

Taxation and the Political Agenda, North and South

Abstract

Compared to their prominence in OECD countries, taxation issues appear infrequently on public political agendas in most Southern countries. The author first explores the historical and structural reasons for this difference, and then goes on to suggest why it is likely to be smaller in future: recent changes in the *fiscal environment* in the South will encourage a higher degree of political mobilisation around taxpayer identities, and therefore help raise the profile of taxation issues on public political agendas. Finally, Moore suggests that this is likely on balance to contribute to better governance and to development generally, although this outcome is contingent on many factors that are not yet understood.

Keywords: taxation, governance, political development, tax reform

1. Introduction

In this article, I talk as if there were some very clear contrast between two categories of countries – the ‘North’ (essentially the OECD countries) and the ‘South’ (the rest) – in the ways in which taxation issues feature on the political agenda. The differences are not so stark in practice, and there are very wide variations within the ‘South’ category in particular. I use a dichotomy when what I actually have in mind is more a continuum. This makes it possible to present and debate some broad questions without becoming lost

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in details of specific cases or in listing the exceptions to any general statement. However, it runs the risk of appearing to oversimplify.

The big contrast I wish to draw concerns the extent to which taxation issues feature on what I will call the *public political agenda*, that is, the range of concerns that politically engaged citizens debate, and around which political parties and interest group organisations mobilise.¹ In most OECD countries, taxation issues have been prominently and continuously on public political agendas for several decades. For OECD governments and political parties, they are prominent, habitual aspects of the daily political landscape. They are as much a part of the policy-making furniture as relations with the IMF and the World Bank are for governments of most developing countries. Since the 1970s in particular, domestic policy agendas within many Northern countries have to a significant degree been shaped by a series of actual or incipient electoral revolts by taxpayers, and attempts to head them off.

The OECD countries are of course not homogeneous. In recent years in particular, the political mobilisation of taxpayer concerns has been especially evident in the Anglophone and Scandinavian countries. However, the countries of the South are far more heterogeneous. The suggestion that taxation issues have not been prominent on their domestic political agendas may spark dozens of references to exceptions. There are indeed plenty of them; I refer to a few below. However, it remains true that, on average, taxation issues have been far less prominent on the public political agendas in the South than within the OECD. Insofar as taxes do come onto the public political agenda in the South, this generally has been in response to tax reform initiatives taken by government. Otherwise, the politics of taxation generally are not public. They tend to be narrow, specialised and concentrated in non-public spaces: the manoeuvrings of small pressure groups lobbying for exemptions from import duties, or individual large companies bargaining with ministers and tax officials about their assessments and liabilities. Unlike in many OECD countries, Southern taxpayers have not mobilised politically: to win referenda that place tight caps on government spending (as states within the United States have done); to give new anti-establishment, anti-tax political parties enough parliamentary seats to influence government policy directly (as in Denmark); to force ruling centre-left political parties to cut drasti-

¹ Issues on the policy-makers' agenda may not be on the public political agenda.

cally public welfare spending (the Clinton Democrats in the US); to show an unprecedented willingness to hoard fiscal surpluses rather than to spend (New Labour in Britain in its early years); or even to establish that taxpayers' concerns about the uses of their money could be a legitimate constraint on public policy.² It is partly because taxpayer interests are weakly mobilised in the South that much of the effective pressure for fiscal responsibility has come from external sources – international financial institutions and aid agencies.

It is not that all fiscal issues are marginal to public political agendas in the South. Debates and disputes about how government should spend its money appear at least as salient in the South as in the North. It is the near-absence of taxation issues from public political agendas in the South that seems to require some explanation. This article addresses, in a highly tentative fashion, three questions:

- ▼ *Why are taxation issues largely absent from public political agendas in the South?* I explore a range of historical and structural causes in Section 2.
- ▼ *Is the situation changing?* I suggest in Section 3 that a number of recent changes, especially in what I term the *fiscal environment* in the South, will encourage a higher degree of political mobilisation around taxpayer identities, and therefore help raise the profile of taxation issues on public political agendas.
- ▼ *Should these changes be welcomed?* I suggest in Section 4 that they should be. A higher degree of citizen mobilisation around taxation issues would contribute to better governance in much of the South.

2. Why Are Tax Issues Largely Absent from Public Political Agendas in the South?

When taxpayers' interests appear on the public political agenda, this takes place through a wide range of mechanisms. Political par-

2 The salience of the political activism of taxpayers in OECD countries is reflected in the models that political scientists employ to understand public policy outcomes. Take for example the class of 'median voter models', in which fiscal policy decisions are determined by the relative electoral weight of different classes of voters, each of whom makes rational, informed and self-interested decisions about whether to support or oppose particular fiscal policies according to whether or not they benefit him/her financially. Such models of course represent great simplifications of actual politics in most OECD countries, but nevertheless bear more relation to reality there than in the South (Moore, 2003: 267–269).

ties may espouse their concerns, more or less overtly and broadly. Taxpayers often form dedicated interest associations that may focus on specific taxes, such as a property tax or VAT, and/or attend in particular to the ways in which revenue authorities go about interacting with taxpayers as they levy taxes (the taxpayers' rights agenda). These interest associations may both work through political parties and engage in direct campaigning. In other contexts, pre-existing interest groups – notably business and trade associations, and sometimes organisations representing people on retirement pensions – take up taxation matters on behalf of their members. The question here is why so few of any of these organisational channels are employed to articulate taxpayer concerns in the South. As I explained above, the question does not imply that there are no politics around taxation. The point is that taxation issues feature sparsely on the public political agenda, and then mainly as a result of government initiatives to reform taxation systems. Insofar as they are recurrently engaged in trying to shape public policy, citizens rarely mobilise as taxpayers.

How does one explain why an issue is (largely) absent from the public political agenda? From a methodological perspective, there are two main ways of approaching the question. One is to focus on existing public policy agendas in the South, find out what issues dominate them, and explain why those issues have priority over taxation. That approach has the merit of being highly empirical, but may not take us very far in practice. For these alternative policy agenda issues seem to vary widely over place and time. Listing them may not bring us much nearer to an explanation for the 'displacement' of taxation.³ The second route is to look at the historical conditions that have led taxation issues to be prominent on the public political agendas of OECD countries, and explore how far those conditions differ in the South.⁴ This approach is more speculative, but provides a useful way of opening up some new, unexplored research questions.

Let us begin with two potential explanations, which are probably not (very) valid:

3 I do, however, dip a little into that mode of explanation in Sections 2 and 3.

4 Note that I focus exclusively on the national level, because that is the level at which one would expect taxpayers to mobilise on a relatively permanent basis. I therefore do not deal at all with the implications of the fact that, in some parts of the South, especially in the more agrarian regions, local governments extract taxes from ordinary citizens in coercive and non-legal ways (Fjeldstad, 2001; Prud'homme, 1992; Bernstein and Lu, 2003).

- ▼ In contemporary Southern polities, legislatures are often weak relative to the political executive (Section 3). Since legislatures are classically the institutional site of public debate and overt political competition over taxation and fiscal issues, it follows that their inability to exercise great influence will tend to discourage taxpayers from mobilising around tax issues. If fiscal decisions are made in some other fora, there are limited incentives for taxpayers to engage in collective political organisation to influence the legislature.⁵ We cannot, however, stretch that argument very far. First, there is also a reverse causation process at work: in part, legislatures are weak because they do not provide attractive sites for organised taxpayers to influence policy. Second, why do taxpayers then not organise to influence whatever components of the state apparatus actually have fiscal authority? Third, even active and powerful legislatures in the South are often not the location of great debates over taxation issues.
- ▼ It is one of the oldest and most robust set of historical and statistical findings in social science that the *tax take* – the ratio of tax revenue to national income – tends to increase as countries become more wealthy. Time and time again, per capita national income proves to be a powerful factor explaining, in a statistical sense, inter-country differences in the tax take.⁶ OECD governments levy much higher ratios of national income in tax than do poor countries. In the late 1990s, the tax take averaged 38 per cent of GDP in OECD countries, and 18 per cent in developing countries.⁷ One might argue that, all else being equal, citizens of developing countries will be less concerned about tax policy than are citizens of OECD countries because government's taxing activities impact less on their material welfare. That might then explain the lower level of political effort they devote to taxation issues. The argument is plausible at first blush, but does not appear to correspond very closely with the evidence. Taxation issues have sometimes been staple items on

5 On the general conceptual point about how the configuration of the state and the policy-making process influences the political strategies of societal groups, see Skocpol (1992: 41–60).

6 The meaning of this finding is, however, open to debate. For other variables that are correlated with per capita income emerge in many equations as partial or full substitutes, in a statistical sense, for the income variable. These include the sectoral composition of GNP and levels of urbanisation (see, for example, Remmer, 2004; Stotsky and WoldeMariam, 1997).

7 For data, see Tanzi and Zee (2000: 8), Toye (2000: 26), Moore (1998), and Zee (1996).

the political agenda even in societies where the overall tax take was lower than in contemporary developing countries.⁸ A simple explanation, couched in the language of rational choice, might be that, in low income societies, government levies hurt the pocket more, and therefore mobilise taxpayers politically even if they are small in relation to average incomes.

What then are the likely explanations for the weak presence of tax issues on the public political agenda in the South? Note that this is effectively the same as the question of why taxpayers do not engage in collective political action in their taxpayer roles. I identify four that are generally important in much of the South. All relate to the fiscal system and the fiscal environment.

- (i) *Low ratios of tax revenue to public expenditure.* Historically, OECD countries have been mainly either *desmesne states* (that is, financed largely from the revenues from royal or state properties) or *tax states* (that is, financed largely from taxes levied on citizens).⁹ All now have been tax states for a long period of time (Moore, 2004; Tilly, 1992).¹⁰ Contemporary Southern states – and especially those of the Middle East, the Caspian Basin and Africa – are funded on a significantly different basis. Many of their governments depend heavily on unearned *rents* – income that is not in any significant sense earned.¹¹ Rents take one of two main forms. One is *natural resource rents* stem-

8 For example, in the UK from the 17th century onwards (Daunton, 2001).

9 The main exception was 16th century Spain, which lived – and eventually suffered considerably – from enormous rental incomes from American gold (Karl, 1997: 32–40).

10 However, even relatively advanced tax states have sometimes obtained substantial income from state property, notably from railways and postal services in 19th century Europe (Mann, 1993: 381–84). In 19th century Europe, monarchs whose power was relatively unconstrained by elected assemblies preferred to obtain their income from state property where possible, and were generally successful in developing this revenue source (*ibid.*: 388).

11 '[S]tate income is earned to the extent that the state has to put in *effort* in working with citizens in order to get its money. That effort is of two broad kinds:

(i) *Organisational effort*: How large, elaborate, differentiated and efficient is the bureaucratic apparatus that the state deploys to collect its income? What proportion of citizens does the bureaucracy encounter (record, assess, etc.) in collecting taxes? A state that has a number of distinct and effective services to assess and collect, for example, income, property, customs and turnover taxes from a wide range of citizens, is working much harder for its income than is a state that receives a large annual cash subvention from an oil-rich neighbour and collects the remainder through a flat rate import duty.

ming from control over oil and gas and minerals, and, to a much lesser extent, diamonds, tropical timber and narcotics. The other is *strategic rents*, mainly military and development aid, which accrue to governments that are recognised actors in the international system, have UN votes, or control locations for military bases or key transport arteries. We do not have precise figures on the size of these rents.¹² It is, however, clear that they comprise a high proportion of government income for many Southern states. The prevalence of rents results in reductions in the demands that governments place on citizens for tax revenue through both direct and indirect mechanisms. Directly, a government that enjoys an income of X million dollars from oil or aid does not need to go through the laborious process of raising X million dollars from its citizens through ordinary taxation. Indirectly, governments that enjoy access to large rents actually *reduce* their tax collection efforts below what one would expect, given their level of income and other relevant considerations.¹³ To the extent that states fund themselves without taxing their citizens, citizens are not likely to mobilise politically around taxation issues.

(ii) *Political effort*: How far does the state invest resources – money, competent public servants, the attentions of senior policymakers etc. – in protecting and increasing the taxpaying capacity of its citizens? The most rudimentary political authority – that can barely be called a state – will take what it can today, heedless of tomorrow. A “minimal state” will provide the law, order, justice and security services that provide (some) citizens with the opportunity and incentive to improve their own material situation and, at the same time, their taxability. “Welfare” and “developmental” states provide these opportunities and incentives in a more active way’ (Moore, 2001: 401–402).

- 12 I am with colleagues currently working on a data set that provides a reasonable estimate of the size of rents from energy, mineral and forest resources for a wide range of countries in the period 1990–2001. Note that these data refer not to the value of the output or exports of these commodities, but literally to the *rents*, that is, to the surplus that is earned after all production costs and ‘normal profit’ have been accounted for. Defined in this way, rents account for an (unweighted) average of about 20 per cent of the GDP of the average Middle Eastern country. This can be thought of as the proportion of GDP that could be appropriated through political mechanisms without (immediately) undermining the incentives of the producers to pump out gas or oil: 20 per cent of GDP is potentially up for grabs. The figures for sub-Saharan Africa and for the Caspian Basin are also high. They are much lower in other regions of the world.
- 13 Stotsky and WoldeMariam (1997) demonstrate the adverse effect of large mining sectors on the tax effort for sub-Saharan Africa. Ricardo Sabates, Aaron Schneider and myself are currently writing up the results of work that shows, for a wide sample of countries, that rents from energy and mineral resources are associated with reduced tax effort. Remmer (2004) has recently demonstrated that, all else being equal, aid results in both an expansion of the size of public sectors and a reduction in the tax effort.

(ii) *The prevalence of indirect taxes.* Political resistance to taxes tends to be greater when (a) the logistics of collection makes taxpayers very conscious that they are making payments and (b) taxes impact directly on incomes, and cannot be passed on to other people in a chain of economic transactions. Governments prefer not to levy such visible and non-avoidable taxes if there are politically easier alternatives. This is the major reason why relatively efficient and equitable property taxes provide declining proportions of public revenue in countries such as the US and the UK (Bird, 2003: 44). It has proved easier to shift the burden of revenue-raising onto less visible taxes, especially value-added taxes (VAT). Let us for the minute accept the conventional terminology and assumptions of taxation specialists and agree that politically less visible taxes largely overlap with the category of *indirect taxes*, that is, taxes that are levied on economic transactions, rather than directly on income or wealth. Just as tax takes increase as countries become wealthier, so too, with equal predictability, does the ratio of *direct* to *indirect* taxes. Until recently, governments of many poorer countries depended heavily on indirect taxes levied on imports and exports. Over the past two decades or so, many have replaced these trade taxes with another form of indirect tax – VAT. I argue in Section 3 that this shift from one form of indirect tax to VAT is politically significant: that VAT is, from a political perspective, somewhere between a direct and an indirect tax. But the immediate point here is that governments of poorer countries depend heavily on relatively invisible, indirect taxes. Further, while they derive much the same proportion of their tax revenue from direct corporate income taxes as OECD governments do, unlike OECD governments they raise very little money from direct taxes on personal incomes or wealth. Neither do governments of most poor countries raise much money from employers or employees through social security contributions – although some middle and upper middle-income countries are, like the OECD, finding a significant source of revenue here.¹⁴

There are three general reasons why governments of poor countries depend relatively heavily on indirect taxes:

14 For data on these points, see Zee (1996: 1662), Tanzi and Zee (2000), and Bird and Zolt (2003).

- ▼ First, many poor countries were historically created and incorporated into the world economy as producers of primary commodities, mineral or agricultural, for export to the rich countries. In return, they imported manufactures. Given this production structure and the small size of their populations and economies, many developing countries, especially in sub-Saharan Africa, have a high ratio of international trade (imports and exports) to GDP. International trade has therefore been a 'natural' priority source of tax revenue.
- ▼ Second, low average incomes make it difficult to raise significant revenues from direct personal income taxes. Indirect taxes, especially international trade and internal sales, turnover and excise taxes, have generally yielded higher returns to revenue efforts.
- ▼ Third, direct, visible taxes have been politically as unpopular as in richer countries. Indeed, they have been even more unpopular in some Southern countries because of an association with European colonial rule. In much of sub-Saharan Africa, direct poll (head) taxes were widely used by colonial regimes, partly to encourage Africans to sell their labour to European farmers or mine-owners (Due, 1963). Opposition to them became an element in anti-colonial political platforms. Such taxes are no longer levied by national governments – although some local governments in Africa, protected from serious electoral competition, continue to fund themselves through taxes that in practice are very like poll taxes, and sometimes raised just as coercively (Fjeldstad, 2001). Colonial and pre-colonial (Mughal) governments in India financed themselves largely from a land revenue system that should perhaps be counted one of the great historical achievements in the sphere of public organisation. In a very poor society, large amounts of land revenue were levied on the basis of written records, maintained and updated locally, which in principle contained an assessment of the productive value of every agricultural plot. Land revenue provided half the income of the British Raj around 1900 (Rajaraman, 2003: 59). Partly because the collection of land revenue was associated with a kind of landlordism (the *zamindari* system),¹⁵ opposition to it became an important mode of mobilising mass rural support for independence. But the opposition to a direct, regular

¹⁵ In much of India, *zamindaris* were simultaneously landlords and intermediaries in the collection of land revenue.

property tax went deeper than anti-landlordism or anti-colonialism. Even after independence and the abolition of the *zamindari* system, the land revenue system was allowed to continue to shrink until it ceased to be a significant component of the fiscal system at any level of government in India (*ibid.*: Ch. 4). Like residential property taxes in the US and the UK, it was politically too visible to an influential segment of the electorate. In the 1960s and 1970s in particular, many developing countries taxed their agricultural sectors relatively heavily. But they did so by relying almost exclusively on various kinds of direct and indirect levies on agricultural exports (Bates, 1977; Lipton, 1977) that have generally been cut back drastically as a result of structural adjustment (and the declining value of agricultural commodity exports). The value of direct taxes on agricultural land has long been steadily declining in the South (Lewis, 1967: 466).¹⁶ The story of urban property taxes is very similar: they were estimated in the early 1990s to account for only 1.3 per cent of total tax revenues in developing countries, and typically less than 20 per cent of the revenues of the municipal authorities to which they ‘naturally’ belong (Dillinger, 1992: 3).¹⁷

Relative to OECD countries, a low proportion of citizens in poor countries pay the kinds of direct income, wealth, property or social security taxes that are most conducive to political mobilisation around taxpayer roles. To a greater extent than in European history, larger taxpayers tend to be corporations rather than wealthy individuals.

(iii) *Incentives for individualised political strategies.* The fact that few taxpayers pay direct income, wealth, property or social security taxes is one side of the coin. The other is that some of the entities that do pay these kinds of taxes – and many indirect taxes like VAT – individually account for a significant proportion of government income. Much public tax revenue comes from a relatively small number of relatively large (corporate) taxpayers.¹⁸ Further, as a result of a history of interven-

16 See also Weiss (1995: 197–198) and Wald (1959: 60–68). It is unlikely that agricultural land taxes can be a significant source of revenue for central governments, although they may have a greater role to play at local level (Skinner, 1991).

17 See also on Stotsky and WoldeMariam (2002: 35) on Central America.

18 We do not have very detailed information on this, not least because most tax records are supposed to be confidential. It is not unusual that in relatively small and poor economies, one large brewing or tobacco company enjoying a quasi-

tionist economic strategies and/or pressure from narrow interest groups, taxpayers often face taxation systems that are (a) complex, with a wide range of taxes, many different rates for individual taxes, and a large number of potential exemptions or special cases (*tax expenditures*);¹⁹ (b) changeable, constitutionally or in practice, through the decisions of a few individual ministers; and (c), as a result, highly discretionary in application. Tyre manufacturers, importers, wholesalers, retailers and re-treaders may each face a different set of taxes, and a different set of rates. The combination of all these factors means that, relative to OECD countries, taxpayers, both individual and corporate, face strong incentives to negotiate with (that is, normally, bribe) tax officials and/or politicians rather than engage in (overt) collective action among themselves to put pressure on government to change tax policy or practice.²⁰ Evidence on this is mainly impressionistic and anecdotal. We do not know in detail what strategies taxpayers pursue. Some large companies might in some circumstances pursue both the ‘negotiation’ and the ‘collective action’ routes simultaneously, although the one is likely to undermine the effectiveness of the other. It does, however, seem clear that this combination of features in the current taxation systems of many poor countries is a significant political obstacle to placing taxpayers’ concerns – whether about tax levels or the collection processes – onto the public political agenda.²¹

(iv) *The political consequences of high inflation.* Many countries in the South, especially in Latin America, have a history of very high rates of inflation. High inflation has very marked effects on the policy agenda. On the one hand, it is an urgent and pressing issue that tends to consume political attention. Governments have to be seen to be trying to do something about it

monopoly in the local market might account for 10 per cent or more of total tax revenue. A recent study of Peru concludes that 54 large taxpayers account for more than 40 per cent of total tax revenue from internal sources (that is, excluding trade taxes), partly because large companies assist the revenue authority, SUNAT, in collecting VAT and consumption taxes (Mostajo, 2004).

19 For example, before the 1986 tax reform, the Bolivian government collected nearly 400 different taxes earmarked for specific groups – ‘regions, unions, retired employees, and other specified groups and entities’ (Cabezas, 1990: 533).

20 Conversely, tax collectors have strong incentives to operate arbitrary and extortionary collection processes. Taxpayers have few rights in much of the South (Luoga, 2002).

21 I am grateful to John Toye for originally drawing my attention to this point.

(Hirschman, 1981). On the other hand, high inflation discourages most political actors – and especially broader, representative political agents – from engaging in public debate over the details of tax policy or fiscal policy generally. Narrow interest groups may be motivated to try to amend policy so as to protect themselves – for example, through the pegging of pensions to inflation. But for most political actors, the reality or prospect of high inflation undermines any incentive to invest scarce political resources in negotiating taxation issues. Any gains could be wiped out very quickly, because high inflation tends also to change relative prices in complex and sometimes almost unknowable ways.

It might seem that I have overexplained the absence of taxation issues from public political agendas in the South. There are so many reasons for this absence that the prospects of change in the foreseeable future might seem remote. Such a conclusion would not be warranted but might arise from my broad-brush mode of presenting the case. Each specific argument applies with more force to some countries than to others; and there are many Southern countries, especially those in the middle-income category, that are in some respects like OECD countries. I suggest in the next section that they are likely to become more so, and that taxation issues are likely to become more prominent on public political agendas in the South.

3. Is the Situation Changing?

We can define three clusters of factors that are likely to affect the articulation of taxpayer interests in the South for the foreseeable future.

Changes in rents

The first set of factors relates to the effects of natural resource rents (energy and minerals) and strategic rents, discussed in Section 2. There is likely to be considerable change at the level of individual countries without much overall change at the global level. Even if, as seems likely, total aid levels continue to decline, this may come largely at the expense of larger and more stable countries in Asia and Latin America, which are anyway not significantly aid-dependent. The highly aid-dependent governments in sub-Sa-

haran Africa may on average continue to receive aid at current levels. Oil rents are now becoming a significant factor in those parts of West Africa where newly discovered, onshore and offshore, oil fields are being prepared for exploitation.²² By contrast, many Middle Eastern oil states are now running into unprecedented fiscal difficulties. In the long term the real price of oil has declined, and there is little prospect of any reversal. Many Middle Eastern populations have become accustomed to generous state welfare expenditures in return for their acquiescence to paternalistic or authoritarian rule. But in recent decades those populations have expanded faster than in any other region of the world. Oil regimes can no longer afford to provide the (relative) luxury to which some segments of their societies have become accustomed. GNP per head in Saudi Arabia has halved since 1980. The previous implicit political deal – welfare spending for the masses in exchange for opulence and absolute authority for ruling families – no longer seems viable. Reduced public expenditures and serious attempts to tax citizens are both on the cards.²³

Changes in the fiscal environment

The second cluster relates to the fiscal environment. There are significant recent changes in three of the factors discussed in Section 2:

- (i) *The spread of VAT.* VAT has spread rapidly since the 1960s (Toye, 2000: 39) and by 2001 was estimated to have been introduced in at least 123 countries, accounting for about 70 per cent of the world's population (Ebrill *et al.*, 2001). It has been popular with governments because it is (a) such an effective means of raising revenue – a 'cash machine' (Toye and Moore, 1998: 80), even in economies where the low level of record-keeping in small businesses would appear likely to pose major practical obstacles; and (b) relatively invisible politically, from the perspective of those who actually pay the tax in an economic sense – virtually all consumers (Toye, 2000). However, despite the fact that it is classified as an indirect tax, VAT is the opposite of invisible from the perspective of those who actually hand over the money to the tax authorities (and claim refunds). Even when

²² See *The Economist*, 26 October 2002, pp. 85–86 and Global Witness (2004).

²³ See 'A Survey of the Gulf States' in *The Economist*, 23 March 2002.

it was first introduced in Europe, VAT was recognised as imposing a heavy burden on smaller businesses because of the additional and relatively complex record-keeping obligations it places on them (Dossier, 1981). The introduction of VAT has been resisted quite strongly in some developing countries. For example, it led to large-scale protests or riots, and to some deaths, in Ghana and Uganda. Some of this resistance stems from a combination of bad political tactics on the part of government and a perception, at least partly accurate, that VAT is being introduced in poor countries at the behest of the international financial institutions. VAT was reintroduced relatively smoothly in Ghana once the government paid attention to political tactics and presentation (World Bank, 2001). It may generate less political resistance than direct taxes, but will generate more reaction than other indirect taxes such as import and export duties. It has considerable potential to stimulate interest-based collective action on the part of a broad spectrum of taxpayers, especially smaller business people. There are two reasons for this. The first is that the most irritating feature of VAT – the need to maintain written records of all sales and purchases in order to reclaim payments on intermediate transactions – tends to impact especially heavily on smaller businesses unused to keeping extensive records. The other is that the partial self-checking nature of VAT, which helps make it a relatively effective mechanism for raising revenue, reduces the opportunities and incentives for taxpayers to use bribery to reduce their obligations (Toye, 2000: 40). This in turn is likely to increase the incentives to engage in overt, collective political action. It is unlikely to be the level of VAT that principally mobilises small and medium business people into political action. In most cases they can pass increases on to final consumers, who in most of the world have exhibited little political resistance to VAT. It is rather the processes of collecting the tax that are likely to concern business people: either the mechanisms of record-keeping and collection, or demands that certain sectors, products or activities remain excluded from the scope of the tax.²⁴

- (ii) *Simplification of tax systems.* The second factor is that tax systems in many Southern countries have been considerably simplified in recent years as a result of the adoption by these

²⁴ Since the coverage of VAT is limited in many poorer countries, these latter types of demand are likely to be significant.

countries of a broad package of what we might term *Washington Consensus* reforms. These reforms, promoted in particular by international financial institutions, are built around a few core elements. These include: reductions in trade taxes; the introduction, where feasible, of VAT; fewer attempts to change market signals through the tax system; more emphasis on administration and administrative feasibility; and, most important for the present purposes, the general simplification of taxation systems – fewer taxes, fewer rates for individual taxes, fewer exemptions, and less discretion on the part of the tax collector and therefore a reduction of the attendant incentives for corruption (Goode, 1993; Tanzi and Zee, 2000).²⁵ These reforms are far from complete.²⁶ Tax systems in the South still provide the kind of scope for bureaucratic and political discretion – and the incentives for both corruption and individualised political strategies on the part of taxpayers – that were described in Section 2. But this is less true now than a decade ago. To the extent that large groups of taxpayers now face a common, simplified taxation regime, and reduced opportunities and incentives to use particularistic political and bureaucratic channels to solve their problems, they are more likely to engage in overt collective political action in pursuit of their demands.

(iii) *Reduced inflation*. The third change in the fiscal environment is the near-conquest of inflation in the developing world, as a result of a general shift in macroeconomic policy. The global annual inflation rate has fallen from about 30 per cent in the early 1990s to 4–5 per cent in 2003, with most of the reduction taking place in developing countries. For several years, inflation rates have been in single figures in most of the South. They remain higher than in most OECD economies, but not radically so (Rogoff, 2003). They are sufficiently low for individuals and interest groups to be able to engage in political action over taxation and fiscal issues with some confidence that the monetary

25 There are many dimensions to what I have here termed ‘simplification’. For example, clearer functional specialisation within tax offices – the separation of functions like processing returns, auditing, and receiving payments – is likely to help reduce corruption (World Bank, 2000).

26 It is very hard to assess overall progress. The introduction of VAT is normally an important step, because it tends to replace a range of other taxes, and normally provides only limited scope for discretionary decisions by tax collectors (Toye and Moore, 1998: 74). However, some governments formally committed to simplification have sometimes in practice done the opposite, notably when introducing new tax measures in a hurry to meet enhanced revenue targets under structural adjustment programmes (*ibid.*, 1998: 81).

data they employ have a close relationship with real economic statistics, and will continue to do so for some years.

It is not possible to say how far these changes in the tax policy environment have led either to greater and more informed public contestation over taxation issues, or to more political mobilisation around taxpayer interests. For these things are very difficult to measure, and are normally intermixed with other policy debates and interests. Fiscal issues rarely appear on the policy agenda in a pure form. We can best illustrate the potential effect of these changes on the political agenda by examining the process through which an explicit *fiscal pact* was achieved in Chile in 1990, when an elected government took power after 17 years under a military regime that had pursued Washington Consensus economic policies and taxation reforms with enthusiasm.²⁷

The Chilean fiscal pact was a national agreement following extended negotiations between various organised groups both inside and outside the legislature. The new five-party governing coalition included most of the political spectrum from left to centre, and secured the support of an important moderate right-wing party that often voted with the opposition. The pact also engaged other actors outside the political party system. The technical team that designed the reforms included respected professors from the University of Chile. The team spent a year in discussions with major social groups about the reforms. Chile's main business association, the Production and Commerce Confederation, was closely involved. Their agreement helped obtain support for both the legislative measures and the efforts to reduce tax avoidance, an important component of the pact. Substantively, the reform comprised four major elements: corporate income tax was increased from 10 per cent to 15 per cent; the standard VAT rate was raised from 16 per cent to 18 per cent; marginal personal income tax rates were increased for taxpayers in intermediate income brackets; and various tax exemptions for the private sector were eliminated. Most observers characterise the tax changes as either neutral or regressive in their impact on income distribution. These were not the actions of a radically progressive government eager to transfer income to poorer populations at any cost. Yet the net effect of the pact was redistributive: as had been clearly agreed in advance by the various parties, the enhanced tax revenues were used to increase social spending.

27 For information on the pact, see Boylan (1996) and Marfan (2001).

At least two factors specific to the recent history of Chile helped create the conditions that made this kind of pact possible. One was that there was a widespread notion that there was indeed a ‘social debt’ to the poor, arising from their previous experience under the military regime, which should now be paid. The other was that the tax increases could be represented as a dimension of restoring the country to normality: the military regime had cut the government’s tax take by 5 per cent of GDP between 1980 and 1990. And it is clear that a great deal of attention was paid to the careful management of the negotiation process. However, an insider’s account provided by a former adviser to the Minister of Finance makes clear the importance of the fiscal environment, which was supportive in two senses. First, the taxation system was relatively clear and simple, partly because the previous military government had to a large degree adopted the Washington Consensus taxation principles. Debate around the pact did not become too mired down in ambiguities about apparent and actual tax obligations. The different interests could engage with one another in a relatively straightforward way. Second, inflation had been kept low. There was little danger that any agreements reached in one year would be undermined or obscured by rapid and uneven price changes. A few sentences of Marfan’s analysis are worth reproducing here:

An important lesson is that changes in non-discriminatory taxes with a wide base invite a debate where national interests predominate. Changes affecting particular vested interests have a more corporatist seal, especially since pressure groups seldom prioritize national interests over their own concerns. To this extent, the choice of concentrating most of the reform on a few taxes with a wide base...proved to be a wise decision. However, that outcome strongly depended on the fact that the inherited tax structure was based on general rules with few exceptions (Marfan, 2001: 8).

The Chilean case exemplifies a general conclusion that we can tentatively draw about enhanced taxpayer political activism in the South: to a greater extent than in European history, this will be dominated by business – small business people and/or corporations – rather than members of the economic elites operating in an individual capacity.²⁸

28 The recent tax reform in Russia is quite interesting in this respect. It was negotiated between the Kremlin and a small group of very large private energy

Changes in political activism around budgetary transparency

The third cluster of changes is particularly amorphous: the growing popularity of a set of ideas about the virtues and possibilities of both budgetary transparency and more direct popular participation in budgeting. This movement – if it can be characterised as a movement – has several roots. The most developed and tangible is the apparent relative success of *participatory budgeting* in Porto Alegre and, to a far lesser extent, other cities in Brazil (Goldfrank and Schneider, 2002). There has been in addition: a set of research and advocacy activities around *gender budgeting* (Cagatay, 2003); a number of grass-roots movements, notably in India, for public budget transparency at the local level (Jenkins and Goetz, 1999); a growing pressure from transnational NGOs for transparency about payments of natural resource royalties and taxes made by transnational companies to national governments (Global Witness, 2004); an increasing concern on the part of the international financial institutions to press for fiscal transparency in poorer countries as a result both of enhanced attention to these natural resource issues and a perception that the 1996 Asian financial crisis was caused in part by ‘crony capitalism’; a relatively new interest in budgetary issues on the part of many legislatures worldwide (Schick, 2002: 16); and a range of advocacy activities around budgeting in general (Lavielle *et al.*, 2003).

It is possible that the world is in the middle of what will in retrospect be viewed as a major upsurge of citizen activism over fiscal issues. This upsurge began in some OECD countries in the later 20th century. By the 1980s, public budgets and tax burdens had expanded very steadily in the OECD countries over the three decades since the Second World War. This expansion in the public sector, along with increasing levels of education, created a constituency of taxpayers concerned to know more about where their money was going. The spread of new information and communication technologies made it much easier for organisations and groups outside the state apparatus to appraise government’s fiscal performance, and to publicise the results. The earliest major manifestation

companies. Each party had its own reasons for wishing to introduce a more predictable and transparent taxation system for the energy sector (Jones Luong and Weinthal, 2004). On paper, the reform appears impressive. It is, however, not yet clear how far the benefits will extend to the great majority of taxpayers, who had no voice in the reform process, and have been suffering under a coercive and arbitrary tax regime (Easter, 2002).

of citizens' fiscal activism took the form of the strong anti-tax elements of the 'New Right' in the 1970s and 1980s. Opposition to the steadily increasing tax burden was a major theme in the work of the most prominent populariser of the ideas underlying this new pro-market movement, Milton Friedman.²⁹ This same scepticism about the tax burden and the size of the public sector to a large degree underpinned 'Thatcherism' in the UK in the 1980s and the introduction of the 'new public management' and the growth of anti-tax movements and political parties in several OECD countries in the intervening period.

In the North, citizens have become more activist over fiscal issues in their roles as both taxpayers and beneficiaries of government spending. It has been different in the South. There the initiative has come mainly from groups speaking for – or in the name of – citizens defined as potential citizen-beneficiaries of public expenditure. The dominant concern has been that less money should be wasted by government in order that (a) public services improve and (b) corrupt use of public money does not undermine democracy. The broad reasons for this difference seem clear. As explained in Section 2 above, the material and institutional basis for taxpayer activism is weak in much of the South. And much of the initiative over budgetary transparency has been taken by development NGOs with strong transnational links, whose ideological positions are broadly leftist.³⁰ It is hard to imagine such organisations pressing hard to promote taxpayers' interests. To date, citizen activism around these two fiscal agendas has not overlapped much in the South. That may change. The more that the civil society organisations, NGOs and international financial institutions expose the waste and misuse of public money within the state apparatus, the more ammunition they may be providing to potential taxpayer activists animated more by the wish to keep 'their' money out of the hands of the government than by any desire to see it spent better, or used for the direct welfare for the poor.

29 In one of his most popular books, published in 1980, Friedman reminded his readers that it was in 1963 that he first suggested that there should be a national holiday every year when the average employee had earned enough to pay his/her tax bill, and could start working for his/herself, rather than for the government (Friedman and Friedman, 1980: 89).

30 See, for example, the annual Latin American Index of Budgetary Transparency (Lavielle *et al.*, 2003).

4. Should We Welcome Taxpayer Activism in the South?

Suppose the analysis in Section 3 is broadly correct: taxpayers become politically more organised and activist in some countries of the South; and taxpayers' issues occupy a more prominent place on the public political agenda. Is that likely to be a good thing? It is unlikely to be unreservedly positive. There will be costs. From the perspective of most readers of this journal, the greatest potential cost may result from the empowerment of a category of citizens eager to keep 'their' money out of the hands of people whom they are quick to stigmatise as 'undeserving'. We do not seem to have much consistent evidence from the South, but know from the US experience at least that, where taxpayers have the opportunity directly to influence fiscal policy through referenda and similar mechanisms, they vote to keep their own money and not to redistribute it to the poor (Goldsmith, 2003). It is for these reasons that most people concerned with poverty in the South will tend to react with scepticism, or disbelief, to the suggestion that a greater degree of political mobilisation around taxpayers' concerns could represent progress for the South. Let me try to make that case.

The case is based on a view about state formation and public authority in the South, which, while expressed here in my own words, seems to be widely shared among many observers. The central concern is that, in the South, state apparatuses are excessively powerful in relation to their citizens. This results from the fact that state elites have enjoyed access, especially through linkages to the international system, to the organisational, technological and financial resources to create the modern state apparatuses without at the same time facing strong pressures to bargain with societal groups to create the consent, legitimacy and mechanisms of constraint that are required for effective and responsive public authority. In very broad terms, I suggest that three dimensions of this history are especially consequential:

- ▼ Many states in the South 'were either (a) created directly by Northern states that were already rich and powerful – through conquest and direct colonial rule; or (b) have been substantially shaped by various types of subordination to or dependence on those Northern states and the international institutions which they generally dominate – through mechanisms of indirect dependence ("puppetry"), military alliance and military assistance, military intervention, and financial subsidies of various kinds, including development aid' (Moore, forthcoming).

- ▼ As sketched out in Section 2 above – and unlike the now-rich countries at almost every comparable stage in history – many Southern states are to a high degree financed through natural resource rents and strategic rents. They are thus independent of citizens from a fiscal perspective.³¹
- ▼ ‘Military technology has evolved over the centuries to become much more capital intensive, much more destructive, and quickly projectable over longer distances. This has greatly changed the balance of military (and political) power between (a) ordinary citizens choosing to arm themselves using the means immediately available to them in everyday life and (b) organisations, including states, that have sufficient capital to arm themselves through international markets (for military equipment and personnel) and international military alliances. Contemporary peripheral states with access to the kinds of rents mentioned above – or indeed well-funded insurgents seeking state power – enjoy a military superiority over their ordinary citizens which bears no comparison with earlier experiences there or in the North. Further, governments no longer need to engage in mass conscription to find enough people to operate their weaponry. This provides states (and well-funded insurgents) with incentives to adopt coercive rather than political bargaining strategies in interacting with citizens’ (Moore, forthcoming).

This history of state formation has two particular implications for democracy in the South. The first is that, even where electoral democracy exists, state elites often continue to call the shots and ensure that they never lose power through elections. Ottaway, for example, talks of the prevalence of ‘semi-authoritarianism’ in the current context of widespread formal electoral democracy (Ottaway, 2003). The second implication is that, even where state elites do not control the electoral process in this way, clientelism and patronage are so important that the pattern of electoral competition has very little connection – and especially little stable or predictable connection – to major national policy issues, or to the views and concerns of large interest groups formed outside the political arena. Voters may have the power to change government personnel without enjoying much influence over public policy.

31 Further, the contemporary availability of ‘external banking sanctuary’ – secure Northern locations to stash illicit cash – increases the incentives for Southern political leaders to use political power to accumulate capital through exploiting these rent flows, even at the risk of losing power.

Carothers labels this *feckless pluralism* (Carothers, 2002). To a greater extent than in OECD countries, political interests and patterns of political competition in the South are created within the political sphere itself, rather than in the spheres of markets and production.

Given this broad political context, there are two related reasons to have some faith in the progressive potential of taxpayer movements.³² First, any political mobilisation around a relatively permanent and broad socio-economic interest is likely to lead to a more institutionalised and stable pattern of political competition, and thereby both give more substantive power to voters and place important policy issues more firmly on the public political agenda.³³ Second, taxpayer interest groups have a particularly high potential to act as countervailing forces to the inflated power of many Southern states. For there is a natural affinity between taxpayer interests and the capacity of the formal institutions that have legislative oversight of the fiscal process. Authority to raise money and spend is central to the power of the state executive. Unless this power is constrained by the legislature, the prospects for establishing accountable or democratic governance are very limited. The willingness of legislatures effectively to perform this role can be greatly enhanced if they represent, among others, the interests of taxpayers. This is a powerful lesson from the history of the establishment of accountable, representative government in Europe. The tenacity of organisations and networks representing (rich) taxpayers played a major role in forcing monarchs to agree to constitutions that exchanged (a) the quasi-voluntary fulfilment of agreed tax obligations by taxpayers for (b) the institutionalised influence of wealthy citizens, acting through representative assemblies, over public policy (Moore, forthcoming; Tilly, 1992). When the British state became, in the comparative historical context, relatively tax-greedy, large and militarised as a result of the Napoleonic Wars, suspicion of the state and vigilance on behalf of taxpayers became progressive political

32 Observers who see inequality and the clash of socio-economic interests as a relatively more important problem than the power of the state will be more sceptical of the value of political mobilisation around taxpayer interests.

33 In this as in other fields, the overt political mobilisation of one group may stimulate the mobilisation and collective organisation of the people on the other side of the implicit negotiating table. The existence of trades unions stimulates employers to organise collectively, and vice versa. Making explicit the interests and role of taxpayers in public policy debate might also stimulate the mobilisation of different groups benefiting from public policy.

stances (Daunton, 2001: Ch. 1 and 3). It was these stances that underpinned much of the public sector reform of the early Victorian era. It was several decades later, in the late Victorian era, that popular and progressive movements in Britain shed their suspicions of the state, and provided relatively consistent support for the expansion of public welfare activities. The situation in the contemporary South is different in many ways, but there are enough similarities to encourage us to explore the progressive potential of politicised taxpayers.

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