Book Review: The Political Economy of Taxation: Lessons from Developing Countries

Bader Alabdul karim
King Saud University
Saudi Arabia

Abstract

This is a book review for The Political Economy of Taxation: Lessons from Developing Countries. The book review shows a summary for the book. Then it analyzes the research question and data. Finally, it gives some advice to improve the research

Keywords: taxation, political economy, developing countries

Paola Profeta and Simon Scabrosetti's book The Political Economy of Taxation: Lessons from Developing Countries was published in 2010. This 191-page book contains seven chapters, including the introduction and appendix. This book review analyzes the content of the book. Furthermore, it explains some critical points. In addition, it introduces some advice to improve the research**.**

This book focuses on how some economic and political indicators affect the tax revenue and taxation structure. Therefore, the primary research question is: "Does the political economy affect the tax revenue and its structure?" This research question is compelling because it aims to explain the relationship between some economic and political indicators and taxation**.**

This research is considered a mix of formal theory and theory-oriented research. For instance, in the literature review, the writers provided many theories about the connections between democracy and economic growth, which will reflect on taxation. At the same time, the writers used the new European Union countries, which have established democracies, as examples. As a result, the writers connected their results and some theories in the literature review. Therefore, this part of the research question is considered formal theory. At the same time, the results with Asian or Latin American countries are considered new and unique. Therefore, this part of the research is theory oriented**.**

Chapter 2 was the literature review for the research. The writers explained many studies that focused on the effect of democracy on growth and redistribution. They divided this chapter into three parts. The first part focused on the socio-economic conditions that enforce the establishment of a democratic system. In the second part, the writers explained the relationship between democracy and growth. They assumed that growth affects democracy and that the opposite is also true. In the third part, they explained the influence of democracy on taxation**.**

The writers, in the literature review, analyzed many theories related to the research question. For instance, they discussed the theory that democracy means political equality. As a result, rich and poor citizens have the same political power or opportunity. This theory is related to the research question when it focuses on political participant and taxation. Furthermore, the literature review showed how economic circumstances affect a democracy. For instance, economic crises promote democracy. Furthermore, a better economic situation for the public has a positive effect on democracy. All these points belong directly to the main question and focus on economic and political indicators **.**

The literature review showed how the economic situation affects politics in a nation. Later in the literature review, the writers showed some evidence that growth leads to democracy as well as vice versa. This part connected the economic indicators, such as GDP per worker, agriculture in GDP, openness, and debt with political indicators, such as civil liberties and political rights. The final part of the literature review showed how a democracy creates redistribution. Democracy gives poor groups the power to participate in the political life of a nation.

As a result, it establishes equality in the society. This has ramifications for taxation revenue and the taxation structure. For instance, poor groups will support increasing direct taxation on rich people to achieve equality in the society.

The literature review showed two main points about the research. The first was that the research combined two different indicators, economic and political, whereas other research has focused on one side. The second point was that this research analyzed both democratic and nondemocratic regimes. These two points show the main distinction between this research and other studies. Furthermore, these features show how this research will add new knowledge in the field.

The writers transitioned from one theory to another smoothly. For instance, they began with democracy and equality. Next, they discussed the idea that equality means a transfer in power from rich to poor people. Transition in power may lead to shock, which promotes democracy. Furthermore, equality brings growth in the economy and expands the middle class. As a result, economic and political indicators work together to improve the state . Chapter 3 described the data and variables used in the research. The economic indicators were GDP per worker, GDP per capita, agriculture in GDP, openness, and debt. The four political indicators included the democracy scale, the regime duration, civil liberties, and political right .

This book used three samples comprising countries from three continents, Europe, Asia, and Latin America, between 1990 and 2004. From Europe, the sample included the new EU member countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia). These countries are used as a benchmark of stability. Furthermore, the sample included some Asian countries (China, India, Indonesia, the Republic of Korea, Malaysia, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam). In addition, the sample featured 18 countries from Latin American (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela). The writers analyzed the sample on three levels. On the first level, they used economic variables with tax revenue. The first economic variable was GDP per worker. They found that there is a positive correlation between GDP per worker and tax revenue. On the other hand, there is a negative correlation between agriculture in GDP and tax revenue. The third economic variable was openness. The relationship between openness and tax revenue was found to be positive. Finally, the relationship between debt and tax revenue is flat.

For the political variables, the researchers focused on democratization by using four indicators: POLITY2, DURABLE, FREEDOM1, and FREEDOM2. They used two datasets: the polity IV dataset and the Freedom House. The polity IV dataset has an indicator, POLITY 2, to measure democracy for many countries. This indicator ranges from –10 (strong autocracy) to 10 (strong democracy). Furthermore, polity IV has a second indicator, DURABLE, that shows the duration of the polity government .

Other than these two indicators, the researchers used two indicators from the Freedom House dataset: FREEDOM1 and FREEDOM2. The FREEDOM1 indicator measures civil liberties on a 7-point scale. In this indicator, 1 means the sample has high civil liberties and high democracy, whereas 7 means the opposite. The final indicator in democracy is FREEDOM2. This indicator shows public participation rights in the political process. This indicator is also measured on a 7-point scale, where 1 means high political rights. Analyzing these indicators showed that there is a positive correlation between democracy and tax revenue.

In Chapter 4, the researchers analyzed the sample of Asian countries. They focused on the impacts of political regimes on both tax revenue and the structure of taxation. They found that there is a negative relation between tax revenue and a democratic regime, and that the structure of taxation includes each tax source when the government is larger.

In Chapter 5, the researchers analyzed the sample of Latin countries. They found that more democracy leads to high tax revenue. Furthermore, democratic countries have more indirect taxes than direct taxes.

In Chapter 6, the researchers analyzed the new EU countries. They found that the democracy level affects tax revenue positively. Furthermore, there is a positive relationship between the democracy level and an increase in both direct and indirect taxes.

The writers used possible data from two different databases. Furthermore, they clearly explained the steps from the beginning through the results. In addition, they made a connection between some results and other theories in the literature review. This connection motivates the reader to trust more in the used method. Moreover, the data analysis was done using main statistics tools. For instance, the tables showed the mean and the standard deviation for the variables. Furthermore, the tables and figures were used effectively for readers to simplify the data and the results.

On the other hand, the variables in this research lack an interval, which means there will be inconsistency in the result. For instance, POLITY2 measures the states' democracy. At the same time, FREEDOM1 and FREEDOM2 measure specific parts of democracy. For instance, FREEDOM1 focuses on civil liberties such as property rights, which are a part of democracy. Furthermore, FREEDOM2 shows political rights for the state such as participation in political life. These variables, with POLITY2, measure the same point, which led to the same result. As a result, if POLITY2 shows high democracy, other variables will have high values. Maybe the researchers used this method to be sure about the results; if the results are different, it means there is a problem in one variable.

In Chapter 7, the writers presented an appendix that explains the variables and sources. Furthermore, they provided some information about the dataset and the year .The writers used clear language, so international readers can understand the content well. Furthermore, the writers used an academic structure. The book started with an introduction that contained a hypothesis. Then, the writers explained the sources of the data they used. Later, they analyzed the data and showed the results. In analyzing the data, the writers used accepted statistics tools such as mean and standard deviations. Furthermore, they used figures and tables to explain and show values . The writers used three groups of countries from the EU, Asia, and Latin America between 1990 and 2004. In this time period, the EU countries were prepared to become part of the EU, so this sample had more of an incentive than others did. Furthermore, they needed to meet some criteria to be members of the EU. These criteria affected many parts of this research, such as taxation and openness. For instance, openness is a main requirement to be a member of the EU. Furthermore, the EU requirements affect indirect taxes, such as value-added tax (VAT) .

On the other hand, other samples, such as the Asian and Latin American countries, did not have this motivation to improve. Therefore, this issue may affect the research results. In addition, these criteria worked as a project plan for the European countries, and as a result, all these countries became members of the EU in 2004 .This book could have been improved if the writers had mentioned the EU requirements and discussed whether these requirements affected those countries during the research, especially because the book was published in 2010.