1 Introduction

Taxation, responsiveness and accountability in developing countries

Scholars have long argued that bargaining between citizens and governments over the collection of tax revenue can provide a foundation for the development of responsive and accountable governance. Taxation lies at the foundation of the relationships between governments and their citizens, and governments seeking expanded tax revenue are likely to face demands from taxpayers for reciprocal service provision and expanded accountability in exchange for tax payments. This intuition is reflected in well-known accounts capturing the role of tax bargaining in the emergence of representative political institutions in early modern Europe, and in the well-known American revolutionary slogan "no taxation without representation."

However, our understanding of these relationships in contemporary developing countries has remained surprisingly limited, despite growing scholarly and public attention. Research has provided growing but still fragmented evidence, while offering little insight into either the specific causal pathways underpinning these relationships or the conditions under which bargaining over taxation is most likely to yield broader governance gains. This book seeks to fill this empirical gap through a detailed investigation of the links between taxation, responsiveness and accountability in three countries in sub-Saharan Africa: Ghana, Kenya and Ethiopia. The book presents detailed evidence that bargaining over taxation has played an important role in spurring expanded responsiveness and accountability in all three countries. However, contrary to any simple image of relatively explicit and predictable bargaining over taxation, the book stresses that these connections have been both complex and contingent. The links between taxation, responsiveness and accountability have been frequently indirect, long-term and difficult to observe, while the emergence of positive connections has hinged on specific features of tax systems and of the broader political and economic environment.

The positive potential of tax bargaining is reflected nowhere more clearly than experiences in Ghana in the mid-1990s. The government of President Jerry Rawlings had come to power through a military coup in

1981, before winning elections in 1992 that were boycotted by the opposition. Throughout that period large-scale public protests and opposition remained almost entirely absent, owing to the repressive strength of the state and the weakness of the fragmented political opposition. This began to change decisively in 1995 when the government, facing growing fiscal deficits, moved to introduce a new value-added tax on goods and services. The government quickly, and unexpectedly, found itself confronted by nationwide protests that brought tens of thousands of people into the streets for the first time in more than a decade. Crucially, while opposition to the tax initially spurred these protests, they quickly came to encompass broader demands for political liberalization, while playing a crucial role in unifying a previously fragmented opposition. Ultimately, these protests helped to catalyse a significant political transformation, reflected in more open national elections and an increasingly inclusive approach to policymaking. Reflecting on these events, senior political leaders recall the protests as having been a pivotal moment in accelerating political change,[1] while those involved in the protests argue that it was "the first time they [the government] felt like they could lose power"[2] and was evidence that in Ghana, "taxes have always provided a focal point for public mobilization. Have provided momentum for the resistance."[3]

This experience is exemplary of the kind of explicit tax bargaining evoked by existing accounts, and speaks to the potential for conflicts over taxation to spur broader governance gains. However, this example provides only an incomplete picture of the more complex and contingent connections that have linked taxation, responsiveness and accountability. Consistent with popular narratives, tax bargaining has in some cases involved relatively explicit government concessions in response to short-term public mobilization or threats of non-compliance. However, in most cases the connections between taxation, responsiveness and accountability have been comparatively implicit, indirect and long-term. Rather than involving explicit government concessions, these connections have been grounded in the role of conflicts over taxation in undermining the longer-term fiscal positions of unpopular governments and strengthening long-term political engagement and mobilization amongst taxpayers.

In some cases popular resistance to taxation has not led to explicit bargaining or compromise, but has instead undermined the fiscal

[1] Personal interviews on 21 March 2008 with Former Minister in PNDC and NDC governments, and on 10 April 2008 with former Deputy Minister of Finance and senior official in PNDC and NDC governments.
[2] Personal interview on 17 March 2008 with senior leader, Committee for Joint Action.
[3] Ibid.

foundations of the state and helped to precipitate changes in government over the medium or long term. This was the case, for example, in Kenya in the late 1990s, where public resistance to taxation failed to prompt immediate government concessions. Instead, persistent and politically motivated tax evasion progressively undermined the fiscal position of the increasingly unpopular government. By starving the government of revenue, this tax resistance helped to precipitate a political transition in 2002, as the incumbent government was removed from power. In turn, the new government brought meaningful improvements in accountability, while explicitly linking improved tax collection to the expansion of popular social programs. While the threat of tax resistance thus shaped the expansion of accountability, this relationship did not reflect explicit bargaining between taxpayers and the government. Instead, it reflected unresolved conflict over taxation, and the ability of taxpayers to use tax resistance as a strategy for undermining an unpopular government.

In other cases conflict over taxation has helped to fuel longer-term political engagement and the strengthening of civil society, including the coalescing of more constructive political engagement by business associations. One such example comes from Ethiopia, where the expansion of business taxes at the regional level led local business associations to become increasingly engaged with government. Despite significant continuing constraints on democracy, the result was an expanded role for businesses in overseeing tax collection as well as the creation of new forums for consultation between the regional government and taxpayers. An alternative example comes from Kenya, where conflicts over the introduction of electronic tax registers to strengthen tax compliance prompted the mobilization and strengthening of the United Business Association (UBA) to represent medium-sized firms. While business protests failed to secure immediate government concessions, they established the UBA as an important new political actor, with longer-term implications for engagement between the state and business. None of these examples fit a simple image of explicit and immediate tax bargaining, but they are all essential to a full understanding of the links between taxation, responsiveness and accountability.

Unsurprisingly, the particular forms that tax bargaining has taken, and the particular outcomes that have emerged, have been heavily dependent on the specific features of tax systems and tax reforms, and on the broader political and economic environment. More simply, the experiences explored in this book make clear that while conflicts over taxation *can* emerge as an important spur to broader governance gains, these connections are far from guaranteed. Specifically, this book argues that relatively explicit forms of tax bargaining have been more likely when governments have faced significant revenue pressure, when taxpayers have enjoyed significant capacity for both collective action and tax resistance, when institutions have existed to facilitate bargaining between taxpayers and governments and when taxes have been comparatively politically salient. Shedding light on the contexts in which constructive tax bargaining is most likely serves not only to provide a more complete understanding of the issue; it also points towards practical strategies for strengthening links between taxation, responsiveness and accountability at the country level.

With these broad messages in mind, this introductory chapter proceeds as follows. It begins by providing a more detailed review of existing arguments linking taxation, responsiveness and accountability, the growing prominence of these ideas within contemporary development debates and key remaining questions. This is followed by an extended discussion of existing cross-country econometric evidence and the presentation of new econometric results. While the core focus of this book is on country-level *qualitative* evidence of tax bargaining, these new econometric results are a critical starting point for the analysis to follow, and reflect the prominent role of cross-country econometric findings in shaping existing understanding of the relationship between taxation, responsiveness and accountability. Having thus reviewed the cross-country econometric evidence, the remainder of this introductory chapter is committed to reviewing existing country-level evidence, summarizing the core focus, arguments and goals of the book, highlighting connections to broader currents in the study of politics in developing countries and describing the overall research strategy.

1.1 Linking taxation, responsiveness and accountability

Arguments linking taxation, responsiveness and accountability are both intuitive and elegant in their simplicity. On the one hand, a government that is forced to collect tax revenue from citizens will face incentives to be responsive and accountable to those taxpayers in order to encourage "quasi-voluntary" tax compliance and minimize conflicts over taxation (Bates and Lien 1985; Levi 1988). On the other hand, citizens who are forced to pay taxes will have a greater interest in how their money is spent, and thus be more likely to actively demand public services and expanded accountability from governments. The incentives generated by the need for taxation may thus lead to explicit and implicit "tax bargaining" between citizens and governments, as increased tax collection is exchanged for greater responsiveness and accountability. These processes of bargaining may, in turn, provide the foundation for the construction of durable "fiscal social contracts" (Moore 2004, 2008). While contemporary accounts have frequently focused narrowly on the expansion of democracy, historical and contemporary research suggests that tax bargains may prompt a much broader range of government concessions, which are here captured by the broader concepts of responsiveness and accountability. Following common usage, "responsiveness" is used here to refer broadly to the substance of government action, while the term "accountability" focuses on the institutionalized processes that shape government action and state-society relationships.[4]

The attractiveness of arguments linking taxation, responsiveness and accountability lies largely in two key elements. First, they draw on a long academic tradition highlighting the historical centrality of taxation to state-building and the expansion of political accountability in early modern Europe in particular (Levi 1988; Brewer 1989; Schumpeter 1991 [1918]; Tilly 1992; Ertman 1997; Daunton 2001). Studies in this tradition suggest that the need for states to expand taxation, largely in response to the escalating costs of warfare, forced them also to expand accountability in order to secure the support and tax compliance of wealthy taxpayers. It is this basic historical narrative that provides the foundation for much of the contemporary interest in the potential connections between taxation, responsiveness and accountability in developing countries. Second, this argument dovetails with increasing interest in the so-called political resource curse – the possibility that access to non-tax revenue may be an important cause of weak governance in states dependent on natural resources or foreign aid. While this is a diverse literature, many accounts in this tradition have attributed poor governance in resource-dependent states specifically to the reduced need to raise taxes from, and thus bargain with, citizens (Beblawi and Luciani 1987; Ross 2001).

Growing interest in the potential centrality of taxation to the emergence and expansion of political responsiveness and accountability is reflected in the appearance of this argument in many prominent recent works about the broader politics of developing countries. In an early example, Huntington (1993: 65) wrote of access to oil revenues, "because they reduce or eliminate the need for taxation, they also reduce the need for the government to solicit the acquiescence of the public to taxation. The lower the level of taxation, the less reason for publics to demand representation." Paul Collier (2009: 126), who has emerged as one of the best-known voices in the development field, has written more recently that access to natural resource wealth "enable[s] the government to

[4] These definitions, and the decision to adopt this focus, are discussed in much greater detail in Chapter 2.

function without taxing the incomes of citizens, which gradually detaches it from what citizens want." In similar fashion, Larry Diamond (2010: 98), a leading scholar of democratization, has argued of oil-rich states that "most are so awash in cash that they do not need to tax their own citizens. And that is part of the problem – they fail to develop the organic expectations of accountability that emerge when states make citizens pay taxes." Writing of the potential dangers of dependence on foreign aid, Moss, Pettersson and van de Walle (2006: 14) have written that "large aid flows can result in a reduction in governmental accountability because governing elites no longer need to ensure the support of their publics and the assent of their legislatures when they do not need to raise revenues from the local economy."

However, while the potential connections between taxation, responsiveness and accountability have become increasingly widely accepted, empirical research into these connections in contemporary developing countries has remained surprisingly limited. This is substantively important, as there are compelling reasons to believe that tax bargaining may be more limited, complex and contingent than is sometimes assumed. Recent arguments have continued to rely heavily on historical evidence from early modern Europe in particular (Tilly 1992). Yet historical evidence is far from constituting proof that similar processes are likely in the vastly different context of contemporary developing countries (Moore 1998, 2004, 2008). Amongst other considerations, these historical connections emerged during a period in which increasingly costly wars were the primary focus of government spending. In this context, warfare provided a uniquely powerful stimulus to revenue raising and a shared external threat able to catalyse collective action and bargaining between citizens and governments. By contrast, interstate warfare has become comparatively uncommon in the contemporary developing world, thus largely eliminating the historically predominant stimulus to overcoming daunting barriers to collective action and tax bargaining. At the same time, access to a range of non-tax revenue sources, including from natural resources, foreign assistance and foreign credit markets, has reduced the need for governments to bargain with citizens over taxation in order to respond to short-term crises (Centeno 1997, 2002; Herbst 2000). There are equally questions about why citizen demands for responsiveness and accountability should require the additional spur provided by taxation. In a period of expanded formal democracy, shouldn't we expect citizens to be willing and able to aggressively demand improved governance even in the absence of taxation (Herb 2005: 299)? Finally, historical narratives raise important questions about *who* is, in fact, likely to be able to participate in processes of tax bargaining, as tax bargaining in early modern Europe was generally confined to a small economic elite (Levi 1988; Gehlbach 2008).

Beyond historical differences, there are a variety of social, economic, political and historical reasons to expect that tax bargaining of the kind observed historically may, in fact, be relatively unlikely in contemporary low-income countries. At a minimum, these factors suggest that tax bargaining is likely to be both more diverse and more contingent than is often implied. While governments *may* choose to bargain with citizens over taxation, historically states have relied overwhelmingly on coercion to enforce tax compliance amongst populations lacking the ability to resist. Consistent with this fact, Moore (2008: 51) has pointed towards a range of reasons why positive connections between taxation and broader governance gains might be comparatively rare in low-income countries. He has proposed that tax bargaining is most likely when (a) governments have long time horizons, limited access to non-tax revenues and pressing revenue needs; (b) citizens enjoy "many of the conditions conducive to collective action," including shared interests and an understanding of the tax system; and (c) the state is sufficiently well established and effective to provide incentives for citizens to engage with government. Conversely, he suggests that coercive forms of taxation are particularly likely at the local government level and, more generally, where alternative revenue sources are plentiful, incomes are limited, tax systems are complex and poorly regulated, and the state is weak and poorly institutionalized (Moore 2008: 44). Perhaps most broadly, tax bargaining appears to be less likely where there is very limited trust in the state, as tax evasion, avoidance and resistance may then be more attractive to citizens than the search for reciprocity around expanded taxation (Fjeldstad and Semboja 2001; Juul 2006).

Critically, these expected barriers to tax bargaining are all characteristic of low-income states in sub-Saharan Africa and elsewhere. Countries in sub-Saharan Africa are disproportionately poor and agrarian, which may be expected, amongst others things, to inhibit effective collective action around taxation. They tend to be home to relatively fragmented tax systems, characterized by a range of formal and informal incentives and exemptions, which are likely to further undermine collective action and coherent tax bargaining (Klemm 2009).[5] Low-income countries

[5] While this concern holds at all levels of government, it may be particularly acute at the local government level in sub-Saharan Africa. The potential for tax bargaining presumes that citizens have strong incentives to bargain with an integral state, but the reality in many African nations is very different. For one, tax collection, particularly at the local level, is often fragmented, with multiple government bodies, and sometimes non-governmental entities as well, involved in collecting taxes and levies from citizens (Iversen et al. 2006;

frequently enjoy access to significant levels of non-tax revenue, either from natural resources or foreign aid, which may make governments less willing to engage in bargaining with citizens (Centeno 1997, 2002). Finally, and most broadly, trust in government is frequently very limited, as are institutionalized channels for interaction between citizens and the state, thus raising the likelihood that taxation will be characterized by coercion and resistance rather than more constructive forms of bargaining.[6] This possibility that low-income countries may pose particular barriers to tax bargaining is, in turn, reflected in a handful of case studies at the local government level, primarily in sub-Saharan Africa, which have explicitly highlighted the conspicuous *absence* of obvious links between taxation, responsiveness and accountability. Consistent with theory, these studies have, in broad terms, attributed these patterns to historical legacies, the weakness of local governments, entrenched patterns of patronage politics and stark barriers to effective citizen mobilization to demand reciprocity from governments (Fjeldstad 2001; Fjeldstad and Semboja 2001; Juul 2006; Bernstein and Lü 2008; Fjeldstad and Therkildsen 2008). While these authors do not deny the potential for tax bargaining, they have sought to highlight the likely diversity and context-specificity of positive outcomes.

1.2 The extent and limits of cross-country econometric evidence

There are thus important reasons both to treat with caution simplistic claims about the connections between taxation, responsiveness and

Fjeldstad, Katera and Ngalewa 2009). In such circumstances citizens may lack both the ability and the inclination to bargain constructively with the state around the use of tax revenue. There is also evidence that, again particularly at the local level, citizens frequently contribute more to community projects and organizations than they pay in taxes. This suggests that rather than bargaining with the state over taxation, citizens often choose to circumvent it by supporting community self-help projects, religious organizations and similar efforts (Chazan 1988; Barkan and Chege 1989; Guyer 1992).

6 A lack of trust in the state in relation to tax issues may be reinforced by the history of taxation in sub-Saharan Africa, which has been characterized by conflict and illegitimacy (Young 1986; Mamdani 1996). The "modern" tax systems that remain in place today were introduced to a significant degree during the colonial period, in a process that was both externally driven and highly coercive. As much as raising revenue, colonial taxation was about "the recognition of allegiance and . . . inculcation of habits of work" (Pim 1948: 232, quoted in Guyer 1992: 43), and thus not surprisingly was met with hostility and derision amongst the local population. This led to periodic tax revolts and, in some cases, to tax resistance becoming intertwined with broader independence movements (Simensen 1974; Nyangira 1987; Guyer 1992; Bush and Maltby 2004). While poorly documented, there is evidence that this history has continued to shape perceptions of taxation, particularly at the local level, where poll taxes, the hallmark of colonial taxation, have been a lightning rod for controversy (Guyer 1992; Fjeldstad and Therkildsen 2008).

accountability, as well as to seek a more nuanced understanding of the nature of these connections and the contexts in which they are most likely in contemporary developing countries. However, despite strong a priori reasons to seek a nuanced and context-specific understanding of these processes at the country level, research in this area has continued to be dominated by cross-country econometric studies seeking to capture a more general relationship between the sources of government revenue and levels of democracy. Cross-country econometric results are thus a strategic starting point for framing the qualitative analysis presented in the remainder of this book.

The section to follow correspondingly presents a relatively extended discussion of what cross-country econometric results can, and cannot, reveal about the relationship between taxation, responsiveness and accountability. It begins by considering the key messages from existing cross-country research, but suggests that this research has been plagued by substantial data, methodological and conceptual problems. This is followed by the presentation of a set of new econometric results. The new results are clearly *consistent* with the existence of a positive relationship between taxation, responsiveness and accountability. However, the results are insufficient to establish decisively the existence of a *causal* relationship, while they can, in any case, offer only a partial and limited picture of the likely complexity of the relationship. This conclusion, in turn, provides the background for the key contribution of this book, which is taken up in the next section: the presentation of more detailed country-level evidence.

1.2.1 Existing cross-country evidence

The most influential work seeking to link taxation to broader improvements in governance is that of Ross (2004), who reported evidence that countries that are more reliant on tax revenue, as a share of total government revenue, are more likely to be democratic. This result has been echoed by subsequent studies (Mahon 2004; Andersen and Ross 2014), including one study reporting a positive and significant association between absolute levels of taxation, as a share of GDP, and democratization (Baskaran and Bigsten 2013). It is important to note that these studies – and all of the results to follow – focus exclusively on measures of democracy and accountability, owing to the availability of appropriate cross-country measures, but do not focus on responsiveness, owing to the absence of similarly effective measures of the concept for cross-country econometric research.

Alongside this comparatively limited set of studies linking taxation, democracy and accountability lies a much broader body of research presenting evidence of a negative relationship between non-renewable natural resource wealth, most notably from oil, and the quality of governance – widely labelled the political resource curse (Ross 2001; Wantchekon 2002; Jensen and Wantchekon 2004; Aslaksen 2010; Tsui 2010; Ramsay 2011; Ross 2012, 2014; Andersen and Aslaksen 2013; Andersen and Ross 2014; Wiens et al. 2014). While these latter studies have not focused specifically on taxation, the negative association between natural resource wealth and the quality of governance has frequently been attributed, at least in part, to the comparative absence of taxation, and tax bargaining, in resource rich states (Ross 2001).

Collectively these studies have offered evidence that cross-country patterns are minimally consistent with the existence of a positive relationship between taxation and accountability. However, several recent studies have questioned the robustness of this finding. Most notably, Haber and Menaldo (2011) employ a much longer time series, and a new set of econometric methods, and find no significant relationship between either natural resource wealth or tax reliance and the extent of democracy. In a similar vein, Morrison (2009, 2014) argues that non-tax revenue does not lead to autocracy, but simply encourages regime stability, while arguing that tax reliance does not promote democracy, but simply makes political transitions of all kinds more likely.

However, all of these studies have been plagued by substantial concerns related to data quality, model specification, and robustness to the use of alternative econometric methods, thus calling existing findings significantly into question. Most simply, existing studies have generally relied on highly problematic government revenue data from the IMF's *Government Finance Statistics (GFS)*.[7] While the GFS was the best available international source at the time of most existing research, it includes a huge range of (non-random) missing data, as well as data which are analytically problematic owing to the inconsistent treatment of

[7] In fact, most studies of the political resource curse do not rely on government revenue data at all, but instead focus on the relationship between total resource income – that is, the total value of natural resource production – and democracy. This is true despite the fact that dominant theories of the political resource curse explicitly focus on the relationship between the sources of government revenue and governance outcomes. It appears likely that continued reliance on measures of resource income has been, at least in part, an implicit acknowledgement of the weakness of cross-country government revenue data. While resource revenue and resource income are, of course, closely related, the latter is at best a highly imperfect proxy for the former, thus calling the precision of the tests into question (Prichard, Salardi and Segal 2014).