

# A Tale of Two Regimes? Taxation, Political Bargaining, and the Fiscal Contract in China and Taiwan

Xiaobo Lü<sup>1</sup>   Didac Queralt<sup>2</sup>   Jay Kao<sup>1</sup>

<sup>1</sup>Department of Government  
University of Texas at Austin

<sup>2</sup>Department of Political Science  
Yale University

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- **How does taxation shape state-society relations?**
  - ▶ Conventional wisdom: “No Taxation without Representation” (NTWR)
    - ★ Tax payers use the ability to withhold tax payments as leverage to gain political concessions from rulers (Moore 2008)
  - ▶ The NTWR characterizes the origins of constitutional monarchy & the core of democratic politics (Dincecco 2009; Levi 1988; Tilly 1990; Acemoglu and Robinson 2006, Boix 2003)

# IPE Literature on NTWR

## ● **Macro:**

- ▶ Direct evidence is inconclusive (Cheibub 1998; Mulligan, Gil and Sala-i Martin 2004; Ross 2004; Timmons 2010)
- ▶ Indirect evidence from the **resource curse** and **foreign aid** sheds some light on NTWR (Ross 2012; Moss, Patterson and van de Walle 2006; Morrison 2015; Bueno de Mesquita and Smith 2013)

## ● **Micro:**

- ▶ Case studies remain mixed (Prichard 2015)
- ▶ Recent field experiments largely found mixed or null results (de la Cuesta, Nielson, Milner and Knack 2016; Martin 2014; Paler 2013)

## Our Argument: NTWR is an **elite** calculus

- **Economic Elites** have **bargaining power** vs. ruler (Bates and Lien 1986)
  - ▶ Lower problems of collective action
  - ▶ Can threaten to withdraw or evade tax payments if they are not granted political payoffs
  - ▶ Connection between Taxation and Political rights relatively straightforward

# Our Argument: NTWR is an **elite** calculus

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  - ▶ Connection between Taxation and Political rights relatively straightforward
- **Non-elites** lack bargaining power due to the collective action problem
  - ▶ When **taxation is given**, the association between taxation and representation is not obvious
  - ▶ A priori, we expect non-elites to think of taxes as a payment in exchange for material benefits
  - ▶ Non-elites could demand more representation if they are framed into the NTWR logic

# Research Design

- Identical experiment in **China** and **Taiwan**
- Three rounds of survey experiments
  - ▶ Experiment #1: An **information shock** that evaluates the impact of updating prior belief of tax burden on political preferences
    - ★ Updating truthful information on tax burden does not activate NTWR calculus among the general population.

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  - ▶ Experiment #2: A **conjoint experiment 1** that evaluates the relative importance of political payoff and material benefits in tax bargaining
  - ▶ Experiment #3: A **conjoint experiment 2** that evaluates the relative importance of political payoff and material benefits in tax bargaining between **business elites** and **non-elites**
- Survey implementation
  - ▶ Time frame: June 2016 - November 2018
  - ▶ Recruitment strategy: Urban sample over the Internet through *Qualtrics* and *SSI*
  - ▶ Quota sampling: Non-elite (Age and gender quotas based on recent census) and Elite (Job title and firm size)

# CONJOINT EXPERIMENT EXPERIMENT 1

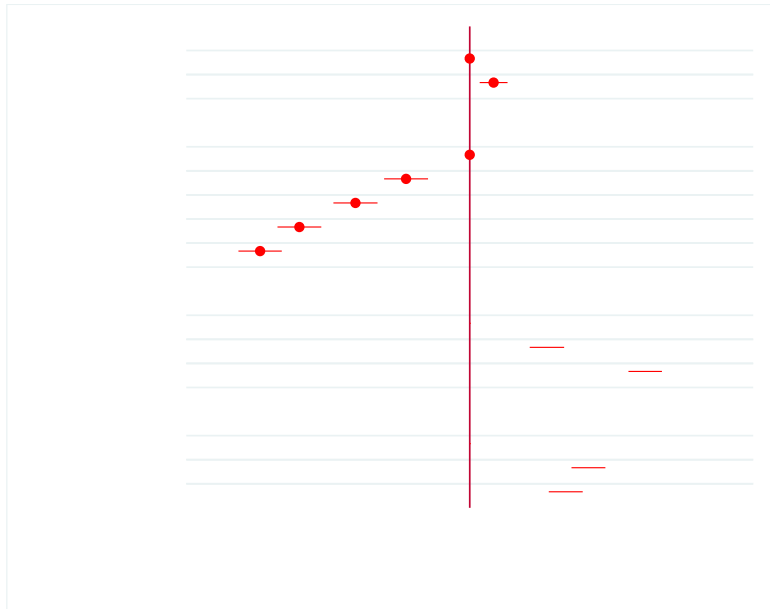


# Conjoint Experiment Attributes

<i>ATTRIBUTES</i>	<i>VALUES</i>
Tax Type	Income Tax, VAT
Tax Rate	1%, 5%, 10%, 15%, 20%
<b>Fiscal return</b>	No Change, National Defense, Public Goods
<b>Political return</b>	No Change, Citizens' Input, Transparency

**Table:** Policy Dimensions and Values for the Tax Reform Experiment

# Conjoint Experiment Main Results



# Results

- **Strikingly similar preference** for fiscal contract among non-elites across regime types
- Robustness Tests
  1. Results are consistent across all rounds and profiles
  2. Falsified preference?
    - ★ It does not explain the results in Taiwan
    - ★ Subset analysis by *Fear of Criticizing Government* remain robust

# CONJOINT EXPERIMENT EXPERIMENT 2

# Elites vs. Non-elites

- We explore definition of elite vs. non-elites based on occupation in our subject recruitment
  1. Elite: High level management for firm size 25+ (5+ in Taiwan)
    - ★ Chairman of the Board of Directors
    - ★ Executive Vice President
    - ★ General Manager
    - ★ Member of the Board of Directors
    - ★ President or Managing Director
    - ★ Senior Vice President & Vice President
    - ★ Chief Executive Officer
    - ★ Chief Financial Officer
  2. Non-elite: Ordinary citizens

## Expectation from Taxation

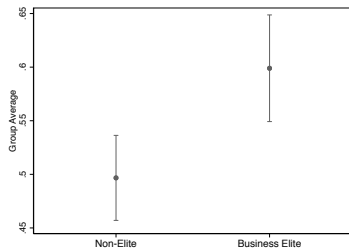
Q38. *There are two ways to think of taxes and policy-making:*

- a. *As long as government spends my tax-money on high-quality and generous public goods, I do not care about participating in policy-making. [Value 0]*
- b. *In return for paying taxes, I would like to have some say in policy-making. [Value 1]*

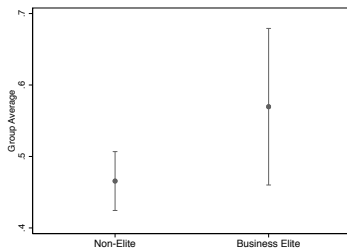
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(a) China



(b) Taiwan

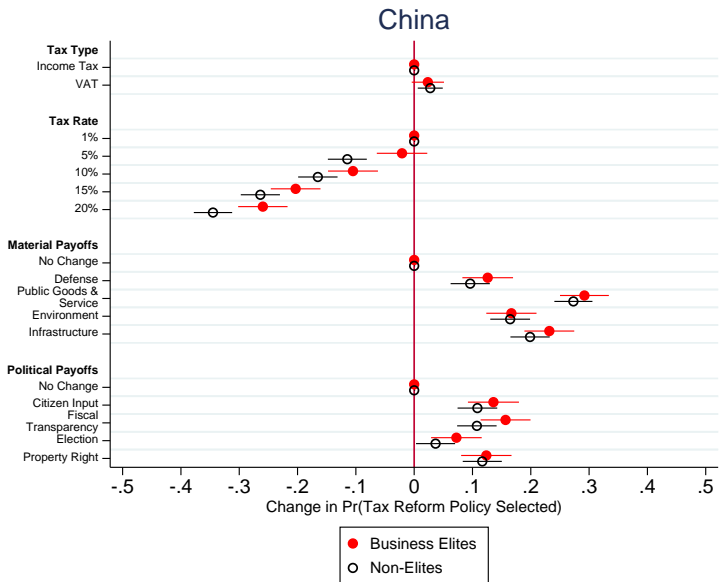
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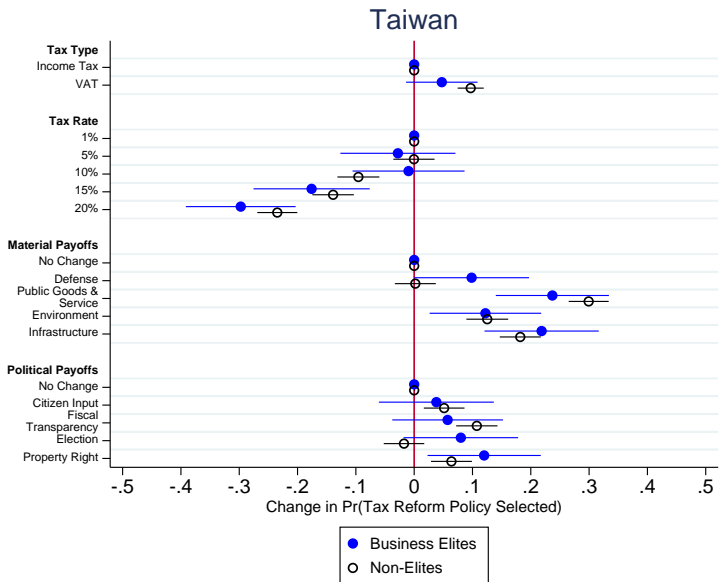
**Table:** Policy Dimensions and Values for the Tax Reform Experiment



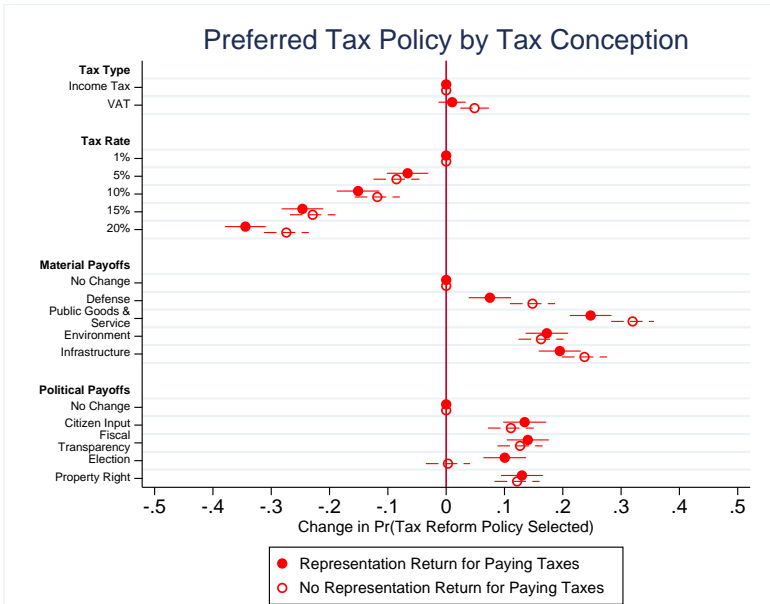
# Conjoint Experiment 2 (China)



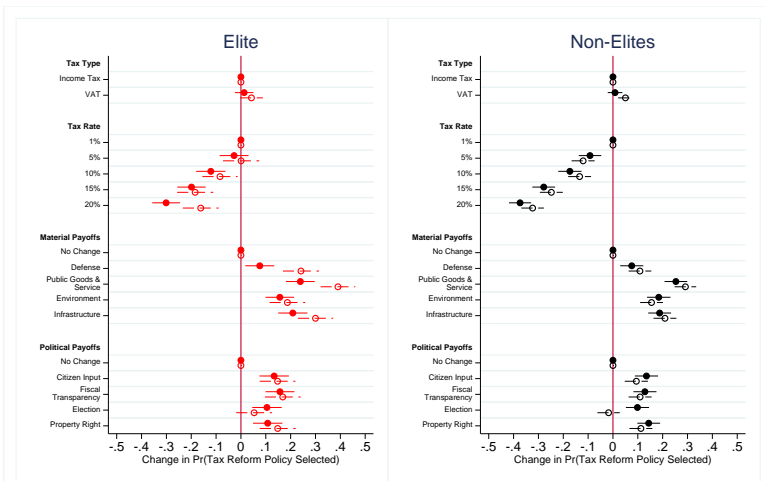
# Conjoint Experiment 2 (Taiwan)



# Conjoint Experiment 2 by Tax Conception (China)

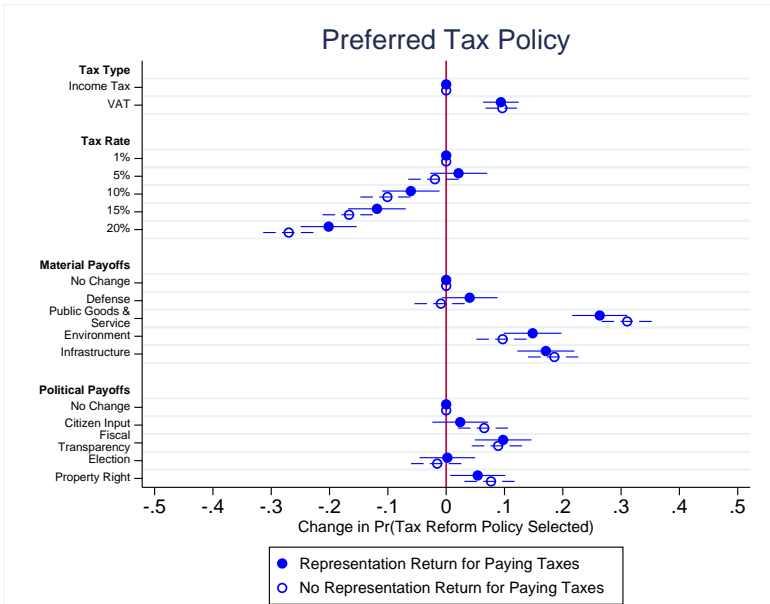


# Conjoint Experiment 2 by Tax Conception and Elite Definition (China)

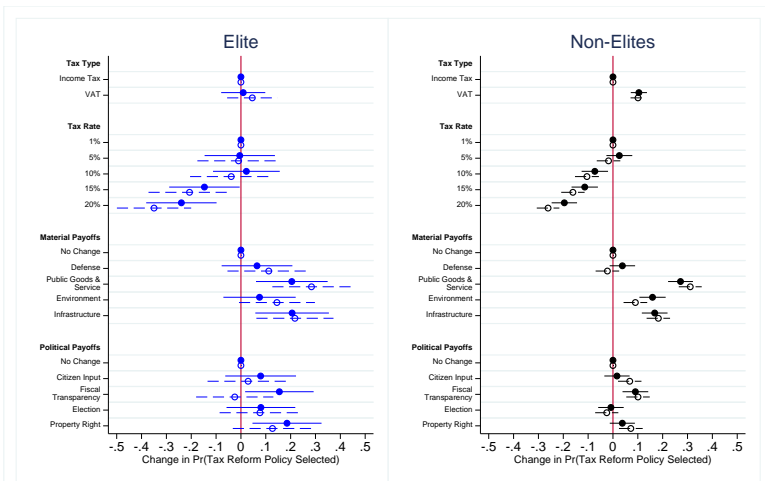


● Representation Return for Paying Taxes  
○ No Representation Return for Paying Taxes

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# Conjoint Experiment 2 by Tax Conception and Elite Definition (Taiwan)



● Representation Return for Paying Taxes  
○ No Representation Return for Paying Taxes

## Preliminary Conclusion

- In the absence of NTWR priming, citizens prefer material benefits to political payoffs
- Preliminary analysis suggests that when non-elites are “primed” to operate within the NTWR logic, they do express interest in political payoffs
- Implication: we cannot assume that greater taxation naturally leads to better governance if the NTWR logic is not salient
- Our future analysis will evaluate various mechanisms behind the salience of the NTWR logic between elites and non-elites

# APPENDIX



# Conjoint Experiment Screen Shot

— 不管您做出怎樣的選擇，這些選擇都沒有對錯。我們只是想知道在這兩個不同的稅制改革方案中，您個人最傾向的是哪個方案。

	方案1	方案2
稅收主要用於改善以下的政府職能	更多地採納人民的意見	更多地採納人民的意見
稅種	個人綜合所得稅	個人綜合所得稅
稅收主要用於增加以下方面的支出	公共服務（如教育和醫療）	國防支出
稅率	5%	5%

請選擇

方案1

方案2

在以下1至5的維度之中，1表示強烈支持，5表示強烈反對。請問您在多大程度上支持方案1？

1. 強烈支持

2. 有些支持

3. 沒有意見

4. 有些反對

5. 強烈反對

在以下1至5的維度之中，1表示強烈支持，5表示強烈反對。請問您在多大程度上支持方案2？

1. 強烈支持

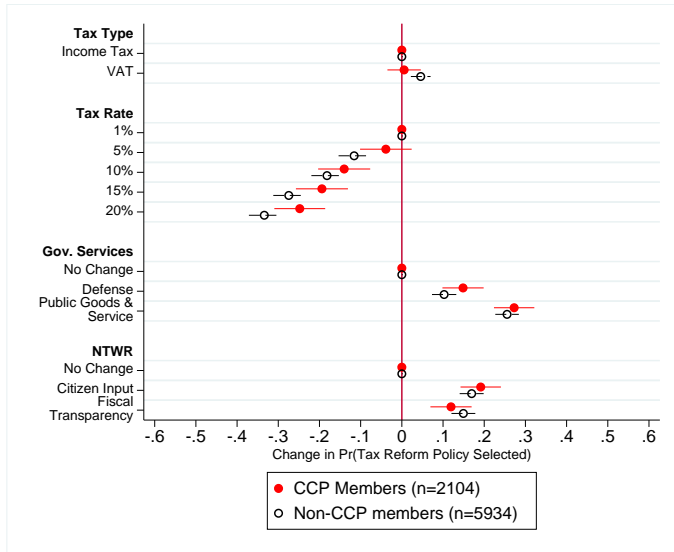
2. 有些支持

3. 沒有意見

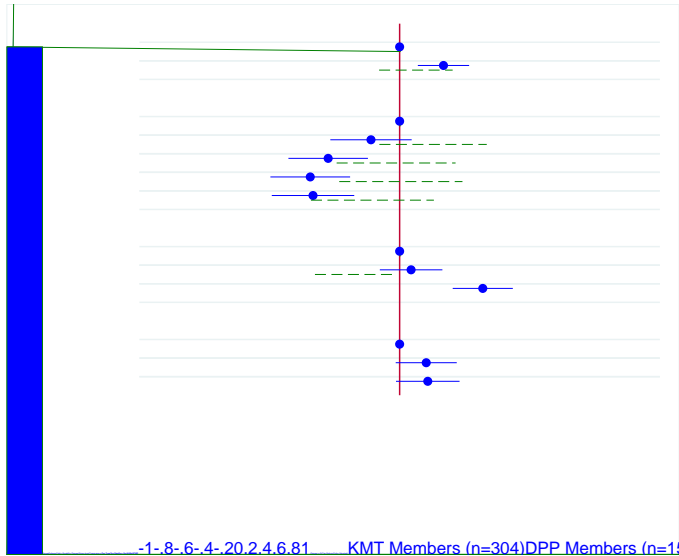
4. 有些反對

5. 強烈反對

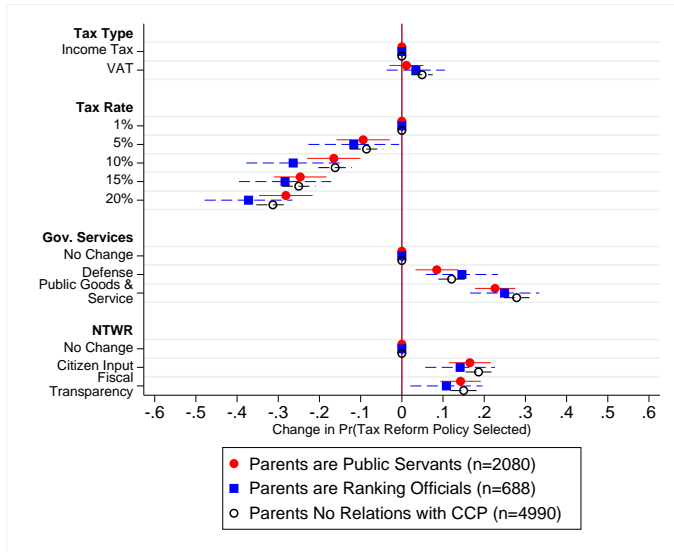
# China: Elites vs. Non-elites by Party Membership



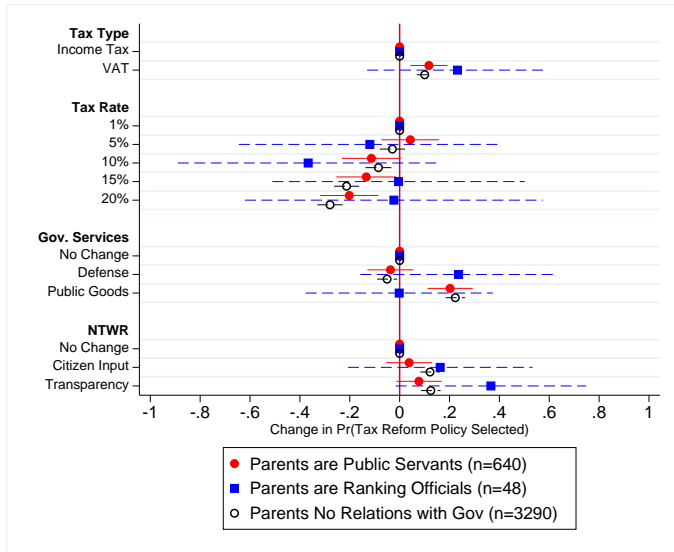
# Taiwan: Elites vs. Non-elites by Party Membership



# China: Elites vs. Non-elites by Parents' Connection



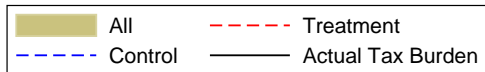
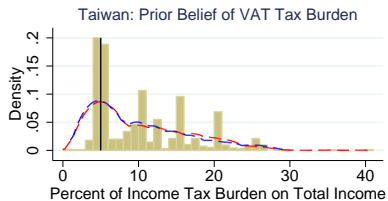
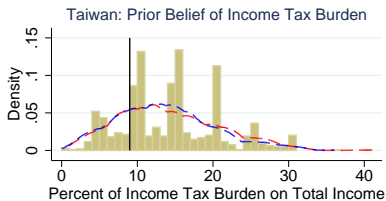
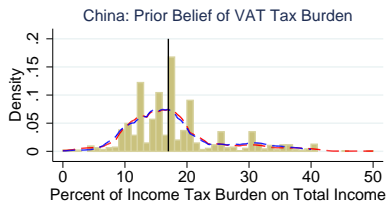
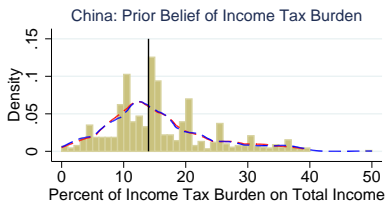
# Taiwan: Elites vs. Non-elites by Parents' Connection



# INFORMATION SHOCK EXPERIMENT

# Distribution of Prior Belief of Tax Burden

## Distribution of Prior Belief of Tax Burden



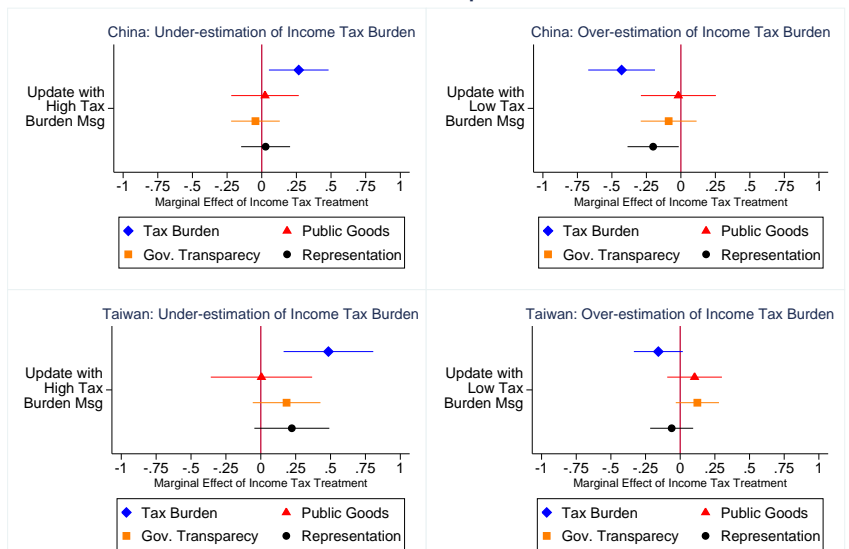
# Experimental Design

<b>Information Experiment</b>			
<b>Group 1:</b> Income Tax Control Group	Self-reported prior belief of income tax burden		A Battery of Political Attitudes Questions:  1. Perceived Tax Burden 2. Demand for Public Goods 3. Demand for Government Fiscal Transparency 4. Demand for Representation through Citizen Input
<b>Group 2:</b> Income Tax Treatment Group	Self-reported prior belief of income tax burden	Information treatment on actual income tax burden	
<b>Group 3:</b> Consumption Tax Control Group	Self-reported prior belief of VAT burden		
<b>Group 4:</b> Consumption Tax Treatment Group	Self-reported prior belief of VAT burden	Information treatment on actual VAT burden	



# Information Shock - Income Tax

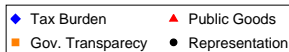
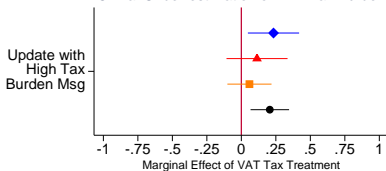
## Income Tax Experiment



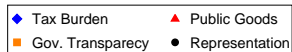
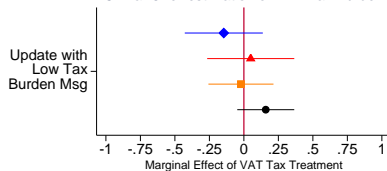
# Information Shock - VAT

## VAT Tax Experiment

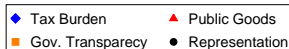
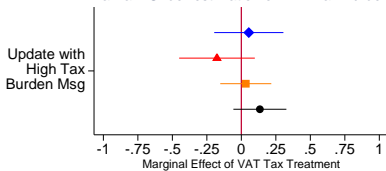
China: Under-estimation of VAT Tax Burden



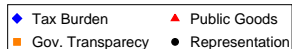
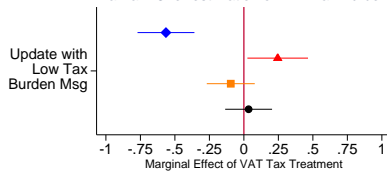
China: Over-estimation of VAT Tax Burden



Taiwan: Under-estimation of VAT Tax Burden



Taiwan: Over-estimation of VAT Tax Burden



# Information Shock - Robustness Check

- No clear evidence of NTWR:
  1. Weak treatment?
    - ★ Manipulation checks show the treatment were effective in shaping belief of tax burden
  2. Sophistication levels?
    - ★ Education levels do not generally facilitate the connection between taxation and policy preferences
  3. Heterogeneous average treatment effect by the distance between prior and revealed tax burden?
    - ★ The analysis by quartile, however, does not provide a much clearer picture.
  4. The role of political efficacy?
    - ★ Follow-up political efficacy experiment does not change the null results, despite the success in manipulating the belief of internal and external political efficacy