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Summary

In many ways the raising of tax revenues is the most central activity of any state, but it is only recently that the development field has begun to take questions about taxation and its relationship to the performance of government seriously. This research seeks to investigate the particular hypothesis that a government that relies primarily on tax revenues, as opposed to natural resource rents or foreign aid, is more likely to be accountable to its citizens.

This research seeks to capture the evolution of the Ghanaian central government tax system since 1982. The first goal is to understand the politics behind this evolution, in order to pinpoint the factors influencing the willingness and ability of governments to raise domestic revenue. The research then proceeds to ask whether the evolution of the tax system provides evidence that government efforts to raise taxes have given rise to successful demands for greater accountability.

The research finds that there is significant evidence that taxation has often been a catalyst for demands for greater accountability, but also finds that the nature of this relationship has varied dramatically across time, context and tax types. While generalisations demand further research, initial evidence points to several factors that shape the nature of state-society bargaining over taxation, among them: the broader state of politics, the role of elites, the mobilising capacity of civil society, the motives for the tax increase and the type of tax in question.

Keywords: taxation; tax reform; accountability; governance; Ghana; VAT; aid.

Wilson Prichard is a DPhil candidate at the Institute of Development Studies (IDS).

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Contents

Acronyms

AGI	Association of Ghana Industries
CEPS	Customs, Excise and Preventive Services
CJA	Committee for Joint Action
CMB	Cocoa Marketing Board
CVCs	Citizens Vetting Committees
ERP	Economic Recovery Program
GET	Ghana Education Trust
GNUS	Ghana National Union of Students
GPRTU	Ghana Public Road Transport Union
GUTA	Ghana Union Traders' Association
HIPC	Highly Indebted Poor Countries Initiative
IRS	Internal Revenue Service
NHIS	National Health Insurance Scheme
NDC	National Democratic Congress
NPP	New Patriotic Party
NRL	National Reconstruction Levy
NRS	National Revenue Secretariat
PEF	Private Enterprise Foundation
PNDC	Provisional National Defense Council
RGAB	Revenue Agencies Governing Board
VIT	Vehicle Income Tax

1 Introduction

In many ways the raising of tax revenues is the most central activity of any state, and it is widely held that debates over taxation have figured prominently in the evolution of states in Europe and North America (Tilly 1990). Yet, it is only recently that the development field has begun to take questions about taxation and its relationship to the performance of government seriously. Many of these studies centre on a provocative hypothesis, captured succinctly by Mick Moore (1998: 95) who proposes that, 'The more government income is 'earned', the more likely are state-society relations to be characterised by accountability, responsiveness and democracy.' Translated into simpler terms, the hypothesis amounts to an expectation that governments that rely heavily on tax revenue are likely to be more accountable than those that rely on non-tax revenue sources, most notably natural resource rents or foreign aid.

The claim rests on one of two logics. The first is that the collection of tax revenue relies on both coercion and a degree of willing compliance by citizens, a combination that has been termed 'quasi-voluntary compliance' (Levi 1988). Given the need for some degree of willing compliance, a government that is reliant on tax revenue to sustain itself will be forced to make implicit or explicit concessions to citizens in order to secure their compliance, whereas financially independent governments will not face the same pressure. The second logic argues that the experience of paying taxes may give rise to a feeling of ownership of the state, leading citizens to make greater demands for public accountability (Moore 2008). In both cases the existing theory is somewhat vague on the particular character of the concessions that governments may make, but concessions are generally expected to centre on democratisation, broadly defined, or the provision of improved government services (Ross 2004; Timmons 2005).

This reasoning has frequently been used to account for the apparent fact that states with access to high levels of natural resource rents tend to be less accountable to citizens (Ross 2001, 2004). It has, likewise, been used as an argument about the risks of dependence on foreign aid (Brautigam and Knack 2004). Yet despite the growing prominence of this line of thinking there is relatively little detailed evidence of this dynamic at the country level. Existing evidence rests primarily on large-n quantitative studies (Ross 2004; Timmons 2005; Brautigam and Knack 2004), studies of oil producing nations (Chaudhry 1997), and studies of taxation at the local level (Fjeldstad and Semboja 2001; Juul 2006; Hoffman and Gibson 2005). Within this group there is particularly little evidence dealing with sub-Saharan Africa, limited to a handful of studies of local taxes (Hoffman and Gibson 2005; Fjeldstad and Semboja 2001), and a small number of studies dealing with the political economy of taxation more generally (Lieberman 2002; Rakner 2002; Soest 2007). As importantly, much of the existing evidence does not engage explicitly with the underlying theory, resulting in a wide array of unanswered questions about the role of different types of taxes, the particular ways that state-society bargaining may manifest itself and contingent factors that may shape particular outcomes (Moore 2008).

Consequently, this research endeavours to examine the political dynamics around national taxation in non-resource states over an extended historical period, in order to assess the presence, or absence, of meaningful negotiation between government and citizens over taxation. While there are strong justifications for alternative research focuses and designs, the focus here reflects the fact that: (a) a historical dimension is essential given the path dependence of taxation, (b) while local taxes have a very broad incidence the overwhelming majority of revenue in African countries comes from central government taxes, and (c) when studying resource states it is difficult to directly observe the causal role of taxation due to its relative absence.

If the hypothesis under examination is correct, it should be possible to observe the role of taxation in prompting political negotiation, with states being forced to concede greater public accountability in order to sustain public revenue. While 'accountability' is a decidedly vague term, this reflects the lack of clarity in the existing theory. The research strategy has thus been to cast the net as wide as possible during the research process, in order to consider the entire array of actions that a government might take to secure public acceptance of taxation. In more precise terms, 'accountability' around taxation may manifest itself in a number of visible ways, including: (a) major public mobilisation against new taxes, thus forcing government concessions, (b) pre-emptive commitments by the government in order to ease acceptance of taxation, or (c) unpopular governments being undermined by high levels of tax evasion and avoidance. The degree to which each of these factors is apparent in the evolution of the Ghanaian tax system will shed important new light on the applicability of the taxation-accountability hypothesis generally, and, as importantly, about the contingent factors that appear to shape particular outcomes in individual cases.

2 Research design and methodology

The research reported here is the first part of a multi-country study covering Ghana, Kenya and Ethiopia. Ghana was selected for this research because since 1983 it has experienced the most dramatic, and prolonged, improvement in tax collection of any country in sub-Saharan Africa. Thus it is the ideal candidate for observing political responses to taxation, if indeed such processes have occurred. Because this is the first stage of a larger research project the conclusions drawn here are intentionally locally specific, while relatively less emphasis is placed on reviewing the relevant theory, narrowly defining terms and hypotheses, or making generalisable claims. This is particularly apparent in the continued decision not to provide a tight definition of the term accountability, preferring to treat it simply as the willingness of government to respond to citizen demands of any type. While the theoretical contribution of this research will eventually provide a more nuanced set of definitions and criteria, at this stage it was important to allow the Ghanaian story to be told in its own terms, so as not to falsely impose received theory on the reality on the ground.

The research strategy comprises two relatively distinct components. The first seeks to provide an account of the political economy of taxation throughout the entire period in question. It asks what major changes have occurred with respect to taxation during the period under study, and why major changes in policy, institutional arrangements and implementation occurred when, and in the ways that, they did. While this does not directly answer the research question it is indispensable for identifying key moments in the evolution of the tax system for further study, and for providing the political context for those events, which proves to be centrally important to understanding outcomes.

The second stage seeks to connect the dots and ask whether the political economy story provides evidence of a form of 'fiscal contract' between citizens and government, through which the government provides new forms of accountability and political inclusiveness in exchange for 'quasi-voluntary compliance' with taxes by citizens. In some cases the conclusions follow directly from the political economy story. In others more detailed information about the evolution, activities and perceptions of citizen groups, or about the actual and stated behaviour of government, is necessary to provide deeper insight into the research question.

Methodologically, the research relies on a combination of secondary literature, quantitative data and, most importantly, extensive interviews. Aside from the theoretical literature cited above, secondary literature dealing with Ghanaian political economy serves to provide the political backdrop to the questions being investigated, as there is very little literature dealing directly with taxation, and even less addressing the political economy of taxation. The technical data presents a detailed picture of the evolution of tax collection and public expenditure over time, and is indispensable for contextualising the interview responses and for identifying the most important fiscal developments during the period.

The interviews comprise the most important research input, for two reasons. First, because there is so little existing literature on the Ghanaian tax system, interviews are the most viable method for capturing the historical evolution of the system. Moreover, interviews ensure that the story told reflects an assessment of what changes appeared most important to those inside politics and the tax administration. Second, and more importantly, the fundamental questions being posed by the research deal with the political motives for such developments, and these insights can only come from the policymakers themselves, affected stakeholders, and the perceptions of those implementing the policies. Put simply, while the macro story may be consistent with certain hypotheses presented in the literature, the question of greatest importance is whether the political actors themselves actually perceived the types of political processes being hypothesised.

3 Political economy of taxation in Ghana, 1981–2008

By the beginning of the 1980s the Ghanaian state and economy were deeply in crisis. The democratically elected government of Hilla Limann, which had come to power in the wake of a series of military governments, had increasingly lost direction and purpose, leading to massive economic decline, rampant rent-seeking and the atrophying of the state. Government revenues had fallen to below 5 per cent of GDP, which was not nearly sufficient to sustain a well functioning government, and reflected the state of economic and political collapse (Chazan 1983).

This state of affairs changed dramatically when military officers led by Flight Lieutenant Jerry Rawlings took power on 31 December 1981 under the banner of the Provisional National Defense Council (PNDC). A group led by Rawlings had previously seized power in 1979, before handing over power through elections in the same year, and was ruthless in its attack on previous regimes and on perceived corruption. This ruthlessness, coupled with the simple weakness of other forces within society, allowed the new regime to establish unquestioned dominance relatively quickly, ushering in what historian Adu Boahen (1992: 135–6) has called the period of the 'Culture of Silence'. While the government arrived under the banner of revolutionary ideology aimed at redistributing resources downwards, the regime ultimately used its political dominance to implement an IMF and World Bank sponsored structural adjustment programme, known as the Economic Recovery Program (ERP). That said, vestiges of the early ideology remained, particularly in several early measures that took aim at the purportedly ill-gotten gains of the political and economic elite. While many of the opponents of the regime have very grim memories of the period, it undeniably represented a major break in the economic and political history of the country, and thus provides a sensible starting point for the analysis presented here (Nugent 1995; Herbst 1993a; Chazan 1983).

The following sections divide Ghanaian history into several periods, each marking a moment of significant political and economic transition. These historical periods exhibit significantly different political and economic dynamics, which are reflected in distinct political dynamics surrounding taxation. Each of these sections makes reference to the main movements in tax revenues, while detailed graphs illustrating the evolution of the components of tax revenue and public spending during the entire period are provided in the Appendix.

3.1 1983–1987: The imperative of revenue generation

By 1983 the new regime had consolidate power, and began embarking on major economic reforms, among them efforts to rapidly increase government revenues. Academic writing on taxation reform during the period tends to focus on major institutional reforms undertaken in 1985–86. These reforms fundamentally re-organised the institutional structure for tax collection, creating the National Revenue Secretariat (NRS), the Internal Revenue Service (IRS) and the Customs, Excise and Preventive Services (CEPS), all with an expanded degree of independence from the Ministry of Finance in a pioneering example of a semi-autonomous revenue authority (Terkper 1998).

Yet, while these administrative reforms set the stage for long-term developments in the tax system, the most dramatic events occurred *prior* to these reforms, as the PNDC, which was incapacitated by the lack of public revenue when it came to power, dramatically expanded tax collection. Part of the revenue improvement can be attributed to the ERP, which, thanks to the depreciation of the exchange rate, led to increased exports and imports, with corresponding increases in import duties, export duties, excise taxes and sales taxes. That said, all of the taxes other than export taxes consistently, and sometimes dramatically, underperformed relative to budgeted expectations.

The case of export taxes warrants special attention due to its centrality to the overall development of the Ghanaian economy, and to the decline of the late 1970s. Cocoa had long been Ghana's most important export, and comprised the strong majority of Ghanaian export earnings, and an average of greater than 13 per cent of GDP, during the years 1955–1975. Cocoa production was equally essential to government revenue. It was heavily taxed through a combination of explicit export taxes and below market prices paid by the Cocoa Marketing Board (CMB), which had monopoly control over official cocoa exports. While data is imperfect, Frimpong-Ansah (1991) estimates that from 1958–1980 the share of taxes in the total export value of cocoa averaged almost 40 per cent, while these revenues accounted for an average of 32.95 per cent of total government revenues. These estimates are broadly consistent with those found elsewhere, and certainly capture the broad centrality of cocoa to the fiscal welfare of government (Stryker *et al.* 1990; Bulir 1998).

Yet the cocoa sector had experienced consistent decline since independence, and was in a state of crisis by the time of the 1981 coup. This decline was initially the product of declining prices paid to producers. Low world prices led to a sharp decline in producer prices from 1958–65, but when world prices recovered after 1967 producer prices increased only slightly, as the government claimed greater revenue for itself while a growing share of resources was absorbed by the increasingly inefficient CMB. These lower prices led to declining levels of cocoa production, both due to short-term reductions in harvesting and long term declines in tree planting and upkeep. When world prices, and local producer prices, plummeted after 1976, the decline of the sector accelerated as tree planting virtually stopped, smuggling increased, and official cocoa production declined to less than 300,000 tonnes, as compared to a peak of 450,000 tonnes in the 1960s. While small farmers were relatively poorly organised politically, and thus did not emerge as a dominant feature of the 1970s protest movements, reduced production and increased smuggling were consistent with existing evidence about the common forms of resistance adopted by small producers (Scott 1985; Chazan 1983; Widner 1993; Herbst 1993b).

Despite low world prices and an overall crisis in the sector the government continued to extract a large revenue surplus, as immediate revenue needs were allowed to take precedence over the long term health of cocoa production. By the end of the decade the situation had deteriorated further as the increasingly dramatic overvaluation of the exchange rate dramatically depressed the real value of the proceeds from cocoa sales, such that not only were producer incentives depleted, but the government also ceased to be able to extract surplus revenue. Thus, mismanagement, short-sighted revenue goals, and major exchange rate imbalances eroded an essential economic sector, as well as dramatically undermining the fiscal solvency of the government (McMillan 2001; Frimpong-Ansah 1991; Stryker *et al.* 1990).

Given that cocoa had been so central to Ghanaian fiscal policy historically, it is little surprise that cocoa played an important part in the broader fiscal recovery.

While not as they had been in the 1960s and 1970s, export taxes averaged 3 per cent of GDP, and accounted for more than 25 per cent of total government revenue, during the period 1985–87. This increase in revenue was primarily the product of the devaluation, which increased the real price received by both producers and government, but was also aided by a progressive increase in production. Increased production was likewise primarily a response to improved real prices following devaluation, but was aided by rising world prices and by a government decision to increase the share of the world price paid to producers, particularly from 1983–85 when world prices were low and the need for recovery was most urgent. While the desperate need for revenue led the government to continue to extract significant surplus from the cocoa sector, its early policy stance nonetheless broke the pattern of unsustainable exploitation of the sector in favour of long-term improvements in production. In doing so the PNDC resisted the urban bias of the past, adopted a longer-term view, and sought to gain the support of rural constituents (McMillan 2001; Stryker *et al.* 1990; Martin 1993).

While these gains in export taxation were very significant, the more unexpected source of increased revenue was a dramatic increase in corporate and personal taxation. Sources both inside and outside of government attribute these gains to the work of the Citizens Vetting Committees (CVCs). These citizens' committees, reflecting the ideological radicalism of the early Rawlings years, identified citizens of conspicuous wealth who were suspected of tax evasion. Where that wealth could not be accounted for and/or taxes had not been paid, the CVCs enforced tax compliance in a somewhat *ad hoc* and extra-legal manner, collecting not only annual taxes, but also substantial tax arrears, which accounted for the dramatic surge in revenue from 1983–85. While many elites resent the events of this period, and the methods employed to pursue these revenues, there is no question about the short-term effectiveness of the strategy.

From a political standpoint the events of the period reflect the economic crisis of the period, the entrenched position of the government, and the ideological convictions of the regime. The virtual collapse of government revenue in the early 1980s created a desperate need to expand the fiscal capacity of the state, while the government also held a strong belief in the importance of bringing elites back into the tax net and reviving some notion of a 'social contract' (Nugent 1995). Lurking in the background were the IMF and World Bank, which were equally very strong advocates for expanded tax collection and devaluation, and played an important role that is widely acknowledged by policymakers. While the rapid pace of reform, and the aggressive nature of income tax collection, may have been expected to lead to public discontent, the entrenched position of the government, the introduction of a more supportive policy regime in rural areas, and an initially high degree of popularity, ensured that citizens largely fell into line. In the words of one senior tax official, the government 'put the fear of God in them. They were practically running to the tax office to pay their taxes.' Ultimately, the expansion of revenue resulted from a combination of expediency, ideology and outside pressure, all implemented effectively by government decree.

3.2 1988–1991: Rationalisation and consolidation

At first glance, little changed from 1988–1991, as total tax collection as a share of GDP reached a plateau at about 12 per cent of GDP. Yet the aggregate figure masks major compositional changes, as the share of export taxes plummeted in 1988, and the share of corporate taxes plummeted in 1989, with both progressively replaced by sales taxes, import duties and fuel taxes. The administrative reform of 1985–86, while not responsible for the initial increase in government revenue in the early 1980s, laid the foundation for the compositional changes during this period.

The most dramatic single change in the period was the rapid decline in export taxation. The immediate cause was a sharp fall in world cocoa prices, as the government maintained real producer prices at a relatively constant level, and consequently allowing its revenue share to be dramatically eroded. While the change in international prices precipitated the change, it was the government decision to sustain producer prices, and reduce its own revenue, that marked a major transfer of benefits to rural constituents and a marked change in the policy that had prevailed since independence. This was a decisive and intentional policy change that was externally mandated by the World Bank and IMF, but was also strongly consistent with the ideological commitments, and political ambitions, of the PNDC regime (Martin 1993; Herbst 1993a).

Externally, the World Bank strongly favoured a reduction in export taxes as a way to spur cocoa production. The IMF took a more mixed view, favouring greater export incentives, but also concerned about a possible deterioration of the fiscal balance. Internally, President Jerry Rawlings had consistently expressed a strong support for supporting rural areas, while dubbing urban residents ‘leeches’, and thus was ideologically willing to support World Bank proposals to transfer benefits to rural areas. He found support in P.V. Obeng, the Minister responsible for cocoa production, and this was enough to overcome the revenue concerns of Minister of Finance Kwesi Botchwey. Aside from the immediate impact, this decision appears to have been part of a broader political strategy to build a rural constituency for the PNDC, which ran counter to the longstanding urban bias of parties in Ghana and much of sub-Saharan Africa (Bates 1981; Martin 1993).

The rapid decline in corporate taxation was also linked to the ideological evolution of the regime, but also had an important technical basis. Technically speaking, the dramatic increase in corporate tax collection had been reliant on both improved enforcement and the collection of substantial tax arrears. The collection of arrears implied a massive revenue windfall for government, but, evidently, could not go on indefinitely, while it also generated animosity between large taxpayers and government. Thus the massive decline in tax collection in 1988–89 would seem to reflect the confluence of three factors. First, the technical reality that tax arrears, once paid, cannot be collected again. Second, an ideological decision by government that with tax revenue stabilised it was time to reduce the burden on business and begin to pursue more rapid private sector growth through the reduction of income tax rates. And third, a compulsion on government to relax the aggressiveness of the sometimes extra-legal pursuit of large taxpayers, as such methods became increasingly unacceptable as the revolutionary fervour of the early PNDC years began to subside. Of course, a reduction in rates was also consistent with IMF and World Bank priorities, while businesses were obviously intent on seeing rates reduced, but neither group seems to have played a particularly dominant role in precipitating the change.

Despite this general trend away from the desperate drive for revenue that characterised the early 1980s, the government remained opportunistic in seeking new revenue sources, reflecting continued internal and external pressure. This fact is brought into sharp relief by the huge increase in petroleum taxes that occurred in late 1990 and early 1991. Petroleum prices, which were controlled by the government, experienced a dramatic increase in late 1990, in response to a spike in world prices due to the Persian Gulf War. While the government considered subsidising fuel in order to keep prices down, it ultimately decided to pass through price increases to consumers. By early 1991 the war had concluded and the government was faced with the question of whether to reduce fuel prices along with world prices, or to keep the higher price and collect the difference as additional tax revenue. Ultimately the latter course was selected, and the share of taxes in the pump price of gasoline increased from 16.5 per cent in early 1990 to 47.8 per cent by mid-1991. Thanks to the cover of the Gulf War, which eroded the ability of the public to 'see' the new taxes, coupled with the still relatively closed political environment, public opposition was modest. In the words of one key policymaker involved, the increase in petroleum taxes was 'opportunistic', 'a windfall' and 'a Godsend'.

Finally, 1991 also witnessed the reversal of some of the administrative reforms of the previous period, shedding light on the tensions that existed within the regime. The creation of the NRS in 1985 had given it wide independence from the Ministry of Finance, had allowed for better conditions of work than within other Ministries, and had included the granting of a Ministerial post to the revenue chief, Ato Ahwoi. This was the source of increasing frustration for the Minister of Finance, Kwesi Botchwey, who felt that his position was being undermined, and who faced complaints within the Ministry about special treatment being afforded to the revenue agencies. Thus, Botchwey moved to bring the NRS back under the control of the Ministry of Finance in 1991, a move that reflected declining ideological fervour surrounding the revenue effort, and led to reduced focus on revenue collection, and a modest fall in revenue collection.

3.3 1992–1996: Elections, public spending and popular opposition

Whereas the ability of the government to suppress opposition during the military era meant that tax policy was relatively free of political conflict, the situation quickly changed with the arrival of electoral competition at the end of 1992. The difficulties stemmed from a growing fiscal deficit that emerged after the election, which forced the government to pursue aggressive, and unpopular, revenue measures. These conflicts were exacerbated by the fact that the opposition parties elected to boycott the parliamentary elections amid accusations that the presidential election, won by National Democratic Congress (NDC) candidate Jerry Rawlings, had been flawed. While it is retrospectively somewhat unclear whether the opposition was correct in claiming that the election had been stolen, the result was the same, as the opposition boycott raised the political temperature and reduced the scope for dialogue and consensus building (Nugent 1999; Osei 2000).

Fiscal trouble began for the government in 1991–1992, as it reduced end of service benefits to public servants at just the same moment that the push for elections presented labour unions with new political leverage and new political urgency. By 1992 Ghana was beset with major labour unrest, centering on demands for increased wages and the reinstatement of end of service benefits. Such was the state of unrest that some leading political figures reported feeling that the election itself could be in danger if the unions were not placated. Whether such a risk was real, or whether the government was simply eager to shore up political support, the outcome was a capitulation to many of the demands of labour, and the opening up of a major budget deficit. The IMF and WB interpreted this as discretionary, and reckless, pre-election spending, and consequently cancelled aid disbursements, which were only restarted in 1994. This decision exacerbated the fiscal crisis faced by the government, and set the stage for a series of political conflicts over taxation.

The first conflict over taxes came in 1993 when the government sought to increase petroleum tax revenues, which was by far the most administratively simple means to quickly expand revenue. The plan was to introduce major price increases, which would cumulatively double the petroleum price (and thus petroleum tax revenues), in two installments. The first increase took effect in January 1993, days before the inauguration of the new parliament and constitution, thus avoiding parliamentary scrutiny. The budget that announced this increase came to be known as the 'killer budget' and was met with a public outcry, but the opposition was ultimately defeated. Facing a severe fiscal crisis, and an agreement with the IMF to implement the second price increase, the government presented the second increase to parliament for ratification in the spring, assuming that the NDC dominated parliament would accept it without protest. In the words of one key policymaker at the time 'we were in for a shock', as the increase was rejected by parliament. With this the party leadership 'realised that the whole relationship had changed', as Rawlings and his inner circle would only be able to implement their policy agenda if they was able to win the support of a broader group of policymakers.

The second major tax event of the first NDC parliament came with an attempt to introduce a Value Added Tax (VAT) to replace the existing system of sales taxes in 1995. The introduction of the new tax, with a rate of 17.5 per cent, quickly resulted in massive public protests, led by the Alliance for Change, which are widely remembered as arguably the most dramatic public protests of the era (Ninsin 2007). Both within government and outside of it, the massive protests, which eventually resulted in the repeal of the tax, are regarded as having been largely unexpected, but also to have marked a watershed in Ghanaian politics. It was, in the words of one leading participant, 'a sobering moment for the government', while it is widely held that it forced the government to change its style of governance. Indicative of the far-reaching political implications of the event is the fact that it was central to the resignation of the long-serving Minister of Finance, Kwesi Botchwey (Osei 2000; Terkper 1998).

3.4 1997–2000: Open elections, increased harmony and modest revenue growth

After the repeal of the VAT it was not even mentioned in the subsequent budget, which preceded the 1996 election, as the government recognised the extent of the political challenge it now faced. The end of 1996 saw the NDC government win a second popular mandate, while the opposition parties decided to enter into parliament. This ushered in a period of greater political harmony, owing both to lessons learned by the NDC and the success in bringing the opposition back into parliament. Yet despite the relative harmony, the NDC government continued to struggle to expand public revenue to close the significant fiscal gap.

Plans for the reintroduction of the VAT were drawn up in 1997, reflecting intellectual commitment to the tax internally and pressure from the IFIs, which were placing an increasing emphasis of tax reform and increased revenue generation as funding conditions. In order to avoid another failure two major technical changes were made. First, the rate was lowered to 10 per cent, which was below the 15 per cent of the existing sales tax, although the government had unannounced plans to quickly introduce rate increases in subsequent years. Second, large sums were spent in conducting public education about the new tax, to avoid problems with pricing and implementation. And, as was hoped, the new VAT was implemented with dramatically reduced public opposition. This is certainly attributable, to some degree, to the more strategic implementation programme, but the background political environment had also changed dramatically. Whereas the 1995 protests had been led by the Alliance for Change, which was overwhelmingly an alliance of opposition political parties, by the time of the second implementation the incentives for the opposition parties to engage in street demonstrations had been dramatically reduced by their entry into parliament (Osei 2000).

With the successful introduction of the VAT, the NDC government returned to parliament the following year with proposals to increase the VAT by 2.5 per cent, a plan that pre-dated the original introduction of the VAT and was explicit in agreements with the IMF. When initial discussions of the rate increase led to an emerging public outcry, the government quickly disarmed that opposition by announcing that the new funds would be earmarked for a Ghana Education Trust (GET) Fund, to be used primarily for educational infrastructure and scholarships, with a focus on tertiary education. While some observers argue that this earmarking was an honest response to mounting public pressure from the Ghana National Union of Students (GNUS), the evidence points strongly towards a more opportunistic story. While mobilisation by the students was significant, the decision to gradually ratchet up the VAT rate had been taken *before* any mention of the GET Fund. Moreover, at the time that the decision was taken the chairman of the committee examining VAT implementation was the Minister of Education, who also happened to be a communications expert. Confronted with escalating public opposition, he saw a way to reduce that opposition, and bring benefits to his Ministry.

As the major revenue initiative of the second NDC parliament the VAT did bring important revenue gains after implementation. This confirmed the view among tax experts that collection efficiency would be improved by the new tax, a fact largely attributable to the fact that collection at border points took on new prominence and made evasion more difficult.

Yet the overall fiscal position of the NDC government remained difficult. Faced with huge debt repayments and a persistent fiscal deficit the government was not able to achieve more dramatic revenue improvement, seemingly reflecting the gradual deterioration of public confidence in the regime. This was most clearly highlighted by the evolution of petroleum prices and taxes during the period. While revenue from petroleum taxes had been a major source of revenue for the government early in the decade, the government was subsidising petroleum prices by the end of the decade. This resulted from the fact that world prices were rising, but the government was unable to raise the domestic price, which it still controlled, due to persistent political opposition. This inability to raise prices contributed to the emergence of a large fiscal deficit at the end of the decade.

3.5 2001–2008: A new government and abundant public revenue

At the end of the year 2000 the NDC government, which had been in power since 1981, was voted out of office in favour of the New Patriotic Party (NPP). Promising greater political openness, including the immediate repeal of the authoritarian Criminal Libel Law, the new government enjoyed enormous popular goodwill (Frempong 2007; Amponsah 2007). Such was the extent of this goodwill that supporters and critics alike agree that the government was able to easily implement policies that would have caused a public outcry a year earlier.

The early years of the new regime were overwhelmingly characterised by efforts to restore fiscal balance in the face of what the government claimed was near fiscal ruin brought about by the policies of the NDC. While the NDC can rightly claim that this rhetoric was somewhat overblown, and that the poor economic performance of 1999–2000 was in large part the result of adverse external shocks, there is equally no disputing the fact that very large fiscal imbalances had emerged. With that as the backdrop, the NPP quickly set about expanding public revenue generation, with three immediate measures standing out: accession to the Highly Indebted Poor Countries Initiative (HIPC), a sharp increase in petroleum prices and petroleum taxes, and the introduction of the National Reconstruction Levy (NRL).

Accession to the HIPC initiative was of fiscal importance both because it would dramatically reduce debt payments, and because a central condition of the agreement was that petroleum prices would be aligned with world prices, which implied a significant price increase. The HIPC initiative was first proposed in 1999, but the NDC government did not accede to the agreement. This was in part because the government viewed it as an admission of failure and dependency, and was unwilling to accept the stigma, or political costs, of such an admission. The NDC government equally could not politically afford to implement a massive petroleum price increase immediately before the election, as was required by the HIPC terms. By contrast, the new NPP government was able to join HIPC, and institute sharp petroleum price increases in 2001 and 2003, with comparatively little public backlash. This reflected a combination of the goodwill that had greeted the new government, and the fact that the new government was able to blame the stigma of HIPC, and the hardship of new prices, on the NDC. Indicative of how difficult it would have been for the NDC to implement price increases in 1999 is the fact that the NPP government was granted permission by the IMF to postpone HIPC mandated petroleum price increases prior to the 2004 election, based on government claims that such an increase was politically impossible. This compromise reflects the political salience of petroleum prices, as well as shedding light on the positive relationship that the new government enjoyed with the IMF.

Closely linked to the effort to raise petroleum prices were significant increases in petroleum taxes in 2001, which met relatively little resistance. The primary explanation for public acquiescence was goodwill towards the government, and corresponding willingness to accept the claim that new revenues were desperately needed. There is also a question of whether consumers could easily distinguish between increases in petroleum prices and increases in petroleum taxes. As was the case in 1991–1992, when the government used high oil prices due to the Gulf War as cover for large increases in taxation, the government in 2001 seemed to benefit from the inability of the public at large to distinguish the tax increases from the price increases resulting from changes in world prices. Having said that, when the government was forced to increase petroleum prices again in 2005, having worn out some of the goodwill that in enjoyed in 2001, it was forced to reduce petroleum taxes as a concession to public opposition. This suggests both that the public was not entirely unaware of the distinction between petroleum prices and taxes, and that goodwill immediately after the initial election of the NPP was a significant political reality, but also one which eroded over time.

The National Reconstruction Levy (NRL) was a surcharge tax to be paid by financial institutions, and again aroused surprisingly little resistance. While an initial promise that the tax would only last for three years helped in this regard, the reality is that even as the tax was extended until 2007 pressure for its removal mounted but was never overwhelming. This partially reflects the effective mobilisation of public opinion by the government, which highlighted the very large profits of financial institutions, but it also reflected an increasingly conciliatory relationship between government and business. While business leaders insist that the image of the NDC as hostile to business is largely a vestige of events in the early 1980s, it is equally clear that consultation expanded rapidly under the NPP, while general levels of confidence that the government would not turn on business were significantly improved (Amponsah 2007). The NPP also managed to play shrewd politics at the moment of extending the NRL in 2004, as it amended the law to mandate that a share of the revenue would be committed to a venture capital fund, thus co-opting significant potential opposition within the business community.

Two additional major revenue measures emerged later in the NPP period. The first was the National Health Insurance Levy (NHIL). For all practical purposes the NHIL was a 2.5 per cent increase in the VAT rate, which was to be used to fund a new National Health Insurance Scheme (NHIS) to replace the existing cash and carry system. What is interesting is that as a matter of politics the government was absolutely adamant that the new tax would be quoted separately as NHIL, and not be called VAT, owing to its very vocal opposition to the VAT from 1994–2000. Likewise, it is interesting that most observers feel that while there was a strong desire to replace the cash and carry system, the primary government objective was to increase revenue, while the decision to earmark those funds for the NHIS, and change the name of the tax, was an essentially political strategy. As was noted earlier, there had been plans as early as 1998 to increase the VAT rate to at least 15 per cent, suggesting that the earmarking was more of a 'gimmick' than a motive. That said, earmarking has potentially important practical implications, which are discussed in more detail later.

The second major policy measure of the later NPP period was the introduction of a talk tax on mobile phone calls. Following the earmarking example of the GET Fund and NHIL, the introduction to the Act indicates that the revenues are to be used for combating youth unemployment. Yet, a closer examination suggests that again the desire to raise taxes came first, while the earmarking decision came later in order to disarm the political opposition. The tax was initially presented as a way to offset major tax loses due to the cross-border smuggling of mobile phones, but this rationale was abandoned when it became clear that it was disingenuous and that it was losing the political battle, as the revenues involved far exceeded the supposed lost revenue. The connection to youth employment then emerged as a political rationale and proved to be a highly effective political ploy. What is remarkable is that, contrary to the public pronouncements, only 20 per cent of the revenue was in fact earmarked for youth employment, and even there the specifics remained extremely vague. Thus, the promise of using the tax funds for youth employment succeeded in curbing public opposition, and did so without the government needing to actually put in place mechanisms to enforce or oversee this commitment. Aside from pointing to the potential for the manipulation of public understanding, this raises the question of why the parliamentary opposition was not more adamant in pressing the issue of ensuring the connection between the new tax and the stated funding purpose. One possibility is the simple weakness of minority parties in parliament, but another compelling possibility is that with an election on the horizon, and the potential for a return to power, the NDC saw the merits of maintaining long term fiscal flexibility.

3.6 The ups and downs of administrative reform 1985–2008

Supporting the various efforts to reform tax policy have been efforts to reform the tax administration and improve collection efficiency. This was most evident in the 1980s, as the acceptance of the ERP in 1983 brought with it a series of ambitious institutional reforms within the tax administration. A semi-autonomous National Revenue Secretariat (NRS) was established, including a new Minster of National Revenue, to oversee the newly formed IRS and CEPS, each of which were granted greater autonomy from the main civil service, including salary flexibility (Terkper 1998; Osei and Quartey 2005). The depth of this restructuring is reflected in the extent to which, 20 years later, those within the tax administration still recall this as a pivotal moment.

Yet, it was not long before the energy behind the reform programme began to falter. In 1990 the NRS, which had once been expected to progressively turn IRS and CEPS into a unified tax authority, was instead re-subjugated to the Ministry of Finance in an effort by the Ministry to reestablish its authority. The NRS eventually collapsed as its role was effectively eliminated by the realignment. At the time several areas of reform that had been envisioned remained outstanding, most notably the functional integration of IRS and CEPS (and eventually VATS as well), the creation of a Large Taxpayers Unit, the computerisation of IRS, and policy to allow the agencies to retain a part of revenue collection to fund their operations. Despite continued calls from the IMF and World Bank for these reforms, no movement was seen until 1998, and none of the reforms was actually implemented until after the election of the NPP.

The decline of the NRS, and corresponding elimination of the ministerial post for national revenue, goes some distance to explaining the loss of reform momentum. The power struggle between the revenue agencies and the Ministry of Finance is particularly persuasive as an explanation for the unwillingness to allow the agencies to retain part of collection revenue, thus keeping them reliant on Ministry of Finance allocations. More broadly, the desire of the Ministry of Finance to exert authority over the tax agencies became an implicit barrier to further reforms, as the reforms were to some degree dependent on granting special status and independence to the revenue agencies. This issue of authority was also a reflection of a broader clash between Minister of Finance Kwesi Botchwey and Minister for National Revenue Ato Ahwoi, and those close to the situation strongly believe that this personal conflict prejudiced Botchwey against making the reform programme a priority.

Given the revenue gains that seem to be attributable to these reforms since they were finally carried out in 2001, it seems worthwhile to also consider other barriers to reform. Given that the government undertook several unpopular tax policy measures during the 1990s, external opposition is not a satisfactory explanation. What about internal constraints?

On the question of the functional integration of the different tax agencies, two technical issues seem to exist. The first was a constitutional problem, as IRS and CEPS were constitutionally mandated agencies of government, and thus their elimination in favour of a unified authority would have implied a constitutional change, which in turn required a referendum. Those within the tax service are adamant that this was a major constraint to integration along IMF and World Bank lines, but are equally convinced that the international agencies never fully understood, or accepted, this constraint. That said, the Revenue Agencies Governing Board (RAGB) Act of 1998, which created a unified oversight board to achieve greater coordination, found a way around this constraint, and it is hard to believe that this solution could not have been possible earlier. The second challenge was of sequencing. Once a decision was taken to implement the VAT, there was a desire to complete that process prior to integration of the revenue agencies. But with the problems encountered in implementing the VAT the other reforms were likewise put on hold.

There also is evidence of internal politics acting as a barrier to reform. Many observers explain the inability of the government to integrate the different revenue agencies by the resistance of the individual revenue commissioners. The commissioners may have resisted integration on two grounds. First, they would each maintain greater authority and control if the agencies remained independent. Second, because such a large share of revenue comes from a few large taxpayers, the creation of a Large Taxpayers Unit threatened to complicate the revenue-raising strategies of the individual agencies, and of individual tax offices. This hypothesis is attractive because it can likewise explain the ability of reform to move forward in 2001: the new NPP government was not beholden to the existing commissioners, and was thus in a stronger position to overhaul those commissioners, and push the new commissioners to accept reform.

Finally, several observers claim that functional integration was resisted because it would have provided the tax agencies with too much information, and thus have reduced the scope for well connected people to easily evade taxes, while revealing broader elicit behaviour, particularly related to extensive revenues from the drug trade. While it is impossible to conclusively verify these claims, the suggestions are somewhat widespread and consistent with a body of accepted wisdom on the subject (Fjeldstad 2005: 11–12).

The question of IRS computerisation is equally vexing, as the government was able to create a fully computerised VATS, but was unable to achieve a similar feat at IRS. Officially the problem has been one of money. Given not only the costs of new equipment and software, but also the often underestimated costs of staff retraining, or of retrenchment and new hiring, computerisation is a costly exercise. Donors themselves confess to having shown relatively little interest in pushing this agenda forward, in part because donors had prioritised the functional integration of the tax agencies. Meanwhile, the government has been unwilling to fund the programme internally. In recent years the debate has apparently been between the Ministry of Finance and the IRS itself, with the IRS seeking funding from the Ministry and the Ministry looking to IRS to fund computerisation with the 3 per cent of revenue that it was recently permitted to retain from collections.

Yet cost alone seems an insufficient explanation, as rapidly expanding government revenue since 2001 has provided significant flexibility for the government. An additional issue lies in the major staffing changes that would likely result from computerisation, and the consequent presence of significant internal resistance to change (Bird and Zolt 2007). For example, it is likely that younger staff with computer training would immediately become more valuable, while older staff, viewed by many younger staff as ‘untrainable’, would ultimately be pushed aside. Thus, those older staff, and those with limited computer literacy, comprised a strong lobby against computerisation. Some within the ministry further contend that many of those staff held sway with the NDC government because they had supported the PNDC before being given posts at IRS during the expansionary early 1990s. This explanation is likewise attractive because it also accounts for the fact that VATS was computerised: as a new agency it did not face the same entrenched opposition to reform. The fact that the NPP government did not address computerisation early in the decade remains somewhat of a mystery, and may reflect the same concerns that slowed the process of functional integration. That said, progress on this front is apparent in a public tender for the computerisation of the tax agencies that should be completed prior to the 2008 election.

4 Evidence of state-society bargaining about taxation

We have thus laid out an expansive political economy explanation for the evolution of the Ghanaian tax system since 1983. While this is an important academic undertaking in its own right, the goal here is also to extend that understanding in order to consider the political *implications* of taxation with respect to the accountability of government. Evidence of a relationship between taxation and accountability is in some cases implicit in the political economy story recounted so far, and it remains only to state these connections explicitly. In other cases the story told so far sets the context for drawing conclusions, but additional information about the motives, perceptions and activities of civil society actors and political officials is needed. Different historical moments and different specific tax episodes seem to exhibit sharply different characteristics, so the most useful approach is to delineate several different dynamics, beginning with a consideration of the macro dynamics during the different historical periods defined previously.

4.1 Tax policy by decree 1983–1990

As has been argued elsewhere about structural adjustment reforms in Ghana generally, the tax reforms of the 1980s were conducted in an atmosphere of overwhelming government authority, and thus elicited very little response from the public, or from within the bureaucracy (Herbst 1993a; Martin 1993). The tremendous growth in revenue, remarkable in its own right, masks even greater volatility in the composition of revenue, highlighted most notably by the unprecedented surge in direct taxes from 1983–1988. Yet there was little or no public agitation or public input. Likewise, the administrative reforms from 1985–1988 were dramatic but advanced rapidly, in contrast to the difficulty that the government had in continuing the reform programme after 1991.

It is conceivable that the increase in revenue generation had more subtle impacts on the political awareness of citizens, gradually inculcating a greater feeling of ownership of the state, and thus strengthening the foundation for later political action (Moore 2008). Unfortunately, testing this claim would require extensive surveying of citizen attitudes, and such data does not exist. The next best option is to consider whether key political actors at the time perceive such a linkage, and the reality is that while policymakers from the period do allude to certain localised conflicts over taxation, they generally do not view taxes as a major motivator of later public agitation. What this suggests is simply that increased taxation did not, on its own, generate the political awareness to ensure accountable use of those revenues. The broader implication for theory is to acknowledge that sufficiently well entrenched governments certainly can, and do, raise tax revenue without generating effective countervailing political pressure.

On the other hand, this state of affairs did not persist indefinitely, tax protests did begin by the end of the decade, and, as tellingly, revenue generation did seem to be reaching an upward limit towards the end of the PNDC period. That said, it is also worth recalling that farmers, who are the single largest constituency Ghana, had largely benefited from reduced implicit and explicit taxation of cocoa, as well as other agricultural produce. While the lack of political organisation in the countryside makes it more difficult to assess the political feelings and significance of this group, the overall support enjoyed by the PNDC in rural areas seems to have been at least partly a product of changes in taxation.

4.2 Tax protests and democratisation 1990–1996

While democratisation in Ghana had many origins that are far beyond the scope of this paper (Boahen 1997), it is also clear that conflict over taxation helped fuel the movement for political liberalisation once it began to gain strength. Former PNDC leaders point to various anti-tax mobilisations among the early signs of growing political agitation, most notably mobilisations by traders who began to organise against taxes. In the words of one: 'The first time I felt political pressure was from the women who were going to Nigeria and bringing back plastic goods'. These women had been under-invoicing their customs receipts, and when the government tried to crack down the traders organised to resist. Likewise, the Ghana Union Traders' Association (GUTA), which now figures as a relatively significant political actor, was formed around mass protests in 1989 responding to new municipal market taxes.

Yet, more important than these early mobilisations were the responses to the fuel price increases of 1993 and to the introduction of VAT in 1995. As was already noted, the second fuel price increase in 1993 was rejected by the NDC controlled parliament due to popular opposition, and, more importantly in the long term, led the executive of the party to rethink the hierarchical nature of policymaking. More dramatic were the huge *Kume Preko* protests that greeted the introduction of the VAT in 1995, and left several people dead. Much more dramatically than the events surrounding the fuel tax, these protests made clear that the government could not continue to govern without opening the political process and inviting deliberation (Osei 2000).

The opposition parties, having boycotted the parliamentary elections, were instead led to take to the streets as a political strategy, forming the Alliance for Change. It is widely felt, even among members of the government, that the lesson for the government was that it was better off with these groups in parliament, and fully included, than excluded and out in the streets. Whether one believes that the 1992 elections were stolen or not, there is little question that the VAT protests provided an impetus for a more inclusive and open parliament after 1996. These protests also marked a watershed for the opposition, as they were the first time that the opposition was able to present a fully unified front, and such unity was, and is, a *sine qua non* of political success (Frempong 2007). Notably, these protests came *after* the first democratic elections in the country in 1992, suggesting that the process of democratisation and the process of building accountability centred on taxation are best conceptualised as mutually reinforcing processes.

Having noted the profound political importance of these protests, it is worth thinking about what exactly it tells us about taxes and accountability. The first lesson is that, in the view of those in the streets, the protests were not *about* the tax, so much as the tax was a flashpoint, or a spark, which helped to unleash and catalyse much broader grievances. The second lesson is that political parties and political elites loom very large. While the VAT protests involved upwards of 100,000 people, the leadership of the opposition political parties was at the very centre of these efforts, with Nana Akufo-Addo, the current NPP Presidential candidate, often cited as *the* leader among many. Whether or not the protests would have enjoyed anywhere near the same success in the absence of these leading politicians is very much open to doubt (Ninsin 2007).

4.3 Political decline and the inability to tax 1997–2000

Having learned the lessons of the previous four years, the newly elected NDC government adopted a more inclusive political style, while the opposition was welcomed into parliament, leading to a period of relatively more harmonious politics. Yet, as has been noted, the government experienced a progressively deepening fiscal crisis during the period, and was unable to raise the revenues necessary to close the gap. While the government was successful in re-introducing the VAT, and in raising the rate, it was not only unable to raise taxes on petroleum, but in fact found itself subsidising petroleum prices due to an inability to raise the government controlled price. The government of the time is adamant that it would have preferred to raise the price, and tax revenues, to close the fiscal gap, but was blocked at every turn by public opposition rallied by the NPP, a fact that was highlighted in the Budget Speech for fiscal year 2000.

When the newly elected NPP government was able to relatively easily implement these same price increases after its election in 2001, it became clear that the NDC government had been unable to close the fiscal gap in large part due to its growing unpopularity. Of course, this inability to close the fiscal gap forced reduced public spending, and this further undermined the popularity of the government. Does this represent a form of accountability through taxation? While somewhat unorthodox, it appears that it does, as a government that had become unpopular among taxpayers had its ability to govern systematically undermined by its inability to summon the political capital for taxation. In a world of undemocratic politics this would be relatively unambiguous in its public benefits, as an unhappy citizenry has an additional lever to weaken the government. In the context of elections the impact is somewhat more ambiguous, as those who pay taxes gain disproportionate influence. By refusing tax increases, or actively evading taxes, those taxpayers undermine the fiscal capacity, and thus the popularity, of the government, everywhere.

4.4 Democratisation and consent to taxation 2001–2008

Having seen the role that tax protests played in the push toward political openness in the early 1990s, the election of the NPP seemed to welcome a the opposite process, as democratisation facilitated new taxation. After 20 years of rule by the NDC, the election of the NPP marked a watershed in Ghanaian politics, as the willingness of the NDC to step aside peacefully provided new assurance of the democratic character of government, while the NPP made major strides towards greater openness. This feeling of political freedom that welcomed the NPP carried with it enormous political ‘goodwill’ often even among supporters of the NDC. The result was the enhanced ability of the NPP to pass what would otherwise have been controversial policies, most notably with the introduction of fuel price increases and new taxes. When asked about the surprisingly peaceful acceptance of these policies, which had seemed politically impossible to the previous NDC government, stakeholders across the political spectrum cite the willingness of citizens to grant the new government the benefit of the doubt and the resources to try to transform the country. Thus, while it would not be true to say that the NPP pursued political openness primarily as a means to expand taxation, the connection between political openness and the greater willingness of citizens to accept new taxes seems relatively clear and very widely accepted.

4.5 The reintroduction of the VAT and the spread of ‘earmarking’

The level of conflict surrounding tax policy declined markedly following the elections of 1996, and this fact was highlighted by the relatively peaceful reintroduction of the VAT in 1999. There is a strong sense among stakeholders that the greater openness of politics after 1996 was an important factor in reducing public opposition, including by getting the opposition parties out of the streets. This appears to be a sort of confirmation of the taxation accountability hypothesis: the tax protests of 1995 pushed the government towards political opening, and that political opening contributed to the relatively painless introduction of the tax in 1999.

The other crucial factor in reducing opposition to the reintroduction of the VAT was that the government was much more strategic in its implementation strategy, conducting widespread popular education and introducing the tax at a much lower rate, despite hidden intentions to hike the rate in subsequent years. This points towards the importance of government strategy in shaping the nature of the public response to taxation.

What of the introduction of increases in the VAT rate, linked to the GET Fund in 2000 and the NHIS in 2003? On the surface this looks like significant evidence of a strong link between taxation and public accountability. In order to gain public acceptance of the tax increases the government linked the new revenues explicitly to new public spending programmes, which enjoyed broad public support. While there were no major public protests, it is clear that the earmarking was a response to fears, fed by the experience of 1995, of major public protests.

Policymakers occasionally seek to provide a less opportunistic interpretation of the earmarking decision, but the overwhelming majority of evidence, including interviews with relevant officials, points to the fact that earmarking was a political strategy, rather than the preferred policy option. This is consistent with accepted thinking on the issue, which stresses that earmarking, while potentially useful politically, can have a significant negative impact on budget flexibility (McCleary 1991; Gwilliam and Shalizi 1999). It is theoretically possible that the governments in power preferred earmarking in order to ensure that their spending priorities would be maintained after their removal from power, but this rationale was not directly presented by any of those interviewed. It is likewise possible that parliamentarians preferred such earmarking because the creation of the funds moved oversight responsibility out of the Ministry of Finance, and thus out of the control of the executive, and under the purview of parliament. There is some evidence that that may have contributed to parliamentary support for the measures, but it appears to be of secondary importance given that the initial proposal came from the executive.

More important is the question of whether earmarking implies genuine accountability. Despite this appearance on the surface, many critics claim that such an interpretation is too optimistic, and that earmarking represents a cynical ‘gimmick’ with little practical import but significant effectiveness in disarming public opposition. The first ground for this complaint is the widely held observation, even within government, that funds are highly fungible. In the words of one person close to the issue, ‘instead of giving X amount to education, we give X-Y’, where Y is the amount of new earmarked funding. While this is clearly a risk in principle, is it borne out in practice? At an aggregate level the answer, so far, would seem to be no, as overall levels of funding for health and education have expanded significantly above the new revenues generated by the GET fund and NHIL respectively. That said, this trend in health spending is declining, and some projections suggest that the share of spending on health, outside of NHIS, will begin to decline in the years to come, suggesting an unfavourable substitution of NHIS for other sources of funding. What about the composition of funding? In the case of the GET Fund in particular, the new funds were to be explicitly used for infrastructure and scholarships, that is, non-wage expenditure, and thus we should be interested in whether non-wage expenditure has gone up as much as was anticipated. Here the story is less clear, as the share of non-wage spending in the core health and education budgets has fallen in recent years (Lawson *et al.* 2007). This implies some degree of fungibility in the use of the earmarked funds, as the government has been able to shrink non-wage funding in the core budgets due to the availability of alternative programme funds.

The second criticism is that the expansion of the health and education budgets may simply expand the scope for corruption and wastage, rather than producing real improvements in service. Put simply, the new earmarked funds will only be useful, and justified, if they are non fungible *and* they are used productively. This latter question then becomes a question about monitoring and oversight: does the earmarking of funds expand the capacity of government and civil society to ensure that the new funds are used productively? In terms of the formal institutions of accountability, the creation of earmarked funds, managed by appointed Boards of Directors, has largely removed those funds from Ministry of Finance oversight, replacing it with Board oversight and financial audits by the Auditor General. While it is beyond the purview of this study to conduct a detailed analysis of the relative merits of these strategies, it is clear that earmarking and the segmenting of oversight authority is inconsistent with what is considered best practice in financial management (Gwilliam and Shilizi 1999). Perhaps more tellingly, little attention seems to have been paid to this question by either internal or external actors despite the rapid escalation in the share of tax revenue subject to earmarking.

A more complex question is whether the earmarking of funds enhances the ability of civil society to exercise popular oversight. This might occur either because earmarking makes spending more transparent, and more clearly delineates what is acceptable, or because the creation of the Funds gives the question of expenditure greater salience with the public, and thus makes it more likely to elicit public reactions where funds are misused. Civil society leaders generally feel that oversight benefits exist, but are relatively modest, in part because the availability of information, on the basis of which to exercise oversight, remains problematic. In practice the evidence is equally mixed. The first two years of collection of revenues for the GET Fund saw many of those revenues unduly appropriated by the central government, as the GET Fund was slow in getting up and running, but this *did* generate a major public backlash. This led the government to agree to treat the retained revenues as a loan to be repaid to the Fund, providing grounds for claiming improved public oversight. Less optimistically, both the GET Fund and NHIS were slower than expected in getting up and running, the GET Fund has been beset by accusations that funds are being used beyond the originally prescribed purposes, and there is a widespread sense that management by the Board has not prevented some administrators, and Board members, from reaping significant personal benefits.

Consideration of the more recent earmarking of the talk tax for youth employment provides further grounds for some skepticism about the accountability inherent in such relationships. In this case, the promise that funds would be used for youth employment won the tax popular approval, but in practice the bill put in place provided very limited guarantees that this promise would be carried out. More problematically, this disconnect between theory and reality seems to have largely escaped public scrutiny. This speaks to the broader reality that while earmarking certainly provides evidence that at particular moments citizens *do* demand concessions from government in exchange for taxes, the fact that this occurs at the moment of policymaking is ultimately a relatively modest guarantee of *actual* accountability, in the absence of a civil society able and willing to oversee the long-term implementation of the promise.

4.6 Representative institutions and tax bargaining

The literature that motivates this research is focused on the extent to which the need for taxation may force governments to make reciprocal concessions to taxpayers through a process of implicit or explicit ‘tax bargaining’. The most often cited form of this hypothesis predicts that tax bargaining will contribute to the creation of representative institutions. This simplified story implies a one-way causal relationship, but there is an important strand of the literature that highlights a mutually reinforcing relationship between representative institutions and tax bargaining.

Levi (1988) proposes that governments may opt for the creation of representative institutions in order to reduce the transaction costs associated with bargaining over new taxation. In similar fashion, North and Weingast (1989) argue that large taxpayers in seventeenth century England were only willing to accept new taxation if parliament was also strengthened, as a stronger parliament allowed for greater oversight. In their model, representation was not the ultimate goal of taxpayers, but was, instead, an institution that facilitated tax bargaining by lending greater credibility to the promises made by the monarch.

The Ghanaian case provides evidence to support the claim that representative institutions may be both an outcome of tax bargaining and an institution that facilitates and shapes future bargaining. The evidence that taxation helped to generate pressure for democratisation, particularly during the VAT protests of 1995, has already been presented. Equally notable is that much of the subsequent tax bargaining was mediated through parliament, and would have almost certainly taken a very different form in its absence. The reintroduction of the VAT in 1998, which was accompanied by increasingly inclusive conduct by the NDC government, was made possible by the entry of the opposition into parliament, as this transformed the antagonistic protest politics of 1995 into a negotiated settlement. The subsequent earmarking of revenues from the two increases in VAT was much more likely in the context of a well defined institution in which bargaining could take place, and through which subsequent oversight could be exercised. While there is certainly grounds for concern that the quality of monitoring has been haphazard at best, this does not change the fact that parliament facilitated the bargain, and is the institutions that mandates what monitoring does occur. Thus, aside from facilitating tax bargaining, the Ghanaian case provides some evidence that the pre-existence of certain types of institutions may shape the particular characteristics of tax bargains that are likely to emerge.

4.7 Taxation and unions: accountability or corporatism?

A major recent focus of efforts at the IRS and VATS, which is equally being pushed by international organisations, is to expand the tax base by reaching a greater share of those working in the informal sector. Among these efforts three tax initiatives stand out: the introduction of taxes on public transport operators, the introduction of a Tax Stamp programme for small traders, and the introduction of a Flat Rate VAT for retailers, who now pay 3 per cent of turnover in tax, as a substitute for standard VAT accounting. Of these three, the first and last are particularly interesting because they involved explicit participation by leaders of the respective unions: the Ghana Public Road Transport Union (GPRTU) and the Ghana Union of Traders' Associations (GUTA).

The case of the introduction of taxes for public transport is summarised by Joshi and Ayee (2008), and amounted to an agreement with the GPRTU leadership that taxes would be collected by the union itself and then remitted to government. This agreement was based on taxes being collected on a daily or weekly basis, which was deemed less problematic for transport operators who were assumed to have a limited ability to accumulate wealth and make individual large tax payments. The GPRTU membership expected to benefit by being protected from the arbitrary assessment of penalties by the police and tax officials. This agreement was facilitated by the fact that the leadership of the GPRTU and the NDC government were close allies.

Yet, while Joshi and Ayee (2008) paint a relatively optimistic picture of this relationship, the reality seems to have progressively soured, particularly since the completion of their primary research around 2002. From the perspective of government, the union proved to be a less effective partner than had been hoped, as revenues failed to expand at the expected rate and 'checks and balances' were progressively eroded. Meanwhile, the membership of the union became increasingly disenchanted due to a feeling that the union leadership was pocketing much of the tax money that was being paid. In 2003 the agreement with the GPRTU was replaced by a Vehicle Income Tax (VIT), which mandated that every commercial operator would purchase a tax sticker from the IRS on a quarterly basis and display it on the windshield. The new scheme has, indeed, yielded significantly more revenue, while also being more popular with much of the membership of the GPRTU, which has found the scheme simpler and more effective for curbing abuses. This provides a slightly different retrospective on the original deal between the GPRTU and NDC. It suggests that while the original scheme was well intentioned, and helpful for initially bringing transport operators into the tax net, it evolved into a corporatist relationship in which the NDC gained the support of the union leadership by allowing them to retain collection power, the union leadership remained in the good graces of government by offering legitimacy to the tax, and individual operators were forced to accept a relatively high cost and increasingly corrupt system. It was only after the exit of the NDC that the tax system was regularised, reflecting the difficulty of transforming this relationship of mutual reliance.

The Flat Rate Scheme seems to reveal a similar relationship. The government was eager to introduce a turnover tax as a means to more effectively reach small scale retailers, but sought to negotiate the new tax with GUTA in order to head-off potential opposition. In this case GUTA was not interested in collecting taxes directly, but nonetheless gave a very public blessing to the new tax scheme, which seems to have significantly facilitated its implementation. So why would the leadership of GUTA so actively support a measure to increase the tax paid by its membership? One possibility is the reduced cost of compliance, but those involved point to two other factors instead: the desire to make a contribution to the welfare of the country, and the desire for the tax to be more equitably distributed.

While these desires are seemingly highly desirable, they mask a more nuanced reality. The expansion of the tax base was in the interest of the leadership, who wanted to find a way to ensure that smaller traders paid as much tax as larger traders, thus improving the competitive position of those large traders. This is consistent with relationships between formal and informal sector businesses observed elsewhere (Goldsmith 2002). As to the desire to make a contribution to national welfare, it is hard to imagine this being a primary concern for small retailers, and thus is often attributed to the political aspirations of the union leadership. Others go further, suggesting that the larger traders have a strong interest in maintaining a positive relationship with government as a means to improve their access to government contracts. Thus there is a strong sense that behind the appearance of a strong relationship of accountability is a relationship that is at least equally one of corporatism or co-optation. This does not imply a total absence of accountability, but does point to the need to be discerning in assessing the internal dynamics of what appear to be highly accountable relationships at a macro level.

4.8 Taxes as catalyst for the coalescing of civil society forces

At the heart of the research question being posed here is the issue of whether or not citizens are able to demand accountability in deciding what taxes are collected and how they are used. When this question is posed directly to leaders within the media and civil society the overwhelming response is a belief that civil society has very limited capacity in this regard. There is a sense that when the government raises new taxes those within the tax net have no choice but to pay, and from there the ability of citizens to exercise oversight is sharply limited. In more unguarded moments many prominent political actors are equally pessimistic in their outlook. The research challenge lies in how to interpret these answers.

The obvious conclusion is to take these answers at face value, thus casting doubt on the more optimistic findings reported so far about accountability centred on taxation. But a more sensible interpretation is to understand those responses as a reminder of the fact that taxation is, first and foremost, a coercive act by the state. It is not surprising that citizens and politicians alike thus perceive taxation in precisely this way. That, though, should not necessarily be understood as a refutation of the idea that taxation engenders some degree of accountability – it is simply that accountability in this relationship is a matter of degrees, in the broader context of a coercive relationship. It is entirely plausible that stakeholders will not think of taxation as an accountable relationship, but that taxation will nonetheless engender significantly greater accountability than if the government received its funds from, for example, oil rents. And if the need to raise taxes invokes such incremental gains in accountability, then this represents a very important finding. With this in mind it is instructive to look at the very narrow question of whether new taxes have served to catalyse the formation of civil society bodies, and whether those civil society bodies have, in fact, contributed to improvements in governance more broadly.

The prototypical example of this dynamic was the ability of the introduction of the VAT in 1995 to catalyse the unification of disparate opposition forces into the Alliance for Change. While the Alliance for Change did not itself last long beyond 1995, the unity brought about by its formation carried over to a more unified effort by the opposition in the 1996 and 2000 elections (Frempong 2007). This, though, is only one of several instances of civil society coalescing around opposition to new taxes.

An important venue for such unity has been responses by the business community to new taxes. The Association of Ghana Industries (AGI) has existed since independence, but has only re-emerged as a dominant political player, and arguably the most visible of the private sector bodies, since 1999. While political liberalisation has surely contributed to this growth, the leadership reports that the primary driving factor in AGI's expansion after 1999 was the need to respond to the VAT. It was not the VAT *per se* which concerned the manufacturers, but the fact that whereas sales tax had been collected after production, the VAT was collected on inputs at the point of import, only to be subsequently refunded after the final sale. While the total tax paid remained relatively constant, under the VAT a large share of the firms' working capital remained tied up due to what was effectively an advance payment of tax. The firms hoped to lobby the government to grant permission for tax compliant firms to be exempted from the upfront payment of taxes on inputs, on the assumption that full taxes would be paid after production and sale. This effort was ultimately successful, while the increased staffing and political assertiveness of the AGI has persisted far beyond the initial advocacy campaign. In a similar vein, the various business associations in Ghana came together to form an umbrella organisation, the Private Enterprise Foundation, in 1994, just as the VAT was initially coming on the radar as a major political issue facing business. Finally, the Ghana Union of Traders' Associations (GUTA) was initially formed as a response to new market taxes being imposed by the Accra Metropolitan Authority, coalescing around a series of major protests in 1990.

This said, there is an existing debate over the role of business association in Africa, with some painting them as important supporters of improved governance, while others see them primarily as rent seeking organisations (Goldsmith 2002). While it is beyond the scope of this paper to address this question in detail, the prevailing view in Ghana seems to be that while the leadership of these groups may enjoy certain special benefits, greater organisation has, on the whole, contributed to improved governance. AGI has emerged as an important voice pushing for more open political processes, and for improved economic policy generally, while GUTA has remained a major voice for retail traders, and has also become involved in various projects in the markets such as general education and outreach and promoting improved working conditions.

Outside of business associations, taxes have also played an important role in catalysing more radical mass opposition to the government. In these instances it is petroleum prices that have tended to have the most dramatic role, reflecting their very wide, and highly visible, impact on public welfare. Since the rejection of petroleum price increase by parliament in 1993, petroleum price increases have repeatedly been a catalyst for uniting opposition to the government in power. This finding is consistent with the limited academic literature pointing to the highly politicised character of fuel pricing and taxation across countries (Esfahani 2001; Gupta and Mahler 1995). At the centre of these mobilisations has been the Committee for Joint Action (CJA), which has united the minority parliamentary parties with more radical elements of civil society (the Alliance for Change also prominently included the leadership of the CJA). It has acted as a leading voice of discontent with government policy, and a leading body mobilising mass constituencies. It has demanded policies including political liberalisation, anti-corruption efforts, expanded public spending and reduced taxes. While its visibility over time has ebbed and flowed, its moments of strength have generally followed increases in petroleum prices. Thus petroleum price increases in 1998 vaulted the CJA to prominence as a replacement for the fragmented Alliance for Change. Petroleum price increases in 2001 saw more limited mobilisation, due to the goodwill welcoming the new NPP government, but price increases that eventually occurred in 2003 catalysed the renewed activism of the CJA in late 2002. At the end of 2007 the CJA led mass demonstration reputed to be the largest since the VAT protests of 1995, again against the backdrop of high petroleum prices, but with the demands of protesters stretching much more broadly. In the words of the leadership of the CJA: 'Taxes have always provided a focal point for public mobilisation. Have provided momentum for the resistance.' Similar to the argument presented in relation to the VAT protests in 1995, petroleum price increases seem to have acted as an effective spark for public mobilisation, which in turn focuses on a broader set of political concerns and demands.

An important analytical question is whether it is appropriate to treat changes in petroleum *prices* as equivalent to changes in petroleum *taxes*. From the perspective of a low income consumer the effect looks the same, but price changes are distinct because they are more volatile than taxes, and thus capable to eliciting more extreme responses. It seems fair to say that those extreme responses do tell us something about the mobilising potential of taxes in the abstract, but at the same time specific instances of political upheaval when only prices have changed obviously cannot be strictly attributed to taxes. Thus, for example, the 2007 protests are indicative of the ability of taxes to spur public protests, but are only attributable to taxation in so far as the protesters were able to distinguish taxation from the more general increases in prices. Recent mobilisations have sought to bring more attention to the tax component specifically, emphasising that while prices are determined in world markets, the government also maintains high taxes. While this remains a relatively recent advocacy push, the results were partially evident when the government announced in 2008 that it would be cutting taxes in order to provide relief from high prices.

4.9 The reach and visibility of central government taxation

While the analysis here presents significant evidence of different types of bargaining between taxpayers and government, there is a need to give more careful to consideration to two questions. First, rather than treating citizens as a homogeneous group, which groups within society are most affected? Second, how are the observed dynamics shaped by the particular characteristics of different tax types?

With respect to the question of who in society is most affected, it is important to begin with the observation that central government taxes overwhelmingly affect a relatively narrow elite. Income taxes have an obviously very narrow base, but even the VAT is less broad in its reach than might be expected due to the fact that tax exempt products make up a major part of those goods consumed by the majority low-income population. The one glaring exception to this generalisation about the narrowness of the tax base was the taxation of cocoa, which had a fairly broad impact on a large number of small farmers, although precise data is not readily available. It is precisely the broad incidence of export taxation that leads to the conclusion that the shift away from export taxation was an important aspect of Rawlings' strategy for securing a rural constituency, and stabilising his rule more generally (Nugent 1999; Martin 1993; Herbst 1993a).

With respect to tax types some taxes have dramatically wider bases than others. Likewise some taxes are much more visible to taxpayers than other, with for example, VAT and import duties often relatively invisible to the mass of taxpayers. VAT is made less visible in part due to the fact that retailers and producers remit the tax, as opposed to individual taxpayers, which is the classic argument for expecting indirect taxes to elicit more limited political responses (Moore 1998;

Lieberman 2002). Less commonly cited is the fact that small shop owners, from whom the majority buy many of their products, do not directly pay VAT either due to their low turnover, which further disguises the tax despite the fact that VAT is nonetheless included in the price due to payments further up the value-chain.

If we follow theory these factors would predict two broad aspects of accountability around taxation. First, that it will have a strong elite bias due to the narrowness of the tax base, and the consequent fact that the government overwhelmingly relies on a small segment of the population for its fiscal well being. Second, that narrow taxes will prompt elite based responses, broad based and highly visible taxes will prompt broad based responses, and broad based but relatively invisible taxes will only prompt a major response where additional factors contribute to popular mobilisation.

Ultimately, these predictions match the evidence in Ghana remarkably well, and present an important addition to the findings reported so far. Most importantly, there is strong evidence of a powerful elite role in much of the story told so far. The most important example is the VAT protests of 1995. These protests brought masses of people into the streets, but the mobilisation was led by opposition political elites. When the VAT was reintroduced in 1999, by which time the opposition had partially abandoned such confrontational politics, there was much less public mobilisation. Ninsin (2007: 94) argues rather bluntly that, ‘A probable explanation is that those sporadic mass actions were part of the opposition politics of the moment whose aim was either to force the NDC government to liberalise further or be removed from power. They were therefore not driven by citizens’ free will to effect policy changes.’ While Ninsin’s claim seems somewhat overstated, there is no question that the protests would not have been what they were without elite leadership, and many attribute this at least in part to the degree to which the VAT is invisible to many citizens. In fact, some government officials are transparent about the fact that they rely so heavily on indirect taxes not only because they are easier to collect in technical terms, but because they are less likely to arouse popular resistance.

Likewise, the Committee for Joint Action has recently become widely recognised as the preeminent voice of mass protest in the country, particularly as relates to taxation. Yet during both the NDC and NPP periods the CJA has been a joint effort of non-governmental civil society actors and the major opposition political parties. Given the profound differences in the interests and objectives of those two groups, it is difficult to understand that uneasy coalition as anything other than a capitulation to the reality that the involvement of elites from within the political establishment is a necessary component of effective mass mobilisation.

By sharp contrast, and consistent with theory, petroleum taxes, with a wide base and relatively high degree of visibility, emerge as the most consistently politically volatile tax in Ghana. The rejection of new taxes in 1993, consistent efforts by the CJA to use petroleum taxes to mobilise mass public support, and the prominent role of fuel prices and taxes in undermining the fiscal positions of the NDC in the late 1990s, are all consistent with this story. That said, even here there are caveats about the visibility of taxes. Most importantly, petroleum *prices* are extremely visible, and have consistently been a major political issue, but even direct consumers of petroleum often find it difficult to distinguish the share of *tax* in the total price. The difficulty that consumers face in distinguishing between price increases and tax increases is made very apparent by the fact that the NDC governments in the early 1990s, and the NPP government since 2001, have successfully used rising world prices as cover for increases in taxes as well. Thus, while one might expect government to cut taxes when world prices increase, and increase taxes when prices decline, the opposite has often been true. It has been possible for governments to attribute higher prices entirely to world prices, and thus create an added barrier to public mobilisation.

Finally, a further manifestation elite bias in this relationship lies in the fact that taxpayers have been less willing to comply with taxes, or to accept new taxes, when the government is unpopular, whereas compliance increases when the government enjoys political goodwill. As a result large taxpayers enjoy some capacity to undermine a government by undermining its fiscal health. Put another way, the ability to avoid taxation gives large taxpayers a policy lever that is not available to those who pay little or no tax. These large taxpayers may well employ that leverage in order to press for reforms with broad benefits, and this seems to have been the case in Ghana where growing unhappiness with the NDC government was driven to a significant degree by a desire for greater political openness. The point being made here is simply that in the presence of a narrow tax base, the link between taxation and accountability seems to operate disproportionately between government and the relatively small minority who pay significant taxes.

4.10 Broad taxes versus narrow taxes

Having noted that the vast majority of central government revenues come from a very narrow tax base, it is reasonable to wonder why governments would ever take the politically risky step of widening the tax net. Judith Tendler (2002) describes a ‘devil’s deal’: ‘If you vote for me, according to this exchange, I won’t collect taxes from you.’ Yet government’s have long relied to some degree on broad based petroleum taxes, and are increasingly emphasising new taxes to broaden the tax base. While somewhat tangential to the research question posed here, the spread of broader based taxes does tell us something about the politics of taxation and the dynamics of accountability.

Petroleum taxes seem to be easily explained by the fact that they are tremendously easy to collect, and thus become an important source of revenue when government is relatively desperate. Thus of the three large increase in petroleum taxes, two occurred during periods of significant fiscal distress, while the third was highly opportunistic following the Gulf War. The first desperation increase followed the massive deficits associated with the elections in 1992, while the second followed the arrival in power of the NPP amid a large debt burden and strict fiscal conditions under HIPC. The talk tax shares some commonality with this rationale as it is very easy to collect, will yield significant revenue, and seems to have been somewhat of a desperation fiscal measure. The tax has been introduced much more hastily than many, even within the party, would have liked, reflecting a sense of urgency in raising revenues to maintain reasonable fiscal balance in the face of escalating election year spending.

How, though, to explain more challenging tax initiatives to expand the tax base, but which yield relatively little revenue? In this category we might include the introduction of the Tax Stamp programme, the taxation of public transport operators and other informal sector groups, the Flat Rate Scheme, and the decision, taken in 2003, to lower the VAT threshold. To take the lowering of the VAT threshold as an example, it runs contrary to prevailing best practice due to the high cost of the small revenue gains, and for this reason it did not find intellectual support within the VAT administration. So why did the government move ahead with such a potentially unpopular policy?

Ultimately it appears to be the formal sector business community that emerges as perhaps the single most significant lobby in favour of broadening the tax base. For them the logic is simple: it levels the competitive playing field, while over time a broader tax base is expected to lead to lower rates for existing taxpayers. Since 2001 this dynamic has been manifested in a relatively public bargain between the formal sector business community and the government: firms have been increasingly tax compliant, in exchange for government efforts to expand the tax base and, as total receipts increase, to lower rates. The case of GUTA and the Flat Rate Scheme bears a close resemblance to this general trend: the Flat Rate Scheme is expected to close some tax loopholes that were being exploited by larger retailers, but those retailers are willing to cooperate in exchange for the benefits of a wider tax net. As was noted earlier, this logic is broadly consistent with the findings reported by Goldsmith (2002) in one of the few broad surveys of business associations in sub-Saharan Africa.

An interesting implication of this logic is that a government which is able to bring the formal sector very securely into the tax net will thus create a constituency for widening the tax net and improving administration. By contrast where taxation of formal sector taxpayers is unreliable, business associations are less likely to get on board with efforts to strengthen compliance. It seems highly plausible that the aggressive efforts of the Rawlings regime in the 1980s to establish a strong taxpaying ethic among formal sector businesses may now be yielding rewards in terms of business community support for improved tax administration.

5 Conclusions

It is well accepted that despite its technical complexity, taxation is also a profoundly political activity, and the evidence presented here strongly confirms this basic observation. Part of the contribution of this research has thus been to add significant detail to our understanding of the political economy of taxation in Africa, a topic which has received relatively scant, though increasing, academic attention.

Yet this research has sought to go a step further and ask whether there is evidence that efforts by the government to raise tax revenue give rise to countervailing pressure from citizens for expanded political accountability. This question has received positive support from historical studies of Europe and the United States, but contemporary evidence from the developing world is extremely limited. The evidence that is more commonly cited by advocates of the theory is cross-country statistical evidence purporting to show that various measures of accountability improve as taxation increases. The trouble with this analysis is that it looks at the question at such an aggregated level that it leaves a host of more nuanced questions unanswered, and is forced to make significant leaps of analytical faith.

This study has attempted to address these weaknesses by looking at the politics of taxation at the micro level, and by asking whether the story that presents itself is consistent with the theory in question. In doing so the research has implicitly asked two questions, the first of which is an intermediate step to the second. First, is there evidence that the ability of the government to raise taxes is fundamentally tied to the broader state of politics, and of state-society relations? Second, is there evidence of particular instances where the need to raise taxes has created discernible pressure for increased public accountability?

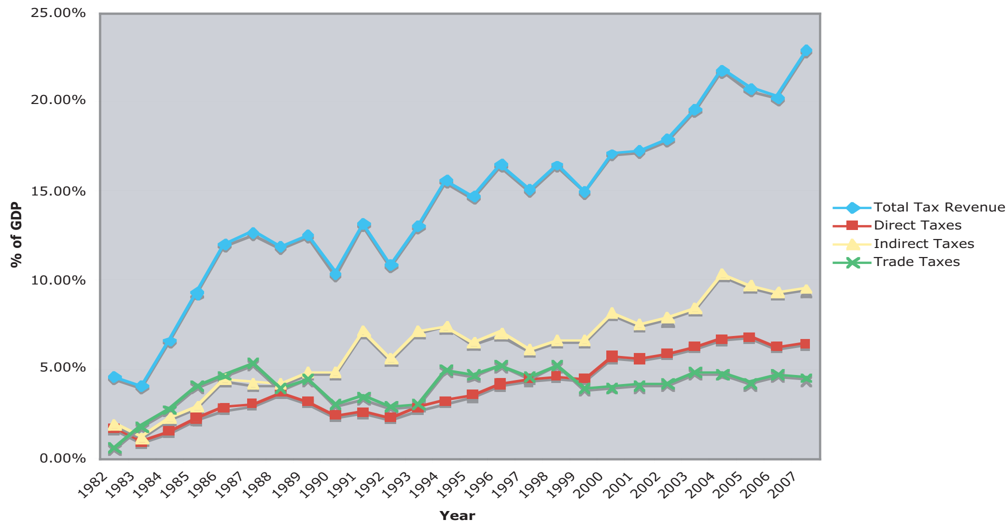
On the first question, this research has clearly demonstrated that the political dynamics surrounding taxation are profoundly linked to the state of politics more generally, and that taxation is thus a powerful lens through which to view the political evolution of a country. When the PNDC government was most strongly entrenched in power, and while the 'revolution' still had popular momentum, the expansion of taxation was dramatic and faced little overt public opposition. As politics began to open in the early 1990s, taxation became more difficult and contentious. When political conflict peaked in the wake of the contested elections in 1992, conflict over taxation became one of the most important flashpoints of this conflict. After the elections of 1996 parliamentary politics became more institutionalised, and this facilitated the efforts of the NDC government to advance certain tax initiatives in a more harmonious fashion. Yet it was also during this period that the NDC began to lose the popular initiative, and as the citizenry lost confidence in the government and began to long for change, the government found itself fiscally hamstrung, unable to generate support for increasing revenue. Finally, the election of the NPP brought with it vast 'public goodwill' among a population eager for a change, and armed with this popular initiative the government was able to pursue dramatic increases in public revenue generation. Even the evolution of administrative reform seems to have followed a broadly similar path. If the question is whether citizen perceptions of politics are closely intertwined with their willingness to pay taxes, the evidence from Ghana seems to be overwhelmingly in the affirmative.

Does this then imply that government efforts to raise tax revenue have been a *cause* of greater public accountability? The basic answer is that, yes, the challenge of raising tax revenue has forced processes of implicit and explicit bargaining between state and society, and has been an important factor in causing political change. Most tellingly, two of the most important political moments of the first NDC government – the first bill rejected by parliament, and the first bill repealed due to public opposition – both centred on taxation and both had profound implications for the governing strategy of the ruling party. There are several other instances in which tax conflicts seem to have been a driver of big political processes. Tax protests by small traders were among the first signs of popular resistance to the PNDC. Progressive governments have only been able to pass new tax laws by earmarking the funds for popular public spending programmes. Conflicts over taxation have catalysed the formation or strengthening of several important civil society bodies from business associations to radical protest movements. And the inability of the NDC government in the late 1990s to raise revenue in the face of public opposition was a crucial reinforcing factor in its electoral loss in 2000.

But while there appears to be an important relationship between taxation and accountability, it is equally important to note that the particulars of that relationship vary dramatically based on contingent factors. These include the broader state of politics, the role of elites, the mobilising capacity of civil society, the motives for the tax increase and the type of tax in question, among others. The 1980s provide clear evidence that a sufficiently entrenched government can and will expand taxation without it arousing major popular opposition. The dramatic revenue gains since 2001, which have aroused very little public attention, likewise provide cause for reflection. While public goodwill provided the support necessary for these policies to succeed, many argue that public goodwill virtually eliminated the critical role of civil society in overseeing government actions more broadly, with consequences for accountability. The relative absence of continuously active and well-informed engagement in tax policy is also apparent in the various examples of tax earmarking, which so effectively quieted public opposition. While earmarking created a clear *appearance* of accountability, actual accountability in this scenario is less certain, and reliant on the continued oversight role of citizen groups. And on this count leaders within civil society express significant skepticism, raising the specter of politicians who are able to pass new tax initiative by using creative ‘gimmicks’ and effective propaganda, but who, having passed the laws and placed the structures in place, effectively have free reign in spending. Finally, it is worth noting the extent to which public mobilisation seems to be frequently mediated by elite political forces, casting doubt on the independent ability of citizen groups to effectively demand accountability around taxation. Ultimately, there is no doubt that taxation has sometimes become a catalyst for public mobilisation, and for forcing the government to make important concessions to the public interest, but this outcome has been far from guaranteed. This research has begun to point to the factors that seem to shape particular outcomes, though this is a question that demands continued research.

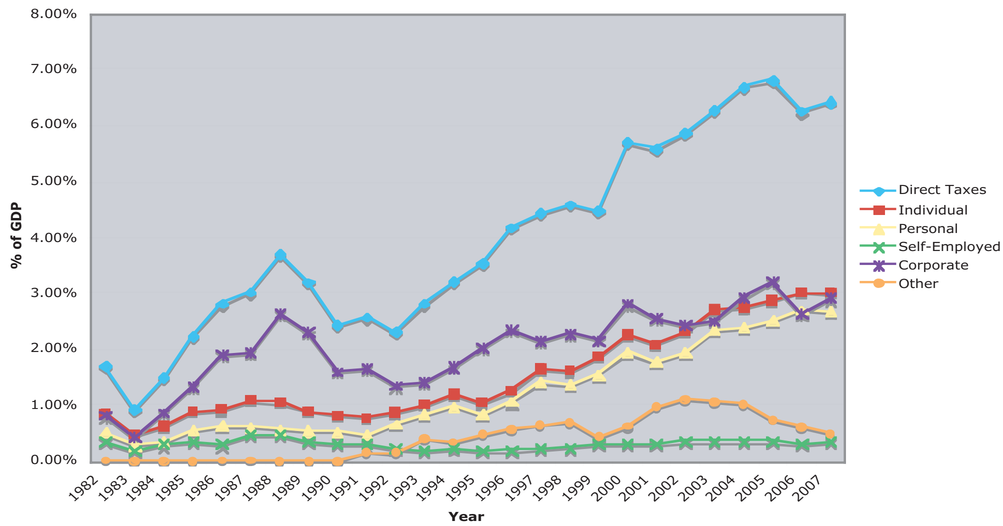
Appendix

Figure A.1 Total tax revenue by component, 1982–2007



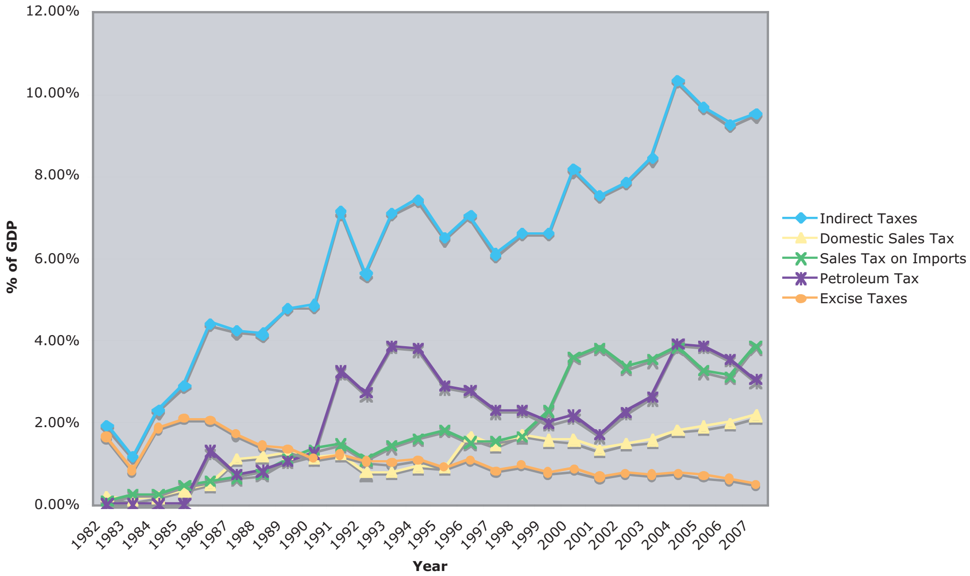
Source: Annual budget figures

Figure A.2 Direct taxes by component 1982–2007



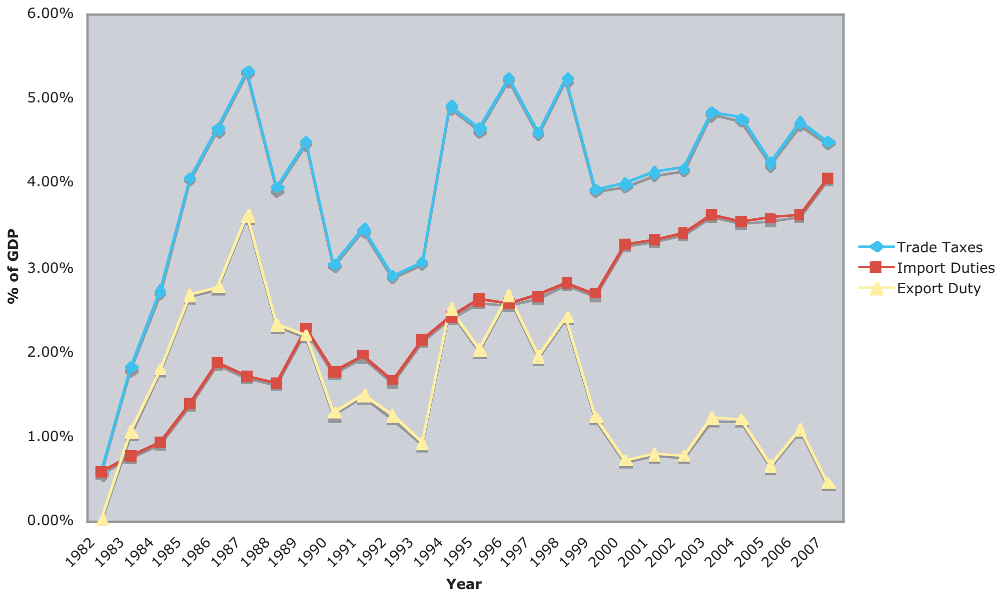
Source: Annual budget figures

Figure A.3 Indirect taxes by component, 1982–2007



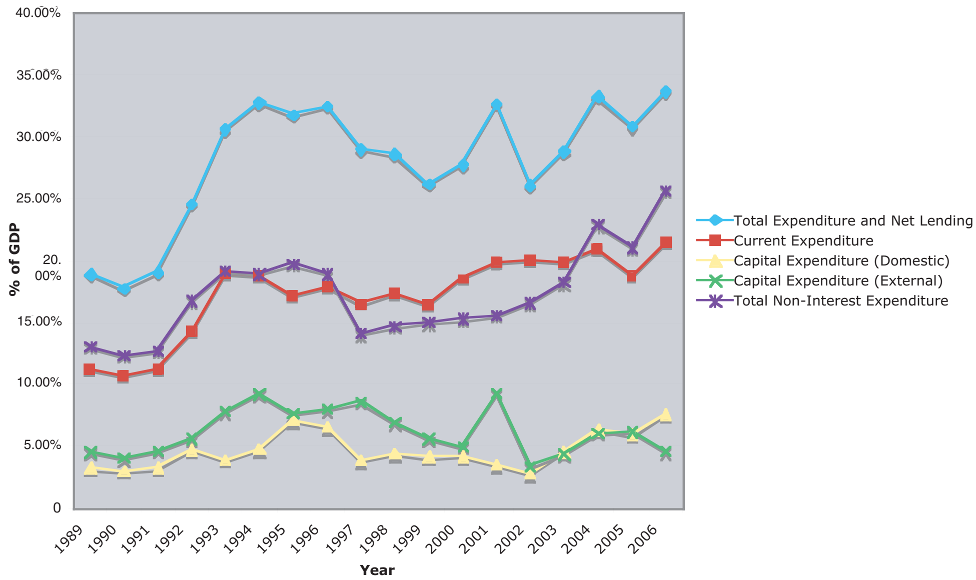
Source: Annual budget figures

Figure A.4 Trade taxes by component, 1982–2007



Source: Annual budget figures

Figure A.5 Expenditure by category, 1989–2006



Source: IMF Statistical Appendices, supplemented by annual budget figures

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