THE TAX MISSION TO LIBERIA, 1969-70

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I. Genesis of the Tax Reform [1]

The need for tax reform in Liberia in the late 1960's was apparently first advanced by the Secretary of the Treasury in his annual report for the year 1966-67. He was opposed to any "new taxes on nationals" for fear of "adverse effects on the level of spending power...in a low income economy such as ours." Instead, he saw a need for "rationalising" the tax system, after "determining the incidence of the existing tax structure on different levels of income earners." To this end, he proposed establishing a Tax Commission "to review and analyze our entire tax law," and to make the incidence study. In his next annual report the Secretary published some incidence figures, "based upon a limited analysis," Tax payers earning less than $300 a year or more than $6,000 per year were found to be paying more than 7 percent of their incomes in taxes, while those in the $300 - $6,000 group were paying from 6 to 7 percent.

In 1968 the President of Liberia appointed a Tax Commission, under the chairmanship of the Secretary of the Treasury, with terms of reference as suggested by the Secretary in his 1966-67 Report.

The chairman of the new Tax Commission consulted with Harold Moss as to methods of getting the tax reform study under way. Moss suggested a technical tax reform mission similar to the one he had been so influential in originating and implementing in Japan. In the 1960's, Moss had developed, and directed, a system whereby the United States Internal Revenue Service assisted developing countries - and some others too -- in creating efficient tax administrations by supplying Service personnel on loan for extended periods to those countries. Liberia was about to be given assistance in this or a similar manner by Moss and his colleagues, and perhaps this was the occasion for advancing the idea of a mission that would deal with problems of broad tax policy and substantive details with which the administrative teams could work.

In January 1969 a telephone call to me from Secretary of the Treasury J. Milton Weeks was followed by a letter of January 29 in which I was invited to "come to Liberia as soon as possible to discuss arrangements for a study, on behalf of our Tax Commission, of the Liberian tax structure."

After some delay owing to scheduling problems on both sides, I went to Liberia early in June to talk with Weeks and his officials, then on to

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[1]. The first three paragraphs of this section are based on conversations with Harold Moss, and on the Progress Report of the Tax Commission to the President of Liberia, October 30, 1970, p. 1.

London to meet President Tubman, who was in London at that time, to insure his personal committment to the proposed tax mission.

In my files I find a brief note I made on the June 11 meeting, with Weeks et al.: "Debt service is about $15 million or about one-quarter of total government expenditure. Education takes about 10% to 11%; farm improvement, only about 2% to 3%, much too low (Weeks) in a largely agricultural country. Debt service rises about 1972....The several types of poll tax should be replaced in part (Weeks), perhaps by increasing the income tax. Top rate of income tax is 35%, but that doesn't matter, since nobody pays the top rate (Kennan). Mining companies reduce their income tax by capitalizing largely with debt....Customs revenue is about $20 million out of the $56 million total tax revenue....The present revenue system's yield probably won't grow as much as 5% a year, and may even not grow at all (K). With a change in structure and better administration we would hope it might grow at 5% a year (W) -- but the increase might be just once for all (K)....Customs collections cost about 2% (Greaves)... Illegal <u>octrois</u> [it seems to me that is what they are] are collected by some tribal groups or chiefs, and are tolerated, some of them at least. There are nine counties, each with its superintendent, but no local financial autonomy, not even for Monrovia, the capital city. Police and fire protection are provided by the central government. [I omit here certain contentious statements about foreigners' alleged deceptions in the construction of the $25 million presidential mansion]... Much remains to do, to improve tax administration (G)....Liberia tried to harmonize its tax system (and also agricultural policy and other matters) with three or four of its neighboring states a few years ago, but political developments destroyed the technical agreements that had been reached....There is no central bank in Liberia. The government borrows from commercial banks, at an interest charge one percentage point above the U.S. prime rate...".

Since the proposed tax mission was not to deal intensively with tax administration, why was it deemed necessary? Chiefly, it appears, because the authorities feared that in the years ahead the existing tax system would, as in the past, fail to keep pace, in total revenue, with the growth in the monetized sector of the Liberian economy, a growth which would demand increasing amounts of government services such as education of the work force, highways and other transportation facilities and fire and police protection. Moreover, even apart from growth, the existing tax system needed some strengthening if grants from abroad and borrowing from banks were not to be depended on continually. In 1967 these two sources had accounted for 17 percent and 23 percent, respectively, of total sources of funds, the remainder coming from taxes and a small amount of non-tax current revenue (p. 54, Report).

The immediate fiscal picture was not threatening enough to warrant a crash program of tax reform. The $55 million estimated yield of the tax system for the calendar year 1969 would need to increase so that for 1970 it would be some one or two million dollars more than it would be if the system were left unchanged (Report, pp. 14, 55).

To be sure, the existing tax system was deficient with respect to the criteria that the mission proposed to use in formulating a restructuring, quite apart from total revenue: horizontal equity, efficient allocation of resources, reduction of involuntary unemployment, vertical equity, and economic growth (p. 10).

As the Progress Report of the Tax Commission put it: "in a growing and developing society the government needs tend to increase much faster than private needs....Public support of governments...can be directly related to tax equity and the belief that the tax system is fair....Where the...non-monetary segment of the economy is large, a tax program is needed which does not discourage entry into the urban-monetary labor force" (pp. 3-4).

Moreover, there were two other reasons for restructuring the tax system, rather than simply raising rates. First, much of the tax revenue came form large foreign companies operating concessions within Liberia, iron ore extraction chiefly, whose tax obligations, in terms of tax rates, were fixed in the concession agreements. Second, no matter how much administrative help and advice was received from the Internal Revenue Service and other foreign sources, increased rates under the existing tax structure and "tax atmosphere" would probably induce even greater tax evasion (pp. 4-8). Although the tax mission would not focus on techniques of administration as such, it might be able to suggest structural changes and improvements in the tax atmosphere that would reduce evasion somewhat.

II. INITIATION OF THE PROJECT

Initiation of the project proceeded rapidly after the June conference in Monrovia, referred to above. Even before then I had sounded out those whom I hoped would be members of the mission, and had received encouraging answers, so that formal offers were made to them by July when the contract between myself and the Liberian government had been signed. As I recall, there had been no difficulty in reaching agreement with Secretary Weeks on terms of the contract. There were, to be sure, certain restrictive clauses: "at least three other public finance experts from the field of economics [sic] to be chosen by [Shoup]...with the approval of the Government", and the "understanding" that "the printed version of the report will not contain any material from the typewritten or duplicated report that, in the opinion of the Government, as expressed by the Secretary of the Treasury, should be treated as confidential." Given the reassuring atmosphere in which the June conference in Monrovia had been conducted, there seemed no reason to fear that these restrictions would undermine the mission's usefulness.

Submission of the typewritten or duplicated report was to be by September 20, 1969; the printed copies were to be available by March 31, 1970 (this date was later extended by a few months).

Difficulty in obtaining adequate secretarial assistance in Venezuela in 1958-1959 induced me to bring such assistance from the United states on this occasion, in the person of Carolyn S. Scott, a decision that paid off handsomely.

Secretary Weeks thought it would be advisable to have at least one of the members of the mission from outside the United States, and I agreed. Otherwise I do not recall anyone offering any suggestions as to membership on the mission. There were four of us: Douglas Dosser, York University, England; Rudolph G. Penner, University of Rochester; William S. Vickrey, Columbia University; and myself. All were professors in the field of public finance. Dr. Donald S. Shoup (my son), of the National Bureau of Economic Research in New York City, agreed to come with the mission as research consultant; he had obtained an intensive background in Liberia in economics by a study, at Monrovia, of the Liberian port system. "Although the report is a joint effort of our entire group, there was a division of labor along the following lines: Douglas Dosser, Liberia's economy, and user taxes; Rudolph G. Penner, customs duties, excises, stamp taxes, and export taxes; Carl S. Shoup, tax reform in Liberia, Liberia's public finance system, concessions agreements, per capita and hut taxes, and possible new taxes; Donald S. Shoup, non-tax revenues; William S. Vickrey, concessions agreements, income taxes, and real estate taxes. Mrs. Carolyn S. Scott, as Secretary to the Mission, typed the report and assisted in the logistics of our task" (p. xii).

The financial arrangements with the Government of Liberia were similar to those described in the paper on Venezuela. In December, 1970 I refunded roughly 17 percent of the $75,000 advanced to me under the contract.

As in Venezuela, it was feasible to have wives accompany mission members (at their own expense), and two did so. Again, social life was necessarily restricted by the rather lengthy working days. We stayed at the Hotel Ducor, in Monrovia, and traveled little during the five weeks or so we spent in Liberia.

Cooperation by Liberian tax and other officials was excellent, and our group had ready access to files, taxpayers records, and the like. We also had informative conversations with some of the larger taxpayers (corporations).

III. THE TAX MISSION REPORT

1. Publication

Since the official language of Liberia is English, no translation of the mission's report was needed, and arrangements for publication were my responsibility. I first sent the report to Johns Hopkins Press, which had published the Venezuela report, but they declined it, on the grounds that it lacked enough comparative material (other countries) and supporting theory on economic development. I replied that in my view "these references to other countries and use of broad theoretical propositions lead, for the most part, only into what I would term easy generalizations and facile comparisons" (and invited them to transmit this view to their referee) (letter of March 11, 1970). I then approached the Columbia University Press, and on March 26, 1970 reached an agreement whereby the Press would, not "publish," but "manufacture and distribute the WORK exclusively throughout the world, and to advertise, catalog, and promote it to the same degree as a regular PRESS publication." The Press was paid $5,400 from the mission's budget. They agreed to provide me with 800 free copies (600 of which I sent to Weeks for distribution as he wished). This left 1200 copies, to be put on sale by the Press. No royalty would be paid to me on the first 750 copies; on the remaining 450 copies, there would be a royalty of 50 percent.[1] The Report was put on sale at a price of $8.50 (roughly equivalent to $20-$25 in 1987 prices). My records seem to show that there were never enough copies sold to reach the royalty zone. By December 31, 1972, only 456 had been sold.

Of the 200 copies reserved for free distribution at my order, a partial accounting shows that I had the Press send complimentary copies to 81 college, university and institutional libraries, 56 to individual professionals, and 4 to journals for review.

2. Contents, in General

The Report of the Tax Mission made up a rather small book, 5 1/2" by 8 1/2" of just over 200 pages. A substantial part was given over to non-tax matters: a section of nearly forty pages on the economy of Liberia, with emphasis on the national income accounts, and one of 24 pages on non-tax revenues. The substantial treatment nevertheless presented with respect to structural and conceptual issues of various taxes was possible in the remaining space because there was in this report no analysis of intergovernmental relations (there being none) and very little detail on tax administration, for reasons already noted. Also, some of the more technical aspects of corporate income tax law were not covered (see below).

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[1]. To be forwarded to the Liberian Government.

Two topics were treated in some detail that were noted only briefly or not at all in, for example, the reports on Japan and Venezuela: the tax ratios derived from national income accounting, and the problem of how to tax a large non-monetized sector of the economy ("subsistence sector").

The first of these issues was important because in Liberia there was a much greater difference in the totals of gross domestic product and gross national product than is usually found in larger or more developed economies. The domestic product was nearly half again as large as the national product, indicating that a substantial portion of the value produced in Liberia flowed out of the country to foreign investors and other outside factor owners. A comparison of a tax total with an economic flow total needed to distinguish taxes paid out of value flowing abroad, and of course the flows themselves. This was done, in Chapter II and the appendix and tabular appendix to that chapter.

The second issue was important because the subsistence sector was so large, in Liberia, compared with the monetized sector, at least in terms of population: an estimated 700,000 persons in the subsistence sector against only 400,000 in the monetized sector. A comparison can hardly be made in economic terms, since the national or domestic income accounts cover only the monetized sector.

3. Recommendations

(a) Revenue from Concessionary Enterprises

Liberia's income tax revenue was derived largely from a few foreign-owned corporations operating iron-ore concessions. The concession agreements stipulated the terms on which the taxable profit of these enterprises was computed. The mission report therefore developed a set of rules to be followed in such computations, if the concession agreements were to be reviewed so that existing practice could be changed. This was probably the first attempt in taxation literature to develop systematically the issues of taxation of profits that arise under a concessionary enterprise subject to the income tax (Chapter IV).

The importance of this problem to Liberia can be seen in the fact that in 1968, out of a total income tax revenue of $19.1 million, $7.6 milion, or 40 percent, took the form of Government shares in the profits of four large iron ore concessions (p. 59). This was 15 percent of total revenue from all taxes. Another $4.8 million was corporate income tax paid by two large concessionaires outside the iron-ore extraction industry (pp. 58-59).

The report questioned the appropriateness or fairness of the following practices found in the terms of the concession agreements: (1) financing heavily by debentures owned by those with an equity interest with deduction of interest on these debentures in computing taxable income;

(2) reducing selling price of the concession's product to those who had helped finance the enterprise; (3) deductions or allowances contrary to accepted principles of accounting, e.g., deduction for "depletion" when the concessionaire had paid nothing for possession of the natural resource and had been allowed deduction of exploration and other development expenses, deduction of two or more duplicating charges: depreciation, cost of replacement or renewal (or contributions to a reserve for that purpose), and debt amortization, and use of actual sales prices that were in fact below an arm's length transaction price because the buyer had an interest in the seller or in some way aided the seller; (4) deductions or exclusions not granted to the general taxpayer, e.g., carry-over of losses (eight other items were noted); (5) tax holidays so lengthy that the present value of the benefit to the enterprise was much less than that of the loss to the government, assuming a higher discount rate to be applied by the enterprise than by the government; (6) extension of tax privileges to suppliers to the concessionaire, e.g., financial institutions; (7) guarantee to the concessionaire of tax treatment as favorable as any given in a later year to another concessionaire in the same industry; (8) exemption from import duties of goods not used by the concessionaire in its business (in general, this was not the practice); (9) stipulation that the Government must accept the findings of an audit of the company's books for tax purposes that is made by an auditor of the company's own choosing.

Although the tone of the Report was restrained (pp. 67-69), the inference was clear: sophisticated foreign investors may well have taken advantage of the Government's relative lack of expertise in the tax field in the drawing up of the concession agreements, and if the concessions could be reopened, these tax anomalies should be rectified.

The Report also discussed the pros and cons of special tax treatment for concessionaires under other taxes, including widespread customs exemptions, exemption of dividend and interest payments by concessionaires to residents of Liberia, and exemption from user taxes on motor fuel and vehicles, without making specific recommendations for the Liberian tax system. Royalty payments to the government in lieu of income taxation were also analyzed (pp. 69-74).

(b) <u>Personal and Corporation Income Taxes</u>

The report recommended that the "austerity tax" be allowed to expire as scheduled at the end of 1969. This was a tax of 4.2 percent of the total earned income for annual incomes of $600 or more, and 2.1 percent for lesser incomes, and, together with the per capita tax and the hut tax, injected a regressive element in the lower ranges of income. It also caused duplication of administrative effort and was difficult to enforce uniformly among small taxpayers. It also did not reach unearned income.

Partly to make up for this revenue loss, the Report recommended that the flat $1,500 exemption under the personal income tax be reduced to $1,000 and the rate schedule that ran from 2 percent to 35 percent be compressed to one of 8 percent to 20 percent (on 1967 incomes, no one had paid personal income tax at a marginal rate of over 25 percent, and only two taxpayers at rates exceeding 20 percent). A lower exemption for a single person, and allowances for dependents should not be introduced, owing to difficulties of administration and compliance. The low ceiling rate of 20 percent was recommended partly to aid in the country's announced policy of inducing a flow of persons and resources from the subsistence sector into the monetized sector, and partly to enhance compliance and taxpayer morale. If these and other tax lowerings depleted the revenue below the goals set, the initial rate could be set at 10 percent and the top rate at 25 percent (on that part of one's income over $10,000).

The Report had little to suggest as to changes in the definition of taxable income: "The definition of income provided in the Liberian income tax law is admirably comprehensive. Especially important is the inclusion of capital gains". (p. 80). The existing deduction for personal taxes was deemed undesirable, and that for losses from fire, theft, etc., should be allowed only for large losses. Refunds of overwithheld tax should be given promptly. A loss carry-over for businesses should be introduced, at least a loss carry-back.

Partnerships were taxed separately on their income at the same rates as individuals. Change to the more usual system of attributing to each partner his share of the partnership's income was not recommended for Liberia, for administrative and compliance reasons, except where an individual divided his income among a number of partnerships in order to put more income in the lower brackets.

As to the corporation income tax on concerns other than concessionaires, the Report had little to add, except that the existing double taxation of dividends might be mitigated by allowing "individuals to include in their taxable income only...say, half of the dividends they receive from Liberian corporations....Given the small amount of dividend income currently reported by individual taxpayers, not much revenue would be lost by such a provision....A more thoroughgoing form of integration might be worked out at a later time when administrative problems are better in hand." (p. 86). At that time, corporations were taxed at graduated rates generally 5 percentage points higher than those on individuals, with a minimum rate of 10 percent, no exemption, and a maximum rate of 45 percent on that part of the income over $500,000.

(c) <u>Per Capita Taxes, Hut Taxes</u>

To get the full flavor of the analysis of these taxes, strange to developed country economists, we reproduce the mission's paragraphs on the main points (pp. 89-90):

"The "per capita" tax, at present $6, is levied throughout Liberia except in the tribal [subsistence, non-monetized] areas. It is composed of a $2 tax per lot -- hence not actually a tax per capita -- and a consolidation of four formerly distinct taxes: the development tax ($1), the health tax ($1), the Coast Guard tax ($1) and the relief tax ($1). In addition, residents of Monrovia pay a $2 water tax. On top of these taxes there is a temporary tax of $10 per capita on all adults outside the tribal areas, to finance an emergency relief fund for education.

"In the tribal areas these same taxes apply (except the Monrovia water tax), but on a hut basis instead of on per lot or per capita basis. No matter how many adults are in a single hut, the total tax is still $16. Theory would suggest that huts would be larger and fewer under this kind of tax pressure, and, indeed, we have been informed that this tendency is observable in some areas, more persons per hut and larger huts than was the case before the $10 education tax was imposed.

"The combination of hut tax and "per capita" tax is a slightly, but erratically, progressive tax, since those who live in huts are on the average somewhat poorer than those who live in houses, and the hut tax comes to less per person (except for the single-occupant hut) than does the "per capita" tax...

"About the only reasons for keeping the hut and per capita taxes are: (1) they are relatively easy to collect; (2) the hut tax maintains a link between the Government and the local chieftains, who obtain a commission for collecting the hut tax. To repeal the hut tax now would be to force too abrupt a change in the relationship of the national Government to the tribal areas. And if the hut tax is retained the "per capita" tax on the rest of the country can hardly be repealed.

"As a step toward eventual repeal of these taxes, however, we recommend that the $10 education levy be discontinued," its revenue to be replaced from part of the changes recommended for the personal income tax.

(d) Real Estate Taxes

Only three pages were devoted to real estate taxation in the Report, not because the subject lacked interest, but because "our recommendations concerning the taxes on real estate are made with somewhat more diffidence than others in this Report. This form of taxation appears to be deeply involved with the social and political character of the country, and we have not been in Liberia long enough to explore the problem to the depth that it would require if definitive recommendations were to be made" (p. 95). Earlier in this chapter: "Moreover, in a context where any vigorous attempts to enforce the payment of the property taxes are inhibited by political considerations..."

The recommendations, or perhaps suggestions, were:

Move gradually toward more equal taxation of land with that of improvements, and eventually even toward heavier taxation of land, in place of the system that taxed town lots at $2 per quarter-acre lot while imposing taxes on the value of commercial improvements at 2 percent, of industrial improvements at 1 percent, and of residential, farm and other improvements at 0.5 percent. Farm land was taxed at up to 6 cents per acre. No attempt had been made to assess the value of land, either urban or rural.

The tax on all rents, at 10 percent of the rent paid, should at least be mitigated by eliminating the double and triple taxation that occurred when both land and improvements were leased (the rent of the latter of course including the value of the use of the land) and when sub-leases existed. Eventually, the lease tax should be repealed; it had been enacted as a temporary tax to pay off the debt incurred in establishing the Coast Guard.

Impose a uniform rate on industrial and commercial improvements.

It will be recalled that these real estate taxes were national taxes, not revenues of a municipality.

(e) <u>Taxes on Imports</u>

A relatively lengthy (26 pages) and detailed description and analysis of import taxes was given in the Report, partly because such taxes, the second most important source of revenue, provided about 35 percent of total current Government revenues during 1966-1968, and partly because the nature of this field lent itself to the making of a number of very specific recommendations.

The major recommendations were (pp. 120-121):

1. Rates on capital and intermediate goods should be reduced significantly or eliminated, but the revenue loss should be held to $2 million and should be partly recouped by tariff increases on consumer luxury items.

2. The Investment Incentive Code should be phased out. This code gave the Government great power to discriminate on a firm-by-firm basis, that is, it allowed reduction of tariffs on goods used by particular firms, thus increasing "effective protection" for those firms. Several reasons were given for finding "the enormous powers of discrimination inherent in the present Investment Incentive Code disturbing..." (p. 106).

3. "A highly paid group of expert customs inspectors should be created in the customs administration, and they should be assigned to ports of

entry...." (p. 122). The Report's analysis of import taxes devoted nearly three pages to administrative problems.

Other recommendations were that the Government should gradually eliminate its own duty-free privileges, more use should be made of the computations of duty-free imports by institutions, future concession agreements should not exempt companies from consular fees, and, if the Industrial Code were not phased out, future contracts should limit duty-free imports of each item and impose restraints on the prices charged by monopolists.

(f). Export Taxes

Export taxes provided only a small amount of revenue for Liberia: in 1968, only $1.2 million out of a total of $50 million tax revenue. The Report's recommendations were (pp. 126-127):

1. Suspend the rubber export tax, which burdened the Liberian producers, not the world consumers, until the price of rubber exceeded 25 cents a pound (in 1968 the average price was 19 cents). When the price equalled or exceeded 25 cents a pound, the tax should be 10 percent of the amount by which the price exceeded 20 cents. The tax should be deductible from taxable profits and no longer a credit against income tax. In fact, "only the highest grades of rubber have seen prices above 20 cents over the last three years, and as a result, the rubber export tax has been largely irrelevant.... In the unlikely case that [the price].. reached 30 cents...' (p. 125): by June, 1974, however, rubber had in fact reached 39 cents.

2. Maintain the other export taxes at their existing levels. These consisted chiefly of export taxes on minerals, precious metals, and gems, at 10 or 15 percent, and on wood products at $3 or $5 per 1,000 board feet. "The bulk of the revenue comes from the export of diamonds and some comes from wood exports" (p. 125).

3. If existing coffee conditions continued, the Government should negotiate with the Liberian Produce Marketing Association (LPMC) "to siphon off a higher share of coffee profits" (p. 127).

4. The existing stumpage tax should be integrated with the export tax on wood and wood products.

(g) Business and Occupation Licenses

A mercantile license "fee" of 1 1/2 percent of the maximum inventory held by any business that sold merchandise and a series of fixed license "fees" for occupations, both levied yearly, were supplying about 3 percent of total tax revenue. The Report showed no enthusiasm for either but concluded that, lacking any better alternative, they had better be kept, with the tax rate and the fixed amount increased by 50 percent.

The tax on inventory was judged to be "a desirable, if crude, substitute for a retail sales or value-added tax, because it is relatively easy to administer even where the establishement keeps no records or keeps multiple records for tax and other purposes" (p. 129). The license applicant, under either type of "fee," should be required to prove that income tax forms have been filed for the previous year, unless exempt from filing. From a sample of the fixed license fees for occupations, we see that, for example, tailors and barbers paid $10, architects $15, accountants $25, drivers $50, and physicians $100. In Monrovia, 1967-68, the record of fees paid included 17 accountants, no architects, 48 lawyers and one surveyor.

(h) Excise Taxes

"Various laws impose excise taxes on a number of domestically produced goods and services in Liberia, but many are not collected" (p. 130). Those collected were the taxes on beer (50 cents a gallon), carbonated beverages (30 cents a gallon) and cinema tickets (10 cents a balcony seat, 5 cents an orchestra seat). Those not being collected were on paint, certain footwear, liquor, cement, and jewelry. "The Government expects soon to be collecting the taxes on cement and domestically produced liquor. Thus far collections have been retarded by a series of administrative lapses, the most recent being the failure to publish regulations to accompany the tax legislation. The tax on paint is irrelevant at the moment because the country's sole paint producer has a seven-year tax holiday, and the tax on shoes does not apply because the only shoe producer recently went bankrupt. The lack of jewelry tax collections is somewhat more mysterious. Many officials were not aware that the jewelry tax was on the books, and one suggested that in any case it would be foolish to tax an industry which has recently been showing great promise as an exporter" (p. 131).

The gasoline tax will be considered below, under user taxes.

"The tax on beer was imposed on the country's only beer producer to recoup some of the customs revenue lost when domestic production began to replace imports. The excises on paint, gasoline, domestic liquor, and cement have a similar philosophy...we believe that this strategy should be examined carefully" (p. 131).

The Report came to the following conclusions: there should be a doubling of the excise tax on liquor, of license fees for sellers of alcoholic beverages and owners of stills, and of the cinema tax. The taxes on jewelry, shoes and paint should be repealed, and, in the longer run, the cement tax too. Bottle counters and/or meters should be installed at soft drink producers, distilleries, and bottling plants for distilled spirits.

(i) <u>User Taxes on Automotive Transport</u>

The total tax on an ordinary car was $39.25 a year, and a driver's license, $7.50. The first "is quite low compared with many other countries, especially developing countries" (p. 139). The Report recommended an increase of 50 percent in the car tax. As to the gasoline tax, to be collected from the newly constructed sole domestic refinery (fully protected), "the proportion that the excise duty of 12 cents bears to the pump price of motor gasoline [about 40 cents per U.S. gallon] is quite low in Liberia....We see no reason why the excise duty may not be progressively raised over the next few years...so that the tax rate would approximate 32 cents per U.S. gallon on a gallon sold for 60 cents tax-inclusive at the pump." (p. 143). The increased revenue should be dedicated to a Highway Development Fund. The Report went on to point out the important developmental results that could be obtained by increasing the road network. Eventually, tolls should be charged on long-distance paved roads and on entry to, and possibly movement within, Monrovia.

The insigificant- or zero-yield taxes on airline tickets and coastal steamship travel should be abolished.

(j) <u>Possible New Taxes</u>

(i) <u>Death and Gift Taxes.</u> "...in a country that, like Liberia, has no net wealth tax and -- so far -- only a very light tax on real estate, a death tax seems especially appropriate, provided it can be administered without too much inequity within this group of taxpayers....An estate tax levied on the decedent's aggregate transfer would be the preferable form, administratively. Property not passing at death would, of course, pay no tax. An important example is land in the interior held under tribal rights. In the cities the ownership of many properties is unclear, but ... tax reform, either in the real estate tax or if a death tax is adopted, cannot wait upon title reform. Tax reform must force title reform....A gift tax should not be introduced until experience has been gained with the death tax." (pp. 150-151). The Report noted that apparently few, if any, of the countries of tropical Africa imposed a tax upon transfer of property at death or by gift, whereas such a tax, at death, was common in the countries of Southeast Asia.

(ii) <u>General Sales Taxes, including Value-Added Tax.</u> "On the face of it, there is no case for a general sales tax in Liberia, where consumer commodities for the middle and upper income groups are almost entirely imported, and those for the low-income groups are domestically produced and in large part produced by the consumer himself...customs duties imposed for revenue...are, in principle, the preferred method for taxing consumer commodities. Consumer services remain untaxed, to be sure, but aside from domestic service they seem to be less important in the Liberian consumption pattern than in developed countries....In practice, however, the administration of the ad valorem rates of the customs duties encounters difficulties of valuation so severe..." Should the existing $18 million of customs revenue be collected instead under two taxes, that is, part of it from customs and part of it from retailers? There would be "less pressure for dishonesty at any one point in the [tax] system....But the very number of retailers makes administration expensive per dollar of revenue....Many retailers are said to keep no books....Much consumption is never preceded by a retail sale, notably "subsistence" consumption."....The full tax would still have to be levied upon import when the goods were brought in directly by a consumer....To concentrate all the pressure of the $18 million at the retail level would make the tax unworkable....But if the customs duties were continued, although reduced by, say, one-half from their present level, and if the retailer were given a credit against his retail sales tax in an amount equal to the tax paid at customs on the goods he sells at retail, the retailer would have less chance of success in underreporting his sales .... Meanwhile, it would not matter much, if at all, how far evasion had proceeded at the import stage....A system resembling the one just described has been tested and found successful, over the past two years, in several European countries, under the name of "value-added" tax....A complete value-added tax system... imposes a tentative sales tax not only on retailers but also on wholesalers, manufactureres, farmers and raw material producers....But in the Liberian economy, where imports predominate, it might not be worth the extra administrative effort to extend the scope of the tax in this way." Moreover, "this split tax sytem...has one grave limitation. It cannot work well unless it is kept simple....there must be just one tax rate at retail on all goods, whether luxuries or necessaries." Hence, "the progressive elements in other parts of the tax system would need to be strengthened."

The Report thus ended on an uncertain note, with respect to the possible introduction of a general sales tax, specifically a value-added tax, and offered no firm recommendation.

(iii) Expenditure Tax. The Report mentioned the expenditure tax, collected from consumers on the basis of returns submitted by them, but judged the administrative and compliance problems to be far too severe.

(iv) Compulsory Loans. A possible compulsory loan by the taxpayer to he government was dismissed as bearing far too heavily on the poor compared with the wealthy.

(v) Excess Profits Tax. An excess profits tax was dismissed because of administrative difficulties.

(vi) Lottery. A possible lottery was condemned on the grounds that it would increase inequality of incomes, be a focus of corruption, and would create new gambling addicts.

In general, then, the search for new types of tax for Liberia did not uncover much that was promising.

(k) Non-Tax Revenues

In a chapter on Non-Tax Revenues, the Report went into some detail in analyzing gross and net revenues from the Port of Monrovia, the Vessel Registration Tax, Liberian Corporation Fees, Postal, Telephone and Telecommunications, the Roberts International Airport, Domestic Airports, the Public Utilities Authority, and the Liberian Produce Marketing Corporation, to ascertain whether there was justification for raising prices or fees charged in these activities so that, through smaller losses or larger profits the Government would need to raise correspondingly less in tax revenue for general purposes.

In general, it appeared that little help could be expected from these sources. Port charges would probably have to be increased merely to meet the payments due by the Government to the United States in coming years on the purchase price of the Port, which had been constructed by the United States. Moreover, the structure of rates charged by the Port of Monrovia was "economically inefficient, horizontally inequitable, and self-serving from the point of view of some of the owners of the Monrovian Port Management Company....this aged, distorted [rate] structure appears about to be revised" (p. 160). The vessel registration and tonnage taxes, a major source of revenue (Liberia had one of the largest registered fleets in the world) could not well be increased because of potential competition from other courtires, and, indeed, existing competition from Panama. Postal charges on foreign mail might be raised without too much loss of traffic, but this was not certain (domestic-mail revenue was relatively small). Rates could and should be raised for telephone and telecommunication service, but current revenues were only about half a million dollars. Landing, handling, and parking fees at Roberts International Airport would need to be increased anyway to meet costs of expansion in the near future, but there might be half a million dollars surplus available for the Government. The Public Utilities Authority was profitable, but needed the money for expansion and possible reduction of the high rates. The Liberian Produce Marketing Corporation, half owned by the Government, could not be counted on for an increase in profits in the years ahead.

IV. Degree of Implementation of Tax Mission's Recommendations

1. Progress Report of Tax Commission, October 30, 1970

The Progress Report of the Tax Commission, submitted about a year after the Tax Mission had delivered its report, concluded that "Although the Commission recognized the merits and quality of the [Tax Mission] ...recommendations it was generally believed that the Shoup Report be it served as a long-run guide toward which the Liberian Government could move after more careful and intensive study, but that it was not a tax package to be implemented in its entirety at this time" (p. 5). This first report of the Commission would therefore be restricted to "high priority items," and the recommendations would in total be revenue-neutral. The Commission recommended:

In line with the Mission Report, repeal of the austerity tax and the education tax, the revenue loss being made up from a lowering of the personal exemption under the income tax (to $600) and a redesign of the rate schedule for individuals so that the top rate would drop from 35 percent to 25 percent, the latter however to take effect at $20,000 instead of at $21,500, and the lower rates to be more steeply graduated than before. A partnership, aside from zero exemption, would use the same rate scale. An individual who was a member of more than one partnership and had an income of more than, say, $20,000 would have to include his share of the profits in his return, taking credit for his share of the partnership tax (p. 11).

The Commission would shrink the seven corporate income brackets to four, retaining the existing top and bottom rates (the Mission had not suggested this) (p. 11).

As to the business and occupation license fees," the Commission agreed with the Mission that the occupational license charges should be increased by 50 percent. For the mercantile licenses, the Commission went well beyond the Mission's view and recommended their replacement by a "business trade levy" based on gross income or gross sales and covering "a wider group of businesses" (p. 8). Rates within the mercantile and service categories "would be allowed to vary...in accordance with ability to pay" (p. 8). This tax would now include financial institutions, service industries in general, and liquor dealers, among others.

The Commission accepted the Mission's recommendation that motor vehicle licenses should be raised 50 percent (with a graduated fee for large vehicles) (p. 12).

On the other hand, the Commission said nothing about reforming the tax rules for concessionary enterprises, repealing deduction of personal taxes under the income tax, providing loss carry-overs, reducing the double taxation of dividends, repealing the education flat tax, and, eventually, the hut tax, reforming the real estate tax, altering the pattern of taxes on imports, suspending the rubber export tax, increasing the tax on liquor, or raising the gasoline tax. Nor was introduction of a death-and-gift tax suggested. Non-tax revenues were not covered.

At no point did the Commission Report flatly disagree with a recommendation of the Mission, except, impliedly, in venturing into a general sales tax against the Mission's warning.

2. Revenue Symposium, August 1974

In December, 1973, I was invited, in a letter from Byron Tarr, Assistant Minister of Finance of Liberia, to give a paper at a Revenue Symposium to be held in Monrovia August 21-23, 1974, my topic being "Liberia's Tax Structure: Are Material Changes Desirable? Its Role in Economic Development." Eight other speakers were to give papers on income tax, customs and excise duties, sales tax, real estate tax, and tax harmonization for Liberia and Sierra Leone. The symposium came off as scheduled. The following remarks are based on material received from the Ministry of Finance before the symposium, incorporated in my paper submitted June 30, 1974.

All in all, it appeared that "Liberia's tax system is very much the same as it was in 1969. ...A 1 cent per gallon motor fuel tax came into force August 25, 1971, the proceeds apparently to be dedicated for agricultural expansion. A $3 "airport/seaport service charge" became effective August 27, 1971, on every person's travel fare abroad from Liberia (except those in transit within 48 hours). A law effective April 26, 1972, provided for "an excise tax on either the production, sale, or consumption of all products manufactured within the Republic of Liberia," as Chapter 47, "Excise Tax"; apparently further steps had to be taken before this tax would be implemented. In laws effective February 23 and March 20, 1973, an annual development tax of $5 per capita or $5 per hut in Tribal Jurisdictions was imposed. Finally, in a law effective March 20, 1973, a 5-year carry-forward of business losses was allowed under the income tax." The information in this paragraph is from my paper.

Some changes in the income tax were contained in a new draft and codification prepared by Herbert H. Alpert, of the New York law firm of Roberts & Holland, but I have no record of the extent, if any, to which this codification and reform draft later became law. (But see Section 3 below).

The United Nations Development Programme started a project in Liberia in February, 1973, "to uplift the real estate tax area," with the result, by July 1974, that "a major part of the properties in Monrovia have been revalued on a current market value basis and these will have effect for tax purposes from January 1, 1974....a substantial number of properties not previously taxed have been brought to account. A systematic valuation field book system has been utilized in this work;...the rate of tax on let out apartment buildings and houses has been increased from the residential 1/2% rate to the 2% business rate;...quite a number of tax loopholes have been closed, e.g. several well improved 'farm'properties have been valued (for the first time) and taxed...likewise by a systematic search at the Deeds Registry Office many undeclared leases have been discovered and tax bills prepared to recover the "Coastguard" tax due on these. (An attempt was made to consider whether to drop this tax but met with no encouragement)." (Letter of July 12, 1974, from H.J. Manning to Shoup).

Those who delivered papers at the Symposium, all of them on taxation issues in Liberia, or relevant to those issues, were Herbert Alpert, John F. Due, Nils Hornhammer, George E. Lent, H.J. Manning, S. Byron Tarr, A.M. Woodruff and a speaker from Sierra Leone (not specified in the preliminary program). My recollection of the symposium is that it was indeed a serious effort, with interesting discussion, but I have no notes on it.

3. The Period 1975-1987

Information on changes in the Liberian tax system since 1974 has proved difficult to obtain, but thanks to four sources[1], enough has been learned to indicate that although a few of the 1969 Report's recommendations have become law, in general they have not been accepted, and some tax measures quite contrary to those recommendations have been enacted.

(a) Income Tax and Poll Tax. In 1980, the individual income tax rates were increased and the personal exemption was lowered. The increase in rates was far greater than the Mission Report would have considered practicable: the schedule now went from 11 percent on the first $2,000 to 65 percent on the amount in excess of $99,000 (TNS, 1981, p. 33). The Report had suggested a top rate of only 20 percent (p. 77). This 1980 rate schedule is evidently still in force.

The personal exemption was reduced from $1,500 to $1,000 (TNS, 1981, pp. 21, 33). This $1,000 was the level recommended in the Mission Report, but the rise in prices since 1969 makes this exemption much lower in real terms than the Report called for. In line with the Report, the practice of giving no other type of personal exemption, e.g. for dependents, has been continued. The $1,000 exemption is apparently still in force.

A poll tax of $10 a year, called a "development and progress tax," was introduced in 1977. It strikes all individuals over 18 (and under 61:

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[1]. I am indebted to Michael Frankel of the International Monetary Fund, for a list of new revenue measures enacted in Liberia in the fiscal years 1980/81-1985/86, and to the International Bureau of Fiscal Documentation ("IBFD") for a copy of the chapter on Liberia in their publication, African Tax Systems, and a copy of the 1977 Revenue and Finance Law, with amendments and regulations currently in the IBFD file. As will be seen, substantial use has also been made of the IBFD's Tax News Service ("TNS"), a loose-leaf updated source on tax changes in countries around the world. A letter from me to the Minister of Finance in Liberia elicited no response. For the most recent compilation, see Price Waterhouse, Worldwide Summaries of Individual Taxes and Corporate Taxes.

African Tax Systems). The proceeds were to be used for development projects (TNS, 1977, Non-Europe, p. 57). Apparently the old "education tax" thus reappeared, with a differently stated objective.

A "national reconstruction tax" was imposed on all wages and salaries and on the income of the self-employed, effective August 1, 1981. The tax rates ranged from 2 to 10 percent, but were lowered, as of January 1, 1982, to 1 to 8 percent (TNC, 1982, p. 13). But the rates appear to be linked, not to annual earnings, but to monthly earnings, as follows: 1 percent on $1 to $200; 4.5 on $201 to $500; 7.5 percent on $501 to $1,000; and 8 percent on over $1,000. Presumably these are bracket rates. Apparently the old austerity tax had been repealed, only to reappear in this form.

A "health tax" of $5 per month (not per year) was imposed in the fiscal year 1984-85 on all persons in employment and on all foreign residents.

As to the other personal tax in force in 1969, the $6 per capita tax ($6 per hut in the tribal areas), information is not at hand as to whether it is still in force, but since it is not mentioned in African Tax Systems, we may perhaps assume that it was repealed.

The personal-tax segment of the Liberian tax system, therefore, is a mixture of taxation of personal income in general, personal earned income, and of poll taxation on an age group and on employed persons.

When we move to taxation of business organizations, we see, first, that partners are now required to include in their taxable incomes their shares in the profits of the partnerships, an advance from 1969 that the Tax Mission thought was not advisable at that time. The partnership itself is still taxable, but a tax credit is given each partner in respect of his share in the tax paid by the partnership (but is a tax refund given if that share exceeds the partner's tax attributable to the profits?).

The corporation income tax seems to be about the same now as it was in 1969. No change at all appears to have been made from 1980 to 1986. The graduated rate scale is somewhat stiffer now, in money terms, than it was in 1969: 20 percent on the first $10,000, rising to 50 percent on that part over $100,000. This change took effect July 1, 1977 (TNS, 1978, Non-Europe, p. 20).

The only corporation tax recommendation in the 1969 Report, that double taxation of dividends be mitigated, has not been adopted.

In 1980 the TNS reported that the investment code was being revised with the hope that "investments can be better spread geopraphically and over the various sectors of the economy" (p. 91).

(b) Real Estate Tax ("Land Tax"). The real estate tax is evidently much the same as in 1969, except that undeveloped town lots, instead of paying $2 per quarter acre, are now taxed at 5 percent of assessed value. The two recommendations of the Report as to the lease tax and uniformity of tax rates have not been adopted.

(c) Taxes on Imports. A new customs tariff came into effect October 1, 1977; it "alters the rate of duty on almost all items" (TNS, 1977, Non-Europe, p. 57).

In the period 1980/81 to 1985/86, an increased dependence on import taxes can be noted, although some reductions were made. In 1980-81 two increases were enacted. A variable-rate surcharge of 25 percent was imposed on dutiable luxury items and one of 15 percent on all other dutiable non-essentials. An invoice entry fee was levied: 7.5 percent on duty-free and transshipment goods and 5 percent on dutiable goods (lowered to 2.5 percent on transshipment goods in 1981-82, but put back to 7.5 percent in 1983-84).

In 1982, "the duty-free exemptions on imported equipment and materials for foreign companies" were "suspended" (TNS, 1982, p. 93).

In 1982-83 the "import surcharge of 1980-81 was eliminated for several nonluxury goods. The stamp tax on bills of entry for duty-free goods processed by concessions was increased, in 1983-84, from $0.25 to $0.75 for each $100 or fraction. All ad hoc duty-free privileges granted to corporations were suspended on July 6, 1984, but were reinstituted at 50 percent of the previous levels in November of that year. Finally, an across-the-board increases in all import duties by 10 percentage points was introduced May 1, 1985, but several exemptions to this were introduced in 1985-86.

It is not known to the writer whether any of the Mission Report recommendations (p. 13 above) have been adopted, but the across-the-board increase may indicate that little attention is yet paid to the need to reduce tariffs on business goods (producer goods) relative to consumer goods, especially consumer luxury items.

(d) Taxes on Exports. The export tax on rubber, applied to foreign concessions, was withdrawn, in 1983-84, but was reimposed in 1984-85 (15-25 cents per pound). The 1969 recommendation was scarcely applicable here in view of the great change in world prices subsequently.

(e) Business License Fees. The recommendation of the Tax Commission to convert part of the license fee area into one subject to a sales tax has evidently been accepted; thus the advice of the Tax Mission was not followed. As of 1984 there is a "business registration license" of $400 a year, and a series of "miscellaneous licenses" fixed fees on hotels, restaurants, diamond brokers, prospectors, etc., but there is also an annual trade levy varying from 0.5 percent to 1 percent on total sales in the preceding calendar year. "This levy also applies to banks, insurance companies, insurance brokers and similar financial institutions but slightly different rates and rules are applied." (IBFD, Liberia, p. 11).[1] In 1985-86 the business registration fees for various categories were increased.

(f) Excise Taxes (ex Gasoline Tax). In 1980-81 excise taxes on several items, including beer, were increased, and the beer tax was raised again, August 1, 1981, by 59 cents to $1.10 per liter, but was subsequently lowered to 90 cents per liter. In 1983-84 a special low rate (50 percent of the normal rate) was accorded to certain items sold by military PXs: beer, stout, soft drinks, domestic spirits, and tobacco; and customs duties were lowered to 25 percent of the normal rate for imported spirits and tobacco.

Information for comparison with the 1969 rates is not at hand, in general. The specific-rate tax on beer has been almost doubled, a step the Mission recommended for liquor.

(g) User Taxes on Automotive Transport. The Mission recommendation that the gasoline tax be raised, from 12 cents a gallon to 32 cents, has been more than followed. We recall again that the price level has risen greatly since 1969. The tax rate was raised to 32 cents in 1981 and in 1983-84 was increased to $1.25. This evidently proved too drastic, as the rate was subsequently lowered to 82 cents, but on May 1, 1985 this reduction was more than recouped by an increase to $1.50 a gallon.

A 10 percent tax on international air travel was introduced in 1980-81.

(h) Tonnage Tax. Probably in line more or less with the rising general price level, the annual tonnage tax on ships registered under the Liberian flag was raised from the 1969 level of 10 cents to 30 cents per ton in 1981-82, to 35 cents in 1982-83, and to 40 cents in 1984-85. Presumably Panama and other competitors have enacted somewhat similar increases.

V. A General Appraisal

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[1]. The IBFD does not regard this trade levy as a general sales tax, since it states (Liberia, p. 10) that "No general sales tax is levied in Liberia." Price Waterhouse, Corporate Taxes, 1987 edition, reports that the "license taxes" include one of 1 percent of total sales of wholesalers and retailers, subject to a $125 minimum (p. 208).

In Section VI of the report on the Tax Mission to Japan (p. 43), I remarked that a tax mission report "is a failure if its authors so misunderstand the environment they are dealing with that virtually none of the recommendations are ever accepted." By this test, the Liberian tax mission report must be accounted a failure, except perhaps for the recommendations concerning imports and one or two of the excises, the information at hand not being sufficient to show just how far the recommendations in these fields were accepted. The responsiblity for this failure, or degree of failure, on the director of the mission, not on his colleagues, who pursued their research within the framework agreed on by the director with the Liberian officials.

In the income tax field, the failure of the tax mission to influence policy seeems to have been almost total. For the real estate tax the record is somewhat better, but not by much. The mission's warning against attempting a general sales tax has apparently been ignored. Eventual repeal of the per capita and per hut taxes seems as far away as ever. Excise tax changes may have been more in line with the Mission recommendations, but this is not certain. No tax on transfer at death has been imposed. Acceptance of the Mission recommendations on import duties semms to have been at least partial, in the distinction drawn between luxury and non-luxury items, but that had been somewhat in force initially, and the recent across-the-board increases run counter to this recommendation. More importantly, there is no record available as to whether the import duty load has been lifted from, or at least reduced for, producers goods. As to highway user taxes, the gasoline tax has certainly been increased, but whether the Mission's recommendation that the car tax also be increased has been implemented is not known. This paragraph may close on a slightly more cheerful note: at least Liberia has not attempted a personal expenditure tax, or an excess profits tax, or a compulsory loan or a lottery (see p. 14 above).

The violent overthrow in 1980 of the Tolbert government by Doe and his associates, and the decline in Liberia's economic fortunes have probably made much of the desciption and analysis in the 1969 Report inapplicable today. Acceptance now of any of these 1969 recommendations could scarcely be considered, automatically, a "success" for the Tax Mission. The financial extremity to which Liberia has come is indicated by its acceptance of a group of seventeen United States "operational experts" who have "co-signing authority in several key ministries and state corporations: finance, commerce, planning, the central bank, the national oil company and the produce marketing company....Liberia was cut off from assistance last year by the World Bank, the International Monetary Fund and the African Development Bank for nonpayment of its debts. Last fall, the United States Agency for International Development halted money for projects pending payment of overdue loans" (New York Times, April 26, 1987, dispatch by James Brooke from Monrovia).

Neither this lengthy dispatch nor the briefer item from Washington in the San Francisco Chronicle of March 5, 1987, mention taxation.

VI. Hindsights

The failure, or degree of failure, of the Liberian Tax Mission may have been due to one or more of the following circumstances.

First, tax reform may not have been a truly urgent matter in the minds of either the Liberian officials, the business community, or the populace in general. Most of the Government's revenue was coming from taxes on concessionaires, operating under agreements that could not be unilaterally changed. Further aid from abroad seemed always a possible way of avoiding hard choices in taxation. There had been no revolution, to induce a rethinking of, among so many other things, the tax structure. A major portion of the population, those in the non-monetary sector, were little influenced, at least directly, by taxes other than the hut tax. There were no problems of intergovernmental tax relationships.

Second, the total of resources put into the Tax Mission's effort may have been too small: five persons, working in Liberia for only five weeks or so, and, except for the director, not more than another two weeks back home. In particular, if substantial resources had been employed in analyzing tax administration problems, a better understanding might have been obtained as to what substantive recommendations would be appropriate (where considerable effort was made to appraise administrative techniques, that is, in customs and excises, the record of acceptance of substantive recommendations seems to have been better).

Third, the obligational pattern of the Liberian culture may have been so different from that of the Anglo-Saxon culture reflected by the Tax Mission that certain suggestions from the latter could scarcely be taken seriously enough for thorough implementation. In American society, no widespread obligation is felt by the elite to select some one or more of the younger persons in a disadvantaged group, say in the inner city, and assure that individual a full education and cultural contacts and even family life that will open the door to a position in the upper class. In Liberia, such a quasi-adoption, or even legal adoption, was not uncommon. The more impersonal obligation to pay one's taxes promptly and in full, on the other hand, seems to have been taken more seriously in the Anglo-Saxon culture (to say nothing of the minds of five individuals trained in public finance) than in the Liberian. Our mission members were somewhat startled to learn, from the files freely made available to Vickrey along with a computer to analyze them, that on 1967 incomes no individual in Liberia reported a taxable income of over $76,500, and only two reported taxable incomes between $51,500 and $76,500 (pp. 75, 78). The Government offered no objection to printing these findings (they might have objected under the "confidential" clause? - see p. 3 above).

I quote from the opening chapter of the Report:

"[T]he tax system [in Liberia] must compete with an informal system of more or less voluntary contributions to family, friends, political party, local political chiefs, charitable organizations, and the like. This informal, or 'quasi-tax system,' as it may be called, is not inherently an evil; it is to some degree a necessary social cement that binds the community together....The extended family and, to some degree, various secret societies obligate those who gain to share with others. However necessary this attitude might be in a non-monetary economy where the individual is dependent on community action, it dampens incentive to enter the monetary economy permanently....Another example is the strong pressure on Government employees to make political contributions that have on occasion amounted to as much as one month's salary. Equally serious are the informal and arbitrary levies said to be made by country officials, chiefs, and others, without statutory authority, to finance amenities for traveling officials, to defray fines incurred by the country officials, chiefs, etc. -- to name but two instances. ...Under these circumstances it is understandable that the formal sanction for not paying taxes may be often less severe than for not participating in the informal contributions....[If] the load of informal contributions...continues in its present intensity and extent, meaningful reform of the formal tax system will probably not be possible" (pp. 6-7). Liberian officials did not object to this statement.

A somewhat different cultural pattern may have developed under the Doe regime. The Tax News Service stated in its 1984 edition, pp. 83-84: "It has been reported that a tax collection force has been set up in a new effort against tax evasion and bribery. This force will be backed up by soldiers and policemen. Anyone receiving or giving bribes to avoid paying tax could be summarily executed. Foreigners who do not comply may be deported and are liable to have their property confiscated."

TNS contains no information on Liberia in 1985, 1986, and through May 31, 1987, except a proposal by Sweden to terminate its tax treaty with that country among others (1987, pp. 70, 81).

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Appendix A

MEMBERSHIP IN INTERNATIONAL TAX ORGANIZATIONS:

AFRICAN COUNTRIES OTHER THAN SOUTH AFRICA

The relative isolation of tax officials, tax lawyers and accountants, and tax economists in African states (other than South Africa) from colleagues in the rest of the world is vividly indicated by the following membership figures for the two largest such organizations, the International Fiscal Association and the International Institute of Public Finance, for 1987.

The national branches of the IFA counted 6,681 members in 37 countries. None of these countries was in Africa, save South Africa (103 members). In addition, there were 129 "direct members", in countries with no national branch of the IFA. Only 5 of these were in Africa: 2 members in Egypt and 1 member in each of Kenya, Morocco, and Nigeria.

The IIPF has no branches. Out of a total membership of 899, 4 are in African countries other than South Africa: Egypt, 2; Nigeria, 1; Senegal, 1.

In Asia (not including Asia Minor) the IFA has branches in seven countries with a membership of 382, and 10 direct members in four other countries (Macao, 1; Philippines, 1; Taiwan, 6; Thailand, 2). The IIPF has only 33 members in this area, 23 of them in South Korea, 6 in India, 2 in Singapore, and 1 each in Sri Lanka and Thailand.

(Sources International Fiscal Association: Yearbook, 1986, "Members" Section, pp. 2-3, "Complete List of Members as per March 20, 1987." Printed by Kluwer, The Netherlands; General Secretariat, IFA, Erasmus University, Rotterdam....International Institute of Public Finance: Membership list, 1987. General Secretariat, Saar University, D-6600 Saarbrucken, German Federal Republic.)