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 available 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

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

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Total taxes</th>
<th>Direct taxes</th>
<th>Indirect taxes</th>
<th>Total resource revenue</th>
<th>Personal income taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>Legibility</td>
<td>6.456***</td>
<td>3.054***</td>
<td>2.766***</td>
<td>1.098***</td>
<td>1.358***</td>
</tr>
<tr>
<td></td>
<td>(0.644)</td>
<td>(0.963)</td>
<td>(0.385)</td>
<td>(0.399)</td>
<td>(0.384)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>3.346**</td>
<td>1.754***</td>
<td>-1.371</td>
<td>0.605</td>
<td>1.387***</td>
</tr>
<tr>
<td></td>
<td>(1.318)</td>
<td>(0.420)</td>
<td>(0.975)</td>
<td>(0.713)</td>
<td>(0.390)</td>
</tr>
<tr>
<td>Democracy</td>
<td>1.845**</td>
<td>0.628**</td>
<td>0.497</td>
<td>-1.540</td>
<td>0.761***</td>
</tr>
<tr>
<td></td>
<td>(0.801)</td>
<td>(0.314)</td>
<td>(0.553)</td>
<td>(1.082)</td>
<td>(0.243)</td>
</tr>
<tr>
<td>Population density</td>
<td>-1.634***</td>
<td>-0.468</td>
<td>-0.358</td>
<td>-1.408</td>
<td>-0.542*</td>
</tr>
<tr>
<td></td>
<td>(0.502)</td>
<td>(0.372)</td>
<td>(0.336)</td>
<td>(0.729)</td>
<td>(0.305)</td>
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<tr>
<td>Terrain ruggedness</td>
<td>-0.367</td>
<td>-0.131</td>
<td>0.308</td>
<td>-0.504</td>
<td>-0.180</td>
</tr>
<tr>
<td></td>
<td>(0.644)</td>
<td>(0.272)</td>
<td>(0.402)</td>
<td>(0.729)</td>
<td>(0.274)</td>
</tr>
<tr>
<td>Constant</td>
<td>17.753***</td>
<td>18.389***</td>
<td>5.531***</td>
<td>5.802***</td>
<td>9.173***</td>
</tr>
<tr>
<td></td>
<td>(1.097)</td>
<td>(1.022)</td>
<td>(0.538)</td>
<td>(0.519)</td>
<td>(0.694)</td>
</tr>
<tr>
<td>Decade FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>225</td>
<td>225</td>
<td>217</td>
<td>217</td>
<td>214</td>
</tr>
<tr>
<td>R²</td>
<td>0.512</td>
<td>0.614</td>
<td>0.440</td>
<td>0.537</td>
<td>0.118</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.504</td>
<td>0.600</td>
<td>0.429</td>
<td>0.519</td>
<td>0.101</td>
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<tr>
<td>Residual Std. Error</td>
<td>7.330</td>
<td>6.579</td>
<td>3.318 (df = 212)</td>
<td>3.044 (df = 208)</td>
<td>4.196 (df = 209)</td>
</tr>
<tr>
<td></td>
<td>(df = 220)</td>
<td>(df = 216)</td>
<td>(df = 212)</td>
<td>(df = 208)</td>
<td>(df = 209)</td>
</tr>
</tbody>
</table>

Note: * p < 0.10, ** p < 0.05, *** 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

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

Our Findings
Thank you!

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