

# Building the Social Contract: Taxation in Urban Nigeria

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## The Survey

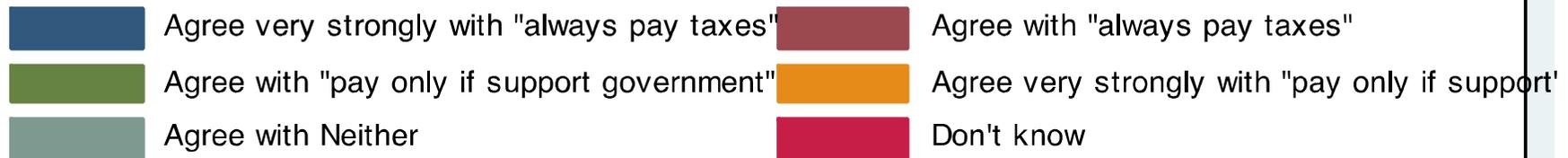
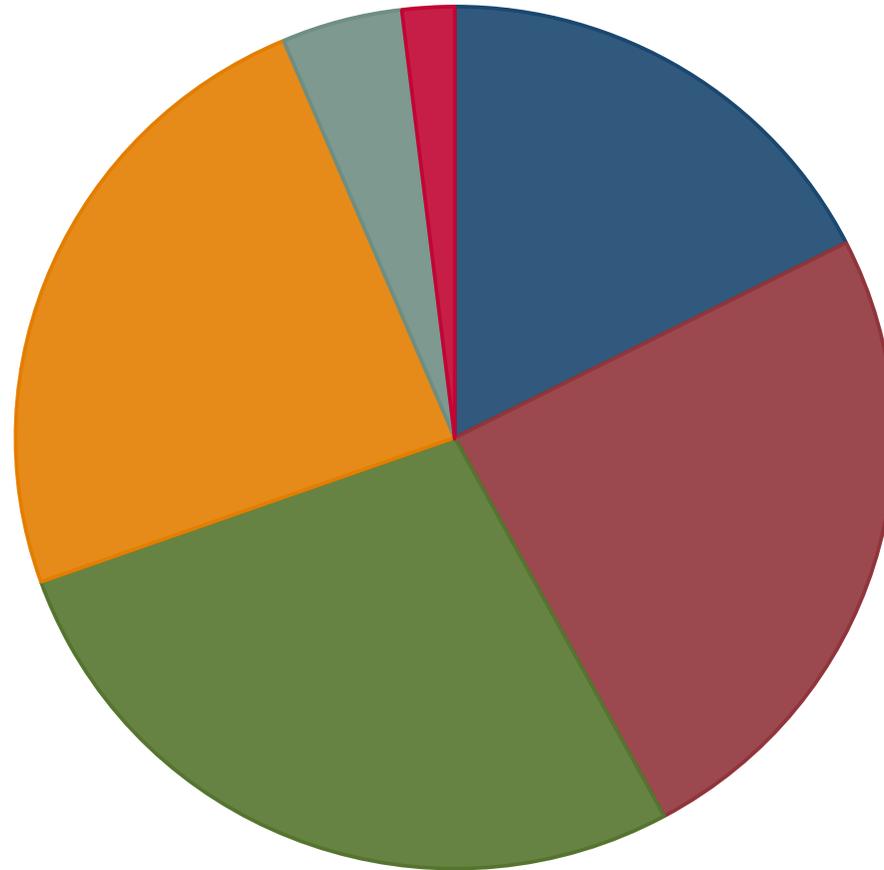
- Survey of 2750 respondents in 11 Nigerian cities. Stratified sampling of EA within city; random walk selection of households; forced gender parity.
- Cities in sample: 3 SE (Aba, Enugu, Onitsha), 2 SW (Lagos, Ibadan), 3 Middle Belt (Jos, Kaduna, Lafia), 3 Northern (Kano, Sokoto, Bauchi). Represent range in terms of demographic composition, riot propensity, budget reliance on taxation.
- Survey contains expansive module on taxation (largely neglected by Afrobarometer).

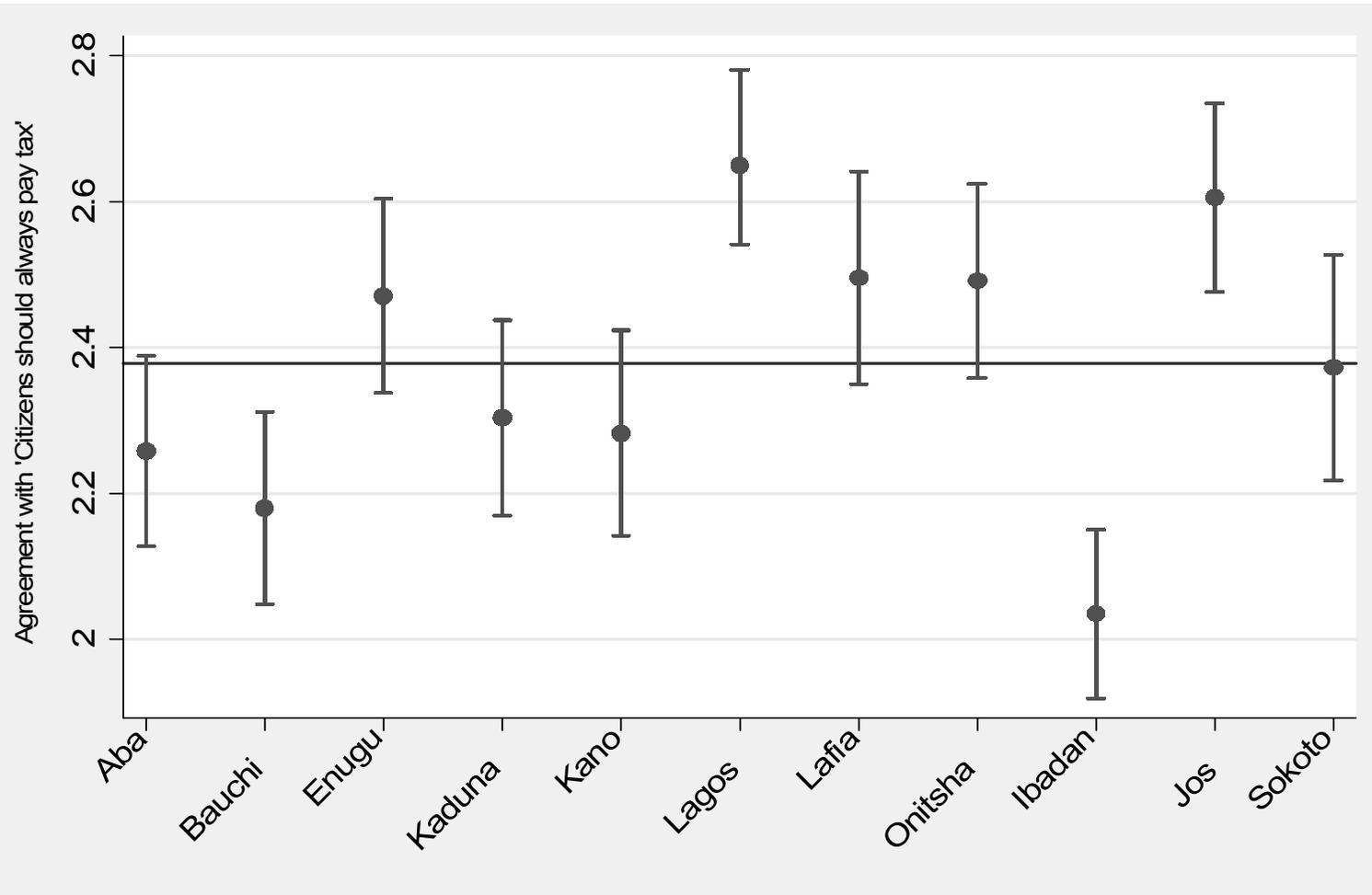
# The Project

- *Our starting point:* Taxation is the basis of accountable government and can promote growth. It is easier to collect taxes in contexts of “tax morale” (abstract support for the government’s right to tax).
- *Our findings:* Demographics don’t matter (mostly); political support doesn’t matter. Instead, individuals support taxation – and pay taxes -- when:
  1. *They have seen the government supply public goods (they live in an area where road were built, schools were built, etc)*
  2. *They live in areas where there is a concrete need for state services or state protection (this is more complicated).*

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- We first look at normative orientation toward tax. Agreement with (A) “Citizens should always pay their taxes, even if they disagree with the government” or (B) “Citizens should only pay taxes if they believe in their government.” Roughly 40 percent of the sample agrees with (A) strongly or very strongly.
  - We then look at actual tax payment. Hard to get at tax payment directly (in the 2008 Afrobarometer, over 80 percent of respondents believed surveyers were sent by the government). But over 42 percent of our sample volunteered that they had paid no taxes.

## Attitudes of Urban Residents toward the State's Right to Tax





**Graph 1: Variation in Unconditional Support for Tax Payment across Nigerian Cities**

# Who believes in the social contract?

- Governments have the power to create social contract attitudes: Individuals who expressed satisfaction with how state governments spent tax revenue were 37 percent more likely to express support for the social contract. Living in an area with a public goods project increased support for taxation by 26%.
- Gaps in private goods provision creates demand for the social contract: individuals who lived in hostile communities were 27% more likely to express pro-tax attitudes than those who described communal relations as “harmonious”

Table 1. Ordered logit model of individual level determinants of attitudes toward taxation

		Private Goods Model 1	Club Goods Model 2	Public Goods Model 3	Full model Model 4
H1	Co-partisan with state governor	0.209 (0.092)**			0.153 (0.091)*
	Member of the president's party	0.006 (0.090)			
H2	Diversity of individual networks		0.244 (0.154)		
	Indigene status		0.034 (0.099)		
	Community relations		-0.153 (0.039)***		-0.207 (0.036)***
	Safety when meeting strangers		0.047 (0.050)		
H3	Satisfaction with revenue spending			0.190 (0.049)***	0.201 (0.050)***
	Specific spending on public goods in individual's state			0.106 (0.024)***	0.100 (0.025)***

Note: Robust standard errors in parentheses; \*\*\*  $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.10$ . Models include city fixed effects; controls for the individual's ethnic group, religion, age, occupation, socioeconomic status, religiosity, meeting with public officials, and education; robustly significant (but unreported here): interest in public affairs (negative), direct contact with corruption (positive).

# Controls

- In accounting for attitudes toward the social contract, base demographics (education, socioeconomic status, religion) consistently have no significant effect.
- Hausa ethnicity positively associated with attitudes toward the social contract, but robustness uncertain.
- Really odd and interesting findings on “contact hypothesis”: does contact with the state always increase pro-tax attitudes? Those who reported paying a bribe in the past year were 20% more likely to say that individuals should always pay tax.

# Who pays taxes?

- Attitudes toward tax payment have a strong and significant effect on actual behavior. Those who believe in the state's right to tax are 18% more likely to report that they paid tax.
- Public goods and government performance does not directly boost tax payment. Reporting poor community relations and meeting with a government official both increase tax payment (about 10% for each).
- Paying a bribe continues to show up as a significant factor. Those who paid bribes were nearly 22% more likely to have reported paying taxes.



# Conclusions for Policy-Making

- Good government performance creates abstract support for paying taxes. If people believe they *should pay* taxes, they are more likely to pay taxes.
- Community relations affect taxation – but not in the way we expect. Those who support incumbents (or who are co-ethnics with those in power) are not more likely to support government’s right to tax. Those who live in conflictual environments support the state’s right to tax.
- This study provides no direct evidence about the costs or benefits of increased tax enforcement. Studies in other countries have shown that monitoring is less efficient than increasing “tax morale” in boosting revenue.

## Determinants of Tax Payment

		Private goods	Club goods	Public goods	Combined	w/contract
taxpay	Partisan gov	0.012 (0.112)				
	Partisan pres	-0.042 (0.108)				
taxpay	Netwrk diversity		0.308 (0.192)			
	Indigene status		-0.125 (0.118)			
	Communal rels		-0.160 (0.051)***		-0.202 (0.045)***	-0.176 (0.046)***
	Safety (stranger)		0.072 (0.054)			
taxpay	Revenue spend			0.023 (0.056)		
	Concrete goods			0.062 (0.027)**	0.046 (0.026)*	0.024 (0.028)
	Social contract					0.228 (0.047)***
R2_A		0.122	0.138	0.110	0.131	0.142
N		2,358	1,865	2,158	2,324	2,196

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

Table 2. Substantive effects – Average Marginal Effects of Independent Variables

		Strongly agree with statement A: Citizens should always pay their taxes, even if they disagree with the government	Strongly agree with statement B: Citizens should only pay taxes if they believe in the government
<b>Model 4 – Table 1: Key variables</b>		<b>Predicted Probability (p)</b>	
Co-partisan with state governor (range 0 to 1)	0 (no)	0.181	0.260
	1 (yes)	0.204	0.233
	% Change in p (X: 0 to 1)	12.7%	-10.3%
Community relations (range 1 to 5)	2 (hostile)	0.231	0.2
	4 (cordial)	0.167	0.271
	% Change in p (X: 2 to 4)	-27.7%	35.5%
Satisfaction with revenue spending (range 1 to 4)	1 (not at all satisfied)	0.155	0.291
	3 (somewhat satisfied)	0.213	0.218
	% Change in p (X: 1 to 3)	37.4%	-25%
Specific spending on public goods in individual's state (range 0 to 7)	0 (none)	0.16	0.283
	3 (3 distinct projects)	0.203	0.228
	% Change in p (X: 0 to 3)	26.8%	-19.4%
<b>Model 4 – Table 1: Other statistically significant variables</b>			
Direct contact with corruption (range 0 to 1)	0 (no)	0.182	0.258
	1 (yes)	0.219	0.216
	% Change in p (X: 0 to 1)	20.3%	-16.2%
Interest in politics (range 1 to 4)	1 (not at all interested)	0.216	0.218
	3 (somewhat interested)	0.186	0.252
	% Change in p (X: 1 to 3)	-13.8%	15.5%