

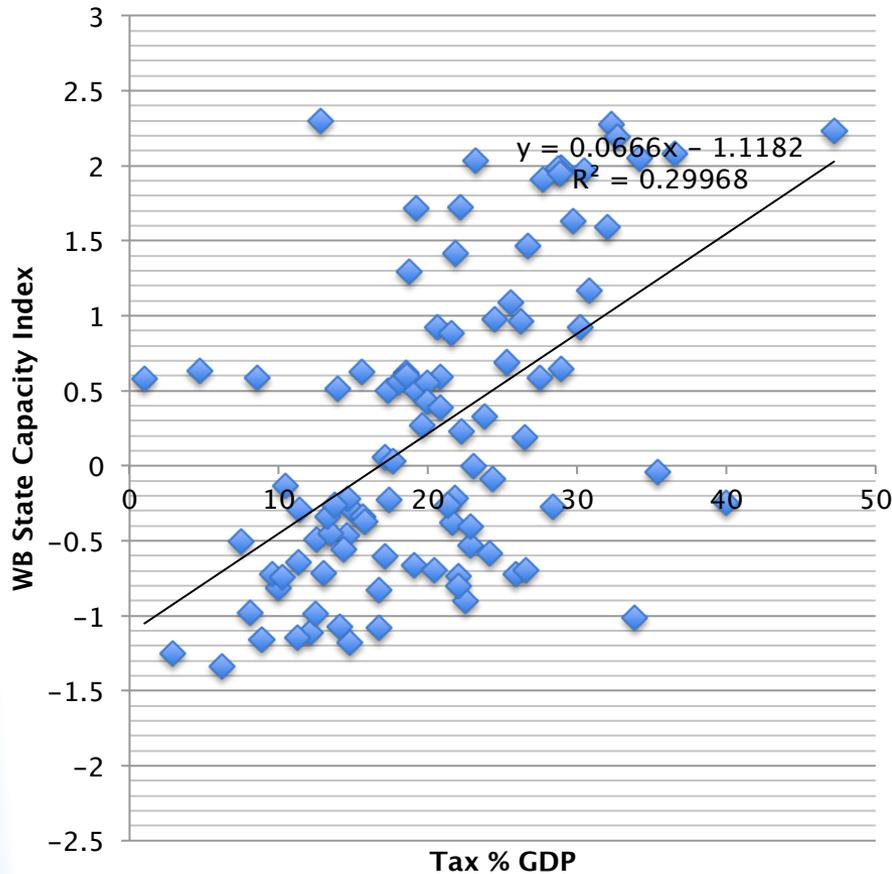
State Building and the Political Economy of Tax Reform

Key Messages and Practical Opportunities

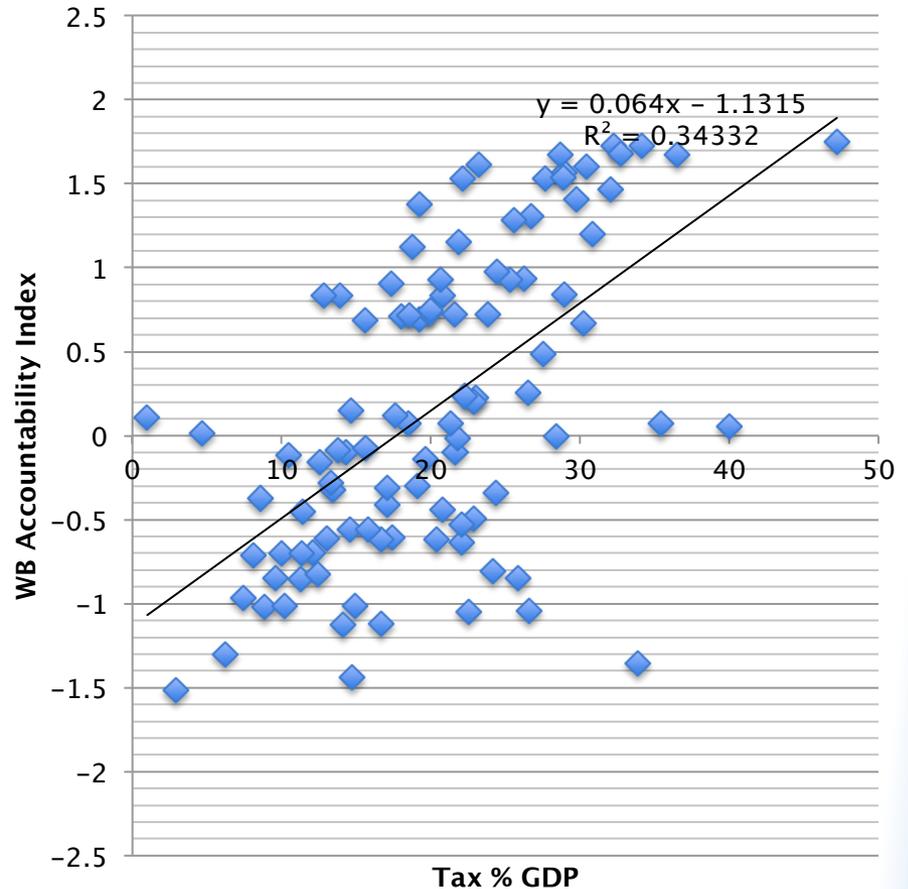
Wilson Prichard
International Centre for Tax and Development
April 17, 2011

Taxes, States and Politics

Tax and State Capacity



Tax and Accountability



Three Key Messages

- 1. Tax revenue is central to broader processes of state-building:**
 - Taxes provide the revenue to build effective states and respond to citizen needs
- 2. Political Economy factors are key to successful tax reform:**
 - Bureaucratic structures are effective and widely trusted
 - Government is responsive and accountable to citizens
- 3. The development of effective tax systems can spur state-building:**
 - Encourage popular engagement and improvements in government responsiveness and accountability
 - Broader gains in the effectiveness of the state apparatus

Political Economy of Tax Reform

A simple message, frequently underappreciated:

- Taxation is fundamentally **political**, and inherently confronts **strong vested interests**. As such, reform will only succeed with committed political support

The Traditional Advice: Be Strategic and Opportunistic

- Take advantage of ‘windows of opportunity’ and, to the extent possible, avoid confronting powerful interests or generating widespread political debate and controversy.

An Alternative Vision: Design and implement reform in ways that can mobilizing public support

- **Equity** (All taxpayers will be treated equally)
- **Transparency** (How much money we collect and how we use it)
- **Inclusiveness** (Engaging taxpayers in a dialogue and improving services)

Taxation and Statebuilding

Taxation can spur broader governance gains through three channels:

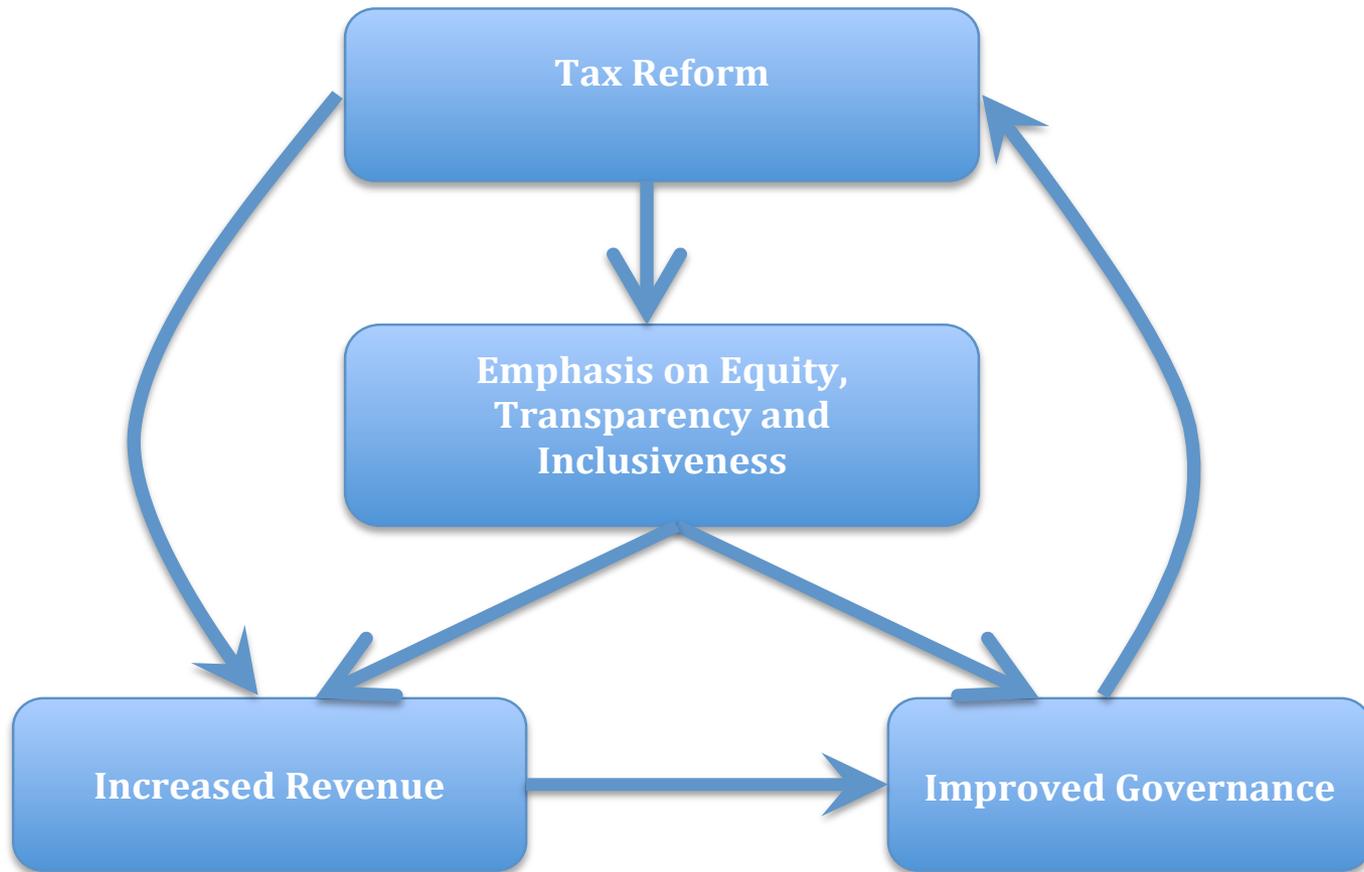
- ***Common interest processes:*** Because governments are dependent on taxes they will have stronger incentives to promote economic growth
- ***State apparatus processes:*** Tax collection requires the development of a complex bureaucratic apparatus, which may spur broader improvements in state capacity.
- ***Accountability and responsiveness processes:*** Taxation engages taxpayer-citizens collectively in politics and provides governments incentives to improve governance in order to improve tax compliance.

Strengthening Tax-Governance Linkages

While taxation has the *potential* to contribute to broader governance goals, governments can *explicitly strengthen these connections* through setting reform priorities

- ◆ **Equity:** The basis for a meritocratic and trustworthy public bureaucracy; A means to stimulate broad-based public engagement with government
- ◆ **Transparency:** Central to improving cooperation, learning and probity in public administration; Integral to stimulating positive public engagement with government and building trust
- ◆ **Inclusiveness:** A means to strengthen the responsiveness of public administration to citizen needs; A strategy for improving the design and accountability of government activities

A Virtuous Cycle



“We should elevate ourselves from being just tax collectors and tax administrators to being state builders.”

- ◆ Ms Allen Kagina, Commissioner General of the Uganda Revenue Authority