

Growth and Flexibility of Government Tax Revenue: The Cameroon Experience.

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ABSTRACT

This study examines the comprehensive impact of growth and flexibility of government tax revenue in Cameroon within two distinctive periods: 1960 to 1986, the period before the economic crises and 1987 to 2005 the period within and after the economic crisis. The study goes on to establish through the co-integration error correction mechanism after grouping the tax revenue in Cameroon in 9 sub-groups on which econometric models were specified. Within our periods of study and based on ordinary least squares technique, the tax flexibility to income variations was investigated. A growth equation was also established to see the impact of government fiscal expansion on growth. The results reveal that the tax buoyancy for the taxes between 1960 and 1986 were income elastic with flexibility average value of 11.12, while that for 1987 and 2005 being inelastic with buoyancy average value of 0.192. Fiscal expansion is also observed to be counter-productive. The study therefore, recommends the combinations of tax income flexibility and tax base expansion towards achieving proper growth and development in Cameroon.

Key words: growth, flexibility, tax

RÉSUMÉ

Cette étude porte sur l'impact de la croissance et de la flexibilité de recettes d'impôts au Cameroun au cours de deux périodes. De 1960 à 1986, période qui précède la crise économique, et de 1987 à 2005, période qui accompagne la crise et la suit. Après avoir établi les 9 sous-groupes sur lesquels les modèles économétriques ont été spécifiés, l'étude analyse le mécanisme de co-intégration des erreurs. Au cours des périodes considérées et à partir de la technique du moindre carré, nous avons examiné l'impact de l'accroissement de recettes d'impôt. Une équation de l'accroissement a été établie pour montrer le rapport entre la politique fiscale du gouvernement et l'accroissement. Les résultats montrent que la moyenne des impôts entre 1960 et 1985 est de 11,12 alors qu'elle est de 0.192 entre 1987 et 2005. L'accroissement des impôts s'est aussi avéré anti-productive. L'étude propose alors un système mixte combinant l'impôt sur le revenu et l'expansion de l'impôt à partir de la l'accroissement et du développement au Cameroun.

Mots clés: accroissement, flexibilité, impôt

INTRODUCTION

The issue of taxation is as old as man's corporate existence and is recognised by the Bible in Luke 20: 20-26 when Jesus replied the powers that be to give to Caesar what is Caesar's and to God what is God's. What is to God as recognised in Acts 20:38 are the cheerfully payments of tithes and offerings for the spreading of God's Gospel. This practice has been recognised by the Cameroon government since her independence of 1960. In the 1970's decade, internal revenue accruing to the government of Cameroon was derived largely from pool tax, exports and imports duties. These trends continued via 1980's to 1990's and the issue of pool tax ceased to exist with the emergence of multi-partism in Cameroon. This gave birth to endless categories of taxes in Cameroon among which are personal income tax, tax on non-oil company profits, tax on revenue levied on persons resident out of Cameroon, property tax, tax on transfers and transactions, value added and turnover taxes, tax on levied proceeds and excise duties, taxes on the authorization to exercise a professional activity, tax on the authorization to use property or exercise activities, other taxes and duties on property and services, import taxes and duties, exports taxes and duties and other taxes on foreign trade, registration and stamp duty, reimbursement of guarantees or securities, reimbursement of retroceded debt, administrative duties and charges, sales of additional property, sales of services provisions, renting of houses and real estate revenue, oil sector revenue, retired civil servants contribution, fines and penalties payments.

In a fiscal driven economy like Cameroon, rapidly growing tax revenues are needed, not only to match elastic public current expenditures, but also to generate savings to finance government capital expenditure programmes, stabilise the economy and in all provide for rapid growth and development.

Paradoxically, the period of low taxes in Cameroon (1960-1986) witnessed high growth and development compared to the period 1987 and beyond, which is characterised with the introduction of series of taxes. The economy of Cameroon is characterised today with poor physical infrastructure especially roads, high rate of unemployment, wide gap between the poor and the rich, spiral prices effect, persistent balance of payments deficit and dismal performance of the

growth parameters. Within the period of 1987 to 2005, series of policy measures have also been enacted to fine tune the economic down trend among which are the Structural Adjustment Programme of 1988, the launching of an Austerity Programme in 1987, the 60 percent Wage Freeze in 1993, the Trade liberalization Programme of 1990, the suspension of the CFAF Convertibility between BEAC and BCEAO in 1994 and the Devaluation of the FCFA by 50 percent in 1994. All these measures have come and gone yet the dismal performance of the economy of Cameroon prevails. It therefore, means that the problem of this poor growth has not yet been identified and solved. Hence, this work is out to investigate into how the tax structures of Cameroon have contributed to the prevailing situation, as well as provide insights into the main characteristics of the tax system including its responsiveness to changes in tax bases.

The paper is divided into five parts. Having exhausted part I which is entitled introduction, part II is literature review, which is both theoretical and empirical. Part III is analytical methodology with part IV handling discussion of major findings and summary of major findings, recommendations and conclusion converged the paper to its focal point.

(II) Theoretical and Empirical Literature.

Many years ago, we were reminded of the principles guiding revenue collection for the government among which are the equality or fairness, convenience, certainty, economy of administration, neutrality and flexibility. While there is need for a very significant enhancement of the ratio of tax to national income, it may not be politically or even economically feasible to raise taxation to a relatively high level in circumstances of generally low incomes. Frequent legislative measures to enhance tax rates without expanding the tax base may prove counter-productive as they may invite strong resistance from taxpayers. Fortunately, as the economy grows, less and less reliance will have to be placed on legislative measures and more and more on the built-in flexibility of the tax structure. In fact, for the share of taxation in national income to rise to a significant level, the tax system must be sufficiently income elastic. Theoretically, three tax systems have been identified as shown in figure 2.1 that follows.

Reflecting the variations in income and taxes, 'T', which stands for proportional tax shows that, everybody pays a certain percentage of their income

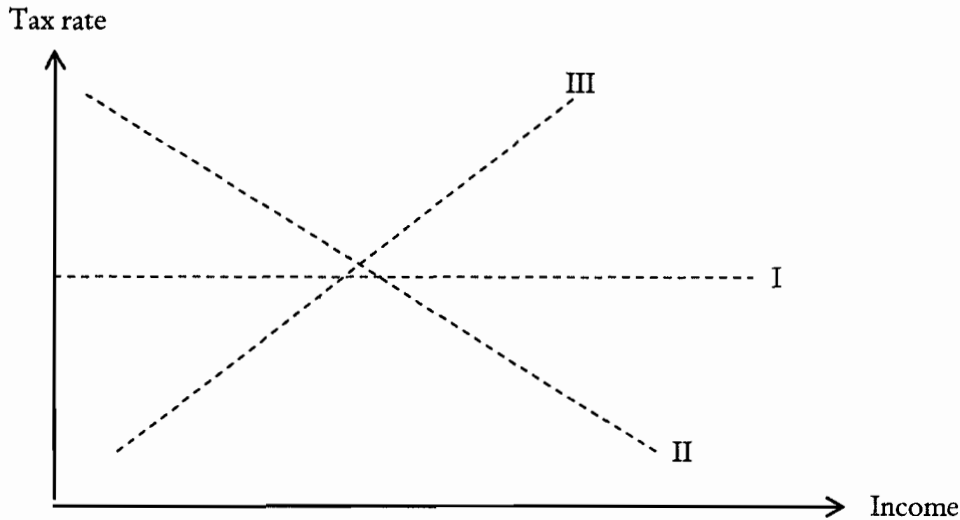


Fig. 2.1: Tax Systems

as tax. In absolute term, the poor pay less than the rich and vice versa. Whereas this tax structure satisfies the principle of equality or fairness, there is no guarantee that it also satisfies the principles of convenience, certainty, economic of administration, neutrality, and flexibility. The regressive tax system is represented her as 'II', is designed to encourage hard work. In this case the poor pay more as tax and the marginal rate of tax decreases with increases in income. In the case of III, progressive tax, the marginal rate of tax increases with increased income and vice versa. The application of any of these tax system depends on what the government has as its macroeconomic goal(s).

An investigation into the income elasticity of Cameroon tax system is therefore pertinent at this stage of her economic development. Although no study seems to have been conducted on the tax-to-base elasticity in Cameroon, few cases have been documented in Nigeria over different time periods. For instance, Idachaba (1972) discussing the subject of public revenue instability, calculated the tax-to-base elasticities of import and export duties with respect to total imports and exports (1959/60-1969/70), respectively. Moreover, in his study of import taxation, Diejomaoh (1976) presented estimates of income elasticities of import volume represented by the volume of index of imports, over a period 1954-1964.

III. Analytical Methodology.

In this sub-section, attempt is made to quantify the index of the flexibility of the tax system in Cameroon, defined for this study as the change in

gross tax yield associated with the change in Gross Domestic Product (GDP). The index is analogous to the buoyancy concept employed by Groves and Kahn (1952). For the tax system as a whole, flexibility/buoyancy is represented by

$$\Delta T_t / \Delta Y_x \cdot Y/T \dots \dots \dots (1)$$

And for any given tax, M, by

$$\Delta T_m / \Delta Y_x \cdot Y/T_m \dots \dots \dots (2)$$

Where the tax yields, T, include discretionary changes in tax base and the rate schedule, and, Y, GDP at current prices.

Equation (2) is decomposable into tax-to-base flexibility, $\Delta T_m / \Delta B_m \cdot X B_m / T_m$, (flexibility of tax collected to the base) and base-to-income

flexibility, $\frac{\Delta B_m}{\Delta Y} \cdot \frac{Y}{B_m}$ (flexibility of the base to income). This relationship is expressed in the identity form thus

$$\frac{\Delta T_m}{\Delta Y} \cdot \frac{Y}{T_m} = \left\{ \frac{\Delta T_m}{\Delta B_m} \cdot \frac{B_m}{T_m} \right\} \left\{ \frac{\Delta B_m}{\Delta Y} \cdot \frac{Y}{B_m} \right\} \dots \dots \dots (3)$$

Equation (3) is designed to give a year-to-year estimate of tax buoyancy over the period's adopted in this work to link the tax receipts to changes in monetary GDP. Applying the cointegration error correction mechanism on the least squares regression, our model for each form of tax receipt to changes in monetary GDP will be of the form.

$$X = A Y^B \lambda^U \dots \dots \dots (4)$$

Taking the log on both sides of (4) gives,

$$\log X = \beta \log A + \log Y + u \dots \dots \dots (5)$$

Applying the first difference on the non-rate variables in our models to achieve stationarity on

the non-stational variables based on Johanson and Juselius (1990, 1994) we have;

$$\text{LogX} = \text{LogA} + \log Y + \text{EMS} (-1) + u \dots \dots \dots (6)$$

Where: = buoyancy or measure of flexibility, X = gross tax yield. Since the tax yields have not been adjusted to take account of the effects of price change over time, the use of current-price national income is in order and consistent.

Y = GDP at current prices

A = Constant

ECM (-1) = Error correction mechanism variable based on Engle and Granger (1987).

Stationarity is achieved for both dependent and independent variable when the coefficient of ECM is less than unitary.

Scope, Sources of Data and Limitations.

This study covers the period of 44 years ranging from 1960 to 2005 inclusive. The study was conducted in two parts. The first period ranges from 1960 to 1986, which is the period before the economic crisis and much of the economic reforms in Cameroon. It is also the period of better economic performances in Cameroon. This will be followed by the period 1987 to 2005, which has recorded numerous economic reforms and a lot of tax adjustments and the introduction of new ones.

This study also requires some substantial amount of statistical information much of which are extracted from the Cameroon Finance Bill for the year 2006, Annual Reports of the Ministry of Economy and Finance, Department of statistics and National Account (DNCS), 1992, 1995, 2000, Central Bank for Central African States (BEAC), African Development Indicators, various issues and world tables on Development issues. Therefore, this study lies on Intensive Library Research Design (I.L.R.D), or Expost Factor Research Design (E.F.R.D).

It is important to point out here that data limitations, corruption and the large informal sector of the Cameroon economy might underestimate the response of income and taxation to certain policies. Apart from the above, data inconsistencies are also rampant. The same data from varying sources tend to give different information. Also, there are long time lags in

reporting or compilation of certain information, making it difficult to update data easily. However, given its objectives, this study has no option than to rely on estimation and provisional data.

Estimation and validation

This study has employed the cointegration error correction mechanism (ECM) to estimate the tax buoyancy coefficient based on the ordinary least squares techniques, which is employed in this work because of its BLUE property (Best Linear Unbiased estimator). ECM because of the data instability arising from the instability in the Cameroon's economic terrain within our period of study. With frequent change in the policy and development environments, that is political, social, economic and high level of corruption, strikes etc there is need to difference the time series data so as to separate the non-economic occurrences resulting from the tax effects to the pure economic occurrences. This therefore, guarantees meaningful economic results as the problem of spurious correlations are going to be eliminated.

The validation of our results is also going to be based on economic a priori theoretical expectation, adjusted R-squared, F-statistic and Dubin Watson (D.W) econometric test.

IV Presentation and Discussion of Results.

This section presents the ordinary least squares results based on cointegration error correction mechanism. The buoyancy coefficient is assumed to be constant, flexible or inflexible. The constancy of requires that the proportionate response of the tax to an income change of 1 percent will be the same, regardless of the level of income or tax base. Under this assumption, the revenue function is therefore log linear in income and buoyancy is estimated by regressing the log of tax revenues against that of income.

The various taxes in Cameroon from 1960-1986 and 1987-2005 are grouped into 9 sub-groups in this work. Regression analysis representing equation (6) is run for each tax group with the overall tax structure pre-determining a time dimension partly to record period estimates of tax flexibility and partly to observe inter-temporal changes if any, in the behaviour of flexibility coefficients. The period of 1960-1986 and 1987 to 2005 were feasible. Political

variation used as dummy are included in the regression to take care of the possible parameters shift that occur during the ghost town period and government reaction towards tax reforms. From our results, a tax will be considered flexible if its yield increases or decreases more than proportionately in response to an increase or decrease in GDP with the tax parameter assumed unchanged. Where the index of flexibility, ϵ exceeds unity, the tax or tax

group is GDP elastic or flexible. However, if ϵ is less than unity, the tax is GDP inelastic or inflexible. Any case of such inflexibility suggests a resort over time to discretionary attention of the tax rate/base if reliance must be placed on revenue *cum* productivity of the tax. Therefore, the ϵ 's for the two periods 1960-1986, and 1987-2005 are presented in order to permit some measures of improvement in tax effort both before and after the economic crisis.

Regression Results: Flexibility Estimate for 1960-1986.

1) Personal Income Tax.

Dependent variable (Δ LPYT):

Number of observations, 27.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	14.6286	(1.9826)**	2.36142	(0.0823)
LY	10.7728	(2.8276)*	2.01631	(0.03614)
LOPOP	0.86730	(2.87970)*	0.09248	(0.009)
POLSBTY	0.238613	(2.68621)*	0.88829	(0.014)
ECM(-1)	-0.765426	(-3.66943)*	0.20859	(0.001)
R ² = 0.8642,	F-statistic	(4:23) =	4:207, D.W.	= 1.9427.

2) Excise Duties.

Dependent variable: Excise Duties.

Number of observations 27; 1960-1986

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	2.23489	(0.20563)	10.8680	(0.839)
LY	1.91386	(0.67647)	2.82918	(0.505)
LY _{t-1}	-0.02841	(-201371)	0.01128	(0.050)
POLYSBTY	0.59611	(1.91042)**	0.7505	(0.0642)
ECM(-1)	-0.918361	(-3.64261)*	0.04138	(0.001)
R ² = 0.6354	F - statistic (2:25)	=	4.8683, D.W =	1.994

3) Company income Tax.

Dependent variable: Company Income Tax.

Number of observations: 27, 1960 - 1986.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	39.15163	(1.22926)	13.4961	(0.230)
LY	1.08550	(1.79728)**	0.603704	(0.094)
POLYSBTY	0.75798	(2.10603)*	0.35991	(0.046)
ECM(-1)	-0.44719	(-2.8087)*	0.159215	(0.010)
R ² = 0.6083,	F-statistic (2:25)	=	84.577, D.W =	1.9440

4) Export Duties.

Dependent variable: Export Duties.

Number of observations: 27, 1960 - 1986.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	10.5491	(1.9224)**	5.4726	(0.066)
LY	51.7036	(2.41017)*	21.4523	(0.024)
LY _F	0.620155	(1.3176)	0.47066	(0.200)
POLYSBTY	0.75798	(2.10603)*	0.35991	(0.046)
ECM(-1)	-0.34291	(-2.27558)*	0.09108	(0.023)
R ² = 0.6706,	F-statistic (3:24)	=	4.951, D.W =	1.8448

5) Import Duties:**5. Dependent variable: Import Duties.**

Number of observations: 27, 1960 - 1986.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	3.71807	(34.9411)*	0.10779	(0.000)
LY	0.051714	(3.53514)*	0.014624	(0.001)
EXCHR	0.00870	(2.92396)*	0.00286	(0.007)
POLYSBTY	0.82707	(2.9239)*	0.002896	(0.007)
ECM(-1)	-0.32629	(-2.6952)*	0.12106	(0.012)
R ² =	0.7258,	F-statistic (2:25)	= 23.8230, D.W =	0.81926

6) Property charges:

Dependent variables, property charges.

Number of observations 27, 1960- 1986.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	-0.04115	(-1.59902)	0.025736	(0.1222)
LY	2.51601	(2.63649)*	0.09543	(0.014)
LASST.	0.003024	(0.70140)	0.24651	(0.490)
POLYSBTY	-0.36992	(-2.9256)*	0.121060	(0.012)
ECM(-1)	-467192	(-2.67808)*	0.159215	(0.010)
R ² =	0.695336,	F-statistic (3:24)	= 23.8230, D.W =	0.82641

7) Stamp Duties:

Dependent variable: Stamp Duties.

Number of observations: 27, 1960 - 1986.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	4.9323	(10.5369)*	0.046315	(0.010)
LY	9.7764	(8.2260)*	0.03396	(0.036)
EXCHR	0.75764	(2.1064)*	0.36664	(0.044)
POLYSBTY	0.01293	(0.0946)	0.34612	(0.4631)
ECM(-1)	-0.61431	(-4.02611)*	0.06318	(0.040)
R ² =	0.81561,	F-statistic (3:24)	= 61.3314, D.W =	0.5403

8) Personal Income Tax

Dependent variable: Personal Income Tax.

Number of observations: 18, 1987 - 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	-2.21257	(-6.5465)*	0.337976	(0.000)
LY	0.387412	(5.45102)*	0.071071	(0.000)
LOPOP	0.004382	(0.69039)	0.00347	(0.490)
POLYSBTY	-0.003842	(-1.93062)***	0.001068	(0.096)
ECM(-1)	-0.119231	(-3.88857)*	0.30684	(0.000)
R ² =	0.87608,	F-statistic (3:15)	= 16.343, D.W =	1.9892

9) Dependent variable : Excise Duties

Number of observations: 18, 1987 - 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	3.52914	(15.1167)*	0.23346	(0.000)
LY	0.000579	(0.5576)	0.000107	(0.577)
OLY _{t-1}	0.006707	(9.22210)*	0.00728	(0.000)
ECM(-1)	-0.025715	(-209298)*	0.101627	(0.036)
R ² =	0.96066,	F-statistic (2:16)	= 9.1025, D.W =	1.9642

10) Dependent Variable: Company Income Tax.

Number of observations: 18, 1987 - 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	2.27790	(0.585072)	3.86336	(0.558)
LY	0.136817	(0.966805)	0.41101	(0.334)

POLYSBTY	-0.295478	(-13.9377)*	0.21150	(0.000)
ECM(-1)	-0.39266	(-3.1973)*	0.43557	(0.001)
R ² =	0.9758,	F-statistic (2:16)	= 24.667 ,	D.W = 1.8819

11) Dependent variable: Export Duties

Number of observations: 18, 1987 – 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	-1.39266	(-3.66063)*	0.10450	(0.000)
LY	0.382559	(3.41926)*	0.43574	(0.001)
OLY _F	0.607745	(7.88227)*	0.77103	(0.000)
POLYSBTY	-0.36629	(-4.13276)*	0.47551	(0.001)
ECM(-1)	-0.57833	(-1.6894)**	0.83433	(0.069)
R ² =	0.97423,	F-statistic (3:15)	= 11.3242, D.W =	1.9156

12) Dependent variable: In-port Duties

Number of observations: 18, 1987 – 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	-23.5465	(-0.625214)	37.6615	(0.532)
LY	0.120658	(2.28131)*	0.05289	(0.023)
EXCHR	5.13211	(3.47554)*	1.4766	(0.001)
POLYSBTY	-35.4697	(-0.92193)	38.473	(0.357)
ECM(-1)	-3.86477	(-4.8430)*	0.79799	(0.000)
R ² =	0.9416,	F-statistic (3:15)	= 32.6619, D.W =	1.8121

13) Dependent variable: Property Charges

Number of observations: 18, 1987 – 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	-67.7072	(-1.6369)	41.3620	(0.102)
LY	0.219729	(1.68332)	0.13053	(0.092)
LASST	0.91120	(9.96163)*	0.11966	(0.319)
POLYSBTY	-3.00556	(-1.8234)**	0.26717	(0.089)
ECM(-1)	-0.364550	(-1.90679)**	0.191185	(0.996)
R ² =	0.75642,	F-statistic (3:15)	= 64.831, D.W =	2.7116

14) Dependent variable: Stamp Duties.

Number of observations: 18, 1987 – 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	24.9616	(0.510943)	48.8539	(0.609)
LY	0.09889	(7.86672)*	0.01256	(0.990)
LASST	-0.36466	(-0.191185)	1.90671	(0.057)
POLYSBTY	-2.56745	(-0.04539)	56.1342	(0.964)
ECM(-1)	-0.180492	(-8.9364)*	0.20205	(0.000)
R ² =	0.82461	F-statistic (3:15)	= 32	D.W = 2.014

15) Dependent variable: Government Revenue.

Number of observations: 18, 1987 – 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	0.27847	0.070819	(3.93229)*	(0.032)
LGDP	0.653644	0.010450	(2.51783)*	(0.044)
LDUTY	0.646591	0.091719	(6.94860)*	(0.000)
LGR(-1)	0.663651	0.093054	(3.72667)*	(0.033)
ECM(-1)	- 0.02063	0.012289	(-3.16774)*	(0.0341)
R ² =	0.97103,	F-statistic (4:41)	= 22.006, D.W =	2.09614

16) Dependent variable: Gross Domestic Output

Number of observations: 18, 1987 – 2005.

Variable	Coefficient	T-Value	Std. Error	P-Value.
Constant	3.52914	(15.1167)*	0.233460	(0.000)

LGOVTAX	-0.52914	(-5.57079)*	0.00014	(0.0431)
LMS _t	0.672903	(2.44901)*	0.81431	(0.0501)
LPOP	0.308882	(0.90318)	0.341923	(0.1703)
POLSBTY	0.592110	(2.35733)*	0.003731	(0.0511)
LGEXPORT	0.04735	(0.5308)	0.11192	(0.2401)
LGIMPORT	-0.59247	(-3.46336)*	0.05867	(0.004)
LGOVR.	0.63342	(1.72863)**	0.00604	(0.9510)
ECM(-1)	-0.448196	(-2.10235)*	0.213188	(0.0410)
R ² =	0.96066,	F-statistic (8:37) =	166.206,	D.W = 2.1233

Note: The numbers in parentheses denote the t-values. The asterisks marked against each coefficient indicates the level at which the coefficient is significant.

* = Significant at one percent level. ** Significant at five percent level. *** Significant at ten percent level.

DISCUSSION OF EMPIRICAL RESULTS

The F-statistics, which test the statistical significance of the adjusted R² and indeed the overall models are statistically significant in all cases listed above showing that our results are 99 percent or more reliable. All the D.Ws fall within the inconclusive and no-autocorrelation regions. The values of all the adjusted R² show that the variations of all the dependent variables are more than 60 percent accounted for by the variations in the independent variables. Also, the speeds of the adjustment parameters indicated by the coefficients of the error correction variables are significant with their appropriate negative signs.

It is also clear from the results that the tax buoyancy () for all the taxes in Cameroon between 1960 and 1986 were income elastic. Specifically on the average the flexibility value of the taxes between 1960 and 1986 is $= 77.819884/7 = 11.12$. This equally shows a high degree of flexibility of income with overall taxes between 1960 and 1986. On the other hand, the overall tax flexibility between 1987 and 2005 on the average is $= 1.346644/7 = 0.192$. This shows that between 1987 and 2005, the tax buoyancy on the average is income inelastic. Political instability measured by the growth rate of the opposition parties in Cameroon reveals high level of tax evasion and avoidance whenever opportunity arises. The results also reveal that the tax structure between 1987 and 2005 is regressive in nature while between 1960 and 1986, it was partly progressive and partly proportional.

From serial equation (15) it is observed that one percent increase in GDP will result in 0.6536 percent increase in government revenue all things being

equal. Based on this analysis, if the previous year's revenue was efficiently invested into the Cameroon economy, it would have yielded 66.36 billion FCFA to the government as internal revenue.

More importantly is the fact that tax revenue maintained its conventional status quo with GDP as shown in serial equation (16). The result reveals that over the period of 45 years between 1960 and 2005 in Cameroon, the overall tax effect was counter-productive and that any one percent increase in the tax rate in Cameroon reduces productivity by 0.50779 percent. While broad money supply, population growth, political stability, export and government revenue have contributed somehow to productivity, excessive imports have over the same period, in addition to an excessive fiscal drive policy played contrary role.

SUMMARY OF MAJOR FINDINGS, POLICY RECOMMENDATIONS AND CONCLUSION

This paper has discussed dynamics of the Cameroon tax system during the period 1960 –1986 and 1987 – 2005. The objective has been to determine the extent to which the tax system has responsive to changes in income. The results of the flexibility analysis seem to indicate that the tax system as a whole was positively responsive to income variation between 1960 and 1986 with a flexibility coefficient of 11.12. However, inflexibility coefficient of 0.192 has been registered for the period between 1987 and 2005. A transition in the tax system in Cameroon from proportional and progressive to regressive taxation is also observed. Furthermore, taxation in Cameroon is counter-productive and that government revenue decreases with increases in taxes. This is because those who are expected to pay taxes

either avoid or evade it.

Therefore, the policy implications of the above results are that;

- Government revenue from the current tax system would remain grossly inadequate for development requirements unless the current tax system is made much more flexible with respect to income. Since excessive corruption is shown to have contributed drastically to the reduction in revenue generation in Cameroon, it means that the government of Cameroon will generate more revenue by eliminating corruption. Contractional fiscal policy is the best way in which it should be done. Furthermore, the government is also advised to increase the tax base (income), adopt monetary expansion with more credits directed to the private sector, increased human capital development and utilization, elimination of corruption, reinforcement of the principle of due process mechanism in governance, export promotion, import substitution industrialization (I.S.I) and fiscal deficit. However, the investigation into optimal magnitudes of such increases is beyond the scope of this study and therefore, calls for further research. Hence, this work recommends the combinations of tax income flexibility and tax base expansion for proper growth and development in Cameroon.

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