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Taxation and Inequality in Uganda, 1900-1964

A MUCH neglected topic in the economic history of Uganda is the contribution of fiscal policy to the inequality of income. While generalizations have been made about the heavy burden of taxation on Uganda's Africans and the bias in the distribution of government expenditure, no systematic analysis of these issues has been undertaken. It is my objective to rectify this shortcoming, and to provide estimates of the incidence of taxation on different races and sectors of the economy at different periods. This study should be of parallel interest to my earlier article, demonstrating the extent of inequality in Uganda, since it shows that the government's tax policy had a major effect on the distribution of income in the country.[1] The present paper focuses particularly on the farmers,[2] who have always been at the bottom of the distribution ladder, and attempts to answer the following questions. 1.) What were the major sources of tax revenue in Uganda, and what proportion of the revenue was derived from the farmers? 2.) What was the farmers' rate of taxation compared to that of other sections of the population? 3.) How was expenditure out of government revenue distributed?

TAXATION DURING THE COLONIAL PERIOD

Poll Tax and Early Development

The question of taxation in Uganda is tied up with government's earliest attempts at making the country financially self-sufficient. When the British took over Uganda, they inherited a subsistence economy where most households provided their own everyday needs

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[1] "Asians in Uganda, 1880-1972: Inequality and Expulsion," *Economic History Review*, 29 (Nov. 1976), 602-16.

[2] To avoid any possible confusion, it should be stated at the outset that in the Uganda context the term "farmers" is synonymous with African farmers—and African farmers, up to the mid-1940s, synonymous with Africans. Throughout the period under discussion there were non-African estate owners, but their contribution to income was much smaller than that of the Africans. The same applies for non-farm Africans in the early period.

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of food, clothing, and shelter. To put the country on a sound footing, the newly-established administration experimented with various tropical crops, but without much success. At the turn of the century, however, the prospects for trade brightened considerably with the completion of the "Uganda Railway." With one transhipment (the last leg of the journey had to be completed over Lake Victoria) the railway provided a fast and cheap link with the coast, enabling the export of a wide variety of local produce. Welcome though this development was, its basis remained precarious since it rested on the chance gathering of the farmers' surplus. If a trader happened to be around at a bountiful harvest, he might buy the surplus; if not, it might be wasted; and if the weather was unfavorable, there might be no surplus at all.

The "gathering stage"[3] of the economy, as W. O. Jones might term it, waned a few years after the completion of the railway with the importation of cotton seed from the United States and Egypt. The seed was distributed to farmers with the help of the chiefs. Jointly propelled by their need to earn money for the poll tax (newly imposed in 1900), by coercion applied by the chiefs, and by their desire for consumer goods, Uganda's farmers took up cotton cultivation and set the country on the road to development.

The role of the poll tax and coercion in providing the early impetus for growing cotton is well summed up by Lawrance: "The British administration . . . introduced . . . poll tax and by forcefully encouraging the planting of cotton, ensured that there was no excuse for failing to pay it."[4] The poll tax was universal though the degree of coercion varied from district to district. By and large, however, Lawrance's explanation of the early spread of cotton in Teso is applicable to most of Uganda, and especially to Buganda, at least in the early years.

> There can be no doubt but that in Buganda as elsewhere, this element [of compulsion] did exist. The Ganda were, in the first place, under necessity, from 1900 onwards, of earning money by one means or another in order to pay their taxes . . . . Over and above this, there is no question but that at the beginning, the peasants were called out to grow cotton under the chiefs' orders precisely as they were called out to make roads, to carry stores or to build the chiefs' homes.[5]

[3] The expression comes from Jones' typology of the stages African countries have traversed in their emergence from subsistence economies to international trade. "Measuring the Effectiveness of Agricultural Marketing," *Food Research Institute Studies*, 9, no. 3 (1970).

[4] J. C. D. Lawrance, *The Iteso: Fifty Years of Change in a Nilo-Hamitic Tribe of Uganda* (London, 1957), p. 40. It should be noted that this statement relates to the early years. Even then one would not exclude the desire for consumer goods as a strong incentive for growing cotton.

[5] Christopher C. Wrigley, *Crops and Wealth in Uganda* (Kampala, 1959), p. 16. Christopher

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The poll tax (and its progenitor, the hut tax) thus created a compelling need for money. In the words of Bishop Tucker, a contemporary observer, "it stirred to action and electrified into life the whole nation. Men knew that by a certain date the requisite rupees must be forthcoming. Thus it came about that the element of wages was introduced into the life of the Baganda, and another revolution—the economic one—was effected."[6] The government itself was fully cognizant of the change in industry which taxation necessitated, and unreservedly welcomed it. Governor Sadler told a meeting of the Royal Colonial Institute in 1904, "the tax will prove to be the making of the country—because of the habit of work it inculcates."[7]

The problem facing the people was to find a source of cash to pay the poll tax. For some there was the possibility of selling food to a small knot of urban expatriates—Asian traders, European government officials, and Sudanese and Indian troops; or of taking up employment as porters in towns or on European rubber and coffee estates. But such remunerative opportunities were few and confined mostly to southern Uganda. For practical purposes, cotton was the only source of cash for most people.

Ostensibly the tax rate was low,[8] but given the small cotton acreage that most farmers cultivated in the early years, it represented a heavy impost. In 1914 the poll tax of Sh 6.66 could have been paid from the proceeds of one-fifth of an acre of cotton; but farmers in Buganda, Bukedi, and Lango cultivated no more than that much cotton, so that most of their cash income went to pay the poll tax.

The government took this to show not that the burden of taxation was heavy, but that the farmers were indolent: could they not easily grow more than that much cotton? In support they pointed to the Soga and Teso who at this time grew twice as much cotton as the Ganda. Now it happened that these two eastern tribes labored under more coercive regimes than the Ganda[9]—which only strengthened

D. C. Barlett, too, in a recent study underlines coercion as an important instigator of cotton cultivation in Uganda. See "Factors Affecting the Spread of Raingrown Cotton in Tropical Africa" (Ph.D. diss., Stanford Univ., 1974).

[6] A. R. Tucker, *Eighteen Years in Uganda and East Africa* (London, 1911), p. 288.

[7] *Proceedings of the Royal Colonial Institute*, 36 (1904-05), p. 72.

[8] Between 1900 and 1909 the rate was Rs 3 (Sh 4); between 1909 and 1920, Rs 5; and between 1920 and 1929, Fl 7.50 (Sh 15). In 1929 the rate was lowered to Sh 10 in Buganda, but raised to 1 gn (Sh 21) in the other cotton-growing districts, and instituted for the first time in Karamoja at the rate of Sh 5.

[9] On coercion in Teso and Busoga see David J. Vail, "The Public Sector as Stimulus of Innovation Adoption in African Smallholder Agriculture: A Case Study in Teso District, Uganda" (Ph.D. diss., Yale Univ., 1971), p. 20; and A. D. Tom Tuma, *The Introduction and Expansion of Cotton in Kigulu County, 1907-1950* (Kampala, 1968), p. 13.

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government's argument that the poll tax and coercion provided the main impetus for cultivating cotton. Without coercion, they reasoned, farmers would only plant enough cotton to pay the poll tax, as did the Ganda, and without coercion and the poll tax they would plant none at all. That view permeated official thinking for most of the colonial period. As late as 1936 the government Treasurer was able to say, "In Uganda taxation is the principal incentive to labour and production."[10]

Other Taxes: Africans and Non-Africans

The poll tax was not the only tax the farmers had to bear, nor the most onerous one. Various native government taxes, which traditionally had been requited through a rendering of personal service and tribute of produce, claimed as much as the poll tax in most districts. In Buganda in the late 1930s, with the poll tax at Sh 15, *luwalo* (commutation of labor obligation) was fixed at Sh 10. In cotton-growing districts of Eastern Province, farmers had additionally to pay a *busulu* (produce tribute) of Sh 3-6. The relative importance of these native taxes may be gauged from the fact that in 1939 they raised £311,000 compared to £580,000 from the poll tax.[11]

In some parts of Uganda, Africans owning more than five acres were subject to a land tax of Sh 20 per farm, while those owning less than five acres could be made subject to a tax of Sh 2 at the discretion of the native government. Every Ganda landowner was likewise liable to a tax of 10 percent of the rent he received. In Bunyoro, Africans had to pay an education tax of one shilling.

Beginning in 1919 farmers became subject to a new tax in the form of an export tax on cotton. The avowed objective of this tax was to raise revenue for cotton-related projects, but the proceeds were paid into general revenue without any special concession to cotton farmers. In the early 1940s, with the establishment of marketing boards, export taxation assumed a new dimension. At a time of high export prices, large sums of money were withheld from farmers, again with the promise that a part of the surplus would be used to finance projects beneficial to cotton- and coffee-growing areas and the rest to

[10] Uganda, *Report of the Treasurer on Revenue and Taxation, 1936* (Entebbe, 1937), p. 4. This was the official view; it can easily be refuted by pointing out that even in the early years—not to mention as late as 1936—consumer goods, especially cloth and utensils, provided a strong incentive for earning money.

[11] Data on local taxes on Africans is scarce. Rates of taxation were obtained from ibid. and from Great Britain, *Colonial Report, 1937*. For additional information, see Raymond L. Buell, *The Native Problem in Africa* (London, 1965), p. 506.

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shore up low prices. Those promises, too, went unfulfilled. No special agricultural projects were undertaken and only a small part of the surplus was used to stabilize prices, the rest being earmarked to finance general development projects.

While the government was busy prodding Africans into the exchange economy through the poll tax and siphoning off more of their income through the export tax and marketing board surpluses, it left non-African incomes untaxed for over twenty years and their crops for even longer. When a tax was finally imposed on non-Africans in 1919 it was in the form of a poll tax, and the rate (Sh 30 per adult male) was only twice the African rate. This rate remained unchanged for fifteen years, when it was replaced by a sliding rate in which the minimum tax was Sh 30 for incomes of less than £200 and the maximum £500 for incomes in excess of £10,000. It was not until 1945 that an income tax proper was finally introduced in Uganda.

Preferential treatment extended to non-African crops, as well. Throughout the colonial period no export tax was ever applied to non-African coffee (or on plantation rubber, even though non-plantation rubber, tapped by Africans, was subject to an export tax). This had nothing to do with the size of the crop, for while coffee was a minor crop compared to cotton—in most years it provided no more than 10 percent of the value of cotton exports—it was quite a lot more important than several African-produced commodities such as chillies, gumcopal, ivory, and hides and skins which, at one time or another, were subject to an export tax.[12] In the 1940s when coffee finally became subject to the export tax and marketing board control, only the African industry was affected; estate coffee, still mostly in the hands of non-Africans, remained untaxed and uncontrolled.

Tax Burden in the Past

The upshot of government's tax policies was that African farmers paid a much higher proportion of their income in taxes than non-Africans. At the same time they benefited much less from government expenditure. Thus, there was an effective transfer of income from the poor to the rich.

Table 1 shows the relative importance of different taxes and the burden of taxation on farmers for three representative years. Until the mid-1930s African poll taxes provided the largest source of revenue,

[12] The rate of taxation varied between 10 and 15 percent. These taxes were imposed in 1910 and rescinded sometime in the 1920s. Data from *Bluè Book, 1920*, pp. A2-3.

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TABLE 1
GOVERNMENT REVENUE AND ITS COMPOSITION
('000£)

	1927	*1937*	*1947*
Customs and excise	348	667	1,827
Non-African income tax	13	30	399
African poll tax	513	580	662
Export tax	51	133	1,012
Cotton	51	133	901
Coffee	—	—	90
Total all taxes	996	1,498	4,098
Total all revenue	1,292	1,960	5,331

Source: Figures for 1927 are from Uganda Protectorate, *Blue Book;* for 1937 from Great Britain, *Colonial Report;* and for 1947 from Sir Douglas Harris, *Development in Uganda, 1947 to 1955/56* (Wisbech, n.d.).

followed by customs and excise. By the late 1940s there was a reversal, with customs and excise providing nearly three times as much revenue as African poll taxes. The increase derived from an increase in the rate of duty and the imposition, in 1934, of excise taxes on two items of local production, sugar and tobacco. The third most important source of revenue in the earlier period was the cotton export tax.

With cash-earning opportunities limited to cotton, most of the poll tax (and local government taxes) came from cotton, and thus, effectively from the African farmers. And since non-African taxes were unimportant, taxes on farmers provided the largest slice of government revenue. To demonstrate this I have apportioned poll taxes between the African wage-earners and farmers and then added to the latter the other taxes they paid, that is, export taxes and marketing board surpluses. These estimates (see Table 2) show that in 1927 the farmers contributed 39 percent of total central government revenue, paying £504,000 in taxes out of a total of £1,292,000. Almost all the direct tax revenue (tax revenue excluding customs and excise and non-tax revenue) came from farmers, the only other direct taxes being £13,000 paid by non-Africans and £60,000 by African wage-earners. The situation was the same in 1937, with the farmers contributing 32 percent of all revenue and 76 percent of direct taxes. And even in 1947, although other forms of taxes were becoming important, taxes from farmers still amounted to 29 percent of total revenue while African wage-earners contributed another 5 percent. Africans thus contributed 73 percent of direct taxes and non-Africans 18 percent.

The farmers' taxation burden—which, lacking data, we can only express as a proportion of their *cash* income—was heavy. In 1937, the farmers paid £761,000 in poll tax and local government taxes out of

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TABLE 2
TAXES PAID BY FARMERS IN UGANDA
('000£)

		1927	*1937*	*1947*
(a)	Cotton export tax	51	133	901
(b)	Coffee export tax	—	—	90
(c)	Poll tax	453	495	550
(d)	Native government tax	—	266	341
(e)	Marketing Board Surplus	—	—	1,662
(f)	Total farm taxes (all above)	504	894	3,544
(g)	Total Central Government revenue from farmers (a) + (b) + (c)	504	628	1,541
(h)	Total direct taxes from farmers (c) + (d)	453	761	891

Source: Basic data from Table 1. Native government taxes for 1937 from *Colonial Report* and for 1947 from Great Britain, *Native Administration in the British East African Territories, Part I: East Africa: Uganda, Kenya, Tanganyika* (by Lord Hailey). Poll tax and native taxes were allocated to farmers by first estimating the portion paid by African wage-earners and allocating the residual to farmers. Coffee export tax and marketing board surpluses did not become operative until 1947. For further details see Jamal, "Cotton and Coffee," Table VI.2, pp. 179-80.

their total income of £3 million. Prior to paying these taxes, they had already paid £133,000 in the form of the cotton tax. Thus they paid £894,000 in taxes out of their potential income[13] of £3.15 million—a rate of taxation of 28 percent. In 1947, owing to the withdrawals made by the Lint Marketing Board, as much as 49 percent of growers' potential cash income was taxed away.

By using only the cash income in the denominator, these figures overstate the incidence of taxation on Africans. But even if one were to hazard a guess that subsistence income was as much as one-half of the farmers' cash income, the figures of tax incidence would still be quite high (two-thirds of the values stated previously), especially compared to the incidence of taxation on non-Africans. In 1937, for example, non-Africans paid £29,877 in poll tax, £13,327 for cotton ginning licenses, £36,899 for motor car licenses, and £14,689 in stamp duties. Counting all direct and indirect taxes—and attributing all indirect taxes to non-Africans, even though they were shifted in part to consumers (mostly Africans) through higher prices—their total tax amounted to £117,461 (6 percent of government revenue). Com-

[13] Potential income is the income farmers could have received had there been no export tax or marketing board deductions; i.e., potential income ≡ income farmers actually received + government taxes. It should be pointed out that the value of farmers' subsistence production has not been included in their income.

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pared to this, as estimated elsewhere,[14] ginners' income alone amounted to £550,000. Thus, even on the extreme assumption that the entire non-African population consisted of ginners, the rate of taxation of non-Africans works out at 21.2 percent of their income, still short of the 28.4 percent contributed by African farmers from their cash income. Of course, the non-Africans included other than just the ginners; there were the European civil servants, who in 1927 earned £500,000, and Asian traders, who on a quite conservative basis earned £700,000. Even with this partial list of non-African incomes, the rate of taxation amounts to only 6.7 percent.[15]

Indirect Taxes on Africans

Having considered indirect taxes on non-Africans, it is only fair that we should do the same for Africans. Many types of fees and licenses impinged upon Africans, of which the important ones were market dues, 5 percent of sales; hawker's license, Sh 48 per annum; bicycle registration fee, Sh 6 per annum; inoculation against rinder pest, Sh 4; cattle branding, Sh 10; and government slaughterhouse fee, Sh 2.[16]

If these fees seem innocuous, compare, for example, the market fee with the retail trading license applicable mostly to Indian *dukawallahs* (shopkeepers). At 5 percent of *sales*, the market fee could easily have amounted to 10-15 percent of *net income*. In comparison, a retail trading license cost Sh 150, which at 5 percent of sales would imply retail sales of £150 per annum. In actuality a conservative estimate is that an average merchant's *net* income was £250 and his sales at least double this, so that Asian retailers paid proportionately a much smaller fee than market sellers. Comparison of the hawker's license at Sh 46 and the retailer's license points to a similar conclusion: by no stretch of the imagination could one argue that hawkers earned one-third as much as retailers.[17]

The bicycle registration fee of Sh 6 per annum may, too, seem a trifling sum, but it loomed large when compared to the average African income and to the situation with respect to motor cars. In the

[14] See Jamal, "Asians in Uganda."

[15] For the parallel situation in Kenya, see E. A. Brett, *Colonialism and Underdevelopment in East Africa* (London, 1973) and Richard D. Wolff, *The Economics of Colonialism: Britain and Kenya, 1870-1930* (London, 1974).

[16] All data from *Blue Book, 1927*. Market dues were exclusive of the rent the smallholders had to pay local authorities.

[17] The effect of such high fees on African entrepreneurship has been analyzed by Cyril Ehrlich, "Some Social and Economic Implications of Paternalism in Uganda," *Journal of African History*, 4 (1963).

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late 1920s a cotton farmer's income was of the order of Sh 70-100, so that the bicycle registration fee amounted to over 6 percent of his income. The burden of running a bicycle did not end there, for a bicycle costing £7 c.i.f. entered the country with an import duty of 20 percent, while bicycle tires and tubes entered at 45-50 percent.

By contrast, the motor car registration fee of Sh 90 was a small sum for even an ordinary European government clerk, who earned in this period around £300 per annum.[18] Import duties were also lower compared to bicycles. With a c.i.f. price of £180, the duty on motor cars was 14 percent compared to 20 percent on bicycles. Duty on motor car tires was about the same as on bicycle tires (38 against 43 percent), but the duty on motor car tubes was only 18 percent compared to 52 percent charged on bicycle tubes.

Bicycles were not for the average farmer or the average wage-earner; nor were motor cars for the average *dukawallah*. In 1929 there were no more than fifty thousand bicycles in the country and about one thousand cars and lorries.[19] Most bicycles belong to the chiefs, landed gentry, and Asian petty merchants. And a large proportion of the cars belonged to high-salaried government officials, for whom car-owning was made easier by attractive financial terms. Government officials were entitled to a two-year loan of up to £450 for the purchase of a car and to free freight between Mombasa and Kampala. The day-to-day cost of running the car was taken care of by a very generous—even by present-day standards—allowance of 55-70 cts per mile when traveling on official business.[20] With gasoline expenditure amounting to 10 cts per mile, a Gulu-based D.C. who bought a 25 h.p. car for £450 could pay off his loan installments in two years by making a monthly trip to Entebbe—and could take advantage on the return journey of lower prices at Kampala.

Customs and Excise

The largest single item of indirect taxation was, of course, customs and excise, which throughout the early part of the colonial period constituted the second highest source of government revenue, and after the 1930s the highest source. From 1904 to 1921 the general rate of taxation was 10 percent *ad valorem*. It was raised to 20 percent

[18] It might be emphasized that the reference is to a clerk. Salaries of other officials were much higher. See "Asians in Uganda" for some representative salaries in this period.

[19] Estimated as follows: In 1927, the bicycle fee raised £12,222, which at Sh 6 and 20 percent evasion implies fifty thousand bicycles. Motor car and motor cycle fees netted £5,842, which at Sh 100 implies just over one thousand motor vehicles. Data from *Blue Book, 1927*.

[20] See Great Britain, *Conditions in the Overseas Civil Service, 1936*.

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after 1921, with provision for the application of specific rates of duty on certain commodities. This type of taxation, even if applied uniformly on all commodities, had a regressive impact on Africans since they, being the poorest, expended a higher proportion of their income on clothing and other imported necessities.

Actually the import duties were far from uniform. Rates were set with the objective of maximizing revenue, which resulted in most necessities being taxed and thus in higher effective taxation of the lower-income groups. Examples relating to bicycles and motor cars were cited earlier. Consider further the following list of duties on contrasting items in 1927:

Common salt, 42 percent; table salt, 20 percent
Grey cloth, 35 percent; woollen and silk cloth, 20 percent
Cotton blankets, 20 percent; woollen blankets, 20 percent
Tobacco, 78 percent; cigarettes, 54 percent
Candles, 24 percent; electric light bulbs, 3 percent
Used clothing, 30 percent; new clothing, 20 percent
Beads, 45 percent; sugar, 53 percent; matches, 89 percent[21]

Clearly, items consumed by Africans bore higher rates of duty than items more likely to be consumed by the other races. On top of this, non-Africans were the effective beneficiaries of a long list of duty-free items, which in 1927 let in 29 percent of total imports, and 35 percent in 1937. Although many of these items could be excused as being essential (for example, drugs and school supplies) the list included several items of doubtful propriety such as ice, fresh fish, fresh fruit, newspapers and periodicals, rat traps, salt for curing, plumbing fittings, and mosquito nets.

Africans did not rely on imported foodstuffs, as did Europeans and, to a smaller extent, Asians. Even so, since they were so much poorer, the proportion of income they spent on imports was likely to be higher than of the other races. I have estimated from diverse data that Africans spent half of their cash income on imports, valued at retail prices. Of this, 80 percent was dutiable at 25 percent. On the assumption that the margin between landed value and retail price was 40 percent, a quarter of African incomes would be expended on imports, valued at c.i.f. Then with an average rate of duty of 25 percent, import duties paid by Africans would amount to 6 percent of their cash incomes. Asians and Europeans spent a smaller proportion of

[21] Total duty as a percentage of the c.i.f. value of imports. The standard rate of duty was 20 percent; other rates imply the application of specific duties. Great Britain, *Joint Committee on Closer Union in East Africa* (London, 1931).

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their income on imports (40 percent may be assumed),[22] and with their imports being subject to lower duties they contributed around 4 percent of their incomes through import duties.

The inclusion of customs duties thus tilts the balance even further in favor of non-Africans. In 1937 they paid £29,877 in poll tax, £87,584 in various indirect taxes, and an estimated £250,000 in customs duty. All this came out of an income of £6 million, implying that non-Africans paid around 6 percent of their income in taxes. Compared to these figures African farmers paid £495,000 in poll tax, £266,000 in native taxes, £133,000 in export taxes, and £180,000 in customs duty. Thus, over £1 million of the farmers' cash income of £3.15 million went in taxes, a taxation rate of 34 percent. In 1927 the figure was 23 percent, and in 1947 an astonishing 55 percent, reflecting the deductions made by the marketing boards.

The government Treasurer stated in 1936:

> In Uganda the bulk of the taxation is paid by large numbers in rural areas and the amount paid by each individual represents a very large proportion of his money income. In many cases the proportion approaches 100 percent. In Uganda taxation is the principal incentive to labour and production.[23]

Although one could dispute the Treasurer's view on African behavior, and although his statement about the incidence of taxation seems exaggerated (possibly, however, "in some cases" taxation did approach 100 percent), the data presented in this section clearly substantiate his assertion that African farmers paid the bulk of the taxes, and at rather high rates. What is more to the point, it has been shown that these rates were much higher than those paid by non-Africans, who were a great deal richer.

TAXES IN THE RECENT PERIOD

After World War II the Ugandan economy entered a new phase of development. Coffee, now grown by Africans, began to expand in Buganda and by 1950 surpassed cotton as Uganda's chief export. There was a speeding-up in cotton exports, too, and returns from both crops further increased as a result of favorable prices. The nonagricul-

[22] This figure is rather close to that of the Africans and might cause some doubts on that score. It should be remembered that with their very low incomes, the Africans' expenditure on consumer goods, mostly imports, perforce amounted to a high proportion of their cash purchase. In the case of the other races, their greater reliance on imported goods—food as well as non-food—resulted in a high proportion of their income being spent on imports. The same observations apply in relation to the discussion for 1964.

[23] Uganda, *Report of the Treasurer, 1936*, p. 4.

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tural sector expanded under the stimulus of rising exports. The number of wage-earners increased appreciably and, with a rise in wages, wage employment began to rival cotton and coffee as a source of income for Africans. By the mid-1960s, under the influence of government-imposed minimum wages, the income of some 250,000 wage-earners had come to exceed the combined income of over one million cotton and coffee farmers.

In keeping with the growth of the economy all indices of production and consumption surged upward, best indicated by figures for cloth consumption.[24]

	1926	1937	1947	1956	1968
Cloth consumption (yds. per capita)	5.6	8.9	4.6	8.9	7.2
Farmers' "cloth income" (yds. per annum)	74	170	45	182	100

For the farmers the late 1950s were the best years. By then they had recovered from the disastrous fall in acreage and yield that occurred in the 1940s; had they spent all their income on cloth, they could have purchased four times as much as ten years previously. Yet the same figures depict a sorry picture: in the best of times a farmer could buy less than 200 yards of cloth with his whole cotton income.

Relative though the prosperity was, government took advantage of it to impose new and higher taxes on Africans. On top of the flat-rate poll tax collected by the central government, a graduated tax was instituted to be collected by local governments.[25] Rates were set to take account of the boom in agriculture and their effect was to double the average rate of taxation on Africans. At the same time export taxes on cotton and coffee were raised to cream the increase in their prices, and marketing boards withheld large sums of money from farmers with a similar effect. Rates of import duties were also raised, and more local commodities were subject to excise taxes.

The impact of these measures was to increase revenue tremendously. In 1947 total tax revenue amounted to just over £4 million, of which customs and excise provided 45 percent and export taxes 24 percent (see Table 3). Ten years later the tax yield had increased

[24] Figures in the top row are total yardage imported (and locally produced in 1968) divided by total population. Figures in the bottom row show how much cloth an average farmer could have purchased with his income at the prevailing prices.

[25] For further analysis of this period see, Walter Elkan, "Central and Local Taxes on Africans in Uganda," *Public Finance*, 23 (1958).

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TABLE 3
TOTAL REVENUE AND ITS COMPOSITION
('000£)

	1947	1956/57	1965/66
Customs and excise	1,827	6,404	19,136
Non-African income tax	399	3,346	4,554
African poll tax	662	2,542	5,103
Export tax	1,012	7,106	4,970
Cotton	901	4,338	1,612
Coffee	90	2,732	3,304
Total all taxes	4,098	20,359	36,730
Total all revenue	5,331	27,398	57,172

Source: Figures for 1947 as in Table 1. Those for the last two periods are from *Statistical Abstract*, appropriate years.

fivefold with all taxes showing an increase. Export taxes temporarily displaced customs and excise as the highest source of revenue, and non-African income tax (newly imposed in 1945) assumed a respectable position, providing 12.5 percent of tax revenue. In 1965/66 tax yield had further increased to £36.7 million, most of it coming from a tripling of customs and excise taxes.

The increase in poll tax and export taxes kept pace with the increase in African agricultural incomes, so that the burden of taxation on Africans remained heavy. And although non-Africans were at last made subject to an income tax, their income in the meantime had increased enormously as a result of an increase in the trade passing through their hands. The incidence of taxation on them, therefore, remained light.

Thus the pattern of taxation depicted for the historical period continued into the present period, with an additional dimension represented by growth of African wage incomes and heavily protected industries. The contrast between farmers and non-farmers remained, but while before the non-farmers comprised only the non-Africans, now they also included African wage-earners; and while in the past consumption tax was represented by import duties, with the growth of local industries its place was taken by an effective subsidy from the farmers to the urban industries. The result was that farmers paid taxes at much higher rates than non-Africans, and at even higher rates than African wage-earners.

The mode of taxation remained basically the same. All African groups—farmers, wage-earners, and businessmen—paid a graduated poll tax at 5-7 percent of income. But while wage-earners paid only the poll tax and African businessmen also paid for trading licenses,

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farmers additionally paid the much heavier export taxes on cotton and coffee.

With this system of taxation—and despite the progressive nature of the income tax, paid mostly by non-Africans—the overall tax structure in Uganda remained regressive. In 1964 Africans earning £40-60 paid 5-7.5 percent of their income in graduated tax; non-Africans with two children paid income tax at this rate when their income was forty times as much (£1,600-£2,000). If they had more than two children, they paid lower taxes; Africans paid the same poll tax regardless of the size of their families.

Of course the operation of the export taxes made the system even more regressive, as may be seen in Table 4. The calculations relate to 1964 since that was the last year for which the requisite data could be obtained. The first thing that might be noticed about the figures is the great inequality of income they reflect. Africans farmers, who were very nearly the whole of the population, received just over one-half of the national income, whereas the one or two percent of the population that comprised non-Africans and government-owned companies (the "Rest" group in Table 4) received one-quarter. With public firms

TABLE 4
INCOME, TAXES, AND RATES OF TAXATION IN UGANDA, 1964: AFRICANS VS. THE REST
(million shillings and percentages)

	African					
	Farmers	*Non-farm Self-employed*	*Wage Earners*	*Total*	*Rest*	*Total*
Cash income	1,078	217	585	1,830	937	2,816
Percentage share	38.3	7.7	20.8	66.8	33.3	100
Total income[a]	2,164	217	585	2,966	937	3,902
Percentage share	55.5	5.6	15.0	76.0	24.0	100
Taxes (excluding customs & excise[b])	226	27	30	284	127	411
Percentage share	55.0	6.6	7.3	69.0	30.9	100
Income tax[c]	51	16	30	97	76	173
Other taxes[d]	175	10	—	185	52	237
Rate of taxation of cash income	21.0	12.4	5.1	15.1	13.6	14.6
Rate of taxation of total income	10.4	12.4	5.1	9.6	13.6	10.5

[a] In the case of the farmers the estimated value of subsistence production is included in total income.
[b] Customs and excise amounted to Sh 293 million.
[c] Income tax for Africans was in the form of a graduated local government tax.
[d] Other taxes were export tax in the case of farmers and trading licenses for the rest.
Source: Estimated from *Statistical Abstract* as explained in Jamal, "Cotton and Coffee," Table VI.3, pp. 185-86.

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accounting for no more than 5 percent of the GDP at this time, the 1.3 percent of the population who were non-African received nearly 20 percent of the national income, meaning that their income was twenty times as great as the African income and fifteen times as great as the national average income. (The approximate figures are African income, £20; non-African income, £400; and average income, £26.) Among the Africans the privileged group comprised the wage-earners. This small minority, less than 2 percent of the total African population, took over 30 percent of the cash income, or 20 pecent of the total income going to the Africans. In the mid-1960s a wage-earner could expect to make four to five times as much as the average farmer.

Tax contribution of the different sections of the population was rather different from their share in national income. The farmers contributed about the same proportion of taxes as their share of income, but wage-earners contributed only 7 percent while they received 15 percent of income. The "Rest" contributed somewhat more than their proportionate share of taxes. The outcome was that direct and indirect taxes (excluding customs and excise) amounted to 10.5 percent of income for the country as a whole, while for farmers they were 10.4 percent, and 13.6 percent for the rest—and for the wage-earners only 5 percent. Bearing in mind the order of magnitude with respect to average income, such a tax structure should be regarded as quite regressive.

Inclusion of customs and excise redresses somewhat the balance against farmers, for while all income groups probably devoted a similar proportion of their cash incomes to imports—something in the range of 35 to 40 percent—farmers had a high proportion of their income deducted by direct taxes, which left them with a smaller disposable income out of which to purchase consumer goods. Based on estimates of rural household budgets, farmers probably contributed Sh 70 million in customs duty out of a total of Sh 200 million, that is, 35 percent although their share in income was 56 percent. Other African groups paid Sh 50 million while non-Africans paid Sh 80 million. Proceeding on a similar basis, farmers paid Sh 35 million in excise duties, while other Africans paid Sh 25 million and non-Africans paid Sh 30 million.

Collating all these estimates shows that the farmers paid Sh 331 million in taxes out of their income of Sh 2,164 million, and out of total taxes of Sh 704 million. Thus they paid taxes at the rate of 15 percent and contributed 47 percent of total taxes. Other African

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groups paid taxes at the rate of 16 percent and contributed 19 percent of total taxes, while non-Africans paid 26 percent of their income in taxes and contributed 35 percent of total taxes. For the country as a whole the rate of taxation (that is, total taxes as a proportion of total GDP) was 18 percent.

Taxation by Marketing Boards

Marketing boards for cotton and coffee were established in the early 1940s to meet wartime exigencies. By setting producer prices much lower than the prevailing high export prices, marketing boards began to accumulate large surpluses. This practice was at first rationalized with the argument that to let producer prices rise in the face of shortages would cause inflation. Later, the rationale was advanced that marketing boards were there to stabilize producer prices: surpluses would be liquidated eventually to subsidize falling prices. In the event only a small part of the huge surpluses the marketing boards accumulated was used to finance producer prices. Most of the funds were expended on development projects, so that the accumulation of surpluses had essentially the same characteristic as an export tax.

The period of high export prices lasted from around 1945 to 1952. In the first four years of this period, £7.3 million was deducted from cotton proceeds and £1 million from coffee proceeds. In the latter years, as shown in Table 5, deductions reached their peak, with withholdings of £27.4 million from cotton incomes and £11.9 million from coffee incomes. The surplus collected from cotton amounted to 33 percent of cotton growers' potential income and the surplus from coffee to 45 percent. At the same time, the government deducted

TABLE 5
MARKETING BOARD SURPLUS AND TAX WITHDRAWALS FROM COTTON AND COFFEE INCOMES, 1949-1962
(million £)

	Cotton			*Coffee*		
	1949-1952	*1953-1957*	*1958-1962*	*1949-1952*	*1953-1957*	*1958-1962*
Total earnings	93.1	99.8	78.0	29.2	57.5	53.9
Marketing costs	9.9	17.4	18.8	2.6	6.4	10.1
Government withdrawals	46.2	22.1	4.5	17.0	6.9	−1.0
Export tax	18.8	18.3	11.6	5.1	10.0	5.4
Marketing Board surplus	27.4	3.8	−7.1	11.9	−3.1	−6.4
Farmers' income	37.0	60.3	53.7	9.6	44.2	44.8

Source: Derived from *Statistical Abstract*, appropriate years.

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around 20 percent of export incomes through the export tax, so that in this period the government deducted more money from both cotton and coffee incomes than it paid out to the farmers.

A reversal in trends set in after 1952. Export prices began to decline but producer prices were raised, in the case of cotton despite a fall in the exprot price and in the case of coffee to levels that were completely out of line with the small increase in the export price. As a result, in the period 1953-57 the Lint Marketing Board made only a small surplus, mostly from the sale of cotton seed, and the Coffee Marketing Board suffered a loss (that is, it drew upon its surplus to subsidize producer prices). With a continuing decline in export prices, producer prices were lowered somewhat but still required a subsidy from marketing board surpluses. And in the period 1958-62, both marketing boards incurred losses, and farmers received all of their potential income. (Coffee farmers actually received a net subsidy from government, less being collected in export tax than was paid out by the Coffee Marketing Board.)

From the point of view of the farmers the marketing boards were just additional tax-gatherers—and indeed that is exactly what they were. For fifteen years or so marketing boards extracted huge sums of money from farmers, then for the next five to seven years they repaid a small part of this by way of price stabilization. In the meantime, prices of consumer goods had increased considerably so that the money the marketing boards doled out in the late 1950s and early 1960s was worth only two-thirds its value in the period it was collected.[26]

Consideration of the real value of money did not enter marketing boards' deliberations. They looked at export prices in isolation from other prices, especially import prices. Thus in the late 1940s, when they withheld a large part of the increase in export prices although the prices of imports had increased much more, the result was that the country was trading on unfavorable terms, importing per export unit only one-half as much as ten years previously. Disregarding these trends, the marketing boards deducted large sums of money from the farmers. Their terms of trade worsened even further, to the extent that in the late 1940s they could purchase only one-third as much cotton cloth for their produce (24 yds. for 100 lbs. of lint) as a decade

[26] This contrasts starkly with Governor John Hall's espousal of the surpluses on the grounds that government would get greater value for money in the future as prices fell. See David Walker and Cyril Ehrlich, "Stabilisation and Development Policy in Uganda: An Appraisal," *Kyklos*, 12, p. 345.

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earlier. To make matters still worse, there was a disastrous fall in cotton output. The late 1940s were hard times for Uganda and Ugandan farmers.[27]

GOVERNMENT EXPENDITURE: PAST AND PRESENT

It might be possible to defend government's tax policies had government expenditure been distributed in some fashion commensurate with tax contributions. Neither in the colonial period nor since independence did this happen. Most of government expenditure was directed towards the day-to-day running of the state, on items such as law and order, customs, treasury, and posts and telegraphs. Social services were allocated the residual once these overhead costs had been met. In 1927 expenditure on social services amounted to 17 percent of total expenditure, of which agriculture, from which the bulk of government revenue was derived, received just 2.5 percent (£35,099). Two-thirds of that sum (£22,533) represented the personal emoluments of European officials of the Agricultural Department.

Not only was expenditure on social services low but its distribution was lopsided, with Africans receiving very little of it. In 1927 government spent £48,032, or 3.4 percent of total expenditure on African education, which amounted to Sh 4.27 per pupil. In contrast, it spent £2,000 on Indian schools, equivalent to Sh 82.30 per pupil—and gave European parents financial assistance to send their children to school in Kenya and Britain.[28]

A similar situation existed with respect to expenditure on health. Hospitals were racially segregated, and their availability was skewed in favor of non-Africans. In 1937 there were 23 government hospitals with 1,277 beds for Africans (or one bed for 2,769 Africans); there were 4 European government hospitals with 34 beds (one bed for 62 persons), and 8 Asian hospitals with 56 beds (one bed for 336 persons). On top of all this, of course, what constituted a hospital and hospital bed varied according to race. At the Kampala European hospital 7 European nurses and 8 native attendants ministered to a daily average of 6.8 patients, who each enjoyed a space of between 3,780 to 5,050 cubic feet. At the adjoining "Asiatic" hospital the

[27] The farmers' plight became a material cause in disturbances that took place in Buganda around this period. See Uganda, *Inquiry into Disturbances in Buganda Province, 1939* (Entebbe, 1939).

[28] Education expenditure figures from *Blue Book, 1927*, pp. 91-92. Statistics relating to hospitals from *Colonial Report, 1937*, p. 8, and conditions in individual hospitals from *Blue Book, 1929*.

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patient-attendant ratio was similar (the attendants, however, were Asian and African), but the wards were less commodious, the range being from 663 to 1,070 cubic feet per patient. In sharp contrast, at the Gulu African hospital one nurse and eight attendants tended to 67 patients daily, and the rooms were positively overcrowded with average cubic space ranging from 270 to 864 cubic feet.

In recent years there has been some increase in social service expenditure, but little in its distribution. In 1968, in return for the Sh 380 million they had paid out in taxes, farmers were bestowed with Sh 87 million worth of expenditure by the Agricultural Department. If one wants to be generous, one may include Sh 12 million expenditure on forestry and Sh 10 million on community development; one may even argue that out of the Sh 218 million expenditure on health and education Sh 100 million was channeled to rural areas. Even then farmers and others in the rural areas received Sh 210 million worth of government services, whereas farmers *alone* paid out nearly twice as much in taxes.

The allowance to rural areas of one-half of education and health expenditure was deliberately over-generous; in actuality the figure was bound to be much lower, as may be judged from scattered data. In 1969 Kampala had 27 percent of all hospital beds in the country, equivalent to 6.4 beds per 1,000 persons, compared to a Uganda average of 1.2 beds per 1,000 persons. In Kampala 62 percent of all children between 7 and 13 years went to school, compared to 36.7 percent in the rest of Buganda and 35.2 percent in all of Uganda.[29] And—although it might be disputed—items such as post and telegraphs, law and order, and customs mostly entered the social consumption of urbanites. By favoring urban areas, government effectively favored the wage-earners and non-Africans since a majority of them were town-dwellers. These groups earned much higher incomes than the farmers, paid lower taxes, yet received more benefits out of government expenditure.

Disbursement of marketing board surpluses did not particularly benefit the farmers either. D. A. Lury[30] has estimated that of the £40 million withheld from cotton farmers by the Lint Marketing Board between 1945 and 1960, only £16 million was reserved for the Cotton Price Assistance Fund, the rest being appropriated for development

[29] Uganda, *Third Five Year Plan, 1971/72-1975/76* (Entebbe, 1971).
[30] "Cotton and Coffee Growers and Government Development Finance in Uganda," *East African Economic Review*, 10. See also his, "The Uganda Economy, 1945-60," in *Oxford History of East Africa*, vol. III.

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funds. In addition, in the same period £43.5 million was deducted through the export tax, of which £12.3 million was used on development expenditure and the rest utilized in the general revenue budget. During these years government spent £30.7 million on development projects and had an additional £18 million available for future expenditure. Thus, cotton provided almost all of the public funds expended in the period 1945-1960.

The three largest funds that were created were the African Investment Fund, with £14 million; the Local Investment Fund, with £8 million; and the Capital Development Fund, with £13.5 million. None of these funds directly benefited the farmers. Out of the African Investment Fund, £8 million was spent for the training of African teachers, £2 million for technical training, and £1 million each for medical department and mechanical farming. The Local Investment Fund was created to finance the Uganda Development Corporation and to enable it to purchase interest in the cement and textile works. The last of the funds, the Capital Development Fund, was devoted to the construction of roads and buildings. Between 1946 and 1958, £6.3 million was spent on building 679 miles of roads.[31] Of this sum, £3.5 million was used up in Buganda on 327 miles of roads. The eastern and northern regions, which were the main areas of cotton cultivation—and hence contributors of funds—were allocated £1.1 million to build 200 miles of roads. Clearly, these roads were inferior to those built in Buganda.

CONCLUSION

Throughout Uganda's modern history the agricultural sector has contributed the largest portion of government revenues. Since agriculture looms so large in the economy, this share is only to be expected. Agriculture's large contribution, however, owes not only to its preponderance in the economy, but also to its having been consistently taxed at a higher rate than the non–agricultural sector. In a situation where the agricultural incomes were much lower than the non–agricultural incomes, and where the non–agricultural sector was in the hands of non-indigenous people one can discern the elements of a discriminatory and inequitable system of taxation. Of course, the administrators—British and Ugandan—never thought of the matter in that light. They did not consider export tax as being a tax on the

[31] Edward K. Hawkins, *Roads and Road Transport in an Underdeveloped Country: A Case Study of Uganda* (London, 1962).

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producers, an illusion that was created and sustained by the fact that the tax was not paid directly by the farmers, but was deducted by the government before farmers were paid their income. As for import taxes, the rationale was that they provided much-needed revenue. The best way to achieve that objective was to tax necessities; perforce the poor were most penalized.

This leaves the poll tax. The British believed that without the need for money created by the poll tax, the farmers would have no incentive to cultivate export crops; and without a periodic upward revision of the tax, they would lack impetus for cultivating large acreages. They set poll taxes on Africans at much higher rates than on the rich non-African population, and thus a regressive system of taxation evolved. This system was based on the implicit notion that different sets of economic forces acted on Africans and non-Africans: Africans, it was supposed, would lose their incentive to work if taxes were not set high enough, non-Africans if they were set too high.

The inequity of the tax system was carried over into the post-independence period and was further exacerbated by the distribution of government expenditure. The government spent the tax money not on tools or fertilizer, or on nurturing the health of the farmers—items that the farmers might neglect in favor of immediate consumption—but on social amenities for the rich urbanites. The agricultural sector, which provided the largest revenue, received less than its commensurate share of government expenditure. The system of taxation in Uganda was thus doubly regressive: the poor were taxed higher than the rich, but the rich received more benefits from government expenditure than the poor.

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