

Taxation and government quality

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Göteborg Studies in Politics 146

2016

Avhandlingen baseras på följande delstudier:

Broms, Rasmus. Colonial revenue extraction and modern day institutional quality in British colonies.

Rothstein, Bo och Rasmus Broms. 2013. Governing religion: The long-term effects of sacred financing. *Journal of Institutional Economics*, 9(4): 469-490.

Broms, Rasmus. 2015. Putting up or shutting up: On the individual-level relationship between taxpaying and political interest in a developmental context. *Journal of Development Studies*, 51(1): 93-109.

Broms, Rasmus. Government revenue and government quality in democracies and autocracies.

Akademisk avhandling för filosofie doktorsexamen i statsvetenskap som med tillstånd av samhällsvetenskapliga fakultetsnämnden vid Göteborgs universitet framlägges till offentlig granskning fredagen den 4 mars 2016, kl. 13.15 i Torgny Segerstedtsalen, Universitetets huvudbyggnad, Vasaparken 1, Göteborg.



DEPARTMENT OF POLITICAL SCIENCE

Broms, Rasmus. 2016. *Taxation and government quality*. Göteborg Studies in Politics 146, edited by Bo Rothstein, Department of Political Science, University of Gothenburg, Box 711, 405 30 Göteborg, Sweden. ISBN 978-91-628-9710-9 (print), ISBN 978-91-628-9710-9 (PDF), ISSN 0346-5942.

Abstract

The question of what creates government quality, or good institutions, is one of the central puzzles in modern political science. This dissertation investigates a hitherto underexplored cause: taxation. Historical research on early modern Europe has demonstrated that the collection of government revenue, mainly in the form of domestic taxes, was a main driver of the construction of a strong and meritocratic bureaucracy, and increased popular calls for accountability and representation, both key components of good institutions and the concept of government quality. Although a burgeoning literature has begun drawing parallels between this historical tax-driven process and institution building in today's world, there is still a dearth of systematic tests of the link. Through a series of empirical investigations, this dissertation seeks to fill this gap.

The introductory chapter presents global-level cross-country evidence that countries that impose higher taxes are also better governed. Through statistical analysis it furthermore finds a causal element present – taxation causes government quality, especially over the long run.

The long-term nature inherent to this tax-driven process is further emphasized in paper I, which links present day government quality in former British colonies to the extent to which the colonial power collected revenue during the beginning of the 20th century.

Paper II focuses on conditions further back in time, comparing religious financing in northwestern Europe during the early modern era and the Ottoman Empire. In the former setting, religious institutions were mainly financed and organized from below, leading to a strong tradition of local level accountability. In the latter such activities tended to be provided for, and accordingly controlled by, wealthy patrons. The study concludes that such variation in the way these essential public services were run can be tied to the subsequent divergence in level of democracy and openness in the Arab and western European countries.

Paper III investigates a crucial mechanism inherent to the taxation-government quality hypothesis, namely the idea that taxation activates citizens to take political action. By analyzing individuals' taxpaying behavior in sub-Saharan Africa, the study finds that people who pay taxes are more politically interested than those who do not pay.

Finally, paper IV returns to the present day context. It poses the argument that the generally positive relationship between taxation and government quality in large part is driven by democratic states. Through analysis on global cross-country data, as well as data on individuals in sub-Saharan African, this hypothesis is supported.

In sum, the findings in this dissertation support the notion of placing taxation more centrally in the ongoing discussion of how government quality and good institutions are created.

Keywords: Taxation, Government Quality, Institutions, State building