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The Politics of Taxation and Implications for Accountability in Ghana 1983-2008
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Introduction

This paper forms part of a three country study of the political economy of taxation and its relationship to accountability in Ghana, Kenya and Ethiopia. It investigates the hypothesis that a government that relies primarily on tax revenues is more likely to be accountable to citizens. It first looks at the political economy of taxation in Ghana from 1981 to identify key moments for further study, and to supply the political context for events; and then asks whether this provides evidence of successful demands for greater accountability i.e. for a form of fiscal contract. It finds evidence of an important relationship between taxation and accountability, but also that the particulars of that relationship vary dramatically based on contingent factors.

Political economy of taxation in Ghana, 1981-2008

This part of the research clearly demonstrates that the political dynamics surrounding taxation are profoundly linked to the state of politics more generally, and to state-society relations. When the PNDC government was most strongly entrenched in power (1983-87), and while the "revolution" still had popular momentum, the expansion of taxation (much of it due to increased cocoa production, but also to big increases in corporate and personal taxation) was dramatic and faced little overt public opposition. This was despite the fact that Citizens Vetting Committees enforced tax compliance coercively and sometimes extra legally. 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, taxation became one of the most important flashpoints, including a public outcry over increases in the petroleum tax in 1993, and major protests that forced the government to withdraw introduction of VAT in 1995.

After the elections of 1996, the opposition ended its boycott of parliament, and politics became more institutionalised. This helped the NDC government to implement tax initiatives in a more harmonious fashion, including reintroducing VAT and subsequently raising its rate. They took deliberate action to reduce public opposition to the increases, including a major public education campaign, and strategic earmarking of funds (e.g. for education, to counter student opposition). Nevertheless, as the NDC government began to lose public confidence, and the NPP opposition rallied its supporters, government was unable to counter a worsening fiscal situation, and notably unable to raise petroleum taxes or prices. The situation was reversed with the election of the NPP in 2000, which enjoyed vast public goodwill among a population eager for change. This allowed the government to pursue dramatic increases in public revenue generation, including significant increases in both petroleum prices and taxes, with relatively little public resistance. Subsequent measures included the National Reconstruction Levy on financial institutions, the National Health Insurance levy, and a talk tax on mobile phones (once again earmarking -- for health and youth unemployment -- was used as a political strategy to lessen opposition). In summary, the evidence shows clearly that citizen perceptions of politics in Ghana during this period were closely intertwined with their willingness to pay taxes.

State-society bargaining about taxation, and links to representative institutions

The paper moreover argues that the challenge of raising tax revenue in Ghana has been a cause of greater public accountability: it forced processes of implicit and explicit bargaining between state and society, and helped to fuel the movement for political liberalization once it had begun to gain strength. Tax protests by small traders were among the first signs of popular resistance to the PNDC. Most tellingly, two of the most critical political moments of the first NDC government -- the public outcry over petroleum tax in 1993, and the resistance to VAT in 1995 -- both centred on taxation and helped provide the impetus for a more inclusive and open parliament after 1996. This in turn facilitated new taxation. Conflicts over taxation catalysed the formation or strengthening of civil society bodies, which have contributed to improvements in governance more broadly. For example, the introduction of VAT in 1995 stimulated formation of the Alliance for Change, and contributed to more unified opposition efforts to contest the subsequent elections. The primary driving factor in the expansion of the Association of Ghana Industries (AGI) after 1991 was an (ultimately successful) effort to get tax compliant firms exempt from upfront payments of VAT. The new political assertiveness of the AGI persisted far beyond the initial advocacy campaign. The Ghana Union of Traders Associations 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.

But while there appears to be an important relationship between taxation and accountability, the particulars of that relationship vary significantly 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. Moreover, while public goodwill helped to generate dramatic revenue gains from 2001, it may also have reduced the critical role of civil society in overseeing government action more broadly. The fact that progressive governments (notably the NPP from 2001) have been able to pass new tax laws only by earmarking funds for popular programmes provides evidence that at particular moments citizens do demand concessions from government in exchange for taxes. However this may ultimately do little to ensure actual accountability for productive use of such funds. Finally, the paper notes that the extent to which public mobilisation seems to be frequently mediated by elite political forces casts doubt on the independent ability of citizen groups to effectively demand accountability around taxation.

Implications for policymakers

There is growing interest, both among tax officials and politicians in Africa and among international donors, in links between taxation and accountability. However, much of the existing evidence for such a link in contemporary developing countries has been based on cross-country statistical evidence, rather than on detailed country level analysis. This research provides important evidence in support of the taxation-accountability hypothesis generally, and also insights into the contingent factors that appear to shape particular outcomes in individual cases.