



Challenges to Taxation and Redistribution in a Globalizing Economy

Where it all begins...

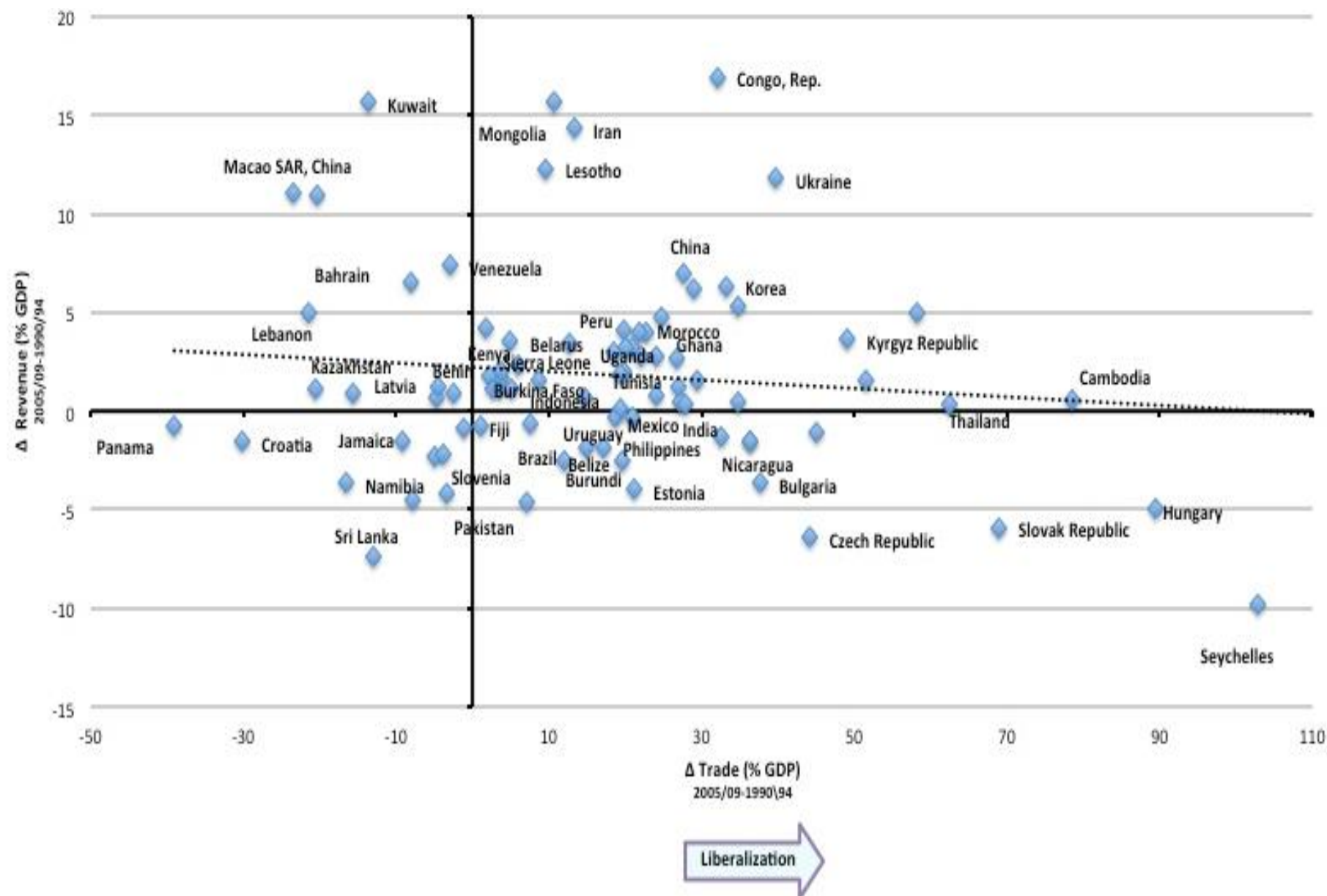
“A strong revenue base is imperative if developing countries are to be able to finance the spending they need on public services, social support and infrastructure.”

(IMF President Christine Lagarde)

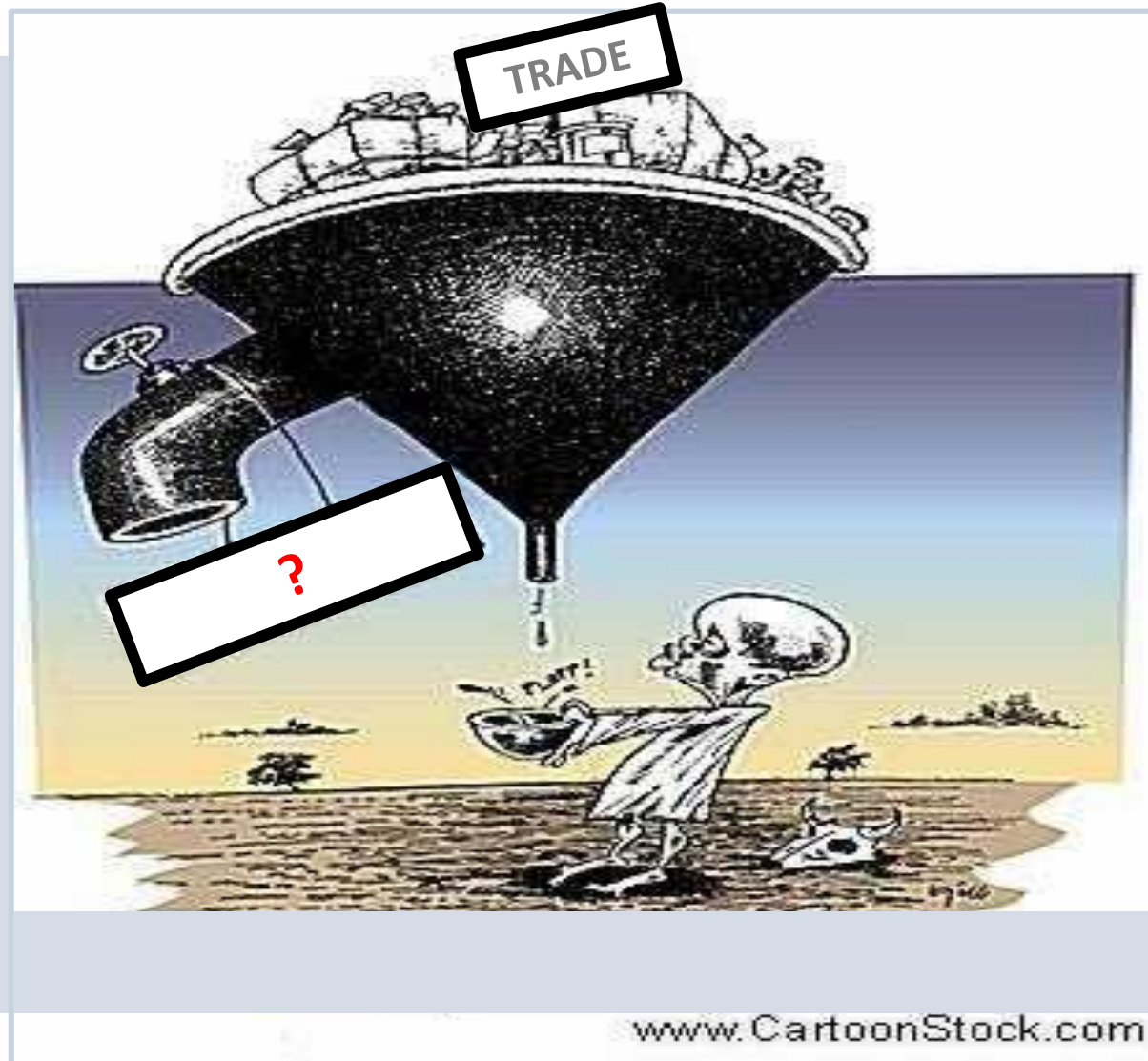
Government revenues in LDCs are declining overall



Liberalization and Change in Government Revenues



The Puzzle




Predictions (in brief)

Weak democracies have far greater difficulty than non-democracies increasing revenue (i.e., implementing domestic tax reform) after trade liberalization.

Interest groups and voters perceive that costs of reform outweigh benefits

- *Low confidence in government*
Weakly taxed taxpayers find reform particularly difficult in a liberalizing environment
- *Tools of coercion absent*

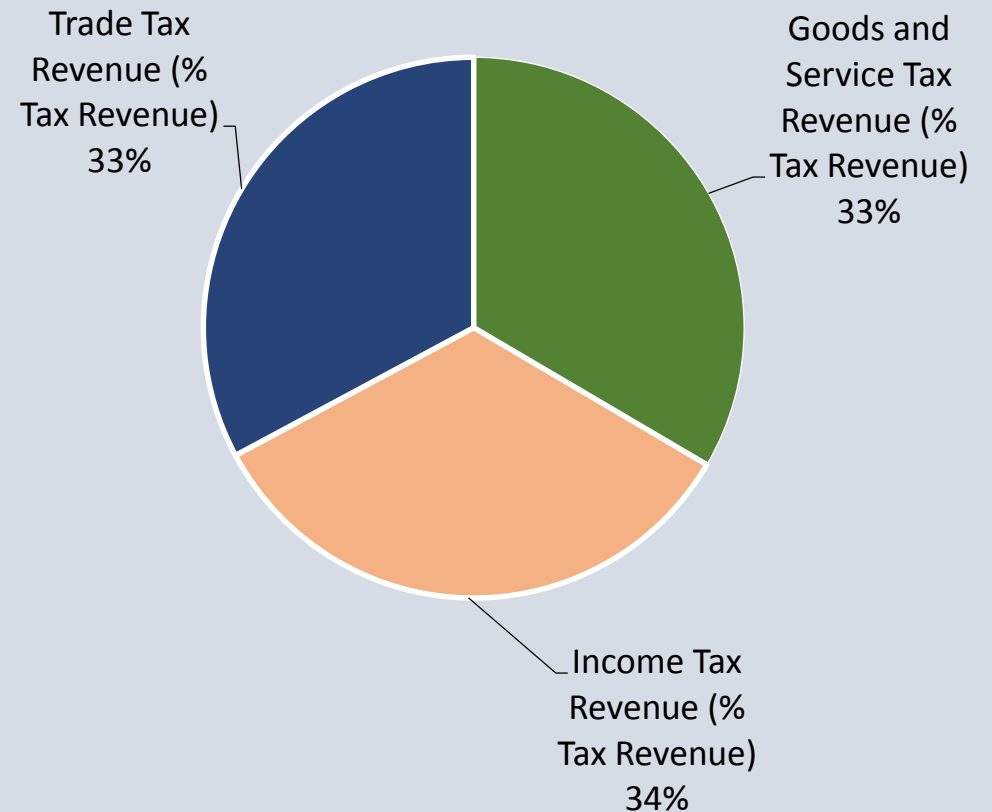
In more authoritarian countries, revenue mobilization continues unabated, though subtypes use different strategies



Research focus: The impacts of declining trade tax revenue

Declining trade tax revenue = 'revenue shock' because:

- Critical component of liberalization- via exogenous pressures
- Major tax resource in LDCs
- Easy to collect
- Increasing pressure for domestic tax reform



Revenue Mobilization is Harder for Weak Democracies in Globalizing Environment

Special interest groups and regular voters have low quasi-voluntary compliance and coercion.

- Pre-liberalization, business had government confidence in tax bargain
 - Trade-off: Democracies pursue inefficient public goods (Robinson and Torvik 2005, Keefer and Khamani 2005)
- Post-liberalization, business (and voters) = low gov confidence in tax bargain
 - Perceived Costs => poor public goods provision; and more competition, so lower profits
- No fear: Citizens face minimal consequences for cheating

Consequence: Citizens and business interests resist higher taxes

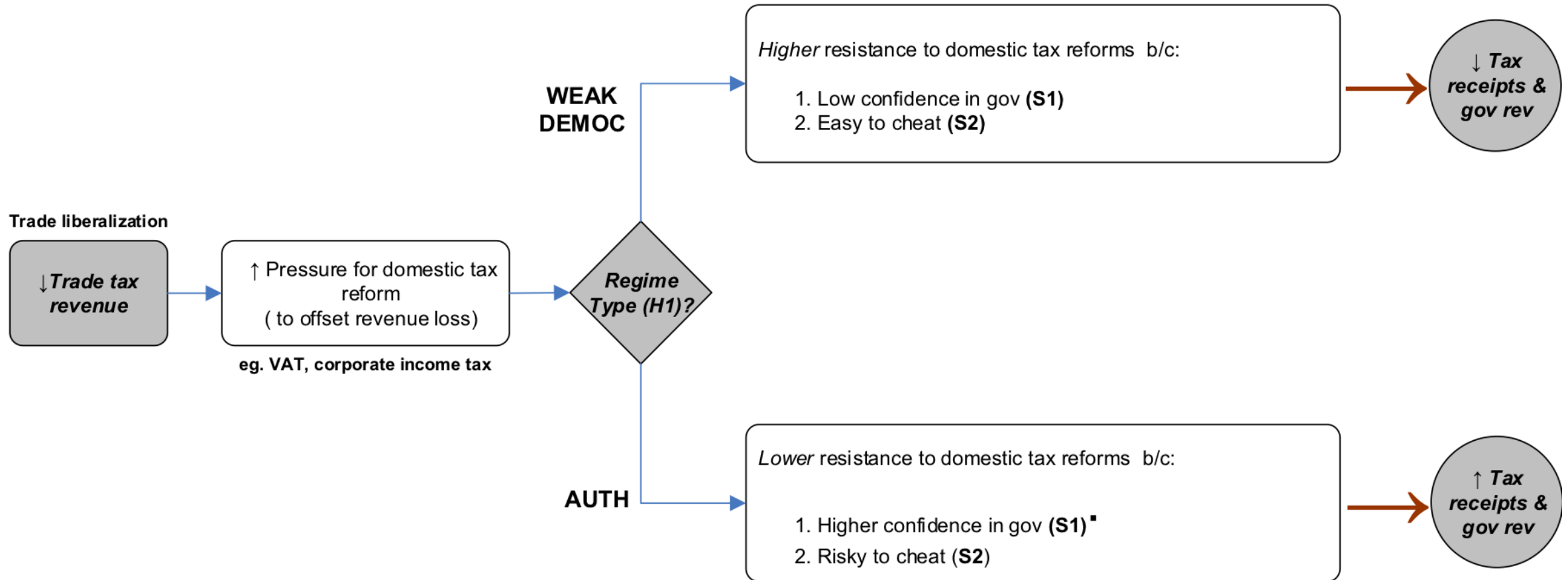
Revenue Mobilization is Easier for Authoritarian Regimes in the Globalizing Environment

Ruling mandate differs:

1. Small group of loyalists enjoy low taxes post-openness
2. Control opposition: threat of revolution (caveat- different regimes use different strategies)
 - All use repression, i.e., harsh consequences for cheating if caught
 - Political elites in 'liberal' regimes provide some basic public goods (e.g., Jordan, Tunisia pre-2011, Singapore) [Gandhi 2008]
 - Political elites in 'conservative' regimes engage mostly use fear (e.g., China, Syria, Kuwait)

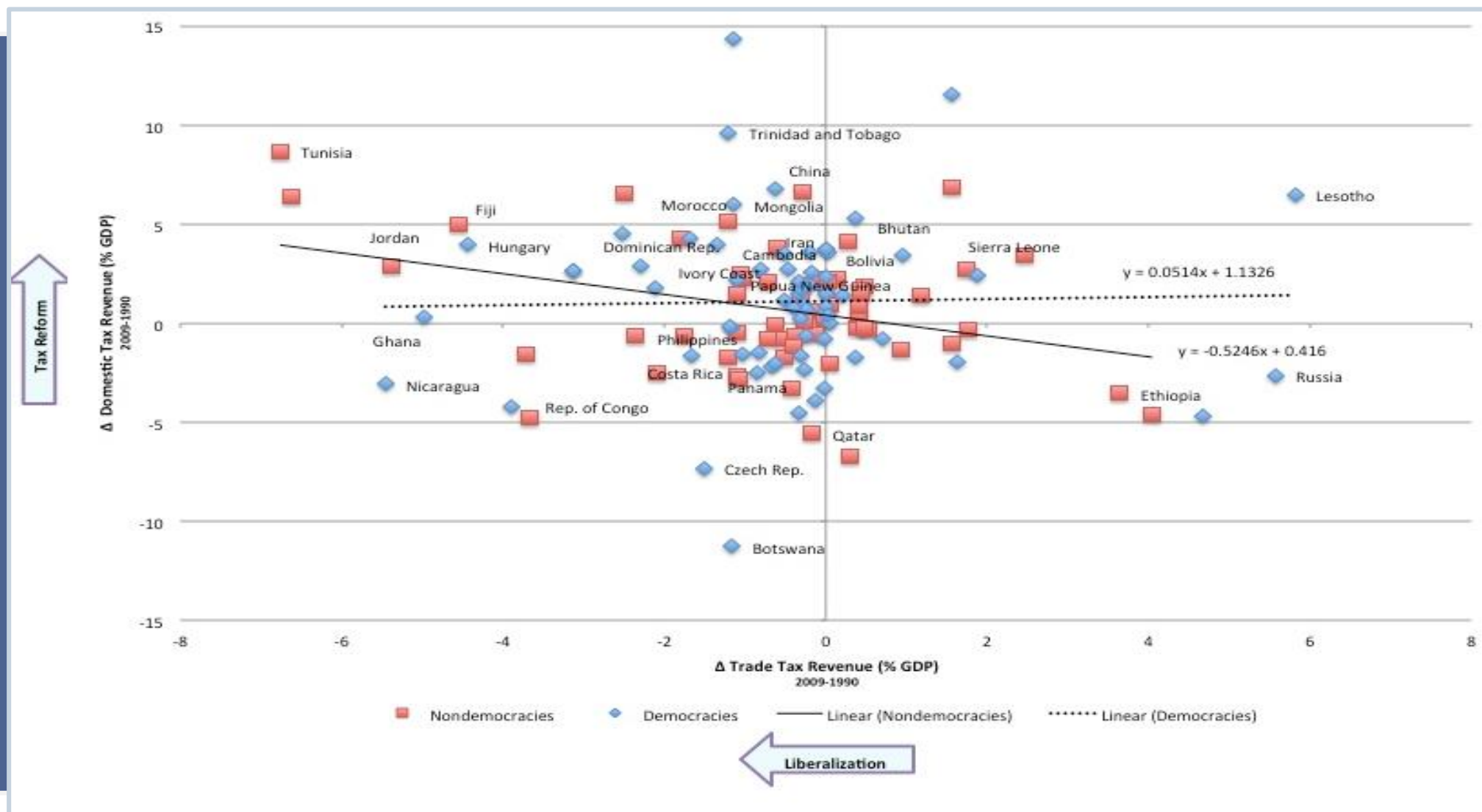
Consequence: Domestic taxes substitute for trade taxes

The Argument



*Liberal Authoritarian Regimes ONLY

Liberalization and Domestic Tax Reform Success



Trade Taxes and Revenue Trends

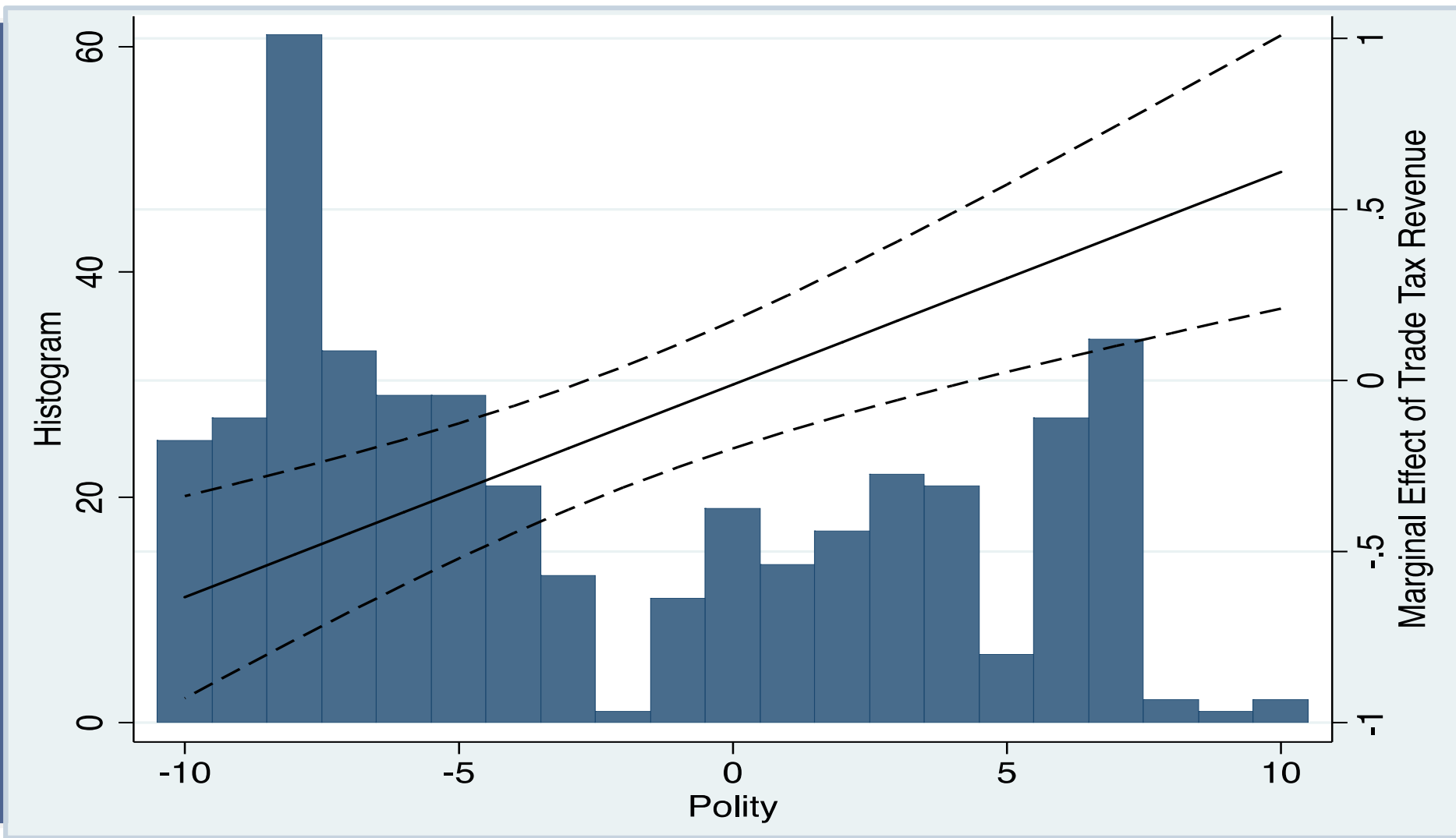
Democracies



Nondemocracies



Effects of (Declining) Trade Tax Revenue Conditional on Democracy



And so ..Democracies are more resistant to taxes (Mturk survey data)

	(1) Willingness Pay Taxes	(2) Willingness Pay Taxes	(3) Willingness Pay Taxes	(4) Willingness Pay Taxes
Democracy				
Liberal Authoritarian				
Conservative Authoritarian				
Income				
Employment				
Gender				
GDP per capita (logged)				
SSA				
Government effectiveness				
Pseudo R2				
Observations				

Global Survey Data (including business elites)

	Confidence in Government	Cheat on Taxes	Confidence in Government	Cheat on Taxes	Tax Inspections
Sample	All respondents	All respondents	Economic Elites: Business and High Skill Workers	Economic Elites: Business and High Skill Workers	All Firms
Source	WVS*	WVS*	WVS*	WVS*	WBES**
Democracy	-	+	-	+	-
Liberal	+	-	+	-	+
Authoritarian					
Conservative	-	-	-	-	+
Authoritarian					
Trade Openness			-	+	
	N: 18,064	N: 51,196	N: 3,376	N: 9,223	N: 38,714

In conclusion: Democracies...



Broader Implications:

Unintended consequences of globalization: Harder for weak democracies to raise much needed government revenues

- Public goods are even harder to provide
- Pre-existing inequalities are exacerbated
- Poverty rates
- Health and education outcomes

Why? local politics and institutions- often dominated by elites- mediate impacts of globalization

Democracies may be less equipped to spread the benefits of globalization, leaving the poor with modest gains



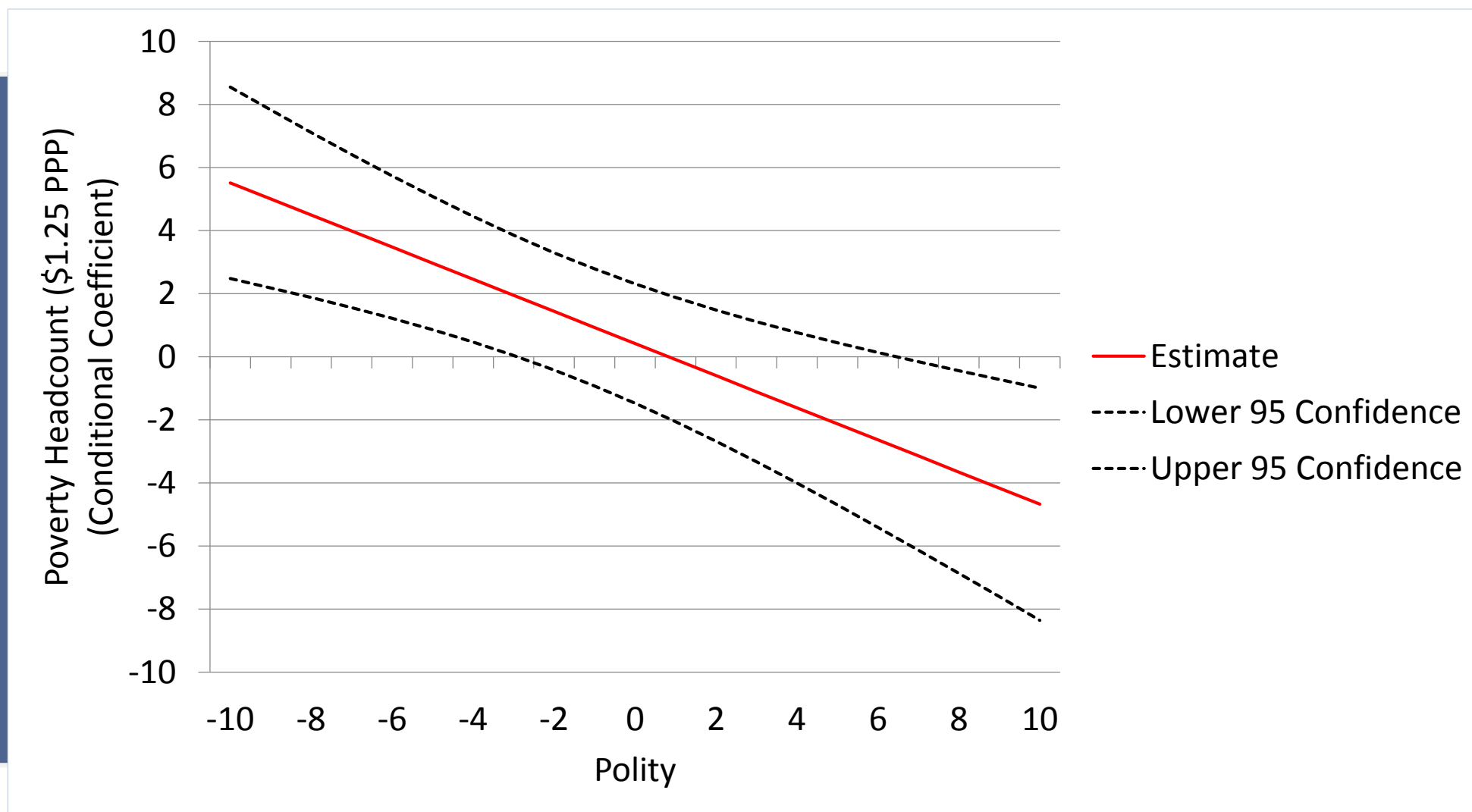


Holy Cow! Revenue-Starved Indian States Bank on 'Cow Urine Tax'

“If the government imposes a tax on cow urine, there can be nothing worse than this. I am not happy at all. We are going to agitate against this..”

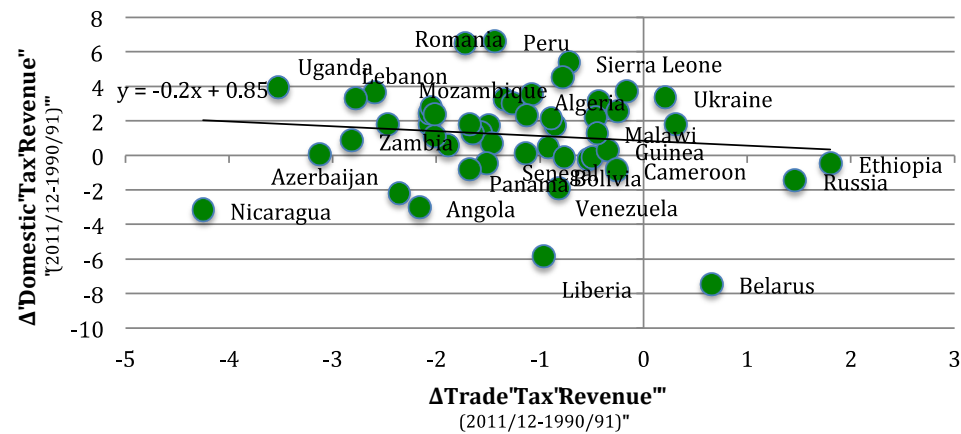
--Mahesh Agarwal, President of Telengana Guashala Federation

‘So what?’



Trade and Declining Revenues

Lower 'Bureaucratic Quality'



Medium and High 'Bureaucratic Quality' Countries

