions:

> The agent of revolutionary change in the periphery is a conscious movement headed by a disciplined political party drawn from various oppressed classes and strata and guided by a

clear Marxist understanding of capitalism in its historical and global manifestations . . . everywhere the quality of the leadership is crucially important. It must be seasoned in struggle, closely integrated with the masses, have a good sense of history and a clear understanding of what must and can be done to achieve liberation from the shackles of capitalist and imperialist exploitation [Sweezy 11 pp. 9-10].

The purpose of this essay is to explore whether the anti-imperialist posture of the newly created 'national democracies' in the Caribbean is at all consistent with the economic system and policies, particularly in reference to the tax structure and the impact on the various classes. Our major theme is that, although the basic tax structure is a legacy of the exploitative colonial period, the regimes since internal self rule and subsequent political independence have compounded the matter by introducing new fiscal measures which have led to the rise of a new manufacturing class, dominated by foreign capital (or indirectly by foreign technology) and repressive of labour and the working class; and that local capital is playing a complementary role.

The more progressive, or somewhat less *petit bourgeois*, regimes have bought into the old primary sector (plantation agriculture and mining), but even in these economies there is no qualitative change in the role of the tax structure. Despite the increased government ownership of major productive enterprises, the state has seen fit to retain, and sometimes reinforce, the traditional tax structure (and public expenditure policies). There is as yet no clearly discernible non-capitalist path.

HISTORICAL DEVELOPMENT OF TAX STRUCTURES

The history of tax structure can be linked to three major periods of development of society – traditional, transitional and transforming. As can be expected, there is a certain arbitrariness in deciding when one period ends and another one begins since social processes overlap and the characteristics of one period may appear for a time in another. We shall concentrate on the traditional and transitional experience.

Traditional Period

Traditional society was agrarian in nature with political power in the hands of the landed gentry. [Hinrichs 3 p. 83. See also Thorn 16; Musgrave 5 pp. 125-132; Odle 6, pp. 23-43 and 151-178]. Government derived its revenue from (a) non-tax sources such as tributes, extortion and land rent, (b) direct taxes, such as polls and tithes and shares of agricultural output, and (c) indirect taxes, such as tolls, customs duties and excises. The important thing to note, according to Hinrichs [3 p. 83], is that indirect taxation was not the most important source of revenue (and, instead, non-tax sources and direct taxes usually were) because monetization, trade, transport, commercialism and urbanization were in an infant stage. This is in sharp conflict with the previously held view, itself a product of the habit of thinking that history started with the dawn of capitalism, that indirect taxes were originally the major sources of revenue and were gradually superseded by direct taxes.

The English-speaking Caribbean, essentially artifical immigrant communities, can be said to have been feudal and traditional in nature right up to the 1838 slave

emancipation and, for the indentured part of the labouring class in particular, perhaps until 1917. To retain the favours and protection of the crown, the planter class was probably not averse to making royalty type payments. In addition, by providing (with slave labour) many of the infrastructural services it needed, rather than relying on the imperialist government, the planters were indulging in a sort of self income taxation. The slaves themselves were subject to a type of direct taxation because the bulk of the value of their output was expropriated by the planters, the balance (in kind) being just enough for physical survival.

Transitional Period

This is the period when monetary, trading and transportation systems develop and, as a result, internal and external forms of indirect taxation attain increasing importance. In those economies which are open, indirect taxation becomes the dominant source of revenue. The period can be said to have two phases – the 'breakaway' phase, when the feudal society gives way to the early capitalist economy and the 'adoption-of-modernity' phase when modern forms of direct taxation are introduced. [See Hinrichs 3].

In the open Caribbean economies, the breakaway phase can be considered to stretch from 1838 to the late 1920s, when a modern form of direct taxation was introduced in some of the territories for the first time, and the adoption-of-modernity phase, from the beginning of the 1930s to the present day. For the more developed countries (MDCs) of the Caribbean, this adoption-of-modernity phase can, in turn, be divided into two periods – pre-independence (up to mid 1960s)[3] and post-independence.

Breakaway Phase

In the breakaway phase, the import duty was the most important form of indirect taxation. There were at least two main reasons for the introduction of import duties. First, the settlement pattern of the emancipated slaves led to the formation of new villages and incipient towns which had to be adequately policed (so that the colonial law and order could be maintained) and also provided with certain minimum facilities.[4] Second, there was a 'reallocation of labour resources' objective. Import duties would cause the price of certain basic goods to rise and this was intended to encourage the emancipated slaves and indentured labourers to sell more of their labour to the plantations for wage income (and work less hours on their individual farms).

Adoption-of-Modernity Phase

In the adoption-of-modernity phase, a modern system of direct taxation was introduced for the first time. Even though income taxation had been introduced in Britain since the beginning of the 19th century (at the time of the Napoleonic Wars) it only emerged in the Caribbean around the first quarter of the 20th century after the planter class found that it could not resist it any longer. The timing of this introduction was related to both the fiscal pressures associated with a slump in Britain and the rise in the power of the Governor *vis-à-vis* the planter class.

Towards the end of the pre-independence period of the adoption-of-modernity phase, a large number of concessions were made to capital which considerably reduced the elasticity and potency of direct taxation. These tax concessions, designed to attract overseas capital and stimulate economic activity in the modern sector, were part of a 'grand' policy of 'industrialization by invitation'.[5] The direct taxation impact of this policy, and the compensatory burden placed on indirect taxation and debt policy, *inter alia*, are discussed later on in this essay.

Post-independence marks an important period in the adoption-of-modernity phase. Whereas before the mid 1960s the territories were only colonies of exploitation and economic growth was merely incidental to the economic fortunes of the metropolitan centre(s), after political independence the governments were at least legally capable of taking decisions to remedy this situation.

Almost all MDCs and, even more significantly, the LDCs have attained revenues between 20 and 40 per cent of gross domestic product. The relatively large revenue share is partly due to the ease of administering indirect taxes on import/export trade and the ease of collecting direct taxes from only one or two firms which dominate the economy; this domination or tendency towards monopoly capital may occur even in the agricultural sector where peasant activity plays a subsidiary role to the plantation.[6] The overall revenue figures represent a fairly good tax effort if we accept the view of Hinrichs [3] that, by the time of attainment of the modern society, "government revenues will have pushed to about 20 to 35 per cent or more of gross national product . . . non tax sources of revenue and foreign trade will have diminished in importance as both modern direct and internal indirect taxation have become predominant.

However, no Caribbean territory at present can be said to have a modern society or the structure and composition of output which would lead to the take off. Economic growth is not a self-sustaining process because all these territories are very much dependent on (a) one or two key primary sectors, (b) exporting (not as an extension of domestic market) of raw materials and importing of capital and other goods (including food) for survival, (c) foreign ownership and decision making, (d) foreign technology and management skills (even in those industries which have been nationalized, (e) foreign governmental aid and private inflows, and (f) foreign tastes and foreign economic thought. The implication, therefore, is that a moderately high tax effort, even if necessary, is certainly not sufficient for transforming those countries which are peripheral to the international capitalist economies.

The most important post-independence development, from the point of view of tax structure, is the rapid increase in the share of direct taxation. This is partly due to the major institutional innovation in 1968 of free trade within the Caribbean region, which later began to develop into a Common Market. This attempt at fiscal harmonization within the Caribbean region, and the implications for both direct and indirect taxation, will be discussed in the next section.

THE MODERNIZATION SCENARIOS

The Caribbean economies are experiencing apparent ideological evolution. Some of the territories have escaped from the state of pure capitalist economy and are moving towards a type of mixed economy. In one or two of these mixed economies there is talk of 'democratic socialism'; at the other end of the mixed economy spectrum it is claimed that the society is in the 'transition to socialism' and that the present state capitalism represents a mere first step along the non-capitalist path. At the same time, these economies are attempting regional integration at both the trade and production levels. We shall now examine the tax structure representing each of these stages of government intervention.

Pure Capitalism

Capital is the most important factor of production and there should be no restraints on unbridled accumulation. Under this pure capitalist mode of production, tax instruments (and public expenditure, along with monetary, legal and other policies) should be designed to serve the interests of capital; and what is good for capital must be good for labour.

This scenario and the related effects, can best be illustrated by specific examples of Caribbean experience. First, we have already seen how in the post-slavery era, indirect taxes (particularly import duties) were used as a means of forcing an increase in the supply of labour to the plantations. These had a debilitating effect on independent artisan and peasant activities. The import duties affected the real wages of emancipated labour and some of the proceeds were also used to import more indentured labour who, in turn, succeeded in bidding down the money wage of freed labour.

Second, the system of excise duties on alcoholic beverages, although designed ostensibly to raise revenue (which it succeeded in doing because of the high price inelasticity associated with addictive goods) can be considered to have been intended to increase the supply of plantation labour. The effect of alcohol on the health, stamina and longevity of human capital had become obvious. Thus the masses were made to bear a very significant burden on one of the few means of enjoyment available in order to maximize the surplus that could be appropriated by the capitalists. The banning of private stills (with harsh penalties for transgressors) had the same aims and, in addition, was designed to stifle initiative and self-sufficiency.

Third, many of the non-tax revenue sources had the same allocative objective: Fees and fines were the fiscal expression of a policy of maintaining colonial law and order and the exploitative economic *status quo*. Likewise, rents from forests, in say Guyana, were partly intended to prevent those with initiative from finding useful alternative economic activity away from the plantation dominated coastland. In fact, it was not uncommon "to prevent exploration and movement into the interior and to seize or destroy forest output produced by venturesome natives". [Thome 17]. Even postal revenue might have been intended to stifle incipient urban commercial activity. Similarly, local government rates and taxes and market and abbatoir fees, etc. had the effect of penalizing urban development and reduced the rate of emigration from the plantations.[7] Some of the taxes which we easily accept today, therefore, are a product of *ex post rationalizations* and have their origins in extremely exploitative conditions.

The above setting refers to the heyday of capitalism and the first phase of imperialist penetration of the Caribbean. The basic objective and realization was to maximise the share of the surplus *captured by* capital and to minimize the share accruing to labour. This is a type of monopoly stage when territories have been carved out and there is little competition between producers; in fact, "monopoly had grown out of colonial policy" [Lenin 4 p. 77]. Because producers are few, the benefits from most basic (public good type) services are appropriable and excludable and so the planters and, later on, the mining concerns, provide some of these services themselves. As a result, there is no need for a massive tax effort and what taxes exist are borne by labour rather than capital. In addition, the objective is not to develop or transform the periphery but to extract for the benefit of the metropolitan centre.

The second stage of penetration of imperialist capital in the Caribbean appeared in the early 1950s with the emergence of the assembly/manufacturing industries (particularly *in Trinidad and* Jamaica of the MDCs) and hotel/tourism (which were of major economic significance in the LDCs). These industries were intended to *solve the* problem of rising population pressure on land and massive unemployment. As an incentive (in essence, *to foreign capital*) there were very generous fiscal and other concessions in the form of tax holidays, duty free importation of raw, intermediate and capital goods, vastly accelerated depreciation allowances, low rent industrial sites and buildings, etc. *It was felt that* local entrepreneurs would, in time, learn the tricks of the trade.

In order to acquire revenue to provide the infrastructure for the industrial activity and to compensate for the receipts *foregone* as a result of the various tax concessions to capital, the burden obviously fell on labour as reflected in the rising import duties and consumption-type taxes on a host of basic commodities. Further compensation for the short-fall in *current revenue* was reflected in massive increases of government borrowing both foreign[8] and local. The need for this inflow was aggravated not only by massive repatriation of profits but also by the financial intermediaries' penchant for holding foreign *securities*, and for financing elitist consumption. Thus financial capital as well as industrial capital was being enriched in the process, both at the expense of labour (via higher taxes or reduced education, health and other welfare services). *The result:* a deepening and widening of dependence and capitalist domination. And the government, shorn of so much revenue, found that it could not intervene and replace the capitalists, even if it were so ideologically inclined; on the *contrary, it found* its own survival caught up in the practice of giving large tax concessions in order to attract the private capital inflows.

Of course, *there was* no learning of the tricks of the trade, no linkages with the rest of the economy and no significant dent in the vastness of the army of the unemployed. In fact, government attempts to increase the current account surpluses that could be used to create the productive activity that private enterprise was

foregoing were dialectically constrained by the compensatory need for as high a level of employment as possible in the traditional public services. Generally, the social benefits derived from this new industrialization strategy were limited since *employment and linkage activity were much less than* had been expected, whereas the social costs in terms of revenue foregone, amenities provided, and increased external indebtedness, were considerable.

The Mixed Economy

An appreciable increase in the size of the public sector is necessary both because of massive market failure in the structurally dependent economy and the need for a countervailing factor to the domination of foreign capital and the local comprador bourgeois elements. At the same time the system of tax incentives has to be continued (even though, at least in the short run, this is contradictory with the requirement of greater revenues for an enlarged public sector) so as to maintain the existing level of economic activity and coax out other new industries. Generally, the public sector remains not only smaller than the private sector but essentially functionally subservient to it. Such is the mixed economy scenario. The economy can hardly be called 'mixed' since private enterprise dominates.

The market failure is caused by, *inter alia*, the reluctance of foreign and local private capital to undertake projects involving high risk or long run returns; a diversification of export activity; meaningful import substitution; and the inability of local entrepreneurs to gain access to easily available credit, land, know-how and other back-up resources. The result is a failure of tax incentives to coax out the required *level of output* and type of industrial activity, thus paradoxically encouraging further escalating rounds of incentives (and increased spending on physical infrastructure despite the dwindling tax base), a discrepancy between the actual and desired rates of *both growth and* employment, and a dissatisfaction of basic needs. The situation requires considerable government intervention. Invariably, however, the increased role of the state is merely to service private capital.

In between the two periods of massive penetration of foreign capital (planter/mining capital and consumer goods assembly capital), the mixed economy state began to emerge. The depression and economic *disequilibrium between the two* world wars (and the dislocation after 1939) gave rise to a sort of benevolent or enlightened colonialism and a movement away from pure capitalist tenets. Instead of adopting an entirely passive supporting role to *private enterprise*, the government began to take the first tentative steps towards an active developmental policy. For the first time, capital came under attack and modern direct taxes on income (both company tax and personal income tax) were introduced.

However, capital found means of relieving the burden on itself. First, we have already referred to the very comprehensive set of concessions that were granted after World War II. Second, some companies left for another territory at the end of the tax holiday period or, in order to prolong the tax free status, adopted such ingenious methods as making some 'minor' changes in the nature of their product. Third, bonus shares and other devices were invented to avoid the tax on dividends. Fourth, and most important, there was very wide-spread use of intra-compnay transactions[9], whereby subsidiary purchases of inputs from or through the parent company were inflated, and goods sold to the parent company deflated.[10]

Because of this limited elasticity of receipts from company taxation, an appreciable burden fell on income taxation. But the hardest hit were not the rentiers, dividends receivers, professionals and other self-employed[11] (since their incomes were difficult to assess) but the fixed income earners. Thus, for example, PAYE was introduced but no serious attempt was made to impute income (as a basis of taxation) going to the non-fixed income receivers.[12] Similarly, the rate of increase of personal allowances tended to be lower than the relief on, say, insurance premiums, which benefitted middle income earners more than the really poor.[13] This relatively high rate of personal income taxation tended to have little disincentive effect on the supply of labour given the low income base; in fact, it may have had the effect of increasing the supply of labour in certain industries so as to maintain the level of 'take home' pay; at worse, it would have caused an increase in the reserve pool of labour from which the capitalist could draw (consequently depressing wages and reinforcing the process).

The relief from company taxation caused similar pressure to be brought to bear on external indirect taxation (mainly import duties rather than export duties) and internal indirect taxation (namely, such consumption imposts as excise duties, purchase taxes, consumption taxes and sales taxes which were easily shifted on to labour).[14] In addition, there arose a whole new set of user pay taxes, such as road tolls and other travel taxes.

But even though direct and indirect taxes on foreign trade have caused an appreciable increase in the Caribbean public sector share in GNP over time, the balance of power in the system of relations in the mixed economy remains with capital and the interests of private enterprise. This was reinforced by a number of contradictions, some of which are mentioned below: First, the governments (e.g. Trinidad with respect to manufacturing), by having joint ventures with the multinational companies, found themselves with few options, got caught up in so-called issues of survival, and ended up taking the reactionary position of private enterprise by suppressing industrial action designed to secure higher wages. The forerunner to this attitude is reflected in the following 1963 statement of the Trinidad Finance Minister,[15] at a time when certain tax revisions seemed to have coincided with a slight recession:

> Firstly, there appears to be a developing 'strike consciousness' on the part of business which is inhibiting the impetus to grow. Secondly, unsatisfactory industrial relations during the past two years have struck at the root of confidence of investors and, thirdly, rapid wage increases are reducing the competitiveness of local labour. These factors combined are tending to nullify the various incentives offered by the government to attract investment.

A similar situation is likely to arise in Jamaica where the government is currently buying into (rather than buying over) the bauxite enterprises. A mixed venture in a mixed economy tends to lead to many mixed up situations.

Second, certain new major sources of revenue, while appearing to have a greater impact on capital, in effect had more unfavourable effects on labour. For example, although employer contributions to the national insurance schemes were usually approximately double those of labour, these were transferable on to price in the protected local markets or, in the case of the export enterprises, onto reduced wages[16] and employment. To compound matters, in Barbados and a number of the smaller islands,

> the bulk of the funds is held in the form of fixed deposits (at relatively low rates of interest) in the foreign owned commercial banks. This perverse asset portfolio policy thus helps to (a) reinforce the position of the very same commercial banks whose creditworthiness criteria have been said to be biased in favour of foreign businessmen and export/import activities and (b) deprive government of the opportunity of influencing the direction of national investment despite frequent public pronouncements about the need for a change in the composition of domestic output; it also defies a fundamental principle of financial layering that developmental funds should move from institutions with short-term liabilities towards institutions which lend for longer periods, rather than vice versa.[17]

Third, the pricing policy of the public enterprises, designed to provide cheap services to private capital, was inadequate for the creation of surpluses with which to either challenge the dominance of existing private enterprises or to fill the investment gaps resulting from the various types of 'repatriation' of private capital.[18]

Fourth, because of the tax concessions to capital, current surpluses were too small to create the sort of employment necessary to offset the displacement of labour by private capital induced by the same free importation of capital goods and accelerated depreciation allowances. The inexorable logic of the situation was for there to be the granting of more allowances in the hope of creating new economic activity and offsetting the adverse effects of the first set of allowances. A classic case of trying to catch one's tail or being caught in a dependency trap.

From the above, it would appear that there is no fundamental difference in tax structure between this period and that of pure capitalism. Although there is a change in the direct/indirect tax mix, there is at the same time massive relief (besides a tendency for the company tax rate on the older primary sector to remain frozen at a certain magical level),[19] evasion and avoidance by the owners of capital and unfixed income receivers, and a considerable proportion of the indirect taxes passed on, with a disproportionate impact on the low income earners. The state sector, despite its increasing size, remains subordinate to the interests of the private sector; in fact, both its willingness to make tax concessions and dependence on revenue from private enterprise suggest an effective incorporation into the national and international capitalist economy.

THE TRANSITIONAL ECONOMY

In the transitional economy, there needs to be convergence of resource use and demand and convergence of needs with demand. [See Thomas 15]. In the Caribbean, the first convergence does not obtain because the bulk of what is produced is exported and a major proportion of the consumed (both durable and non-durable) goods are imported; the second convergence is almost as far off because of the elitist and skewed nature of incomes and tastes (which are often foreign oriented). As part of the government strategy during this period, there are attempts to (a) increase government ownership of the key sectors, (b) alter the imbalance between the tax contributions of capital and labour, and (c) increase the level of welfare benefits.

In order to acquire greater ownership of the commanding heights of the economy (and create a 'propulsive' public sector) government has resorted to a system of compensation which appears to be very lavish when we consider that the original capital outlays of the private enterprises had been recouped many times over. It would seem that the generous nature of the compensation is intended to help maintain stability in the industry. The aim is to prevent retaliatory imperialist shutting off of export markets and spare parts and equipment. In addition, there is continued dependence (contractual and otherwise) on foreign technology and marketing expertise; as a result, the extent of the control falls very far short of the level of ownership. But, as Guyana, for example, is now finding out, in the attempt to prevent short-run destabilization the seeds of long-term problems are being sown. Generous compensation means heavy foreign indebtedness and either higher levels of taxation or lower levels of public spending.[20] Either method is likely to aggravate social distress and alienate the masses at a critical juncture of social development. More expenditure is therefore diverted to the maintenance of law and order and, as a consequence, there is less remaining for either welfare (e.g. health and education) or developmental purposes.[21] This in turn, necessitates more expenditure on the police, the army and the para military in order to contain the anger of the chronically unemployed masses and the militancy of the unionized labour force.

With respect to one or two of the enterprises which have not been entirely taken over by the state, there is an attempt to impose a levy based on a more equitable (imputed) price for the exported commodity in contrast with the deflated output price produced by intra-company accounting. This strategy, a product of the quest for less unequal exchange and a new international economic order, is buttressed by the formation of international political groupings (e.g. sugar and the ACP) and producer associations (e.g. bauxite and the IBA).[22] The policy may not be entirely successful.[23] In Guyana, the levy on inflated sugar prices was successful but the attempt to administer similar treatment to the bauxite company, Reynolds, met with resistance and the company was subsequently nationalized. Although the levies have brought substantial increases in government revenue, the danger is that these might be looked upon as the new panacea and other issues of ownership, control and transformation pushed into the background. In Jamaica, for example, and to a certain extent in oil-endowed Trindad, huge proceeds are being spent in meaningless public works instead of directly productive activity; obviously, the governments have not yet accepted the required level of responsibility for the transformation process and still depend very largely on the initiative of private enterprise.

In conjunction with the increase in the tax or levy on the owners of capital, certain governments have also attempted to directly mitigate the burden on labour by

the introduction of subsidies on a variety of commodities.[24] However, there are tendencies for these subsidies to have less than the desired impact. First, the subsidies only relate to some of the essential commodities and, with unrestrained price rises (aggravated by indirect taxes) for those commodities that are not subsidized, the weighting and overall beneficial expenditure effect of the government policy is being gradually eroded. Second, the poor and the unemployed derive quantitatively less benefits from the subsidies. Third, when there is a crisis, the subsidies seem to be the first casualties.[25]

There has also been a recent development of introducing taxes which are related to specific (and apparently well meaning) government objectives, e.g. employment levy and national housing trust levy. The defence levy, and even the national insurance tax, can also be placed in this category. These levies are acceptable only at face value. If the economic system is so inequitable that basic social/economic needs are not being satisfied either directly or indirectly, then the government should seek more of its revenue requirements from the source of appropriation of the surplus and not resort to escapist policies. The government in Guyana is also yet to resolve such issues as whether only the workers in the particular public sector industry (e.g. sugar or bauxite) should enjoy its surplus and how much of it the state should attempt to recapture via direct and indirect taxes, and whether other less fortunate workers[26] should share part of the surplus with another portion going to activate idle labour and other resources and to provide all workers with free health, free education and subsidized food and housing.[27] Under genuine socialism, we would expect taxes as they are traditionally known to become less important; however, in the Caribbean there has been no fundamental qualitative change in the tax structure.

Finally, it is difficult to assess the exact amount of progress towards socialism any one country has made up to a particular point in time, since "there is no such thing as a general theory of the transition between social systems . . . and each transition is a unique historical process which must be analysed and explained as such [Sweezy 12]. But we can safely say that in Jamaica and Guyana, the two countries that have clearly stated that they want to move towards a socialist mode of production and transformation rather than towards the advanced capitalist state the process has only just begun and in the other territories it has not even started. In Guyana, the process towards government ownership has progressed the furthest with only banking and insurance of the commanding heights formerly controlled by foreigners not dominated by the state. However, even in this territory, total planning is not a reality, partly because the still dependent economy is yet to disengage even for very basic commodities from the international capitalist trading system and the associated set of values[28] Moreover, in the large state sector the workers do not dominate over the means of production;[29] there is hardly even worker participation and it seems as though the evolutionary, as distinct from revolutionary, process is frozen at the stage of bureaucratic class rule. The state is also yet to tackle the problem of medium and small size local private capitalists.

THE REGIONALLY INTEGRATED ECONOMY

Since 1968, the Caribbean economies have been involved in a process of regional integration. This has had harmonization implications for both direct and indirect taxation. With respect to direct taxation, there has been stipulated *inter alia*, the maximum number of years relief (varying with such factors as particular location in the region, value added and capital intensity) from income tax and customs duties for approved enterprises, and the maximum percentage of income tax relief based on the percentage of export profits in total profits of the approved product. Concerning indirect taxation, a common external tariff system has been legally introduced, with the LDCs being given a longer period within which to attain the targets. But, in practice, there has been considerable divergence from the agreed tariff rates and paths.

The system of economic integration in the Caribbean is based on neo-classical customs union theory and the bourgeois example of Western Europe. As such, the tenets of free trade and competition dominate over the planning of a rational system of regional production; this is reinforced by the under-developed state of the productive forces and is reflected in the mere assembling of final goods by multinational firms and their licensed agents. This lack of advancement in the productive forces gives rise to a system of underdeveloped social relations and a weak working class.[30]

The beneficiaries of the integration process are, therefore, not the working class. And there are obvious reasons why the changes in the tax structure cannot be expected to alter the balance in favour of labour or radically accelerate the transformation process. First, the harmonized tax system has contrived to retain some of the worst features of the old capitalist oriented system; in fact, there in now official regional sanctioning of the existing 'give away' system. In contrast, the introduction of Caricom should have been the opportunity to get rid of the bankrupt system of tax concessions. Caricom could have acted as an effective 'Association of Tax Concessioners' in negotiation with the tariff-hopping assembly enterprises; any intransigence by these enterprises and attempts to quit the region could have been countered by banning of importation of the finished commodities.[31] However, Caribbean governments are more keen to ban persons (and from within rather than from outside the region) than goods. Second, it has narrowed the options (to either personal income tax or consumption type taxes) open to an individual territory for increasing its tax take and the burden will inevitably fall on labour since import duty and company tax changes are not permissable. An example of this occurred soon after the tariff harmonization exercise when compensatory consumption taxes and sales taxes were introduced in a number of territories.[32] Third, the polarization both between and within the MDSs and LDCs, and increasing monopoly situation have not been checked by the tax changes [33] and these have their counterparts in the increasing impoverishment of certain sections of the working class.

CONCLUSION

We shall not attempt to make a systematic summary of the foregoing. Rather, we shall merely refer to certain theoretical and policy implications.

First, the tax structure is a product of both the stage of development of the productive forces and the system of social relations, rather than vice versa. The transformative capacity of the tax system *per se* is limited. This is of particular significance to the Caribbean whose economies have a dependent and peripheral status in the international capitalist economy and whose tax structures are, as expected, failing to coax out the level of output and industrial pattern consistent with transformation. But bad taxes can reinforce underdevelopment.

Second, even within the existing set of constraints, the tax effort of the Caribbean economies is hardly adequate, given their degree of openness and the requirements for development.[34] Surpluses are not being effectively mobilized and what little revenue is raised is used to provide infrastucture for the existing private sector–dominated primary exporting or secondary assembly industries rather than to fill the gaps in the production matrix via non-traditional types of public enterprises. This is partly because the governments lack the required political will, or vision of an alternative social formation. And because dependency has its own internal dynamic, the discretionary factor is having unintended and perverse effects.

Third, openness makes possible large revenues which could and should be used to reduce the very openness. On the contrary, the Caribbean governments, by their use and misuse of such revenues, are helping to promote greater openness and greater dependency.

Fourth, the system of tax relief and resulting dependency on private inflows and intergovernmental loans and grants is encouraged by international agencies and metropolitan governments because it is consistent with general imperialist strategy.

Fifth, despite the attainment of political independence, the tax policies are still operating in an environment of exploitative social relations and tending to serve the interests of capital (both foreign and local) with a disproportionate burden on labour.

Sixth, the tax harmonization requirements of regional integration are tending to reduce the burden on capital and to increase that on labour.

Seventh, any tax concession on production should be directly applied to labour (re quantity employed) rather than capital, given the labour surplus nature of the economy. An end must be put to the contradictory situation of tax concessions helping to displace labour by capital.[35]

Eighth, other factors and policies are helping to reinforce the perverse effects of the tax structure. For example, the lack of supervision over contracts involving the transfer of technology has resulted in the payment of high royalties and allowed firms to tie themselves to foreign sources for their inputs of raw, intermediate and capital goods, thus permitting overinvoicing and a host of other restrictive practices designed to prolong dependency and also preventing linkages[36]. These factors have made it more necessary for the local firms involved to expect vast tax concessions in order to survive. The problem is therefore not one of risk requiring tax relief, given the tariff protected nature of the market, but of lack of technological capacity. Such is the organic nature of policy instruments and underdevelopment.

Ninth, neo-classical theory is not very useful in indicating the use of the tax structure for the purpose of economic transformation in structurally dependent economies, like those in the Caribbean. It is somewhat silent on the direct tax mix, i.e. between company (capital) and personal (labour) taxes. Also, its approach to the problem of incidence and the distribution of income is rather inadequate in a situation of totally unequal bargaining power between capital and chronically unemployed labour. And in its marginalist approach to the problem of allocation of factors of production, it neglects the problem of distortions and structural rigidities.

Tenth, non-capitalism leading to genuine socialism is probably the only fair, rational and effective method of extracting the surplus needed for transformation. As explained above, dependent or peripheral capitalism, given the concessions, evasions and avoidances, and consequent burden on labour, has severe limitations. We need to consciously set up a more ideal system of social relations and then let the tax system adapt to this rather than create a system to serve the capitalist *status quo* with all its inequities, inadequacies and incapacities. In this millenium, the production system would be serving the basic needs of the population rather than being geared only to exporting and satisfying the foreign oriented tastes of an elitist section of the community. The wage and pricing structure would be much more optimal and the only major imposition would be a turnover tax, over and above the replacement and new investment needs of enterprises, at the source of the creation of economic activity, designed not solely for revenue earning but also for allocative purposes.[37] The solution, then, is to proceed along a non-capitalist path to socialism and to choose a tax system which is most optimally relevant.

FOOTNOTES

[1]Since World War II, this aid from the socialist countries has been rigorously countered by imperialist coups and economic blockades.

[2]Quoted by Slovo [10]. For a discussion, see also, Ulyanovsky [18] and Thomas [13].

[3]Except for Grenada, which gained its independence only in 1976.

[4]But welfare expenditure was a bare minimum. For example, health expenditure was just enough to preserve the stock of human capital and education was designed to equip the population with the simple rudimentary skills required for plantation activity.

[5]For a discussion, see E. Carrington, on "Industrialization by invitation in Trinidad and Tobago since 1950" in N. Girvan and O. Jefferson [2].

[6]Even within the plantation sector, there has been a process of monopolization of capital. At the time of abolition of slavery, there were several plantation owners, but by the end of World War II there were only one or two in each territory.

[7]"It is impossible . . . to suppose that the slaves . . . . would if freed from control be induced even by high wages to continue to submit to a drudgery which they detest, while without doing so they could obtain land sufficient for their support . . . Accordingly, it is to the imposition of a considerable tax upon land that I chiefly look for the means of enabling the planter to continue his business when emancipation shall have taken place . . . . " (Lord Howich, Memo, 1832. Quoted by L. Best "A Biography of Labour", in Beckford [1] p. 153.

[8]External indebtedness, in turn, was encouraged by the large size of the export sector and the relative ease in earning foreign exchange. But the ratio of debt service payments to exports is beginning to cause alarm in one or two territories.

[9]For a comparative indication of the extent of over-pricing in certain Latin American countries, see C.V. Vaitsos, "The Process of Commercialization of Technology in the Andean Pact", in Radice [9].

[10] A case can therefore be made out for a tax on either volume of production or exports.

[11]Peasant agriculture was also not hard hit partly because of the policy indecision as to whether non-plantation agriculture should be a contributor to, or receiver of, net investible funds.

[12]One partial exception was Guyana, where in 1970 a minimum deposit was legally required of certain professionals.

[13]Even family allowances can be said to be of use only to those above a certain income level, whereas an indirect tax on a basic commodity, and which is hardly ever reduced, tends to affect the lowest paid.

[14]At the same time the taxes tried to make distinction (sometimes not very discernible) between basic goods and luxury goods, the rate on the latter being generally higher than that on the former.

[15] Quoted by Parris [8 p. 32].

[16]In Eastern Europe, the employer pays the whole social security contribution.

[17]M.A. Odle, "Public Policy" in Beckford [1] p. 137.

[18]Under dependent capitalism therefore, a rise in company tax as a share of direct taxes or total taxes (without a rise in the company tax rates) cannot be a very true indicator of a radical shift in the structure of the tax effort and the burden borne by antagonistic classes if it is accompanied by either (a) lower wage increases (b) relatively lower public utility rates (c) rising output prices charged to local consumers or (d) other social costs.

[19]In the previous pure capitalist period, the company tax rate had risen appreciably. (For example, in Guyana, it was 10 per cent in 1929, 12½ per cent in 1932, 15 per cent in 1940, 20 per cent in 1941, 25 per cent in 1942, 33½ per cent in 1944 and 45 per cent in 1947). But a tightening up on company taxation could cause an increase in overpricing.

[20]Only petroleum rich Trinidad has in recent times (post 1973) managed to escape this dilemma.

[21]In Guyana, also, although the new stage of state capitalism now makes it possible for the government to extract the surplus, the economy is still incorporated into the international capitalist system with recurring crises of structural dependency creating serious problems in planning for transformation.

[22] As a producer association, OPEC has been an outstanding example of success. Other associations, e.g. banana and copper, have not been very successful.

[23] But successful enough to counter the arguments of those who say that export type taxes are not very effective.

[24] In Guyana, for example, subsidies in 1975 were approximately $3m for milk, $17m for flour, $8m for pork and poultry and $4.5m for sugar for local use (in addition to the deficits on water, transport and other public utilities); see *Daily Chronicle*, 10 November 1976. A few basic items are also subsidized in Trinidad.

[25] The government of Guyana, for example, removed the subsidy on stockfeed on 21 November 1976 causing a huge jump in the price of poultry and eggs.

[26] That is, the workers in other industries when productivity is lower or who persistently fail to find employment.

[27] Far from the use of money incomes being miniaturized, increasingly high remuneration is needed to purchase the many imported basic commodities with their associated inflated prices. Also, some other basic needs are only formally free. For example, the supply of public medical facilities are quantitatively and qualitatively so poor that demand for private medical care is great. Similarly, education fees have now been abolished, but school transport, school clothes and school books are not free.

[28] In fact foreign trade is still equivalent to approximately three-quarters of the national product.

[29] The working class is also very badly divided along racial lines.

[30] For a discussion, see Thomas [14].

[31] But the problem is compounded (and the contradictions will increasingly appear) by the dominance of the conservative elements over the radical forces in the region.

[32] At the signing, Guyana's duties were on average 52 per cent higher than the next highest country, Trinidad and 116 per cent higher than the lowest, the ECCM members. (But because the import volume of raw, intermediate and capital goods on which there was negligible duty was relatively lower in the LDCs, the latter countries' import duty revenue as a proportion of both the import bill and GDP, tended to be quite high).

[33] In certain cases, the tax changes have been phased out over a number of years.

[34] The tax effort (and level of indebtedness) in Guyana since World War II, was somewhat higher than the others in order to compensate for the lack of private inflows following the introduction of radical politics. In recent years, the tax effort in many of the other territories has also been increasing because of the sugar levy and the direct and indirect effects of inflated oil prices. But the LDCs, who are less open, have remained excessively dependent on foreign grants (and also loans).

[35] The income share of labour *vis-à-vis* that of capital, is already low; see Odle [7].

[36] Quite apart from the problem of over-invoicing, the contractual stipulation that raw, intermediate and capital goods must be imported means that local substitution is stifled and a capital goods industry pushed even further back into the future; this process is encouraged by the duty free status of these goods.

[37] For a discussion of the basic principles of the turnover tax under a system of socialism, see Zlobin [19] pp. 126-135.

REFERENCES

[1] BECKFORD, G.L., *Caribbean Economy*, Jamaica; ISER 1975.

[2] GIRVAN, N. and O. JEFFERSON (eds.), *Readings in the Political Economy of the Caribbean*, Jamaica: New World, 1971.

[3] HINRICHS, H.H., *A General Theory of Tax Structure Change During Economic Developments*, Cambridge: Harvard Law School, 1966.

[4] LENIN, V.I., *Imperialism, the Highest Stage of Capitalism*, Moscow: Progress Publishers (ed).

[5] MUSGRAVE, M., *Fiscal Systems*, New Haven and London: Yale University Press, 1969.

[6] ODLE, M.A., *The Evolution of Public Expenditure*, Jamaica, ISER, 1976.

[7] ________, "Share of Wages and Choice of Labour Subsidy in Labour Surplus Economies", *Caribbean Studies*, April 1972.

[8] PARRIS, C.D., *Capital or Labour*, Jamaica, ISER, Working Paper No. 11, 1976.

[9] RADICE, H., "The Process of Commercialization of Technology in the Andean Pact", in RADICE (ed.), *International Firms and Modern Imperialism*, Penguin, 1975.

[10] SLOVO, J., "A Critical Appraisal of the Non-Capitalist Path and the National Democratic State in Africa," *Marxism Today*, June, 1974.

[11] SWEEZY, P.M., "Socialism in Poor Countries", *Monthly Review*, Vol. 28 No. 5, October, 1976.

[12] ________, "The Transition to Socialism", *Monthly Review*, May, 1971.

[13] THOMAS, C.Y., "Class Struggle, Social Development and the Theory of the Non-Capitalist Path", Address given to a joint Seminar of the Soviet Academy of Sciences, African Institute, Finnish Institute of Development Studies, and the Swedish Institute of African Studies – Helsinki, 16-19 August 1976.

[14] ________, *On Formulating a Marxist Theory of Regional Integration*, (Forthcoming, Monthly Review Press).

[15] ________, *Dependence and Transformation. The Economics of the Transition to Socialism*, New York and London: Monthly Review Press, 1974.

[16] THORN, R.S., "The Evolution of Public Finances During Economic Development", *Manchester School*, January, 1967.

[17] THORNE, A.P., "Comments on a Monograph of Exploitation and Some Relevant Reminiscences", *Caribbean Studies*, Vol. 11, No. 2, July 1971.

[18] ULYANOVSKY, R., "Some Aspects of Non-Capitalist Way for Asian and African Countries", *World Marxist Review*, September 1969.

[19] ZLOBIN, I.D. *et al, Soviet Finance, Principles, Operations*, Moscow, Progress Publishers, 1975.