Taxation and State-Building in Developing Countries

There is a widespread concern that, in some parts of the world, governments are unable to exercise effective authority. When governments fail, more sinister forces thrive: warlords, arms smugglers, narcotics enterprises, kidnap gangs, terrorist networks, armed militias. Why do governments fail? This book explores an old idea that has returned to prominence: that authority, effectiveness, accountability and responsiveness is closely related to the ways in which governments are financed. It matters that governments tax their citizens rather than live from oil revenues and foreign aid, and it matters how they tax them. Taxation stimulates demands for representation, and an effective revenue authority is the central pillar of state capacity. Using case studies from Africa, Asia, Eastern Europe and Latin America, this book presents and evaluates these arguments, updates theories derived from European history in the light of conditions in contemporary poorer countries, and draws conclusions for policy-makers.

Deborah Brautigam is Associate Professor at American University, Washington DC.

Odd-Helge Fjeldstad is Research Director at the Chr. Michelsen Institute, Norway and Director of the U4 Anti-Corruption Resource Centre.

Mick Moore is Professorial Fellow in the Institute of Development Studies and Director of the Centre for the Future State at the University of Sussex.
Taxation and State-Building in Developing Countries

*Capacity and Consent*

*Edited by*
Deborah A. Bräutigam,
Odd-Helge Fjeldstad
and
Mick Moore
## Contents

*List of figures and tables*  
page vii  

*List of contributors*  
viii  

*Acknowledgements*  
ix  

1. Introduction: taxation and state-building in developing countries  
   Deborah A. Brautigam  
   1  

2. Between coercion and contract: competing narratives on taxation and governance  
   Mick Moore  
   34  

3. Capacity, consent and tax collection in post-communist states  
   Gerald M. Easter  
   64  

4. Taxation and coercion in rural China  
   Thomas P. Bernstein and XiaoBo Lu  
   89  

5. Mass taxation and state–society relations in East Africa  
   Odd-Helge Fjeldstad and Ole Therkildsen  
   114  

6. Contingent capacity: export taxation and state-building in Mauritius  
   Deborah A. Brautigam  
   135  

7. Tax bargaining and nitrate exports: Chile 1880–1930  
   Carmenza Gallo  
   160  

8. Associational taxation: a pathway into the informal sector?  
   Anuradha Joshi and Joseph Ayee  
   183
Contents

9  Rethinking institutional capacity and tax regimes: the case of the Sino-Foreign Salt Inspectorate in Republican China
   JULIA C. STRAUSS 212

10 Tax reform and state-building in a globalised world
    ODD-HELGE FJELDSTAD AND MICK MOORE 235

References 261

Index 287
Figures and tables

Figures
7.1 Chile 1880–1930. Nitrate and iodine: indices of tonnes of exports and nitrate prices per tonne (pounds sterling) page 166
7.2 Chile 1880–1930. Share of taxes on exports and imports from ordinary revenues 169

Tables
4.1 Taxes, fees and apportionments imposed on Chinese peasants 97
4.2 Tax burdens as a proportion of per capita peasant incomes in China, 1996 99
4.3 Regional variations in tax burdens on the rural population in China, 1996 100
4.4 Major peasant protests in China, 1997 104
6.1 Mauritius: sugar export tax as a percentage of total revenues (Rupees ’000) 142
6.2 Growth in nineteenth-century public debt in British colonies (£ millions) 150
6.3 Bonds issued by ten most active ‘developing’ countries and colonies, London bond market, 1871–1881 152
7.1 Chile: summary of characteristics of historical periods 168
7.2 Chile: volume of exports: coefficients of variation 177
8.1 Environmental influences on associational taxation 194
8.2 Summary of the three cases: Ghana, Senegal and Peru 202
8.3 Fiscal crisis: Ghana, Senegal and Peru 204
9.1 Net tax receipts of the Salt Inspectorate, 1913–1927 222
9.2 Salt Inspectorate collections under the National Government, 1928–1937 223
9.3 Comparative personnel classification and salary scales 228
Contributors

JOSEPH AYEE University of Ghana, Ghana
THOMAS P. BERNSTEIN Columbia University, USA
DEBORAH A. BRAUTIGAM American University, USA
GERALD M. EASTER Boston College, USA
ODD-HELGE FJELDSTAD Chr Michelsen Institute, Norway
CARMENZA GALLO City University of New York, USA
ANURADHA JOSHI Institute of Development Studies (IDS), University of Sussex, UK
XIAOBU LU Columbia University, USA
MICK MOORE Institute of Development Studies (IDS), University of Sussex, UK
JULIA C. STRAUSS School of Oriental and African Studies (SOAS), University of London, UK
OLE THERKILDSEN Danish Institute of International Studies (DIIS), Denmark
Acknowledgements

When we began this enterprise in 2002, the suggestion that issues of tax and revenue might be central to governance and state formation surprised many people. We have the satisfaction of knowing that this view is now becoming mainstream, and that there is an appetite for the material presented here. Many people and organisations helped us bring it to the table in edible form.

Marta Arretche, Marcus Melo, Lise Rakner, Aaron Schneider, Richard Snyder and Robert Taliercio contributed intellectually at the authors’ workshop held in Copenhagen in June 2004. Margaret Levi provided most helpful comments on some of the papers at a session we organised at the Annual Meeting of the American Political Science Association in September 2006. From within development policy organisations, Ben Dickinson, Max Everest-Phillips and Sue Unsworth have continuously encouraged us to invest in a serious collective work of scholarship. Two anonymous referees provided very helpful comments to Cambridge University Press. Linda Bateman managed the process of getting authors to publisher with great efficiency and commitment.

The UK Department for International Development has been the principal source of material support, mainly through financing, since 2000, the Centre for the Future State at the Institute of Development Studies, University of Sussex. Danida, Norad and the Norwegian Research Council also funded some of the underlying research. With the help of Ole Therkildsen, the Danish Institute for International Development (DIIS) hosted and funded our authors’ workshop. The Chr. Michelsen Institute, Bergen, helped finance the production.

The editing involved a great deal of work, but little drudgery. Special thanks are due to Alf Morten Jerve for arranging for the three of us to spend two wonderful weeks kneading it into shape in his house at Kvingo, on the west coast of Norway, in the summer of 2005.

DEBORAH A. BRAUTIGAM
ODD-HELGE FJELDSTAD
MICK MOORE
June 2007