
7 Looking forward

Broader messages, policy lessons and directions for future research

The idea that taxation may lie near the heart of broader processes of state-building, economic development and political change grows out of a rich intellectual history, as the importance of taxation figures prominently in seminal works addressing trajectories of economic and political change in early modern Europe and elsewhere (Mann 1986; Levi 1988; North 1990; Tilly 1992). More recently, attention to the importance of taxation in shaping political outcomes in developing countries has expanded significantly, and has been particularly prominent in discussions of the causes of poor governance in many resource rich states (Moore 1998, 2004, 2008; Herbst 2000; Bates 2001; Ross 2004; Collier 2009). As Martin, Mehrotra and Prasad (2009: 1) write in their recent volume on the emergence of a “new fiscal sociology”: “Everyone knows that taxation is important.”

Against this backdrop, the conclusion that taxation has, in fact, been an important catalyst for the expansion of responsiveness and accountability in contemporary developing countries may appear rather unremarkable. However, while claims about the potential connections between taxation, responsiveness and accountability have become increasingly widespread, this has occurred in spite of the absence of a strong foundation of empirical evidence. This absence of detailed empirical evidence has had two important consequences. First, it has yielded an academic debate that has often lacked depth and nuance, making it difficult to incorporate questions of fiscal politics into broader accounts of politics and political change in low-income countries. Second, it has prevented the translation of broad
ideas about taxation, responsiveness and accountability into specific policy advice for national and international actors. This brief final chapter is correspondingly devoted to addressing these issues, before concluding with a discussion of directions for future research.

7.1 A broader and more nuanced understanding of tax bargaining

Reflecting the persuasiveness of historical experiences, and the clear intuition underlying models of tax bargaining, many scholars have been quick to embrace the existence of important connections between taxation, responsiveness and accountability. However, this embrace has been partial and incomplete. In the absence of detailed country-level research, discussion of the links between taxation and broader political outcomes has remained compartmentalized and absent from most mainstream accounts of politics and political change in low-income countries. Meanwhile, wider debate has frequently proven polarizing and sometimes simplistic, characterized by a focus on relatively abstract and general claims.

In recent decades, natural resource wealth has come to be seen as a key determinant of governance outcomes, and thus as a key element of any discussion of political dynamics in resource-dependent states. As noted in the introduction to this book, this has been reflected in a small but growing group of studies that have identified access to natural resource wealth as a critical determinant of broader governing incentives and development outcomes (Doner, Ritchie and Slater 2005; Besley and Persson 2011). By contrast, the politics surrounding taxation has received widespread attention as a set of abstract ideas about the long-term evolution of governance outcomes, but has continued to receive comparatively limited attention in country-level political narratives in low-income countries. Within accounts of national political dynamics there is frequently little, if any, acknowledgement of the ways in which patterns of taxation, and episodes of conflict over taxation, may
shape broader governance outcomes. Most of the tax episodes described in this book are entirely absent from prominent country-level narratives, with even the anti-VAT protests in Ghana receiving significant attention in only a handful of sources. The absence of greater attention to the political implications of taxation, and broader fiscal dynamics, in country-level political accounts seems likely to have been a direct reflection of the absence of detailed narratives capturing specific causal processes linking taxation to broader governance outcomes. Simply put, researchers have not known what to look for in giving conflicts over taxation a more prominent place in explaining broader political outcomes.

Instead, research into the governance implications of taxation has remained a somewhat specialized field, with tax bargaining frequently viewed as a relatively compartmentalized set of processes through which tax compliance may be exchanged relatively explicitly for reciprocal concessions from governments. Research in this area has thus focused on finding evidence that particular groups of taxpayers have consented to a particular set of taxes and received a specific set of benefits in return. Such processes – dubbed direct tax bargaining in this book – are clearly important, but offer a narrow view of the possible connections between taxation and broader governance outcomes. By contrast, a core aim of this book has been to situate tax bargaining explicitly within broader political processes. It proposes that tax bargaining is best understood as a broad concept capturing the multiple ways in which reliance on taxation may strengthen the bargaining power of taxpayers, and increase incentives for government to make governing concessions. It is thus intimately connected to, and embedded within, broader processes of political contestation and change. Seen

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Perhaps the best example is the work of Gehlbach (2008), who argues that post-Soviet states have systematically favoured large, immobile and easily taxed firms. He views this as a classic, although unconventional, tax bargain, in which those firms that pay the largest share of taxes receive reciprocal benefits from the state. It is one of the most detailed existing studies of tax bargaining, but addresses only one specific way in which taxation and governance may be connected.
through this lens, the role of conflicts over taxation in shaping political outcomes lies not only in instances of direct tax bargaining, but in the more subtle ways in which debates over taxation shape political power, incentives and engagement. By exploring these multifaceted processes empirically in three countries, a core goal of this book has thus been to suggest the ways in which the politics of revenue-raising can be more fully incorporated into country-level political narratives.

In locating the importance of tax bargaining within broader processes of political contestation, this book has sought not only to broaden attention to these issues, but also to confront the development of a sometimes overly simplistic and polarizing debate. In the absence of systematic country-level evidence, there has been a tendency among sceptics and supporters alike – particularly in policy circles – to simplify a more complex reality, and thus distort the nature of the connections between taxation, responsiveness and accountability. Sceptics have pointed to the absence of clear-cut, easily measurable and predictable examples of direct tax bargaining and taken this as evidence that there is no meaningful relationship. In doing so, they have risked overlooking the more subtle ways in which reliance on taxation may shift political incentives and outcomes in more diverse and long-term ways. Meanwhile, those who have embraced the importance of taxation to broader governance outcomes have sometimes done so uncritically, assuming that expanded taxation will inevitably drive broader gains in accountability. In doing so, they have lost sight of the fact that taxation remains a fundamentally coercive act, and over long periods may fail to generate any meaningful opportunities for governance-enhancing bargaining. This book has sought to chart a middle ground, arguing that while taxation can be a spur to broader governance gains, these outcomes are context-specific, and are dependent on a broad set of variables shaping the power wielded by taxpayers and the potential for bargaining. By highlighting the specific factors that have shaped the emergence of alternative outcomes, it has taken an important step towards transforming comparatively abstract claims into
concrete messages for reformers aiming to strengthen state-society relations and support governance gains.

7.2 From broad claims to specific policy implications

Even as interest in the potential connections between taxation, responsiveness and accountability has expanded over the past decade, the potential policy implications have remained vague. The basic message has been simple: Countries should seek to strengthen domestic tax collection, given the promise that greater reliance on tax collection may spur virtuous processes of tax bargaining. Reflecting this message, important policy statements from the Organisation for Economic Cooperation and Development (OECD), the IMF and various bilateral donors have explicitly cited the potential governance benefits of taxation as motivation for expanding support for tax reform programs (OECD 2008, 2010; IMF 2011). Similar messages have been echoed by national authorities and tax administrators within low-income countries, and by national and international civil society organizations. Although this basic policy prescription finds support in the evidence presented in this

In an example of the broad appeal of these ideas, the connections between taxation and governance reform were featured prominently in an address by Secretary of State Hilary Clinton delivered at the OECD on 26 May 2011.

For example, a core objective of the African Tax Administration Forum (ATAF) is “Improving good governance and accountability between state and citizens” (www.atafortax.net/en/about.html). This sentiment was echoed by the Commissioner General of the Uganda Revenue Agency, Allen Kagina, who argued to her colleagues in a 2009 speech at the launch of ATAF: “We should elevate ourselves from being just tax collectors and tax administrators to being state builders.” Amongst civil society organizations, these same questions have been central to the work of, amongst others, the Tax Justice Network-Africa and Christian Aid.
book, it is also overly simplistic. While the expansion of taxation may lead to broader governance gains, this outcome is far from guaranteed. Governments may impose new taxes coercively, while successfully resisting reciprocal demands from taxpayers. Alternatively, governments may opt to strike narrow bargains with a subset of powerful taxpayers – through tax exemptions or the delivery of specific benefits – in order to fragment broader taxpayer resistance and avoid broader concessions. Which of these outcomes predominates depends critically on the overarching political and economic context.

The policy challenge therefore lies not simply in expanding taxation, but in understanding how to approach the expansion of taxation in a way that is most conducive to governance-enhancing tax bargaining.

This question demands significant caution, as the instances of tax bargaining captured in this book are embedded within broader processes of political contestation, and are deeply rooted in the particular histories, and economic and political characteristics, of individual countries. Such complex processes are not easily translated into straightforward policy prescriptions given the wide range of relevant variables. This book has, however, highlighted five sets of factors that appear to have been particularly influential in shaping the potential for tax bargaining: (1) the extent of revenue pressure facing governments; (2) the potential and scope for tax resistance; (3) factors affecting taxpayer capacity for collective action; (4) the nature of political institutions; and (5) the political salience of taxation. In translating these findings into policy advice, the broad message is that the potential for tax bargaining depends not only on how much tax revenue is collected, but on how those taxes are collected – and on the broader political and economic context for bargaining. By understanding the variables that have shaped the potential for tax bargaining, it becomes possible to begin to pinpoint specific policy options for enabling these processes.

Some of the factors identified in this book are not easily amenable to influence by prospective reformers. This includes, most notably, the extent of revenue pressure, the nature of political
institutions and the strength of the private sector. While it may be true that tax bargaining is more likely where governments do not have access to natural resource wealth, or where democratic institutions are stronger, this is largely beyond the control of reformers. By contrast, a subset of contextual variables related more closely to characteristics of the tax system itself offer potential entry points for those seeking to foster tax bargaining. Building from the evidence presented in the previous chapter, what follows thus highlights five types of reforms that may contribute to fostering processes of governance-enhancing tax bargaining: (1) expanding the political salience of taxation; (2) increasing horizontal equity in the tax system; (3) directly encouraging bargaining and collective action; (4) expanding transparency and engagement; and (5) creating institutionalized spaces for tax bargaining.

Having presented these relatively specific reform messages, this section then concludes by considering some broader implications for aid donors.

### 7.2.1 Expanding the political salience of taxation

The most straightforward message emerging from the analysis presented so far is that the scope for direct and indirect tax bargaining is crucially dependent on public awareness and the broader political salience of taxation. While this is highly intuitive, it remains an important starting point, given that public debate about taxation has generally been relatively limited in low-income countries in recent decades. At a broad level, this reflects the fact that the trajectory of reform in many developing countries has been driven to a large extent by transnational networks of experts, as reflected in the commonality of reform experiences across countries (Fjeldstad and Moore 2008: 238–242). At the

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The discussion here draws in part on Prichard (2010), which includes a range of evidence from developing countries that is broadly consistent with the claims made here. That said, the discussion here represents a further evolution of that earlier work, while it is grounded more explicitly in the case study evidence presented in this book.
same time, the political salience of taxation is frequently low owing at least in part to the very limited
reach of national direct taxes and the consequent fact that, at the national level, most taxpayers are
primarily or exclusively subject to indirect taxes, many of which are themselves not collected at the
final point of sale. In the case studies highlighted here, and in developing countries more generally, the
few hundred largest taxpayers frequently pay more than two thirds of total income and sales taxes,
while national income taxes frequently affect only a very small percentage of the economically active
population (Fjeldstad and Moore 2008: 256).

Relatively low levels of awareness and political salience suggest two starting points for fostering
the potential for tax bargaining. First, investments in taxpayer education and outreach may be a first
step towards fostering greater public engagement with the tax system, and the prospect of broader
governance gains. While specific evidence remains limited, available information suggests that
taxpayers frequently only have a relatively vague understanding of what taxes they pay, of the specific
rules surrounding these taxes or of how much revenue is collected by governments. Similarly, while
there have not yet been any systematic studies of the impact of taxpayer outreach programs in
developing countries, anecdotal research and interviews are suggestive of significant demand for them
amongst tax authorities and of their potential to encourage significantly expanded engagement and
trust (Durand and Thorp 1998; Abrie and Doussy 2006; OECD 2013).

While data is inevitably problematic, in 2009 the Ghanaian tax authorities reported that in a
country of almost 25 million the total number of individuals registered to pay income taxes was 1.285
million. Greater than 95% of these taxpayers had income taxes deducted directly from their pay checks
at source, such that the total number of income tax filers was dramatically lower, although precise
figures are not available (Prichard and Bentum 2009: 61).
Alongside the value of outreach and education is the potential value of attempting to broaden the direct tax net, thus expanding the portion of the population that bears a direct tax burden. This study has raised important cautions about assuming that direct taxes will always be more “visible” than indirect taxes, as the “visibility” of taxes frequently hinges on the role of elites and the media in fostering public debate about particular taxes. However, it remains likely that a broader constituency would be engaged in tax debates if it felt the tax burden more directly. While this goal may be achieved to some extent through the expansion of enforcement of traditional income taxes on individuals and businesses, these taxes are unlikely to reach the low-income majority. Instead, any dramatic expansion of the direct tax net is likely to involve some combination of taxes focused on small businesses in the informal sector and the expansion of local government taxation, with a focus on property taxes (Joshi and Ayee 2008; Jibao and Prichard 2013, forthcoming; Joshi, Prichard and Heady 2014). Such taxes have historically received limited attention from tax reformers because of their comparatively modest revenue yields, but the evidence presented in this book suggests that they may be politically significant, thus arguing for greater research and attention.

This possibility has been raised by Fjeldstad and Moore (2008: 255), although in more speculative and intuitive form. Mirroring the discussion here they write: “Imagine that tax reformers ... wanted to encourage constructive engagement between governments and citizens over tax issues. What would they then do? ... They would want to engage the attention and political energies of a substantial fraction of their citizens in taxation issues by raising taxes from them. The felt experience of paying taxes should not be confined to small numbers of companies and very rich people. It should be shared sufficiently widely to secure the prominence of taxation issues on the public political agenda.”
7.2.2 Increasing horizontal equity in the tax system

At the core of many episodes of tax bargaining is the importance of collective action by taxpayers seeking to make reciprocal demands on governments. A key challenge for prospective reformers correspondingly lies in facilitating and encouraging collective action around tax questions. Elite taxpayers are likely to be particularly important, owing to the fact that they are both the largest taxpayers and wield significant political influence, including through their ability to mobilize broader constituencies. However, collective tax bargaining by elite taxpayers in search of broad governance gains has been relatively uncommon. Instead, they have frequently exploited their political influence in order to pursue narrow benefits, often seeking to escape taxation by seeking tax exemptions and by using their political influence to blunt the effectiveness of tax enforcement.

The effectiveness of these narrow strategies has not only undermined revenue collection, but has fragmented the interests of elite groups and reduced incentives for them to bargain collectively with government in search of broader concessions. The corollary of this pattern is that efforts to increase equity in tax enforcement, and thus curb the availability of politically motivated tax exemptions, hold the potential to shift elite taxpayers towards more collective bargaining strategies. Whereas exemptions can fragment elite bargaining interests, the case studies have presented evidence that where business elites have been confronted by a uniform tax burden, they have been more likely to make collective demands for reciprocity and improved governance. This possibility has been most apparent in Ghana and Kenya, where large businesses historically relied on individual political connections in order to secure narrow tax exemptions and privileges. In both countries this began to change when governments began to enforce taxation amongst elites more equitably, thus generating shared concerns within the business community and catalysing business associations to adopt more
collective agendas. Notably, the key variable in these episodes was equity in enforcement, rather than the overall extent of taxation, as rates were frequently reduced at the same time that enforcement was expanded. In both cases there remains scope for significant further progress in increasing the equity of tax enforcement, but there is clear evidence that preliminary changes in tax enforcement played an important role in shifting business incentives.

7.2.3 Directly supporting bargaining and collective action

While increasing equity in tax enforcement appears to be an important strategy for fostering collective action and engagement, an alternative strategy lies in seeking to directly support civil society organizations, the media, business associations and parliamentarians to engage with tax issues. This reflects both the ability of the groups to bargain directly with government and their critical role in increasing the salience of tax debates amongst taxpayers more broadly. However, despite the centrality of this approach:

While the research in this book highlights the importance of efforts by national governments to improve equity in tax enforcement, recent research has also begun to stress inequitable patterns of tax enforcement resulting from the greater ability of larger companies and wealthy individuals to reduce tax burdens through the use of tax havens (Picciotto 2013). As such, efforts to reform the international tax system may equally be important in encouraging collective tax bargaining by elites, although this remains an area in need of additional research.

There are, of course, clear political reasons why consistent taxation of economic elites has proven elusive across the developing world, and an extensive policy literature has long focused on the revenue and economic efficiency to be gained from curbing the use of tax incentives and exemptions (Klemm 2009). The evidence in this book goes one step further in stressing the potential for horizontal equity in enforcement to also drive broader political changes, thus providing additional impetus for making horizontal equity a central reform priority.
of taxation to processes of state formation historically, engagement with tax issues beyond small groups of experts has generally remained limited in low-income countries (Fjeldstad and Moore 2008).

There has been limited research on specific strategies for encouraging engagement with tax issues by a broader set of groups, but the case study evidence presented in this book speaks strongly to the potential benefits. Key examples of tax bargaining have depended to a significant degree on the expanding engagement of business associations, of parliamentarians and, to a lesser extent, on the engagement of nascent civil society groups, as with the CJA in Ghana and the CGD in Kenya. The case studies have also presented the possibility that business associations representing small and informal businesses may be able to play an important bargaining role, although these activities remain in their infancy. Engagement by all of these groups has, at times, included explicit financial support from external actors, while in other cases they have been facilitated by government efforts to open spaces for dialogue with a broader range of stakeholders. Both types of strategies warrant expanded study and consideration.

### 7.2.4 Expanding transparency and engagement

While reforms to the tax system designed to foster awareness, equity and engagement offer important entry points to encourage tax bargaining, the broader expansion of transparency around both revenue collection and the budgeting process has the potential to further all of these goals. Greater transparency can serve to raise tax awareness, but can also make a greater contribution to

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9 This is consistent with observations by Doner and Schneider (2000) about factors potentially contributing to strengthening the positive role of business associations.

10 This again bears much in common with the more intuitive claims of Fjeldstad and Moore (2008: 255) who suggested that reformers seeking to foster tax bargaining would "want to levy taxes as consensually and transparently as possible."
fostering positive public engagement and bargaining. Transparency around both revenue and budgeting can establish more explicit links between taxation and expenditure, thus fostering expectations of reciprocity and trust – the foundations for constructive demand-making in relation to taxation. In the absence of expectations of reciprocity, or basic information about the content of government spending, it is likely to remain difficult for citizen groups to become mobilized effectively. Meanwhile, the absence of trust can frequently be amongst the most fundamental barriers to tax bargaining, as taxpayers have little confidence in government promises and correspondingly prefer simple tax evasion to longer-term bargaining.

Consistent with these expectations, government outreach and transparency around the establishment of Constituency Development Funds in Kenya helped to generate expectations of reciprocity, while providing citizens a basis for assessing the extent to which public revenue was being translated into improved outputs. This provided a foundation for greater engagement. Meanwhile, the case studies point towards a range of cases in which improved transparency has contributed to incremental improvements in trust by allowing taxpayers to clearly see their tax payments translated into desired outcomes. This was the case, for example, with the introduction of associational taxation on small businesses in Ghana, which paved the way for the progressive institutionalization of the taxation of small firms. Meanwhile, these conclusions are supported by a small number of other studies looking at the potential benefits of transparency for developing greater trust around taxation (Bahiigwa et al. 2004; Korsun and Meagher 2004: 164; Ssewakiryanga 2004). That said, it is important to stress that expanded transparency does not simply imply publishing tax data, but requires efforts to ensure that this is done in a way that is broadly accessible and can be understood by taxpayers – including potentially working with partners that can play a role in communicating data to broader groups of taxpayers.
A more radical option is to move beyond the general expansion of transparency by explicitly earmarking specific taxes for particular types of public spending. The aim of such tax earmarking is to build greater trust between governments and taxpayers, while providing a foundation for improved monitoring of public expenditures. The case for such tax earmarking is particularly strong in low-income countries where trust is frequently limited and monitoring particularly difficult. Within the case studies explored here this strategy has been widely applied in Ghana, where the government twice linked increases in the VAT to specific, and popular, areas of public service delivery. Consistent with predictions, this practice served to increase trust amongst taxpayers while also making it somewhat easier for the public to monitor government performance. However, tax earmarking carries with it important risks. Fiscal experts have long opposed tax earmarking on the basis that it reduces fiscal flexibility in the long-term, and potentially undermines the public goods character of taxation by linking it to specific, and potentially narrow, benefits. More proximately, tax earmarking can be misleading, as it may be used to achieve political ends without actually affecting spending decisions, owing to the fungibility of government resources (Bird and Jun 2005). Both of these risks have been a source of debate in the Ghanaian cases described in this book.

Given that tax earmarking involves inevitable trade-offs, two broad policy messages appear warranted. The first is that the potential benefits of tax earmarking warrant greater attention and research in low trust environments, but tax earmarking should generally be limited in scope, resistant to fungibility and easily monitored (Prichard 2010: 34–35). The second message is that more

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1 In a recent example of such research, Flores-Macias (2012) highlights the example of Colombia’s “democratic security taxes,” whereby the government secured compliance with a temporary wealth tax by earmarking revenue for security forces and putting in place explicit mechanisms for overseeing the use of the new revenue. This example has thus proven successful in building trust and expanding collection, but is subject to concerns about fiscal flexibility and about
informal efforts to link revenues and expenditures may be desirable in many cases. In this way, governments may transparently highlight the purposes to which additional revenue will be used, and provide avenues for public monitoring, but stop short of permanently earmarking revenues for specific purposes. This type of “informal earmarking” was employed with some success in Kenya, where the post-2002 government linked new revenue collection to a series of popular new programs, while similar examples have been noted in recent studies elsewhere (see, for example, Jibao and Prichard 2013, forthcoming).

7.2.5 Creating institutionalized spaces for tax bargaining

While transparency may thus play a role in expanding the political salience, changing expectations, building trust and encouraging engagement, the creation of institutionalized spaces for public engagement around taxation may further facilitate tax bargaining by expanding the scope for comparatively consensual interaction between taxpayers and governments. The case studies in this book have pointed clearly to the importance of political institutions in facilitating comparatively direct forms of tax bargaining, and while tax reformers may have little influence over national institutions, reform at the level of tax administration may contribute to similar goals. This may involve the creation of regular forums for consultation or the inclusion of citizen representatives more directly in aspects of tax administration. We see examples of the former in the expansion of such consultative forums in all of the case study countries, and most notably through the institutionalization of consultation with business leaders. Meanwhile, the inclusion of businesses directly in overseeing tax assessment has occurred in both Ghana and Ethiopia, with similar examples also appearing in research elsewhere (Ssewakiryanga 2004; Prichard 2010: 31). Whereas research has frequently spoken of “pockets of allowing elites to direct tax payments to specific spending priorities, rather than to a broader set of public goods.
productivity” within otherwise weak public administrations (Leonard 2010), it may equally be possible to imagine “pockets of inclusion or consultation” in relation to taxation, as an incremental step towards building a foundation for more responsive and accountable governance.

7.2.6 Broader implications for aid donors

Having highlighted a set of specific policy implications for prospective reformers seeking to foster expanded tax bargaining, it is useful to step back and consider the broader implications of the research findings for aid donors. Over the past decade, the focus of discussions linking aid, donors and tax bargaining has been on the possibility that high levels of foreign aid may, much like natural resource wealth, discourage local tax collection. The implication has been that an unintended consequence of aid may be to undermine the potential for tax bargaining, and more broadly, weaken ties between states and citizens (Moore 1998; Bräutigam and Knack 2004; Moss, Pettersson, and van de Walle 2006; Eubank 2012).

However, more recent research has shown that – unlike natural resource revenue – access to aid does not consistently lead to lower levels of tax collection in recipient countries (Clist and Morrissey 2011; Clist 2014; Morrissey, Prichard and Torrance 2014). While aid may in some cases reduce incentives for tax collection, it is equally possible that aid may contribute to increased collection through the impacts of technical assistance, conditionality and broader pressures to expand public spending (Prichard, Brun, and Morrissey 2012; Morrissey, Prichard and Torrance 2014). There is a corresponding need for a more nuanced view of the impact of aid on the potential for tax bargaining, with potentially important messages for donors.

While aid does not consistently reduce incentives for domestic taxation and tax bargaining, it remains possible that it may contribute to reduced tax effort at particular moments in particular countries (Eubank 2012). While not the primary focus here, this possibility appears periodically in the
case study chapters: for example, the Kenyan government increased tax collection in the wake of declining aid in the early 1990s, while the decision by the Ethiopian government to dramatically reduce tax collection after the 2005 elections appears to have been made possible in part by continued high levels of aid. In the latter case, it seems very plausible that the ability of the government to rely on aid revenue, and thus to reduce taxation in the face of public unhappiness, may have freed the government from the need to bargain with citizens over revenue collection. More generally, high levels of foreign aid also may reduce the political leverage wielded by taxpayers, by relieving the revenue pressure facing governments. This is not to say that donors should not deliver aid, or that donors should not deliver aid in times of fiscal crisis. It is simply a reminder that while aid does not consistently lead to reduced tax collection, it remains necessary for donors to be aware that aid may, in some cases, undermine the ability of taxpayers to put pressure on, and bargain with, their governments. As has been increasingly noted, irrespective of claims of technocratic neutrality, the provision of aid almost invariably has broader, and often unintended, political implications, and donors have an important responsibility to “do no harm” (OECD 2009, Booth 2011).

Moving beyond the impact of aid on aggregate incentives for tax collection, the most important impact of donors on the potential for tax bargaining may stem from their influence of the setting of tax reform priorities. This reflects an extensive literature documenting the often-pivotal role of international networks, international organizations, and bilateral donors in shaping the broad contours of tax reform efforts in recent decades (Mahon 2004; Sanchez 2006; Bird 2008; Fjeldstad and Moore 2008; Keen 2013). The discussion so far has highlighted the extent to which tax bargaining is dependent on particular features of tax policy and administration, thus pointing towards specific reform strategies for increasing the likelihood of governance-enhancing tax bargaining. Keen (2013) has argued that the reform priorities advocated by the IMF and others closely match the types of
reform priorities suggested by a “governance enhancing” tax reform agenda (Prichard 2010). 12

Indeed, there is no doubt that international organizations have been supportive of a focus on many of the key issues raised here: horizontal equity, transparency, public education, consultation and greater engagement by civil society. However, they have, in the view of most observers, tended to make these goals secondary priorities, with the primary focus on increasing revenue collection and minimizing market distortions (Barbone et al. 1999; IEG 2008). This has meant that the types of issues highlighted here have been more easily overlooked during the process of implementing reform. More optimistically, there is evidence that this emphasis has begun to shift in recent years, and a continued shift towards emphasizing process related aspects of tax reform promises to create a more supportive environment for tax bargaining (IMF 2011).

Finally, while these policy suggestions draw on a combination of the case study evidence in this book and broader research, it remains important to acknowledge that they remain both preliminary and somewhat speculative. There is still much more to learn about when tax bargaining is likely, what forms it might take, and how it may be encouraged, through both a broader range of case studies and more in-depth study of individual possibilities. It is equally important to remember that even if these strategies are desirable in principle in order to strengthen the links between taxation, responsiveness and accountability, that does not necessarily imply that governments and tax reformers will be quick to adopt them – indeed, many of these suggestions have long been advocated by tax reformers, albeit for different reasons. There thus remains an equal need for research exploring how such reform strategies

While this book presents the most refined statement on what such a “governance enhancing” tax reform agenda would entail, an earlier and less developed version of these arguments first appeared in a report published by OECD in 2010, while similar ideas began to circulate in policy circles around this time. Keen’s (2013) work was a response in part to those ideas and, by extension, to the ideas presented here.
may be advanced more effectively. Despite these caveats, the discussion here highlights potentially useful entry points for seeking to strengthen domestic processes of political dialogue and contestation around taxation, as a foundation for achieving broader governance gains.

7.3 Limitations and future research

As noted in the introductory chapter, this book has sought to explore an expansive, diverse and difficult-to-observe set of political processes at a relatively macro level of analysis. The case studies have each covered several decades while seeking to draw broad conclusions about relevant causal processes and contextual variables. The adoption of this relatively ambitious and exploratory research agenda has reflected the nature of the existing literature, which offered limited guidance about key features of tax bargaining in contemporary developing countries. A broad research agenda was correspondingly necessary to begin to empirically map key elements of the relationship between taxation, responsiveness and accountability. Having identified the main features of this relationship, there remains significant scope for more tailored studies to fill remaining gaps or deepen our understanding of important issues raised here. This section highlights five limitations of this study, and five corresponding avenues for future research.

First, this research has focused on a particular set of countries and, while they capture significant variation in the key variables of interest, there is a strong case for broadening the range of

Such research has recently begun to expand rapidly, much of it linked to the International Centre for Tax and Development. This has included research into the political economy of property tax reform, informal sector taxation, the reform of tax exemption regimes, the use of tax earmarking, and broader efforts to increase horizontal equity in the taxation of elites. See, for example, Fjeldstad and Heggstad (2012), Flores-Macias (2012), Fairfield (2013), Joshi, Prichard and Heady (2014), Moore (2014) and Jibao and Prichard (2013, forthcoming).
cases still further. Exploring the political dynamics surrounding taxation in states with significant resource wealth appears to hold particular interest and promise. While such studies may provide additional insight into the relative absence of tax bargaining in such countries, it would also allow for asking whether processes of tax bargaining may still be possible and significant even where levels of tax collection are comparatively low. This book has argued that there is likely to be less tax bargaining in resource rich states for two reasons: lower levels of tax collection, with consequently weaker incentives for collective action by taxpayers, and lower levels of revenue pressure, with consequently diminished incentives for governments to bargain with taxpayers engaged in tax resistance. However, there are nonetheless moments at which even resource rich states are compelled to increase tax collection, or in which they face acute revenue pressure, often in response to falling resource revenues. Research into the broader politics of taxation in such states, particularly during times of crisis, thus holds the potential to extend this research in an important direction.

A similar opportunity lies in studying the potential role of tax bargaining in post-conflict settings. Recent work has suggested that the need for many post-conflict states to rebuild tax collection from very low levels may offer an important opportunity to make revenue-raising processes an entry point for pursuing broader governance gains, including strengthening engagement and trust between taxpayers and the state (Boyce and O’Donnell 2007; Ghani and Lockhart 2008; Jibao and Prichard 2013, forthcoming). However, despite this potential, taxation has rarely been a priority in post-conflict contexts, nor has

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There is important ongoing research looking at tax collection, and the potential for tax bargaining, in Nigeria. Much of this research has focused specifically on developments in Lagos State, where the Governor has invested heavily in strengthening tax collection while providing significantly improved public services to citizens (Cheeseman 2013). Alternative research has begun to look at the potential for tax reform in Angola to contribute to broader governance improvements (Fjeldstad, Jensen and Orre 2012).
research yet told us much about the particular challenges of tax collection in post-conflict environments.

A second possible direction for future research lies at the local government level, thus moving beyond the focus here on national and regional government taxation. While the vast majority of tax revenue in sub-Saharan Africa and elsewhere in the developing world is collected at the national level, the majority of taxpayers experience taxation most directly at the local government level, through an array of taxes, fees and levies involving comparatively small sums. Local government taxation generally involves more direct interaction between taxpayers and tax collectors, while connections between revenue and public expenditure are potentially more direct. Collectively, these features of local government taxation make it appear to be a particularly likely setting for relatively direct tax bargaining, with this expectation mirroring broader claims about the potential for decentralization to contribute to improved accountability (Agrawal and Ribot 1999; Bardhan 2002; Faguet 2004). However, tax collection at the local government level also poses particular barriers to tax bargaining, rooted in the potential for tax collection and governance at the local government level to be particularly coercive, exclusive and elite dominated (Crook and Manor 1998; Crook 2003; Crook and Sverrisson 2003; Devarajan, Khemani and Shah 2009). Consistent with this risk, the small body of existing research at the local government level is very mixed, with some studies reporting tentative evidence of a positive connection between taxation, responsiveness and accountability (Gadenne 2014 Hoffman and Gibson 2005; Jibao and Prichard 2013, forthcoming), and others finding that tax relationships at the local government level are dominated by coercion and conflict (Fjeldstad and Semboja 2001; Bernstein and Lü 2008; Fjeldstad and Therkildsen 2008). With existing evidence quite mixed, there remains scope for significantly more research investigating the contexts in which the comparatively intimate tax relationship at the local government level may become a catalyst for broader governance gains.
Alongside these opportunities to expand research to new settings, there are also a number of areas in which the initial insights provided in this book may be deepened. Most obviously, this book has focused on capturing a subset of relatively observable causal processes that have linked taxation to the expansion of responsiveness and accountability. As has been noted repeatedly, this is likely to overlook some of the less observable ways in which the need for taxation may shape broader governance outcomes. While this book has argued that the observable processes captured in the case studies are very likely to be indicative of the existence of these more subtle processes, additional research and evidence would be of obvious value. The most immediate possibility is that the experience of being taxed may have subtle, long-term, impacts on the political engagement and expectations of taxpayers. One strategy lies in detailed surveys, which may, for example, capture how taxpayer perceptions of the tax system shape broader views of government, or how taxpayer views of government change over time in response to changes in taxation. Such strategies are crucially dependent on the quality of the underlying survey data, and while this has so far remained a barrier to high quality research, opportunities to more accurately capture the impacts of taxation on individual taxpayers will expand as the quality of data improves (Fjeldstad and Semboja 2001; McGuirk 2013). An alternative strategy, similarly reflected in recent work, is reliance on field experiments to attempt to capture the impact of taxation on taxpayer attitudes and behaviours (Paler 2013; Martin 2014). While this type of research demands a level of abstraction from the practical barriers to political change, it can nonetheless offer important insights into the micro-level dynamics of interest. Finally, econometric analysis at the subnational level has the potential to continue to shed new light on difficult-to-observe features of the relationship between taxation, responsiveness and accountability (Hoffman and Gibson 2005; Gadenne 2014).

A fourth potential direction for future research lies in further exploring the importance of the contextual factors that appear to shape the potential for tax bargaining. The factors highlighted in this
book are supported by a combination of the case study evidence here, a small number of similar studies and predictions emerging from historical experience. However, the overall sample size on which these conclusions are based remains relatively small, while there have not been any other studies explicitly seeking to test these possibilities in contemporary developing countries. Having now identified a set of factors that appear to have played a critical role in shaping outcomes, there is an opportunity to more explicitly focus attention on the importance of particular contextual factors, asking whether variation in those factors yields consistently different outcomes across a wider range of cases. That said, the inherent complexity of many of the causal processes of interest, coupled with the fact that tax bargaining has been relatively infrequent, is likely to render such a research agenda very challenging. Again a promising strategy may lie in subnational research: at that level there are better prospects for observing comparatively small-scale political interactions around taxation in detail. Similarly, there are likely to be opportunities for more precise comparison, identifying specific differences between otherwise similar localities and exploring the implications of those differences for contestation and bargaining around taxation. The ultimate goal is not to arrive at a highly deterministic model, as processes of tax bargaining will invariably be contingent and connected to broader processes of political contestation. However, better understanding those factors that make particular environments more conducive to tax bargaining is of both academic and practical importance.

A final consideration for future research is that while this book has focused on the connections between taxation, responsiveness and accountability, there are a variety of other ways in which the need for taxation may shape broader governance and development outcomes. One possibility is that reliance on taxation may contribute to strengthening broader state capacity. Collecting significant tax revenue is amongst the most administratively demanding tasks facing the state, and is interconnected with many other elements of effective state capacity. It may thus act as a leading edge of broader administrative strengthening and reform (Bräutigam and Knack 2004; Bräutigam 2008a; Prichard and
Leonard 2010). The need to rely on tax revenue may also make governments more likely to adopt growth-promoting policies, owing to their common interest in promoting the prosperity of taxpayers in order to maximize tax revenues (Bates 2001). Both possibilities are closely related to the issues investigated here and additional research in these areas could offer potentially rich insights into the broader importance of taxation to state-building, governance and development.

This last point is suggestive of the broader potential of research that is focused on the importance of taxation, and sources of government revenue more broadly, to development outcomes. While this book has focused specifically on the potentially positive implications of taxation for the expansion of responsiveness and accountability, it is also part of a broader resurgence of interest in the broad field of fiscal sociology; that is, in the possibility that understanding the sources of government revenue may be central to understanding development outcomes more broadly. This resurgence has included now extensive research into the resource curse, as well as research that has used the study of taxation in order to illuminate the character of the broader political bargains underpinning different states (Lieberman 2002; Slater 2010; Schneider 2012; Hassan and Prichard 2013). However, the potential for research focused on understanding the development implications of differences in the fiscal foundations of states is much broader, reflecting the diversity of sources of government finance – both licit and illicit – in developing countries.

Most obvious is the potential for continued research into the implications of foreign aid for governing incentives (Moss, Pettersson and van de Walle 2006; OECD 2009; Prichard, Brun, and Morrissey 2012). More recently, Moore (2012) has highlighted a variety of other, often off-budget, revenue sources that play important roles particularly in countries facing significant governance

\[\text{\footnotesize In a recent study, Gehlbach (2008) highlights a more nuanced variant of this idea, arguing more specifically that governments will have incentives to promote the prosperity of individuals or firms that are likely to make the largest contribution to state tax revenue.}\]
challenges – and which frequently finance particular factions within the state disproportionately. These include state involvement in illicit activities such as the drug trade, the growing role of sovereign wealth funds, revenue derived from control over the allocation and development of property, and revenue derived from offshore finance and other enclave economic activities. Of course, scholars have long recognized that these different sources of revenue exist; what is new is the recognition that these seemingly disparate topics are all closely interconnected in analytical terms. By shaping the ways that states and governments are financed, these disparate sources of revenue are all likely to shape the ways in which different states are governed. In highlighting the role of taxation in shaping the relationship between citizens and states, this book has thus also pointed towards the analytical potential of research that views the fiscal foundations of states as critical to explaining development outcomes. The ability to raise revenue is amongst the most basic features of statehood, and both taxation and broader sources of government financing warrant a more central place in the study of politics in developing countries.