

# The Influence of Political Institutions and Governance on Tax Progressivity in the East Asia-Pacific Region

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## Abstract

This paper examines the relationship between political institutions, governance, and tax progressivity within the East Asia - Pacific region. Tax progressivity is an important policy tool to promote more just societies and reduce income inequality. Political institutions have great influence in shaping tax policy and ensuring the progress of taxes and the configuration of the tax system. Level of enforcement and compliance with tax laws It all depends on the impact of political institutions. It was found that factors of governance and political institutions influence the progress and advancement of the personal income tax system. Political pressure, such as pressure from interest groups, can lead to changes that slow progressivity. Progressivity in the tax system tends to occur in countries with stable political institutions and a high level of democracy and transparency. On the other hand, corruption and the lack of strong political institutions can hinder tax progressivity. Strong administrative infrastructure and effective tax collection and enforcement mechanisms are essential to maintaining a progressive tax system. However, these institutions also face obstacles, such as resistance from the wealthy, a lack of technical expertise, and the need to balance interests and competitive priorities. This article explores the pursuit of tax progressivity in the East Asia-Pacific region and presents possible solutions that different countries can use. It can be used to enact progressive tax reform. Strengthening political institutions is a critical step toward tax advancement and the establishment of a fair, transparent, and accountable tax system in the East Asia - Pacific region.

## Introduction:

The global landscape is undergoing rapid and multifaceted transformations, driven by both internal and external factors. U.S. State Department (2012) defines 30 countries in East Asia and the Pacific, but in this article data can be found on 16 countries: Australia, Cambodia, China, Fiji, Indonesia, Japan, Lao PDR,

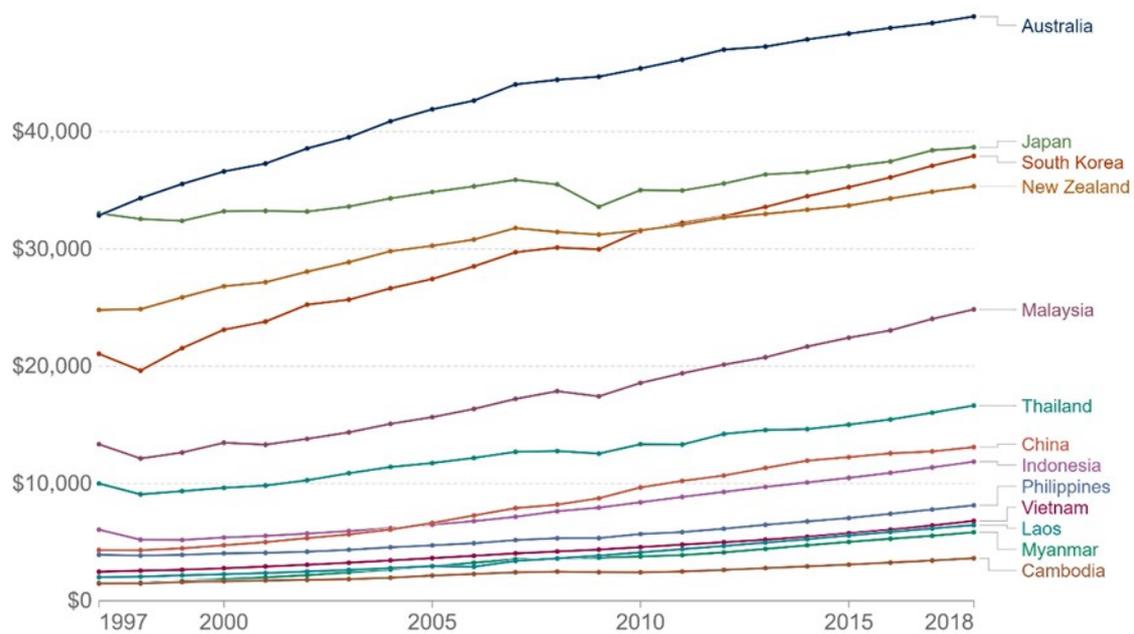
Malaysia, Myanmar, New Zealand, Papua New Guinea, the Philippines, Singapore, South Korea, Thailand, and Vietnam. Within the East Asia-Pacific region, there has been a notable surge in economic growth over the past few decades. However, this progress has also been accompanied by an alarming rise in income inequality, which has emerged as a pressing concern in the region.

Despite the aspirations of each nation to foster development and ensure equitable well - being for its people, the persistent issue of inequality remains prevalent in Figure 1, demonstrates the economic growth achieved by each country, but it also reveals the persistent challenge of inequality. This issue holds significant importance, garnering attention from both individual countries and international organizations.

The reason behind such attention is that income distribution inequality negatively impacts economic growth and hampers a country's long-term economic and social progress. Consequently, the economic and social development of each nation within the region remains incomplete and hindered by this prevailing issue.

**Figure 1**

*Shows Economic Growth by GDP per Capita in 1997–2018*



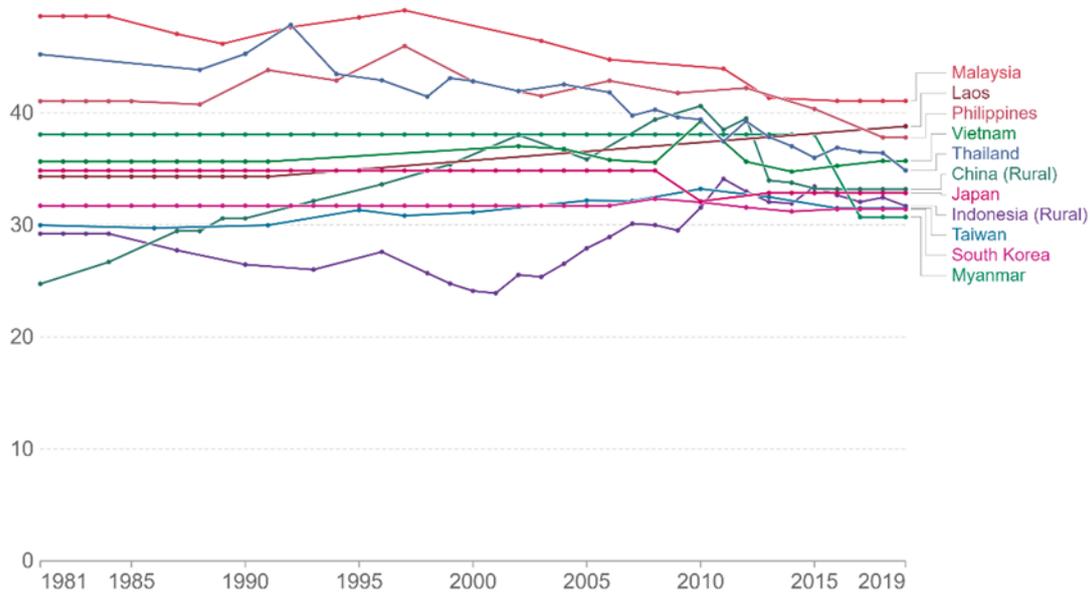
Source: Maddison Project Database 2020 cc.by OurWorldData (2021b)

When a government allocates a significant portion of the national budget to various development initiatives targeting the underprivileged or individuals with low incomes, it reflects a commitment to addressing inequality within the higher echelons of society. To effectively reduce inequality, it becomes imperative for governments to establish mechanisms and tools tailored to the specific needs of the target group, thereby fostering justice and sustainable equality. This is because income distribution serves as a gauge for assessing

social equality, economic parity, and well - rounded economic progress within a country. The Gini coefficient or Gini Index is a widely utilized method for measuring income distribution. It represents the ratio of income distribution on a scale from 0 to 1, where 0 signifies perfect income equality among the entire population and 1 denotes absolute inequality. Alternatively, the Gini coefficient can be expressed as a percentage, providing a quantitative measure of income distribution, as depicted in Figure 2.

**Figure 2**

Shows Income Inequality of the Gini Index, 1981-2019 Among ASEAN Countries Plus China, Japan, South Korea and Taiwan



Source: PovCal (2021) cc.by OurWorldData (2021c)

Figure 2 presents the Gini coefficient data for ASEAN countries, China, Japan, South Korea, and Taiwan from 1981 to 2019, expressed as a percentage to measure income distribution. During this period, the values ranged between 20% and 60%, indicating varying degrees of income inequality. However, countries have made gradual adjustments to reduce income inequality, bringing the Gini Index to approximately 30 - 40 % despite sustained economic growth.

In the pursuit of reducing inequality and promoting social justice, tax reform has emerged as one approach to implement structural change aimed at promoting greater equality. Progressive tax rates are also known as tax progressivity, serving as a policy tool to address income inequality. Taxes play an important role in reducing inequality and creating a fairer society by contributing to the overall level of equality within a country. Most research on tax systems focuses mainly on tax reform in OECD (Organization for Economic Co-operation and Development) countries, particularly concerning governance related to tax progressivity. However,

there is limited research in East Asia-Pacific countries in this regard, so this study aims to examine and analyze political institutions and governance factors influencing progressive tax policies, where countries in East Asia and the Pacific, despite economic growth, still have inequality in income distribution. Therefore, it sheds light on the development concepts driving tax progress within the East Asia and Pacific region.

This article is obtained from the collection and analysis of information from reliable documents from various sources, including official documents of international organizations and highly reliable media, as well as academic articles in recognized databases for the content of the presentation, consisting of explaining the concept of tax policy, tax progressivity, political institutions, and governance factors influencing tax progressivity in the East Asia-Pacific tax system. This presents new theoretical knowledge in fiscal public policy on taxation systems and development strategies in developing countries by using tax progressivity as an important tool to reduce inequality and create justice in society.

## Tax Policy:

Taxes are indeed an important source of revenue for governments, enabling them to finance the administration of a country. Various types of taxes contribute to this revenue, including investment gains and profits, social security contributions, payroll and employee taxes, property tax, goods and services tax, and other forms of taxation. Proper collection and management of taxes are crucial for the country's overall development.

In recent years, many countries in the East Asia-Pacific region have experienced rapid economic growth. However, this growth does not always translate into increased income equality. Income inequality has emerged as a concern, prompting policymakers to explore tax policies as a means to promote a more equitable society and reduce income inequality. Implementing tax policies that effectively address these issues is a challenge, requiring careful consideration of several factors, such as the level of income inequality, the structure of the economy, and the political and social environment.

The concept of using tax policy to promote equality is not new and can be traced back centuries to the ideas of Adam Smith, an influential economist. In his book "The Wealth of Nations," Smith (1998) outlined four principles of good taxation: fairness, certainty, ease, and efficiency. Economists have further developed this concept through the notion of "Optimal Taxation theory," which aims to design tax systems that balance efficiency, equity, and competitiveness while contributing to the highest level of social welfare.

One notable contribution to the theory of optimal taxation is the work of Ramsey (1927). Ramsey proposed the idea of taxing goods and services with low elasticity of demand, meaning those for which consumer behavior is less affected by price changes. The rationale behind this approach is that taxing such goods will generate government revenue without significantly altering consumer behavior. In Ramsey's theory, taxes should be proportional to consumers' response to price changes of essential goods with inelastic demand, such as food and medical care, should be taxed at lower rates, while luxury goods

with more flexible demand, such as yachts and private jets, should face higher tax rates. This way, individuals who can afford to pay more will contribute more in taxes, while those with lower incomes are taxed at lower rates.

Ramsey also emphasizes the need to strike a balance between equity and efficiency in tax design. While a progressive tax system, which imposes higher rates on the rich, can reduce income inequality, it may also discourage economic growth by diminishing incentives for work and investment. On the other hand, fixed tax rates can stimulate economic growth, but it will cause low-income earners to pay the same taxes as high-income earners.

Ultimately, determining the most appropriate tax policy for a particular country or region in the East Asia-Pacific area requires careful consideration of these factors and trade-offs. Policymakers strive to find a balance between promoting equality, fostering economic growth, and ensuring efficiency in tax collection and utilization.

The concept of taxation has continued to evolve, and Mirrlees (1971) made significant contributions by suggesting that proper taxation should balance two objectives: increasing government revenues and promoting social welfare by reducing vulnerability. Mirrlees proposed a progressive income tax system, where individuals with higher incomes pay taxes at a higher percentage of their income. He also advocated for different tax rates on goods and services based on the price elasticity of demand. Essential goods with inelastic demand should face lower tax rates, while luxury goods with flexible demand should face higher tax rates. Mirrlees also highlighted the importance of simplicity, transparency, and the avoidance of economic distortions and tax evasion in the tax system.

Despite these advancements, debates still exist regarding the appropriate form of taxation, particularly in achieving a more equitable income distribution. Heathcote, Storesletten and Violante (2020) have tackled this issue by examining whether tax progressivity should respond to increasing income inequality in the United States.

They suggest a tax policy that strikes a balance favoring a more progressive approach if there is an increase in income distribution. A progressive income tax targets high earners to reduce income inequality. The proposed income tax policy aims to effectively address income inequality. This should be more responsive to higher levels of income inequality, making a progressive tax system more appropriate for an unequal society.

Heathcote, Storesletten, and Violante's research provides valuable insights into tax policy design that addresses the challenges posed by growing income inequality while promoting economic growth. Their work emphasizes the importance of considering differences in income and individual abilities. It opens up new avenues for research and development in the field of tax policy.

In Papanikolaou (2021) study on the impact of tax progressivity on income inequality, a cross - border cohort dataset covering 96 countries from 1960 to 2015 was utilized. The study revealed that tax progressivity contributes to a reduction in income inequality. However, the effect of tax progressivity on income inequality varies at different levels of progression. Papanikolaou discovered that the highest reduction in income inequality occurred at a moderate level of progressivity, while both low and high progressivity levels were associated with lower income inequality, albeit to a lesser extent.

Furthermore, the study demonstrated that the impact of tax progressivity on income inequality differs among various income groups and is contingent on the level of economic development within a country. This underscores the significance of tailoring tax policies to a country's specific socioeconomic conditions in order to achieve the desired outcomes in terms of income distribution and equality.

Taxes serve as the primary financial tool employed to achieve a fair distribution of income. Policy-makers must meticulously consider the distinct economic, social, and political factors present in each country and formulate tax policies that are well-suited to their particular needs and circumstances. By doing

so, they can strive to create a more equitable society through effective tax policy design.

### Tax Progressivity:

Tax policy refers to the decisions made by a government regarding the collection of taxes and the allocation of tax revenue. One aspect of tax policy is its influence on income tax progressivity, which can be achieved through the use of tax progressives, which involve imposing higher tax rates on individuals with higher incomes. This approach aims to reduce income inequality by ensuring that those who earn more contribute a larger percentage of their income in taxes. The concept of tax progressivity is based on the principle of affordability, which suggests that individuals with higher incomes should contribute more to society through taxes compared to those with lower incomes.

In terms of the relationship between tax progressivity and economic growth, a study by Greiner (2006) presented an internal growth model that incorporated public capital and a progressive income tax. The study demonstrated that more advanced tax schedules, which include higher progressivity, result in a larger ratio of public capital to private equity. However, the growth rate becomes less balanced due to the negative growth impact of the progressive tax system outweighing the indirect positive growth effect of increased public equity shares.

A progressive tax system operates by increasing the tax rate as income increases. This ensures that individuals with higher incomes pay a larger proportion of their income in taxes, aligning with the principle of ability to pay. The underlying idea is that individuals who earn more have a greater capacity to contribute financially to society. Tax progressivity has gained increasing attention as a policy tool for addressing income inequality over time. By implementing progressive tax systems, governments can promote fairness and redistribute wealth more equitably.

One of the primary advantages of a progressive tax system is its ability to address income inequality. By requiring high-income earners to pay a higher percentage of taxes, a progressive tax system helps redistribute wealth and narrow the income gap between the rich and the poor. This has significant social and economic benefits, including reducing social unrest and promoting political stability. Moreover, a fairer tax system contributes to a more stable and sustainable economy by ensuring that all citizens contribute their fair share of taxes. Governments can generate more revenue to fund public services and infrastructure, ultimately fostering economic growth.

Implementing a progressive tax system, however, can pose challenges. Political resistance from the wealthy, a lack of technical expertise, and dependence on tax revenues are some of the obstacles that countries may face. Despite these challenges, the potential benefits of a more advanced tax system in promoting a more equitable society make it an important policy tool that political institutions must consider.

The concept of a progressive tax system dates back to the early 20th century when it was first introduced in the United States. It is grounded in the principles of social justice, asserting that individuals with higher incomes have a greater responsibility to contribute to society. This understanding has led to an increasing recognition of progressive taxation as a vital policy tool for promoting a fairer society and reducing income inequality.

In the East Asia-Pacific region, rapid economic growth has been accompanied by increased income inequality. However, the degree of tax progressivity varies greatly among countries in the region. Some countries, such as Japan and South Korea, have highly progressive tax systems, while others like Indonesia and the Philippines have regressive tax systems, where lower-income individuals pay a higher percentage of taxes than higher-income individuals. The concept of progressive taxation has quickly spread to many countries in the East Asia - Pacific region and has gained importance as a policy tool in recent years.

Economic research on tax progressivity often focuses on measuring and calculating the degree of progressivity in tax systems. Kakwani (1977) introduced a new approach to measuring tax progressivity, which helps isolate the effects of taxes on income distribution. It has been demonstrated that the impact of taxation on income distribution is not solely determined by the level of progressivity but also influenced by the average tax rate. By using the proposed tax progress index and analyzing the properties of the index, the Gini Index fluctuates from +1 at the most progressive end to -1 at the tax regressive end. This allows for a comprehensive examination of the US tax progressivity.

Another area of research explores the structure of the tax system and its impact on progressive taxation. Gerber et al. (2018) examined the relationship between tax system structure and the ability to achieve a progressive tax system, using Kakwani's index but not considering pre - tax income distribution. Their findings indicate a decline in progressivity between 2000 and 2017. Additionally, the potential benefits of progressive income taxation may be diminished when value - added tax (VAT) is implemented due to increased uncertainty and potentially lower demand growth.

Rubolino and Waldenström (2020) discovered that tax breaks have a long-term positive effect on the top revenue share, primarily through the use of lower marginal tax rates. They also observed an increase in the share of capital income among the highest income earners following tax reforms. These findings suggest that tax avoidance behavior may contribute to some of the observed effects.

Overall, economic research on tax progressivity provides valuable insights into measuring and analyzing the impact of tax systems on income distribution. By understanding the structure and effects of tax policies, policymakers can make informed decisions to promote a fairer and more equitable society.

According to Gerber et al. (2020), increasing tax progressivity can help reduce pre-tax inequality. Additionally, a study by Heer and Rohrbacher (2021)

suggests that modifying the ideal progressivity of the US tax system, such as through a more equitable welfare function or addressing current levels of wage inequality, could have positive impacts on welfare and employment. Furthermore, Kakwani and Son (2021) explored the relevance of progressive tax measures in tax policymaking, finding that designing a progressive tax system is essential for optimizing social welfare, minimizing tax administration costs, and maximizing social returns through efficient allocation of tax revenues.

In the East Asia - Pacific region, achieving tax progressivity requires a multifaceted approach. First, countries should ensure that their tax systems are designed to be progressive, which includes establishing final tax rate structures and providing tax credits for low - income earners. Second, effective enforcement of tax systems is crucial, necessitating a reduction in tax avoidance and an increase in tax compliance. Third, tax systems should be transparent and accountable, ensuring that taxpayers understand how their taxes are utilized and that tax revenues benefit all citizens.

However, implementing tax reforms to achieve progressivity faces challenges, including the political will to initiate changes, particularly in countries heavily reliant on tax revenues. Additionally, the lack of technical expertise and resources for designing and implementing progressive tax systems poses another obstacle for many countries in the region.

Addressing these challenges and advancing tax progressivity requires concerted efforts from governments, policymakers, and relevant stakeholders. By prioritizing equity, transparency, and effective enforcement, countries can create fairer tax systems that contribute to social welfare gains and promote economic development.

### **Political Institution and Tax Progressivity:**

Political institutions are essential components of a functioning state, as they are responsible for making public policy decisions and wielding the power necessary to govern a country. These institutions have

the authority to formulate policies that shape the nation's development and allocate the national budget to serve the people. Economic policies, in particular, are greatly influenced by the various forms of political institutions present in a country. One significant aspect of economic policy affected by political institutions is income taxation, as they are responsible for collecting taxes to be utilized for the country's development.

Political institutions and their indicators have been defined in different ways by scholars. North (1991) defines institutions as man-made constraints that structure political, economic, and social interactions. These constraints encompass both unofficial restrictions such as boycotts, prohibitions, customs, traditions, and ethics, as well as formal rules like constitutions, laws, and property rights. On the other hand, Zaaruka and Fedderke (2011) define political institution indicators as composed of various factors, including property rights, political freedom, judicial independence, and political instability. Different classifications of political institutions based on these indicators have been shown to have a significant impact on economic policies, resulting in substantial variation.

Persson and Tabellini (2004) conducted research revealing that changes in governance and electoral reform often lead to trade-offs between accountability and representation. These trade-offs extend to the outcomes of economic policy, as they influence politicians' incentives to cater to the needs of specific groups of voters. In order to secure the support of a larger voter base, politicians are motivated to respond to the demands and preferences of these groups. This dynamic can shape economic policies in a way that aligns with the interests of influential voter groups.

Mutascu (2011) conducted research exploring the influence of political regimes on taxation. The study suggests that a substantial increase in taxation, without significant negative reactions from the population, is more likely to be implemented in countries with strong democratic or authoritarian political regimes. The nature of the political regime can affect the ability to enact and implement tax policies that aim to achieve greater progressivity.

Overall, political institutions have a crucial role in shaping tax policies and determining the level of tax progressivity. They are responsible for designing tax systems and setting tax rates, which directly impact the distribution of the tax burden among different income groups. The influence of political institutions on tax progressivity is complex and can be influenced by factors such as the design of the tax system and the nature of the political regime in a particular country.

Kenny and Winer (2006) conducted research on the role of political regimes and found that democracies tend to rely more on personal income tax compared to other regimes. This could be due to the fact that personal income tax relies more on voluntary compliance. Balamatsias (2018) also examined the relationship between regional democracy and national regimes and found a positive effect of democracy on direct taxes and the overall tax ratio. Furthermore, Profeta, Puglisi and Scabrosetti (2013) studied how political changes affect the composition and size of tax revenue and government spending.

Political factors can significantly influence personal income tax progressivity. Pressure from interest groups and stakeholders, such as wealthy individuals or corporations, may lead to changes in tax policies that reduce tax rates for high-income earners. These changes make the tax system less progressive by decreasing the level at which tax rates increase with income. In the United States, political factors have played a role in diminishing the progressivity of the federal personal income tax system. A specific example of this influence is the Tax Cuts and Jobs Act of 2017, as highlighted by the Tax Foundation (2017). This act led to a reduction in the maximum marginal tax rate from 39.6% to 37%. As a result, high-income earners benefited from lower tax rates.

Administrative factors also impact the advancement of personal income tax systems. The efficiency and effectiveness of tax collection and enforcement mechanisms play a crucial role. If tax collection and enforcement are weak or inefficient, taxing high-income earners becomes more challenging, making the tax system less progressive. To enhance

the advancement of personal income tax, governments need to focus on reducing corruption, promoting effective tax and customs administration, and increasing revenue from less corruption-prone tax sources.

Comparing different countries, the Nordic countries (Denmark, Finland, Norway, Sweden) have the most advanced personal income tax systems globally, according to Lines (2019). These countries have high tax rates, multiple tax brackets, and relatively few deductions and exemptions. The progressivity of their tax systems is driven by a combination of tax policies, political factors, and administrative factors. The Nordic countries prioritize reducing income inequality and promoting social welfare, backed by progressive taxation. They have a political culture that supports more progressive taxation, which contributes to the advancement of their tax systems. Additionally, their administrative infrastructure for tax collection and enforcement is robust, ensuring an efficient and effective tax system.

Xu and Cui (2009) found that China's personal income tax system has evolved since the 1980s and is considered progressive, with multiple tax brackets and a maximum tax rate of 45%. However, concerns about tax evasion and enforcement have raised questions about the advancement of the tax system in recent years. Reforms are being called for to enhance progressivity, particularly considering China's growing wealth inequality. Improving enforcement mechanisms and addressing tax evasion can contribute to making the tax system more progressive.

In conclusion, political institutions are crucial for making public policy decisions and exercising state power. They play a significant role in shaping economic policies, including income taxation. Different forms of political institutions, as indicated by various factors and indicators, can greatly influence economic policies. Furthermore, changes in governance and electoral systems can introduce trade-offs between accountability and representation, which in turn impact the outcomes of economic policies.

The relationship between political institutions and tax progressivity is indeed complex. Political institutions, including the constitution, judiciary, and legislative bodies, play a vital role in shaping tax policies and ensuring the achievement of tax progressivity. One of the keyways in which political institutions influence tax progressivity is through the enactment of tax laws.

Political institutions are responsible for designing tax policies and determining tax rates that are applicable to different income groups. The design of a tax system can have a significant impact on the level of tax progressivity achieved. For instance, a highly progressive tax system ensures that individuals with higher incomes pay a higher percentage of their income in taxes compared to those with lower incomes. The extent to which tax progressivity can be achieved largely depends on how the tax system is structured, and this design process is largely influenced by political institutions.

### Governance and tax progressivity:

Good governance is a fundamental principle of sustainable development that encompasses various dimensions, including the economy, politics, society, and management within public and private organizations. The concept of governance gained prominence after the release of a World Bank report. In the book of World Bank (1989) "Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study" published by Oxford University Press; the organization's African experts expressed concerns about the "governance crisis." This report sparked debates in both developing and developed countries regarding governance in relation to economic development.

The term "governance" has a broad definition that encompasses the supervision and management of economic and social resources in a developing country. However, for the purposes of World Bank lending, a more applicable term is "the manner in which a country exercises its power to manage the economic and social resources of a developing country." The World Bank (1992) defined good governance as

"good development management" because its experience has shown that even technically sound programs and their financing often fail to deliver expected results due to various factors.

Governance is a multifaceted term with diverse meanings and applications. According to Rhodes (1996), there are at least six aspects of good governance: minimum state, corporate governance, New Public Management, governance of social and cyber systems, and self - management networks. The International Monetary Fund (1997) recognizes the significance of good governance and actively collaborates with member countries to promote it and combat corruption. The IMF supports good governance through policy recommendations, financial assistance, and technical support to its member countries, making it a priority.

The IMF's approach to good governance primarily revolves around monitoring macroeconomic policies, ensuring government accounting transparency, enhancing the efficiency of public resource management, and creating an economic and regulatory environment that promotes stability and transparency in private sector activities.

Based on Stoker (1998) principles of good governance, the following guidelines are presented:

1. Governance extends beyond the government: good governance recognizes that power and authority are not solely vested in the state or government. Other public or private bodies can also hold significant power and influence, which should be acknowledged and incorporated into the governance framework.

2. Clear scope and responsibility: good governance clarifies the roles and responsibilities of different actors in addressing social and economic problems. It acknowledges that civil society, including NGOs and voluntary groups, play a crucial role in solving these issues, blurring the lines between the state and society, and the public and private sectors.

3. Inter-institutional relations: Governance emphasizes the interdependence of organizations engaged in collective action. To achieve common goals, organizations must exchange resources and negotiate

with one another. The effectiveness of these exchanges depends not only on the resources of each organization but also on the rules of the game and the surrounding environment.

4. Autonomous actor networks: Governance recognizes the significance of autonomous actor networks that can issue commands and cooperate with the government in specific domains. These networks share the responsibilities of public administration and contribute to decision-making processes.

5. Government steering with new tools and techniques: good governance acknowledges that the government can exercise its power and steer society through innovative tools and techniques, rather than relying solely on direct control.

Chhotray and Stoker (2009) define governance as the rules governing collective decision-making in multi-player or corporate situations, without a formal regulatory mechanism dictating the terms of their connection. The Worldwide Governance Indicators (WGI) project, completed by the Kaufmann, Kraay and Mastruzzi (2010), combines indicators for six important governance dimensions: Voice and Accountability, Political Stability and Lack of Violence/ Terrorism, Government Effectiveness, Governance Quality, Rule of Law, and Corruption Control. These indicators assess the governance of different countries using responses from business, citizen, and expert surveys.

Governance plays a crucial role in shaping the advancement and progressivity of personal income tax systems in different countries. Various factors, including political and administrative influences, can impact the direction and effectiveness of these tax systems.

## Discussion:

The role of political institutions extends to public trust in the tax system. When political institutions are perceived as corrupt or ineffective, citizens may find opportunities to evade taxes, resulting in lower tax revenues and a less progressive tax system. This situation can create a vicious cycle, as low tax revenues make it challenging for governments to finance public services and infrastructure, leading to further inequality and reduced economic growth. Conversely, when political institutions are viewed as fair and effective, citizens are more likely to comply with tax laws. This leads to higher tax revenue levels and a more progressive tax system. This virtuous cycle occurs as high tax revenues enable governments to finance public services and infrastructure, fostering greater economic growth and reducing inequality.

Political institutions have a significant influence on tax progressivity by shaping the enforcement and compliance with tax laws. In countries where political institutions are weak and corruption is widespread, achieving tax progressivity becomes challenging. Wealthy individuals can evade taxes or exert influence over tax policies to their advantage. Conversely, countries with strong political institutions, transparency, and accountability, particularly those with high-income levels, are more likely to succeed in implementing tax progressivity.

**Figure 3**

Shows Democracy Index by Polity5, 2000–2018 in East Asia and Pacific Countries.



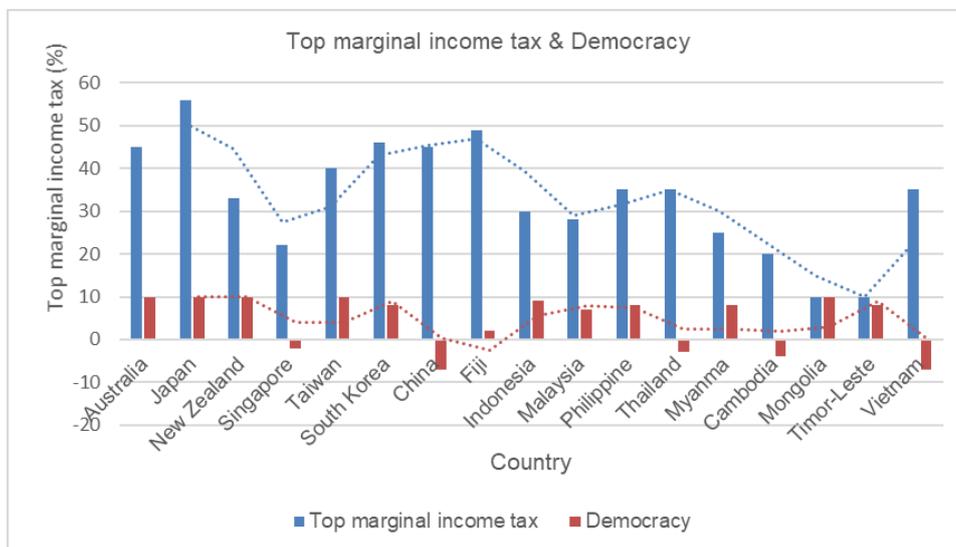
Source: Polity 5 (2021) cc.by Our World Data (2021a)

Countries in figure 3 such as Australia, New Zealand, Japan, and South Korea, which possess strong tax administration and high levels of democracy (polity level 7-10), effectively enforce tax laws and have highly progressive tax systems. These countries exhibit top marginal income tax rates ranging from 33% to 56%. Similarly, countries with authoritarian regimes or limited democracy (polity level -7) and strong political institutions, like China and Vietnam,

can set high individual income tax rates and fully enforce tax laws. These countries have top marginal income tax rates of 45% and 35% in figure 4. Similarly, to Förster, Llena-Nozal and Nafilyan (2014) has studied and reported in the OECD Working Papers that the average of the highest individual income tax rates of the OECD countries has been decreased from 66% in 1981 to 42% in 2010, also indicating that raising the maximum personal income tax rate.

**Figure 4**

Shows the Top Marginal Income Tax and Democracy. Democracy, 2018.



Source: Author

In addition, political institutions play a crucial role in shaping tax progressivity. They influence the enforcement and compliance with tax laws, and their strength and transparency impact the effectiveness of tax systems. Countries with strong political institutions, high levels of democracy, and transparency tend to enforce tax laws effectively, leading to progressive tax systems. On the other hand, weak political institutions and corruption can hinder tax progressivity, resulting in lower tax revenues, increased inequality, and reduced economic growth.

Political institutions can also influence tax progressivity through their interactions with other institutions, such as the judiciary and the executive branch of government. In countries with a robust system of checks and balances, the judiciary plays a crucial role in ensuring fair and impartial application of tax laws, thereby reducing corruption and promoting a more progressive tax system. Similarly, effective government administration can support tax progressivity by advocating for progressive tax reforms and ensuring the effective implementation of tax laws.

However, there are challenges associated with achieving tax progressivity through political institutions. One of the main challenges is political opposition from wealthy individuals who may use their political power to resist tax reforms that would increase their tax burden. This can make it more difficult for political institutions to design and implement progressive tax systems.

Additionally, political institutions face the challenge of balancing competing interests and priorities when implementing tax reform. While tax progressivity is desirable, excessive tax burdens on certain groups or sectors could have negative economic consequences, potentially discouraging investment or reducing incentives for high-income earners. Striking the right balance between promoting tax progressivity and ensuring economic growth and stability poses a challenge for political institutions.

Despite the challenges involved, political institutions are crucial in promoting tax progressivity in the East Asia - Pacific region. Strengthening these institutions to enhance transparency, accountability, and efficiency is vital for fostering a fair and equitable tax system. Several reforms are necessary to achieve this, including improving tax administration, encouraging citizen participation in tax policy formulation, and implementing measures to combat corruption and promote transparency.

In summary, the relationship between political institutions and tax progressivity is complex and multifaceted. Political institutions play a significant role in shaping tax policies and ensuring the achievement of tax progressivity. However, they face challenges such as political opposition, limited technical expertise, and the need to balance competing interests and priorities. Despite these challenges, strengthening political institutions is essential for promoting tax progressivity and establishing a fair, transparent, and accountable tax system in the East Asia-Pacific region.

In addition, it was also found that governance factors, including political and administrative influences, shape the advancement and progressivity of personal income tax systems. This can be confirmed by a study by Kifordu, Igweh and Aloamaka (2020), which highlights the importance of transparent and accountable tax regimes for economic development and institution strengthening in Nigeria. Ajaz and Ahmad (2010) analyze the effects of corruption and governance on tax revenues, finding that corruption negatively impacts tax collection while good governance improves it. Epaphra and Massawe (2017) suggest that governments should combat corruption, promote effective tax and customs administration, and focus on tax types less susceptible to fraud to increase tax revenue. Political pressures, such as those exerted by interest groups, can lead to changes that reduce progressivity. Progressivity in tax systems is more likely to occur in nations with solid political institutions, high levels of democracy, and transparency.

On the other side, corruption and a lack of strong political institutions can impede tax progressivity. Strong administrative infrastructure and effective tax collection and enforcement mechanisms are crucial for maintaining a progressive tax system. Countries like the Nordic nations have achieved advanced personal income tax systems through a combination of progressive tax policies, political support for reducing income inequality, and robust administrative structures. Other countries, like China, are working to address challenges in tax evasion and enforcement to enhance the progressivity of their tax systems. Good governance is essential for achieving and maintaining a progressive tax system. Effective governance ensures that tax policies are implemented efficiently and fairly. It involves creating robust administrative structures for tax collection and enforcement, reducing corruption, and promoting transparency. Sound governance practices help prevent tax evasion and ensure that everyone pays their fair share, thereby supporting a more progressive tax system.

### Conclusion:

Tax progressivity is an important policy tool that can be used to address income inequality in the East Asia - Pacific region. Developing tax advancements in the region's tax system requires a multifaceted approach, which includes the design of a progressive tax system, tax law enforcement, and ensuring transparency and accountability.

Political institutions and good governance play a crucial role in driving tax progressivity. These factors determine the effectiveness and efficiency of tax reforms. However, implementing tax reform can present challenges. Nevertheless, the benefits of a progressive tax system outweigh these challenges.

It is essential for countries in the region to prioritize tax reform to ensure that their tax systems are fair, transparent, and accountable. By adopting progressive tax policies, governments can create a more equitable distribution of wealth and income, reducing the gap between the rich and the poor.

Additionally, tax progressivity can provide governments with the necessary resources to invest in public services and social welfare programs. These investments can further contribute to reducing inequality and promoting inclusive economic growth.

In summary, implementing a progressive tax system and addressing the challenges associated with tax reform are important steps for countries in the Asia-Pacific region to promote fairness, transparency, and accountability in their tax systems. Therefore, countries should strengthen their political institutions in areas of extreme democracy to promote progressive tax policies, ensure good governance for tax reform, and cause acceptance and transparency in tax collection. By doing so, they can contribute to reducing income inequality and fostering sustainable development.

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