

It's My Money

Why Big Government May Be Good Government

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Since the mid-1990s, the evidence that corruption—broadly defined as the misuse of public office for private gain—is a serious political, economic, and social ill has been mounting.¹ On the basis of this insight, policies for improving the quality of government have become a high priority for many international organizations including the World Bank, the United Nations, and the European Union. Some analysts even talk about the global fight against corruption as a major “industry” or “international regime.”²

In the midst of the discussion about the most effective ways of curbing corruption is a general consensus among both scholars and policymakers that “big government”—commonly understood as a government characterized by extensive regulative powers and high levels of taxation and public expenditure—is a source of “bad government.”³ This understanding of the problem has been effectively encapsulated by Gary Becker, the 1992 Nobel laureate in economics, in *Business Week* columns under titles such as “To Root out Corruption, Boot Out Big Government” and “If You Want to Cut Corruption, Cut Government.”⁴ According to Becker, “the source of official corruption is the same everywhere: large governments with the power to dispense many goodies to different groups.”⁵ Therefore, smaller government is “the only surefire way to reduce corruption.”⁶ In line with Becker’s recommendation, contemporary anti-corruption efforts have commonly involved the downsizing of governments.⁷

The argument that bigger governments are more prone to corruption than smaller ones clearly follows the logic of public choice theory.⁸ In this theory, corruption is conceptualized as a principal-agent problem, within the framework of which the state is assumed to be a “grabbing hand,” filled with public officials ready to take every opportunity to enrich themselves at the citizens’ expense as long as the benefits of doing so outweigh the costs.⁹ Since governments that provide many public goods, collect large amounts of taxes, and have extensive regulatory powers give public officials a comparatively large number of opportunities to bargain for kickbacks and bribes, states with large governments should be expected to be more corrupt than states with relatively small public sectors.

However, despite the theoretical appeal and coherence of this argument, available measures tell a different story. Not only is there limited support for the proposition that big government is bad government,¹⁰ but the evidence even seems to point in the opposite direction than the one suggested by public choice theory. That is, in general, bigger governments seem to be less corrupt than smaller ones. In a sample of eighty-three countries, Elliott finds that corruption decreases as the size of the government budget relative to GDP increases.¹¹ This finding is supported in cross-country studies by Adserá, Boix, and Payne, Montinola and Jackman, as well as in a recent survey carried out in Swedish municipalities.¹² A look at basic statistical correlations between corruption, as measured by Transparency International's Corruption Perceptions Index (CPI), and total tax collections as a percentage of GDP, direct tax collections (i.e., income tax collections and social security contributions) as a percentage of GDP, and government expenditure as a percentage of GDP, further reinforces the observation that bigger governments are in general less corrupt than smaller ones.¹³ The correlation coefficient between government expenditure as a percentage of GDP and clean government is 0.36, while the correlation coefficients between total taxes as a share of GDP and clean government and direct taxes as a share of GDP and clean government are 0.30 and 0.57, respectively.

In line with these findings, the high-spending and high-taxation Scandinavian states are constantly ranked among the least corrupt countries in the world, while countries with considerably smaller public sectors—such as the majority of developing countries—are consistently found among the most corrupt ones.¹⁴ Moreover, the downsizing of governments in the developing world in line with public choice theory's operational counterpart, the Washington Consensus, seems, if anything, to have resulted in more rather than less corruption.¹⁵ In sum, as North, Wallis, and Weingast argue,¹⁶ there seems to be something profoundly wrong with the claim that big government is bad for development and human well-being.

With the detrimental effects of corruption as a backdrop,¹⁷ this article asks why, despite the predictions of public choice theory, bigger governments are in general less corrupt than smaller ones. In an attempt to further our understanding of the discrepancy between public choice theory and empirical reality, this article aims to unravel some of the intricacies in the link between government size and corruption using an explorative interview study conducted in Uganda. Public choice theory would predict that Uganda, a state with comparatively small government, experiences relatively low levels of corruption. Yet, on the contrary, Uganda ranks among the most corrupt countries in the world. Thus, the country provides a critical testing ground for exploring the causal mechanisms linking government size and corruption.

The analysis reveals a potential explanation for why bigger governments are generally less corrupt than smaller ones: government size does not only affect the number of opportunities public officials have to engage in corrupt activities as public choice theory suggests, but it also affects the incentives to be corrupt once the opportunity arises. Yet, while the opportunities to engage in corrupt activities presumably increase with the size of government, the incentives to do so are rather likely to decrease. This

is because citizens' (i.e., the so-called "principals" in the principal-agent model of corruption) incentives to hold corrupt public officials accountable are likely to increase as the size of the government increases, which makes the potential costs for agents to engage in corrupt activities comparatively higher in states with large public sectors.

More specifically, our study reveals that the level of (visible) taxation, a key feature of "big government,"¹⁸ plays a decisive role in shaping the incentives of ordinary citizens to hold corrupt officials accountable. In particular, the interviews reveal how low levels of taxation lead to a decreased sense of ownership of the state and, subsequently, a decreased propensity on behalf of citizens to report and punish corrupt behavior. Thus, while the number of opportunities to engage in corrupt activities might very well be fewer in states with comparatively small public sectors, the expected costs of engaging in these opportunities should be expected to run towards zero, making public officials more likely to engage in corrupt activities once the opportunity occurs. In line with the same logic, while the number of opportunities to act corruptly might presumably be larger in states with extensive public sectors, the expected costs of engaging in these opportunities are likely to be very high because taxpayers are likely to keep close track of the use of "their" money. Thus, even though public officials in states with larger public sectors might have a larger number of opportunities to engage in corruption, they will be unlikely to do so because of the high costs involved.

The results of the interview study are supported by a cross-country, quantitative analysis of the relationship between the level of direct taxation and the degree to which citizens hold corrupt public officials accountable, as indicated by data from Global Integrity. Moreover, an illustration of the relationship between tax payments and citizens' demand for accountability in the light of a prominent political scandal in Sweden—a country which combines a very large public sector with exceptionally low levels of corruption—serves to further substantiate the causal direction of the findings.

By revealing how direct taxation positively influences the incentives of public officials to stay out of corrupt transactions, the findings presented in this article support to a significant extent the tenets of fiscal sociology. In line with this framework, we should expect taxation in general—and more direct forms of taxes in particular—to constitute a significant and important part of the social contract between the citizens and the state.¹⁹ Most importantly, in accordance with our findings, the fiscal sociological framework suggests that the incentives to engage in corrupt activities and, hence, the aggregated level of corruption, should be expected to decrease rather than increase with the size of government and especially with the amounts of direct taxes collected. However, by demonstrating how the level of taxation affects citizens' demand for clean government, this article contributes new insights to the fiscal sociological perspective; previous studies adopting this view have typically assumed that citizens' demand for clean government is constant across tax regimes and thus focused exclusively on how leaders' incentives to supply high quality institutions vary depending on the degree to which they depend on taxes for their survival.²⁰

Corruption as a Government Pathology

As previously argued, there seems to be a consensus among scholars and policymakers concerned with corruption in favor of Becker's recommendation that "if you want to cut corruption, cut government."²¹ For example, Alesina and Angeletos have argued that "a large government increases corruption and rent-seeking."²² On a similar note, Rose-Ackerman argues that "the elimination of spending and regulatory programs can be a potent corruption-reducing strategy."²³ Tanzi in a similar vein claims that "corruption will be reduced mainly in those countries where governments are willing to substantially reduce some of their functions."²⁴

As argued by Hopkin and Rodríguez, this line of thinking fits neatly with the policy prescriptions of the Washington Consensus, launched by major international organizations such as the IMF and the World Bank in the early 1990s, which urges governments to deregulate, privatize, and roll back redistributive spending in order to maximize economic efficiency.²⁵ For example, the IMF guide, *Promoting Good Governance and Combating Corruption*, states that "corruption thrives in the presence of excessive government regulation and intervention in the economy."²⁶ In line with this reasoning, the scaling down of governments—reflected by, among other things, restrictions on public sector employment, the elimination of government subsidies, reductions in the number of state-owned enterprises, and the removal from the government the ability to collect taxes and provide goods and services—has been one of the main priorities of the contemporary anti-corruption agenda.²⁷

In fact, so strong is the conviction about the validity of the "big government is bad government" argument that the potential theoretical and empirical implications of the quite extensive empirical evidence in favor of the opposite argument have often not been subject to any further discussion. One case in point would be La Porta et al.'s influential article, "The Quality of Government," in which, despite the fact that the authors consistently find "that the better performing governments are larger and collect higher taxes" and that "[p]oorly performing governments, in contrast, are smaller and collect fewer taxes," the potential for any innovative implications of these findings is dismissed by the concluding comment: "This result does not of course imply that it is often, or ever, socially desirable to expand a government of a given quality, but it tells us that identifying big government with bad government can be highly misleading."²⁸

The reluctance to challenge or rethink the "big government is bad government" argument is further revealed by the fact that there are very few studies that aim to understand why bigger governments are in general better governed than smaller ones. The few studies that do exist on the topic have seldom gone to the core of the original argument, but have instead been concerned with explaining why privatization has not yielded the expected results.²⁹ Alternatively, they have focused on the reverse relationship: how corruption (negatively) affects the capacity of governments to collect taxes and provide public goods.³⁰ There is thus a need for studies that go straight to the core of the subject and explore in greater detail the causal mechanisms linking

big government to low levels of corruption and small government to high levels of corruption. To be able to carry out such a study, however, we need to know more about the theories linking big government to bad government.

The argument that bigger governments should be more corrupt than smaller ones quite clearly builds on the large literature on corruption that has its roots in public choice theory. In particular, the argument stems from the public choice school's inherent conviction that, rather than being a "helping hand" or a "benevolent dictator" as has traditionally been assumed within the framework of neoclassical economic theory, the state is a "grabbing hand" controlled by politicians who "do not maximize social welfare and instead pursue their own selfish objectives."³¹

Taking as point of departure the pioneering work of Rose-Ackerman and Banfield,³² this literature models corruption as a principal-agent problem. Within this framework, corruption is conceived of as the result of an information and interest asymmetry between an agent (i.e., elected as well as non-elected public officials)—assumed to act in his or her own, narrow self-interest—and a principal (i.e., ordinary citizens)—typically assumed to embody the public interest and hence regarded as "a highly principled principal."³³ In the end, corruption occurs when the agent betrays the principal's interest in the pursuit of his or her own self-interest, that is, when public officials "misuse public office for private gain."³⁴

The probability that public officials will engage in corrupt activities is, in turn, assumed to depend on two critical factors. First, they must be given the opportunity to engage in corrupt activities through the formal delegation of power. The legal powers of the state give public officials the monopoly and discretionary power to disrupt otherwise "efficient" markets by allowing them to create rents or obstacles for citizens and private investors acting within the law. This, in turn, gives public officials the chance to bargain for kickbacks or bribes in exchange for allocating rents to those who can pay for them or removing obstacles in the path of those who would rather pay than suffer delay or obstruction.³⁵ Logically following from this, the larger the government (i.e., the larger the number of public goods and services that the state has the power to allocate, the larger the amounts of taxes the state has the power to collect, and the larger the number of regulations that the state has the power to enforce), the greater are the opportunities for corruption. In fact, in line with the "grabbing hand" approach, big governments can be understood to be endogenous to the existence of even the most negligible state apparatus since self-interested public officials are likely to seek bribes not only through already existing channels, but also through the creation of new obstacles and rents, including red tape, monopolies, tariffs, subsidies, regulations, and requirements of permissions.³⁶

Second, in line with the "crime and punishment model" developed by Becker, public officials must have the incentive to be corrupt once the opportunity occurs.³⁷ That is, the expected benefits of corruption must outweigh the costs. The opportunity cost of corruption is assumed to depend mainly on the size of the bribe vis-à-vis the size of the salary, the risk of detection, and the probability of punishment in the case of detection.³⁸ The greater the bribe vis-à-vis the salary, and the smaller the risk

of being detected and punished, the lower the perceived opportunity costs of corruption are likely to be, and the greater the risk of corruption.

In sum, the principal-agent theory posits that corruption will increase with the number of opportunities and incentives for corruption available to public officials much in line with Klitgaard's observation that "corruption equals monopoly plus discretion minus accountability,"³⁹ assuming the degree of monopoly and level of discretion are intimately linked to the size of government.⁴⁰ Because corruption in this framework is broadly understood as a "government pathology," resulting from self-seeking government officials intentionally creating regulations and policies that entrepreneurs will have to pay bribes to get around, the policy response has been to downsize the state. Yet, as convincingly the public choice model of corruption puts forward big government as the key driver of corruption, evidence supports the contrary: bigger governments are in general less corrupt than smaller ones.⁴¹

On the basis of this empirical insight, this article aims to dig deeper into the relationship between government size and corruption by asking: Which are the causal mechanisms linking bigger governments to less corruption and smaller governments to more corruption? In an attempt to answer this question, in the next section we explore the relationship between government size and corruption in Uganda, focusing on the extent to which the propensity of citizens to demand accountability from public officials—and thus the incentives of public officials to engage in corrupt activities—might vary depending on the size of government.

Government Size and the Incentives for Corruption: The Ugandan Case

As effectively captured in Klitgaard's observation that "corruption equals monopoly plus discretion minus accountability," the level of accountability in a system—defined as the degree to which the principals (i.e., citizens) control the agents (i.e., public officials) in a principal-agent relationship—is likely to have a decisive impact on the level of corruption through the incentives it infers.⁴² In short, following the "grabbing hand" approach, how well any government functions ultimately hinges on how well citizens hold their politicians accountable for their actions.⁴³ Thus, insofar as government size influences citizen demand for accountability in a positive direction, this could provide a potential explanation to why bigger governments are in general less corrupt than smaller ones.

In order to find out more about what explains this unexpected (given standard theories of corruption) relationship between government size and corruption and to capture the micro-level foundations of this relationship we conducted in-depth, semi-structured interviews with thirty-four Ugandan respondents, ranging from high-level public officials to local NGO representatives and journalists. Important to note is that the number of interviewees was not selected in an attempt to make empirical generalizations on the basis of a statistically representative sample. Instead, following an explorative approach, the interviewees were selected as informants based on their

shared professional commitment to working on anti-corruption issues who could thus provide new insights regarding the micro-dynamics of the relationship between government size and corruption. To avoid steering the interviewees in any specific theoretical or causal direction and, thus, allow different perspectives to be communicated, the interviews were kept flexible in the sense that, while they all focused on the micro-level logic of corruption, the interviewees were still allowed a lot of freedom in terms of setting the agenda of the discussion. On average, each interview lasted for between one and two hours. For safety reasons, the interviewees were promised anonymity.

Uganda, a state with a comparatively small public sector but extremely high levels of corruption, provides a viable testing ground for exploring the causal mechanisms linking government size to corruption. Between 2006 and 2010, the Ugandan state on average collected only about 12 percent of GDP in total taxes, 3.5 percent of GDP in income taxes, zero percent in other types of direct taxes (i.e., social security contributions), and its level of government expenditure amounted to only 12 percent of GDP. This should be compared to the global average level of total tax collections, direct tax collections, and government expenditure for the same years, which amounted to 18, 11 (of which 6.5 percent were income tax collections), and 16 percent of GDP, respectively.⁴⁴ However, despite the Ugandan state being characterized by a comparatively small public sector, it ranks among the most corrupt countries in the world. In Transparency International's widely cited *Corruption Perception Index*, Uganda scores 2.4 on a scale running from zero to ten, with higher numbers indicating cleaner governments.⁴⁵

Revealing the existence of a negative causal impact of a small government on citizens' demand for accountability and, thus, a positive impact on public officials' incentives to engage in corrupt activities, the analysis provides a potential explanation to why smaller governments are often more corrupt than larger ones, and vice versa. In particular, the Ugandan informants bear witness to a causal relationship between the level of especially direct forms of taxation and the willingness among citizens to hold corrupt officials accountable. In the absence of more visible forms of taxation, the informants argue, people do not feel any real sense of "ownership" of the state. Thus, the likelihood that citizens will be motivated to demand clean government—or to engage in politics at all—is reduced. Why care about corruption if you are not the one paying the bill? Or, as argued by the informants, the limited "connection" to the money makes people indifferent to corruption:

They don't feel connected because there is limited taxation here. [If they see corruption,] they will tell you "that money is government money, it is not ours."

[...] [T]he weak state, the lack of taxation, and the donor influence make people feel no direct connection to the money. And since most of the money is coming from the donors, people think "that is donor money and therefore not ours." So they don't feel that attachment. It would be different if people felt that they were being taxed.⁴⁶

[T]he graduated tax has been abolished so people don't [see the government as their property]. The other taxes you pay are indirect, like on commodities. You don't feel it. So you don't think you are contributing. So it is making citizens a little divorced from the government.⁴⁷

People here do not see it as the property that belongs to the government actually belongs to them. [...] [P]eople have distanced themselves from government. So when they see someone abusing a government thing they don't mind. They say "after all it is government," not knowing it is themselves who are going to suffer. [...] They don't see the connection. For them the government is a mystery, something that is not part of them.⁴⁸

The problem of detachment from the state and the resulting indifference to corruption is often even worse in rural areas where the large majority of the Ugandan population lives, because very few people in these areas are taking any part in the formal economy.

People are passive, and I don't think it is because they have taken bribes. I think it is because, especially in the rural areas, people are detached from government. They don't even relate to government in a formal way; they don't pay taxes so they are kind of delinked. So when they are passive and don't care what the leaders do [...] I think it is largely because they do not feel that they have a relationship with the government.⁴⁹

Other informants agree that a sense of "ownership" of the state is likely to be missing to an even greater extent in the rural areas:

[Y]ou have a situation whereby the state is supported by donor funds and indirect taxes so somebody in a village does not really care what the government does because they will say "it's not my money; I didn't pay tax." Now recently when graduated tax was abolished, people have even less stake in government. People do not realize that there are indirect taxes when you drink a bottle of mineral water or take a taxi. [...] People don't see that they are paying taxes.⁵⁰

In short, one reason why the citizens of Uganda fail to hold corrupt officials accountable is that they do not expect the government to deliver anything because they did not pay any taxes in exchange for public goods (at least not in the form of visible taxes). What Levi calls the "quid pro quo of taxation" simply seems to be lacking.⁵¹ One of the informants describes the lack of a reciprocal relationship between citizens and the state:

[In the end, there] must be a form of responsibility that is created between what you pay with your taxes and what you demand from government. If more people were paying taxes here and it was biting on them they would demand something in return.⁵²

Another informant adds that contrarily to what one would expect given the point of departure in the principal-agent relationship, within the framework of which government officials are expected to "dance to the tunes of the people," in Uganda the

relationship seems to be the other way around, and that is, in part, due to the near absence of direct taxation:

Here it is the party that says: “we shall have universal secondary education,” and the people will embrace it. It should be the other way around. People should say: “we are paying taxes, and we want universal secondary education.” Then parties must tune themselves to dance to the tunes of the people. I think that is the solution.⁵³

In fact, according to the informants, the near absence of taxation, especially direct taxation, does not only lead to a decreased demand for clean government, but it even serves to strengthen the corrupt system. This is because, given that people do not pay direct taxes, there is a widespread perception that the government is doing citizens a favor when it delivers a service, even if this service happens to be paid by less visible and more indirect taxes such as a value-added tax. As a result of the near absence of more visible forms of taxation, citizens do not only abstain from demanding clean government, but to some extent even pay tribute to the corrupt:

Whatever they receive from government, even when they have a right to receive it, they see it as a favor, and, therefore, they are all appreciative. They say “after all it is coming to me free; I have not paid for it so why should I make noise.”

People have taken it to their mind that they [government officials] are helping them, not knowing that there are taxes and that they are entitled to these services. So that mentality is what we must change.⁵⁴

In sum, the interviews provide a potential explanation to why countries with small governments like Uganda are more corrupt. According to the informants, this can be understood in the light of the relatively low levels of direct taxation characterizing such states. In particular, the near absence of more visible forms of taxation seems to prevent the development of a social contract between citizens and public officials under which citizens are endowed with incentives to hold officials accountable. Thus, even though there may well be fewer opportunities for corruption in states with small public sectors, as suggested by public choice theory, the costs of acting on the opportunities to be corrupt once they arise are likely to be very low, even reaching zero, which increases the incentives for public officials to engage in corrupt activities. In fact, in the absence of any more visible forms of taxation, citizens are to some extent even likely to show appreciation for corrupt officials, further increasing the incentives for public officials to engage in corruption.

Government Size and Citizen Demand for Accountability beyond Uganda

Do the results derived from the Ugandan case study hold beyond this particular case? In this section, we test the validity of the results derived from the Ugandan interview

study in a quantitative study of a larger number of cases, as well as in an illustrative case study of a prominent political scandal in Sweden. The main purpose of the quantitative study is to explore whether a positive relationship between government size and citizen demand for accountability exists on a more general level, while the illustration from Sweden is primarily designed to further substantiate the causality of this relationship.

To quantitatively capture the size of government and the main independent variable put forward in the interviews, the level of (visible) taxation, we use the data on average direct tax collections as a percentage of GDP (i.e., income tax collections plus social security contributions) for 2006–2010, provided by the World Bank.⁵⁵ While social security contributions barely exist in the majority of developing countries, they make up a substantive share of the direct tax burden in many industrialized countries. Levels of direct tax collections are closely correlated to other key aspects of government size, including levels of total taxation (the correlation coefficient between direct tax collections and total tax collections in our sample is 0.56) and levels of government expenditure (the correlation coefficient in our sample is 0.58), and are, as previously argued, probably the best indicator for closely capturing the essence of the “big government versus small government” discussion as they are intimately linked to the problems with big government put forward by public choice theory.⁵⁶

Many countries include natural resource rents as part of their direct tax collections despite the fact that these two phenomena markedly differ both in terms of visibility and the way they are collected, and hence cannot be expected to have the same effect on citizen demand for accountability (resource rents are far less visible than direct taxes and are often collected from foreign-owned companies rather than from national citizens and businesses).⁵⁷ To control for this, we use two different samples in the analysis: one full sample, which includes all countries for which data on direct taxation exist, and one limited sample, which excludes countries that depend heavily on natural resource rents (i.e., countries in which natural resource rents stemming from oil and minerals make up more than 20 percent of GDP).⁵⁸

Our dependent variable, the degree to which citizens actually act as “principals” by holding public officials accountable, does not lend itself to easy measurement. While the number of corrupt acts reported, as well as the number of corrupt officials convicted, would be potential candidates for capturing this variable, such measures are not available on any broad scale. Moreover, if they were available, they would likely be highly correlated with the level of corruption, and would as such risk being misleading.

In the absence of better indicators, we construct a measure of citizen demand for accountability by using a combination of Global Integrity’s measure of the quality of the legal framework in place for fighting corruption (a variable running from zero to one hundred, higher numbers indicating higher quality) and the actual implementation of this framework (a variable running from zero to one hundred,

higher numbers indicating that the legal framework is to a significant extent implemented in practice).⁵⁹

Much as a result of external pressure, the majority of the world’s countries have, during the last few decades, introduced a variety of formal mechanisms and institutions aimed at increasing the ability of citizens to hold public officials accountable, including monitoring mechanisms, laws prohibiting corrupt activities, increased transparency, and competitive elections.⁶⁰ Yet, despite the introduction of these instruments and institutions for regulating and monitoring the ethical standards and behavior of public officials from “below,” the degree to which those who are entrusted with positions of authority are actually held accountable for their actions by the citizens still varies significantly across countries. For example, Uganda scores as high as 98 out of 100 on Global Integrity’s legal framework index, meaning that a vast number of formal channels and mechanisms expected to facilitate the reporting and prosecution of corrupt public officials are in place. Yet, when it comes to the question whether this legal framework is actually utilized by the citizens, Uganda scores only 51 out of 100, revealing that the reporting and conviction of corrupt cases in Uganda remain low despite the existence of a close to perfect formal legal and institutional framework for fighting corruption.

By dividing Global Integrity’s measure of the actual implementation of the legal framework by the measure of the quality of this framework, we get a fair—if yet far from perfect—proxy of the degree to which citizens actually demand accountability from public officials through available channels. More specifically, we get a percentage number, henceforth referred to as the “utilization rate,” which, at least to some degree, reveals the extent to which the legal framework in place is actually utilized by the citizens, a higher percentage number indicating that the supposed “principals” actually demand accountability from public officials.

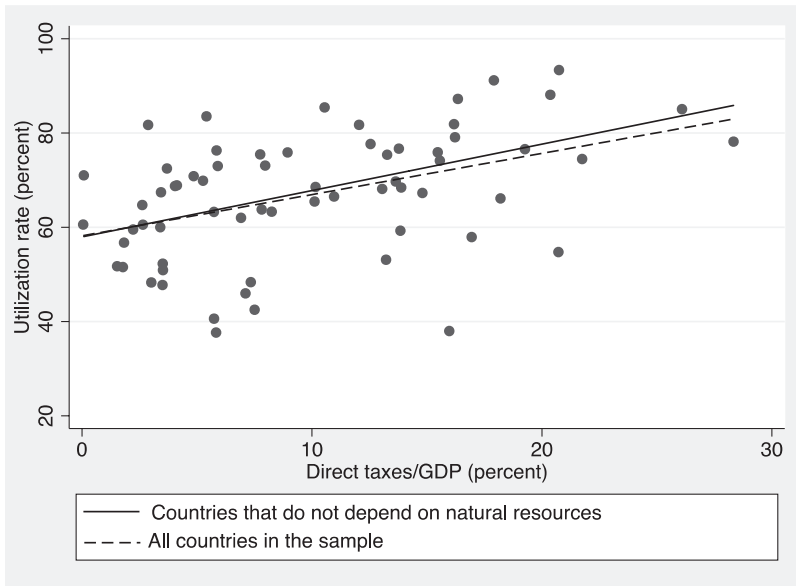
Table 1 presents the summary statistics for the two main variables of concern for the analysis.

Table 1 Descriptive Statistics

Variable	Mean	Std. Dev.	Obs.	Min	Max	Range
Direct tax	10.79	7.36	122	0.05	29.12	0–100
Utilization rate	64.21	14.18	89	32.65	93.34	0–100

While variation in the degree to which citizens hold public officials accountable can be attributed to other factors as well, a bivariate analysis of the relationship between the level of direct taxation as a percentage of GDP and the degree to which the legal framework in place is utilized by the citizens strongly supports the findings of the interview study. In other words, as demonstrated in Figure 1, there seems to be a decisively positive association between the amount of direct taxes collected by the state and the degree to which public officials are held accountable by the citizens beyond the case of Uganda.

Figure 1 Direct Taxation and Citizen Demand for Accountability



More specifically, the correlation coefficient between direct tax collections and citizen demand for accountability is 0.45 in the sample covering all countries (the dashed line), and 0.52 in the sample excluding countries that depend on natural resources (the full line). Both relationships are significant at the 99 percent level. The relationship holds even when we control for the level of GDP per capita (the average level for 2006–2010, as measured by the World Bank), a factor which is traditionally assumed to positively affect the ability of citizens to hold public officials accountable.

A wealth of indicators from a prominent political scandal in Sweden further substantiate the notion that taxpaying fosters a culture of scrutiny, which makes citizens more likely to detect and punish the misuse of public office for private gain.

Contrary to Uganda, Sweden combines a comparatively large public sector with very low levels of corruption. In 2011, total tax revenues made up 44.3 percent of GDP, while income taxes contributed 18.4 percent to GDP, social security contributed 7 percent, and government expenditures contributed 51.2 percent.⁶¹ Between 2006 and 2010, the central state alone collected 22.1 percent of GDP in total taxes, 13.3 percent of GDP in direct taxes, and the level of central government expenditure amounted to 26.4 percent of GDP.⁶² Despite this comparatively large public sector, Sweden ranks as the fourth least corrupt country in the world, scoring as high as 9.3 on Transparency International's Corruption Perceptions Index.⁶³ Thus, insofar as our aim is to further substantiate the causal mechanisms found in the interview study conducted in Uganda, the Swedish case makes for an excellent comparison.

Interviews similar to the ones carried out in Uganda would present one potential avenue to further establish the causality of the empirical findings presented so far; unfortunately, any such systematically comparative data do not exist. Given the low profile held by corruption in the daily life of Swedish citizens, such data would probably also be quite difficult to collect. As an alternative method for investigating the causal direction of the relationship between government size and citizen demand for accountability, we explore the character and sources of a prominent political scandal in Sweden. As such, we build on a large sociological literature, which emphasizes, on the one hand, how societal norms become more evident when they are violated,⁶⁴ and, on the other hand, the importance of political scandals as detectors of norm transgressions.⁶⁵

Quite in line with our previous findings, the few corruption scandals that have in fact taken place in Sweden during recent years have generally caused public uproar and in most instances forced the responsible ministers and public officials to step down from their positions. Moreover, the debates surrounding these corruption scandals clearly reveal that the public's widespread indignation with various forms of misuse of public office is to a significant extent related to the fact that public funds are being abused. In fact, a study of political scandals arising in Sweden during the mid to late 1990s showed that nine out of the ten scandals causing most media reaction were about the misuse of public funds for private gain.⁶⁶

One case in point is the "Toblerone scandal," which took place in 1995 and refers to a number of private payments (among them a payment for a Toblerone chocolate bar) made by the then social democratic vice prime minister, Mona Sahlin, with the government card. In total, the costs, which Sahlin had clearly marked as private costs on the invoice from the credit card company and duly paid back retroactively, amounted to 53,174 SEK (about 8,300 USD). Yet, despite the comparatively limited amount of money involved and despite the fact that she did not embezzle any public funds in line with the standard interpretation of the word, the misconduct of using an official credit card for private expenses evoked a massive public reaction. In fact, the Toblerone scandal is today being referred to popularly as one of the biggest political scandals in Sweden in terms of the public uproar it caused.⁶⁷ Prior to the scandal, Sahlin was the favorite candidate to become the leader of the Social Democratic Party; just a few days after the scandal was revealed, Sweden's leading opinion research institute, SIFO, released statistics which showed that Sahlin's popularity among the voters had decreased radically.⁶⁸ A preliminary investigation against Sahlin, who was accused of disloyalty against the responsible authority, alternatively misuse of authority and fraud, did not lead to prosecution. However, Sahlin was still forced to resign from what until then had been a stellar political career. Not only was she perceived as a threat to the correct use of the taxpayers' money, but she was perceived as a threat to the whole democratic system. As effectively communicated by one of Sweden's leading newspapers:

The broader public seems to agree that politicians who do not know how to draw a strict line between their own money and money belonging to the society at large, and who defend such misconduct, contribute significantly to an increase in the hostility directed towards politicians. This harms the democratic system.⁶⁹

Conclusion

“Taxes are what we pay for a civilized society” (quote by Supreme Court Justice Oliver Wendel Holmes, Jr. on the front of the Internal Revenue Service Building in Washington D.C.)

Prior to the 1990s, the common view was that corruption “greases the wheels” by facilitating capital formation, speeding up development, and “humanizing politics.”⁷⁰ Today, however, the general consensus is that corruption “puts sand in the wheels” and hinders successful development.⁷¹

As a result, since the beginning of the 1990s, there has been an explosion of literature aiming to find the causes of “bad government.” The winning horse in this race, in terms of academic and political impact, has been the public choice type of economic theories of corruption, which holds that big government is one of the main sources of bad government. In fact, so strong is the general conviction that “big government is bad government” that the quite extensive empirical evidence in favor of the opposite argument has seldom attracted any scholarly attention or invited much policy discussion.

Kuhn’s theory about “dominant paradigms” could help us understand this neglect of empirical evidence in favor of “big government.”⁷² According to Kuhn, when a theory is at its height, we can all but expect empirical anomalies to be disregarded because they cannot be understood within the framework of the existing dominant paradigm. After significant anomalies have accrued against a paradigm, the theory is likely to be thrown into a state of crisis, in the aftermath of which new ideas can be explored and tested.

Taking seriously the vast empirical evidence in favor of the argument that bigger governments are in general less corrupt than smaller ones—and thus questioning the essence of the dominant paradigm in corruption research—the aim of this article has been to untangle the intricacies of the causal mechanisms linking government size and corruption. In particular, on the basis of an interview study conducted in Uganda, a quantitative study of a larger number of countries, and an illustrative case study of political scandals in Sweden, the article has set out to explore the extent to which the variables on the left-hand side of Klitgaard’s famous equation, “monopoly plus discretion minus accountability equals corruption,”⁷³ are in fact independent of each other as suggested by public choice theory, or whether it is rather the case that the level of accountability in a system varies with the size of government (i.e., the degree of monopoly and discretion).

The results of our study provide a potential explanation to why bigger governments are in general less corrupt than smaller ones by showing that, in contrast to what Klitgaard’s equation suggests, the propensity of citizens to demand accountability from public officials and thus also the incentives of public officials to engage in corrupt activities vary significantly with the size of government. In particular, the results bear witness to a causal relationship between the level of (visible) taxation and the

likelihood that citizens will hold corrupt officials accountable through a sense of “ownership” of the state and its resources. Where the level of visible forms of taxation, such as income taxation and social security contributions, is low, citizens seem to have a limited sense of ownership of the state and are, as a result, not very likely to demand accountability from public officials. Vice versa, in contexts where the level of direct taxation is high, citizens are much more likely to scrutinize corrupt officials, motivated by a sense that they are protecting “their” money.

Revealing the ways in which taxation plays a seemingly decisive role in shaping the incentives of citizens to demand accountability from public officials, the results presented in this article correspond with, as well as contribute to, the insights offered by fiscal sociology, a theoretical framework that is currently quite far from being a dominant paradigm in corruption research.

The starting point of the fiscal sociological framework is the conviction that taxation forms the “sinews” of the state and is, as such, the prerequisite for any governance.⁷⁴ States that are able to regularly collect taxes from a wide range of societal actors should, according to this framework, generally be able to also govern effectively in a wide range of other areas, while the inability of a state to generate significant revenue through taxation should be expected to be a precursor to state failure, or even collapse.⁷⁵ In particular, according to the fiscal sociological perspective, rulers who depend on direct taxation for their survival should be expected to be more willing to supply good government (and other forms of public goods) than rulers that do not rely on direct taxation for their survival. This is because direct taxation, to a significant extent, resembles a collective action problem, most effectively solved through the establishment of a social contract between the rulers and the ruled. To be able to generate significant amounts of tax revenue, the ruling elite must provide a contract or bargain that is considered fair by the taxpayers.⁷⁶ More specifically, rulers must offer something that the citizens demand—such as representation, accountability, or services—in return for the taxes paid, and in an exchange based on reciprocity.⁷⁷

While our results by and large support the theory of fiscal sociology, the study also adds important insights to this literature by revealing how government size, particularly the level of direct taxation, not only affects the supply of institutional quality, but also the demand. More specifically, our study reveals that, in the absence of direct taxation, citizens are not very likely to demand good government. This counters traditional interpretations of the fiscal contract, which typically build on the assumption that citizens’ demand for good government is constant across tax regimes.⁷⁸

However, while the results presented in this article point in a rather clear theoretical direction, the policy implications are far from being straightforward. The most direct policy implication would be that, insofar as a reduction in government size also means lower levels of (visible) taxation, reducing the size of government is unlikely to be the most effective way to decrease corruption, even though it might very well lead to fewer opportunities for public officials to engage in corruption. Yet, it is still not as simple as to say that countries should actively aim at increasing the level of direct taxation as part of the fight against corruption. To begin with, since

taxation in many ways resembles a collective action problem,⁷⁹ increasing the level of taxation in a particular country is far from an easy task. Moreover, taxes may have different effects depending on how they are collected. Insofar as they are collected coercively by predatory governments as a means to secure control rather than with the ambition to act in the interest of the public good, there is limited reason to expect taxation to play a positive role in the process of increasing the accountability of state leaders (at least not in the short term).⁸⁰ In the hands of the wrong government, taxation even runs the risk of turning into an important tool of repression rather than being a tool of accountability. Yet, as the results presented in this article reveal, to the extent that taxation is connected to a sense of “ownership” of the state, it can play a positive role in the process of increasing the quality of government.

NOTES

We would especially like to thank Patrik Stålgren for arranging the interview data collection in Uganda, Maria Jacobson for carrying out the interviews, and the interviewees for providing the information necessary for conducting this study. We moreover gratefully acknowledge the comments and suggestions offered by Andreas Bergh, Frida Boräng, Nicholas Charron, Carl Dahlström, Staffan Kumlin, Victor Lapuente, and Anders Sundell. We would also like to extend a collective thank you to all the researchers at the QoG Institute for valuable feedback during the process of writing this article.

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