

Essays in public economics

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SUMMARY

The dissertation is written under the premises that the structure of the tax system across tiers of governments sets the basis upon which all stakeholders in the economy (such as government authorities, residents and firms) interact. As such, the design of inter-governmental tax institutions and arrangements matter to various extents for policy-targeted socio-economic and behavioural outcomes. The dissertation thus aims at providing a better understanding of the assignment of taxing responsibilities across different tiers of government and across countries, and bringing solid cross-country empirical evidence into the ramifications of multi-layer tax arrangements. It combines four empirical essays written through the lens of a comparative cross-country approach and connects existing theoretical frameworks in Public, Behavioural and Institutional Economics.

The dissertation begins with the study of the legal and administrative structure of tax institutions across tiers of governments through content analysis of laws and regulations that define the governance of the tax system. In **Chapter 2**, it proposes a conceptual approach into capturing the discretionary power of all government tiers over the tax system, principal tax instruments – such as income, consumption and property taxes, and different decision dimensions – such as the setting of tax rates or tax administration. The gathered information is aggregated into a new dataset on the multi-layer tax structure in more than one hundred countries. Core findings from the dataset convey the complexity and the granularity of the tax system across countries, tiers of government, and the assignment of tax-related decisions regarding different instruments.

The dissertation continues with empirical enquiries into the linkages between the hierarchical structure of tax institutions and socio-economic and behavioural outcomes. Indicators on sub-national governments' taxing rights, derived from the new dataset, are linked to economic performance in **Chapter 2**. The results point to an inverted U-shaped relationship between the discretionary power of lower-tier authorities over the tax system and per capita GDP growth in *non*-OECD member states. The findings also suggest that there might be an economic dividend to granting sub-central governments some discretionary power over the setting of tax rates in *non*-OECD countries, although an extensive form of discretion might be detrimental.

Chapter 3 and **Chapter 4** bring evidence into the ramifications of intergovernmental

tax arrangements for firms' business operations and individual tax compliance. They thereby show how macro-level characteristics of multi-layer tax institutions are linked to micro-patterns of firms' and individuals' behaviours and perceptions. Both chapters also contribute to the scholarly discussion on how complex tax structure can affect the tax bases and revenue mobilization in developing and emerging economies.

The findings from **Chapter 3** indicate that firms in countries with a higher sub-national discretionary power over the tax system tend to report a higher burden of tax rates and tax administration on their business operations. The empirical results also indicate that lower-tier authorities' legal ability to set tax rates is particularly harmful to the private sector. Exploring other constraints faced by private enterprises, the chapter reveals that the probability of being audited, the likelihood of tax officials requesting bribe during tax audits, and the average time that managers spend dealing with government regulations significantly increase with the level of taxing rights granted to sub-national authorities, more broadly, and their level of discretion over tax administration.

Chapter 4 confirms the overarching hypothesis that the multi-layer structure of tax institutions matters for the understanding of individual behaviours towards tax payments. In particular, results from the chapter indicate that tax compliance is lower in countries with a higher level of sub-national taxing rights and a higher discretion of lower-tier authorities over tax administration. They also indicate that the scarcity of tax knowledge exacerbates the harmful effects of sub-national taxing rights or discretion over tax administration on tax compliance.

Chapter 5 takes on a more comprehensive approach into investigating the deep-rooted economic, cultural, and historical origins of cross-country variations in intergovernmental tax arrangements observed in the dataset. It provides evidence that countries' historical trajectories play a significant role in shaping their multi-layer tax institutions. Countries with a higher level of pre-colonial state centralization tend to have more decentralized tax institutions in modern times. The path out of colonization also matters: countries which have experienced a violent independence movement tend to have a more centralized tax structure.

Together, the essays of the dissertation create new avenues for empirical enquiries into the various forms of taxing rights granted to different government tiers, and bring insights into the challenges and opportunities embedded in the legal and administrative design of multi-layer tax institutions. Academic contributions, policy implications and topics for future research are discussed in each chapter and synthesized in the concluding remarks in **Chapter 6**.