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Revenues, State Formation, and the Quality of Governance in Developing Countries

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ABSTRACT. Sources of state revenue have a major impact on patterns of state formation. This proposition from *fiscal sociology* is valid and convincing in the context of western European history and comparisons among contemporary states in the South. This article investigates the extent to which we can conclude that the quality of governance in contemporary developing countries might improve if states were more dependent for their financial resources on domestic taxpayers. The radically different context of contemporary third-world states cautions against too firm conclusions.

Keywords: • Accountability • Fiscal sociology • Governance • Oil • Rentier state

(I) The Fiscal Sociology Paradigm

This article aims at clarifying how far a particular analytical approach (here labeled the *fiscal sociology paradigm*) has provided or is likely to help provide answers to a couple of questions about governance in the so-called third world. The larger project of which this is a part addresses two linked questions. First, why is "poor governance" so widespread in those regions of the world variously labeled the "third world," the "South," or "developing areas"? Second, what explains the enormous diversity of polities found in those regions? The present article examines the possible contribution of "fiscal sociology" to answering these questions.

What is *fiscal sociology*? Contemporary social scientists employ the term in two distinct senses. For some, this is simply a label for a field of study: "the sociological analysis of taxation and public finances" (Campbell, 1993: 163). I am using the term here in a more consequential way. The scholars who brought the term into the academic vocabulary (above all, Joseph Schumpeter and Rudolf Goldscheid)

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did so with a powerful purpose in mind. They were offering *fiscal sociology* as a macro-historical paradigm that captured, embodied, and laid bare the dominant drivers of societal, economic, and political change. Writing in the early 20th century, they saw it as an alternative to the other grand narratives competing in the social science of the time: Marxism, Weberianism, Spencerism, and so on. Societal evolution was driven, they suggested, by the ways in which states tackled the challenges of raising revenues and managing spending. Some of Schumpeter's purple passages sketching out this grand narrative (much quoted recently, after a long period of obscurity) are worth citing again:

> The budget is the skeleton of the state stripped of all misleading ideologies [citing Goldscheid].
>
> The fiscal history of a people is above all an essential part of its general history.
>
> Our people have become what they are under the fiscal pressure of the state.
>
> Fiscal measures have created and destroyed industries, industrial forms, and industrial regions even where this was not their intent, and have in this manner contributed directly to the construction (and distortion) of the edifice of the modern economy and through it of the modern spirit. But even greater than the *causal* is the *symptomatic* significance of fiscal history. The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else (Schumpeter, 1991: 7).

Schumpeter then goes on to make his claim for the analytic potency of fiscal sociology: "we may surely speak of a special set of facts, a special set of problems, and of a special approach – in short, of a special field: fiscal sociology, of which much may be expected" (1991: 7).

Schumpeter's "The Crisis of the Tax State" is the inspiration and bible of later fiscal sociology: hunting through its 32 pages, one can find all kinds of phrases and insights that hint at a powerful underlying theory. But that underlying theory remains largely implicit.[1] In addition to the broad assertion about the driving role of fiscal issues in macro-societal development, there are two significant general propositions about European history. The first is the notion that the great historical transformation in modern western European history was neither the emergence of capitalism (Marx) nor the rise of modern rational bureaucracy (Weber), but the transition from the *demesne* (or *domain*) *state*, in which government activities were funded from surpluses derived from the ruler's own properties, to the *tax state*, funded through regularized tax levies on the private sector and private incomes.[2] The second proposition is that this penetration of the tax apparatus into the private economy had enormous consequences for society generally, ranging from reshaping culture and values through to the creation of a large, civilian public bureaucracy that itself became a distinct and powerful societal force.

Schumpeterian fiscal sociology does not amount to a *theory*. It provides neither a conceptual tool box nor a specific set of propositions about the relationship between fiscal and political development. It is simply an approach, a paradigm, or a way of looking at things. But the paradigm appears to point us toward important, neglected questions in the study of comparative state formation in a broad historical or cross-sectional perspective. In particular, a significant Schumpeterian meta-proposition has been developed and explored in recent literature relating to developing countries: the assumption or expectation that there is a causal connection between (1) the dependence of governments on broadly levied taxes, rather than other sources of revenue, and (2) the existence of the kinds of binding constraints on governments and institutionalized political representation that constitute the foundations of liberal democracy. Very crudely, relative to other types of states, tax states will tend toward accountable, representative government. This I will term the *fiscal (social) contract proposition.* While Schumpeter's work has been a significant point of reference for different variants of this proposition, two other sets of literature, each providing plausible interpretations of macro-societal processes from perspectives that are recognizably "fiscal-sociological," have been more immediately important:

1. Interpretations of the origins and institutionalization of representative government in western Europe, especially in Great Britain, that give priority to the driving role of fiscal politics. The core proposition is that there was a set of strong synergies between (a) the degree of dependence of rulers on tax revenue, (b) the emergence of representative government, and (c) the strength and resilience of the state in the context of interstate competition, especially war.
2. A growing literature arguing that a range of deficiencies and pathologies in the political constitution of many states in the "South" can be traced to a high level of dependence on *natural resource rents* (especially oil and minerals) and *strategic rents* (especially foreign aid), rather than taxes.

These literatures jointly challenge us to explain why, when so many contemporary third-world polities (1) do not depend principally on taxes for their revenue, and (2) are relatively ineffective and predatory in relation to their citizens, we should not take a firm policy line: that some kind of "democracy-accountability-state effectiveness dividend" would be likely to follow their loss of *resource* and *strategic rents,* and transition to the status of tax states. That is the practical question behind the issues I explore in this article. I come to that question in Sections V and VI, first examining the literatures on historical European (Sections II and III) and contemporary rentier states (Section IV).

(II) Tax and Representation in Western Europe: The Model

There is now a substantial historical literature on western Europe that addresses the central problematic of the fiscal state. Different scholars produce different variants of the core argument. Some of these variations are relatively trivial, notably those arising from relative preferences for formalized (algebraic) models of political processes (for example, Bates and Lien, 1985) or for more traditional narrative interpretations of cases (for example, Brewer, 1989; Daunton, 2001; Ferguson, 2001; Tilly, 1992). Some of the more substantive variations in fact reflect alternative definitions of the central question, and therefore differences in the relevant comparator cases. The main, related differences, that also in part reflect varying emphases on different historical periods between the 16th and 19th centuries, are:

- The extent to which scholars choose to emphasize either (1) the differences between the exemplary case (England or Great Britain) and all other cases, or

(2) differences between the set of cases in which the taxation–representation linkage was most evident (England or Britain, The Netherlands, France at some points, and a number of merchant city-states) and all other cases.

- The extent to which the focus is not simply on the achievement of the status of a tax state, but on the extraordinary relative success of Britain (1) as a high-performing tax state (as measured, for example, in terms of the proportion of its national income gathered into the public treasury and the efficiency and effectiveness of its revenue-collection bureaucracy), and (2) in becoming the first modern *fiscal state*, able to leverage its secure revenue base to raise large private loans quickly and cheaply, in both domestic and international bond markets, and therefore able to depend substantially on loan financing.

Through bringing bondholders centrally into the picture, the notion of a *fiscal state* implies a more complex political economy than does a *tax state*, and takes us into territory not explored by Schumpeter. I return below to this issue. Let us first summarize the core causal model of the connections between taxation and representation. It comprises the following main elements:[3]

1. The context was assumed to be the continual threat or reality of interstate warfare, and of the swallowing by the victors of the polities that could not raise sufficient material resources to compete militarily.
2. The counterfactual case was coercive taxation (in agrarian societies) without taxpayer political representation. This was relatively ineffective for two specific reasons. One was that coercive taxation tended to generate resistance. The other was that tax-collecting agents operating coercively were well-placed to appropriate a large proportion of the proceeds for themselves. Coercive taxation tended to generate low and unreliable revenues. Polities dependent on it were ill-placed to survive threats from states that benefited from a better institutional technology for raising resources.
3. Consensual taxation constituted that better institutional technology. It offered (within the boundaries of individual states and at the potential expense of rival states) joint gains to both rulers and taxpayers. If rulers and representatives of the main potential taxpayers could jointly agree on both a taxation regime and a set of policies (for the use of revenues), then, compared to the counterfactual case, several benefits followed. First, because taxes were agreed, the processes of tax payment and collection became less onerous and costly, and more predictable. With better knowledge of likely future obligations and revenues, taxpayers felt more secure in investing and rulers could undertake long-term planning more effectively. Second, having a forum in which revenues are "exchanged" for policies encouraged the search for policies that were mutually beneficial to both main parties. (For example, a commitment to strengthen the Royal Navy to push Dutch merchants out of North America would, if successful, generate more trade for English merchants and for London, Bristol, and Plymouth, and result in higher trade taxes for the crown.) Third, taxpayers would be more likely to respond positively to emergency calls for war finance if they were already implicated in, or responsible for, major policy decisions. Fourth, an organization that represented taxpayers would be relatively effective at overseeing the revenue-raising and public-spending processes, and thus also in reducing waste and corruption.[4] Fifth, and more generally, rulers dependent on taxes developed a stake in the prosperity of (some of) their citizens and therefore faced incentives to promote that prosperity, which, in turn, would generate more revenues and strengthen the state.

4. It was the actual or potential weight of *mobile capital* (essentially, the capital of footloose traders who could equally plausibly locate their businesses in Amsterdam, Antwerp, Bordeaux, Bruges, Edinburgh, Ghent, Hamburg, or London) that led rulers to adopt the consensual path of sharing authority with representatives of taxpayers. The benefits of this consensual path tended to accrue to rulers in the longer term. In the short term, it required them to take risks by sharing power. Where the main potential revenue source was agriculture, the more coercive strategy was more attractive: rely on landlords or tax farmers to squeeze the peasantry, and try to ensure that these intermediaries do not keep too much for themselves. Land could not move and peasants had few alternative options: armed resistance or flight into frontier territories or other jurisdictions. By contrast, London merchants exporting Flemish cloth to the Levant and importing Asian spices could easily be wooed to set up shop in Amsterdam or Antwerp if not well treated by the king of England.

The previous paragraphs provide us with one schematic interpretation of the rise of the tax state with representation. Where does the *fiscal state* come into the picture? Although historians give varying answers to that question, there appears to be a fair degree of consensus that it was above all in Britain, and from some point in the later 17th century, that the first enduring fiscal state began to emerge:

> Tax states frequently collapsed before the crisis of the First World War, not least in the late eighteenth century as a result of the wars against revolutionary and Napoleonic France. By 1815, only one state in Europe had successfully mutated from a tax state to what Bonney and Ormrod term a "fiscal state" able to combine the flow of revenues with large-scale borrowing – Britain. (Daunton, 2001: 4–5)

Historians have explained the role and rise of the fiscal state in terms of its superior capacity, even compared to the tax state, to raise the financial resources to cope with emergencies, above all with war. Even the best taxation systems cannot yield very large increases in revenues in the short term, and the attempt to do so could easily undermine the cultural and institutional foundations of consensual taxation–representation systems. The competitive military edge came from the ability to borrow, quickly and cheaply, on the strength of lenders' confidence in the willingness and capacity of the government to repay through future tax revenues. Indeed, Daunton labels the early 19th-century British polity a *fiscal-military state* (Daunton, 2001: Ch. 2).[5] My concern here is not with the reasons for the strategic superiority of early fiscal states,[6] but with the implications of this large hinterland of lending and bondholding for the relationship between taxpaying and representation. Even if the capacity of states to borrow is ultimately founded on a well-institutionalized system of consensual taxation, there are surely implications for this taxpaying–representation relationship of the existence of large public debts and of the continuous readiness of the state to assuage the concerns of bondholders in case further borrowing should be needed. Will not the responsiveness of states to bondholders in some way compromise their responsiveness to taxpayers?

We do not have good answers to these questions. In Section VI, I try to explore the contextual factors that are most likely to bear on them. We can, for the present, vividly illustrate the importance of specific contextual factors, notably the identity of the bondholders themselves, by summarizing why some historians argue that, for 18th-century Britain, large public debts *strengthened* the accountability of the regime to taxpayers in Parliament. This proposition requires two factual preconditions: the dependence of the state on domestic rather than foreign borrowing, and substantial overlaps in membership and in interest between bondholders, large taxpayers, and members of the legislature. The argument then becomes at least plausible: members of these three intersecting groups (bondholders, large taxpayers, and legislators) will be well informed about fiscal issues; high levels of trust might exist between them and the state apparatus; and (absent major conflicts within the political-cum-economic elite) the right atmosphere is created for positive-sum decisions that strengthen the state, benefit the elite, and enhance the accountability of the state to the propertied elite over fiscal and policy issues.[7] As we shall see in Section VI, arguments about the link between the fiscal and accountability become more complex and open in more typical circumstances in which governments borrow globally from corporate institutions that are rarely represented directly in national legislatures.

(III) Tax and Representation in Western Europe: How Special?

This historical "grand narrative" around the *fiscal contract proposition* is persuasive. It corresponds to almost all interpretations of the most graphic political events in 17th-century British history. The conflicts that led to the Civil War of the 1640s and to a subsequent period of republican government were to a large degree expressed in terms of the competing "rights" of the Crown and Parliament to authorize taxes. The institutionalization of the fiscal authority of Parliament was central to the elite pacts under which the House of Stuart was invited to resume the throne in 1660, and required to vacate it, in favor of the Dutch House of Orange, in 1688. The notion of an inherent and necessary linkage between taxation and representation was a major justification for American independence from the British Crown. And, in many parts of the world, voting rights have been linked to tax contributions, both rhetorically and practically. One might argue that intellectuals with a sense of history are, if not hard-wired to accept the notion of a causal linkage between taxation and representation, at least likely to be prejudiced in that direction. From there it is but one short step to argue that similar dynamics should apply in the countries of the South: those states that are heavily dependent on non-tax revenues are likely to become more effective, democratic, and accountable if converted into tax states. Before looking at the contemporary third world, let us examine a little more closely the potential basis for generalizing from this *fiscal contract* model of western European history. Is there indeed a generic story about causal interactions between taxation and representation in contexts in which there were significant quantities of mobile capital or were other contextual factors so important that we can talk only of special cases?

Two issues need to be addressed here. The first is the significance of the *naval* dimension. There is no question that seaborne trade is an important part of the story. Since virtually all long-distance trade was seaborne, and most mobile capital was generated and employed in long-distance trade, shipping features prominently in the basic mechanics of the model. All the early tax states (Britain, Holland, France, and a number of cities run by merchant oligarchies (Tilly, 1992)) were also naval powers. But one might plausibly argue that this (and the fact that war between them was to a significant degree fought at sea) played a greater role than is conventionally understood in encouraging rulers and merchant-taxpayers to bargain about taxes and state policies in representative institutions:

1. Merchant-taxpayers faced a variant of the classic commitment problem (Weingast, 1995): having voted the taxes for the ruler to arm himself, how could they be sure that he would resist the temptation to use these arms against them and to extract future taxes by force? It is, in fact, one of the recurring themes of British historiography that the preservation of "liberty" and parliamentary government depended, in part, on the fact that British military power was principally naval, and that naval power was ill-suited to repress the domestic population.[8] This knowledge would, presumably, have encouraged merchant-taxpayers to agree to a bargain that they might not have accepted had they been asked to finance what was, in the 16th century, termed a "standing army."
2. There were clear and close synergies between the interests of merchant-taxpayers engaged in (increasingly global) long-distance trade and a strategy of building national naval power. Both benefited from the development of shipbuilding industries and port facilities. Manpower and ships could be shifted between "military" and "trade" uses. In addition, national success in global trading depended, above all, on having the military backup to protect overseas trading sites from competing European trading powers, to open foreign "markets" by force, and to safeguard trade routes against predators of various kinds. From the perspective of the merchant-taxpayer class, voting taxes to develop national naval power was potentially much better for business than equipping a land army.

In sum, it seems plausible that mobile capital played an important role in creating and sustaining the taxes-for-representation deal in part because this capital was employed to a large degree in long-distance, seaborne trade, in a context in which this trade was embedded in interstate naval rivalry.

The more generic question underlying the issues discussed above is: why did the merchant-taxpayers engage in collective class-based action often and long enough to sustain the taxes-for-representation deal, when instead fractions of them might have made specific, favorable deals with the Crown?[9] I return in Section VI to this general issue of collective action among taxpayers. I raise it here because it serves to introduce a further question about the historical specificity of the British experience: to what extent did the taxes-for-representation deal both emerge and stick because there just happened to be in England the right kind of supportive institution, that is, a long-established parliament that originally had no fiscal authority, but, because it represented larger taxpayers and overseas traders, became the forum in which the fiscal deal was forged? Would this deal have been struck had Parliament not existed and had the British elite (and thus representation in Parliament) not been relatively open to successful large-scale merchants? One could argue this is counterfactual in many ways.[10] Furthermore, in one sense, the interpretation of the British historical experience does not much matter when one is examining the relevance of the *fiscal contract proposition* to contemporary third-world countries: representative legislatures, with wide fiscal powers, are now the norm. There is almost everywhere a potential forum in which taxpayers can bargain with those who control the state apparatus. The important generic question concerns the conditions leading to collective action among (large) taxpayers in bargaining with the state. We know, in general, that collective action cannot be assumed, even when the likely benefits are large and evident to potential participants. If we are to look at the application of *fiscal contract propositions* to contemporary poor countries, we need to look closely at the factors that might affect the capacity and willingness of taxpayers to engage in collective action (see Section VI).

What kind of argument about human motivation underlies these historical fiscal contract theories? They are actually quite mixed, and not always explicit. There is no doubt that *interests* have priority: all variants of the schematic core model presented in Section II are animated by strategic action in pursuit of collective interests by collective actors. But the apparent dominance of interest-based explanations is partly a result of the (unavoidable) decision to present the argument in a brief, schematic form. It is very much *reduced* to an interest-based core. By contrast, most contributors to the literature seem well aware of the role of *institutions* in "selecting" among potential outcomes, including, as I suggest above (1) the relative importance of borrowing and national debt, and the identity of bondholders, and (2) the prior existence of the kinds of representative institutions that can facilitate collective action among large taxpayers and bargaining between them and the ruler. There are also hints of *cultural* and *ideational-based* arguments, including (1) popular interpretations of the American Revolution as a response to the "violation" of the right of citizens to have a say in assessing their own tax burdens and (2) analogous propositions that, when citizens have been required to pay (more) taxes, they demand more influence over public policy, either generically or in circumstances of perceived failures by the state to provide value for money.

One possible conclusion from all this is that fiscal contract theories derived from European history score more highly on inherent appeal and plausibility than they do on rigorous specification or testing. They might have little resonance for scholars seeking to understand contemporary polities in the South were there not a parallel body of contemporary work also pointing, albeit from a very different starting point, to some important causal connections between taxation and good government: the literature on contemporary rentier states.

(IV) Rentier States in the Contemporary Third World

The concept of a *rentier state* is recent, in large part because the phenomenon itself is largely new. Rentier states live largely off *unearned income*: the state is resourced with little organizational or political effort on the part of the state apparatus, and especially little such effort in relation to their domestic populations (Moore, 2001). *Demesne states, tax states*, and *fiscal states* all depend largely on *earned income* that places considerable organizational, bureaucratic, and political demands on the state apparatus. Leaving aside the exceptional case of the 16th-century Spanish polity, which enjoyed a bonanza from plundering American gold (Karl, 1997: Ch. 2), and contemporary Russia, rentier states have been virtually unknown in Europe or, indeed, in the history of any now-rich country. Even more clearly, rentier incomes have not been significant in the *formation* of contemporary European polities.[11] The main reason that most rentier states are of recent origin is that they are a by-product of the interaction of two sets of relatively recent historical processes:

- The emergence of a broadly bipolar world, in which the population of one group of countries is much richer (by factors of 20, 40, or more) than the population of the others.

- The development of the transport and communication technologies that make it possible to talk sensibly of "globalism," that is, a situation in which most populations, economies, and states are directly and deeply affected by long-distance international trade, investment, and financial exchanges, and by global projections of national military power and political influence on the part of some leading states.

The interaction of these factors created an environment for the establishment or reproduction of state systems in the poorer "periphery" that was distinctly different from the environment in which European states had been formed. On the one hand, this conjunction increased the scope for direct external intervention of various kinds in the periphery on the part of the (already rich) "core" states (and the capitalist interests rooted there). On the other hand, and of more direct concern here, it created opportunities in the periphery for some local groups to garner very large economic surpluses (*rents*) from controlling or managing economic and political relations with the "core." These rents are of two kinds. First, there are *natural resource rents*: the benefits of having a natural resource that is very valuable to the high-income economies of "core" countries. The sources of such rents change over time. At present, they include a range of minerals, diamonds, and tropical timber. But the dominant source, throughout the period of around a century since the rentier-state phenomenon began to emerge, has been oil.[12] Oil tends to yield very large surpluses in relation to production costs and, because of the "point" (rather than physically dispersed) nature of the resource, those surpluses tend to become concentrated in the hands of big oil companies and central states. The second category is *strategic rents*: the surpluses that can accrue to governments or to other organizations exercising effective territorial jurisdiction by virtue of either their effective territorial authority or of the fact that other states treat them as legitimate territorial authorities, even if the reality on the ground does not quite correspond (Herbst, 2000; Jackson, 1990). Historically, strategic rents have derived mainly from control over (and organized pirating within) key naval transport arteries (including canals), from military alliances and subsidies, and from the "rentals" of military facilities to foreign powers. Most of these sources remain important in many contemporary poor countries,[13] although the benefits are hard to quantify in cash terms. In financial terms, the dominant type of strategic rent in the contemporary world is the many forms of development aid. Development aid has in recent decades been increasingly concentrated on the poorest countries, and has always, for geostrategic reasons, been given more generously to small countries. It is barely observable in the fiscal statistics of a large, middle-income country such as Brazil, and plays a minor role in the public finances even of a poor, but large, country such as India. But it is the largest income source for the governments of most poor countries, typically accounting for a half or more of their total financial resources (Moore, 1998; O'Connell and Soludo, 2001).

Different types of rents have different implications for state formation. We do not have a general theory of the political economy of rentier states. In particular, our understanding of the political economy of states that depend on *strategic rents* remains relatively rudimentary and contestable. There are three broad reasons for this. The first is that *strategic rents* are very diverse. They range from fairly straightforward development aid through more opaque military assistance of various kinds to the broad and general support that might be given to a government controlling a naval facility that might be important one day. The second is that many of them are relatively hard to quantify. This makes it difficult to do the kind of systematic testing of theories through cross-national statistical analysis that is possible in the case of *natural resource rents* (see below). The third is that, in the case of development aid in particular, there may be quite complex reflexive interactions between the inflow of rents (that is, aid) and the character of the state. Even if heavily aided countries suffer disproportionately from any of the "political pathologies" that we judge to result from rentier status, we cannot assume causality. For a range of reasons, the causal connection may be partly or wholly reversed: development aid may be concentrated on those countries that appear to suffer most from "bad government." There is, in fact, some evidence that, in recent decades, high levels of aid have been "associated," over time, with declines in the quality of political institutions in poor countries (Knack, 2001). But, in relation to both aid and *strategic rents* more broadly, a great deal of difficult work remains to be done in specifying and testing causal connections with patterns of domestic state formation.[14] In relation to *natural resource rents*, especially oil rents, we know more.

There is no single authoritative interpretation of the effects of large oil rents on the character of states and state–society relations. The following attempt at identifying the key processes is based on a range of sources, including a few single-country monographs on the politics of oil states.[15] The major driver of these processes is the fact that government obtains much of its financial resources through *rents* (whether manifested as royalties, taxes, or surpluses from state corporations) from a valuable, physically concentrated resource that (1) is extracted, transported, processed, and exported in an integrated fashion, often by the same organization, or network of linked organizations, using dedicated physical infrastructure that has few alternative uses, (2) is very vulnerable to disruption, and (3) therefore tends to be heavily protected. Much the same causal processes seem to operate in the case of other minerals that share these physical characteristics. Compared to dependence on a relatively broad tax base, the dependence of a state on oil for revenue tends to generate the following seven "political pathologies":[16]

1. *Autonomy from citizens.* The state apparatus, and the people who control it, have a "guaranteed" source of income that makes them independent of their citizens (potential taxpayers). Why listen to citizens or give them any kind of democratic influence over the state? Why use scarce administrative resources to promote broad economic development when the state can feed itself from mineral revenues or from using those revenues to establish "mega-projects" under state control? It is more efficient to use some revenue to buy off those citizens likely to cause trouble and more of it to support a powerful army and intelligence apparatus that will keep the others in line.
2. *External intervention.* Oil, in particular, has generally been viewed as a strategic commodity. Concerns about security of supply have continually motivated substantial political and military intervention by the wealthiest nations in the governance of oil-producing areas (Yergin, 1991). This kind of relationship generally has increased the autonomy of oil states in relation to their citizens, most directly through external military and political support for regimes that enjoy little popular legitimacy.
3. *Coupism and countercoupism.* It is very tempting for those not at the very center of

power to try to take over the state by force. The rewards are potentially very high, and foreign support can sometimes be obtained, especially in the context of geopolitical rivalry over access to oil supplies. Politics in mineral states tends to coupism. The state responds by using a great deal of its resources to protect against coups, often bringing in foreign mercenaries who are less likely to lead a coup. Those in power are reluctant to cede any influence to other groups, lest this become a foothold for a complete takeover of the state.

4. *Absence of incentives for civic politics.* Dependence on oil revenues affects the general tenor of civilian politics, and reduces, through two very different mechanisms, the likelihood that citizens will engage in politics in a "civic" (deliberative, institutionalized, and compromise-prone) fashion. First, the absence of direct taxes reduces the likelihood that citizens will be motivated to engage in politics through a sense of a right to influence the use of "their" own money.[17] Second, the absence of political contestation over the raising of state revenue through taxation increases the space for conflict over more fundamental issues of morality and values that are more likely to generate permanent differences and ill-feeling among people, and are less subject to compromise than are questions of who pays how much tax for what purpose.[18]
5. *Vulnerability to subversion.* The failure to tax the bulk of the population, and thereby bring them into the ambit of a regular civilian bureaucracy, leaves the state vulnerable to the (armed) organizational challenge of competitors: guerrillas, private armies based on the narcotics and arms trades, and non-state movements of various kinds, including, in contemporary sub-Saharan Africa, autonomous Christian and Islamic movements. The key insight, shared *inter alia* by counter-insurgency specialists, is that active revenue raising may be an important means of keeping the state machinery alive and active at the grassroots. If the revenue-raising function is permitted to decay, weak states leave themselves vulnerable to more committed and organized predators:

   > In the course of an internal war, economic assistance tends to become an alternative source of revenue for the local regime, allowing it to neglect its domestic tax base and thus leave it to the insurgents to exploit. This is not to suggest that regimes facing an internal war ought to tax their populations more heavily, but it is to say that, in order to tax the countryside and the urban sectors, they have to rule those sectors. If they rule them, the insurgents do not. (Odon, 1992: 219)

6. *Non-transparency in public expenditure.* Where public revenues come from a small number of concentrated sources, such as a few foreign oil companies or a public mining enterprise, it is relatively easy for revenue and expenditure to be hidden from view. If a legislature exists, it has limited capacity to exercise oversight over the state because it has very incomplete knowledge of (let alone control over) the myriad ways in which state and quasi-state agencies raise and spend money. The official "budget" may represent a mere shadow of the true fiscal situation. In Suharto's Indonesia, the state oil company, Pertamina, was a fiscal and political state within a state (Winters, 1996: 162–3). Much the same is said of other state oil companies elsewhere.[19]
7. *Ineffective public bureaucracy.* There is little incentive to establish an efficient public bureaucracy. The task of raising revenue from the mineral facilities requires few specialists, and these may be imported to make them more easily controllable. It is not necessary to establish the kind of efficient meritocratic

public bureaucracy that is required to manage a complex tax system or to establish the control mechanisms and public-service values needed to protect against the worst abuses in tax collection. In the civil bureaucracy, jobs will be given mainly for patronage purposes and for directly political reasons. Insofar as there are incentives to create an efficient public bureaucracy, these will be concentrated on the military and intelligence apparatuses. It is to these apparatuses that able and ambitious young people are attracted.

This list certainly does not amount to an adequate general model of the political consequences of oil rents. It is at best a list of what appear to be the main causal mechanisms that operate in different circumstances. Further, it does not take into account the absolute size of oil rents: the likely differences, for example, between "ordinary" oil regimes and those, such as some of the Middle Eastern states in the later 1970s and 1980s, which had such abundant revenues that they could provide high living standards for virtually all citizens. But we can be fairly confident that rentier-state theorists collectively have been arguing along the right lines, because, in addition to the case studies on which the model is based, recent cross-national statistical analysis convincingly demonstrates that oil regimes (and sometimes states dependent on other "point" minerals) are afflicted by some measurable "political pathologies." In particular, when other relevant variables such as income levels are taken into account, oil and mineral states are likely (1) to be relatively undemocratic (Ross, 2001b; Wantchekon, 2000),[20] (2) to suffer from weak rule of law (Wantchekon, 2000), and (3) to exhibit higher levels of malnutrition, mortality, and illiteracy than would be otherwise expected (Esanov et al., 2001; Ross, 2001a). These are partial or indirect measures of political processes, but strong indicators that oil rents tend to generate polities in which ordinary citizens have little influence, and enjoy less of the benefit from those revenues than one would expect.

(v) Contemporary Implications: Comparing Contexts

The fiscal sociology paradigm proves its worth in the study of comparative state formation: variations in the sources of state revenue to a significant degree explain differences in the form of states and in how they relate to citizens.[21] In one sense, that is no surprise. For, when framing and exploring issues of state formation in comparative and historical perspective, western scholarship continues to operate very much in the shadow of Max Weber. Weber's project was to distinguish the *modern state* from its predecessors by focusing on the organizational means it employed, rather than the functions it performed or the motives that drove state elites. He said relatively little about these latter issues, and almost nothing about revenue and taxation (Pierson, 1996: 30).[22] All states that are *modern* by Weberian criteria also happen to be *tax* (or *fiscal*) *states*, and that category includes the East Asian "miracle" states of Japan, South Korea, and Taiwan. Weber's blindness to resource issues has not been exposed in any dramatic way in the context of more advanced or capable states. Some political scientists studying comparative state formation continue to ignore resource issues.[23] But, from the perspective of those interested in the diversity of state forms in the South, there is a fairly evident gap that fiscal sociology helps to fill.

In suggesting that fiscal sociology helps us understand state formation and the diversity of states in the South, I am not endorsing Schumpeter's distended claims about the explanatory power of the paradigm. Insofar as there is any "big idea" animating my concern with this issue, it is that we can best understand the patterns of state formation and governance in the South by exploring the differences between the international or global environments in which they have been formed and those that nurtured the establishment of western European states in earlier centuries (see Section II). Very briefly, there appear to me to be three major interrelated sets of differences (Moore, 2001), as follows:

- The states of the South were created in the shadow of and to some degree directly by "Northern" ("core") states that were already rich and powerful, and projected that power throughout the South through the mechanisms and relationships of direct colonial rule, indirect dependence, military alliance and intervention, subsidies (aid), and the creation of international institutions.
- Military technology has evolved to become much more capital intensive, much more destructive, and quickly projectable over much longer distances (Ferguson, 2001: Ch. 1), which has greatly changed the balance of military (and political) power between ordinary citizens choosing to arm themselves using the means immediately available to them in everyday life and organizations, including states, that have sufficient capital to arm themselves through international markets (for equipment and personnel).
- The availability in some contemporary states of the South of the very large rents discussed above (see Section IV) and of "external banking sanctuary," that is, the capacity to stash illicit capital in developed countries and later enjoy it.

The typical features and outcomes of processes of state formation in the South include the relative powerlessness of citizens and the relative autonomy, in relation to those citizens, of both (1) established apparatuses of the state, and (2) organizations challenging state power that enjoy access to rents or to military resources, or both, through their connections to international networks. In other words, the processes that lie at the core of state formation in western Europe (the construction of civic, representative political institutions through [implicit] bargaining between rulers and those societal actors that controlled major economic resources) have relatively few parallels in the formation of *most*[24] states in the South.[25]

Part of the point of inserting here these broad hypotheses about the range of contextual factors shaping state formation in the South is to emphasize that I am not suggesting that any solution to poor governance there might be found through organizing some kind of contemporary replay of the western European *fiscal contract* story. For one response to the story of western European state formation is to ask whether more effective states might be formed in, say, sub-Saharan Africa if some benign global force could (1) drastically reduce the availability there of natural resource and strategic rents, and (2) permit interstate wars with consequent boundary changes, such that the more successful polities (hypothetically, those that adopt arrangements for consensual taxation through representation) might swallow up the rest. We are so far into fantasy that some people might find the question either ridiculous or abhorrent. But asking it does help clarify both comparative historical explanations and contemporary policy options. Our benign global force might have relatively little difficulty in eliminating most strategic rents, mainly through reducing aid. It might even be able to enforce external nonintervention. Reducing natural resource rents would require a great deal more force. First, West Africa currently is set to become a more important source of oil, partly as a strategic offset to dependence on the Middle East. Second, there is at present no realistic alternative to the payment of oil rents to national governments.[26] But, even if these problems could be solved, we could be fairly confident that the experiment would have no serious chance of success. We know that the positive state-building role of interstate war in the history of western Europe was the product of a wide combination of contextual factors that will not be found today in sub-Saharan Africa or elsewhere. We can definitively bury any tough-minded yearning for a little more of the right kind of war.[27]

What we cannot so easily bury is the more plausible policy-related question that emerges from the literatures summarized in Sections II–IV above. Are some states in the South likely to become more effective and accountable if they become more dependent for revenues on taxing their own citizens? Can we plausibly argue that there is a potential "governance dividend" from encouraging such a process, whether through reducing certain types of rents (for example, high aid levels) or simply encouraging and supporting those Southern states that raise little domestic revenue to raise more? The fact that we cannot rerun in the contemporary South a particular European historical sequence, with all its leading elements, does not necessarily mean that there are not, actually or potentially, parallel processes linking tax dependence with the formation of more effective states.

I am unable to provide anything like an answer to this question about the potential *governance dividend* from taxation. The main purpose of this article is to help clarify ways in which we can begin to think about answering the question. I offer two kinds of contribution here. The first, in Section VI, is to begin to list some of the issues involved in seeking an answer to this question. The second, in Section VII, is to explain how a greater concern with the governance implications of taxation might relate and contribute to our understanding of the patterns of state–society relations that underlie effective states.

(VI) Contemporary Implications: A Governance Dividend from Taxation?

Under what circumstances might increased dependence of governments on taxation generate a *governance dividend*, that is, a more negotiated relationship between the state apparatus and society, involving an exchange of (1) greater institutionalized societal influence over revenue raising and expenditure for (2) higher levels of domestic taxation, with substantial quasi-voluntary compliance?[28] Given the enormous diversity of polities and political contexts in the South, answers to that question will be context specific.[29] The most I can do here is to signal some of the more generic features of Southern polities and political contexts that might affect those answers. Let us start from the assumption that such an exchange (of resources for institutions) has potential benefits for both parties. It is a plausible item for the political agenda. When might it actually come on to the agenda?[30] I list some of the main, likely factors, organized as partial answers to three general questions, as follows.

1. When might the controllers of the state prefer to raise additional resources through coercive or extractive methods, rather than through negotiation with (potential) taxpayers?
   1.1. Coercion is more likely at the local level and in agrarian environments lacking large landowning groups able to exercise an effective veto on the

predatory behavior of state agents.[31] A major purpose of levying local taxes in agrarian environments is to raise resources for those doing the taxing, and the local governments that employ them. Extralegal or coercive local taxation is widespread in China and in parts of Africa (Fjeldstad, 2001; Fjeldstad and Semboja, 2001; Prud'homme, 1992). Conversely, taxation is more likely to be negotiated at the levels of the nation-state or large urban governments in relatively high-income areas.

1.2. The "bureaucratic-organizational" strategy of vigorously enforcing tax-liability rules and pursuing defaulters is possible where revenue agencies both have a high technical capacity and lose little revenue through corruption. Such conditions are rare in the South. Contemporary South Africa is a rare exception (Hlophe and Friedman, 2002; Smith, 2003).

1.3. A more coercive strategy is feasible where governments enjoy high levels of popular legitimacy, and especially the type of legitimacy attached to movements that have achieved independence from colonial or external rule through armed struggle. Such governments are increasingly rare in the South.

2. When will governments remain committed to strategies of negotiation with taxpayers?

2.1. The relative lack of opportunities for governments to obtain concessional financing from international sources is likely to be very important here. First, the existence of such opportunities creates incentives for governments to reject the negotiation route and to go for what is almost always the easier option. Second, the accumulation of debts to international financial institutions may create the circumstances in which the International Monetary Fund (IMF), in particular, is able to mandate modes and levels of taxation, bypassing internal representative and legislative processes, and thus undermining the bargaining relationship.[32]

3. What factors will affect the willingness and capacity of (some large groups of) potential taxpayers to engage in collective action to bargain with the state?

From one perspective, one of the more remarkable features of the European story about taxation and representation appears to have been the relatively high level of sustained collective action among taxpayers. However, it seems that there was a substantial degree of path dependence. Once the (mercantile and financial) economic elites of any country had substantial influence over fiscal issues in a representative assembly, and provided that the country suffered no serious military defeats, the gains for all influential stakeholders were sufficient to maintain existing dynamics. In principle, we need to distinguish between explaining the origins of collective action and explaining its persistence. I have neither the space nor the insight to do that here. I instead list some general issues that bear on the type and incidence of collective action by taxpayers in contemporary developing countries.

3.1. On the one hand, the near ubiquity of representative legislatures, most of them with at least formal fiscal authority, should encourage collective action. On the other hand, the extent of personnel overlap between legislators and large taxpayers is much less today in most countries, including developing countries, than in "historical Europe." The largest taxpayers in most developing countries are companies whose owners (especially if they are foreign corporations or members of small ethnic minorities) play very little direct role in politics, and might use their financial influence in politics solely for specific and particularistic purposes. If one starts from the assumption that a core governance problem lies in the dearth of bargained exchange relationships between the state and any organized societal group, then any collective action on the part of business to negotiate with the state over taxation might be considered to be potentially positive, even if it takes place entirely outside any representative or legislative institutional framework.[33] By contrast, relatively transparent and public debates between organized business associations and governments (for example, Gloppen and Rakner, 2002) over taxation issues are likely directly to contribute to enhancing the fiscal authority of legislators.

3.2. Similarly, there may be little personnel overlap in most countries between large taxpayers and the people who make large loans to the government. To the extent that the latter are in overseas banks and financial institutions, they may use distinct channels and criteria for evaluating the creditworthiness and general performance of borrower governments – notably international credit-rating and political risk assessment agencies. To the extent that taxpayers and large lenders are distinct, noncommunicating groups, the chances that taxpayers can hold government to account are reduced.

3.3. The existing tax regime and mode of tax collection are significant obstacles to collective action on the part of taxpayers in many countries, because they embody a substantial degree of political and bureaucratic discretion, both formal and informal, about tax liabilities. It may be rational for individual (large) taxpayers to seek individual preference rather than pursue collective action, and for the state apparatus to use this discretion to quash attempts at collective action.[34]

3.4. Until recently, rates of inflation were, on average, high (and often very high) in poor countries. That undermined the scope for doing the kinds of calculations that underpin any strong accountability of states for their fiscal practices. That situation changed around the turn of the millennium. Average annual inflation rates in poor countries are now well down into single figures, and likely to remain that way now that macroeconomic stability is a widely accepted policy objective. That increases the scope for non-state actors reliably to hold states to fiscal account.

3.5. Lastly, the near-universal adoption of value-added tax (VAT) by developing countries considerably increases the potential for collective action on the part of smaller taxpayers. There is a general assumption that "visible" taxes are more likely than others to mobilize taxpayers, and a tendency to equate visibility with "indirect taxes." While formally an "indirect tax," VAT is, in fact, highly visible to the people who have to pay it, in large part because of the additional and relatively complex record-keeping obligations it places on them. In recent years, VAT has been the object of substantial mobilization, mainly by small traders, at the point it was introduced. For example, in 1995, there were "VAT riots" in Ghana that led to several deaths. At the time of writing, the mobilization of small traders has stymied the long-heralded introduction of VAT in India. We can, however, anticipate that, once VAT is in place (and it was reintroduced relatively smoothly in Ghana once the government paid attention to political tactics and presentation), it may become a focus for the organization of taxpayers. This is all the more likely because it is relatively difficult to avoid VAT because of its self-checking nature, and taxpayers will tend to believe that other people like them are also paying tax.

(VII) Concluding Comments

If our ideas about a potential *governance dividend* through more intensive taxation are so tentative, why delve into this issue at all? Part of the answer is that there is some evidence that such linkages might exist over a rather short timescale. Gerald Easter compares the strategies chosen by the Russian and the Polish governments to create a reliable taxation system after the fall of the Soviet Bloc. The Russian state imposed many taxes on business, and tried initially to bargain with the controllers of a small number of very large enterprises, who became more a source of credit for the state, through a rigged market for short-term public debt, than a reliable source of revenue. The state eventually reverted to a more bureaucratic and coercive strategy for taxing the oligarchs. By contrast, the post-communist Polish state chose to broaden its revenue base through the more difficult route of beginning directly to tax labor incomes. This generated more resistance in the short term, but led to the creation of a more reliable revenue stream, and contributed to the establishment of a social pact between government and organized labor, and a more institutionalized polity – a *governance dividend* (Easter, 2002). Exploring state–society relationships in the taxation domain perhaps helps provide us with an agenda for the study of (effective) state formation in the South that is more relevant and productive than the agenda derived from ideas that are globally dominant both in the academy and outside.

Few political scientists would argue that we possess either (1) any very powerful or convincing analytical frameworks for the study of comparative state formation, or (2) a normative consensus on what constitutes a "good state." But, at a relatively high level of abstraction, there is a broad measure of agreement that:

- "Effective states" (in their various manifestations) are to a large degree the product of processes of interaction and (implicit) bargaining and exchange between state apparatuses on the one side, and, on the other, societal groups that are more or less organized, more or less encompassing, and more or less self-conscious.[35]
- Such exchange processes help create effective states through, *inter alia*, helping to (1) identify positive-sum policy scenarios, in which (elements of) both sides stand to benefit, (2) generate a common ("national") consciousness, and (3) establish the essential constraints on state power ("accountability").
- The effectiveness of such processes depends to a large degree on the replacement of violence by more "civic" (legitimate, participatory, and institutionalized) modes of domination (Bates, 2001).

Much of the variation in the study of (effective) state formation lies within the bounds of this general paradigm, in differences about which types of state–society exchange to examine and about which types of exchange and which societal actors should have normative or analytic priority. One way of identifying core differences in approach is to ask which societal actors and set of institutions is expected to play a leading role in establishing the accountability of states. In the contemporary world, and in contemporary scholarship, there are two main alternative answers to that question:

- One set of people focus on electoral democracy, and the actual or potential capacity of different categories of citizen-voters to exercise institutionalized influence over state elites.
- The others focus on the structural power of (mobile) capital, and the extent to which fear of losing private investment acts as an institutionalized constraint on state power (for example, Winters, 1994, 1996).

In the contemporary rich world, these two sources of constraint on the state are increasingly seen as being in direct conflict with one another. Especially in the context of concerns about globalization, *the* choice for the future is often presented as being between democracy and the power of (mobile and international) capital. Taxpayers are subsumed into one or other of these categories, but are not considered as a separate category of actors, and neither is the taxpaying relationship seen as a potential constraint on state power or the focus of state–society exchange. It was different in "historical Europe." At the extreme, one could say that, in Britain at least, the relationship between taxpayers and the state to a large degree subsumed or substituted for the relationships with citizen-voters and capitalist investors, respectively. If we are to explore routes through which some of the rather overweening states of the South might be engaged in more equal exchanges with society, we might wish to treat the taxpaying relationship as separate from, and additional to, these relationships with citizen-voters and capitalist investors.

Notes

1. Developing it was not Schumpeter's priority. Writing in 1919, he was actually focused on the relatively short-term question of whether the Austrian *tax state* could survive the political and economic turmoil of contemporary central Europe.
2. For a very useful, brief survey of the extent and nature of *domain states* in modern Europe, see Ferguson (2001: 56–60).
3. The main elements of the argument are presented most accessibly and convincingly in the work of Charles Tilly (1992). The summary here is my interpretation of his work and that of other authors. Note that it is impossible to present this kind of summary model without appearing to subscribe to a highly deterministic view of history. One can only plead "not guilty." Linda Colley's (2002) recent work happens to provide a very useful corrective here, by pointing out how unlikely it would have seemed to 17th- and early 18th-century Britons that Britain would become a dominant, global military and economic power. Similarly, detailed case-study work on comparative state formation in Europe reminds us of the limits of general models of the Tilly type (Ertman, 1997).
4. Although they might tolerate or encourage the misuse of resources for their own collective benefit.
5. The philosopher Kant was so impressed by the strength of this connection that in 1795 he suggested, as a means of bringing about perpetual peace, a ban on "debts . . . contracted in connection with the foreign affairs of the state" (cited in Ferguson, 2001: 125–6).
6. Nor do I deal with the argument that the economic institutions that emerged to deal with large amounts of government debt (bond markets, stock exchanges, and quasi-central banks) also proved to be very efficacious for private-sector transactions, and thus played an important role in promoting economic development generally.
7. See Ferguson (2001). MacDonald (2003) takes this line of argument further, suggesting that polities indebted mainly or solely to their own citizens embody a type of accountability superior to that embodied in electoral democracy. In his own words, the "citizen creditor" is the "hero of our tale" (MacDonald, 2003: 471).

8. The typical British military strategy in European conflicts during the 16th to 19th centuries was to rely as far as possible on a combination of "national" naval power and financial subsidies to European allies to purchase the manpower needed to fight land battles on the Continent.
9. Robert Brenner's (1993) monumental study of the political activities of London's overseas merchants from the mid-15th to the mid-16th centuries illustrates the extent of the sectional divisions of interest and the degree to which these were politicized, especially in the lead up to, and during, the English Civil War.
10. For example, one could interpret the lead up to the French Revolution as evidence that, when desperate for tax revenues and bereft of the authority to levy taxes without the consent of large taxpayers, governments could effectively "invent" appropriate representative institutions. Louis XIV convened the Estates General, which had not met for more than 150 years, for this very purpose. Unfortunately for him, it proved impossible to re-establish legitimacy for his regime through this transparently instrumental move.
11. Except, perhaps, in the case of Russia. Oil revenues became significant in Norway in the 1970s, long after a modern democratic state was deeply institutionalized.
12. Illegal narcotics are also conventionally placed in this category, but this is not principally because the "peripheral" countries have any strong economic advantage in the production process.
13. They have become important in central Asia only in the past few years.
14. There is a range of very plausible arguments about how large volumes of aid (especially when they are provided by a large number of different aid donors) undermine the capacity of recipient states. For a brief and spirited statement of the main arguments by an active practitioner in the aid business, see Morss (1984). For a more extended discussion, see Brautigam (1999). For a comparison of the potential political consequences of aid and oil, see Therkildsen (2002).
15. I have drawn on the following: Anderson's (1994, 1995) very insightful summaries of Middle Eastern politics; Chaudhry's (1989, 1997) comparison of the political consequences of oil in Saudi Arabia and labor remittances in the Yemen; and on three excellent country monographs in the rentier theory tradition, that is, Gallo (1991) on Bolivia, Karl (1997) on Venezuela, and Vandewalle (1998) on Libya. Karl's (1997) work has perhaps been the most influential. It deals principally with Venezuela, but puts that case in its comparative international context. The book has been criticized for an excessive focus on oil as the source of all Venezuela's ills. Similarly, the interpretation of Middle Eastern politics in terms of notions of rentier states has generated some reaction on the grounds that "other things matter too" (Herb, 1999; Okruhlik, 1999). For good critical reviews of the rentier-state thesis and related literature, see Ross (1999).
16. Botswana is typically cited as the grand exception: a recently mineral-rich state that has conspicuously failed to suffer the kinds of political retrogression that our model predicts. Acemoglu et al. (2003) provide a fairly convincing explanation, based on a conjunction of historical factors, for this exceptionalism.
17. We do not know how strong this effect is likely to be. It was reported to have appeared in Indonesia after the broadening of the tax base in 1984 (Winters, 1996: 161).
18. See, for example, Anderson (1994).
19. Ascher (1999: 16–17) makes the general case, with evidence, that revenues from natural resources tend to be dispersed, wasted, and hidden in government accounts.
20. Also, oil is a better statistical predictor than Islam.
21. This is not to imply that all attempts to employ the paradigm have been very successful. Hobson (1997) has attempted to use it to explain 19th-century trade regimes. While his first chapter contains a very useful review of the relevant literature, it is questionable whether he has succeeded either in appropriately using or developing the insights of Goldscheid and Schumpeter (compare Jessop, 1999: 240–1).
22. A similar unconcern about state resources and revenues is evident in the work of scholars who have written about the modern state from a Weberian perspective, for example, Poggi (1978).

23. For example, a recent survey of alternative intellectual perspectives on the study of the state by a leading scholar lists the *culturalist* perspective, the *system-dominant structuralist* perspective, the *rationalist* perspective, and the *historical institutionalist* perspective, but deals not at all with the implications of alternative modes of resourcing the state (Migdal, 1997).
24. I stress the term "most": the degree of variation in the processes and outcomes of state formation in the South seems much greater than within Organization for Economic Cooperation and Development countries. The fact that India, for example, enjoys a relatively stable democracy and authoritative governance seems partly related to a history which has clear parallels with the classic western European trajectory of state development: the early development of an administrative apparatus that gathered perhaps a third of the agricultural product through land tax; the central role of local elites in administering such high levels of extraction; and the origins of democratic representation and mass political parties in bargaining games between that elite and the British colonial state in the early 20th century, as well as in the very smooth handover of power from the one to the other in 1947.
25. For a very neat and succinct statement of this kind of argument, see Bates (2001).
26. There are currently two main sets of international policy initiatives to try to reduce the malign political consequences of oil rents. The first is more transparency about payments from oil companies to states, as embodied in the recent (June 2003) Extractive Industries Transparency Initiative. The second, modeled especially on Norwegian practice, is the attempt to put oil revenues into dedicated funds for long-term (national) objectives, with restrictions on access on the part of governments (Ebel, 2003). Neither route seriously constrains any government, and especially not a typically undemocratic oil regime.
27. To elaborate in detail on this claim would be diversionary here. The best general justification may perhaps be found in Miguel Centeno's (1997, 2002) explanation of why war did not lead to state-building in 19th-century Latin America. See also William Reno's (2002) work on the same issue in contemporary Uganda.
28. On the notion of "tax compliance," and the factors influencing it, see especially Friedman (2003) and Lieberman (2001, 2002).
29. There are some overlaps between the questions I address here and Levi's (1999) assessment of the historical literature on the link between taxation and the emergence of democracy in Organization for Economic Cooperation and Development countries.
30. There is cross-national statistical evidence that increased taxation does indeed tend to precede increases in measured levels of democracy (Ross, 2004).
31. In such societies, larger rural property owners are generally able to nullify the most obvious source of local state revenue: property taxes.
32. The IMF effectively sets annual revenue targets for many high-aid countries, and meeting these targets is widely seen as a motivation or justification for relatively coercive taxation (Gloppen and Rakner, 2002). Note, however, that this is not the inevitable outcome. A more complex interaction is possible. If decisions on granting concessionary external finance were in fact synchronized with the internal bargaining processes, they could in principle (if effectively managed) reinforce those processes. That, however, requires intervention capacities considerably greater than those normally displayed by aid and development agencies.
33. An example is the threat by big business in Karachi to go on a tax strike unless the government of Pakistan did something about the appalling law and order situation (Masud, 2002).
34. My thanks to John Toye for drawing my attention to this point.
35. This formulation would seem, for example, to encompass political scientists as different in intellectual outlook as Evans (1995) and Migdal (1997).

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