The politics of tax reform in low- and middle-income countries

A literature review

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Paper

ABSTRACT

Tax reform is highly political. As this important topic rises on the agenda in many low- and middle-income countries, civic actors are increasingly encouraged to engage in the debate to ensure that more revenues are raised, more progressively. This paper surveys the literature on the political economy of domestic tax reform, with a focus on low- and middle-income countries. The review looks at the main players involved in the politics of tax reform, the way in which the substance of tax reform shapes political forces, and the process by which taxes are eventually reformed, including how the reforms are framed and understood. There are no "best practices" when it comes to the politics of tax reform, but in light of what we uncover globally, civic actors may find it useful to reflect more on the actors and the process in their own countries and on how the types of tax changes under consideration in their context might impact the political process of reform. At a minimum, this review can help advocates to anticipate the types of challenges and opportunities that may arise and better prepare for them.

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"As the HWI (High Wealth Individual) unit lost support, it had neither the capacity to persuade nor the capacity to enforce high wealth individuals to pay their taxes. It did not have time to build an enduring alliance of powerful actors, mechanisms or principles to further its reform objectives. It did not have support from the general public to push back against powerful interests that resisted change. Instead, the HWI unit earned the reputation of being either 'useless' or 'hunting in the zoo.'"

- Widhartanto and Braithwaite, 2016

1. INTRODUCTION

Governments seek resources, whether to retain power, or to serve the public interest. In doing so, they might seek to build a fiscal social contract: exchanging broad taxes for robust public services. But such a contract is politically challenging to forge. It means forgoing easy revenue fixes ("hunting in the zoo") in order to build relationships over time with hard-to-tax groups, and chasing more difficult taxes, such as property, wealth and income taxes that impact powerful elites.[1] It also requires a delicate balance between promoting voluntary compliance, which may fall short of revenue needs, and the use of coercive mechanisms that can backfire, leading to resistance and even revolt. Finally, it puts front and center the genuine chicken and egg problem that plagues tax collection in most countries: taxpayers are often willing to pay tax if they can be certain that the taxes will be used to provide public services, but as governments find it hard to credibly commit to provide accessible, quality services, especially prior to collecting more revenue, taxpayers are unwilling to enter the bargain.

This framing does not cover everything that matters about taxes, of course. Some taxation is less about raising revenue than about redistributing income, encouraging or discouraging different types of activity and managing inflation. These goals can bring additional political factors to bear, such as attitudes about fairness (if tax is seen mainly as redistributive) or competing views on the role of the state in promoting economic transformation (where tax is used to incentivize certain economic sectors). Even in these cases, however, issues of who pays and why they do (or do not) are central and are related to broader trust in the state and the social contract.

This paper mines the existing literature on the politics of tax reform for strategic tips that may have relevance to civic actors that are already engaging or wish to engage in tax reform. The literature on the role of civic actors in tax reform, particularly in low- and middle-income countries (LMICs), is thin. This is in part because this has not been a topic of general interest, and in part because much tax reform in LMICs has not featured a prominent role for civic actors.

[1] "Hunting in the zoo" refers to increasing taxes on, or enforcing tax compliance from registered, known taxpayers, rather than bringing new taxpayers into the tax net through new taxes or increased enforcement.

The policy environment is starting to change, however, and there are good arguments that it should change faster. LMICs face an unprecedented economic shock from COVID-19 and cannot rely entirely on debt financing or aid to cover the costs. However, this crisis accelerates an existing push for LMICs to rely more heavily on their own domestic sources of revenue, and less on aid, an explicit goal of the 2015 Addis Tax Initiative.[2] High, persistent (and in some cases, increasing) inequality over the last several decades in LMICs also demands a fiscal response, and that includes tax, either as a direct form of redistribution, or as a means to fund spending programs that can reduce the social consequences of income inequality.[3]

Taking these factors together, tax reform may be entering a busy period. If civic actors remain on the sidelines of coming tax reforms, however, the reforms are likely to be less successful and less progressive than would otherwise be the case (Wainer 2019). The tax reforms that dominated reform agendas from the 1980s until very recently emphasized technical and administrative aspects of tax policy, deemphasized equity relative to efficiency and did relatively little to build public support around taxation as a key aspect of national development agendas (M. Moore and Schneider 2004). Moments of crisis are good moments for policy reform, but that reform is not necessarily progressive.

The next generation of reforms requires a shift back toward greater emphasis on equity and changing state-society relations. This is terrain that is ripe for the engagement of civic actors. Yet engaging in tax reforms is no easy task for such actors. Tax policy impacts powerful interests and can upset the balance of power between states and society. Civic actors do not always have the technical skills or popular support around technical tax matters to make a difference (Prichard 2018b). Navigating the politics of tax policy is difficult, but we can learn something from past experiences and the literature on tax reform.

This paper focuses on politics, as opposed to economics. Tax analysis is often concerned with the impact of taxes on behavior and, therefore, on economic growth or productivity. Another area of frequent concern is the impact of taxes on inequality and the relative burden that taxes put on different income groups, regions, genders and so on. This paper sets aside these issues and, rather, looks at the factors that affect whether tax reforms happen or not. For any civic actor interested in engaging in tax reform, the politics of tax are at least as important as the economics. As with other areas of public policy, much reform fails, or if it succeeds, does so in ways that differ from the initial intention. Getting the policy right on paper from an economic point of view is therefore of limited value if the politics are not navigated well.

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[2] Addis Tax Initiative

[3] Trends in global inequality

1.1 ORGANIZATION OF THE PAPER

It is no easy task to put structure on such a broad and ill-defined arena as "tax reform." I have organized the paper with an eye primarily toward an audience of civic actors. To that end, after briefly defining the notion of tax systems and tax reform, I emphasize *the* ***who, what*** *and* ***how*** of tax reform. Of course, this remains a general guide rather than a context-specific one: whether any particular actors, types of tax or process issues are relevant in a specific country is a matter for readers to determine. The goal of the paper is to provide an overview of the kinds of issues that tend to arise in tax reform, but every country has a tax code that has evolved uniquely over decades, if not centuries, and a distinctive set of actors and procedures.

In the **WHO** section of the paper, I focus on the key actors that shape tax reform. Tax reform is about government revenue, and it is most often initiated by states. States want to tax people who have money, so this implies that business and the wealthy are prominent actors involved in tax reform, and likely active in trying to influence (and avoid) tax. Accordingly, this section focuses heavily on states and the private sector, but also touches on the role of other civic and political actors, including donors and creditors, and taxpayers more generally. To the extent possible, I look at differences within each of these types of actors.

The **WHAT** section is focused on the way that different types of tax or characteristics of tax policy choices impact the politics of reform. Some taxes have a broader base and affect most citizens or most taxpayers, while others affect a minority. Some are more "visible" than others. Some reforms focus more on revenue raising, while others focus more on equity. While context is fundamental, I try to draw out some general ideas about ways in which specific types of tax reform often (but not always) play out politically.

The **HOW** section of the paper focuses more on how tax policy happens, how tax reform is framed, and how advocates work through political parties and courts. Because there are not that many cases of pro-active tax reform pushed by civic actors, this section adds less than we might like to what is covered in the *who* sub-section that deals specifically with such actors. Tax policy also happens through informal and opaque processes, but for obvious reasons, this can be hard to document in the literature.

These three sections overlap, of course, which would be true of any way that we might wish to slice up the literature. But this nevertheless allows us to ask and answer a few interesting and useful questions.

1.2 LIMITATIONS OF THE LITERATURE REVIEW

It is worth acknowledging some limitations of this review upfront. First, the literature on the politics of tax reform is geographically skewed. There is more work on Europe and the United States than on other rich countries, and

with regards to low- and middle-income countries, there is more literature related to Latin America and Africa than to Asia. Second, this review is biased toward the International Budget Partnership (IBP)'s focus within tax reform, which is mainly on domestic tax systems and actors, and on increasing revenue and enhancing equity. It has relatively little to say about the international dimensions of tax, particularly issues around illicit financial flows or the political dynamics of global tax reform processes such as the Base Erosion and Profit Shifting (BEPS) initiative of the OECD.

The literature on the politics of tax reform also has some important gaps, which are opportunities for future work. The field has generally settled on a compelling narrative about states and tax, but there is fairly limited work that breaks down state actors by their competing interests and incentives (such as the different interests of finance ministries, revenue agencies and other government departments). While the basic outlines of the formal process of tax reforms are known, there is relatively little detailed investigation of these processes, and even less documentation of informal processes. The latter is not surprising, since informality is something that many of the most powerful actors involved generally wish to shield, but there is room to build on the meager literature here, such as work from Bangladesh (Hassan and Prichard 2013).

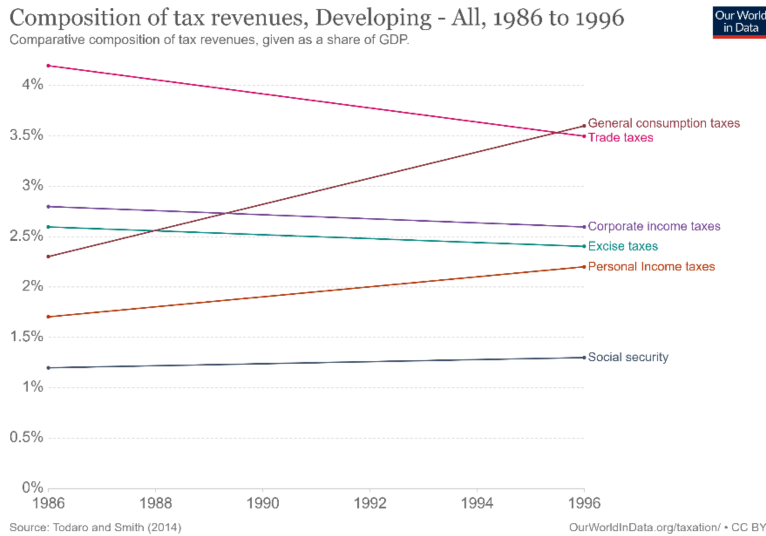
While it is generally believed that the media have an important role to play in how people understand taxation, government and inequality broadly, as well as the specific content of tax reforms, there is almost no literature on media and the politics of tax, particularly in low- and middle-income countries. This seems like a major gap in light of recent major investigations of, and subsequent social media debate about, tax evasion, such as the 2016 Panama Papers, which in turn have led to real political consequences, including the resignation of the Prime Minister of Iceland (Neu et al. 2019). Related to this, the literature also has little to say about tax analysis, though of course such analysis is part of what the media relies on to tell stories that influence broader views on tax.

2. DEFINING TAX SYSTEMS AND TAX REFORM

A tax system consists of the types of tax that are collected, and the broad distribution of those taxes across taxpayers. These attributes of the system depend on both tax policy and tax enforcement.

In most countries, a small number of major taxes account for most of the revenue: personal income tax, corporate income tax, consumption taxes, trade taxes, excise taxes, and social insurance taxes. Property taxes are another major source, though these are usually collected at local level (Steinmo 1993; Akitoby et al. 2018). Figure 1 shows the relative weight of these different types of taxes in developing countries in the 1990s, capturing the era when trade taxes declined relative to consumption taxes, while personal income taxes began to rise. A country may have a large number of minor taxes as well that collect relatively little revenue. *We can think of the tax system as the taxes that account for the bulk of a country's revenue, their relative shares and who pays them*.

FIGURE 1. TAX BY SOURCE IN DEVELOPING COUNTRIES, 1986-1996



Source: [Our World in Data]

The relative share of the tax system that is accounted for by each tax type is a product of the base and rate associated with that tax (e.g., how much income is generated and at what rate do we tax it?), the extent of official exemptions from that base and rate, *and* the degree of enforcement or compliance with policy rates. Thus, we might have a very high rate of tax on high incomes, but we might have either extensive exemptions or limited compliance / high evasion, leading in either case to revenue that is much lower than expected based on the policy rate.[4]

It is worth noting that tax, as it is perceived by the public, may not correspond entirely to the tax system as described here. This is so because the public may be affected by a large number of taxes, or fees and charges, that do not account for a large share of public revenue but may account for a large share of household income. These "small taxes" are also important in understanding tax systems, though the literature on such taxes is only now emerging (M. Moore, Prichard, and Fjeldstadt 2018).

If this is tax, what is tax reform? Tax reform entails changing both tax policy and tax policy implementation, or what is usually labeled tax administration. For example, an increase in the top marginal income tax rate might constitute a major tax policy reform that shifts the burden of tax revenue toward higher incomes, but the ability to

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[4] Some analysts distinguish three key aspects of the tax system: capacity (the total tax taken as a share of the economy), progressivity (the degree to which the system taxes those with higher incomes more) and universality (the degree to which all sectors and regions are included in the tax system) (Schneider 2015). This overlaps with the discussion here, but I put more emphasis on the base and exemptions than on "universality" per se, and policy and implementation cut across these three aspects (e.g., one tax system may be more progressive than another because of high rates, or because of low exemptions, or because of better enforcement).

enforce that higher rate, through the use of tax audits or other policies, is also crucial if we are going to view this as a major tax reform.[5] If high levels of evasion undermine the new tax policy, it will fall short of changing the tax system.

This is no different from other areas of public finance (or even most areas of policy), where what matters is both the policy as designed and approved, and its actual implementation (Pressman and Wildavsky 1984). While tax policy is changing incrementally all the time, whether through legislation or administrative rule-making, *tax reform refers to changes that have a substantial impact on the main tax types (or introduce a new major tax), including who pays them and how much of total revenue they account for*. Once again, we may also wish to include reforms that have a large impact on the population, even if they have a relatively small impact on total revenue or its composition.

This brief discussion was not meant to provide a comprehensive investigation of tax, but rather a serviceable working definition to guide us as we consider the who, what and how of tax reform in the rest of this paper.

3. WHO ARE THE MAIN PLAYERS IN TAX REFORM?

This section of the paper focuses on states and the private sector, with a smaller discussion of civic actors, donors, and taxpayers more broadly as the key actors that we need to consider in tax reforms. Who are these actors, how are they organized or not, and what incentives might be driving them? Generally, I consider actors to be motivated by a combination of self-interest and their own perceptions and values, including fairness and ideas about the collective good.[6]

3.1 STATES MAKE WAR…AND PROVIDE SERVICES

States need revenue and are the main actors able to coerce it. I say main, because there is a growing literature on "informal tax" that looks at the way non-state or quasi-state actors "tax" populations (Prichard 2018c; Jibao, Prichard, and van den Boogaard 2017). I put that aside for now. Given that states are at the center of taxation, they are also at the center of the politics of taxation.

[5] The top marginal rate refers to the rate charged on the last currency unit earned. Most income tax systems charge a tax rate on income up to X, and then a higher rate above X until Y, and then a higher rate above Y (and so on). The top marginal rate is the rate on income above Y (or Z, as the case may be), which is always higher than the overall rate paid, since all income up to Y (or Z) is charged at lower rates.

[6] This simple conception builds on the idea that actors are motivated by a combination of two forms of rationality—instrumental and value rationality— which is elaborated in (Varshney 2003).

What drives states to seek revenue? The old answer was war (Tilly 1990). That remains one driver of state appetite for taxation, but modern states are often driven by less belligerent imperatives.[7] In the late nineteenth and early twentieth century, the revenue needs of European state-builders were oriented toward industrialization and the expansion of welfare benefits to mollify increasingly powerful labor movements. These were the years when income taxation was first introduced, but also when earmarked social insurance taxation took off. Conflict remained one factor contributing to new taxes, but was not necessarily dominant (Aidt and Jensen 2007; Steinmo 1993). This does not mean Tilly was wrong: to the contrary, the broad historical argument that war motivated the development of state bureaucracies and revenue collection as a foundation for modern tax systems remains important.

But using war as a predictor of how modern tax systems behave is less useful. This is not only true in rich countries, but in low- and middle-income ones as well. As Bates argues, the modern global system (post-World War II) has been dominated by rich countries that police the borders of low-income countries, and provide alternative revenue streams (through military support, direct aid, and so on), attenuating the more organic links between revenue and war that drove European history for a millennium (Bates 2010). The availability of revenue from natural resource extraction in many low- and middle-income countries also complicates the connection between resource demands and military conflict. These points are discussed further in the next section.

If contemporary states seek mainly economic development and enhanced social welfare (whether for the good of their societies as they perceive it, or to avoid threats to their power), then we should observe a closer connection between revenues and "performance" or "service delivery" than war (M. Moore 2008). This will take the form of states seeking revenues to provide services, and citizens expecting that the taxes they pay will generally be used to provide services. By services, we do not necessarily mean public services like education or security; public funds may be used for state or industrial transformation, or given as direct cash transfers or in-kind subsidies.[8] But this mix of investments, services, or transfers is taken to advance some kind of social interest, and not only the aggrandizement of rulers. This is the essence of the idea of tax bargaining and various forms of fiscal exchange or the "fiscal social contract" (Prichard 2015; Martin, I., Mehrotra, and Prasad 2009; M. Moore and Schneider 2004).

At the heart of this model of tax, states rely on either coercion (police, courts, etc.) or voluntary compliance in their quest for resources. Because coercion is costly and can be deployed only up to a certain point before it becomes counter-productive, states often seek to encourage compliance through the provision of services that legitimate their demand for resources. States and citizens bargain over their willingness to pay for these services, and their willingness to utilize and endure coercion. The bargain is affected by the amount that government seeks

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[7] Unpopular wars may also be more likely to be financed through debt: The Political Economy of War Finance

[8] This may well be what low-income voters prefer. See (Bursztyn 2016) for evidence from Brazil.

to extract, the quality and accessibility of the services it provides, and the degree to which citizens can and do obtain these services in alternative ways through mafias, community associations, local chiefs or the private sector (Ali, Fjeldstad, and Sjursen 2014; Bodea and LeBas 2014; Weigel 2020). The outcome is a temporary truce combining a mix of coercion and voluntary compliance with some level of services. **Box 1** looks at one aspect of this model: the degree to which taxes are directly linked ("earmarked") to specific services or not.

BOX 1. CONTRACTS AND CONTRIBUTIONS: THE IMPORTANCE OF LINKING TAXES TO EXPENDITURES

One of the puzzling facts about taxes is that they are, by definition, not meant to be understood in one-for-one terms (e.g., I paid you $500 in tax and you owe me $500 in services), and yet people are willing to pay them. There are a number of ideas about why this might be so. One is that while there is no specific contractual arrangement around taxation, there is a vague social contract between citizens and the government that establishes a broad agreement that people will pay taxes in exchange for services. By the very nature of some of these services, they cannot be valued in the way private transactions can be, so we have to accept that our (say) $500 in tax does not translate into (say) $500 in military defense.

This idea, which is also known as "quasi-voluntary compliance" is surely part of the story about why many people pay taxes when they cannot make a direct connection between what they pay and what they receive. The related notion of "tax morale," which links willingness to pay taxes to social norms around fairness and the legitimacy of the state is also a piece of the puzzle (Luttmer and Singhal 2014).

Nevertheless, directly connecting revenue to expenditure is an important part of the historical and current narrative around tax. This takes the form of direct earmarking, as well as contributory schemes, where what a person pays is at least notionally related to what they get back. To be sure, a majority of tax revenue in most countries is not earmarked. But quite a lot of the tax that is paid is directly connected to specific services and helps to provide legitimacy to the overall tax system. At the end of the nineteenth century, starting with Germany but then spreading around Europe, social insurance funds were introduced with related taxes (Steinmo 1993). Still today, social insurance contributions constitute a significant share of taxes in most European countries: over one third of total tax revenue in Austria, France, Germany and the Netherlands, and an average of 26 percent across the OECD (Clasen 2001; Enache 2020). Social security contributions are also an

important source of revenue in Latin America: 17 percent on average of all revenue, but as high as a quarter in Brazil (where they are the largest single revenue source).[9]

The point of this emphasis on contributory schemes is not that low- and middle-income countries should necessarily pursue such social insurance taxes, which are easier to administer through payroll systems in more formal economies (though such taxes do already account for somewhere around 8 percent of tax revenue even in Africa).[10] The point is simply that the political notion of a fiscal contract in which taxes are paid in return for services is rooted not only in the general concept of reciprocity, but also has a far more concrete basis: a substantial share of tax revenue that observes the principle of contribution. While excessive earmarking of taxes can reduce flexibility for the public finance system, particularly if too much of total revenue is earmarked, it seems likely that the use of earmarking and contributory principles also lend legitimacy to the tax system as a whole. This need not always manifest as "hard" earmarking: notional contributions may be equally important, as is the case for a number of social security systems that relate benefits to payments, but not in a direct actuarial manner.

The significance of attempts to earmark (whether in a softer or harder way) can be seen in modern low- and middle-income countries, and not only in the OECD. In Ghana, for example, increases in the VAT in 2000 and 2003 were earmarked for education and health financing. This was a key political strategy for overcoming opposition to increased taxation. The subsequent introduction of a Communications Tax was also earmarked to pay for the Youth Employment Scheme as a political strategy (although in this case, the earmarking was far less and far looser than advertised). In Kenya, earmarking of a roads levy and a mobile communications tax (for rural electrification and HIV/AIDS, etc.) point to the use of earmarking as a political strategy as well (Prichard 2015).[11] Zimbabwe pioneered the introduction of an income tax surcharge tied to funding for its national HIV/AIDS response in the 1990s (Saunders 2019). The Philippines 2012 sin tax reform is another example of a case where earmarking supported a political coalition in favor of reform, with the vast majority of incremental tax from tobacco and alcohol directly funding health expenditure, and the rest earmarked for supporting farmers in the tobacco-growing regions of the country (Madore A, Rosenberg J, and Weintraub R 2015). Agricultural cess is also widespread in low- and middle-income countries and is often administered as an

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[9] Revenue Statistics in Latin America and the Caribbean 2020 - Brazil

[10] See Revenue Statistics in Africa 2019. Also, such taxes can be inequality enhancing and many health economists now reject them as the principal form of financing (though they were quite fashionable not long ago): The Case Against Labor-Tax-Financed Social Health Insurance for Low- and Low-Middle-Income Countries.

[11] The latter may or may not have ultimately been ring-fenced in practice, but the claim to earmark was part of the political strategy used to sell the reform.

earmarked tax designed to pay for public services in the agricultural sector, or even specific sub-sectors (Khan 2001).

More generally, there are numerous examples of broader bargains that imply the linking of tax to specific types of expenditures, even if these are not technically earmarked. In Chile, middle class voters supported higher taxes in exchange for the expansion of the state, which implied the creation of civil servant jobs that they expected to directly benefit from; Mauritian taxpayers also linked their willingness to pay tax to opportunities for public employment (Ascher 1989; Bräutigam 2008). Ugandan analysts have argued that one way to improve tax compliance for small businesses is to directly tie tax compliance to access to free or subsidized business development services (Lees, Walter, and Mukasa 2019). Another form of linking taxes to spending is to allow regions that generate more tax to retain more of these resources for local projects, a strategy pursued by China starting in the 1980s, though this can also lead to regional inequities (Bernstein and Lü 2008). Finally, analysts have argued that the best way to increase notoriously low levels of property taxation in Africa is to directly tie these increases to local service provision (M. Moore, Prichard, and Fjeldstadt 2018).

In sum, the evidence is fairly convincing that tax reformers can and should seek ways to link, at least notionally, tax increases to services that will directly benefit large numbers of taxpayers. Attempts to improve tax systems that are not tied to such objectives are less likely to find mass support. However, this does not mean that earmarking necessarily "works," in the sense that the political linking of revenue and expenditure always leads to improved financing for earmarked services. Earmarking may raise the political cost of failing to finance certain activities, but even hard earmarks may be suspended in a fiscal crunch, and the value of earmarked funds often erodes over time unless political action is taken to increase earmarks or supplementary funds (McCleary 1991). Put simply, earmarking is a useful political tool, but it is no guarantee of adequate financing for any specific service.

Closely related to tax bargaining is the concept of tax "resistance," which can take the form of tax evasion or outright refusal to pay, including riots or other actions that may not be explicitly intended as bargaining chips, but simply manifestations of anger at introduction or increases in taxes (Prichard 2015). Tax resistance includes a range of informal, indirect, and notional linkages between citizen action and state action that are not entirely captured by the more formal "contract" idea. Tax "resistance" also opens a more explicit discussion of tax administration, which we will discuss subsequently.

Tax bargaining and resistance also help to explain the exercise of restraint by states. Bargaining is not only about what states will do, but about what they will not do, in exchange for revenue. Constraints on arbitrary power by executives are key to ensuring increased tax collection. Investors are willing to invest, and taxpayers to pay, where they can be sure that they will capture returns to investment, and that the tax system is fair (or impartial) (Ricciuti, Savoia, and Sen 2019). Where government officials appear to take arbitrary actions that can undermine investment or treat taxpayers unfairly, incentives to invest and pay tax are reduced (Firmin-Sellers 1995; Everest-Phillips 2010). The existence of stable and predictable government agencies that are able to enforce the tax laws may also generate a culture of compliance over time, rather than requiring constant bargaining or coercion (Bergman 2003).

3.2 STATES NEED REVENUE, BUT WHY TAX?

Since states are central to tax systems and tax reform, one consideration for tax reformers is how much interest a given state has in collecting more revenue. If states, or parts of the state, are interested in increasing their access to revenue, this might suggest that champions for increased taxation may be found in government. This hope turns on the degree to which states do seek tax revenue specifically.

To maintain power, I claim, states need revenue. But do they need *tax* revenue? The resources modern states need can be garnered in different ways. Tilly emphasizes extraction through tax, direct state production, and seizure (Tilly 2009). But, as described above, states also rely on debt and aid. While most states rely on some tax revenue, avoiding overreliance on tax is one way of avoiding the need to directly bargain with citizens over the level and use of taxes.

Thus, countries that control natural resources that they can exploit directly, or that operate state enterprises on state land that can contribute directly to revenue without taxation, may be less inclined to pursue tax reforms (M. Moore and Schneider 2004). In Bolivia, the government found it easier to nationalize the hydrocarbon industry than to introduce personal income tax (UNRISD 2013). In East Asian "developmental states," tax revenue was less important than controlling the deployment of key factors of production (capital, labor) to support the state's industrial policy; most East Asian countries had relatively low tax/GDP ratios (Sindzingre 2007). Communist states, of course, also drew heavily on resources generated by state-run companies, and this continued to some extent in the post-communist transition, as public companies remained an important source of revenue (Easter 2008). In sum, it is reasonable to believe that states generally seek resources, but that they may trade-off between tax and

other forms of resources depending in part on the costs and benefits of tapping different sources (Besley and Persson 2014; M. Moore and Schneider 2004).[12]

The dynamics of tax and debt are different, but they are clearly related. We might think of debt and tax as substitutes, but in fact, in the long term, the ability to contract high debts is likely connected to high tax capacity. Historically, it was Britain's ability to tax that allowed it to massively expand public borrowing (Brewer 1990). The same was true for British colonies, whose ability to borrow depended in part on their own local capacity to tax (Bräutigam 2008). Effective tax collection is what convinces borrowers that they will be repaid, allowing the emergence of a "fiscal" rather than just a "tax" state (M. Moore 2008).

Nevertheless, in the short term, the link between taxes and debt may be attenuated, creating the possibility of substitution. Why? Even if debt does lead to higher taxes, there may be a time gap that makes debt preferable to taxes, since governments can distribute resources now and only annoy taxpayers later. Depending on the degree to which voters perceive this kind of manipulation (owing, say, to the existence of robust media discussion and free debate), governments may be able to get away with using debt to score political points by keeping current taxes low (Alesina and Passalacqua 2016). The literature on "political business cycles" assumes that governments will, where possible, introduce taxes early in their terms when they have more support and are farther from an election, and introduce more spending as they get closer to an election. They may also cut taxes just before elections even as they increase spending (Prichard 2018a). Some evidence suggests that governments increase taxes during banking crises unless it is an election year, when they postpone hard fiscal decisions in order to separate spending and revenue needs in time for political purposes (Hallerberg and Scartascini 2017). Moreover, even in the absence of manipulation, governments facing particularly low interest rates may reasonably calculate that it makes more sense to borrow than to raise taxes (Ascher 1989). This kind of behavior speaks to the degree to which taxes, expenditure and debt, while all related, can be separated in time for political and economic benefit (Peters 1991).

In the modern era, states also get money by printing it. While printing money indiscriminately can be unsustainable in the long term, it is quite relevant in the short term (and is newly relevant during the global economic contraction precipitated by COVID-19). Printing money in the modern era does not necessarily mean literally printing bank notes. Selling debt to, or the use of an overdraft facility at, the central bank is another way of essentially "printing" money. What is meant here is the unique ability of government to increase the supply of money in some way to fund its own costs.[13] Related to this (and often a result of excessive money printing and

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[12] A state may also settle for an equilibrium where they receive less revenue and allow the private sector to provide more services; this is possible in cases where the economy relies heavily on remittances that support households but do not pass through the government treasury. Such was the case of Yemen prior to the 1980s, for example (Chaudhry 1997)

[13] For an example of the discussion of the policy considerations around debt monetization during the pandemic, see this post from India: Financing The Covid-19 Response: Challenges And Choices.

spending), inflation is another way of creating a disjuncture between tax and other forms of revenue: in a context of high inflation, delaying payment or using debt can automatically lead to a gap between what governments spend and what they owe, and must collect in taxes, that in turn "creates" new revenue (Cukierman, Edwards, and Tabellini 1992). Accordingly, this and other impacts of inflation are collectively referred to as an "inflation tax" (M. Moore and Schneider 2004).

In sum, while all states need resources, not all states need *tax* resources to the same extent.[14] Understanding the degree to which a state must rely on tax, as opposed to other revenue options, is important to understanding the likelihood that state actors will be interested in tax reform. When searching for allies, civic actors would do well to consider the relative importance of tax revenue in their country. They may also wish to frame their tax reform messages around the need to rely more heavily on tax rather than other, less sustainable alternatives that weaken the links between citizens and the state.

3.3 DIFFERENTIATING THE STATE

So far, I have talked about the state as one entity. But while all state actors require at least some resources to operate, they may not share the same interests in tax reform. This section briefly considers different actors within the state: ministries of finance, revenue agencies, and other executive agencies (e.g., line ministries), as well as the role of legislators. In general, there is surprisingly little literature that investigates the roles of different actors within states in tax policy.

REVENUE DEPARTMENTS/AGENCIES

A tax revenue agency (or a treasury), by virtue of its mandate (and potentially its own revenue model, if it receives a share of collections) may wish to pursue ever greater revenue collection, and may prefer administrative simplicity to reduce its collection burden (Peters 1991; Mucciaroni 1990). Ironically, the professionalization of revenue authorities in many countries, and their unique status, can also encourage mission creep and this may lead to greater tensions with ministries of finance over tax policy (M. Moore, Prichard, and Fjeldstadt 2018). Different divisions within government also need to share information with one another about taxpayers to enhance revenue collection, but may be unwilling to do so, either due to conflicts over turf or policy. For example, when the Indonesian government created a special unit to tax "High Wealth Individuals," it was unable to access

[14] According to Modern Monetary Theory (MMT), the role of tax in a country with monetary sovereignty is *not* to raise resources for spending, but to control inflation, redistribute resources, and so on. However, most LMICs lack full (or in many cases, much) monetary sovereignty, so they are unable to simply print money to finance themselves. A more thorough review of MMT is beyond the scope of this paper, but it should be noted that the role of tax revenue in generating expenditure is contested. On MMT, see (Kelton 2020). For some discussion of the links between tax justice and MMT, see 'The Magic Money Tree:' From Modern Monetary Theory to Modern Tax Theory.

data from other parts of government that wanted to continue to control resource flows from these individuals to meet their own revenue targets (Widhartanto and Braithwaite 2016). Different perspectives on the revenue costs versus benefits of tax exemptions may also lead to conflict between revenue authorities and other ministries, such as those in charge of extractives (Fjeldstad and Heggstad 2011).

While revenue authorities may be reliable advocates for greater and simpler taxes in many cases, they are also at the coalface with taxpayers, and this means they can sometimes become enemies of tax reform when they benefit directly from corrupt practices (Fjeldstad 2003; Fjeldstad and Heggstad 2011). Even within revenue agencies and departments there may be cleavages. In particular, while the leadership of revenue agencies and departments may support tax reforms to tighten administration, the lower level staff may benefit from the discretion they exercise over day to day operations, and they may also be part of informal political networks that thrive on the discretionary funds that they are able to raise (Hassan and Prichard 2013).

Revenue agencies may also principally be concerned about the volume of revenue (especially if they operate on a commission basis) and less about its incidence, so they may be allies on increasing taxation but indifferent (or even hostile) to concerns about equity, especially if more equitable taxation is administratively more complex. A narrow focus on meeting revenue targets is one reason why a number of such agencies “hunt in the zoo,” focus on “easy targets,” and fail to substantially expand tax bases (Gloppen and Rakner 2002).

MINISTRIES OF FINANCE

Where revenue agencies have more autonomy, there will be inevitable differences in the degree to which the ministry of finance responds to political incentives emanating from the head of government or the cabinet, relative to the revenue agency’s more narrow remit. A ministry of finance may also seek greater revenues to support expenditure, manage debt repayment, and ensure overall fiscal balance. But ministries of finance have broader development objectives beyond tax, and they may wish to promote foreign investment and other specific economic activities. This might lead to the pursuit of tax exemptions or tax treaties that lead to a reduction in revenue, bringing ministries of finance into potential conflict with revenue authorities. Ministries of finance may also have a higher tolerance for debt financing versus taxation, especially if this allows them to pursue less popular projects. Finally, where ministries of finance are operationally distinct from revenue agencies, differences can emerge between policy experts at the ministry of finance who have little experience with actual tax administration, and the revenue agency, which is more attuned to the operational difficulties of implementing policy (Allen et al. 2015).

OTHER AGENCIES

Taxes are also sometimes collected by different agencies within the state with different interests. For example, in Nigeria, Philippines and other countries, the revenue service may collect certain taxes, while customs/trade and even some VAT taxes are collected by a different body (Peters 1991). In many countries, agencies also collect a certain degree of their own revenues, which they apply directly to service provision. For example, schools may collect school fees, or health facilities may collect user fees; these fees may not be remitted to the treasury and may be used to defray operating costs. Attempts to centralize the collection of such fees as part of a broader tax reform may be resisted by these agencies either directly, or indirectly by refusing to fully account for the revenues they collect.

Line ministries do not generally have a strong role in tax policy or reform, but they may be involved in a push to introduce earmarked tax revenues for their agency or sector. For example, the creation of new social insurance taxes to finance health or pensions may be of particular interest to health and social security ministries, and they may be involved directly in analyzing and pushing for specific alternatives. This may also occur with excise taxes, such as the "sin tax" on tobacco that ultimately financed a major expansion of health insurance in the Philippines, as well as with transport or fuel levies that are earmarked for projects in related ministries. This can lead to some conflict with ministries of finance, which tend to prefer that revenue not be earmarked in order to enhance budget flexibility, though in the Philippines, the ministries of finance and health worked together on the sin tax reform (Madore A, Rosenberg J, and Weintraub R 2015).

A final point here is that state agencies and agents are themselves taxpayers, but also the beneficiaries of exemptions and evasion. A major political issue in some countries (e.g., Kenya) has been the exemption from income taxation of parliamentarians; in others (e.g., Argentina), members of the judiciary are exempt from income tax. Data from Uganda suggests that many government officials pay withholding taxes on their official incomes, but do not pay taxes on any of the additional activities or businesses they are involved in; one recent study found that of 71 top-ranking government officials in Uganda, only one had filed an income tax return (Kangave et al. 2016). In addition, state agencies use property and should pay various taxes, but are often either exempt or simply do not pay what is owed (Franzsen and McCluskey 2017). For example, it is estimated that, as of 2019, unpaid property tax by Kenyan national agencies to the Nairobi County local government was in excess of US $1 billion.[15]

[15] State biggest land rates defaulter, says City Hall

The fact that some state agents are untaxed undermines both revenue collection and overall tax morale and is an obstacle to broadening tax bases.

LEGISLATURES

Surprisingly little of the literature looks at the role of legislatures in tax policy. In some countries, particularly Westminster parliamentary systems, that role is very limited, as it is around expenditure decisions. In others, however, legislators, with the support of parliamentary budget offices, are able to challenge tax and revenue proposals more aggressively. For example, Kenya's Parliamentary Budget Office was able to carry out an analysis of COVID-19 related tax changes in 2020, supporting parliamentary review of the government's response to the pandemic (Parliamentary Budget Office Kenya 2020). Parliament rejected some of the executive's tax policies and altered the thresholds of others (increasing the exemption threshold for turnover tax, for example) (Kinuthia and Lakin 2020).

Some of the problems identified in the literature on the role of legislatures in expenditure budgets also apply to revenue: for example, it is widely held that parliamentarians tend to face "common pool" problems that lead to higher deficits. In other words, because legislators can gain the full benefit of extra government spending on projects for their constituents, while pushing off part of the costs to others through higher deficits funded by everyone, they tend to prefer more spending with higher deficits and lower taxes (Lienert 2010). This is representative of a general collective action problem related to tax: everyone wishes to have more spending, but generally wants someone else to pay for it.

Legislators can also manipulate tax targets to achieve a similar outcome (e.g., increasing targets beyond what is realistic to fund additional spending, which in turn leads to a higher deficit when those taxes are not collected), as has been observed in a number of Latin American countries, though this practice is not limited to legislators (Hallerberg et al. 2009). In Nigeria, legislators can also amend revenue projections to generate a larger budget, though this has been done recently by focusing on amending the projected oil price rather than tax revenue.[16]

In theory, legislators should exercise oversight of tax exemptions provided by the executive (Posner and Park 2007). However, they also have incentives to try and create such exemptions for their own benefit. Just as legislators like to target specific spending benefits to their constituents, they may pursue targeted tax exemptions for their constituents, and funders, as well (Profeta 2017). As is the case with expenditures, legislators are a target of lobbying by interest groups on the revenue side of the budget. For example, they have been specifically targeted

[16] For example, in approving the budget in 2018, Nigeria's legislature increased the executive's proposed benchmark price for oil from $45 to $51 per barrel. Thanks to Samuel Atiku for the data to make this point.

by the tobacco industry through illegal advocacy activity and manipulation to undercut taxation and regulation of tobacco.[17] However, it should be noted that such tactics are also applied to executive agencies, not only to legislators. Finally, in some regions, including Latin America, elites have been able to use legislative malapportionment (meaning disproportionate legislative representation for low population rural areas) to maintain disproportionate power over policy, which has in turn been associated with lower personal income tax collection (Ardanaz and Scartascini 2011).

3.4 BUSINESS AND THE WEALTHY

Business is a key player in tax reform. Like for other actors, we cannot speak of business as a monolith: different sections of the business community may have different interests in reform. We will say more about these differences. Nevertheless, a broad understanding of business with regards to tax reform is important for several reasons. First, large businesses and business associations tend to get involved in and have direct influence on tax policy. In capitalist systems at least, this cannot be eliminated – only managed. Second, taxing business is an important part of any progressive tax agenda, because that (along with wealthy individuals, some of whom keep their money in their own businesses) is where the money is (Everest-Phillips 2010).

Businesses might be thought to **generally prefer lower taxation**, particularly lower business taxes, and there is certainly plenty of evidence of this (Thorndike 2009; Fairfield 2010; Hassan and Prichard 2013; Madore A, Rosenberg J, and Weintraub R 2015; Ascher 1989; Sharp and Sweet 2019; Cabrera and Aaron 2013; Jones et al. 2004; Carrión 2019). This does not necessarily take the form of opposition to tax or to high tax rates; it may well operate more indirectly through opposition to reforms to the tax collection authority and its enforcement capabilities (Hassan and Prichard 2013). Business associations are certainly more active on matters of tax administration than other civic actors (Sharp and Sweet 2019). This might involve pressuring revenue agencies to maintain informal bargaining over tax assessments (e.g., leaving officials with discretion to determine reference prices for the value of non-market transactions), weakening sanctions for tax evasion, or advocating for limits on tax audits to uncover evasion in the first place. Business may also focus primarily on seeking exemptions from broad tax policy, investing less in influencing these policies than on carving out preferences within them through direct lobbying, either during policy adoption, or during implementation, if the revenue agency has discretion to create exemptions (Brownlee 2009; Christians 2017; Hassan and Prichard 2013).

Capitalist business can be thought to have at least two different forms of power: instrumental power and structural power (Fairfield 2010). **Instrumental power** is the direct capacity of business to influence policymaking.

[17] See for example: Tobacco industry accused of 'intimidation and interference' in Kenya and Uganda – BAT's tactics to undermine the tobacco control bill

Instrumental power may be the result of lobbying, but also an overlap between political and economic power, such as when business leaders finance electoral campaigns, or are directly elected or appointed to government positions. Indeed, states may lack autonomy from business interests that make it difficult to pursue policies that serve state interests where these conflict with private interests.

Structural power refers to a more indirect influence: the ability of businesses to hold back investment when they are dissatisfied with policy, which can restrict the reforms that make it on to the political agenda (Bates and Lien 1985). This kind of power relies less on organization and is more intrinsic to the nature of private capital in a market-based system. While this means it is always present, structural power can wax and wane depending on economic conditions and the relative importance of the private sector to the economy. For example, this type of power is generally reduced by fiscal stress or less reliance on private relative to public investment in the overall economy.

The **strength and cohesion of business associations** has been associated with different outcomes. While some research suggests that it may lead to greater influence over policy and create obstacles to progressive reform, unified business associations with partisan linkages can also create the conditions for tax bargaining (a willingness to pay in exchange for services), which is more difficult to do when business organizations are fragmented (Weyland 1997; Fairfield 2010; Everest-Phillips 2010; Joshi and Ayee 2008). More unified business associations may be better able to push governments toward responsible fiscal policies through tax bargaining and resistance (as some have argued was the case during Kenya's 2007-8 political crisis) (Prichard 2015). They have also played a direct role in collecting taxes on behalf of the state and bargaining with the state over their use in contexts as varied as Ghana, Colombia and Mauritius, and across the formal/informal divide (Bräutigam 2008; Joshi and Ayee 2008). On the other hand, close ties between the state and well-organized business in Saudi Arabia doomed tax reform in the 1980s after the crash of oil prices, while a more isolated and independent private sector in Yemen proved unable to block major tax reforms during the same period (Chaudhry 1997).

As a general matter, it is hard to predict business policy preferences based on the level of business cohesion alone, but it may be true that a necessary condition for business to play a positive and progressive role in tax reform is some level of cohesion; this might result in support for higher taxes and fewer exemptions, but not necessarily greater progressivity, as one review of Central American tax regimes suggests (Schneider 2012). Without such cohesion, business may still be able to undermine attempts to increase business taxes, but unable to negotiate a more meaningful exchange that supports economic growth or transformation (Cabrera and Aaron 2013).

However, businesses do not care only about the level of tax; they also prize some **degree of certainty about their tax bills**, and they may be **interested in tax-financed services** that provide a favorable investment climate. This latter argument is often used by progressives to suggest that businesses rate tax incentives relatively low

compared to public infrastructure and services, and there is at least some empirical evidence that corporations value high government investment in education more than low taxes (James 2014; Gelleny and McCoy 2001).

While some businesses benefit from (and lobby for) selective **tax incentives**, many others are interested in **fair taxation**: they do not want to be forced to compete with others that have exemptions or are favored in some way. Thus, parts of the business community can sometimes favor enhanced revenue and reforms that lead to greater impartiality in administration, or fewer exemptions (Fairfield 2013). Business also frequently divides along sectoral lines, with agriculture, manufacturing and service sectors each pursuing different interests, and in some cases attempting to push the costs of tax reform away from their sector to other businesses (Ascher 1989). The politics of these divisions is entangled with a government's overall industrial policy, which may favor certain sectors as the engine of development through a mix of tax, expenditure and market control policies.

Business can also suffer from collective action problems that governments can help fix through certain forms of taxation and spending. For example, certain forms of contributory social insurance (discussed in **Box 1**) can be thought of as a way to help ensure that employees invest in skills needed by employers, but that are risky to invest in without some form of collective guarantee of employment protection (Estevez-Abe, Iversen, and Soskice 2001). In some cases, business supports taxation in order to fund such insurance, including unemployment insurance, though they are not always at the forefront of pushing for it (Mares 1997; Paster 2011).

Cohesive business sectors can also seek government investment in infrastructure to expand markets, or for structural economic transformation, and in some cases, they are willing to tax themselves (and others) to help pay for these investments (Schneider 2012). In Ghana, business acquiesced in the extension of a tax surcharge in 2004 due in part to the fact that it was partially earmarked to support a venture capital investment fund (Prichard 2009). In Mauritius, in the 1920s, the Chamber of Agriculture representing sugar producers supported a windfall sugar tax that was partly earmarked for research, development and training in the sector, and sugar taxes have been partly earmarked to support insurance and other supports to industry throughout the twentieth century, while also contributing to broader economic development (Bräutigam 2008).

One question that arises is the extent to which the "rich" in any given society overlap with or are separate from business. Most states have corporate income tax and personal income tax, and we often think of these as separate categories of taxpayer. Yet many wealthy individuals hold their wealth in companies, and receive their income as pass-through, dividend or rental income from these companies, or from the sale of assets.[18] Those that seek to evade taxes may form shell companies located overseas to hold and distribute their wealth (M. Moore, Prichard,

[18] Pass-through income is the income generated by a company that is taxed as individual income of the owners, rather than via company/corporate tax.

and Fjeldstadt 2018). It is often unclear what share of high wealth/high-income individuals is attributable to different types of activity (Kangave et al. 2016). Government officials may earn income from other sources besides their salaries, and high net-worth individuals may work in companies that engage government directly around tax, while also operating other businesses that do not. The blurred lines between individuals and companies, and the extent to which wealthy people live off non-personal income sources is one reason why some tax reformers have called for the integration (or reintegration, as many countries used an integrated system in the past) of corporate and personal income tax (Saez and Zucman 2019).

Is the distinction between high net worth individuals and profitable companies politically significant? To some extent, there is a divergence between large and well-known companies that may be publicly listed and work closely with a country's Large Taxpayer Office and the existence of the more "informal" rich taxpayers who generally try to avoid paying taxes or engaging with revenue authorities at all.[19] Evidence from Uganda suggests very high levels of evasion by high net worth individuals, but this appears to be due to a mix of direct political influence and attempts to fly below the radar of tax authorities. Uganda has therefore been able to increase compliance from this group of taxpayers by using a mix of political approaches (e.g. requiring tax compliance certificates to run as an electoral candidate) and approaches focused on education and technology that help identify taxpayers who may not be meeting their full obligations (Kangave et al. 2017).

The existence of large multinational corporations and portfolio investors that operate across borders and do not feel obligated to enter into the kinds of tax bargains that locally rooted households and businesses might is also a challenge to the social fiscal contract model. To be sure, large corporations can theoretically engage in fiscal exchange, pushing for, say, better energy supply or improved educational standards in exchange for the taxes they pay. But multinational corporations have outside ("exit") options, unique access to capital and technology, and opportunities to use the international tax system to lower their tax payments, all of which weaken their incentives to enter into fiscal bargains with the state (Laver 1977; Bates and Lien 1985).[20] They may be able to push governments to increase taxes paid by others (such as VAT) to fund the investments that would benefit them, such as in power supply, but would tend to exert pressure to keep company taxes low (Hart 2009). These dynamics can fuel tax competition across states rather than tax bargaining within states, and can lead to adoption of tax exemptions that are inefficient and undermine local revenue collection (IMF et al. 2015). Analysts also argue that

[19] Why African governments should tax the rich

[20] Broadly, companies that have large fixed cost investments in countries are less mobile than portfolio investors and other types of businesses, so there is a spectrum along which different types of companies may sit in terms of their outside options, and how willing they are to engage in bargaining.

the ability of large corporations to avoid tax undermines the incentives that ordinary people have for paying taxes.[21]

On the other hand, micro and small enterprises, which account for considerable employment in many LMICs, may look less like wealthy individuals. Their role in the national/central tax system is often contested: they may fall outside of it entirely, or to at least some degree. In order to bring them into the tax system, many countries use tax schemes with lower administrative and compliance costs, such as presumptive taxes (based on identifiable aspects of a business that are related to profit) or turnover taxes on gross revenue, that simplify reporting and enforcement.[22] However, even though a key feature of presumptive taxes is meant to be ease of administration, they tend to bring in fairly little revenue and remain costly to administer relative to their yield (African Tax Administration Forum 2019).

As for turnover tax, consider the Kenyan example: data from Kenya show that most businesses in Kenya are small, and that these businesses drive the economy (Kenya National Bureau of Statistics 2017). Most are exempt from regular income tax, but some portion should pay turnover tax, introduced in 2007.[23] However, available data from 2008-2010 suggest that most of the small enterprises that should have paid turnover tax did not (Thairu and Jagongo 2014). At the same time, we must also recognize that in some contexts, small businesses that do not pay "big taxes" may nevertheless be taxed heavily through a mix of small taxes, including both local fees and taxes, and informal charges and bribes, that make them unlikely to accept still more taxes and fees in the form of major formal tax types (M. Moore, Prichard, and Fjeldstadt 2018; Meagher 2018).

The fact that small companies are not effectively taxed by national governments may be efficient, and if they are owned by relatively low-income people and have relatively small margins, it may even be just, but it also removes the possibility of creating mutually beneficial bargaining arrangements where small businesses instead *do* pay tax, and *do* receive government support that allows them to thrive and expand (Tendler 2002). There is also evidence that such businesses are willing to engage in tax bargaining: that is, to formalize and pay taxes more regularly in exchange for services or access to credit that would come with state support (Everest-Phillips 2010). Keeping in mind that the goal of such taxes is to lead toward formalization and encourage the social contract, they may have some value in spite of their low yield.

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[21] So argues OECD in its explanation of the reason for the globally coordinated Inclusive Framework on Base Erosion and Profit Shifting (BEPS) process.

[22] Presumptive taxes use proxies for income, rather than measuring it directly. For example, land area might be a proxy for agricultural income. Turnover taxes measure revenue, but do not require companies to calculate profits (which requires detailed accounts to track expenses). Turnover taxes are generally lower since they are charged on total sales and not just profits.

[23] Kenya Revenue Authority, Domestic Taxes Department: Turnover Tax

3.5 CIVIC ACTORS

While the literature on the role of civic actors – including non-profits, non-governmental organizations, labor leaders, faith-based organizations, social movements, and so on – in tax reforms is scanty, there are a few observations that can be gleaned from it. This section draws on a few recent studies, as well as a synthesis of case studies of civic actors and tax reform from around the world that will be published near the end of 2020.

Non-governmental actors in low- and middle-income countries typically act defensively on tax reform, particularly national reform. For example, unions may get involved in tax reforms, but only after a reform has been proposed by the state and very rarely as an initiator of reform (Ascher 1989). Both analytic and advocacy work by civil society groups around tax also tends to be reactive (Sharp and Sweet 2019; Wainer 2019).

Currently, civic actors focused on tax in low- and middle-income countries lean toward work around international tax issues, taxes on extractives, and taxes on specific goods and services (e.g., excise taxes on alcohol/tobacco, charges on social media, etc.) (Sharp and Sweet 2019). The latter includes advocacy to call for exemptions or zero-rating of certain essential goods, such as food, fuel or female sanitary towels.[24] An IBP scan also finds that a large number of civic actors globally (31 of 42 surveyed) work on the issue of clarifying the value and impact of tax exemptions/fiscal incentives, and curtailing those that are inequitable and ineffective. This has been a particular focus for Latin American civil society in recent years.[25] Civic actors are also more engaged at the subnational level around local taxation (Wainer 2019).

There is less work on the big national taxes like VAT, income tax, or tax administration more broadly, though in some countries, such as Kenya or Zambia, civic actors do engage in the annual tax and budget process at the national level, which normally touches on all forms of taxation (Sharp and Sweet 2019). In many of these cases, technically savvy civic actors make written submissions to formal processes of tax policymaking. In others, civic actors work with others to mobilize or channel street protests over major tax changes, which may include new taxes or reductions/eliminations of exemptions from existing taxes.

Civic actors have had some success working with government champions around tax reforms, particularly those related to international tax and excise taxes, where alliances can be formed with parts of the government committed to increasing revenue (Sharp and Sweet 2019). At the local level, they have also worked with governments to help facilitate bargaining by connecting the demand for services from government to the need to

[24] Women praise Kibaki's directive to drop tax on sanitary towels

[25] See for example the International Budget Partnership's Latin America Tax Expenditure Research, Advocacy, and Learning Project

pay taxes, increasing compliance and participation in local policymaking in a wide range of contexts, from Thailand, to Mozambique and Burundi (Wainer 2019).

On the other hand, civic actors have also had some success with the use of outsider strategies, such as street protests, where these tap into discontent among a broader set of organizations, including small traders. There are some cases of civil society engagement with legislators, and through the courts as well, discussed further in **Box 3**.

As is the case on the expenditure side of the budget, civic actors are generally unable to influence tax policy on their own, but rather need to build broad coalitions to affect change (Larsen 2016). This often means working with organizations and movements that have little general interest in tax and must be convinced of its relevance to their core agendas (Friedman, 2006). For example, in 2008, INESC, a civil society organization in Brazil, formed a diverse coalition consisting of social movements, religious groups, trade unions, and human rights groups to work with legislators to successfully derail a regressive executive tax proposal. This was facilitated by the fact that some of the taxes that were to be cut by the reform were earmarked for specific social services for which there was broad support (Salvador 2012). Numerous civic actions, some directly associated with resistance to tax, but others more broadly organized around inequality or corruption (see for example Yellow Vest protests in France, anti-corruption protests in Guatemala, or anti-tax protests in Lebanon in recent years) may also create opportunities to push for equitable tax reform as part of broader coalition agendas.

It can be challenging for sophisticated civic actors with technical skills and good relationships with government to also work on tax reform in broader coalitions with groups that are less technical and less amenable to working closely with government (Sharp and Sweet 2019). The most successful civic actors, such as Action for Economic Reforms in the Philippines and ICEFI in Guatemala, have been able to manage these tensions and pursue both insider and outsider strategies simultaneously.

A final consideration among civic actors with respect to tax reform, as in other areas of policy reform, is **the importance of professional associations**. These are often underestimated, but health professionals clearly played a role in the Philippines excise tax reform case. In Brazil, professional tax auditors have been at the center of efforts to pro-actively advocate for tax reform (Sharp and Sweet 2019). In the United States, teacher unions have played an important role in advocating for tax reforms to support state education spending. Such professional bodies can activate public opinion in favor or against tax reform (tax professionals often align not with progressive reform, as in Brazil, but with the desires of their private clients for lower business taxes). Given the importance of tying revenue issues to specific expenditures to build public support for tax reform, the backing of professionals linked to the proposed expenditures can be a political boon for reformers.

3.6 TAXPAYERS

"Taxpayers" is a very broad category: too broad to be useful for analysis. And, of course, businesses and the rich as well as civic actors and even the state, itself, are also taxpayers, so it overlaps with others we have discussed.

Still, it is worth noting here that in low- and middle-income countries, one of the problems with the fiscal exchange model is that there are many people that do not pay national taxes, or do not perceive themselves to pay tax. In the first place, in many countries, the number of people who pay direct taxes, such as those on income, is miniscule. Across, Africa, roughly six percent of taxpayers account for 78 percent of revenue; in Rwanda and Zambia, less than one percent of taxpayers account for over 90 percent of revenue (African Tax Administration Forum 2019). In India, approximately 7 percent of adults pay income tax; in Nigeria, it is estimated that 13 percent of the labor force pays income tax.[26,27] Income tax is not the only tax that matters, of course, but it is a principal and highly visible tax that is the fiscal backbone of modern welfare-oriented states (Besley and Persson 2014). It has traditionally been a reflection of the growth of an employment-based private sector and a capable tax administration (Jensen 2019).

Many citizens who fail to pay income tax still pay other taxes, particularly consumption taxes. However, there is a good deal of controversy about how much tax ordinary people actually pay (M. Moore, Prichard, and Fjeldstadt 2018). Most indirect taxes in both rich and poor countries alike are rife with exemptions, many of which target basic needs, such as food, transport, school textbooks and inexpensive fuels (Gloppen and Rakner 2002; OECD 2014; Souza 2013). This ensures a degree of progressivity and reduces poverty, but reduces the number of taxpayers, or at least the volume of tax paid by many citizens (Inchauste et al. 2018). In addition, some new evidence suggests that because the poor consume more informal goods (from subsistence, barter, micro-businesses, and so on), they tend to avoid most consumption taxes even on goods for which there is no exemption (Bachas, Gadenne, and Jensen 2020). This again increases the progressivity of consumption taxation, but also (again) means fewer taxpayers, or taxpayers with lower tax burdens.

Low-income households do pay a variety of "small taxes," including things like fees and charges, that constitute an important burden on their finances. These charges may tend to fall hardest on vulnerable groups, including women and ethnic minorities (M. Moore, Prichard, and Fjeldstadt 2018; Bernstein and Lü 2008; Meagher 2018). However, many of these charges are local, some are specific to very narrow services, and some do not meet the definition of a tax, as they are administered by non-public entities without state sanction and never pass through government treasuries (what are sometimes called "informal taxes"). This means that in some regions, such as Africa, many

[26] How a small tax-paying elite funds the Indian state
[27] Guess how many Nigerians pay tax and how our government spends the money

citizens arguably do not interact with the national revenue agency in their countries at all (M. Moore, Prichard, and Fjeldstadt 2018). All of this suggests that the charges these households pay present a weak basis for tax bargaining, especially with the national government. Indeed, as some analysts suggest, this may actually result in a stronger bargaining relationship between citizens and non-governmental agents than in any bargaining with government (though it is also possible that organizing of this type eventually stimulates more effective bargaining with the state) (Bodea and LeBas 2014; Juul 2006; Meagher 2018).

In a social contract or fiscal-exchange-centered approach to tax, everyone who pays tax is united by that role vis-à-vis the state and has expectations of receiving some benefit for the tax they pay. If most people do not pay tax (or pay very little), however, that constitutes a fundamental challenge to the model (Joshi and Ayee 2008). This is so not only because people do not enter into fiscal bargains with the state, but because the state must confront the fact that bringing people into the tax net may be relatively costly for relatively little revenue, and may also be regressive. This is not to ignore the fact that there are other citizens in these societies that should be considered rich, and that also avoid taxes, as discussed earlier, but even bringing these citizens into the tax net will not change the fact that many citizens remain outside.

As already mentioned, the converse of the fact that many people do not pay tax, or pay relatively little in national taxes, is that the burden of those taxes falls on a very concentrated set of taxpayers that holds excessive bargaining power. This is a reflection in some countries of the extent of market and wealth ("pre-fisc", or prior to fiscal policy) inequality and can lead to a feeling among a subset of rich taxpayers that they are "overtaxed." In turn, this conditions the kind of bargaining that may happen between such taxpayers and the state, with these taxpayers only willing to contribute more tax in exchange for policies that benefit them and rejecting further expansions of public services they do not use. It has been argued that extreme concentration of this type in parts of Latin America makes further direct, progressive taxation politically difficult (Breceda, Rigolini, and Saavedra 2008).

One final point about taxpayers is that while part of what taxpayers do is evade taxes, they can also play some role in reducing evasion by others. Some experiments suggest that it is possible to incentivize taxpayers (by sharing part of the tax take) to report on the VAT that retailers collect, which improves the information that governments have about evasion (Naritomi 2019). More broadly, various actors, including consumers but also other taxpayers that provide third party information to government about the transactions of individuals and companies (such as formal sector employers, credit card companies, mobile money platforms, etc.), can have a significant impact on reducing tax evasion (Kleven 2014).

3.7 DONORS AND CREDITORS

I have already mentioned the importance of foreign aid as a potential alternative for domestic resource mobilization. In this sense, the willingness of donors to support governments is one factor in determining the interest of a state in collecting domestic taxes. Donors can also participate in tax reform efforts indirectly by supporting civic actors to engage in tax reform as discussed in the section on civic actors.

However, donors are also an important direct source of pressure for domestic tax reform as well (Gloppen and Rakner 2002). And there is statistical evidence that foreign aid can support revenue performance, though the mechanisms are not clear (one possibility: if aid supported economic growth or structural transformation of the economy, this might ultimately lead to more revenue) (Gupta 2007).

What role do donors play in the politics of reform? Clearly, donors and the global community broadly have influenced the ideas around tax policy that are taken up by country governments (M. Moore, Prichard, and Fjeldstadt 2018; Dom and Miller 2018). There is a long history of international "money doctors" intervening in Latin America, Africa and elsewhere peddling theories of broader economic reform, including but not limited to tax policies. These have often been part of an attempt to ensure that indebted countries are able to pay their creditors and have even involved the direct intervention of governments in tax collection in debtor nations (Drake 1997; Rosenberg and Rosenberg 1987). While such pressure can lead to improvements in revenue collection, it can also undermine tax bargaining to the extent the focus is mainly on repaying external creditors, rather than defending taxpayers (M. Moore 2008).

Foreign tax missions are certainly not all cynical ploys to ensure creditor countries are repaid. Overall, public-minded missions to improve local tax systems have had successes and failures, facing the usual challenges: critics as far back as the 1950s argued that there was a lack of local ownership of the U.S.-led reform proposal for Japan's post-World War II tax system, and insufficient attention given to the domestic interest groups likely to reject this "theoretically ideal" foreign proposal (Shoup 1989; Brownlee 2009). Many of the celebrated tax missions of the mid-twentieth century (prior to structural adjustment) resulted in relatively little tax reform, though they may have helped train local analysts for subsequent rounds of reform (Goode 1993). The results of these missions suggest that donor influence is not trivial, but nor is it unlimited.

Donor views on tax can be particularly influential during fiscal or debt crises. During the structural adjustment period in the 1980s and 1990s, multilateral institutions conditioned their support on (among other things) tax reform and were able to accelerate reforms when countries were most in need of support (Goode 1993; Souza 2013). This, in addition to various banking crises and pressure toward trade liberalization from the World Trade Organization, led many countries to shift their tax systems away from trade taxes and progressive income and

property taxes toward internal consumption taxes at the end of the twentieth century (Martinez-Vazquez, Vulovic, and Liu 2009; Di John 2006; Mahon 2004; Hallerberg and Scartascini 2017). However, while donors may be successful at achieving policy change, they have less leverage as policy is implemented, which can mean that tax reforms are ultimately undone by domestic opponents, at least in part. In Bangladesh, for example, the IMF was successful at demanding VAT reforms in 2012 from a cash-strapped government, but the government was able to implement these incrementally, creating opportunities to weaken reforms over time (Hassan and Prichard 2013).

There is a clear overlap between donors and creditors, as many countries play both roles. But, of course, 'creditors' also includes private investors. As mentioned above, private investors expect governments to repay debts, so they may also exert pressure on governments around tax. Investment houses from rich countries are more willing to lend in situations where foreign advisors from their own countries are providing technical assistance to debtor countries and evidence of sound fiscal policies (Rosenberg and Rosenberg 1987). Governments that are seeking external credit are thus likely to be under pressure to adopt ideas current in creditor countries around tax policy.

Ideas have changed over time, so this foreign influence does not amount to a specific set of policies. From the early part of the twentieth century until the 1960s, foreign advisors emphasized reductions in indirect taxation and increases in direct tax (Rosenberg and Rosenberg 1987; Goode 1993; Zolt and Bird 2005). By the end of the twentieth century, the position had reversed, with less emphasis on redistribution through taxation, and more on revenue stabilization through broad-based taxes, including lower marginal rates on income, but with fewer exemptions, and higher taxes on goods and services.

In recent years, a global focus on increasing domestic resource mobilization has slowly given way to more consensus around the need for progressive taxation. The Sustainable Development Goals (SDGs), adopted in 2015, focus on enhanced revenue mobilization as part of target 17.1, part of a consensus view that increased domestic taxation is necessary for countries to meet the spending requirements of the other SDGs. The Addis Tax Initiative, also inaugurated in 2015, builds on this commitment by creating a framework to monitor progress and provide technical support to countries in their quest to increase tax collection. The SDGs have been criticized for focusing on revenue targets without considering how funding is raised, but the international community, pushed by global advocates, is increasingly arguing not only for more revenue, but for fairer and more redistributive taxation (Hearson 2019; Prichard et al. 2019). For example, the IMF now considers progressive taxation a key plank of fiscal policy.[28]

[28] See for example: Inequality: Fiscal Policy Can Make the Difference and IMF Fiscal Monitor: Tackling Inequality, October 2017

3.8 ACTING TOGETHER

Throughout this discussion of the state, business, the wealthy, civic actors, taxpayers and creditors, I have mentioned some of the dynamics between them. It is impossible to speak of any actor without implicating others. This last brief sub-section addresses specifically the interactions between them.

The bargaining/resistance framework introduced initially highlights the fact that states and taxpayers interact dynamically, with both parties seeking something from the other. Simplistically, states seek resources, and taxpayers seek "performance" or "services," broadly understood. Bargaining over the terms of this exchange appears nearly universal, but there are many different possible outcomes. What might affect the ultimate level of taxes and services collected? As mentioned previously, one factor is the nature of the economy. If lower income groups prefer more public services while higher income groups tend to opt out of those public services, the relative weight and organization of these groups might lead to more or less pressure for public services financed by taxes. Where a strong middle class is convinced that public services are of a high enough quality, worth paying for and using (so-called "middle-class universalism"), a more expansive tax-financed welfare state may be possible (Esping-Andersen 1990). However, the middle classes are typically somewhat small in number and weak in organization in low- and middle-income countries. Even the rich desire some public services, such as property rights protections, but they may prefer a more minimal state than poorer groups if they rely mainly on private social services (Timmons 2005).

These structural aspects of the economy are themselves affected by other fiscal policies: an emphasis on full employment, the use of active labor market policies, or significant hiring by the state can all create a larger middle class, and social service spending decisions can influence whether public services are desirable. But bargains also hinge on the relative organization of classes and interests. If lower income groups are represented by strong unions or participate in other broad social movements, and if business is represented by cohesive organizations, then there will be the potential for more formal, public bargains (or "settlements") between these more "corporate" entities. Alternatively, if organization is weak or based mainly on clientelistic ties, the influence of powerful individuals, kinship and/or networks of corruption, then bargaining is more likely to be informal and opaque.

4. WHAT ABOUT THE DETAILS OF TAX POLICY MATTERS FOR TAX POLITICS

If a need for revenue is the problem and tax is the answer, the next question is what to tax. For some fairly obvious reasons, different types of taxes and tax reform have different implications. The following general factors, related

to the *content of reform*, affect the politics of tax. In the next section on **how** tax reform happens, we look further at factors related to the *process and framing* of tax reforms, whatever their contents.

The points discussed in this section touch on the mechanics of tax policy: how different aspects of a tax reform, such as how broad the base for paying a tax is, affect the politics of reform. Depending on the origins of the reform, these aspects may or may not be subject to change by civic actors. But even if a tax reform's contours are defined by government reformers, civic actors can anticipate the potential political implications, and think about ways of framing reform that will catalyze support or opposition. For example, if support for a reform is low because few understand what a tax reform is about, civic actors can play a role in making the tax more visible, simpler to understand, or by making the connection to services that the new tax revenue will ultimately fund.

The public may reject broad-based regressive taxes but fail to mobilize around narrower progressive taxes. People tend to care mainly about taxes that they, themselves, must pay. A tax on a broad swath of the population might excite more public interest and opposition than a targeted tax on a narrow part of the population, especially if that narrow subset is an ethnic minority, the ultra-rich, or other apparently distant actors (Fairfield 2013). Most of the cases of reactive tax-related mobilization discussed in our review of civic actors are cases where a tax on a specific good or service (e.g., fuel, mobile money, etc.) would affect a very large base.

Standard political analysis suggests that when a policy affects a concentrated interest group, such as the wealthy or investor class most affected by wealth and capital gains taxes, they are more likely to organize rapidly and apply the resources to influence it than will be the case with large, unorganized groups, like taxpayers as a whole, who also may be affected but only modestly at an individual level (Mucciaroni 1990; Olson 1971). This leads to a paradox, which is that the broader public may reject broadly regressive taxes, but fail to mobilize in support of progressive taxes, which in turn are opposed by powerful interests. To encourage mobilization around narrow progressive taxes, reformers generally must connect these taxes to services of interest to the broader public, a point discussed further in **Box 1**. Reformers can also use strong moral appeals to fairness to generate support for narrow progressive reforms, a point discussed further in the ***how*** section.

Targeted tax policies, including exemptions, are often politically more attractive than more universal policies. Politicians have an incentive to use public policies to target specific groups in order to build support, rather than using broad-based policies that may reward/punish groups that they have no need to mobilize (Profeta 2017). In other words, they may prefer to target specific groups or activities and not others, whether through a specific tax (say, a tax on competitors to a particular industry or sector) or a tax exemption (e.g., tax relief to specific companies, or to specific types of households, such as the elderly).

It is harder to define a *quid pro quo* of support around a very broad tax policy affecting everyone than a narrower tax policy that targets specific groups, companies or sectors. This is particularly so where politicians must build coalitions of fragmented elites to win power and govern. This logic explains the increased supply of tax exemptions around election time in some countries, such as Tanzania, where politicians seek political donations to finance their campaigns from local businesses, or in Senegal, where taxes have been enforced in rural areas on opposition strongholds, while supporters remained "exempt" (Therkildsen and Bak 2019; Juul 2006). Targeted tax policies are not always directly sought by beneficiaries, but once they have them, they will generally fight to keep them (Alt, Preston, and Sibieta 2011).

Given the attraction of targeting to politicians, it may be politically easier to pursue a set of targeted taxes that are ultimately universalized, rather than to push for universalism from the start. Historically, this would be analogous to the evolution of some expenditure-side policies, such as social insurance in countries like Germany that started with coverage of specific types of workers and only expanded to universal coverage over decades (Cutler and Johnson 2004). The risk in such approaches is that selective taxes (say, only on certain sectors), like selective incentives, are viewed as unfair and lead to tax resistance.

More visible taxes are more politically contested. The degree to which people are aware of a tax affects their opposition to it. This overlaps with who pays the tax, since we are most aware of the taxes we pay, as opposed to those paid by others. But visibility goes beyond who bears the burden. A direct tax, one that is paid directly by individuals, is more likely to excite public interest and opposition than an indirect tax that is paid by a third party on the public's behalf and is therefore less visible (even though the public ultimately bears the burden in both cases). For example, an income tax might be highly visible to wage earners, while a consumption tax, paid by retail shops rather than individuals, may be less so. Of course, this is not always true: indirect taxes on food and fuel can generate massive and disruptive protests.[29] For this reason, however, VAT and other consumption taxes are often introduced with exemptions for essential goods, including food, which means that a large number of citizens are not affected by what is otherwise a broad-based tax (Gloppen and Rakner 2002).

[29] Fuel taxes were the spark that led to the explosion of the Yellow Vests movement in France; food and fuel tax increases also spurred opposition to the Philippines 2017 tax reform. Bayan, KMU, Gabriela launch protests against TRAIN

Visibility is also higher for single-good excise-style taxes, such as those on tobacco, alcohol, mobile phones and so on, as opposed to more general taxes that are not seen to target specific consumers or services.[30] Taxes on mobile phone services of various types have led to street protests in Lebanon and Uganda in recent years.[31]

Low visibility is also a strategy for achieving targeted exemptions. It is often politically expedient to target benefits to certain groups through the tax code rather than through subsidies or expenditures (Peters 1991). Tax exemptions have lower visibility because they can be implemented away from the spotlight focused on the main budget, or through administrative regulations that are left to the discretion of tax authorities. They also generally require less in the way of new bureaucracy associated with new expenditure programs.

On the other hand, low visibility combined with narrow targeting can also be a strategy for tax administration, not just for tax policy reform. Talking about tax reform or the need for more revenue can make taxpayers nervous and generate broad opposition. But revenue can also be raised through less visible tweaks to enforcement. A strategy that combines low visibility with targeted enforcement in specific sectors can be undertaken quietly and without generating public opposition (Stewart-Wilson and Waiswa 2020).

Uncertainty about the impact of tax reforms can create a bias against reform. People fear losses to their current status more than they welcome gains, particularly when a proposed policy change could lead to either result (Kahneman and Tversky 1981). Related to visibility of a tax reform, then, is how certain potential taxpayers are about what impact a tax will have on them as individuals or companies. There is a risk associated with any tax reform: while some actors will be sure to benefit, others will be uncertain whether they will be better off or not. This can induce some degree of status quo bias (Castanheira, Nicodème, and Profeta 2012).

Arguably, whether an individual or company will benefit or not from a tax is easier to calculate for simple, targeted taxes like excise taxes or exemptions, than for more complex taxes like a schedular income tax. Thus, we might expect more of a status quo bias for more complex tax reforms whose impact is not well understood, and we might expect that gradual introduction of reforms over time can counter this bias (Profeta 2017).

However, simpler taxes that are targeted in such a way that it is easier to understand winners and losers will also potentially lead to greater opposition from concentrated groups, as mentioned above under the issue of the width of the tax base. Thus, while we might expect that reforms to a single-item excise tax will suffer little status quo bias caused by uncertainty (i.e., it is fairly clear what they will do), they will generate concentrated opposition from the

[30] It is not clear if it matters politically whether these taxes take the form of a VAT or excise tax. Technically, VAT is paid by consumers and excise by producers, but since in either case the tax may have a direct impact on the final price of specific goods, one is not necessarily more visible than the other.

[31] WhatsApp tax sparks night of austerity protests across Lebanon; Uganda police use teargas to disperse protest against social media taxes

makers or users of the product in question. Similarly, wealth taxes that target a small part of the population may suffer from limited uncertainty (it is clear who will pay them, or at least who will not pay them), but will likely excite considerable opposition from the wealthy and older voters (Profeta 2017).

Is the tax earmarked for a specific service? I take this up in detail in **Box 1**, but the main point is that people are more willing to pay taxes if they are certain where those taxes are going. Survey evidence generally suggests that citizen willingness to pay taxes is directly linked to the use of those taxes (Ali, Fjeldstad, and Sjursen 2014). Many recent tax reforms in LMICs include some form of earmarking, such as both the 2012 Philippines sin tax reform and the 2017 Tax Reform for Acceleration and Inclusion (TRAIN) reform. The credibility of the commitment to earmarking and the ability of government to deliver the earmarked services also matter for building support.

Does the tax reform differentially affect the interests of powerful opponents? One aspect of tax reforms that have been successful is that they tend to split the opposition, particularly business interests. Such reforms can lead to splits *by sector*, if some sectors (such as manufacturing versus services) benefit from a tax change while others lose out, or they can lead to splits *by size*, with large and small businesses affected differently, or *by link to global markets*, where those with ties to international trade versus more domestic producers are differentially impacted. Tax reform may also simply affect differently those who receive incentives and those who do not (e.g., elimination of incentives is a net cost to those who receive them, but a potential benefit to those who never did).

The 1986 U.S. tax reform saw part of the business community (particularly representing high-tech, services, and retail) ally with reformers to remove tax exemptions enjoyed by other corporations (particularly manufacturing and heavy industry), allowing for a revenue neutral reform that lowered rates overall (Mucciaroni 1990). Larger and more formal sector business in lower-income countries may support equalizing tax reforms that bring smaller and more informal business into the tax net because it ensures fairer competition (Prichard 2009). In Vietnam, the local Chamber of Commerce remained neutral on reforms to force country-by-country tax reporting of large corporations, due to a divide between smaller domestic firms and larger multinationals: smaller domestic firms did not want larger firms to unfairly pay lower taxes (Oxfam 2019).

Another way that opposition to taxes is splintered is when reforms are implemented over time, starting with more easily targeted groups, and moving on to broaden the tax base. Recent property tax reforms in Sierra Leone have been introduced gradually, starting with the taxpayers with the greatest ability to pay first. This may be challenging to administer, but effectively undercuts opposition to the new tax structure.[32] In other contexts, divisions have also emerged along ethnic lines. Kenya was able to implement some tax increases that were seen as targeting Asian capitalists rather than the black majority, because the majority saw the tax as mainly affecting a minority

[32] Freetown just implemented a new property tax system that could quintuple revenue

interest rather than their own interests (due to the existing distribution of capital between ethnic groups) (Prichard 2015). The Yemeni state also managed to increase taxes in the 1980s by exploiting ethnic and regional differences (Chaudhry 1997). Unfortunately, however, ethnic divisions can play out differently in different contexts, leading, for example, to lower revenue collection and less progressivity in the case of India, but to more revenue and progressivity in South Africa (Lieberman 2003; Schneider 2015).

While dividing the opposition (particularly elite and business opposition) can be a good short-term strategy, some degree of business cohesion may be important for tax bargaining (as discussed earlier). Thus, an explicit divide and conquer approach must be weighed against the value of building up cohesive business associations alongside cohesive civic actors or broader social movements that, taken together, might form multi-class coalitions in favor of more revenue, and more progressivity (Schneider 2015, 2012).

Does progressive tax reform focus mainly on reducing the burden on those living in poverty, or increasing the burden on the rich? There are different ways to make a tax system more progressive; some reforms involve reducing the burden on those living in poverty, while others emphasize increasing the burden on the rich, and of course some try to do both (Thorndike 2009). The former tends not to increase revenue, whereas the latter can. But the former is easier politically and can be done more simply by, say, exempting basic goods from a consumption tax, while the latter is complex and involves consideration of the ability and resources the government can invest in policing evasion by the rich (Gillis 1989; Bahl 1989). There is some evidence that where it is not possible to raise revenue progressively, leftist reformers prefer less revenue than conservative reformers, who are willing to use regressive taxes to increase revenue (Hart 2009). This is suggestive of trade-offs between the desire to raise revenue, and the desire for progressivity: it may not always be politically possible to both make the tax system more progressive and raise significant revenue in low- and middle-income countries (see **Box 2**).

Does the tax reform mainly raise more revenue, or does it attempt to make the tax system more progressive? Related to the last point, there is evidence that business leaders will get behind tax reform that is geared toward raising more revenue, whereas they are less likely to support reforms that target higher-income taxpayers. Raising revenue may be essential for carrying out business-led or supported projects of market deepening, expanding exports, or structural transformation of the economy through investment expenditure. Of course, if business can obtain these benefits without paying for them, it will likely do so. Thus, the politics of revenue enhancement are different than those of progressive reform and may entail different strategic considerations. If we think of tax systems as having properties of capacity (tax as a share of GDP), progressivity (taxing higher incomes more heavily) and universality (taxing all sectors equitably), then there is some evidence that it is easier to build coalitions with powerful business interests and elites around capacity and universality than progressivity (Schneider 2012, 2015).

BOX 2. TOO MUCH OF A GOOD THING? BALANCING FAIR TAXES WITH OVERALL WELFARE

A remarkable aspect of global tax regimes is that the countries with the most progressive social welfare systems do not necessarily have the most progressive tax systems. Thus, for much of the twentieth century, the United States had the most progressive tax system among rich countries, while its social welfare system was among the skimpiest. Sweden, on the other hand, had a very progressive social democratic welfare system with a less progressive tax regime (Steinmo 1993; Esping-Andersen 1990). The principal mechanism for reducing inequality in most rich countries is the transfer system, rather than the tax system (transfers account for twice as much reduction in inequality in Europe as taxes) (Goni, Lopez, and Serven 2008). Data from a number of LMICs suggest that public expenditure is responsible for far more of the policy-induced reductions in inequality relative to tax, suggesting that we should not overemphasize the role of taxes in redistribution (Lustig 2015; Bird and Zolt 2008).

Why do progressive expenditure systems not rely on equally progressive tax systems? One possibility is that the politics of tax are driven by strong fiscal contract principles, dampening tax progressivity in more progressive welfare states. Some research suggests that the nature of the tax system can be explained by the preferences and payments of social classes. Governments that rely more heavily on regressive taxes provide more services to lower income groups, while those that rely more heavily on progressive taxes provide more (in the form of property rights protections and general security, but also potentially in terms of state investment in industry) to higher income groups. We get what we pay for, as it were (Timmons 2005; Schneider 2012).

Highly progressive tax systems may also be unstable because they encourage a politics of exemption-seeking, leading to the proliferation of loopholes and stimulating evasion at the top, while failing to raise enough revenue from more stable sources. This is exemplified by the evolution of the U.S. tax system after the 1930s. While the U.S. had a highly progressive tax structure (very high marginal rates) and a large share of tax revenue from income tax in the immediate post-war period, it also collected relatively little tax as a share of the economy. This was due to a combination of tax exemptions and the lack of a national consumption tax with a broad and stable base (Thorndike 2009; Steinmo 1993; Saez and Zucman 2019).

Generally, while it may be unjust that high marginal income tax rates stimulate evasion, governments must confront the reality that the introduction of such policies is only meaningful if they have the administrative capacity and political backing to implement them. The record from the pre-structural adjustment period on

implementation of progressive income taxes in low- and middle-income countries is not particularly encouraging (Gillis 1989; Zolt and Bird 2005). However, tax administration has improved in many LMICs in the last several decades (M. Moore, Prichard, and Fjeldstadt 2018).

Still, it is unlikely that most tax systems can generate enough revenue by relying only on progressive taxes. South Africa has a highly progressive tax system, but on its own, it is inadequate to the task of addressing deep inequalities. This may be in part because of the poor quality of public spending on education and other critical human and physical capital, but this just confirms the point that progressive taxation is not enough without addressing expenditure (Ehrenfreund 2017).

While this literature does not imply that we should halt our quest for progressive tax reform, it does raise important questions about the extent to which progressive reformers should focus on achieving ideal levels of tax progressivity, versus a focus on overall levels of welfare once both taxation (including all taxes) and expenditure (including transfers) are accounted for. At a minimum, it implies that a narrow focus on the fairness of any individual tax, or even the entire tax system on its own, is insufficient if our main objective is fiscal equity.

How certain is it that the tax reform, and any related spending, can be implemented? Presumably, political actors are unlikely to engage heavily in fighting over reforms that they do not expect to be implemented. However, the degree to which a given policy will be implemented is generally not known with certainty, introducing some degree of risk even into contexts where policies tend not to be implemented (Ascher 1989). Thus, while a group that would be hurt by a specific reform may not think it is very likely to be implemented, they may still mobilize to oppose it if the risk of implementation (weighted by the potential cost) is sufficiently high. On the other hand, groups that stand to benefit from tax reform, and particularly from the expenditure that such reform might finance, may *not* mobilize if they believe that the probability of the financing being realized and/or the desired expenditures occurring are too small. This failure to support tax reform may reflect a general belief that the state is too corrupt or weak to be able to raise desired revenue or implement desirable programs (Fairfield 2013). Where states can show otherwise, supporters of reform might be more likely to engage politically in some way (Weigel 2020).

Since implementation is ultimately a political question, however, as discussed earlier, people have different beliefs about what is desirable and possible. While it is often argued that the shift in international tax advice from more progressive income taxes toward VAT was driven by ideological factors of a piece with the end of the broad

Keynesian consensus of the post-war era, it is also clear that many analysts looked at the data and concluded that most low- and middle-income countries were simply unable to enforce progressive income taxes, and this was therefore not a desirable policy goal (Zolt and Bird 2005; Gillis 1989). As in other areas of policy reform, political support for tax reforms is also affected by what people believe to be realistic. This in turn is related to available technologies of enforcement. A consensus that a tax could not be implemented at one time could be overturned in light of other reforms leading to a more effective and autonomous tax collector, or improvements in the ability of LMICs to use information technology to detect evasion, and so on. Some have argued that this is precisely what is happening right now, as the global consensus shifts back to an embrace of more progressive direct taxation (Fairfield 2013).

5. HOW: THE PROCESS AND FRAMING OF TAX REFORMS

In this final section of the paper I look at how tax changes happen and then at the way in which tax reforms are packaged or framed as a factor affecting the politics of reform. Of course, the framing of reforms is related to the content of reform; for example, in the case of tying revenues to expenditure, this might be a matter of framing, or it might actually involve designing a tax policy to formally earmark revenues. But framing is nevertheless an independent strategic act and deserves separate consideration.

As noted earlier, much tax reform happens informally or in ways that are opaque; one limitation of the literature is that while it recognizes this, it does not illuminate these processes to any significant degree. It should be evident that powerful interests can influence tax policy outside of known channels, and that in some cases, the overlap between political and economic elites means that there is no influence necessary *per se*, as economic elites are able to implement policies directly. Despite this, however, quite a bit of tax policy also happens through formal and public channels.

5.1 HOW TAX POLICY ACTUALLY HAPPENS

One curiously under-documented aspect of tax policy is the process by which taxes are introduced and adjusted. This is related to, but often distinct from, the way in which the expenditure side of the budget is made. For example, in many countries, expenditure appropriations are passed separately from tax laws, as was traditional in England (Stith 1988). Tax laws (sometimes referred to as the tax code) may be in place and continue without any action, while normally, a country must pass a new budget for any spending to take place in the subsequent year (although some countries do revert to prior year spending in the event of a deadlock on the new budget).

In a number of Commonwealth countries, the finance act follows the appropriations act by several months, meaning that the government first enacts its spending policies and then its revenue policies. Oddly, in some cases,

such as Kenya, the budget is traditionally "read" when the appropriations are approved, and thus the pronouncements largely concern *approved* final spending but only *proposed* revenue.

This quirk tends to mean that revenue decisions are partly constrained by prior expenditure decisions. A number of countries use macroeconomic forecasts in medium-term fiscal frameworks and pre-budget statements to partially address this disjuncture, creating a moment earlier in the budget process when the revenue and expenditure side of the budget are both discussed (Friedman 2006).[33] This may be supplemented by other relevant analysis and documents, such as a medium-term debt management strategy that takes into account revenue projections. In some countries, various civic actors and business associations provide formal comment on government proposals and strategies related to tax as part of the budget process. In some, the executive has specifically created forums with business to discuss tax policy and administration issues, though the impact of these forums on tax policy varies across countries (Fjeldstad and Heggstad 2011; Kjaer et al. 2017).

Of course, just as on the spending side of the budget, major policy reforms may be introduced at other times. Major health insurance reforms and major social insurance taxes (for example) can be introduced according to a political cycle that has little to do with the budget process, though many policy commitments eventually have to find their way into the budget. However, such entitlement reforms frequently involve the setting of revenues and expenditure through other laws, and these laws are not considered during the annual budget process.[34] Unexpected economic, fiscal and banking crises present moments when tax reform is also likely to be on the agenda, and empirical evidence suggests that major tax reform is more likely during such crises (Hallerberg and Scartascini 2017). What this means is that a civic actor engaging in tax must be ready for major tax initiatives at any time, while also keeping an eye on more modest tax changes introduced through the annual budget process on a more predictable schedule. There may also be many minor changes to the tax code that happen each year, whether through laws or administration, that are important but do not change the overall tax system dramatically in the sense in which I defined tax reforms earlier.

For revenue minded civil society organizations (CSOs), an important tactical question is how to link tax discussions to expenditure where the budget process fragments these two issues. One answer, alluded to above, is to focus advocacy around the pre-budget statement or related moments during budget formulation when revenues and expenditure are brought together for purposes of forecasting. The increased role of legislatures in debating pre-budget statements means that this is an opportunity that is more open to advocacy than in the past.

[33] For more on pre-budget statements, see: Analyzing Pre-Budget Statements

[34] For a discussion of this issue with specific reference to health sector entitlement budgets, see: Program Budget Structure in the Health Sector: A Review of Program-Based Budgeting Practices in Low- and Middle-Income Countries

Tax policy is also made as part of routine tax administration, whether through rulemaking or changes in enforcement. For example, a tax authority's decision to increase (or decrease) enforcement actions could lead to a significant shift in the tax burden without any policy or legislative change. This could include, for example, political decisions about the extent of tax audits and which kinds of taxpayers (higher- or lower-income, business or individuals, etc.) will be the focus of those audits, as well as whether these audits actually lead to detection of underpayment and formal penalties (Saez and Zucman 2019; Umar, Derashid, and Popoola 2019).

We might also include here the creation of new tax authorities, or changes in the power of existing revenue authorities, which might involve both legislative and administrative reform. Not all enforcement related matters are administrative in nature, either: for example, banking laws may determine whether tax agencies have access to bank information, which is an important tool for reducing tax evasion (Fairfield 2010).

Finally, agency rule-making that has a significant impact on tax burdens may also constitute a major change in tax policy. This will vary by country, but if a tax authority were to determine (for example) that some form of employee compensation should be taxed at a lower rate than normal compensation, and this had a substantial impact on who pays tax and / or total revenue, this would also be a route to tax reform (Lakin 2019b). Legislators make different decisions across countries and time about how much discretion to give tax authorities to make such determinations, so what is decided by law in one place may be decided by tax agency discretion in another.

These very different routes to reform involve different actors and pathways. Some tax reforms are centered on the executive, others on the legislative arena, and still others will be centered on the independent agency rulemaking arena, or even agency informal guidance (Hickman 2009). (**Box 3** also looks at the emerging role of judiciaries in tax reform.) The degree of publicity, the actors involved, and the possibility of access to such arenas may differ widely.[35]

BOX 3. GOING TO COURT: A FUTURE FOR PUBLIC INTEREST LITIGATION AROUND TAX?

Relatively little has been written about the role of the judiciary in the politics of tax reform, but there are good reasons not to ignore courts:

[35] Though not widespread, tax policy is determined through ballot initiatives in some contexts, such as Switzerland and the state level in the United States.

- First, courts play a significant role in many countries in reviewing tax policy and administration through the process of judicial review.
- Second, this role is increasing in some countries (e.g., the United States), and is likely to increase in others, as greater attention is paid to the ways in which tax policy is set and administered.[36]
- Third, at least some civil society organizations (CSOs) have begun to explore the use of the courts to take on tax policy, as Tax Justice Network Africa (TJNA)'s lawsuit to stop Kenya's double tax agreement with Mauritius demonstrates. Yet another recent case, brought by Mexican civil society group, *Fundar,* sought to establish that information on the recipients of tax amnesties should be made public.[37] Even in China, communities have been able to file lawsuits against tax policy at community level, though these cases are hard to win (Bernstein and Lü 2008). In 2020, in Colombia, civic actors moved to court to challenge the entire tax system for lack of progressivity as required by the Colombian constitution.[38]
- Fourth, litigation can cut both ways, and large taxpayers may also use the courts to reduce their tax burdens, as in Tanzania and Guatemala in the 1990s, or in the United States where many industry groups have tried to take on sin taxes at the local level through legal action (Roache et al. 2018; Gloppen and Rakner 2002; Cabrera and Aaron 2013). Courts are also used to contest the findings of tax audits and extend the period for payment, leading to reduction or elimination of penalties through legal maneuvering or outright corruption (Umar, Derashid, and Popoola 2019). Courts in France and the United States have also overturned progressive tax reforms on constitutional grounds.
- Fifth, however, revenue authorities have also been able to prevail in the courts in recent years, enforcing tax assessments against mining interests in Uganda and Tanzania (M. Moore, Prichard, and Fjeldstadt 2018).

The above suggests that strategic litigation around tax, as well as joining tax suits in an amicus capacity, is increasingly possible. One issue in public interest law cases related to taxation is *standing*: traditionally, in many jurisdictions, only the taxpayer whose tax liability is directly at stake can bring a case against the tax authorities. This limits the scope for public interest litigation. However, the rules around this vary across jurisdictions and can change over time (Staudt 2003; Urquhart 2012).

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[36] No Taxation Without . . . Notice and Comment

[37] https://eljuegodelacorte.nexos.com.mx/?author_name=jimena-avalos-capin; https://es.theglobal.school/how-civil-society-action-led-to-fairer-taxation-in-mexico/

[38] Demandamos todo el sistema tributario ante la Corte Constitucional

Some scholars have argued that standing considerations should be further relaxed to allow for more public interest challenges (Tannenbaum 1974; Lu 2014). Even with current rules, however, many cases have been brought even in jurisdictions with fairly rigid rules on standing, such as the United States (Staudt 2003). Many of the cases brought by taxpayers in the United States have been related to spending: challenging a particular government spending program on the basis that the taxpayer has standing because they contributed to that expenditure (Urquhart 2012). In Canada, the Supreme Court has established that taxpayers can have a general standing to challenge government policies using public funds or where the taxpayer "has a genuine interest as a citizen in the validity of legislation" (Reynolds 2019).[39] TJNA's case in Kenya also demonstrates that a public interest case can establish standing for the general public, even in a relatively complex and opaque corner of the tax field, and in an LMIC context.

Whether the courts are a viable mechanism for addressing tax reform in any given country depends on several factors, not least of which is the relative independence and competence of the judiciary. The Kenya and Colombia cases mentioned above also suggest the importance of a progressive constitutional framework in which courts can rule on policies with respect to their impact on constitutional guarantees, something which cannot be assumed in all contexts.[40]

5.2 WORKING THROUGH PARTIES: TAXES AND FORMAL POLITICS

Much discussion of politics in the tax literature abstracts from the actual day-to-day formal politics of countries around the world. This reflects in part the fact that powerful interests are presumed to influence policy through informal and invisible channels. While this is surely correct, we should not assume that tax has no role to play in normal, visible and formal politics. To the contrary, even in countries where politics is particularly rife with informal institutions, taxes do enter the narrative of formal politics and impact state policy visibly.

Tax policy is clearly an important electoral issue at the state and federal level in many rich countries (United States, France, etc.), but it is also prevalent in lower income contexts (Souza 2013). In Ghana, party competition in the 1990s and 2000s revolved in part around tax policy (Prichard 2015). In Zambia, there is even evidence that extractive revenues were an important electoral issues helping to structure partisan competition; this is noteworthy as it is often argued that extractive revenues weaken tax bargaining since they are not paid by

[39] https://trinityflac.files.wordpress.com/2019/10/50th-anniversary-research-project-final-to-print.pdf
[40] Friend of the Court? The role of judiciaries in tax reform

ordinary citizens (Rakner 2017). In the Philippines, support for tax reform is considered to entail major electoral risks, known as the "Recto effect" after a Senator who supported increasing VAT and subsequently lost his seat. In El Salvador, right and left-wing political parties have been extremely polarized on economic issues, including tax, over the last couple of decades (Schneider 2012). Tax has also shaped partisan political competition in Chile since the return to democracy in the 1990s (Fairfield 2013).

Partisan differences on tax in LMICs do not always follow the same patterns as in richer countries. For example, in most wealthier countries, left-wing partisans tend to support more and more progressive taxes than right-wing partisans. There is some evidence from Latin America, by contrast, that right-wing parties support increased tax revenue, while left-wing parties have tended not to raise taxes where this conflicts with progressivity. This may be related to the fact that right-wing parties value fiscal discipline and the signaling of effective tax policies to international investors, while they are willing to use regressive tax policies to generate revenue for state-building that left-wing parties shun. Leftists in turn have accepted lower revenue and even cut corporate taxes in order to appease investors, while maintaining individual income taxes and cutting VAT to ensure progressiveness (Hart 2009). On the other hand, if tax reforms occur during an economic crisis, as they often have in Latin America, there may be little partisan difference in the immediate response due to a constrained set of choices (Hallerberg and Scartascini 2017).

While some of the big issues in tax are channeled through partisan competition, there is also evidence from IBP case studies that other issues are likely *not addressed* through formal politics due to the fact that wealthy elites and business interests are over-represented in government and work to keep these issues off the political agenda. This suggests the importance of working over the longer term to elect more representative leadership with progressive ideas on tax, something that cannot happen overnight, or even in the context of a single tax reform. Of course, in most cases, working on elections must be about a broader platform than one focused only on tax, involving therefore a broader coalition interested in progressive spending.

5.3 FRAMING, MESSAGING AND BELIEFS ABOUT TAX

How we talk about tax matters. Framing tax in different ways can prime different concerns, such as those related to reciprocity (what do we get for our taxes?), comparative treatment (how does what I pay compare to what others pay?) or the public good or interest (do these taxes support the well-being of the country or help those in need?).

Some experimental evidence suggests that support for taxes increases when people can directly tie the taxes that they pay to the services that they receive: the more specific the information provided about the destination of the funds, the more likely voters are to support the tax (Braidwood 2019). I discuss the general importance of linking

taxes to expenditure in **Box 1**. Survey evidence from Africa and Latin America also suggests that voters link the legitimacy of paying taxes to the services they receive from the state (Ali, Fjeldstad, and Sjursen 2014; Flores-Macías 2018).

Framing taxes in moral terms can disarm powerful tax reform opponents in some cases. An anti-evasion reform in Chile was passed over the objections of conservatives when the president successfully painted it as a moral issue of equity and fairness, going so far as to argue that it was not a tax reform at all, but simply a measure to enforce rule of law. Such appeals may work best where taxes are seen as having moral content, which is not universally the case.[41] On the other hand, failure to clearly emphasize the equity-enhancing aspects of reform can also undermine progressive reform, as the case of popular resistance that doomed a progressive income tax reform in Bolivia (one of few countries without an income tax) demonstrates (Fairfield 2013).

Much of the debate about taxes is about interests: who pays and who benefits from the resulting expenditure? But tax policy, like most policy, is also about perceptions and ideas. Even if we think of interests as core to tax policy, those interests are not entirely objective: they are also constructed and perceived. For example, if I pay tax and am unsure about the benefits I will receive, then I am in a world of risk and probability that is based in part on perception and attitudes to risk. The question "how likely am I to need state services?" does not have an objective answer and becomes part of my calculus in thinking about my willingness to pay tax and support tax reform. This might lead some taxpayers to support social insurance style taxes that are risk-based in nature over more general taxation (Cusack, Iversen, and Rehm 2006).

In addition, taxpayers are motivated not only by interests but by ideas of fairness (M. Moore, Prichard, and Fjeldstadt 2018). One form of fairness is akin to impartiality: the idea that people are treated equally as citizens. Thus, taxpayers are more likely to support taxation if they believe that the state is treating them and their ethnic group fairly, and that the rules will be enforced against all (D'Arcy 2011). In Poland after the transition from communism, public sector workers protested taxes that fell heavily on public sector but not on private sector enterprises; when these taxes were universalized, they were considered fairer, and compliance improved (Easter 2008).

Fairness is not only a matter of policy, but also administration. Indeed, policies may be progressive, but the differential ability of some to evade taxes may lead to the belief that the system is inequitable and thus to greater tax resistance. In France, Alexis Spire has found that higher-income taxpayers are more likely to get a favorable tax exemption from local tax officers than the working classes, fueling tax resentment and protests like the Yellow

[41] Cross-national data suggests that in some countries, taxes are considered a moral issue, while in others they are not. IFAC and ACCA, "G20 public trust in tax," 2017.f

Vests movement.[42] Perceptions of corruption in tax administration, common in low- and middle-income countries, also depress willingness to pay tax (Gangl et al. 2017; Isbell 2017). People may also assume that higher-income groups evade tax under more progressive schemes, which in turn reduces their willingness to comply (Engel, Mittone, and Morreale 2019). On the other hand, recent World Bank evidence from Guatemala and Kosovo suggest that letters from the tax authority reminding people that others pay their taxes (and that these taxes fund vital services) led to significant increases in income tax compliance.[43] This strategy (and result) is consistent with the idea of behavioral nudges that activate social norms around fairness.[44]

Some analysts also argue that people are more willing to pay taxes when these are connected to some broader public interest, especially where a sense of civic duty is high. The World Bank study cited above finds that framing taxes around patriotism also helped to increase compliance; others have argued that a shared idea of a "national political community," or "legitimating appeals" linking tax reform to widely shared national values can tilt political dynamics in favor of reform (Fairfield 2013; Lieberman 2003).

Attitudes to tax are also plausibly related to what people know about taxation and tax reform. The literature on the specific role of data and analysis in tax reform is thin, but some case studies, mainly from richer countries, suggest that analysis is important for clarifying winners and losers from reform, the incidence of current and proposed taxes, and the degree to which tax policy is influenced by large taxpayers (Christians 2017). For example, in the early 1980s in the US, Citizens for Tax Justice carried out an analysis showing corporations paid no tax at that time; this work directly supported the 1986 tax reform, one that wiped out a variety of loopholes (Mucciaroni 1990). Long-standing analysis of tax exemptions played a role in defining the politics around taxing the wealthy in Minnesota. Analysts have also argued that the Jamaican tax reform of 1986-87 would not have been possible without data analysis showing the potential impact of reform; without this analysis, uncertainty about its impact would have paralyzed action (Bahl 1989). As mentioned above, the release of the Panama Papers created significant political pressure in some countries, leading the Icelandic Prime Minister to step down almost immediately.

Some (though not all) survey and experimental research also suggests that better informing people about inequality and the burdens of tax may affect their support for redistributive policies; support for inheritance taxes rises when people are given information about the small number of households affected, for example (Prabhakar, Lymer, and Rowlingson 2017; Gimpelson and Treisman 2018; Kuziemko et al. 2015). Knowledge and understanding of the tax system is also associated with viewing taxes as fair and with more tax compliant attitudes, though this

[42] Spire, *Résistances à l'impôt, attachement à l'État. Enquête sur les contribuables français*, Le Seuil, Paris, 2018; also, The Anger of the 'Gilets Jaunes'

[43] Studies Prove Citizens Are More Likely to Pay Taxes If Asked the Right Way

[44] On fairness norms and equitable budgeting, see discussion in (Lakin 2019a)

may be moderated by how much confidence people have in tax authorities and the state more broadly (Gangl et al. 2017; Loo, McKerchar;, and Hansford 2009). Information suggesting that taxes are overseen by citizens or subjected to frequent review by the legislature might also enhance support for tax policy reforms (Flores-Macías 2018). Of course, experimental evidence of this type is only suggestive of how real-world political fights over tax reform may play out.

BOX 4. INSIGHTS FROM TAXING (OR NOT) AGRICULTURE IN LOW- AND MIDDLE-INCOME COUNTRIES (LMICS)

A brief discussion of taxation and agriculture allows us to examine a few aspects of taxation of more general relevance, including alternatives to standard taxation, challenges in tax administration where there is significant informality, and the importance of thinking through taxes and tax bargaining at a sector level.

The economies of many low and middle-income countries, particularly in Africa, rely heavily on agriculture. For 17 African countries surveyed in 2014, the median share of GDP derived from agriculture was just over 25 percent ("Agriculture in Sub-Saharan Africa: Prospects and Challenges for the next Decade" 2016). Nevertheless, the agriculture sector is often under-taxed: agriculture accounts for 23 percent of GDP in Uganda, but less than one percent of tax revenue (Stewart-Wilson and Waiswa 2020). The literature suggests that taxing agriculture is challenging, and international comparative work suggests that a higher share of GDP in agriculture negatively affects revenue, for both technical and political reasons (Gupta 2007).

Tax administration, in particular, has typically proven challenging for poorer countries, where agriculture represents a large fraction of economic activity (Kaldor 1963; Rajaraman 2004). Why is this? It may be because powerful landholders want it this way (M. H. Best 1976). It may also be because a high degree of informality and low population density makes it costly to collect information and enforce taxation in rural areas. Poor record-keeping and production for household consumption also make it hard to estimate input costs and sale volumes and prices (Khan 2001). Lack of large firms and payroll systems make it difficult to implement modern withholding systems used in the urban formal sector. Households and firms must also be productive enough to generate a taxable surplus to allow for taxation without costly cycles of coercion and resistance (M. Moore 2008; Bernstein and Lü 2008).

It should be noted that, in the past, many low-income countries have taxed the rural sector indirectly by controlling food prices in order to subsidize the cost of food for urban dwellers, part of an overall strategy of channeling agricultural surplus into industrialization (Bates 2010; Dom and Miller 2018; Khan 2001; Kasara

2007; Bernstein and Lü 2008). These kinds of policies, which were common prior to the 1980s, do not show up as revenue in government accounts, but they can be thought of as forms of implicit taxation and redistribution. They were complemented by taxes on agricultural exports, which did show up as revenue, but which have also declined along with most trade taxes in recent decades. Generally, these approaches to taxing agriculture circumvented the information and administration problems that make it difficult to tax agriculture directly, relying in many cases on local patronage networks for enforcement (Kasara 2007).

Technically, direct taxation of agricultural land has sometimes been achieved through presumptive taxation (Rajaraman 2004). A presumptive tax is an important tool in the toolbox of countries with low tax administration capacity, and where taxpayers maintain poor records and are unable to validate profits. In simple terms, such taxes work by applying a lower tax rate to highly visible factors associated with productivity (such as land area, etc.) rather than a higher rate to a base that requires more information to validate (such as profits). While presumptive taxes are easier to administer, they are inefficient, and fail to distinguish between firms in terms of their profitability. But at least some research shows that this trade-off is worth making in many contexts since such taxes are harder to evade than more refined taxes on profits (M. C. Best et al. 2015).

In addition to the use of presumptive taxation, agricultural income is taxed indirectly through withholding tax on agricultural inputs, levies on products sold domestically (partly through sales taxes/VAT, though with exemptions for essential foodstuff) and agriculture cess, which is typically earmarked for public spending on agriculture. Some analysts have suggested that earmarked cess should be the main approach to taxing agriculture (Goode 1993).

Inequality in land holdings in many low- and middle-income countries has been severe, with a relatively small groups of large landowners, and a significant population of smallholders and laborers that generate little surplus value. Thus, the focus of agricultural taxation should arguably be on the wealthiest landowners and commercial agriculture firms. However, there is some evidence in different regions of changes in the patterns of landholding. In parts of Africa, for example, there has been substantial growth in the medium-sized farm segment, driven in part by urbanites reinvesting in commercial agriculture, and this sector is helping to drive agricultural transformation (Jayne et al. 2016, 2019). Data also suggests that smallholder farmers continue to maintain a productivity advantage over larger farms in poor countries, suggesting that we should not necessarily view this sector as synonymous with immiserated subsistence farmers unable to contribute to revenue mobilization efforts (Rada and Fuglie 2019). These facts suggest a need to think more broadly about agricultural income beyond just the wealthiest landholders.

The role of agriculture in the politics of taxation runs deeper than the question of how to administer agriculture taxes, however. The historical literature suggests that the way in which farmers have been incorporated into political systems is a crucial element in state-building. The development literature notes the importance of relative egalitarianism in landholding as one prop to both democracy and inclusive growth. The nature of farm production (small versus large holdings, and labor versus capital intensive), and differences in the extent of coalition-building between urban labor and rural farmers, have been associated with more or less democratic and progressive social welfare systems (Di John and Putzel 2009; Esping-Andersen 1990; Schneider 2015; B. Moore 1993; Lipset and Lakin 2004). This work suggests, but does not spell out exactly, how taxation of agriculture can independently enter into broader democratic and social welfare bargains. As argued above, extraction from the agriculture sector does not always take place through direct taxation of farm incomes but may be associated with other policies (such as price controls, exchange rate policies, export tariffs and so on). Whatever form it takes, however, taxing agriculture is representative of the challenges that LMICs face in increasing their access to domestic resources.

6. CONCLUSION

This paper has reviewed a considerable segment of the literature on the politics of tax reform. That literature is vast, but it leaves many questions unanswered. As is often the case, some of the more settled matters can seem trivial: it is no surprise that states seek revenue or that powerful business interests often oppose progressive tax reform. Nor will anyone be shocked to know that taxes that are less visible to taxpayers likely elicit less opposition than those that are more visible.

The most interesting parts of the literature raise more questions than answers. If, for example, building support for progressive tax reform requires advocates to link taxes to expenditure, which kinds of expenditure are likely to lead to broader support? And what happens to these kinds of arguments over time if the “earmarked” revenue does not lead to enhanced expenditure or enhanced services? The literature has little to say on these questions.

Many of the unanswered questions are context-specific: the expenditures that will elicit broader support, for example, will be different from country to country. Advocates at country level will have to try to answer these questions for themselves, using polling, surveys or other tools to generate reliable information about public preferences. The literature cannot “answer” such questions.

Nevertheless, it is worth pointing to areas where more research might be useful. While the literature has a lot to say about the “state” broadly, there is more work to be done to differentiate state actors, both within the executive, and in the legislature and judiciary. The evidence shows that legislators make important decisions about tax and revenue, and that judiciaries are increasingly involved in tax reform cases, but there are no systematic reviews of the way that these actors engage with tax. There is also a gap in understanding the role of media in tax reform, and the way in which media narratives based on policy analysis interact with values and interests to drive attitudes about reform. High profile cases like the Panama Papers or forthcoming work on Mexico show the potential for scandals related to tax evasion as one way in which the media amplifies certain tax narratives, but these episodes, while powerful, are also narrow in their impact and range. It is not clear how the media engages with and drives opinion about less spectacular tax matters.

Finally, as discussed in **Box 2**, an important political question is how much weight advocates should give to progressive taxation, versus progressive spending. Ultimately, tax is a means to an end for most of us. If the goal is an equitable society with strong social welfare benefits and protections, what do the politics suggest about the best way (tax v. expenditure policy) to get there, and how might this vary from country to country? The literature from rich countries finds that progressive social policies do not neatly align with the most progressive tax systems, so this remains an important strategic question that could be looked at more systematically in low- and middle-income countries.

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