



# To contract or not to contract

Thinking through narratives of tax and spend

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August 2021

## Executive summary

One narrative about tax policy has dominated recent thinking among development partners, academics, and advocates: tax as part of a “social contract” between citizens and the state. This powerful idea, rooted in the history of the state and the origins of taxation, [particularly in medieval Europe](#), offers a resolution to one of the challenges of public finance: how to stimulate the public’s interest in the fusty topic of fiscal policy. By linking government taxation to expenditure on service delivery (e.g., health and education) for ordinary people, the narrative of the social contract could provide an avenue for greater public engagement in tax policy that underpins a more robust and productive relationship between state and society. This in turn can support enhanced domestic resource mobilization, a key policy goal for many low- and middle-income countries and development partners.

In this paper, I argue that the social contract approach is too tidy. While the social contract has a critical role to play in the pantheon of narratives, advocates must also consider its weaknesses. These include an overemphasis on reciprocity rather than equity, limited utility in highly informal economies, a tendency toward earmarking revenues, questionable premises about the principal role of taxation in many contexts, and optimistic assumptions about the outcomes of bargaining over contracts in highly unequal societies. These arguments are not all original, but they tend to be overlooked when the notion of a social contract moves from a historical narrative to an advocacy agenda. No tax narrative is perfect, however. Ultimately, *narrative pluralism*, which allows advocates to draw on alternatives, such as “services first” or “fairness first” approaches (described below), is preferable to an overreliance on the social contract narrative alone. Even if advocates decide to rely mainly on a social contract narrative, however, which may be appropriate in certain contexts, the paper provides insights that may minimize some of the pitfalls of a contractual approach to taxation.

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# Introduction

Discussions about domestic tax policy are increasingly dominated by one conceptual framework or narrative: tax as part of a “social contract,” or “fiscal social contract.” Moore, Prichard and Fjeldstad describe the rise of this idea in their 2018 [book](#):

Arguments in favour of the expansion of taxation are often linked to a belief in the potential of such an expansion to contribute to state-building and increased government accountability. A particular narrative about these links has become relatively widespread in recent years... expansion of taxation may prompt processes of ‘tax bargaining’ and the construction of new ‘fiscal social contracts’ as taxpayers resist taxation, make demands for reciprocity and enter into constructive interaction with governments. This narrative is grounded in the history of taxation and state-building in early modern Europe, but appears to be supported by the results of recent research in Africa and elsewhere in the developing world.

A social contract aligns well with the modern idea that effective taxation is not mainly (or only) about coercion, but must involve a considerable degree of quasi-voluntary compliance, where norms of behavior encourage taxpaying even when the risk of sanction is small. The motivating force for such compliance is that there is an underlying contract: citizens and residents pay taxes in exchange for needed public services, so they do not need to be strong-armed.

As persuasive as it can be, the narrative of the social contract also has some severe limitations from the perspective of civil society advocates for equitable tax reform. While the social contract narrative portrays a world in which all good things go together (collective empowerment, revenue collection, constructive engagement, voice, accountability, and state-building), it does not provide a mechanism for ensuring that this will occur. As I will demonstrate, different aspects of the narrative are logically independent and may not align in practice.

The social contract narrative poses challenges to other values we may hold and expect of our tax system. For example, the contract’s emphasis on reciprocity can be in conflict with the goals of voice, equity, and redistribution. The social contract narrative also understands taxation in a way that may be at odds with the social and economic roles of tax and the way that taxes, particularly national taxation, are experienced by many taxpayers. If this is so, it may be that this narrative, however persuasive in the European historical context, is destined to fail in many low- and middle-income countries today.

Do these unpalatable consequences follow inevitably from the social contract narrative, or are they a result of a particular interpretation of that idea? If common contractual tropes of this type do lead to such results, are there

alternatives that might be more effective? The rest of this paper unpacks the social contract narrative and suggests ways in which it can be made more useful, while also considering alternative narratives. There are no perfect tax narratives, at least not yet. But I conclude that civic actors should embrace *narrative pluralism*: some version of contract theory is inevitable and useful, but we should think carefully about the version we use and complement contract narratives with alternatives as needed.

## Severability: the parts of a social contract

Like any persuasive concept, social contracts can take on a multiplicity of meanings depending on who is using them and for what purpose. The idea of a “fiscal social contract” involves a set of logically independent but related ideas that are often referred to interchangeably. But to some extent, this assumes too much about how tax and governance work. Separating out these different aspects of what is meant by a social contract is helpful to understand its strengths and limitations. Arguably, these different ideas can be severed from the overall concept and used in different ways, rather than necessarily lumped together in a form that may not be appropriate in many contexts.

### Is the social contract about services?

One common form of the social contract narrative reduces it to a simple tax-for-service contract. This is the way it is described in the abstract of a recent academic paper on Nigeria: “An important part of every country’s development process is the building of a social contract in which citizens pay tax and, in turn, receive public goods and services” (McCulloch, Moerenhout and Yang, 2021). Many people care about public services, thus a direct link is appealing.

However, this simple version of the social contract does not fully capture the possibilities inherent in the broader concept. We can see this if we think about the alleged origins of this contract in medieval Europe. Following Charles Tilly’s influential periodization, there was a long era between 900 and 1400, which he labels “patrimonial,” during which “monarchs drew armed force from retainers, vassals, and militias who owed them personal service.” Financing during this period came mainly from “tribute or rent from lands and populations that lay under their immediate control” rather than from taxation. Between 1400 and 1700, however, in the era of “brokerage,” political leaders began to rely more heavily on taxation for financing, and mercenaries for coercion (Tilly, 1990).

Broadly speaking, in the entire period between 900 and 1700, Tilly refers to “bargaining” as negotiation over tax. However, most of this bargaining related to the conditions of taxpaying itself: in addition to “exemplary punishment” against recalcitrant taxpayers, rulers also resorted to “pleading with parliaments, buying off city officials with tax exemptions, confirming guild privileges in return for loans or fees, regularizing the assessment

and collection of taxes against the guarantee of willing payment, and so on” (Tilly, 1990). These bargains had little to do with services. Instead, they were mainly about property rights: the rights of taxpayers to their own property versus the right of the ruler to extract some of that property from them in the form of tax.

The politics of the failed “Great Contract” in the United Kingdom of the 17th century typifies the nature of the conflict and bargaining involved in these early “social contracts.” The Great Contract was a proposal tabled in the Stuart-era Parliament of 1610. The contract would have entailed an agreement to a “permanent” tax to fund the monarchy, one that was not connected to wartime contingencies. Moreover, by regularizing taxation, the king would no longer need to call parliament on a regular basis for approval of taxes. The central issue at stake in the contract was how the king would collect resources: would this continue to be through various privileges (e.g., the sale of wardships and the forced sale of goods to the crown at below market rates), or would it be through a more regular form of taxation? Though the Great Contract ultimately failed, the relevant point here is that the bargaining in this case had to do with the nature and extent of taxpaying, and relatively little to do with anything like “services” (Lindquist, 1985).

By the 18<sup>th</sup> century, conflicts over taxation increasingly related not only to the conditions of taxation but to the right of representation: that is, the bargain was tax for voice. This was not an entirely new phenomenon: urban areas across Europe had negotiated autonomy and civic representation for centuries, and the origin and evolution of parliament in the U.K., reaching back perhaps as far as the Magna Carta, involved ongoing bargaining of this type (Spruyt, 1996; Dumolyn and Haemers, 2005).<sup>1</sup> What seems clear is that it was only really in the middle of the 19th century that agreements (“contracts”) between rulers and ruled began to encompass the possibility of taxation in exchange for services.

This history tells us that the social contract might be about taxes for services, it might be about taxes for voice, it might be about both, or it might not be about either. Perhaps in some cases it is about one, and in other cases, about the other. Maybe the relatively rich tend to seek voice and the relatively poor seek services, for example. Or maybe not. These possibilities exist but are not clarified by the general form of the social contract narrative. In any case, there is an idea of revenues in exchange for something of value.

However, even this may be too restrictive. In 14<sup>th</sup> century France, nobles would either pay a tax or provide military service (“tax in blood”): instead of “tax for services,” I think of this as “tax *or* services” (Henneman, 1983). The possibilities for exchange include not just the payment of tax in exchange for services, but *the exemption from tax in exchange for political or military support*. Indeed, some non-trivial aspect of historical tax bargaining, again

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<sup>1</sup> Parliament was also directly involved in the collection of tax in a way that contributed to the legitimacy of tax as a form of self-assessment in which a broad swath of local leaders participated (Braddick, 1994).

famously in pre-revolutionary France, led to the proliferation of tax exemptions, or “privileges” in exchange for support of the state.

More broadly, the sale of offices that entailed certain tax privileges undergirded a system of exchange that scholars have argued was a fiscally poor deal for a number of states, but allowed for rapid response to the exigencies of war: if the long-term balance was negative for the treasury, a short-term boost could usually be achieved through the sale of new offices when funds were urgently required (Brewer, 1990). For present purposes, the key point is that particular arrangements of exchange involved not only immediate fiscal benefits or costs for the state, but created the conditions for periodic bouts of rapid fund-raising in exchange for longer-term arrangements that actually undermined state finances. At a minimum, this history is at odds with the usual arguments about exchange and the social contract as a basis for increased taxation.

Unless we wish to place arbitrary constraints on what counts as a “contract,” it would seem to include many outcomes that do not result in “tax for services.” This history also directly undercuts one putative advantage of the social contract as described in the quote at the outset of this paper, which is its contribution to revenue raising. It is implied (if not outright claimed) in many versions of the social contract thesis that the negotiation of such contracts will lead to enhanced revenue. But while states may make smart bargains that shore up their support or provide short-term financing, some of these bargains may ultimately lead to revenue losses, rather than gains. This history casts doubt on assertions that social contracts will inevitably lead to enhanced domestic resource mobilization (even if we allow that bargains that give away revenue nevertheless contribute to “state-building” in other ways).

## Are services about the social contract?

A final point on the link between contracts and services is that while the social contract might be understood as a tax-for-services agreement, there are ways to talk about public services that do not imply a social contract. For example, one can start from the point of view of a society asking which public services it should provide (I will refer to this as a “services first” narrative approach). Once this is agreed, the question becomes how to pay for these services. From here, one might subscribe to the notion that those who receive the services should pay for them, which is an idea of reciprocity consistent with the social contract.

However, one might equally say that those who have the greatest ability to pay should finance the services, regardless of who uses them. While reciprocity is one way of thinking about what is fair, it conflicts with other valuable principles, such as equity, which suggest that those who have greater needs deserve more, and those with greater capacity should contribute more. These principles support more progressive taxation and

redistribution. It is, therefore, not necessarily the case that starting with public services (a “services first” narrative) leads us to a social contract of the “tax for services” variety.

## Bargaining

Tax bargaining generally refers to a set of negotiations that occur, formally or otherwise, over what taxpayers are willing to pay in exchange for which services. As noted above, this does not capture all of the possible bargains that might be struck. Once we are bargaining, we can bargain for more or less tax, for more or fewer services, for more or less voice, and even for other intangible items of value as well, such as the right to live in a particular location and not be harassed by the state.

Moreover, tax bargaining can be ambiguous about who is bargaining: the state on one side, but who is on the other side? Generally, it is not individuals. More often, bargaining is between different social classes and the state. There is here a hint that bargaining and social contracts do not necessarily refer to a contract between all of society and the state, or between every individual and the state, but between the state and collective actors. If so, then we might need to speak of multiple forms of bargaining and multiple contracts even within a single state – not one social contract, but several.

Wilson Prichard, one of the foremost authorities on tax in low- and middle-income countries, has offered a taxonomy of bargaining, including three classes of bargaining-related activities that can lead to enhanced social contracts (Prichard, 2015). The first is “direct bargaining,” where there is an explicit link between taxation and “responsiveness and accountability.” Prichard also includes two other concepts in his model. The second is an idea of “tax resistance,” where actions are taken by taxpayers and governments that are linked, but only indirectly. A key mechanism here is evasion or avoidance of tax by citizens, leading to reduced revenues for government and the need to either change policy or a regime change of some form. The third concept points to the ways in which tax may catalyze civic action and political mobilization of taxpayers, even if it has no direct short-term impact on taxation. Enhanced capacity for collective action can nevertheless eventually lead to enhanced government accountability over time. As Prichard notes, these pathways from bargaining toward social contracts are possible, but they are not inevitable.

It is worth dwelling on an example from outside of the traditional canon to further understand the ways in which bargaining may be unrelated to the type of social contract we are considering. In the 17<sup>th</sup> century Ottoman empire, there is evidence of bargaining between “bandits” and the state. The Ottoman empire operated as something we might today refer to as a patrimonial state (akin to the way Tilly uses this term), in which power was centralized in the person and family of the sultan, and social classes were fragmented and weak. Bandits bargained with the state through violent disruption, threatening order on the peripheries of the empire. The sultans responded by

coopting these bandits into the state and giving them tax farming privileges. These bandits were then rotated and sometimes killed to prevent further unrest (Barkey, 1994).

There is no essential connection between bargaining and social contracts of the type envisioned in the tax narrative. Under the Ottomans, bargaining was largely about bandits seeking access to the state, and the state actually gave these bandits some of its taxing powers, rather than the other way around. In exchange, the state won control and pacified the periphery of the empire. What did not happen was the creation of a social contract defined by tax for services or tax for voice. While tax bargaining may be part of how one gets to a particular type of social contract, this is not inevitable. Whether many low- and middle-income countries today more closely resemble European proto-states or the patrimonial Ottoman empire of the 17<sup>th</sup> century is an open question.

Finally, I argued above that the social contract was between the state and social actors, but in fact, social actors might strike bargains with other agents besides the state, which some scholars have referred to as “social extraction” (Lust and Rakner, 2018). The existence of private alternatives to the state, such as community savings groups, religious organizations, mafias, traditional authorities and so on can alter the nature of the bargain. Put another way, any actor’s interest in reaching a contract agreement with the state is partly conditional on the alternatives that are available. Where the state has relatively little to offer compared to non-state bargaining partners, there may be scant incentive for citizens to bargain with it.

## Accountability?

The last idea that I wish to unpack here is around accountability. We have already seen in the Ottoman case that tax bargaining need not lead to a tax-for-services contract, nor any particular growth in accountability. What is the nature of the relationship between the idea of the fiscal social contract and accountability? The general proposition is that the social contract is itself an accountability mechanism: citizens will pay taxes in exchange not for the promise of services, but for actual services. It follows from the contract analogy that if either party reneges on its obligations, there could be consequences. In a typical fee-for-service contract, the usual consequence of failure to deliver is non-payment. Thus, it would seem that the notion of accountability in the contract is that *if the state fails to provide services, then taxpayers can cease to pay their taxes.*

However, if the principal mechanism for accountability is the threat of a taxpayer boycott (or a related form of Prichard’s “tax resistance”) whenever taxpayers feel aggrieved about service delivery, this seems inconsistent with what we usually mean by accountability.<sup>2</sup> An alternative that is more consistent with our notion of accountability is

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<sup>2</sup> Technically, if we accept one common definition of accountability (Schedler 1999) as related to answerability and sanction, taxpayer boycotts may qualify on the sanction side. But answerability requires something more: a formal justification, data and information, formal institutions that receive and process explanations for actions provided by governments.

that the social contract provides some formal mechanism of adjudication or mediation. This formal mechanism could be a representative forum, like parliament, that provides oversight of how the state raises and uses revenue. The existence of such a body ensures (in theory) that the contract can be enforced: parliament can refuse to authorize taxation, or tax increases, unless the state meets certain conditions.

What if representative institutions are dysfunctional, however? Does the social contract presume a functioning parliament? Arguably, the social contract idea promises a *pathway toward accountability* even in such cases. The taxpayer boycott, or other forms of “tax resistance,” might be a step on the journey to real formal accountability. If states need revenue and are faced with disorder when they renege on the services they have promised in exchange, they will eventually change tack and permit greater oversight as a commitment mechanism. Citizens who see that such oversight is in place will be more willing to use formal mechanisms to confront contract breaches.

While this is plausible, it puts a heavy burden on tax bargaining as a mechanism for generating effective institutions in difficult environments. It is simply not clear that such bargaining can compensate for dysfunctional legislatures; a limited capacity for collective action; or long-standing practices of violence, coercion, and evasion around tax in certain contexts. This suggests that tax bargaining may only lead to accountability under certain conditions, such as a minimal degree of collective action capacity on the part of civil society, or at least some of the trappings of liberal government to begin with (Moore, 2008; Prichard, 2015).

## The problem of reciprocity<sup>3</sup>

I have already noted that there is a conflict between the value of reciprocity and the value of equity. This section elaborates on this conflict and considers whether it is inevitable or arises out of a particular understanding of the social contract.

I argue here that there is a tendency to conflate two ideas when the concept of a social contract around tax is deployed. One sense of the social contract is essentially descriptive: a tool for understanding how states, taxation, and to some extent representative institutions have evolved historically, particularly in Europe. However, we also tend to use this term in a more normative sense, as a goal of tax reform or development assistance. When we use the idea of a social contract in this sense, we are suggesting that the use of a social contract narrative is a way of advancing both taxation and better (e.g., more accountable) governance.

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<sup>3</sup> This section is a revised version of a blog post by the author, originally published by the International Budget Partnership on 10 November 2020: <https://www.internationalbudget.org/2020/11/putting-the-social-into-social-contracts/>

As is often the case, the use of a descriptive concept in a more normative sense introduces some risks. Among the most important is that the central concept of *reciprocal exchange* in the social contract implies and emphasizes that there is a direct link between what people are giving up and what they are receiving.

While the notion of reciprocal exchange is important, it is at odds with other goals we may have for the tax system, such as redistribution. Redistribution is fundamentally about the services that we can provide with *someone else's money*, and sits uneasily with the idea of a contract based on reciprocal exchange. If tax is about putting resources into the pot in exchange for services, poor and lower-income groups with less to give are also not able to demand much in return, while the rich can justify their demands for policies that benefit them in proportion to their larger contributions.

Some research suggests this is exactly what happens in modern states: states that tax lower-income residents more tend to provide more social services, while those that rely more heavily on taxing the rich provide more property protection (Timmons, 2005). New research also finds that in some contexts, poor citizens operating in the informal sector pay very little if any tax, which would seem to preclude them from participating in the “fiscal social contract” (Bachas, Gadenne and Jensen, 2020). Emphasizing a social contract approach to tax, then, seems to undercut the policy positions of many advocates for equitable taxation.

Is there any version of the social contract that can accommodate redistribution and equity? A powerful tradition in moral and political philosophy deploys the concept of a social contract as the foundation for justice. Contract theory in political philosophy dates back to Thomas Hobbes and John Locke. They notoriously came to divergent conclusions about the nature of the contract, but their core idea, and indeed the core principle for all social contract theorists, is that the basis of a just system is *consent of the governed to political institutions*.

In the last century, contract theory was further developed by John Rawls in [\*A Theory of Justice\*](#). Rawls used the social contract, and this same notion of consent, to derive highly egalitarian principles that justified significant redistribution. Other “contractualist” moral philosophers, such as [T.M. Scanlon](#), have built on this framework, arguing that it provides special consideration for those who are worst off under any social arrangement (Scanlon, 1982).

How does this Rawlsian social contract differ from the kind of bargaining that is at the heart of the modern tax framework? Why does it appear to invite progressive taxation while the “fiscal social contract” seems to undercut it?

The normative project that Rawls undertook with his social contract was not meant to describe the rise of modern states, as the “fiscal social contract” framework in tax scholarship is meant to do. The differences between these

two ideas about social contracts emerge in the first instance from the use of the same term to describe both what *is* and what *should be*. History is dominated by “might makes right” bargains among powerful interests, but our vision of the world going forward is one in which the social contract should be based on ideas of equality and fairness.

This relates to the second and more important difference between these “contracts.” In the long tradition of moral and political philosophy that leads up to *A Theory of Justice* (and beyond), the social contract is not between citizens and the state. *It is rather among citizens to create the state*. In other words, the very nature of the contract is one between free persons in some “state of nature,” before the state exists, and not between an existing institution and “taxpayers.”

What we owe to each other as free persons is inherently a different matter from what we owe the state. In this conception of the social contract, the contract is truly social (between people) and the state is the executor of that contract.

This is a fundamental distinction. The principal question is one of collective action: what can we do together in what Rawls called a “fair system of cooperation” to live our lives well? It seems clear that this question cannot be resolved by simply asking some form of free trade question: what will you give me if I give you X? We want to know instead what constraints we might put on our individual liberties in order to live together and prosper. Moreover, these ideas emphasize equality alongside reciprocity: all the parties to the contract are equal.

Because we are free and equal people coming together to make this decision, and because a social contract is something we consent to (otherwise it is not a contract), the terms must be such that they can be justified to everyone as fair and reasonable. Or, as Scanlon would put it, we must come to a set of principles that no one could reasonably reject. It follows that many people, and particularly those who are less well off, will not reasonably give up their rights or claims to others without something in return. As a pact between free and equal citizens in a moral sense (regardless of their power and influence in material terms), it lays the groundwork for straightforward bargaining, but also for redistributive claims that ensure a degree of equality in material terms. Redistribution is warranted by our moral duty to ensure that all enjoy at least the minimal material well-being necessary to be full participants in society.

In summary, there are two different sorts of object at play here that go by the same name. One is a positive construct that describes how states and citizens have tended to interact, characterizing this interplay as a bargain over access to resources. The other is a normative construct that describes how citizens should bargain with each other, and how they ought to create a society and state institutions to implement their agreements. The first of

these is a useful guide to how the world is, but it is less useful as a frame for how we want the world to be. The second is more fertile ground for progressive taxation to take root.

## Is the social contract plausible in highly informal economies?

If the social contract is primarily a normative frame for understanding how the world should be, it need not describe the world as it is. Indeed, I have just warned of the dangers of conflating normative and positive notions. Nevertheless, a narrative must still be plausible: it must promise something that people can believe is possible in the world as it is. It can be ambitious and point toward social transformation, but it must still be rooted in reality.

For example, the basic idea of a contract is one that posits certain limitations on the power imbalance between the parties to it. If one party is too powerful, it becomes implausible to believe that they will be bound by a mere contract. Thus a contract is only plausible in conditions of relatively limited inequality, and where there are strong autonomous institutions, such as courts or legislatures, to enforce it. As I noted in the discussion of accountability, tax bargaining over time could point toward the consolidation of more effective institutions, but where such institutions are heavily compromised to begin with, this may not be realistic.

The idea of a social contract may also not fare well against other social realities in many low- and middle-income countries. For example, where the economy is highly informal, an average member of the public may not pay a number of important national taxes. Individuals may not pay income tax and small businesses may not pay corporate taxes. In India, approximately 7 percent of adults pay income tax; in Nigeria, it is estimated that 13 percent of the labor force pays income tax.<sup>4</sup> Some larger informal businesses may pay a turnover tax, but others will either fall below the threshold for this or evade it (Thairu and Jagongo, 2014). Many lower-income residents may pay relatively little VAT, due to a combination of exemptions on basic goods and the existence of informal markets for goods that are not exempt.

Low-income households do pay a variety of “small taxes,” including things like fees and charges, that constitute an important burden on their finances. These charges tend to fall hardest on vulnerable groups, including women and ethnic minorities (Bernstein and Lü, 2008; Meagher, 2018; Moore, Prichard and Fjeldstadt, 2018). However, many of these charges are local, some are specific to very narrow services, and some do not meet the definition of a tax, as they are administered by non-public entities without state sanction and never pass through government treasuries (what are sometimes called “informal taxes”).

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<sup>4</sup> <https://www.livemint.com/news/india/how-a-small-tax-paying-elite-funds-the-indian-state-1564468931564.html>;  
<https://www.pwc.com/ng/en/assets/pdf/tax-watch-june-2016.pdf>

What this means is that for many citizens, there is little if any cause to relate to, or enter into bargaining with, the national government over taxation. There may be better grounds for bargaining at the local level, and the social contract appears to be more plausible in local arenas where property taxes, for example, have a closer connection to local services (Weigel, 2020). Sometimes bargaining will occur with the state, and at other times with non-state actors that step in to fill gaps left by the state (Bodea and LeBas, 2014). But whatever its virtues at the local level in such contexts, the social contract is not *terra firma* for thinking about national taxes like income, wealth, or VAT.<sup>5</sup>

## Who are you talking to?

A closely related challenge to the fact that many citizens in informal societies do not engage with the national government tax system is the fact that these same citizens may not be well organized for collective action. Recall that our contract is a social, not an individual, contract. It is meant to be between social actors and the state. The capacity for collective action cannot be assumed to exist everywhere, however, or to be uniform even where it does. Prichard recognizes this in his third strand of “bargaining,” which focuses on the idea that struggles over tax may yield more collective action or better organized civic actors even if there is no real tax bargaining in the short term (Prichard, 2015).

But the lack of cohesive collective actors suggests that in some instances, it will be nearly impossible to “bargain,” as there is no one to bargain with; while in others, organized interests will secure bargains while those who are not organized will be excluded from such bargains. This might result in further marginalization of those who are already most vulnerable in a society.

If the social contract narrative requires those who are relatively unorganized to first put their own houses in order before they can engage in tax bargaining, it may be an implausible framework in many contexts. Put another way, unless struggles over tax are sufficiently mobilizing to bring cohesive collective actors into existence at the moment they are needed for tax bargaining, our notion of a social contract narrative really just begs the question of how to create the conditions that would allow for such bargaining in the first place. For example, if a social contract requires prior structural economic transformation to create a more effectively organized working class to bargain with the state, then it does not offer much of a solution in societies where that is at best a long-term prospect.

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<sup>5</sup> This conclusion is at odds with Mick Moore’s observation that revenue bargaining should be more likely at the national level than the local (Moore, 2008). Moore appears to believe that local elites are able to operate in a more unconstrained fashion and do not need to bargain. Even if this is true, however, it must be balanced against the fact that taxes and fees at local level are more visible and have a broader incidence than national taxes, affecting many more people who can also more easily link them to local services.

## The problem of earmarking

We can think of the social contract as having a specific form and a general form. The specific form says: We pay this specific tax or fee in exchange for this specific service. We pay a payroll tax for health insurance, for example, or we pay agricultural cess to support investment in infrastructure that bolsters the agriculture sector.

The more general form of the contract says: we pay taxes overall in exchange for a basket of services. We cannot necessarily identify exactly how the income tax we pay translates into education, but in some way this is what happens.

These two interpretations have different pros and cons. For example, the specific form allows for very clear links to be made that effectively turn the tax question into a spending question: if we support the specific service expenditure, we are going to have a hard time arguing against the specific tax. That is generally a good thing if we are advocating for increased taxes, though it might make it harder to build broad constituencies in favor of the tax, since people have different spending preferences. On the other hand, if the tax only affects those who also benefit on the spending side, then there is no need for a broader constituency: those who benefit will support it, and no one else is affected by it.

In this case, the problem is less to do with building a broader constituency, and more to do with the problem we discussed earlier, which is that such tight conceptual linkages between the taxes paid and the services provided can undermine redistributive goals. In addition, there is the problem of earmarking too much of the budget: if most of the budget is tied up in revenues earmarked for specific expenditures, it is difficult to manage resources adaptively and respond to changing circumstances.

The general form of the contract gets us away from many of these problems, but it introduces others. The first is that it is simply less compelling: telling taxpayers that their taxes as a whole are generally used to provide a basket of services does not mean that any specific tax should be increased, particularly if increasing it will not be tied to any specific increase in services. While a general form of the contract might animate a general disposition to pay tax (that is, enhance tax morale/tax compliance), most tax reform is about *specific changes* in the tax system. People tend to care about specific changes in the tax system either because those specific changes affect them (I pay income tax, so I care if it increases, regardless of what you do with the revenue), or because the expenditure financed from the tax changes will affect them (I don't pay income tax, but I benefit from education services funded with that tax). If the tax does not directly affect me, and there is no specific expenditure to link it to, the contract narrative is less persuasive. This is a particular problem when it comes to building broad coalitions around issues like making income taxation more progressive, when the vast majority of the population does not pay income tax and does not see a direct link between this tax and specific services.

## Are taxes really about services?

A final challenge to the plausibility of the social contract narrative is even more fundamental. Not only do people fail to see a direct link between the tax system and services, goes this argument, but there really is no such link: taxes are actually *not* a mechanism for financing services. It is obvious from a logical perspective that if taxes do not really finance services, then the conceptual edifice of a tax-for-services social contract is placed in peril. But can it really be true that taxes are not primarily about financing public services?

There are several ways in which this apparently counter-intuitive claim might be true. The first is an economic claim. Modern Monetary Theorists (MMT) argue that governments do not primarily use taxation to fund services, but for other reasons. These other reasons range from ensuring control over the national currency, to inflation management and redistribution. According to MMT, governments essentially print money or borrow it from themselves in order to fund services. Tax is not essential. The theory does recognize that this is not true of all governments. For example, many local governments are unable to borrow or print money and must tax to provide services. Countries that do not control their own currency, such as those in the European Union or in the West African Economic and Monetary Union, also do not have monetary “sovereignty” and cannot simply print currency to fund their expenditures. But countries that do have a substantial degree of monetary sovereignty do not rely primarily on taxation for funding expenditure (Kelton, 2020).

It may appear that this argument is not highly relevant for low- and middle-income countries, since many if not most of them do not have full monetary sovereignty, even if they are not part of a currency union. In many low- and middle-income countries, an important element of fiscal exchange is carried out in other currencies, such as the U.S. dollar. These countries rely heavily on investors and cannot risk the inflationary consequences of simply printing money that many investors, and even many citizens, might simply choose not to hold.

I agree with the view that MMT has severe limitations in many low- and middle-income countries. However, if the social contract narrative comes into conflict with the aspirations of nations to exercise greater monetary sovereignty and reduce their reliance on taxation for expenditure, the narrative is nevertheless weakened. We may find ourselves in the position of endorsing a narrative that holds up an ideal at odds with other, increasingly popular ideals. This may not be fatal to the social contract narrative, but it is certainly problematic.

Even if MMT is not correct, or is itself implausible in low- and middle-income countries, it nevertheless points to some limitations on the degree to which taxes are directly linked to services. One of these limitations is the role of debt. We might see debt as a form of deferred taxation: that is, it is no different from any other tax, except that we will pay it a bit later. While this applies to some debt, however, it is not strictly the case for all debt, in the sense that debt can be rolled over and inflated away over time. Even if debt was ultimately repaid with taxation, the

option to pursue a long-term delay between expenditure and taxation would attenuate the connection for the broader public. Recall that a tax bargain, or a social contract, is between a state and social actors. If the state were able to provide a social actor some form of benefit for 20 years before the tax bill came due, it might be in everyone's interest to ignore the tax. In other words, for purposes of an immediate contract, no tax would be necessary, as debt, which is conveniently spread across society as a whole and over time, could replace it. Furthermore, historical evidence shows that debt may well be contracted with one social actor (say, capitalist investors) and paid for through taxation on another (say, lower-income groups through excise taxes), further disrupting the bargain (Munro, 2008).

There is a second way in which taxation may not mainly be about services, and this is more sociological than economic. In this case, the problem is that tax is not understood mainly as a financing mechanism, but more as a tool of social control. Historically, tax has been used both to legitimate groups as part of a polity or to mark them as lesser members of a political community. For example, at different moments in the Islamic world, rulers have used the payment of a tax, the *jhizya*, as a mechanism to discriminate against non-Muslims. Payment of the *jhizya* allowed non-Muslims to live in Muslim areas, but was a way of debasing them and demonstrating their lower status (Hunwick, 2006). Even in late medieval England, "communal solidarity could be expressed as a kind of joint sanction against outsiders," involving heavy taxation of non-locals (Braddick, 1994). In other cases, payment of tax has been seen as legitimating members of the local community and conflict emerges over who "deserves" to pay tax. In rural Senegal, for example, there have been cases where communities have forcefully prevented migrants to the area from paying tax in order to deny them political legitimacy (Meagher, 2018). Payment of tax in a number of contemporary contexts, such as in Nigeria, may also be understood to pertain less to the receipt of services than the cost of avoiding harassment: failure to pay taxes may lead to destruction of a taxpayer's goods, so payment is aimed at preventing this, rather than receiving a particular service (Oseni, 2014). The current debate over "multiple taxation" is not entirely alien to the evolution of state taxation in medieval Europe, where urban areas pledged resources to the crown in exchange for protection from overlapping taxation by nobles and ecclesiastical authorities (Spruyt, 1996).

It is evident from these examples that even if taxation does play an important role in financing government services, it is not necessarily understood by those collecting or paying tax as primarily related to its financial function. It follows that a social contract narrative may seem implausible: it does not speak to the social meaning of tax and may not therefore effectively mobilize people to support or oppose tax reform.

## Summing up

The social contract narrative is persuasive and has elements that ring true historically. There is also evidence of the elements of the social contract narrative around us, in the form of examples of tax bargaining, earmarking, and

enhanced voice and accountability in low- and middle-income countries today. Nevertheless, as a normative approach to promoting equitable tax reform, the social contract narrative also has some severe limitations:

- Emphasizing reciprocity can make it harder to pursue other principles of tax reform, such as equity. Reciprocal contracts emphasize tax in exchange for services, and are inconsistent with redistributive principles. They may even raise questions about whether those who pay little or no tax have any right to representation in the social contract.
- Tax bargaining does not necessarily result in tax-for-service contracts, but can instead result in the proliferation of tax exemptions or in the further strengthening of unaccountable patrimonial states. In the first case, the tax bargaining may lead to declining revenue, rather than enhanced domestic resource mobilization. In the second, the state's coercive powers may be strengthened rather than more stable and representative institutions.
- In societies with low levels of collective action and dysfunctional oversight institutions, it is not clear that tax bargaining will necessarily lead to broad improvements in voice and accountability. Where there are major asymmetries in the power and organization of different groups, encouraging social contract-oriented tax bargaining could lead to further empowering the most organized groups and further marginalizing the vulnerable (not unlike the general critique of pluralism and the notion of regulatory "capture" (Shapiro, 1988)).
- Finally, the theory of the social contract may be so implausible in certain contexts that it is not a useful narrative. Where many citizens have no engagement with the national tax state, they may be unable to envision a social contract with the national government (though this may be possible at the local level). And where the public does not see taxes as primarily a device for financing services, it may be difficult to convince them otherwise.

I have suggested at least one antidote to the first challenge, which is to use a different conception of the social contract that is rooted in moral and political philosophy. This may help, and is worth doing, but it is also important to recognize that this philosophical approach runs counter to powerful interests that will find a reciprocal social contract approach more appealing (if it, for example, means that they can demand more from the state in exchange for their larger contributions).

We might conclude at this point that social contract narratives are fatally flawed. However, we must consider some alternative narratives and ask whether they are free of the challenges above before concluding that we should abandon social contract approaches. In fact, it could be that a revised social contract narrative that puts more emphasis on equality is still our best option, in spite of its limitations.

## Alternative narratives

The first law of wing-walking is: never let go of what you have until you have something else to hold onto. We must compare social contract theory with some plausible alternatives before deciding how to think about it. I briefly consider two ideas here: a “services first” approach, and a “fairness first” approach. I also consider a “human rights” approach as a subset of the “services first” approach. Each of these approaches has advantages, but also downsides.

### Services first

What is a “services first” approach? I have described this briefly above in explaining that not all arguments from services lead to a social contract. Essentially, a services first narrative starts by asking what services we want or need as a society. We can identify the importance of, say, education and health services, infrastructure, security, and so on.

A social contract approach would then say “if we want those services, we have to pay for them,” emphasizing reciprocity. A services first approach is not bound by reciprocity, however, and this opens it up to multiple next steps. While “charge the people who want the services” is a plausible next step, an equally, and perhaps more plausible, approach is to say “charge the people who can pay for the services.” In other words, we are open to a redistributive answer based on the principle of “ability to pay.”

It is vital to understand why “services first” can lead us in this direction. A principle reason is that we start with a collective question about the services we need as a society. By starting with a question about the services we need as a group, we can get to a different place than if we start by asking about taxpayers. When we start with taxpayers, we are constrained by the fact that some people do not pay taxes and others pay a lot. We are trying to justify the existence of the taxes that individuals actually pay. This unfortunately leads us to a somewhat more individualistic response: we pay taxes to receive services. While this might be stated collectively (“we pay”) it is obviously not truly collective, since we do not all pay, and we certainly do not all pay similar amounts. There is a subtle equation of individual taxpaying to collective taxpaying here, which works fine as long as everyone does pay tax and pays relatively equal taxes. But in the real world, where many people do not pay some specific taxes at all, and there is great inequality, we cannot jump from the individual to the collective without losing something.

What we lose is the possibility of justifying the taxes that are paid as a whole *by the services that are provided as a whole*. If we go the other way, starting with the services we want to provide as a whole, we can reach a different answer on the tax side. This logical step is bolstered by a second point, though, which is that we are choosing not to emphasize reciprocal exchange, but rather ability to contribute. That is, we are choosing not to focus on the

idea that you give so that you can get, or that you get so you must give, but rather that you should give because you can.

In recent campaign work to curb tax amnesties in Mexico led by Fundar, a civil society organization, the messaging centered on services like better hospitals and schools that could be paid for if tax amnesties for the wealthy were curbed. This is an example of how focusing on services helped to build broader public support for their campaign, and how doing so also allowed them to focus not on reciprocity, but more on the resources needed to pay for broadly agreed upon priorities.<sup>6</sup>

A services first approach can free us from the straightjacket of reciprocity, but does it have other pitfalls? One potential weakness that it shares with a social contract narrative is a focus on tax for services, where (as discussed above) services may not be the primary social purpose of tax. When asking how we finance services, we may also end up with an answer like “borrow more” rather than “tax the rich.” That is, starting with services does not necessarily lead us directly back to tax, whereas the social contract approach is fundamentally about taxation.

Another weakness of a services first approach relative to a social contract approach is that there are no logical limits on how we define services, and therefore no limit on expenditure. In social contract approaches, the limit on services is defined by willingness to pay. Since we pay for the services, we put natural constraints on what we are willing to pay for. But if we are going to ask others to pay for the services, there is little guidance on when we have reached our limits. In other words, how much taxation is fiscally possible? Are there any limits on the services we might ask for? While the social contract tells us that we reach that point when it is no longer possible to enforce taxing without excessive coercion, services first does not provide a direct answer.

I consider a human rights narrative as one form of a services first narrative, in that it starts by identifying all the services that people have a right to: housing, health, education, and so on. It then asks, as does services first, how we should pay for these rights. It is even more likely than a services first approach to answer this by asking who has the greatest ability to pay, which will endorse progressive taxation.<sup>7</sup>

Like the general services first approach, it will struggle with questions of limited resources and trade-offs, since there is no logical argument for limiting access to any of these “rights.” Human rights doctrine does speak of “maximum available resources” and this seems to acknowledge that resources might be limited in some way, but not in the way that the social contract would recognize limitations on willingness to pay. However, a human rights

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<sup>6</sup> For more on this campaign, see <https://www.internationalbudget.org/publications/mexico-the-long-fight-to-improve-transparency-and-address-the-inequities-of-tax-amnesties/>

<sup>7</sup> A human rights approach could theoretically start not with services, but with inequality, and argue for a focus on redistributive taxation *tout court*, without a focus on expenditures per se, but this is not typical.

approach might put emphasis not only on maximum resources, but minimums as well: for example, some advocates argue for “protected spending” that ensures a “minimum essential level of rights” (Center for Economic and Social Rights, 2021).

A general risk of social contract, services first, and human rights approaches is that they can all result in overreliance on earmarking in order to ensure the link between taxes and services. While some degree of earmarking is necessary and politically expedient, overreliance on this approach can undermine financial management.

## Fairness first

An alternative narrative to “services first” might be a “fairness first” approach. This narrative takes tax as a given: modern states rely on taxation and we all have to pay our fair share, whatever that may be. The focus is then narrowly on actors that are perceived not to be paying their fair share. To some extent, the Fundar case mentioned above also used this approach: in addition to the services first narrative, it focused in part on the fundamental unfairness of wealthy elites benefiting from tax amnesties. To take another example, an anti-evasion reform in Chile was passed over the objections of powerful conservative opposition when the president successfully painted it as a moral issue of equity and fairness, going so far as to argue that it was not a tax reform at all, but simply a measure to enforce the rule of law (Fairfield, 2013).

The simplicity of the “fairness first” narrative is appealing: if we can take the tax “game” as given, then it is a simple matter to declare that some people are “cheating” or failing to pay their “fair share” and the public will generally support whatever policies are needed to address this.

There are two problems with this approach, however. The first and most obvious is that it solves one of our biggest problems by assumption. That is, we assume away the issue of having to justify tax in terms of services or some other thing of value. That might be fine in some circumstances, but in others, it may not be adequate. If people do not accept this but pursue the question of why anyone should pay taxes in the first place, we will have to give a reason, which will likely push us back toward arguments about services. In other words, this narrative is incomplete.

A second problem is that it is harder to argue from this “fairness first” approach to more systemic changes in the tax system, such as a higher degree of progressivity. This fairness first approach is very good at addressing issues of evasion, because if we accept that the tax “game” has rules, then we do not want to see them violated. But what if the problem is not so much the evasion of rules, but the rules themselves?

We can argue that it is the rules that are not fair. The problem with this is that it is not clear what a fair rule is. It is clear that people should follow rules, but less clear what the rules should be. If we wish to argue that the rules are not fair, we have to show that this is so by, say, demonstrating that poor people pay more in taxes than the rich. That would seem unfair to most people. However, it may be hard to show this. It is easier to show that the poor pay a higher share of their income in taxes than the rich, but this begins to sound like a technical approach to fairness that is not as appealing to a broad public. Patently unfair rules do exist, but they are likely only a subset of the systemic inequities in the tax system we wish to address. The argument from fairness is helpful, but still seems incomplete.

Compared to the alternatives, fairness first likely has the lightest link to earmarking, which is an advantage. However, given that it is incomplete on its own, this may not turn out to be compelling. If it must be paired with another narrative, such as one tied to services, then the risk of alternative narratives importing a demand for earmarking remains.

## Toward multiple narratives

None of the narratives we have considered are perfect. It would be difficult to assert that one of these approaches is superior to the others in all cases. Given their advantages and disadvantages, we have to consider which narratives make the most sense in a particular case, and whether to use them in combination or alone. Is there any general guidance I can offer about how to deploy these narratives?

Fairness first is a simple and effective narrative for dealing with issues of evasion, but generally will not stand on its own when we are seeking more systemic change. It is a relatively light narrative that is easy to deploy, but for a narrow range of purposes.

Services first is a far more powerful narrative that can connect services to taxes, foregrounding the collective interests of society, and supporting progressive taxation. Arguably, services first should trump the social contract as advocates' preferred first cut at a tax narrative. However, we must think carefully about how services are defined in ways that do not lead to impossibly ambitious revenue claims. The narrative does not clarify how to do this. Human rights can further cement the link to progressive taxation, rather than reciprocity, but may have an even greater risk of generating impossible revenue claims.

Social contract approaches remain extremely powerful for middle-class and wealthy taxpayers at the national level, and potentially even lower-income taxpayers at the local level. However, these approaches must be conceptualized in terms of equality and collective goods to avoid an overemphasis on reciprocity and weakened support for redistribution, particularly at the national level.

In all cases, given the tendency of these tax narratives to encourage earmarking, advocates should emphasize notional or soft earmarking when possible, rather than hard or rigid earmarking. However, as discussed above, moving too far toward a generalized version of the social contract can make it less persuasive, so soft earmarking still requires some plausible connection between specific taxes and specific services.

## Conclusion

The aim of this paper has been to challenge and refine the field of tax advocacy's thinking around the value of social contract narratives. I argue that the social contract is a powerful narrative, but also suffers from a number of weaknesses. I make three principal suggestions:

- If we are to use a social contract approach to push for greater equity in tax systems, we must ground it more in notions of equality, as is common in the philosophical tradition of such contracts, and less in reciprocity.
- A “services first” approach can partially but not wholly mitigate the weaknesses in a “social contract” approach. The implication of this is that tax advocacy should begin with expenditure, rather than tax. This leaves us vulnerable, however, to excessive earmarking (also a problem for the social contract), excessive borrowing, and excessive taxation, so advocates must try to mitigate these risks from the outset. This paper stops short of a prescription for achieving that.
- It is highly unlikely that any one narrative about tax can or should dominate tax advocacy, given their inherent limitations. Advocates should seek to combine narratives in ways that respond to the specific challenges they are facing.

In short, while this paper challenges the dominant social contract narrative, I do not come to praise any other narrative above all, or to bury the social contract. Rather, my plea is for pluralism and creativity in building the case for equitable tax reform.

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