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# The Unexpected Politics of Taxation, Representation, and Growth

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Reliance on Rents => Stunted institutions

Lowers need to...

- organize producers
  - bargain with tax-payers
  - establish fiscal accountability
  - build autonomous, capable bureaucracies and deliver services
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## Aid can have slightly different effects in some cases:

- Institutional destruction
    - High transaction costs
    - Poaching government staff
  - Tax free benefits for aid personnel
    - Lowers tax collection
  - Moral hazard
    - Lower tax effort
    - Less likely to tackle corruption
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Tax Effort: “resource mobilization is not governed solely by economic factors”

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# Aid => lower Tax Effort

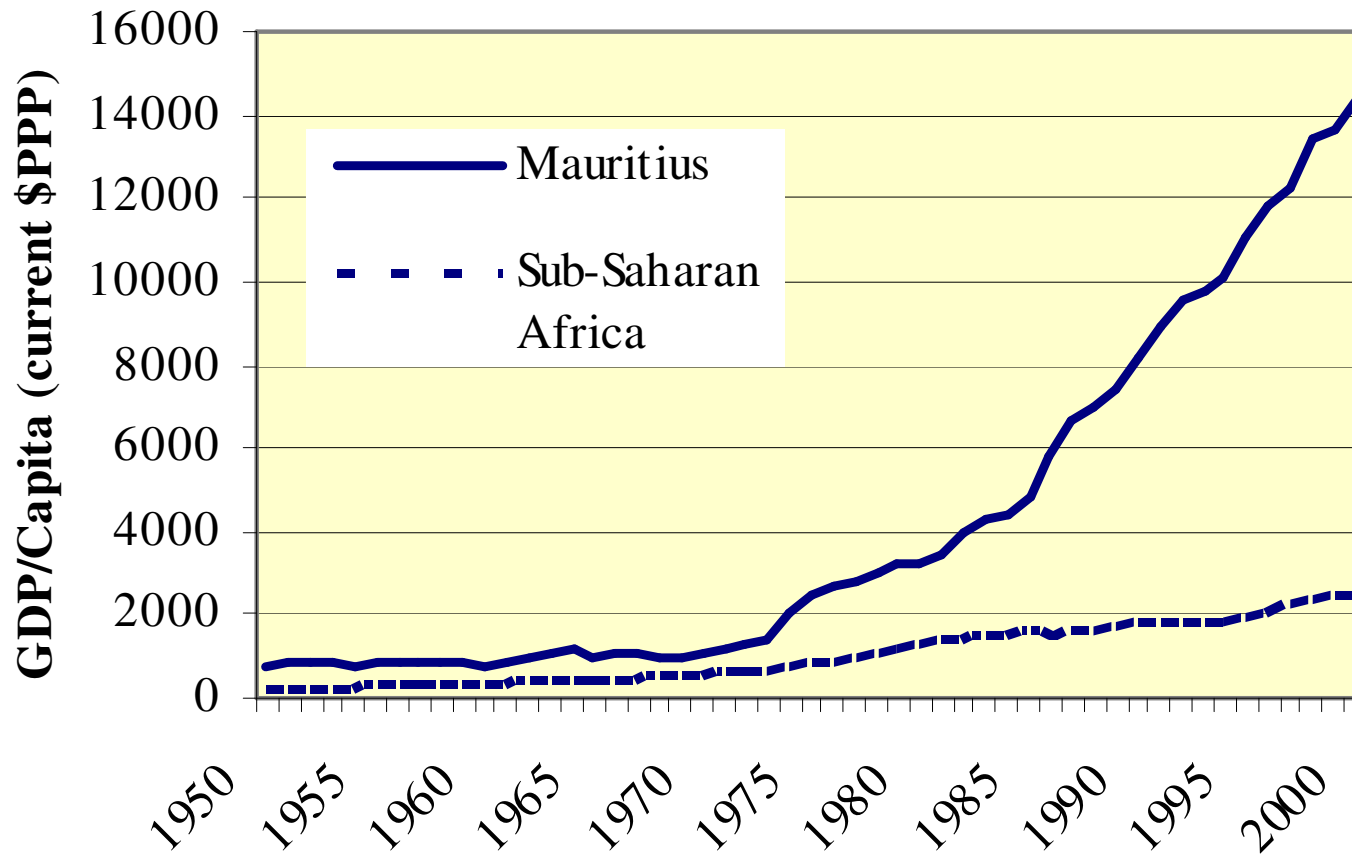
- Feyzioglu, Swaroop & Min Zhu (1998)
  - Brautigam and Knack (2004)
  - Gupta, Clements et al (2004)
  - Remmer (2004)
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# Mauritius Case

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**Figure 1: GDP per capita, Mauritius and Sub-Saharan Africa, 1950-2003**



**Table 2: Top Ten Developing Countries,  
Governance Indicators (1996-2002 average)**

Country	Voice & Acct.	Pol. Stab.	Gov. Efft.	Reg. Qual.	RuL aw	Cntrl Crptn	Avg.
CHILE	73	78	87	92	87	88	84
COSTA RICA	88	84	71	79	76	81	80
<b>MAURITIUS</b>	<b>77</b>	<b>88</b>	<b>75</b>	<b>67</b>	<b>79</b>	<b>73</b>	<b>77</b>
BOTSWANA	70	75	78	78	77	77	76
URUGUAY	74	75	75	81	72	76	75
SOUTH KOREA	68	59	76	70	78	71	71
MALAYSIA	45	69	80	71	75	73	69
TRINIDAD&TOB	69	61	70	74	68	66	68
NAMIBIA	61	60	69	65	76	76	68

**Table 3: Bonds Issued by Top 10 Most Active “Developing” Countries and Colonies, London Bond Market, 1871-1881**

<b>Country/ Colony</b>	<b>No. of Bonds</b>	<b>Dates of Issue</b>	<b>Av. Rate of Interest</b>
<b>Brazil</b>	<b>8</b>	<b>1852, 59, 60, 63, 65, 71, 75, 79</b>	<b>4.75%</b>
<i>India</i>	<b>12</b>	<b>**1872, 73, 74, 77, 78, 79, 80, 82, 84, 88, 93</b>	<b>5.2%</b>
<b>Chile</b>	<b>8</b>	<b>1822, 42, 58, 66, 67, 70, 73, 75</b>	<b>5.2%</b>
<i>Natal</i>	<b>5.4</b>	<b>1860-62, 67, 72, 76</b>	<b>5.4%</b>
<i>Mauritius</i>	<b>7</b>	<b>1862, 63, 65, 69, 76</b>	<b>5.5%</b>
<i>Cape Colony</i>	<b>7</b>	<b>1860, 61, 63, 65, 67, 73-80</b>	<b>5.6%</b>
<i>Ceylon</i>	<b>5</b>	<b>1863, 65, 67, 76, 80</b>	<b>5.6%</b>
<b>Turkey</b>	<b>15</b>	<b>1854, 55, 58, 60, 62, 63, 65, 69, 71, 72, 73, 74, 77, 78</b>	<b>5.9%</b>
<b>Argentina</b>	<b>7</b>	<b>1866, 70, 71, 72, 73, 74</b>	<b>6.3%</b>
<b>Egypt</b>	<b>11</b>	<b>1862, 64, 66, 67, 68, 70, 77, 78</b>	<b>6.5%</b>

Note: Includes only non-European countries and polities that are today considered low or middle-income. Colonies are in italics; \*\* indicates date of redemption. The ranking is based on number of bonds issued, not on their value.

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What's tax got to do with it?

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# Organization of Sugar Sector

- Small number of large plantations (50%)
  - Large number of small & medium planters (50%)
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Export taxes began soon after British took over in 1810. Institution-building stimulus:

- Stimulated & later subsidized formation of Chamber of Agriculture (1853, 1890s)
  - Underpinned calls for representative government (...1885)
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Allowed private sugar producers to join together to solve collective action problems and build institutions

- R & D (Agronomy Research Station, 1893)
  - Training (College of Agriculture, 1920s)
  - Marketing (Sugar Syndicate)
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# Allowed revenue deepening

- Underpinned colonial bond issues on London bond market
  - Export tax established credibility
  - But also allowed sugar producers to demand accountability, voice
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Sugar Export Tax fostered institution building ... and redistribution ... which helped stabilize the economy and consolidate the democracy

- Cyclone and Drought Insurance Fund (1946)
  - Sugar Industry Rehabilitation Fund (1948)
  - Sugar Industry Labour Welfare Fund (1948)
  - Progressive export tax (1975)
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# Export Tax and Ownership of Aid

- Lome Convention Sugar Protocol 1974
  - Channeled “aid” to Mauritius, 3 to 7 % of GDP
  - Aid = “earned income”
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# Taxation: build societal capacity and channels for collective negotiation

- **Chilean nitrate producers**

- Portion of tax => enforce producer quotas, facilitate marketing

- **Colombian coffee producers**

- Collect taxes on behalf of members

- **Ghana Private Road Transport Union**

- Identifiable Grouping Taxation (IGT)
  - Taxes in exchange for services
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# Recommendations:

- View tax as a resource for capacity-building in state and society
  - Delegating collection to group can be effective in weak states
  - Use group taxes to foster revenue/services accountability
  - Make aid more of an “earned” resource
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