

## State-building, democracy and taxation: Why Ireland will never be Sweden

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Sweden is often held up as a model of institutional development, while Ireland has faced persistent governance problems, particularly in the area of taxation. Why is this the case? Our paper investigates how different pathways of institutional development, and in particular democratization at different levels of state capacity, help to explain these different outcomes. While Sweden was a highly effective state before it democratized, particularly in terms of its ability to monitor its population and collect taxes from them, the Irish state was not as effective in either of these functions, with long term implications for its ability to collect tax up to the present. Our conclusions suggest that what matters for beneficial social outcomes is not democracy *per se*, but the timing of democracy in state development.

### Introduction

Sweden is often held up as a model of institutional development: a strong and effective state that consistently delivers some of the best human development outcomes for its citizens. The Swedish state is one of the least corrupt, most effective, highest taxing, and most expansive providers of universal public services like education, healthcare and transport. By contrast the Irish state has faced persistent governance problems, currently ranking 25<sup>th</sup> in the world in the 2012 Transparency International CPI rankings, with limited universal services in areas such as healthcare, persistent problems with fiscal discipline (most acutely in recent years) and one of the lowest tax yields in the OECD. What accounts for these differences? How did Sweden become such an effective state and why has Ireland failed to become as effective?

This paper addresses these questions by looking into the long term institutional origins of both states, to argue that they took very different pathways in becoming the states they are today. In particular the paper focuses on the different sequences of institutional development they followed as a result of democratizing at different levels of state capacity. We argue that Sweden was a highly effective state before it democratized, particularly in terms of its ability to monitor its population and collect taxes from them. By contrast, the Irish state, through its experience of colonial rule, was not as effective in either of these functions. These differences, before democratization happened, had already set

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these states on different pathways that are still evident in their institutional performance today.

The examples of Ireland and Sweden illustrate the importance of looking not only at the ‘ingredients’ for good government but also different ‘recipes’ states have followed. While high state capacity and democracy are both seen as essential ingredients for good governance (Kaufman et al 2000), states can differ in the timing and strength of these processes. As Samuel Huntington first described, the experience of ‘reverse sequencing’ – democratizing before the state is strong – may not lead to the same outcomes as democratizing after the state has become a Leviathan (Huntington 1968). The examples of Ireland and Sweden described in this paper would seem to confirm his intuition.

The paper proceeds as follows: in the next section we review the existing debates on what properties of institutions matter for human development, focusing in particular on the debate about sequencing. In the following sections we then contrast the institutional development of the Swedish and Irish states in terms of their ability to collect tax. We conclude with some reflections on the implications of our argument for contemporary governance performance.

### **State-building and democracy: The Importance of Institutional Sequencing**

Social scientists have long wrestled with the question of how societies achieve and sustain efficient outcomes. Some, such as Thomas Hobbes (2005 (1651)), argue that to sustain efficient collective order individuals must agree amongst themselves to create an external agent with the authority and ability to enforce it. Others, like Montesquieu (1984 (1748)), underscore the welfare-enhancing properties of the ‘tying the king’s hands’. In modern parlance the first problem is known as a collective action problem, and the second one as the credible commitment problem.

In recent academic and policy debates, Montesquieuan interpretations would seem to have become dominant. A large democracy-promotion literature argues that through participation, voice and accountability citizens can effectively constrain – or even get rid of – predatory rulers and hence achieve better human development outcomes (Carothers 1999; Diamond 1996; Halperin, Siegel and Weinstein 2010; McFaul 2010). ‘Democracies represent the will of the people and constrain the power of the state’, as Michael McFaul puts it succinctly (2010: 68). Similarly, relevant political economy literature rationalizes one of democracy’s hallmarks – the system of checks and balances that diffuses power amongst several actors – as a solution to the credible commitment problem and the best way of achieving efficient social order (Falachetti and Miller 2001, Henisz 2000, Sen 1999, Tsebelis 2002). As Dani Rodrik (2000: 3) puts it: “Democracy is a meta-institution for building good institutions”.

However, the recent emphasis on democracy as the meta-institution has been challenged by growing empirical evidence from two directions. First, there is the persistence of poor governance in many parts of the developing world despite the significant moves towards democracy since the early 1990s. India, Uruguay or Bulgaria, which rank highly on democracy measured by both Polity and Freedom House, are outperformed on the World Bank’s Governance Indicators by non-democracies such as Singapore, Malaysia or Morocco. This anecdotal

evidence is supported by a growing literature that shows that regime type has no or little effect on government consumption, education or social spending or human welfare (Gauri and Khaleghian 2002; Mulligan et al 2004; Ross 2006; Shandra et al 2004; Gerring et al 2012). Secondly, there are clear variations in governance between democracies: not only between new and consolidated, but also within old European democracies (Rothstein et al 2013). The contrast between Ireland and Sweden is not even the most extreme example, as the ongoing challenges in Greece clearly demonstrate. As both new democracies in the developing world and democracies in the developed world struggle to curb corruption, collect taxes and deliver public goods, serious questions have to be asked as to whether 'tying the hands of the state' is the key to human flourishing.

Given these empirical challenges to the consensus, renewed emphasis is beginning to be paid to the issue of institutional sequencing. In 1788 James Madison, one of the Founding Fathers of the United States, formulated the solution to the fundamental problem of the efficient social order as a matter of sequence: 'In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself.' (Federalist, no. 51). In other words, Madison was suggesting that first, we need to allow the state to acquire the power to solve problems of collective action by enabling the government to control the governed (ie allow it to state-build), and second, we need to control the government through achieving credible commitment (ie democratization). In contemporary political science the idea of state-building before democracy was, as mentioned above, taken forward by Samuel Huntington in 'Political Order in Changing Societies' (1968). Having witnessed the bleak performance of newly independent African countries in the 1960s, he attributed it to the rapid democratization that undermined the authority of the state (1968:5). The mid-2000s witnessed a revival of the idea of state-building first, especially for post conflict and otherwise 'weak' states (Fearon and Laitin 2004; Fukuyama 2004a, 2004b, 2004c, 2007; Mansfield and Snyder 1995, 2007a, 2007b; Krasner 2004). Although the importance of sequencing has been accepted, discussions of sequencing have often turned into a normative debate about when is the 'right' time to democratize (see the debate in the *Journal of Democracy* 2007, Volume 18, Issue 3).

At the heart of the sequencing debate is the question of whether democracy enhances or inhibits state-building. Authors such as Fukuyama have argued that state-building is inherently coercive, often violent, and therefore inimitable with democracy (Fukuyama 2004a, 2004b, 2004c, 2007). He argues that state-building is about the concentration of coercive power, making it in many ways the opposite of liberal democracy, which constrains the ability of the state to acquire these kinds of coercive powers. The implications of this are that after a state democratizes, if there is indeed a trade-off between these processes, it becomes much more difficult to state-build. Citizens can use the instruments of democracy - the electoral process, civil rights, separation of powers - to constrain the state in its efforts at state-building and thus it gets locked into the level of state capacity which it has already achieved prior to democratizing. This then suggests that it is only states that became strong before they democratized that will be fully capable of delivering human development today.

Despite the revival of the sequencing debate, there has been comparatively little theoretical treatment or systematic empirical analysis paid to the issue. This paper offers a very preliminary investigation of how sequencing may have mattered in two states that followed alternative pathways.

### **Comparing Ireland and Sweden**

Ireland and Sweden are interesting cases to compare because they share many similarities that are often cited to matter for development. They are both small states, with populations of four and nine million respectively, on the geographic periphery of Europe, with relatively homogenous ethnic populations. They also became full-fledged democracies at the same time: Sweden in 1921 and Ireland in 1922. However, as described in the introduction, they are very different in terms of their ability to solve collective action problems. How did their pathways differ and how does this help us understand their contemporary differences?

To try to offer a preliminary answer to this question we analyze both states in terms of their ability to collect tax. Taxation has been seen as one of the fundamental and constitutive processes of state-building (Schumpeter 1918, Levi 1988, Tilly 1992). The extent, nature and efficiency of tax collection is a good indicator of the extent, nature and efficiency of state capacity and power.

### **Sweden: State-building before Democracy**

Sweden was arguably already a very strong and effective state when it fully democratized in the beginning of the 20th century. Concerted state-building efforts began in the sixteenth century. As in most European states, the processes of state expansion had been driven by military competition and warfare. Between 1520 and 1720 Sweden fought ten wars with Denmark for dominance in Northern and Baltic Europe. During this period Sweden was one of the most militarized states in Europe: in 1600, 1.5 percent of the population were troops under arms, a higher level than France, England, the Netherlands or Russia (Tilly 1992: 59). Sweden continued to have the highest proportion of its population in a standing army of all the leading military European states well into the nineteenth century, and some have argued that the demilitarization of Swedish society did not take place until the 1920s (Arteus 1982, quoted in Knudsen and Rothstein 1994).

This militarization and the military successes it produced resulted from the creation of a state apparatus capable of controlling and mobilizing extensive resources. As the lack of monetization in the economy in the seventeenth century meant that the Crown was unable to hire mercenaries to the extent needed, moves were made towards introducing a standing army supported through transfers from the peasant economy. In 1690 Karl XI introduced the *Indelningsverket*, a system for paying soldiers from the produce of the peasant economy. Farm produce was paid in kind by units of five farms to support individual soldiers or officers, in terms of both food and housing. The success of this system, which persisted until 1873, ultimately rested on the state's ability to broadcast power down to the lowest level of production, individual peasant households: 'the control system inherent in a standing army billeted throughout the countryside reached every corner of the land' (Lindgren 1985: 334).

To maintain this level of monitoring and control the state often had to resort to violence. The systematic monitoring of the population and their assets for the

purposes of taxation dates back to the reign of Gustav Vasa who introduced taxes on individual peasant households c. 1540 and tasked royal bailiffs with compiling detailed tax registers, *jordböcker* (Hallenberg 2001, 2012: 563-565). These measures provoked the largest tax rebellion of peasants in Swedish history, which was brutally put down by the state (Johansson 2004). Violence was not unique to this episode: during the first two hundred years of the modern Swedish state the Vasa monarchs regularly 'employed violent men to assert state dominance in the peasant communes' (Hallenberg 2013, 144).

In addition to violence, the state used a range of innovative information gathering technologies to increase its capacity to monitor. From the 1530s onwards the state began to move from a collective principle of tax assessment (appropriations), where the tax rates were set rather arbitrarily, towards individual assessments. This required detailed information on individuals which was at first based on written cadastral records of land ownership and value. Central registers (*undervisningar*) were instituted where all the taxes were registered, as well as the principles of assessment. It was in the interests of the state to have fiscal duties performed according to the economic capacity of the individual householders. In a further advancement, from 1628 about 12,000 large-scale cadastral maps of villages, freeholds and farms (*geometriska jordböcker*) were created. A cadastral map is 'a large-scale cartographic record of property ownership that preserves not only the dimensions and shape of an owned land parcel on the earth's surface but also the spatial relationship of all such individual parcels to each other' (Conzen 1994: 1637). Such registers normally also included details of the land ownership, the tenure, the cultivations (if in agricultural use), and the value of individual parcels of land.

The cadastral map is widely understood as an instrument of control of the governed (Buisseret 1992) that both 'reflects and consolidates the power of those who commission it' (Kain and Baigent 1992: 344) and is 'a historically important, partisan, and active tool of statecraft' (Conzen 1994: 1644-1645). Kain and Baigent (1992), who researched cadastral maps as an instrument of government from a comparative perspective, praise the Swedish cadastral map as unparalleled in the modern history, both in its ambition and implementation. Furthermore, from 1686 clergy were legally responsible for keeping records for the state of all their parishioners, known for their 'astonishingly high quality' (Kain and Baigent 1992: 57). Total coverage of the territories of the realm was achieved by the end of the seventeenth century. As one economic geographer has put it: "The development of the cadastral maps made it possible to calculate the permanent and annual taxes for every single farm" (Lindkvist 1987, 62).

In strong contrast to the Irish case, a critical component of the Swedish state's burgeoning power was the monitoring capacity provided by the Church. Unlike in Ireland where the Catholic Church was constitutionally restricted by the state under British rule until 1829, and so was a source of resistance to state power, the Protestant Church in Sweden played a key role in expanding state reach over the population. One historian has gone so far as to say that the Church was the state's 'instrument for controlling the population' (Lindgren 1985, p 332). When Gustav Vasa dispossessed the clergy and created the Protestant Church subordinate to the state, the new clergy was given exclusive responsibilities in monitoring and record keeping for the state. Clergymen were responsible for keeping lists of those

obliged to pay tax and of males eligible to become soldiers. These monitoring functions were legally enshrined in the 1686 Ecclesiastical Laws which confirmed the Church as being subordinate to the Crown and made the Church's role in controlling the population through its list-taking one of the legal duties of Swedish clergymen. This very extensive monitoring meant that although the peasantry might have been 'free' from feudal domination, they were very much under the control of the state. With this monitoring power, the state had a very high capacity to detect those defecting and free-riding, and to punish them.

Cumulatively these actions meant that 'the state bureaucracy extended its monitoring directly to peasants and labourers' (Tilly 1992: 136). This legacy of extensive state control over the population is reflected in the fact that in 1920, before the extension of the franchise, 80 percent of the economically active population was registered with the tax authority (Flora and Heidenheimer 1981: 193).

With these powers in place before democratization, the Swedish state has been able to consistently increase its revenue collection to the point where it is today one of the highest tax performers in the world (von Haldenwang and Ivanyna 2010) with average tax yields at 48 percent of GDP (including social security contributions) in 1990-2011 (OECD 2012). As Steinmo has argued 'the hallmarks of the Swedish tax system have been its broad base, its stability and its high yield' (Steinmo 1993, p. 41). Broad based, high yield tax collection is only possible where the state has a high degree of administrative reach – i.e. where a high proportion of the population are registered with the tax authority and are effectively within the tax net. As argued above, these processes were in place before democratization occurred. Although we do not have the counterfactual of whether or not the Swedish state would have been able to achieve them if they had not been in place before democratization, we can say that the modes of taxation which emerged would not have been possible in a state that did not have such effective monitoring and enforcement capacities.

### **Ireland: Limited State-building before Democracy**

When Ireland became an independent and democratic country in 1922 the state was far from being a Leviathan comparable to the Swedish state. The persistence of relatively stable English rule from the seventeenth century onwards had not been achieved through the creation of a strong Leviathan state capable of monitoring the population, broadcasting power and maintaining control. Rather, as subsequently replicated in other colonies, the English authorities ruled through a relatively small, highly centralized state apparatus whose reach did not effectively extend beyond the contained geographic area of the capital. Throughout the rest of the state, the Crown ruled through a web of local power-holders (the Protestant Anglo-Irish aristocracy) who owned the majority of the land until the second half of the nineteenth century (Barnard 2004; Brady and Ohlmeyer 2005; Dickson 2000). Although there were persistent rebellions, English forces were able to use targeted coercion to put them down. The Irish path to statehood, as Charles Tilly has argued, 'demonstrates the capacity of the region (England) to create a relatively weak state along a coercion intensive path' (1992: 158-9).

The weakness of the state, particularly in terms of monitoring and enforcement,



is clearly demonstrated in the area of taxation. Unlike in Sweden, where the state was able to extract taxes directly from the bulk of the population, the state created by the English authorities had not acquired the capacity to raise taxes from the majority of the population, relying heavily instead on taxes from customs and excise. Dickson states that customs and excise “contributed an exceptionally large percentage of national revenue (around three-fifths), and direct taxation was even by eighteenth-century British standards very low” (Dickson 2000, 84). Taxes that were levied on a wider basis, such as the Hearth Tax of the seventeenth century, provoked high resistance, and this tax was ultimately abolished in 1794. Even when the cost of the Napoleonic Wars led the Irish Chancellor of the Exchequer to announce ‘taxes must operate on the bulk of the population’ (quoted in Dickson 1983: 47), the Crown was unable to bring the peasantry within the tax net. The state instead increased customs and excise taxes further, leading the tax burden to fall on a wider segment of the population as more and more necessities were subject to these taxes, and resulting in high levels of debt.

During the same period when the Swedish state was developing centralized registers and cadastral maps in order to extend the state’s control over the peasantry, the state in Ireland was vacillating between tax farming and ineffective central administration. In 1661 an Act of the Irish parliament established ‘the Commissioners or Farmers of Customs and Excise’, the forerunners of the modern Revenue Commissioners (Réamonn 1981, 10). With non-resident commissioners, its purpose mainly seemed to be the supervision of tax farmers, with the entire revenue being farmed out in 1665 “to Irish merchants and public officials” (Dickson 2000, 10). From 1682 the revenue was brought back under centralised control, the same year as the farming of the excise was brought to an end in England (Brewer 1989, 93). Five new revenue commissioners were appointed, four of whom were English, and who “remained accountable to London, not the Lord Lieutenant [of Ireland], and this allowed them to ignore local sensitivities in appointing officers and to enforce an increasingly complex code of navigation law on Irish merchant communities without consideration of local political patronage” (Dickson 2000, 21).

In the eighteenth century the inefficiency of the state’s tax collection authorities became evident through rapidly rising collection costs, due at least in part to corruption. Collection costs amounted to 13% of total revenue in 1758, increased to 16% in 1783 and 18% in 1789 (O’Brien 1918, 333). Despite the relative success of the Irish Parliament in reforming its oversight of expenditure, and creating new revenue sources to meet fiscal demands, “no effective check to this extravagance was provided by Parliament, and the cost of collection seems to have grown more rapidly than the revenue itself” (O’Brien 1918, 333). It was considerably out of line with England, where in 1778 collection costs formed a little over 7% of revenue. While part of this may have been accounted for in Ireland by circumstantial factors, such as the need to supervise more ports with less valuable trade, “there is no doubt that the collection of revenue was the occasion of much speculation and fraud” (O’Brien 1918, 315). Figures from 1801, just after the union with Britain, show collection costs of 33%.<sup>1</sup> English officials

<sup>1</sup> 1801 (22) House of Commons Papers; Accounts and Papers vol/page: V.183; Accounts, presented to the House of Commons, respecting that part of the United Kingdom called Ireland

sent to observe their Irish counterparts in the early 1800s were highly critical: “the four English excise officers after watching Irish excise-men at work were convinced that not one excise duty was fully and efficiently collected in Ireland” (McDowell 1964, 88).

In terms of monitoring capacity, the state in Ireland lagged behind Sweden. Although a cadastral map, the Down Survey, was produced in the seventeenth century to aid the redistribution of lands forfeited by Catholic landowners after the unsuccessful 1641 Rebellion, it was not of the quality as the Swedish map or used for the purposes of taxation (Andrews 1985, 67). The standard scale of the Down Survey maps was 40 perches to the inch, equivalent to 1:10,000, while the Swedish cadastral maps were 1:5,000 or larger in certain areas (Kain and Baigent 1992, 52). In the assessment of the hearth tax, instead of the centralized registers used in Sweden, in Ireland local authorities - Justices of the Peace, according to Kiernan (1930, 85), and ‘parish constables’ according to R eamonn (1980, 24) - drew up the lists of those eligible. In 1706 a Hearth Money Department was created within the Revenue Commissioners, which later handled the assessment of other assessed direct taxes such as those on windows (Dickson 1983, 40). However, this department did not progress to administering an income tax as did its British equivalent, the Commissioners for Assessed Taxes, which supervised the income tax first introduced there in 1799. When re-introduced to the United Kingdom in 1842, it was not extended to Ireland partly because, among other reasons, it could “not be collected through the use of lay auxiliaries, and the use of government officials would create resentment” (Daunton 2001, 191). When it was introduced a decade later, it departed from the English precedent by basing assessment on a centralised bureaucracy rather than local commissioners, as an infrastructure of local assessment was in place in England but was lacking in Ireland (Daunton 2001, 189-91; Kanter 2007). The central bureaucracy did not have the capacity to extract effectively and by 1911 only 15% of revenue was derived from direct taxes (1911 (220) (House of Commons Papers; Accounts and Papers) vol/page: XLV.411; Revenue and Expenditure (England, Scotland and Ireland)

This then was the state structure inherited by the first Free State government in 1922: a centralized but inefficient tax bureaucracy with limited monitoring capacity and unable to collect taxes from the bulk of the population. The new administration had to face the task of dealing with the civil war and making the transition between administrations. In doing so there was both a great deal of continuity in much of the administrative apparatus *modus operandi* (for example, they continued to collect the same taxes in the same way as the English state in Ireland had), while also routinizing and institutionalizing many of the practices of the shadow state during the War of Independence (Garvin 1996). It was a very poor state with limited reach and a small tax base: in 1940 (the earliest date for which we have data), .3% of the economically active population was required to declare their total incomes, in order to pay super-tax (Flora and Heidenheimer 1981: 193). Altogether 75,000 people were liable for income tax in 1938-9, rising to some 175,000 by the mid-1950s, out of a working population of 1,112,000 in 1959.<sup>2</sup>

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<sup>2</sup> Commission on Income Taxation [First Report] 1959, 6; Commission on Income Taxation [Third Report] 1960, 14



Although important changes have occurred in the nature of taxation since 1922, the broad patterns have remained remarkably static and, in particular, the Irish state has persistently struggled in its attempts to broaden the tax base. This issue has been a focus for political debate and conflict, particularly since the 1960s (Hardiman 2002). Governments who have promised to and succeeded in cutting taxes have been rewarded at the polls for doing so. Governments who have attempted to broaden the tax base have met with significant resistance in the form of mass protests and legal challenges. The patterns observed in Ireland confirm the observation that it is very difficult to change the status quo once regimes of low taxation have been established (Kato 2003).

From the 1970s onwards, governments who have tried to increase taxes and broaden the tax base have met with widespread resistance. The Fine Gael-Labour coalition government who came to power in 1973 and tried to introduce new taxes on capital gains, capital acquisitions and wealth lost power in 1977 to Fianna Fail, who went on to abolish a plethora of taxes – both the newly introduced wealth and capital gains taxes, but also taxes on cars, and the very unpopular domestic rates charged by local authorities. Although tax policy was not the only issue leading to the coalition's defeat, Fianna Fail had promised the tax abolitions in advance of the election. In particular, rural farming constituencies were mobilized against the government because of the wealth tax, which had included assets such as land.

Despite the tax abolitions undertaken early in their term, the Fianna Fail government soon had to grapple with the underlying structural issues their tax cuts had exacerbated: the inadequacy of the tax base to meet rising expenditure demands. In 1979 they attempted to raise additional taxes from one of the most under taxed constituencies – farmers, who remained largely outside the tax net. In the 1979 budget, the government announced a 2 percent levy on farm produce. The Irish Farmers Association (IFA) launched a series of protests and within a year the government was forced to abolish the levy. They tried again with a resource tax in 1980 but compliance was very low, with only £700,000 of the projected £7 million being collected (O'Leary 1984). The government had to again bow to resistance and not only abolish but also repay all taxes that had been paid.

Democratic freedoms to protest and organise were used by all sides in debates on taxation. Employees, who shouldered the great majority of the direct tax burden, also mobilized to resist further tax increases. In 1980, prior to the budget, an estimated 700,000 employees, led by the trade union movement, marched across the country (Sweeney 1983). One of their key grievances was the unfair distribution of the tax burden due to the government's inability to extend direct taxes beyond employees. In response the government promised a new Commission on Taxation to examine the issues. Industrial unrest around fiscal policy and budget proposals contributed to the fall of two short-lived governments in the early 1980s.

Caught between citizens outside the tax net refusing to be brought within it and citizens within it refusing to pay more tax, subsequent governments were forced to look elsewhere for revenue. In the 1980s the gap between revenue and expenditure was increasingly filled through borrowing. Successive governments

had failed to widen the tax net and resistance from employees made it politically challenging to tax them further. To plug the fiscal deficit governments resorted to borrowing, and debt began to grow. By 1987 debt was 117 percent of GDP (Somers 1992).

Even when, in the face of a fiscal crisis in the late 1980s, the government again tried to broaden the tax base, they faced significant challenges through democratic mechanisms. In 1987 a minority Fianna Fail government tried to engage in base broadening and to reform and strengthen the Revenue Commissioners. In 1988 they introduced a voluntary tax amnesty and the scale of self-employed under-reporting became apparent through an unexpectedly high yield. A second amnesty in 1993 again confirmed widespread non-compliance.

The 1993 amnesty also provides an example of how judicial independence and constitutional protections hampered the state's ability to extend the tax net. The ability of the Revenue Commissioners to use these amnesties as a means of bringing people within the tax net was undermined by the inclusion of a secrecy clause prohibiting Revenue from cross checking between those who availed of the amnesty and their regular tax returns. This clause effectively removed the usefulness of the amnesty as a tool of widening the tax net. Although the Comptroller and Auditor General challenged the constitutionality of the clause in court, they lost the case.

In the 1990s rapid economic growth temporarily masked the underlying weakness of the tax system by increasing employment, providing increased revenue from indirect taxes, and, in particular, stamp duty on property sales. The Fianna Fail/Progressive Democrats coalition, during the ten years they were in government from 1997 to 2007, pushed for systematic reductions in income tax rates, tax credits and exemptions, delivered through social partnership agreements with the trade union movements and ever greater exemptions from tax liability altogether. By 2007 the tax burden as a percentage of gross wage earnings for a single persons without children was 13.9%, almost half the OECD average of 25.4% (OECD 2010).

Rather than broadening the tax base it a way that would make it sustainable, governments in the late 1990s and 2000s made decisions that eroded the tax base. This underlying weakness became clear again when recession began in 2008. Excluding debt from the banking crisis, the gap between revenue and public expenditure has been made clear: in 2012 it stood at 15 billion euro, or 8% of GDP (Government of Ireland 2013). In addition to cutting expenditure, there have been efforts to fill this gap between by introducing a number of new taxes: the universal social charge, the household levy, the pension levy.

A great deal of the Irish state's current fiscal challenges can be seen to result from its inability to solve the collective action problem of taxation. The state that the democratic governments from 1922 onwards inherited from the period of British rule was highly centralized with low enforcement and monitoring capacities, ineffective at collecting tax from the broad base of the population. Subsequent governments have struggled to alter this situation as citizens have used the electoral process, the right to organise and protest, and judicial independence to curtail the state's ability to extend the tax net and improve compliance. Having

begun as a weak state, the Irish state has had difficulty becoming a true Leviathan and its challenges in solving collective action problems have persisted.

### **Conclusion**

The institutional determinants of human development have been a central theme of research in recent years. This literature has contributed hugely in emphasizing the importance of institutions, and the kinds of institutions that matter. What has been somewhat lacking in the debate up until now is a deeper understanding of the evolution of the institutions of good governance over time and, in particular, how democratization impacts on state capacity and state building.

As the examples in this paper show, the level of state capacity reached before democratization can have an important impact on subsequent governance trajectories. The Swedish state had become a strong state capable of projecting power over and extracting resources from the majority of its population long before full democracy arrived. It was then able to use the power of the state to become one of the most welfare enhancing states in the world. On the other hand, the example of Ireland shows how tying the hands of a weak state can prevent the state from becoming a Leviathan in ways that lead to sub-optimal social outcomes. While these examples are illustrative, more rigorous research would be needed to explore and test the impact of sequencing on subsequent governance outcomes.

A greater understanding of the importance of sequencing may help us to better understand the divergent governance outcomes we observe in the world today. As mentioned above, the contrast between Sweden and Ireland is far from the most extreme one we could choose. Ireland, though weaker than Sweden when it democratized, was far more capable a state than most developing countries democratizing today. Serious research and policy attention is needed to understand the implications of democratizing under such different conditions. This perspective might also prove useful in understanding the divergent trajectories in recent years between Northern and Southern Europe. Appreciating the centuries old differences between these states is an important perspective for those trying to consider what reforms are needed and how they might be achieved.

Finally, it is important to acknowledge that the argument we have presented here is analytical and theoretical, rather than normative. It is much more difficult to normatively argue for 'state-building first', when state-building inherently involves coercion and usually violence, than it is to point out the analytical implications of different institutional choices. Democracy has intrinsic values that may be more important, in normative terms, than its impact on state-building.

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