The Informational Foundations of the Tax State: Latin America in Comparative Perspective

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Established Scholarship

Fiscal capacity as the very foundation of the state

Fiscal Capacity: Ability of states to mobilize revenues

- States require resources in order to exercise control and pursue their projects
- Revenues basis for all other state activities
- But: Taxation often a matter of policy choices rather than administration

Established Explanations of Fiscal Capacity

Predominantly focused on the motives to construct tax state

External Threats (Downing 1992; Tilly 1990): Rulers invest in fiscal capacity to increase resources avaliable for waging war and providing public goods

Self-Enrichment (Levi 1988; Olson 1993): Rulers invest in fiscal capacity to move from taxing production to taxing people and their wealth

Recent Informational Turn in Study of the State

Focus on informational foundations of state capacity

Information Capacity: Ability of states to gather and analyze information about their subject populations

- Making societies "legible" (Scott 1998) a central aspect of state development
- "States that cannot gather accurate information about their populations are likely doing little else effectively" (Lee 2020: 22).

Our Contribution

Spotlight on information capacity and how it underpins tax capacity

Mixed Methods Approach

- Global statistical analysis
- Case studies of 19th century Argentina and Chile

Main Argument

Information capacity facilitates tax capacity

Rulers need to have accurate information about the basic characteristics, wealth, and whereabouts of subject populations in order to tax effectively

Main mechanism: “Economies of scope”

- ***Reuse of information***
- ***Repurposing of informational apparatus***

Global Quantitative Analysis

Methods and Data

Information Capacity

State Capacity Scores (Lee and Zhang 2017)

Measure *legibility* of citizens and their activities by tracing quality of population censuses (”age heaping”)

120 countries, 1960-2015

Robustness checks with *Information Capacity Index* (Brambor et al. 2020)

Fiscal Capacity

ICTD/UNU-WIDER Government Revenue Dataset

Focus on different tax ratios

- Direct taxes: Income, land, personal property, profits and capital gains.
- Indirect taxes: taxes on goods and services
- Total tax revenues
- Total resource revenues

Abstained from income taxes, too politized

Global Quantitative Analysis

OLS Model, country-decades as units of analysis

- Standard controls
- County-clustered standard errors
- Decade fixed effects

Table 1: Legibility and variants of taxation: cross-national results

Dependent variable	Total taxes		Direct taxes		Indirect taxes		Total resource revenue		Personal income taxes	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Legibility	6.456***	3.054***	2.766***	1.098***	1.358***	2.082***	-0.858*	-0.790	1.743***	0.334
	(0.644)	(0.963)	(0.385)	(0.399)	(0.384)	(0.744)	(0.510)	(0.662)	(0.295)	(0.326)
GDP per capita		3.346**		1.754***		-1.371		0.605		1.387***
		(1.318)		(0.420)		(0.975)		(0.713)		(0.390)
Democracy		1.845**		0.628**		0.497		-1.540		0.761***
		(0.801)		(0.314)		(0.553)		(1.082)		(0.243)
Population density		-1.634***		-0.468		-0.358		-1.408*		-0.542*
		(0.502)		(0.372)		(0.336)		(0.729)		(0.305)
Terrain ruggedness		-0.367		-0.131		0.308		-0.504		-0.180
		(0.644)		(0.272)		(0.402)		(0.729)		(0.274)
Constant	17.753***	18.389***	5.531***	5.802***	9.173***	9.088***	4.697***	4.207***	2.873***	3.055***
	(1.097)	(1.022)	(0.538)	(0.519)	(0.694)	(0.632)	(1.481)	(1.288)	(0.409)	(0.344)
Decade FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	*225*	*225*	*217*	*217*	*214*	*214*	*130*	*130*	*205*	*205*
R^2	0.512	0.614	0.440	0.537	0.118	0.163	0.090	0.227	0.333	0.480
Adjusted R^2	0.504	0.600	0.429	0.519	0.101	0.130	0.061	0.176	0.319	0.458
Residual Std. Error	7.330 (df = 220)	6.579 (df = 216)	3.318 (df = 212)	3.044 (df = 208)	4.196 (df = 209)	4.127 (df = 205)	5.021 (df = 125)	4.704 (df = 121)	2.884 (df = 200)	2.573 (df = 196)

Note: * p, ** p, *** p<0.01. Source: authors' construction

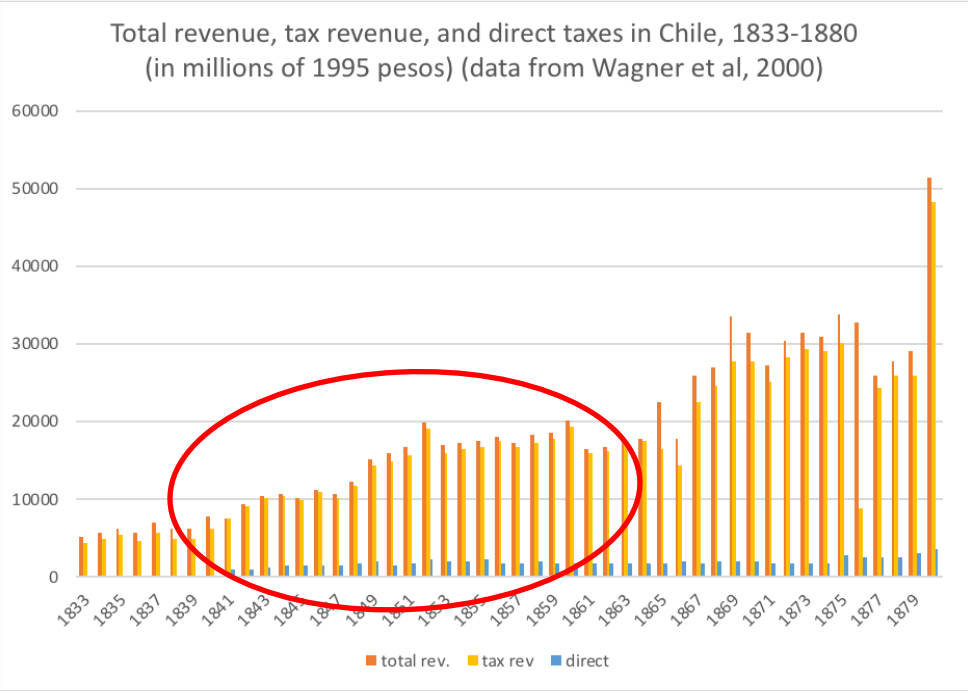
Case Study I: 19th Century Chile

Patterns of Fiscal Capacity

Before the onset of the nitrate commodity boom in 1880s, Chile was one of the most developed tax states in Latin America.

Total revenue, tax revenue, and direct taxes increase steadily from 1840 onwards.

Various property taxes generate significant revenues; inheritance and income tax introduced 1878 (before war with Peru)



Case Study I: 19th Century Chile

Patterns of Information Capacity

- State Statistics office established 1843; works steadily to overcome poor quality of local officials, societal resistance to information collection, and conflict with the Catholic Church over vital statistics
- Census quality steadily improves 1843-1854 (first modern census)-1865-1875; Annual Statistical Yearbook first published 1860
- Other state record keeping starts (data on imports & exports, judicial records, medical statistics); agricultural production records facilitated by landowners' cooperation since they benefit from information in the form of more stable commodity prices

Case Study I: 19th Century Chile

How Information Capacity Underpinned Fiscal Capacity Development

- Cadaster, first introduced in 1830s, allows property tax collection
- Budgeting and other administration improves sharply over the period because of access to better information about population and economic activity
- Even as many taxes eliminated during the nitrate boom, information collection continues. This allows taxes to be reinstated after nitrate boom ends

Conclusion

Contributions to Ongoing Debates

Scholarship on Taxation:
Brings in information capacity as a currently underappreciated, intra-state determinant of fiscal revenues

Research on information capacity:
Relative lack of attention to its origins

Our Findings

Research on State Capacity:
Cautions against fiscal capacity as a shorthand for state strength

Thank you!

Read our paper:

Matthias vom Hau, José Peres-Cajías, and Hillel David Soifer. 2023. “No Taxation Without Informational Foundation: On The Role Of Legibility In Tax State Development.” *Journal of Institutional Economics*, DOI: https://doi.org/10.1017/S1744137422000534

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