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# CREDIBLE ENFORCEMENT BEFORE CREDIBLE COMMITMENT

Exploring the Importance of Sequencing

Michelle D'Arcy

Marina Nistotskaya

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Department of Political Science

University of Gothenburg

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Marina Nistotskaya  
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## ABSTRACT

States that are both strong and democratic are the most capable of delivering human development. Existing rational choice accounts of collective action and credible commitment have provided us with the answer as to why this is the case: effective social order depends on the ability of the state, as the external enforcer of collective agreements, to monitor compliance and punish free-riders (credible enforcement) and that the state is constrained to only act in the collective good (credible commitment). However, what these fundamentally static accounts do not provide is answers to the question of how credibly constrained Leviathans emerge, and how the two processes – of the accumulation of power and the constraining of power – interact over time. We make a theoretical contribution by presenting a dynamic model of the state which shows that the sequencing of these two processes lead to fundamentally different outcomes. Specifically, we argue that while credible enforcement before credible commitment (i.e. democratizing *after* the state has become strong) can lead to a constrained Leviathan, credible commitment before credible enforcement (i.e. democratizing *before* the state has become strong) cannot. We illustrate the theoretical argument with two contrasting case studies of Ireland and Sweden. Our conclusions suggest that what matters for beneficial social outcomes is not democracy *per se*, but the timing of democracy in state development.

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**Michelle D’Arcy**

The Quality of Government Institute  
Department of Political Science  
University of Gothenburg  
michelle.darcy@gu.se

**Marina Nistotskaya**

The Quality of Government Institute  
Department of Political Science  
University of Gothenburg  
marina.nistotskaya@gu.se

In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. (Federalist, no. 51)

## Introduction

Social scientists have long wrestled with the question of how societies achieve and sustain efficient outcomes. Some, such as Thomas Hobbes (2005 [1651]), argue that to sustain efficient collective order individuals must agree amongst themselves to create an external agent with the authority and ability to enforce. Others, like Montesquieu (1984 [1748]), underscore the welfare-enhancing properties of institutions which ‘tie the king’s hands’. In modern parlance the first problem is known as a collective action problem, and the second one as the credible commitment problem.

In recent academic and policy debates, Montesquieuan interpretations would seem to have become dominant. A large democracy-promotion literature argues that through participation, voice and accountability citizens can effectively constrain – or even get rid of – predatory rulers and hence achieve better human development outcomes (Carothers 1999; Diamond 1996; Halperin, Siegel and Weinstein 2010; McFaul 2010). ‘Democracies represent the will of the people and constrain the power of the state’, as Michael McFaul puts it succinctly (2010: 68). Similarly, the relevant literature in political economy rationalizes democracy’s hallmarks – elections (Barro 1973; Ferejohn 1986) and the system of checks and balances that diffuses power amongst several actors (Falachetti and Miller 2001; North and Weingast 1989; Persson, Ronald and Tabellini 1997, 2000; Shepsle 1991; Stasavage 2002a; Tsebelis 2002) – as a solution to the credible commitment problem and the best way of achieving efficient social order.<sup>1</sup> As Dani Rodrik (2000: 3) puts it: “Democracy is a meta-institution for building good institutions”

However, the recent emphasis on democracy as the meta-institution has been challenged by growing empirical evidence from two directions. Firstly, there is the persistence of poor governance in many parts of the developing world despite the significant moves towards democracy since the early 1990s. India, South Africa or Bulgaria, which rank highly on democracy measured by both Polity and Freedom House, are outperformed on the World Bank’s Governance Indicators by such non-democracies as Singapore, Malaysia or China. This anecdotal evidence is supported by a growing literature that shows that regime type has no or little effect on government con-

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<sup>1</sup> In addition to this, formal organizations of critical economic agents (Grief, Milgrom and Weingast 1994), Weberian (non-politicized) public bureaucracy (Miller 2000) and institutionalization of ruling party (Gelbach and Keefer 2011) are said to provide a solution to credible commitment problem.

sumption, social spending or human welfare (Gauri and Khaleghian 2002; Mulligan et al 2004; Ross 2006; Shandra et al 2004; Gerring et al 2012). Secondly, there are clear variations in governance between democracies: not only between new and consolidated (Clague et al 1996), but also within old European democracies (Charron, Dijkstra and Lapuente 2010; Kaufmann, Kraay and Mastruzzi 2009). As both new democracies in the developing world and democracies in the developed world struggle to curb corruption, collect taxes and deliver public goods, serious questions have to do with whether ‘tying the hands of the state’ is the key to human flourishing.

In this paper we try to address this puzzle by focusing on the issue of sequencing. In 1788 the authors of the Federalist Paper No 51 formulated the solution to the fundamental problem of the efficient social order as a matter of sequence: firstly, we need to solve the problem of collective action by enabling the government to control the governed and, secondly, that of credible commitment. In contemporary political science the idea of state-building before democracy-promotion can be traced back to Samuel Huntington’s *Political Order in Changing Societies* (1968). Huntington attributed the bleak performance of newly independent African countries in the 1960s to the rapid democratization that, he argued, undermined the authority of the state (1968: 5). The mid-2000s witnessed a revival of the idea of state-building first, especially for post conflict and otherwise ‘weak’ states (Fearon and Laitin 2004; Fukuyama 2004a, 2004b, 2004c, 2007; Mansfield and Snyder 1995, 2007a, 2007b; Krasner 2004). Although the importance of sequencing has been accepted, discussions of sequencing have often turned into a normative debate about when is the ‘right’ time to democratize (see the debate in the *Journal of Democracy* 2007, 18(3)). There has been comparatively little theoretical treatment or systematic empirical analysis paid to the issue. In particular we do not have a theoretical argument about why sequencing matters.

The central objective of this paper is to address this gap by providing a theoretical contribution that harnesses the insights of rational choice accounts into a dynamic model of the state. As the next section shows, existing accounts of collective action and credible commitment have made a huge contribution to our understanding of why strong democratic states are the most capable of delivering human development. They are, however, static accounts that do not address the issue of sequencing: how the two processes – of the accumulation of power and the constraining of power – interact over time. In section two we present our dynamic model, arguing that credible commitment before credible enforcement can constrain states from becoming Leviathans and trap societies in low efficiency equilibria, with the implication that what matters for social outcomes is not democracy *per se*, but the timing of democracy in state development. Section three provides two case studies to illustrate the theoretical argument: Ireland, where the state was weak when de-

mocratization occurred, and Sweden, where the state had extensive powers of monitoring and enforcement before allowing for popular elections and separation of powers. We conclude with some thoughts for future research, and the normative implications of our argument.

## **Collective Action and Credible Commitment: Existing Static Models of the State**

The first problem of an efficient social order, the collective action problem (CAP), emerges from the fact that when collectives attempt to supply themselves with public goods, the dominant strategy pursued by rational individuals is to free-ride (Olson 1965). All the citizens in a town would be better off if a proper sanitation system was put in place. However, everyone needs to do something with their waste today and no one wants to pay for the costs of building a new sanitation system, which they will benefit from whether they contribute or not. If everyone else is throwing waste into the river, whether or not I do it does not make any difference, and if everyone else is contributing, but I can get away with shirking, I will. Since this is everyone's rational calculations, the collective action problem of waste disposal in the town will continue.

This problem cannot be solved unless there is a collective agreement to change everyone's behavior and a mechanism is in place to monitor compliance and punish those defecting and free-riding (Olson 1965; Levi 1988; Hardin 1968). In our town we can solve our CAP regarding waste disposal by coming to an agreement that everyone stops dumping their waste in the river and everyone contributes to a fund to build a proper sewerage system. To give the agreement meaning we must then enforce it by monitoring each other's behavior and punishing defectors. If someone defects (by again dumping their waste in the river) or free-rides (by shirking on their payments) and is not detected and punished, then the incentives of everyone else to comply diminish. I will only change my behavior if I think everyone else is changing theirs.

In a small group it is easier to solve CAP because it is easier to reach the agreement and, more importantly, easier to monitor and enforce compliance (Ostrom 1990). Because of the high degree of visibility in a small group, everyone can 'see' everyone else, meaning that individuals have a high ability to judge whether or not everyone else's behavior has changed and to report and sanction those defecting. Everyone in the group has the capacity and incentive to enforce the agreement once it has been reached.

In large groups, solving CAPs is much more difficult. Firstly, individuals' true valuations of a prospective public good are more difficult to reveal (Miller and Hammond 1994). Secondly, and more importantly, in large groups the visibility of others is inferior to that in a small group, hence the group's capacity to monitor and enforce is weaker. Under these conditions free-riding becomes the dominant strategy individuals face, and the need for an external agent who can align individual incentives with collective objectives arises (Falaschetti and Miller 2001; Hobbs 2005 [1651]; Olson 1965). The role of the Hobbesian external agent is to supply a threat of punishment to free riding-minded individuals to work towards group objectives.<sup>2</sup> In other words, CAPs can only be solved with the backing of an external agent with coercive capabilities.

In our hypothetical example, if residents of several towns, including mine, come to an agreement about not dumping waste in the rivers, without external enforcer I have limited ability to monitor the behavior of people in other towns because they are simply not visible to me, hence the feasibility of effective punishment for free-riding in a large closed system is much lower than in a small closed system. To make the inter-town agreement work, the residents must transfer the task of enforcing the terms of the agreement to an external agent, such as a sheriff or the state.

Effective social order is sustained if such an agent is not only truly external to the social system (is not a party to the agreement of the towns), but also if the agent is a credible enforcer. To be a credible enforcer the sheriff needs both perfect monitoring capabilities that enable him to find the defectors and free-riders, and the ability to credibly threaten the subjects to his authority (residents of the towns) to inflict punishment for breaking the terms of the agreement. A lack of coercive capacity makes the effective enforcement of the agreement impossible as 'covenants without the sword, are but words' (Hobbs, 2005: chapter XXVII, paragraph 2). In other words, being a credible enforcer is a crucial welfare-enhancing attribute of the external agent.

If the group is the citizens of a country and the external enforcer is the state, then it becomes clear that to be a credible enforcer the state must have a high monitoring capacity, and a high capacity to project coercive power over all the subjects to its authority and to use this coercive power against those citizens found – through monitoring – to be free-riding. Unless the state has these powers it is not a credible enforcer and is not, as Thomas Hobbes stylized it, a Leviathan.

Transferring the task of monitoring and enforcement to an external agent raises two problems. Firstly, an external agent is, in reality, never a perfect monitor, as its ability to observe

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<sup>2</sup> In contemporary language it is said that the external agent supplies to the group incentive-aligning services for a share of benefits created by the production of public goods (Falaschetti and Miller 2001).

individual contributions is costly. Perfect monitoring is prohibitively costly, and therefore infeasible (Alchian and Demsetz 1972). Even if the towns in our region appoint a sheriff to enforce our collective agreement on sanitation, he will never be able to be everywhere at once and even if he employs others to help him, the sheer scale of the task mitigates against completely effective monitoring. As a result, my ability to judge whether or not the behavior of others has changed is lower; and now there is the possibility of calculating the odds of getting caught defecting, depending on the effectiveness of the enforcer. In other words, I will factor the sheriff's effectiveness into my calculations about how others are likely to behave, and therefore how I will behave myself.

The second problem arising from the existence of an external agent capable of inflicting punishment is that it opens up the possibility for a breach between the interests of the external agent and those of the group. We have transferred considerable powers to the sheriff but how can we trust that he will act in the common interest and not pursue his own agenda? By his definition as an external agent, the sheriff is outside of the group, and his interests are not aligned with ours. The arrangement with an external agent supplying incentive-aligning services for the members of the group for a share of associated efficiency gains also provides the external agent with the incentives to opportunistically manipulate the distribution of those gains to his own advantage.

This problem, of how to constrain the external agent, has been the central focus on scholarship in the New Institutional literature. Starting from a seminal paper by Kydland and Prescott (1977) a considerable body of literature has condemned the lack of commitment to the 'rules of the game' by the power-holder as the fundamental cause of the failure of societies to increase general welfare (Falachetti and Miller 2001; Miller 2000; North 1981, 1993; North and Weingast 1989; Shepsley 1991). The central concern of this literature is that when rational subjects foresee the product of their effort being expropriated by the opportunistic rulers they will inevitably curb their contributions.

From the distributive societies of ancient Egyptian dynasties through the slavery system of the Greek and Roman to the medieval manor, there was persistent tension between the ownership structure which maximized the rent to the ruler (and his group) and an efficient system that reduced transaction costs and encouraged growth. This fundamental dichotomy is the root cause of the failure of societies to experience sustained economic growth (North 1981: 25).



Their answer to this problem has been to focus at the constitutional design of the state that diffuses the power of the state among several actors. Thus, in their seminal work on the Glorious Revolution of 1688 in England North and Weingast argue that the evolution of the constitutional arrangements in the XVIIth century England (limiting the King through the strengthening of Parliament) was the key to the ‘remarkable’ economic growth experienced by England later (1989: 803). Similarly, Falaschetti and Miller hold that the Madisonian constitution of 1787 in America set high costs ‘of putting together a decisive coalition’ to monopolize the power of the state, thereby reducing the risk of welfare-undermining actions by those who control the power of the state (2001: 405). In terms of contemporary governance structures, democracy in general (Clague et al 1996; Leblang 1996; Knutsen 2011) and the separation of power in particular (Henisz 2000; North 1993; Persson, Ronald and Tabellini 1997, 2000; Shepsle 1991; Stasavage 2002b; Tsebelis 2002; Weymouth 2011 ) have been seen as guarding against welfare-undermining transgressions of the rulers and securing property rights. In other words, a political regime that best resolves the credible commitment problem is “a modern democratic society with universal suffrage” (North, 1990:109). The fundamental conclusion of the credible commitment literature is that to sustain efficient social outcomes a Leviathan is necessary but not sufficient, and its hands should also be tied: ‘credible commitments against opportunism is necessary for rational individuals to subject themselves to the agent’s authority’ (Falachetti and Miller 2001: 390).

An important implication of the literature on collective action and credible commitment is that the sustainability of an effective social order depends on individuals having a high degree of confidence that the external enforcer can ‘see’ everyone, can punish defectors and will only act in the collective good. If one of these conditions is violated, individuals’ incentives to participate in a social endeavor and comply with its terms will diminish, and with it so will efficient social outcomes. Thus, the extent of the cooperative (e.g. non free-riding) behavior of the members of the group, and therefore the very possibility of efficient social order, will always be conditional (Taylor 1974), tenuous and liable to fluctuations (Levi 1988: 69-70, 1996).

As rich and powerful as the insights from existing rational choice accounts are, they are essentially static models of statehood. They explain why people need a Leviathan and why its hands should be tied. However, they fail to explain how a state becomes a Leviathan and how the two processes – of the accumulation of power and the constraining of power – interact over time. In particular, they assume that the state is already a powerful external agent when it is time to tie its hands, and thus do not address the question of what happens when you tie the hands of a weak state. The next section attempts to do so by extrapolating from these static accounts to a dynamic

one, exploring how different institutional sequencing and, particularly, differences in the timing of democratization in state development, impacts on the state's ability to achieve efficient social outcomes.

## **A Dynamic Model of State-building and Democratization: Credible Enforcer Before Credible Commitment**

The 'credible commitment' literature starts with the assumption that states are already credible enforcers. However, no states are born as Leviathans to which citizens can willingly transfer enforcement functions. It is only once the state has become a Leviathan that citizens can be 'willing' to do so, the starting point for the 'credible commitment' analysis. But if it is not at this point that states themselves begin, then we must ask the question, firstly, of how the state becomes a credible enforcer? And then probe what happens if there is credible commitment before there is credible enforcement?

How do states become credible enforcers? If we accept the proposition of both the collective action and credible commitment literatures that credible enforcement is a necessary condition for citizens to comply, then it cannot be the case that states become credible enforcers through responding to citizens' preferences, as such preferences do not exist before the state has become credible. Rather, before this point, individuals have very few incentives to accept the state as the external enforcer, and consequently have preferences towards non-compliance. If this is the case, it must be true that to become a credible enforcer the state has to *over-ride*, rather than respond to, individual's preferences. It has to acquire 'eyes', i.e. the ability to monitor all citizens, and 'teeth', i.e. the ability to punish those free-riding and defecting, regardless of individual's preferences to resist to this process.<sup>3</sup>

Comparative archeological accounts into the early (primary or first-generation) states suggest that acquiring 'eyes' and 'teeth' and becoming a Leviathan is a process, rather than a binary switch from one state to the other (Smith 2004; Spencer and Redmond 2004). Thus, the rise of the primary states was preceded by the emergence of chiefdoms – complex polities with sufficiently centralized but not deeply sophisticated administrations. There is also a great variability in

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<sup>3</sup> It must be emphasized that here we are not concerned with exploring the reasons why rulers need to turn states into Leviathans. This is a very important question that has been dealt with extensively by others, most of whom emphasize the importance of threats, both external and internal, to giving rulers the incentive to develop state capacity to fight wars (Tilly 1992; Porter 1994; Ertman 1997) We only emphasize that the incentive to state-build cannot come from below, without going into where those incentives might come from.

economic and politico-administrative organization of early states: from ‘weak states’ such as the Khmer polity of Angkor to advanced states such as ancient Egypt, Inka or Rome (Smith 2004: 78-79). Similarly, considerable differences in their abilities to govern are well documents in medieval and early modern Europe states, which are direct predecessors of the contemporary European states (Ertman 1997; Tilly 1992).

If becoming a Leviathan is a process, then the extent to which the state is credible and hence the strength of individuals’ preferences to resist the state should be understood as a continuum. Although individuals will always have incentives to free-ride, because the state can never be a perfect enforcer, *the strength of these incentives is a function of how credible the state is as an enforcer*. At the very beginning of the state-building process the incentives for free-riding will be strongest because the state is least credible as an enforcer. As the state improves its monitoring and coercive capabilities and becomes more credible as an enforcer, the strength of the preferences to defect will weaken, even if they never disappear.

This means that the force the state needs to use to over-ride citizen preferences will also change throughout the state-building process. It will need to be most forceful in the initial phases, when it is least credible, and individuals have the strongest incentive to resist. As its credibility improves, the necessary conditions come closer to being fulfilled and the strength of citizen opposition diminishes. In the latter phases of state-building the need for coercion decreases, as the strength of individuals’ preferences to free-ride diminishes.

When looked at in these terms – that the state becomes a Leviathan by over-riding rather than responding to individuals’ preferences and that in the process of becoming a Leviathan there is a continuum in the strength of citizen preferences for defection and therefore the degree of the coercive capacity needed to ensure citizens’ compliance – then it becomes clear why democratizing before the state has become a Leviathan has profound implications for its ability to subsequently become one and ultimately for the likelihood of achieving an efficient social order.

Democracy, by definition, is designed to make states responsive to their citizens’ preferences and to limit their ability to over-ride them. Despite considerable operational differences, all the existing definitions of democracy imply a system of governance that is in some meaningful way reflective of the preferences of citizens. It ‘ties the hands’ of the state and its rulers and thus provides for one of the conditions that needs to be in place in order to sustain an efficient social order, i.e. credible commitment of the external agent, but it does not address the first – ensuring that the state is a credible enforcer. As both the collective action and credible commitment literatures make clear, in a low capacity state where the state is not an effective enforcer and the

cost of free-riding is low, citizens have few incentives to comply and strong ones to defect, regardless of whether the state is democratic or not.

If democracy makes rulers responsive to citizens' preferences, and those are strongly held preferences to free-ride because the state is not a credible enforcer, then the state's ability to become a Leviathan and to solve CAPs is seriously undermined. As discussed above, before the state has become a credible enforcer, the intensity of citizens' preferences to defect is high. If the state must respond to these preferences, then it gets locked into the level of state-building that it has already achieved and the state gets trapped in a cycle of low effectiveness and low compliance.

Moreover, democracy inhibits the ability of states to escape from this trap by minimizing the extent to which the state can apply force to overcome citizens' preferences. As argued above, becoming a credible enforcer, a Leviathan, requires the application of coercive force, with varying degrees of strength, depending on the stage of state-building. In the initial phases, when the state is least credible, individuals' resistance is strongest and the state needs to apply the greatest force to overcome it. Consider an example from recent archeological research on early states: burned or abandoned villages are considered as evidence of the governing presence of a chiefly authority in ancient civilizations (Spencer and Redmond 2004: 174). As the state becomes more credible, less force is needed. If force is most needed in the initial stages, but democracy takes away the ability to apply that force, this means that democratizing in the earlier phases of state-building will have the most serious consequences for the state's subsequent ability to become a credible enforcer. At latter stages of state-building, such a 'democratic arrest' of the state powers may matter less as the state has already acquired some credibility and the application of coercion is less needed.

To make this argument more concrete, consider the example used earlier of a group of towns with sanitation as a collective action problem. We have not all come to an agreement about waste disposal but a man arrives in our town and says that he is going to stop everyone dumping their waste in the river and is going to make people pay taxes to build a sanitation system. With only a handful of soldiers and a few monitoring agents, he is not a very credible enforcer, hence our *preference* is to resist his attempts to act as the external enforcer (and, in addition, we of course can't be sure that he won't run away with our money). Our *ability* to resist his attempts is also high, as his monitoring and coercive capacities are very limited. If we were balloted at this point as to whether or not to accept his proposal, we would probably reject it. If he is bound to accept our decision then he will have to withdraw.

It is only if over time, independent of our preferences, he acquires further coercive capacity – from processes external to what is happening in our towns – and returns with a whole garrison of soldiers and an extensive number of monitoring agents that this situation will change. As he becomes a more credible enforcer the probability to escape the detection and punishment diminishes, so does the strength of our preferences to resist. At this point we might become concerned about tying his hands, because now he actually has the power to enforce.

The argument presented above suggests that different pathways of institutional sequencing will lead to very different outcomes, and that only one of these leads to the constrained Leviathans we know to be the key to human flourishing. Allowing states to use force to become credible enforcers and then constraining them is how a state that can sustain an efficient social order comes into being. Or, in the words of the authors of the Federalist Papers, ‘you must first enable the government to control the governed, and in the next place oblige it to control itself’. In contrast to those that argue that ideal institutions are logically impossible because of the inherent tension between the state’s need to exercise power over the governed, and the governeds’ need to constrain the state in its exercise of power (Miller 2000), we posit that ideal institutions are possible, but are only reached by one pathway of institutional sequencing: credible enforcement before credible commitment. The alternative pathway of institutional sequencing, credible commitment before credible enforcement, does not lead to a welfare maximizing constrained Leviathan. Instead, tying the hands of a weak state traps societies in a sub-optimal equilibrium where citizens want to shirk on their individual contributions to public goods production and rulers cannot prevent them of doing so.

## **Empirical Analysis**

To illustrate our theoretical argument we examine cases of countries that followed these two different pathways of institutional sequencing by democratizing at different levels of state development: Sweden, which was arguably already a very credible enforcer when it fully democratized in the beginning of the XXth century, and Ireland, which was far from being a credible enforcer when it became independent and fully democratic in 1922. These cases are selected because they are in many ways very similar in terms of the usual explanations of how states can solve collective action problems. They are both small states, with populations of four and nine million respectively, on the geographic periphery of Europe, with relatively homogenous ethnic populations. They also became full-pledged democracies at about the same time: Sweden in 1921 and Ireland in 1922.

However, they are very different in terms of their ability to solve collective action problems. The Swedish state is one of the least corrupt, most effective, highest taxing, and most expansive providers of universal public services like education, healthcare and transport. By contrast the Irish state has faced persistent governance problems, currently ranking 25<sup>th</sup> in the world in the 2012 Transparency International CPI rankings, with limited universal services in areas such as healthcare, persistent problems with fiscal discipline (most acutely in recent years) and one of the lowest tax yields in the OECD. These states are different in the outcome under study here, and also in the key independent variable of interest – whether or not the state was a credible enforcer when it democratized (described in more detail below). In this sense the case selection approximates a most similar systems design.

However, our main focus is on illustrating within case variation, and particularly how democratizing when the state was not a credible enforcer affected its ability to become one, in the Irish case; and how being a Leviathan when the state democratized enabled the state to become an effective solver of collective action problems, in the Swedish one. The use of these two cases permits us to illustrate the two alternative pathways, and also permits better measurement of our key concepts (for example, just how poor the Irish state’s ability to monitor effectively is made clear by how effective the Swedish state was).

As we are concerned with tracing causal pathways over time within case we use process tracing. Process tracing is a method which ‘...attempts to identify the intervening causal process – the causal chain and causal mechanism – between an independent variable (or variables) and the outcome of the dependent variable’ (George and Bennett 2005:206-207). It involves a research process whereby ‘the cause-effect link that connects independent variable and outcome is unwrapped and divided into smaller steps; then the investigator looks for observable evidence of each step’ (Van Evera 1997:64). Figure 1 outlines the smaller steps of the causal argument and the observable evidence, also known as the diagnostic evidence (Collier 2011), of each step.

## Sweden 1630s – 2012: Credible Enforcement Before Credible Commitment

Sweden’s steps towards a constrained Leviathan were quite gradual: from absolutism for the most of its pre-XVIIIth century history, to the Age of Liberty (1719-1772) when the power of the monarch was offset by the assembly of four estates with a franchise limited to a couple of percent of the population belonging to the nobility, the burghers, the clergy and propertied peasants (Roberts 1986), to *coup d’état* by Gustav III and the restoration of absolute monarchy until 1809 when the

new constitution (*Regeringsformen*), which institutionalized ration of power in its contemporary form but still with a limited franchise, was adopted. By 1921, when tax weighting of votes was ended and the first elections under universal suffrage were held, the state was already a credible enforcer as, since at least the XVIIth century, the Swedish state had, mostly for the purposes of warfare, acquired formidable capacity to project power over its citizens, monitor, enforce and mobilize resources.

As in most European states, the processes of state expansion had been driven by military competition and warfare. Between 1520 and 1720 Sweden fought ten wars with Denmark for dominance in Northern and Baltic Europe. During this period Sweden was one of the most militarized states in Europe: in 1600, 1.5 percent of the population were troops under arms, a higher level than France, England the Netherlands or Russia (Tilly 1992: 59). Sweden continued to have the highest proportion of its population in a standing army of all the leading military European states well into the nineteenth century, and some have argued that the demilitarization of Swedish society did not take place until the 1920s (Arteus 1982, quoted in Knudsen and Rothstein 1994).

This militarization and the military successes it produced resulted from the creation of a state apparatus capable of controlling and mobilizing extensive resources. As the lack of monetization in the economy in the seventeenth century meant that the Crown was unable to hire mercenaries to the extent needed, moves were made towards introducing a standing army supported through transfers from the peasant economy. In 1690 Karl XI introduced the *Indelningsverket*, a system for paying soldiers from the produce of the peasant economy. Farm produce was paid in kind by units of five farms to support individual soldiers or officers, in terms of both food and housing. The success of this system, which persisted until 1873, ultimately rested on the state's ability to broadcast power down to the lowest level of production, individual peasant households: 'the control system inherent in a standing army billeted throughout the countryside reached every corner of the land' (Lindgren 1985: 334).

In strong contrast to the Irish case, a critical component of the Swedish state's burgeoning power was the monitoring capacity provided by the Church. Unlike in Ireland where the Catholic Church was constitutionally restricted under British rule until 1829, and so a source of resistance to state power, the Protestant Church in Sweden played a key role in expanding state reach throughout the population. One historian has gone so far as to say that the Church was the state's 'instrument for controlling the population' (Lindgren 1985: 332). When Gustav Vasa dispossessed the clergy and created the Protestant Church subordinate to the state, the new clergy was given exclusive responsibilities in monitoring and record keeping for the state. Clergymen were

responsible for keeping lists of those obliged to pay tax and of males eligible to become soldiers. These monitoring functions were legally enshrined in the 1686 Ecclesiastical Laws which confirmed the Church as being subordinate to the Crown and made the Church's role in controlling the population through its list-taking one of the legal duties of Swedish clergymen. This very extensive monitoring meant that although the peasantry might have been 'free' from feudal domination, they were very much under the control of the state. With this monitoring power, the state had a very high capacity to detect those defecting and free-riding and punish them.

The case for Sweden being a Leviathan as early as the beginning of the XVIIth century is also evidenced by its remarkable achievement as the pioneer of cadastral maps. A cadastral map is 'a large-scale cartographic record of property ownership that preserves not only the dimensions and shape of an owned land parcel on the earth's surface but also the spatial relationship of all such individual parcels to each other' (Conzen 1994: 1637). Such registers normally also include details of the land ownership, the tenure, the cultivations (if in agricultural use), and the value of individual parcels of land. The cadastral map is widely understood as an instrument of control of the governed (Buisseret 1992) that both 'reflects and consolidates the power of those who commission it' (Kain and Baigent 1992: 344) and 'a historically important, partisan, and active tool of statecraft' (Conzen 1994: 1644-1645). As such it is difficult to underestimate the strength of the Swedish Leviathan as in 1630, almost a century before the Age of Liberty, the first mapped cadaster (*geometrisk jordbok*) was carried out by a western nation (Kain and Baigent 1992: 340). It is interesting to note that not only of Swedish lands but also those lands that were in the sphere of geopolitical interests of Sweden were subject to cadastral mapping by the Swedish state.

The state's status as a Leviathan with a high capacity to monitor and enforce can also be seen in the area of taxation. Although the state's ability to raise revenue was substantially constrained, before industrialization, by the low degree of monetization of the economy and the weakness of towns, the usual sources of capital in early modern Europe, the Swedish state was collecting taxes, both in cash and in kind, from a broad base of the population long before democratization. During the early modern period, in addition to the *Indelningsverket*, the Crown collected a wide range of tithes, levies and taxes from the peasantry. They were able to do so because 'the state bureaucracy extended its monitoring directly to peasants and labourers' (Tilly 1992: 136). In later periods there was a general property tax, the *grundskatt*, and the *bevillning*, assessed by the local sheriff on a wide range of taxable goods, services, property and income, which was simplified in 1861 into a levy on property and income (Steinmo 1993). In 1910, before the extension of the franchise, the progressive broadly based income tax was introduced. In 1920, 80 percent of the



economically active population were registered with the tax authority (Flora and Heidenheimer 1981: 193).

With these powers in place before meaningful democratic control over the state was institutionalized, the Swedish state has been able to consistently increase its revenue collection to the point where it is today one of the highest tax performers in the world (von Haldenwang and Ivanyna 2010) with average tax yields at 48 percent of GDP (including social security contributions) in 1990-2011 (OECD 2012). As Steinmo has argued ‘the hallmarks of the Swedish tax system have been its broad base, its stability and its high yield’ (Steinmo 1993: 41). Broad based, high yield tax collection is only possible where the state has a high degree of administrative reach, i.e. where a high proportion of the population are registered with the tax authority and are effectively within the tax net. As argued above, these processes were in place well before not only 1921 when Sweden became a fully-fledged democracy, but also before the Instrument of Government of 1809 when the separation of power between the king and the non-elected estate assembly (Riksdag of the Estates) was provided for by law. Although we do not have the counterfactual of whether or not the Swedish state would have been able to achieve them if they had not been in place before democratization, we can say that the modes of taxation which emerged would not have been possible in a state that did not have such effective monitoring and enforcement capacities.

The Swedish case offers an example of a state that had considerable powers of enforcement before both the separation of power and general elections were established. After their enfranchisement, Swedish citizens did not use the instruments of democracy to reverse high levels of state control (i.e. to leave the tax net). Instead they harnessed the power which credible enforcement and credible commitment provided for solving CAPs towards welfare enhancing ends. We are not arguing here that being a credible enforcer before democratization caused the construction of the extensive welfare reforms that happened subsequently, but that they were a critical enabling factor. Sweden approximates the ideal-type credibly constrained Leviathan capable of solving collective action problems, but it reached that state via a very particular path of institutional sequencing.

## Ireland 1922-2012: Credible Commitment Before Credible Enforcement

When Ireland became an independent and democratic country in 1922 the state itself was far from being a Leviathan.<sup>4</sup> The persistence of relatively stable English rule from the seventeenth century onwards had not been achieved through the creation of a strong Leviathan state capable of monitoring the population, broadcasting power and maintaining control. Rather, as subsequently replicated in other colonies, the English authorities ruled through a relatively small, highly centralized state apparatus whose reach did not effectively extend beyond the contained geographic area of the capital. Throughout the rest of the state, the Crown ruled through a web of local power-holders (the Protestant Anglo-Irish aristocracy) who owned the majority of the land until the second half of the nineteenth century. Although there were persistent rebellions, the English forces were able to use targeted coercion to put them down. The Irish path to statehood, as Charles Tilly has argued, 'demonstrates the capacity of the region (England) to create a relatively weak state along a coercion intensive path' (1992: 158-9).

The weakness of the state, particularly in terms of monitoring and enforcement, is clearly demonstrated in the area of taxation. The state created by the English authorities had never acquired the capacity to raise taxes from the majority of the population, relying heavily instead on taxes from customs and excise. Taxes that were levied on a wider basis, such as the Hearth Tax of the seventeenth century, provoked high resistance, and the Hearth Tax was ultimately abolished in 1794. Even when the cost of the Napoleonic Wars led the Irish Chancellor of the Exchequer to announce 'taxes must operate on the bulk of the population' (quoted in Dickson 1983: 47), the Crown was unable to bring the bulk of the peasantry within the tax net. The state instead increased customs and excise taxes further and went heavily into debt.

This then was the state structure inherited by the first Free State government in 1922. The new administration had to face the task of dealing with the civil war and making the transition between administrations. In doing so there was both a great deal of continuity in much of the administrative apparatus *modus operandi* (for example, they continued to collect the same taxes in the same way as the English had), while also routinizing and institutionalizing many of the prac-

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<sup>4</sup> We date 'democratization' to 1922, although men over eighteen and women over thirty had been given the vote in 1918. In 1918 they were voting for 105 of 707 seats available in the parliament at Westminster. Radicalized by the events of Easter 1916, the majority of these seats were won by Sinn Fein, who refused to take their seats in Westminster and instead formed the first Dáil Eireann. It was not until the ratification of the Anglo-Irish Treaty in December 1922 that the state became Independent and legal provisions were put in place to make the Dáil the sole legitimate representative institution.

tices of the shadow state during the War of Independence (Garvin 1996). It was a very poor state with limited reach and a small tax base: in 1940 (the earliest date for which we have data), .3% of the economically active population was registered to pay tax ((Flora and Heidenheimer 1981: 193).

Although some important changes have occurred in the nature of taxation since 1922, the broad patterns have remained remarkably static and, in particular, the Irish state has persistently failed in its attempts to broaden the tax base. Although the share of indirect taxes has fallen and that of direct taxes has increased, indirect taxes remain the single largest category of taxation. The increasing share of direct taxes has mostly been driven by the introduction in 1960 of Pay As You Earn (PAYE) on employees deducted at source. By the mid-1980s 816 000 PAYE workers were paying 90 percent of total income tax (Hardiman 2002). The state has been unable to substantially expand direct taxes, particularly among groups, such as farmers and the self-employed, who have a higher capacity to evade.

### **Citizen preferences to free-ride**

Although we cannot directly measure citizen preferences to free-ride, particularly for the period before the emergence of randomly sampled opinion surveys, we can use levels of tax compliance and evasion as indicators of at least the ability to free-ride. Although usually tax evasion, by definition, remains hidden, and data for the start of our period of study is missing, data from the 1990s indicates that tax evasion was widespread and endemic. In 1993 the tax authority, the Revenue Commissioners, announced a voluntary tax amnesty where individuals could declare income and assets, without being fined and only being liable to pay tax at a fixed rate of 15 percent. The £240 million raised via the amnesty indicated that there was £1.6 billion in hidden funds within the economy (Hardiman 2002). Similarly, an inquiry into the Deposit Interest Retention Tax (DIRT) in the early 1990s uncovered evidence that from 1986 to 1999 302,000 bogus non-resident accounts, holding £1.5 billion, had been set up by residents for the purposes of tax evasion. One study in 1997 calculated that a relatively conservative estimate for overall levels of tax evasion would be 3 percent of GDP (Fagan 1994).

### **The Uses of Democracy to Constrain the State from Becoming a Credible Enforcer**

When the democratic Free State came into existence in 1922, the state was far from being a credible enforcer, and as the high levels of tax evasion uncovered in the 1990s show, the state has struggled

to become more credible. This section argues that this was not simply a function of path dependency. Citizens have actively used the instruments of democracy – electoral competition, independent courts, and civil liberties – to successfully resist the state’s attempts to extend its control and become credible. The fact that the Irish state’s hands were tied before it became a Leviathan has played a large role in preventing it from becoming one.

Taxation, and particularly the widening of the tax net, has been a focus for political debate and conflict, particularly since the 1960s (Hardiman 2002). Governments who have promised to and succeeded in cutting taxes have been rewarded at the polls for doing so. Governments who have attempted to broaden the tax base have met with significant resistance in the form of mass protests and legal challenges. This section describes these processes, with a focus on the period after 1970.

From the 1970s onwards, governments who have tried to increase taxes and broaden the tax base have met with widespread resistance. The Fine Gael-Labour coalition government who came to power in 1973 and tried to introduce new taxes of capital gains, capital acquisitions and wealth lost power in 1977 to Fianna Fail, who went on to abolish a plethora of taxes – both the newly introduced wealth and capital gains taxes, but also taxes on cars, and the very unpopular domestic rates charged by local authorities on all commercial properties. Although tax policy was not the only issue leading to the coalition’s defeat, Fianna Fail had promised the tax abolitions in advance of the election. In particular, rural farming constituencies were mobilized against the government because of the wealth tax, which had included assets such as land.

Despite the tax abolitions undertaken early in their term, the Fianna Fail government soon had to grapple with the underlying structural issues their tax cuts had exacerbated: the inadequacy of the tax base to meet rising expenditure demands. In 1979 they attempted to raise additional taxes from one of the most under taxed constituencies – farmers, who remained largely outside the tax net. In the 1979 budget, the government announced a 2 percent levy on farm produce. The Irish Farmers Association (IFA) launched a series of protests and within a year the government was forced to abolish the levy. They tried again with a resource tax in 1980 but compliance was very low, with only £700,000 of the projected £7 million being collected (O’Leary 1984). The government had to again bow to resistance and not only abolish but also repay all taxes that had been paid.

Democratic freedoms to protest and strike were used by all sides in debates on taxation. Employees, who shouldered the great majority of the direct tax burden, also mobilized to resist further tax increases. In 1980, prior to the budget, an estimated 700 000 employees, led by the

trade union movement, marched across the country (Sweeney 1983). One of their key grievances was the unfair distribution of the tax burden due to the government's inability to extend direct taxes beyond employees. In response the government promised a new Commission on Taxation to examine the issues. Industrial unrest around fiscal policy and budget proposals contributed to the fall of two short lived governments in the early 1980s.

Caught between citizens outside the tax net refusing to be brought within it and citizens within it refusing to pay more tax, subsequent governments were forced to look elsewhere for revenue. In the 1980s the gap between revenue and expenditure was increasingly filled through borrowing. Successive governments had failed to widen the tax net and resistance from employees made it politically challenging to tax them further. To plug the fiscal deficit governments resorted to borrowing, and debt began to grow. By 1987 debt was 117 percent of GDP (Sommers 1992).

Even when, in the face of a fiscal crisis in the late 1980s, the government again tried to broaden the tax base, they faced significant challenges through democratic mechanisms. In 1987 a minority Fianna Fail government tried to engage in base broadening and to reform and strengthen the Revenue Commissioners. In 1988 they introduced a voluntary tax amnesty and the scale of self-employed under-reporting became apparent through an unexpectedly high yield. A second amnesty in 1993 again confirmed widespread non-compliance.

The 1993 amnesty also provides an example of how judicial independence and constitutional protections hampered the state's ability to extend the tax net. The ability of the Revenue Commissioners to use these amnesties as a means of bringing people within the tax net was undermined by the inclusion of a secrecy clause prohibiting Revenue from cross checking between those who availed of the amnesty and their regular tax returns. This clause effectively removed the usefulness of the Amnesty as a tool of widening the tax net. Although the Comptroller and Auditor General challenged the constitutionality of the clause in court, they lost the case.

In the 1990s rapid economic growth temporarily masked the underlying weakness of the tax system by increasing employment, providing increased revenue from indirect taxes, and, in particular, stamp duty on property sales. The Fianna Fail/Progressive Democrats coalition, during the ten years they were in government from 1997 to 2007, pushed for systematic reductions in income tax rates, tax credits and exemptions, delivered through social partnership agreements with the trade union movements and ever greater exemptions from tax liability altogether. By 2007 the tax burden as a percentage of gross wage earnings for a single persons without children was 13.9%, almost half the OECD average of 25.4% (OECD 2010).

Rather than broadening the tax base in a way that would make it sustainable, governments in the late 1990s and 2000s made decisions that eroded the tax base. This underlying weakness became clear again when recession began in 2008. Excluding debt from the banking crisis, the gap between revenue and public expenditure has been made clear: in 2012 it stood at 15 billion euro, or 8% of GDP (Government of Ireland 2013). In addition to cutting expenditure, there have been efforts to fill this gap between by introducing a number of new taxes: the universal social charge, the household levy, the pension levy. But they have again faced serious compliance issues: by the statutory deadline for paying the household levy the compliance rate with the household levy was 50 percent (Irish Times 2012).

### **State Inability to Solve Collective Action Problems**

A significant dimension of the Irish state's current fiscal challenges can be seen to result its inability to solve the collective action problem of collecting tax. The state that the democratic governments from 1922 onwards inherited from the period of British rule was weak and highly centralized, with low enforcement and monitoring capacity, and so ineffective at collecting tax from the broad base of the population. Subsequent governments have been fundamentally unable to alter this situation as citizens have used the electoral process, the right to unionize, strike and protest; and judicial independence to curtail the state's ability to extend the tax net. To begin with an enforcer lacking credibility, the state has been unable to become a true Leviathan and its inability to solve collective action problems has persisted.

### **Conclusion**

The literatures on collective action and credible commitment have contributed hugely to our understanding of the kinds of states that enable human flourishing. States that are both strong and democratic are the most capable of delivering human development, as they have the infrastructural capacity to deliver improved outcomes, and the democratic character that ensures this capacity is used to enhance rather than undermine human welfare.

However, knowing what the ideal institutions are does not tell us much about how to get them. In fact, some scholars reached a rather pessimistic conclusion that due to the logical impossibility inherent in the problem of collective action and credible commitment, an ideal solution to the problem is not possible at all (Miller 2000). Their pessimism is the result of their neglect

of issue of timing. By starting their analyses at the point at which states are already Leviathans, most existing rational choice accounts present a fundamentally static and ahistorical understanding of state-building. Here, we have tried to redress that weakness by harnessing the core insights in these theories into a dynamic model of state development. We argue that thinking historically about the key problems of effective social order – collective action and credible commitment – illuminates the paramount importance of sequencing for achieving it. The message of our analysis is clear: the claim that (close to) ideal institutions are logically inconsistent is incorrect. Ideal institutions are possible, but there is only one pathway to their emergence: credible enforcement before credible commitment.

As the case studies show, the Swedish state had become a credible enforcer long before fully unleashing democratic control, and hence was able to use the power of the state to create one of the most efficient social orders in human history. On the other hand, the example of Ireland shows how tying the hands of a weak state can prevent the state from becoming a Leviathan in ways that lead to sub-optimal social outcomes. Illuminating as the case studies are, they serve to illustrate rather than test our argument. Much more research is needed, both to test the micro foundations of the theory and macro historical processes that unfolded and are unfolding in a variety of different states. One of the most promising avenues would be to assess the impact of the historical strength of the monitoring and coercive capacities of the state on the current levels of human development. Equally important is to analyze the impact of rapid democratization experienced by a number of countries in the 3<sup>rd</sup> and 4<sup>th</sup> waves with different endowments in terms of the credibility of the state as enforcer on their progress towards socially beneficial outcomes.

The argument we have presented here is analytical and theoretical, rather than normative. It is much more difficult to normatively argue for ‘state-building first’, when state-building inherently involves coercion and usually violence, than it is to point out the analytical implications of different institutional choices. Democracy has many intrinsic values that may be more important, in normative terms, than its impact on state-building. However, the potentially distasteful normative implications of an analytical argument are not a reason to withhold it. If anything, the strongest advocates of democracy have the greatest responsibility to know its weaknesses, so that they can protect it from itself. If there is any policy implication to be made from our argument, it is that we need to have a more realist and theoretically informed understanding of what democracy can and cannot do.

# CAUSAL CHAIN AND DIAGNOSTIC EVIDENCE FOR PROCESS TRACING

FIGURE 1, CREDIBLE ENFORCEMENT BEFORE CREDIBLE COMMITMENT

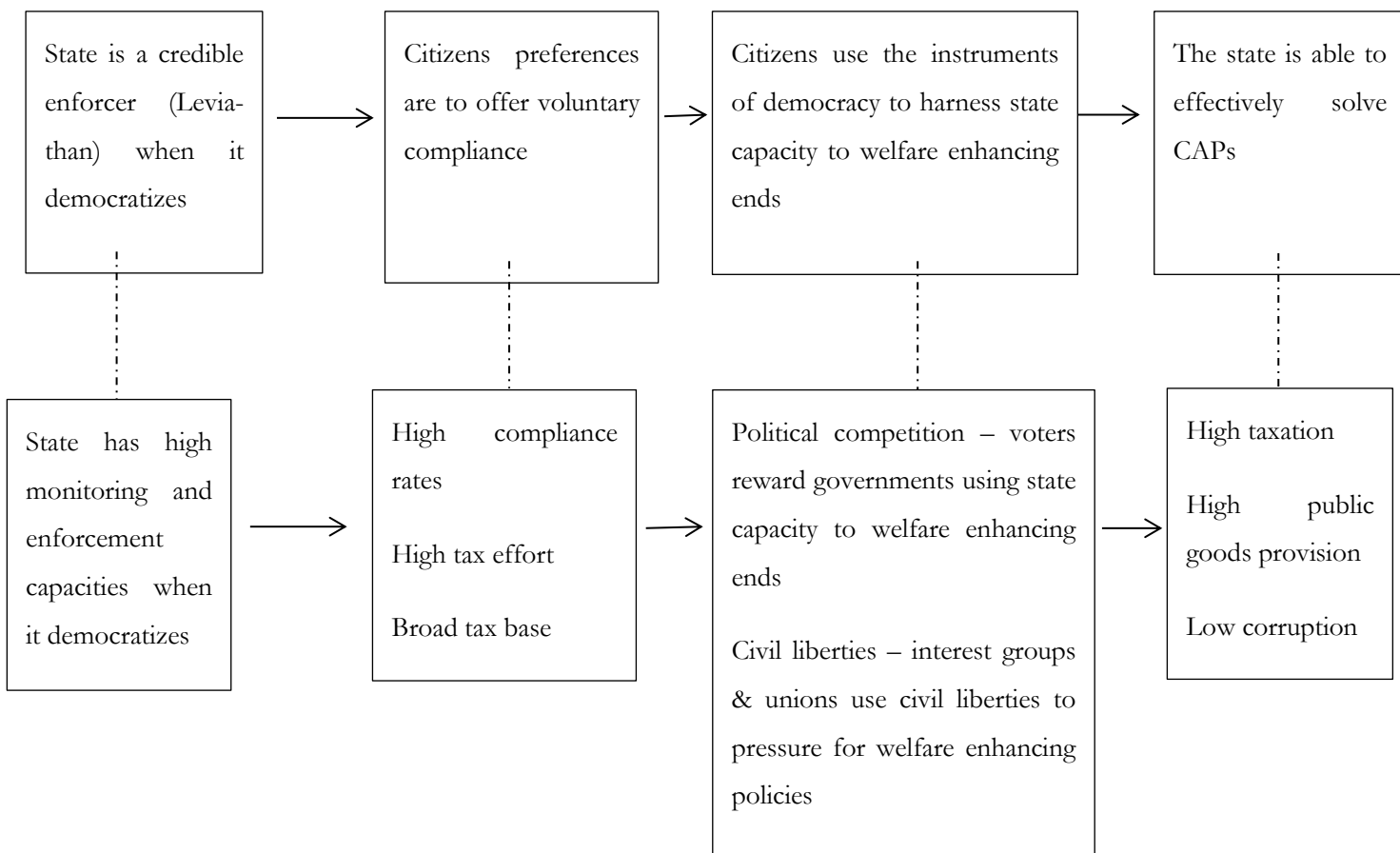
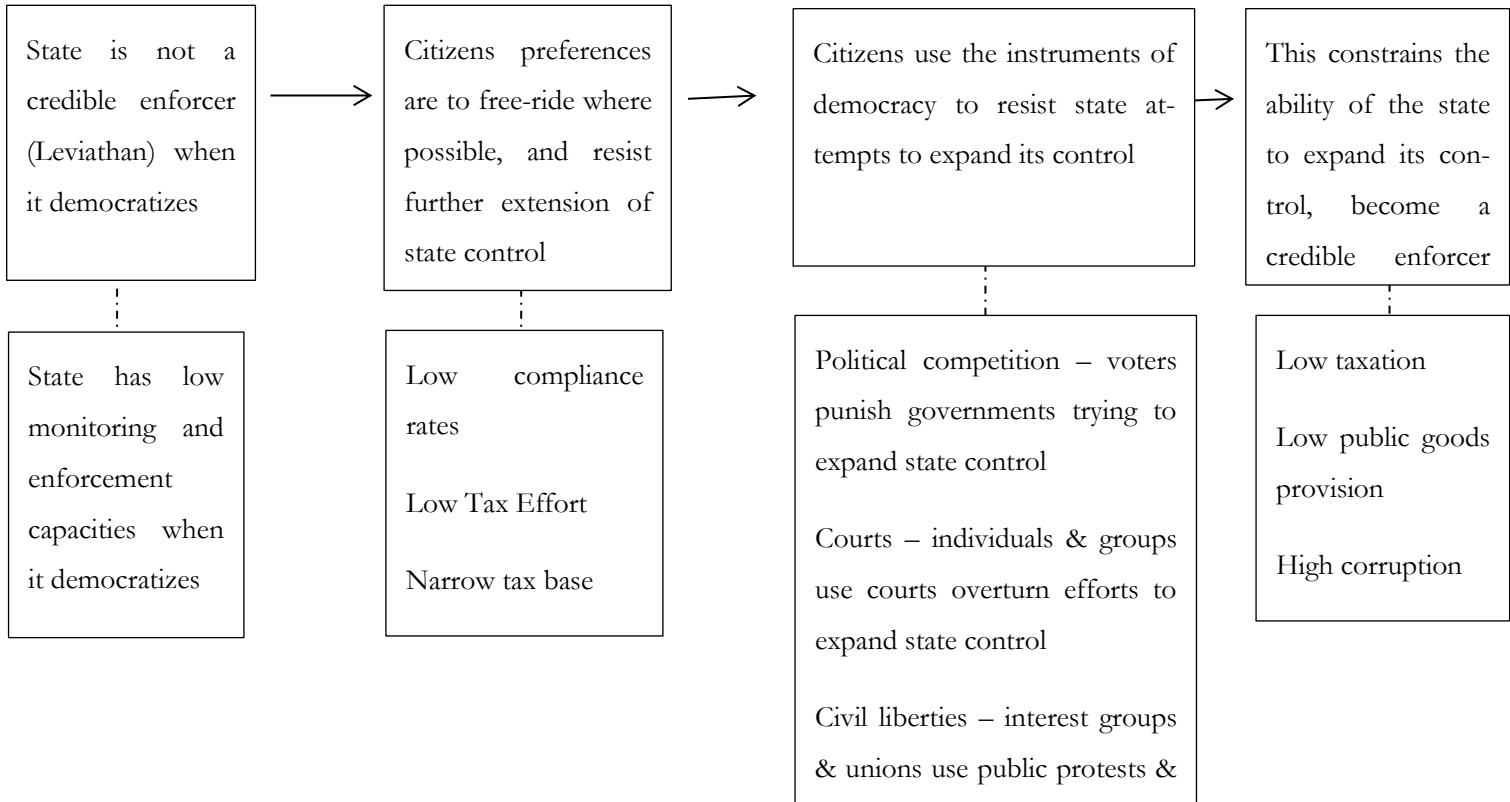




FIGURE 2, CREDIBLE COMMITMENT BEFORE CREDIBLE ENFORCEMENT



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