

The legacy of pre-colonial centralization on tax compliance in Uganda

Odd-Helge Fjeldstad

UNU-WIDER Conference

Oslo, 7 September 2023



Why countries' fiscal history matters

- The history of fiscal systems is central to understanding state capacity and institutional designs, and the evolving relations between state and society
- Today within Sub-Saharan Africa, we witness very different taxation scenarios
- This is a result of distinct historical paths concerning the processes of formation and transformation of the social, political and economic institutions in African countries

“Fiscal Histories of Sub-Saharan Africa.” Public Affairs Research Institute (PARI), Univ. of the Witwatersrand

The salience of pre-colonial states

- Africa's pre-colonial states ceased to exist as political units long ago, with their kings co-opted and their bureaucracies subsumed by the colonial state
- These pre-colonial states left deeply held identities that today structure political decision-making (Wilfahrt, 2018)
- Pre-colonial centralization is found to be strongly correlated with development at both the national and local level (Gennaioli and Rainer, 2007; Michalopoulos and Papaioannou, 2013)
- However, the underlying mechanisms through which pre-colonial institutions affect long-run development remain weakly understood

Recent work on pre-colonial and colonial legacies on tax and state-building in Africa @ CMI



Journal Article | 2019

Colonial legacy, state building and the salience of ethnicity in Sub-Saharan Africa

Merima Ali, Odd-Helge Fjeldstad, Boqian Jiang and Abdulaziz Shifa

The Economic Journal

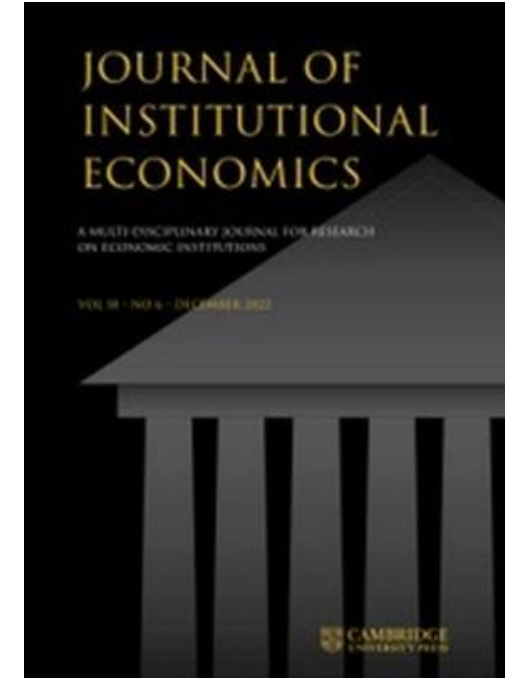


Journal Article | 2020

European colonization and the corruption of local elites: the case of chiefs in Africa

Merima Ali, Odd-Helge Fjeldstad and Abdulaziz Shifa

Journal of Economic Behavior & Organization



Journal Article | Jun 2023

Pre-colonial centralization and tax compliance norms in contemporary Uganda

Merima Ali and Odd-Helge Fjeldstad

Journal of Institutional Economics



Africa at LSE

Merima Ali and Odd-Helge Fjeldstad (2023). Pre-colonial centralization and tax compliance norms in contemporary Uganda. *Journal of Institutional Economics*

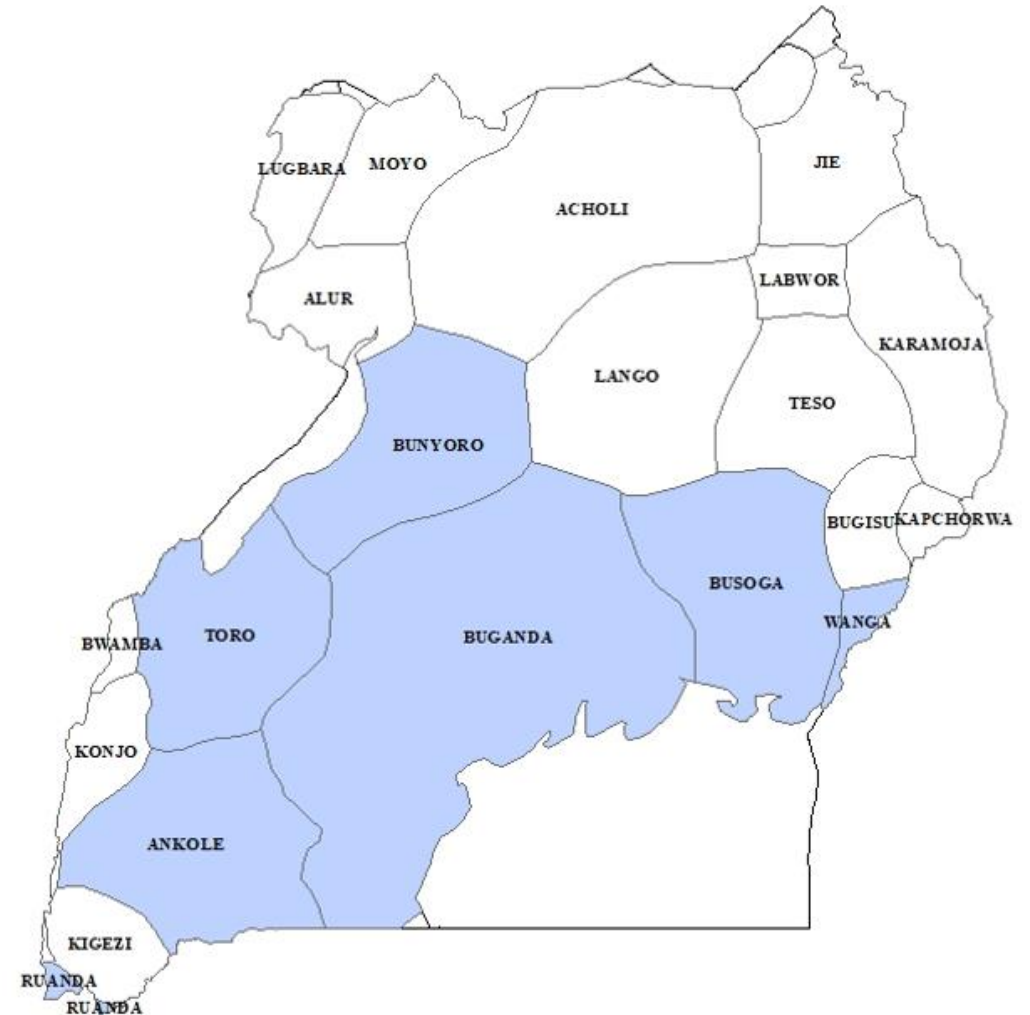


Why Uganda

- Uganda has a long history of strong pre-colonial institutions that continue to play an important role in the lives of ordinary people (Englebert, 2000, 2002)
- Focusing on one country allows us to exploit the within-country variation in pre-colonial institutions that are not affected by national institutions or the identity of former colonial rule
- Low tax compliance continues to undermine domestic revenue mobilization efforts

Pre-colonial organization in Uganda: Both centralized and stateless societies

- The blue-coloured ones are ethnic homelands that either had large chiefdoms or were part of a large state
- The white ones are ethnic homelands that lacked any political organization beyond the local level - generally, in these areas, there was no functioning tax system in pre-colonial times



Motivation: Understanding tax compliance

- The literature has provided an array of theories and evidence attempting to explain variation in citizen's tax compliance (Ali et al., 2014)
- These studies focus on the quality of institutions and social norms as important determinants (Luttmer and Singhal, 2014; Besley, 2020)
- They do not provide adequate explanations on the root causes of variation in the quality of institutions and norms that lead to differences in tax compliance

Taxation in pre-colonial centralized kingdoms in Uganda

- Taxes were collected from the people of the kingdom and subjects of the tributary states
- Example: Four main types of taxes in Buganda Kingdom
 - 1) Compulsory tax: Collected from each married man who owned a homestead in the form of cowrie shells, pots, barkcloth, hoes and other metal implements, shields, fish and livestock
 - 2) Excise duty: Extracted from men on food crops, cattle, goats, intoxicating drinks; and from manufactures on items such as baskets and carpets
 - 3) Customs duty: Levied on goods such as salt and iron tools bartered on the borders
 - 4) War exemption levy: Paid as an exemption from participating in a war
- Also, an in-kind tax, where all able-bodied men were obliged to engage in public works such as making new roads and maintaining old ones without pay
- The Kings required tax revenues to sustain the armies, support the royal court, and cover the costs of frequent banquets, and the administration of newly conquered areas

Taxation during colonization

- British indirect rule maintained the autonomy of chiefs in administering the locals including collecting taxes.
- The British Special Commissioner in Uganda, Harry Johnston, wrote to the Colonial Secretary of State in 1900:

“The power to rule for the Baganda is closely connected with the power to tax. We must give them those snail subsidies lest if we did not, this could cause a terrible uprising the quelling of which could be very difficult to stop”.

Objectives of the study

1) Examine the legacy of pre-colonial centralization on tax compliance norms of citizens in contemporary Uganda

- Comparing pre-colonial centralized ethnic homelands areas and stateless ethnic homelands

2) Analyze the underlying mechanisms

a) Persistence in citizens' beliefs about the need to obey authority

- In centralized polities, the state had organized force to uphold its authority

b) Persistence in citizens' perception of trust in local institutions

- Centralized states shaped local institutions through indigenous bureaucratic capacity that promoted accountability

c) Persistence of social cohesion

- Pre-colonial kingdoms were endowed with collective identities stretching across villages

Data

We combine

- Geo-referenced anthropological data on pre-colonial ethnic homelands (Murdock 1959; 1967)

with

- Micro survey data from several rounds of the Afrobarometer Survey (AB) using village level geographic data on the residence of the respondents
- Use a Regression Discontinuity Analysis (RDA) on neighboring ethnic homelands with different levels of pre-colonial centralization (Michalopoulos and Papaioannou, 2013)
- The huge variance in the levels of pre-colonial centralization across different areas of Uganda provides us with a unique opportunity to implement the RDA

Empirical analysis

- The main dependent variable that measures tax compliance norm is obtained from the AB survey
- Respondents are asked to state whether they think tax evasion is:
 - (1) Not wrong at all
 - (2) Wrong but understandable
 - (3) Wrong and punishable
- A binary indicator set equal to 1 if the respondent chooses statement (3) and is set to 0 otherwise

Controls

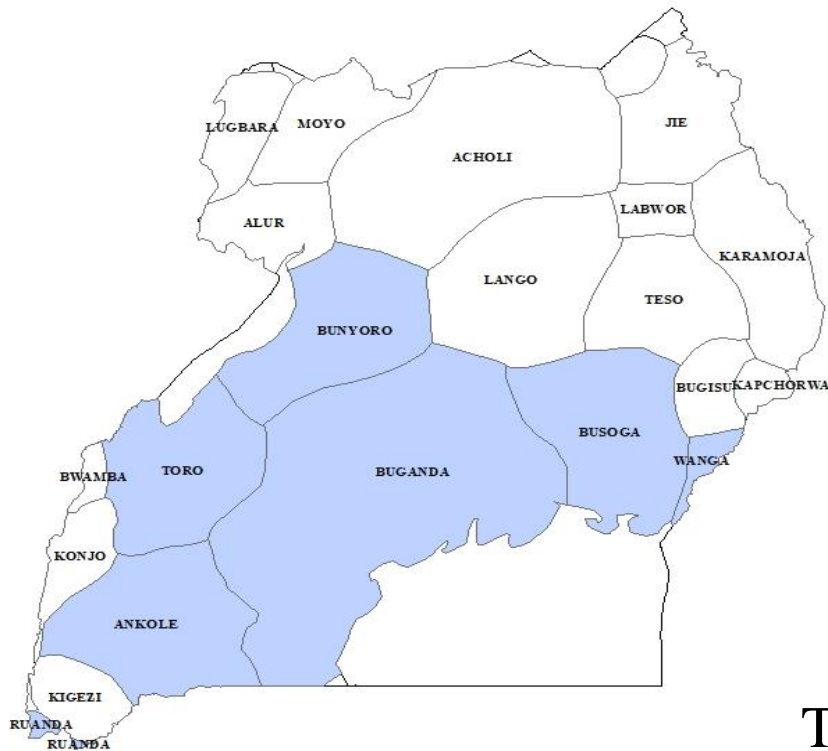
- ***Individual-level controls from the AB survey:*** Age, gender, residing in an urban center, employment status, years of education, wealth, and religion
- ***Geographical controls at the level of ethnic homelands:*** Distance of the centroid of each ethnic homeland from the nearest coast, the capital city, and the national border + mean elevation, area under water, land area and soil suitability for agriculture of each ethnic homeland
- ***Controls for pre-colonial and colonial ethnicity level-variables:*** Intensity of exposure to the slave trade (Nunn and Wantchekon, 2011); pre-colonial economic development/dependency on agriculture, colonial railway station, missionary station etc.
- ***Further controls:***
 - *Ethnic composition and inter-ethnic relationships* that are likely to affect tax compliance norms
 - *The respondents' perception of how the state is treating their ethnic group relative to other groups*
 - *The respondents' level of satisfaction with the central government's provision of local services*

Benchmark results: Pre-colonial centralization and tax compliance norm

	I	II	III
Pre-colonial centralization	0.19***	0.18***	0.16***
	(0.03)	(0.03)	(0.04)
R-squared	0.029	0.029	0.044
Observations	4042	4042	4042
Historical controls	Yes	Yes	Yes
Ethnic composition controls		Yes	Yes
Local service provision and development indicators			Yes

The results show that pre-colonial centralization is associated with a higher tax compliance norm and is significant at 1% level in all the specifications

RDA results from individuals within 75 km of the borders of neighboring ethnic homelands



	I	II	III
Pre-colonial centralization	0.19*** (0.04)	0.16*** (0.03)	0.13*** (0.04)
R-squared	0.040	0.041	0.058
Observations	2101	2101	2101
Historical controls	Yes	Yes	Yes
Ethnic composition controls		Yes	Yes
Local service provision and development indicators			Yes

The correlation between pre-colonial centralization and tax compliance norm remains positive and significant in all columns

Association between pre-colonial centralization and tax compliance norms: Underlying mechanisms

a) *Obedience to authority*

- In centralized polities, the state had organized force to uphold its authority and can uniformly apply policies throughout a given territory such as extract labor, enforce the law, and demand tax
- Such a system of governance may lead people to develop a culture of obedience to political authority such as paying taxes
- Use questions from the AB survey that capture the respondents' belief in the need to follow rules from various government bodies:
 - *The tax authority*
 - *The courts*
 - *The police*
 - *The Government*
- Individuals can respond to each of these statements by choosing *strongly disagree*, *disagree*, *neither agree nor disagree*, *agree*, and *strongly agree*.

Belief in authority to collect taxes

The tax authorities always have the right to make people pay taxes.

“strongly disagree, disagree, neither agree nor disagree, agree, or strongly agree”.

A binary indicator with a value of

1: if *agree* or *strongly agree* and

0: otherwise.

Belief in the authority of other institutions

- **Courts:** The courts have the right to make decisions that people always have to abide
- **Police:** The police always have the right to make people obey the law
- **Government:** (1) It is important to obey the government in power, no matter who you voted for; and (2) It is not necessary to obey the laws of a government that you did not vote for

Table 5. Pre-colonial centralization and obedience to authority and the government in power.

	I	II	III
<i>(a). Obedience to authority</i>			
Pre-colonial centralization	0.43*** (0.07)	0.44*** (0.08)	0.44*** (0.07)
R-squared	0.025	0.030	0.035
Observations	3227	3227	3227
<i>(b). Obedience to government in power</i>			
Pre-colonial centralization	0.44*** (0.10)	0.40*** (0.11)	0.38*** (0.11)
R-squared	0.236	0.240	0.241
Observations	1815	1815	1815
Historical controls	Yes	Yes	Yes
Ethnic composition controls		Yes	Yes
Local service provision and development indicators			Yes

Results: Individuals in the historically centralized parts of Uganda are more obedient to authority and the government in power than individuals in the historically non-centralized parts

Underlying mechanisms (cont.)

b) Trust in institutions

- Tax compliance cannot rely on coercion alone
- Pre-colonial states could also encourage ‘quasi-voluntary compliance’ through the accountability of leaders
- The persistence of accountable leaders in historically centralized areas may affect the contemporary fiscal contract between citizens and the government by strengthening institutional trust
- We test for this mechanism by looking at the relationship between pre-colonial centralization and individual’s trust towards the central government and various institutions

Table 6. Pre-colonial centralization and trust in the central government and various institutions

	I	II	III
<i>(a). Trust in the central government</i>			
Pre-colonial centralization	-0.34*** (0.07)	-0.37*** (0.04)	-0.34*** (0.04)
R-squared	0.118	0.132	0.161
Observations	3319	3319	3319
<i>(b). Trust in police</i>			
Pre-colonial centralization	-0.16** (0.07)	-0.16** (0.08)	-0.15* (0.09)
R-squared	0.052	0.058	0.070
Observations	3347	3347	3347
<i>(c). Trust in the court</i>			
Pre-colonial centralization	0.09 (0.11)	0.09 (0.10)	0.10 (0.11)
R-squared	0.048	0.050	0.057
Observations	3213	3213	3213
<i>(d). Trust in the tax authority</i>			
Pre-colonial centralization	-0.35** (0.13)	-0.37** (0.13)	-0.33** (0.13)
R-squared	0.033	0.043	0.056
Observations	2011	2011	2011
Historical controls	Yes	Yes	Yes
Ethnic composition controls		Yes	Yes
Local service provision and development indicators			Yes

- Results: People in the historically centralized parts of Uganda are less trusting of the state, the police, and the tax authority than the share of respondents in the historically stateless parts
- Although individuals in the historically centralized parts are more obedient to authority, it is not necessarily based on a trusting relationship

Underlying mechanisms (cont.)

c) Social cohesion

- The pre-colonial kingdoms used different ways to bring together individuals with different backgrounds (clans) and make them acknowledge authority and comply with rules
- Social cohesion among the different clans was strengthened by means of religion and political rituals (Chlouba et al., 2022)
- This helped increase solidarity among the different clans and created a cohesive polity (Turchin, 2016)
- Social cohesion in general is shown to affect individual's tax compliance norms (Torgler, 2002)
- We test if social cohesion indicated by (1) ethno-centric nationalistic beliefs and (2) interpersonal trust has persisted in the historically centralized parts of Uganda

Hypotheses and testing

(1) Ethno-centric nationalistic beliefs

- Hypothesis: The legacy of ethnic-centered nationalism is higher in pre-colonial centralized Uganda than the country-wide nationalism
- Data: Use a question from the AB survey where respondents are asked to reflect their sense of ethnic-centered (relative to Uganda-wide) identity by choosing the following: *(1) only ethnic; (2) more ethnic than Ugandan; (3) equally ethnic and Ugandan; (4) more Ugandan than ethnic; or (5) only Ugandan*

(2) Interpersonal trust

- Hypothesis: A strong social cohesion in pre-colonial centralized states is associated with higher interpersonal trust
- Data: Use the following question from the AB survey: *Generally speaking, would you say that (1) most people can be trusted or (0) you must be very careful in dealing with people?*

Table 7. Pre-colonial centralization and sense of nationhood and interpersonal trust

	I	II	III
<i>(a) Ethnic-centered nationalism</i>			
Pre-colonial centralization	-0.06 (0.10)	-0.08 (0.11)	-0.08 (0.11)
R-squared	0.044	0.046	0.046
Observations	3385	3385	3385
<i>(b). Interpersonal trust</i>			
Pre-colonial centralization	0.70*** (0.13)	0.60*** (0.12)	0.46*** (0.11)
R-squared	0.092	0.091	0.095
Observations	1198	1198	1198
Historical controls	Yes	Yes	Yes
Ethnic composition controls		Yes	Yes
Local service provision and development indicators			Yes

Results: We do not find a significant result for ethnic-centered nationalism; ... but pre-colonial centralization is significantly correlated with a higher level of interpersonal trust

Conclusion

- Pre-colonial centralization is positively correlated with higher tax compliance norm
- Explained by the legacy of (a) the pre-colonial state's capacity in upholding authority and (c) a strong social cohesion through higher interpersonal trust, but not through (b) trust in the central government and public institutions such as the tax authority
- People in the historically centralized states are more obedient to political authority, which in turn shapes their compliance norm to general rules, including paying taxes
- Mistrust in taxation authorities can co-exist with a relatively high level of generalized trust

Policy implications

- Knowledge of the role of deeply rooted pre-colonial institutions is relevant for policymakers as an entry point in terms of shaping citizens' willingness to contribute to tax revenue
- Even though people in historically centralized parts of Uganda have mistrust towards the central government and public institutions, they may be willing to follow rules and pay taxes when they live in a setting with higher interpersonal trust
- Social and economic policies to increase trust in public institutions can therefore help to improve tax compliance in Uganda
- The success of policies to improve trust in public institutions will depend on the leaders' effort to acknowledge the past
- Uganda is not the only African state whose territory was home to a heterogenous political landscape in the pre-colonial era. Thus, the findings of this study may have broader empirical traction on the continent

- We have now come to realize that it is impossible to fully understand the current state of the world, and how to move forward, without understanding the past and the dynamic processes that got us to where we are today.

Nathan Nunn (2020). “The historical roots of economic development.” *Science*