

On Taxation and Representation: An Empirical Investigation

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Abstract

According to two scholarly traditions, namely the democratization and resource curse theories, greater taxation leads to demand for representation; however, the empirical evidence for the taxation–representation connection remains mixed. We emphasize two crucial conditions under which this relationship is likely to hold: First, pressure for representation in return for taxation should increase when rulers have problems of credible commitment in policy-making, which often happens in autocratic regimes. Second, such pressure should grow stronger among those whose wealth is disproportionately exposed to state predation. Taken together, we expect rising economic elites in autocracies experiencing economic transformation to be the focus of taxation–representation demands. To test our predictions, we draw from original individual-level panels of business elites and ordinary citizens in China and Taiwan, leveraging regime type and elite status variations. Our investigation sheds light on the conditions under which the taxation–representation connection is more likely to hold and should be of interest to students of democratization and the resource curse.

Keywords: Taxation; Democratization; Credible Commitment; Economic Transformation; China.

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1 No Taxation Without Representation

Although the idea that taxes are traded for democratic government lies at the heart of two prominent literatures—the origins of representative institutions in comparative political economics and the resource curse in international political economics—evidence of the taxation–representation connection remains inconclusive.

The canonical studies such as Bates and Lien (1985) and North and Weingast (1989) place the origins of constitutional government in an explicit fiscal contract between rulers and taxpayers: The latter agree to comply by higher tax rates in return for constitutional provisions granting them leverage over policy-making. The quest for revenue compels rulers to share powers with taxpayers, clearing the path to a limited government. Despite the strong influence of this logic on theories of limited government in early modern Europe (Dincecco, 2009; Levi, 1988; Stasavage, 2011; Tilly, 1990), the cross-national and qualitative evidence remains largely mixed.¹

The taxation–representation connection is also integral to the “resource curse” resulting from windfall revenues (Ross, 2018). Oil revenue enables incumbents to reduce taxes, buy-off potential challengers, and provide public goods, thus maintaining regime stability (Andersen and Ross, 2014; Jensen and Wantchekon, 2004). Meanwhile, foreign aid allows autocrats to secure government funds without increasing the tax burden, preempting demands for political

¹Exploiting cross-national variation, Prichard, Salardi and Segal (2014) and Wiens, Poast and Clark (2014) find a positive relationship between taxation and representation between 1990 and 2010 and between 1816 and 2000, respectively. Lall (2017) argues in favor of the resource curse but only after the nationalization of petroleum industries in the 1970s. Ross (2004) shows support for some interpretations of the taxation–representation hypothesis—that higher taxes relative to government services make states more democratic—but not for the generally understood version—that higher taxes relative to GDP lead to democratization. Garcia and von Haldenwang (2016) challenge that result by showing a nonlinear relationship between tax ratios and various democracy scores. Meanwhile, Cheibub (1998), Mulligan, Gil and Sala-i Martin (2004) and Herb (2005) find no difference between democracies and autocracies in terms of the tax pressure. Exploiting individual-level survey data in 15 African countries, McGuirk (2013) finds that preferences for democratic, accountable governance increase with perceived tax enforcement, whereas de la Cuesta, Milner, Nielson and Knack (2019) find that neither Ghanaians nor Ugandans demand more accountability for taxes than oil or aid revenue. Drawing from case studies, Prichard (2015) finds that popular resistance to taxation does not lead to policy concessions from the government in Kenya, but it enhanced long-term political engagement in Ethiopia. Surveying a large body of case studies, Brautigam, Fjeldstad and Moore (2008) and Moore, Prichard and Fjeldstad (2018, ch.8) offer a complex picture of relations between taxation and state-society relations instead of a straight taxation–representation link.

representation (de Mesquita and Smith, 2010; Djankov, Montalvo and Reynal-Querol, 2008; Morrison, 2009). Recent empirical studies in resource curse literature emphasize conditional effects of windfall revenue shocks on political institutions: For instance, Caselli and Tesei (2016) find that nontax revenues only deepen the autocratic nature of the political system in moderately entrenched autocracies, but not in those deeply entrenched.² Regardless of the specific angle, the deleterious effects of windfall revenue on political accountability in the resource curse literature are benchmarked against the alleged positive effects of taxation.

In this article we emphasize two crucial scope conditions under which the taxation–representation connection is likely to hold; these shed important light on the predictions derived from theories of democratization and the resource curse. The first condition speaks to the institutional context, under which taxpayers should articulate preferences toward political representation. The second condition speaks to the economic context, under which those preferences might grow stronger and for whom this is so.

First, we argue that institutionalized mechanisms that grant taxpayers’ influence in policy-making, or institutionalized political influence (IPI hereafter), are more valuable for taxpayers when rulers face strong credibility issues in fiscal policy and property rights protection. An unconstrained ruler may walk away from any commitment agreed upon at the time of setting policy. In early modern Europe monarchs’ credibility issues were addressed by sharing power over fiscal decisions with big taxpayers and crown lenders sitting in parliament (Bates and Lien, 1985; North and Weingast, 1989; Stasavage, 2011). Whereas numerous scholars predict that demands of representation upon taxation should be strongest in autocratic regimes (chief among them, Acemoglu and Robinson 2000; and Boix 2003), most recent applications of the theory focus on democratic polities, where some power-sharing institutions are already in place, resulting in an attenuation bias in the effect of taxation on demands for IPI.

Second, we recognize that predatory behavior by the state is particularly pronounced in times of great economic transformation (Frye, 2004; Gehlbach, 2008; Markus, 2012). The

²See also Alexeev and Conrad (2009) for a detailed comparison of the effects of natural resources vs. oil revenue on political institutions.

Industrial Revolution is a good example: Economic transformation created a new commercial class who rapidly accumulated wealth while remaining politically disadvantaged relative to the landed incumbent elites. Ansell and Samuels (2010, 2015) show that the new economic elites pushed for political reform as a means to protect their wealth from the predatory impulses of incumbent elites.³ Following Ansell and Samuels (2010, 2015), we expect demands for IPI in modern-day industrializing countries to disproportionately arise from new commercial elites, that is, individuals holding positions of responsibility (i.e., management and ownership) in the modern economy. These *rising economic elites* are likely to accumulate substantial personal wealth during periods of rapid economic growth, becoming disproportionately vulnerable to government predation via taxation, even expropriation. Key for the activation of representation demands, the rising economic elites are likely to have a good understanding of the tax burden and tax incidence—the *information requirement* of the taxation–representation connection—and a comparative advantage in advancing their collective interest if IPI is granted—the *organizational requirement*.

We contend that minimal understanding of the tax burden and tax incidence is necessary for the activation of representation pressures. By the very nature of their market specialization, rising economic elites likely understand how the tax system works and what the tax rate is. Research in political science shows that wealthier individuals have a more accurate understanding of the tax burden and incidence than the general public (Page, Bartels and Seawright, 2013, p.62), and our original survey data confirm this point.

In comparison with ordinary citizens, rising economic elites are also wealthier and fewer in number, two characteristics that grant them a comparative advantage in overcoming collective action problems and advancing their interest in open political systems (Olson, 1982). According to abundant evidence wealthier individuals are more active and effective in making their preferences heard by elected officials. Given the opportunity, the well-off participate more, give more, lobby more, and run for office at higher rates (Bartels, 2008; Gilens, 2012; Hacker and Pierson, 2010; Kasara and Suryanarayan, 2015). Even in autocratic contexts, business

³See also Congleton (2010).

elites hold an advantage in clinching party nominations and use the limited opportunities of representation to advance their interests (Hou, 2019; Mattingly, 2016; Truex, 2016).

Because rising economic elites are disproportionately exposed to government predation, possess better information about tax incidence, and face relatively mild collective action problems, we expect this particular group to forge preferences for representation in return for taxation in autocratic regimes undergoing economic transformation. Note that autocrats could coopt rising economic elites into the ruling coalition (Dickson, 2008; Hou, 2019; Svobik, 2012). Importantly, cooptation would attenuate demands of representation associated with tax reform, biasing results against the taxation–representation hypothesis.

In paying taxes we expect ordinary citizens—the nonelite—to engage in a simpler “cost–benefit” calculus focused on the generosity of government services (Ross, 2004). Under this view, higher taxes do not produce demands for representative government provided that taxes are offset by greater government benefits (Ross, 2004, p.234). Consistent with this interpretation, Timmons (2005) shows that nonelites tend to pay taxes in expectation of public-funded goods and services, not political rights. Beramendi and Rueda (2007) identify a similar pattern in advanced economies, where taxes are understood as individual contributions to public services—the welfare state—not as levers of political influence.

The literature on autocratic politics suggests that autocrats are aware of these simple but critical cost–benefit expectations among ordinary citizens. Autocrats keep those expectations within range (Gottlieb, 2016) and deliver public goods to legitimize the regime and retain power (Albertus, Fenner and Slater, 2018).

Some may argue that nonelites’ prioritization of government services reflects an income effect. Relatively poor, nonelites prefer some government services in hand over opportunities to secure generous government programs in the future by taking control over policy-making. We contend that the informational and organizational requirements are equally if not more important explanations for nonelites’ attachment to the cost–benefit model. First, behavioral economics shows that ordinary citizens tend to have a poor understanding of how taxes work

(Chetty, Looney and Kroft, 2009), resulting in underestimation of the tax burden and the distortion of electoral accountability (Cabral and Hoxby, 2012; Finkelstein, 2009). Information deficit is surmountable but cannot be taken for granted: Paler (2013) shows that demands for fiscal transparency among the general population increases when respondents are primed with information about government being funded by taxation (relative to a windfall control group). In the absence of such information campaigns, we expect rising economic elites to meet the information requirement of the taxation–representation connection more often than ordinary citizens. Second, even if nonelites had a perfect understanding of the tax system, they are still comparatively disadvantaged at using IPI to their benefit because of the collective action problems associated with their modest resources and considerable numbers.

All things considered, we expect demands for representation to be stronger in nondemocracies than democracies (Hypothesis 1), a simple prediction yet to be tested with individual-level data in the contemporary era. In nondemocracies we expect those demands to be disproportionately pushed by rising economic elites (Hypothesis 2). Importantly, our argument is one of relative preferences: Nonelites in autocracies might still benefit from IPI, but rising elites have a comparative advantage in exploiting those opportunities; hence we expect a stronger preference for IPI among the latter group. Because our predictions focus on the source of representation pressures in rapidly industrializing autocracies, we draw no expectation for elite–nonelite differences in already democratized countries, where IPI is granted if only imperfectly.

To evaluate our predictions, we exploit individual-level survey data across regime types and by elite status. We conduct a series of online surveys in China and Taiwan, our authoritarian and democratic cases, respectively, with four separate survey samples: Two draw from dedicated panels of business owners and managers in both countries, the other two from standard panels of ordinary citizens.

To avoid any potential repercussions for participants, we solicit preferences over representation only and disregard behavioral measures (i.e., real requests of IPI). We implement

conjoint experiment techniques to overcome social desirability issues biasing responses against advances in political representation (Hainmueller, Hopkins and Yamamoto, 2014; Horiuchi, Markovich and Yamamoto, 2020; Incerti, 2020). Our respondents are prompted to choose between pairs of tax reforms that may include gains in IPI and government services, and changes in tax rates and tax types. Consistent with expectations, we find that tax reform disproportionately strengthens preference for IPI in China, the nondemocratic case. In China those preferences are disproportionately driven by the rising economic elite. Results are robust for party membership, a common cooptation technique in modern China (Hou, 2019). Our mechanism analysis suggests that credibility issues shape preferences for IPI among Chinese rising economic elites, who are less vulnerable to fiscal illusion and feel more confident about their ability to advance their political demands.

With this investigation we seek to contribute to the already abundant taxation–representation literature by pointing out the analytical gains of parsing out different societal groups and their disproportional exposure to state predation and ability to connect tax payments to advances in representation.

The scope conditions for the activation of representation demands speak to an important assumption in the resource curse literature, namely that “taxation and democracy are closely related: When governments try to raise tax revenues, they are often met with demands for greater accountability” (Ross, 2018, p.9). Many scholars conclude that windfall revenues—be it oil royalties, foreign aid, or international loans—weaken rulers’ incentives to respond to taxpayers’ preferences, undermining political accountability and representation (Ahmed, 2012; Bräutigam and Knack, 2004; de Mesquita and Smith, 2010; Djankov, Montalvo and Reynal-Querol, 2008; Morrison, 2009; Moss, Pettersson and van de Walle, 2006; Queralt, 2019; Ross, 2012).⁴ Our findings suggest that the core assumption in resource curse scholarship—that taxes strengthen citizens’ demands for accountability—may not homogeneously hold across different societal groups in any given society nor at every stage of economic development.⁵ In

⁴Refer to Bermeo (2016), Collier (2006), and Seelkopf and Bastiaens (2020) for more benign interpretations of foreign aid on democratization and institutional quality.

⁵See de la Cuesta, Milner, Nielson and Knack (2019) for results consistent with our findings.

particular the adverse effects of windfall revenue on political accountability may be greater in autocracies undergoing economic transformation. In those cases access to nontax revenue may weaken the rulers' incentive to expropriate the wealth of new economic elites, hence attenuating their incentives (and demobilizing their abundant resources) to exert pressure for new constraints on the executive.

Our analysis underscores the recent turn to the roles of elites in the study of fiscal capacity and state building (Beramendi, Dincecco and Rogers, 2019; Fairfield, 2015; Garfias, 2018; Hou, Liu and Lü, 2020; Mares and Queralt, 2015, 2020). If taxation leads to democratization, we should direct further attention to rising economic elites relative to ordinary citizens. By implication results suggest that the effect of taxation for representation found in recent lab-in-the-field experiments involving ordinary citizens in democratic settings is a lower bound of the effect of taxation on pressure for political change (Castañeda, Doyle and Schwartz, 2020; de la Cuesta et al., 2019; Paler, 2013; McGuirk, 2013; Weigel, 2020). Last but not least, our mechanism section emphasizes the importance of tax salience and fiscal transparency for the activation of the taxation–representation connection among nonelites, an insight eloquently advanced in Paler (2013) and Prichard (2015).

The rest of the paper is organized as follows. In Section 2 we delineate two scope conditions based on our reading of canonical works in the taxation–representation literature. In Section 3 we outline the empirical strategy used to test our predictions and report the main empirical results. Section 4 contains an evaluation a number of potential mechanisms connecting taxation and representation for rising economic elites and, to a lesser extent, nonelites. We conclude in Section 5 by highlighting the implications of our study for theories of taxation and democratization, resource–aid curse literature, and policy prescriptions of tax reform by international financial institutions.

2 The Argument

The canonical tax-bargaining model characterizes a negotiation between a revenue-maximizer monarch and merchant taxpayers organized in Parliaments (Bates and Lien, 1985; North and Weingast, 1989; Stasavage, 2011). The ruler needs tax revenue to fund government but lacks the capacity to levy new taxes unilaterally without incurring high transaction costs (Levi, 1988). The merchants benefit from public goods (e.g., a standing military) but cannot trust the ruler to use tax moneys for the promised end and fear future predatory taxation. To overcome credibility issues, rulers grant merchants power-sharing institutions with which to limit their discretion over fiscal policy. In other words the ruler secures government funds at the cost of political accountability.

Whereas theories of constitutional government focus on rulers' commitment problems, explanations for the spread of liberal democracy during the Industrial Revolution emphasize political tensions between old and new economic elites (Ansell and Samuels, 2010, 2015; Congleton, 2010; Beramendi, Dincecco and Rogers, 2019; Mares and Queralt, 2015, 2020). These models identify an incumbent elite with a strong landed base and a rising economic elite comprising a new commercial class specializing in the modern economy, namely trade and finance. Landed elites, who virtually monopolized government offices at the beginning of the nineteenth century, faced increasing demands for power-sharing institutions from rising industrial elites. The rising elites accrued a disproportional share of the wealth generated by rapid economic transformation but had little say in fiscal policy-making. Their wealth was exposed to predation by a state run by incumbent landed elites. To protect property rights and secure tax moneys spent in a productivity-enhancing infrastructure, the rising elite pressured for (partial) suffrage extensions (Lizzeri and Persico, 2004; Llavador and Oxoby, 2005).

The two scholarly traditions delineate two important conditions under which demands for representation may arise: One speaks to the institutional setting under which pressure for representation is more likely; the other speaks to the economic context under which those demands may intensify and to the societal group most likely to guide them. In what follows

we detail the critical roles of these two conditions.

2.1 Institutional Setting

Most rulers need taxes to fund government and cannot secure desired funding by relying only on brute force and intimidation (Levi, 1988). To facilitate tax compliance, rulers may grant concessions to taxpayers. Even though their promises are never completely credible, regimes vary in the extent to which they are held accountable for deviating from the terms of the fiscal bargain.

Liberal democracies include constitutional safeguards to sanction rulers who deviate from the agreed-upon concessions either on election day (electoral accountability) or during their tenure in office (e.g., checks and balances by other branches of government and independent judiciaries). Once credibility issues are constitutionally safeguarded, citizens may focus on deciding which government service they prefer to receive in return for tax payments—roads, hospitals, schools—and give lower priority to further advances in taxpayers’ powers over fiscal policy. In comparison credibility issues loom large in autocracies, where taxpayers have few tools to compel rulers to deliver on the concessions promised at time of tax reform.

The autocrat’s hands may be tied in various ways (Meng, 2020; Svobik, 2012). Elections are arguably the strongest mechanism to address the ruler’s credibility issues, the ultimate expression of IPI. But intermediate steps can limit the autocrat’s discretion over fiscal policy while spurring tax compliance, including the release of budgeting information (also known as fiscal transparency) and opportunities to participate in policy-making, for example, open budgeting processes (Amelina and Beuermann, 2020; Torgler, 2005).

We recognize that autocrats may try to secure taxpayers’ loyalty and compliance by granting targeted benefits instead of political rights (Blaydes, 2010; Chen and Dickson, 2010; Hou, 2019; Svobik, 2012). Nonetheless, cooptation strategies may not always be effective because they are fraught with similar credibility issues; that is, the ruler may withdraw from any pre-arranged commitment. From an empirical point of view, widespread cooptation should bias

against finding any effect of taxation on representation.

The preceding discussion leads to our Hypothesis 1: Individual preference for gains in institutionalized political influence (IPI) should be stronger in autocratic settings because of the ruler's credibility issues in fiscal policy.

2.2 Economic Transformation and Predation Opportunities

Although regime type is a key scope condition, individual preferences for IPI are likely to accentuate in times of strong economic transformation. We assume that the returns of industrialization not only benefit incumbent economic and political elites, but new segments of the society may also accrue substantial wealth from economic expansion; however, outside the circles of power, these new economic elites are disproportionately vulnerable to state predation.

We build upon Ansell and Samuels (2010, 2015) to identify a constellation of actors with preferences for tax policy in times of rapid economic transformation. In their analysis of franchise extensions in Europe during the Industrial Revolution, they identify three large groups in society: the incumbent elites, at that time the landed aristocracy; the rising industrial elites, or commercial elites in trade and finance sectors; and the working class, or nonelites.

Capital returns in the heyday of the Industrial Revolution exceeded those of land or labor, creating a new economic elite deeply invested in the modern economy (Hallerberg, 1996; Piketty, 2014). The rapid accumulation of wealth exposed these new elites to predation by a state apparatus under landed elite control. To safeguard property rights over their wealth, rising economic elites sought to gain veto power over taxation and spending decisions, that is, IPI over fiscal policy. To that end commercial elites prioritized advances in the franchise with which to expand their political power vis-à-vis the landed elites (Ansell and Samuels, 2010, 2015).

Rising economic elites in industrializing Europe were successful arguably because they were well informed, had deep pockets, were few in number, and were concentrated in relatively few pivotal cities. Those characteristics limited common obstacles to collective action relative to

the larger and poorer segment of society: the working class, concentrated in urban areas but deprived of key informational and pecuniary resources for collective action. Unsurprisingly, expansion of the voting franchise before 1914 benefited mainly the modern economic elites, not the working class (Przeworski, 2009).

Rising Economic Elites in Industrializing Autocracies

Rising economic elites in modern rapidly industrializing autocratic regimes comprise owners and managers of middle- and large-sized firms. These individuals may accumulate considerable wealth but differ from highly connected plutocrats, individuals at the pinnacle of the economic and political system. Precisely because they are not part of the ruling coalition, rising economic elites are disproportionately exposed to the state's predatory behaviors undermining their businesses (Dickson, 2008; Gans-Morse, 2012; Markus, 2012). The winners of economic transformation have much to lose from weak property rights protection and a strong (i.e., extractive) tax administration.

Rising economic elites do not necessarily oppose taxation. They benefit from productivity-enhancing policy, that is, a skilled and healthy labor force plus good infrastructure.⁶ They cannot, however, trust that the government will spend their tax money to secure those goods nor that the government will refrain from making them fund a disproportional share of public goods by pushing the incidence of taxation onto the modern sector—a covert form of property rights erosion.

To secure property rights protection, rising economic elites are likely to demand some form of IPI for two reasons. First, they are highly aware of the stakes, namely the tax burden and tax incidence, a necessary condition for the taxation–representation connection to hold. These elites deal with taxes on a regular basis, either to make profit-maximizing decisions or to avoid taxation. For instance, VAT refunds force managers and business owners to keep tax records on their books, minimizing fiscal illusion. Awareness of the tax burden makes rising economic elites likely to experience the “ownership effect,” a psychological mechanism that makes one

⁶This is best put by Lizzeri and Persico (2004) and Beramendi, Dincecco and Rogers (2019).

perceive the government monies as one's own and spurs demands of political accountability (de la Cuesta, Milner, Nielson and Knack, 2019; Martin, 2014; Prichard, 2015; Weigel, 2020).

Second, their small number and abundant resources give rising economic elites a comparative advantage in advancing their group interests.⁷ Property rights protection is at the top of the list, yet any promise of the ruler to uphold those rights meets with serious credibility issues. To advance their interests, rising elites must limit the ability of rulers to retract their promises. Political representation allows rising elites to confront the ruler's credibility issues, limit executive discretion, henceforth strengthening their preference for IPI.

Nonelites in Industrializing Autocracies

Ordinary citizens or nonelites are less likely to meet key conditions for taxation to spur demands for representation. First, nonelites are less vulnerable to predation via taxation. Their income and assets are modest, whereas state predation tends to prioritize high-yield assets (Gehlbach, 2008).

Second, nonelites are less likely than rising economic elites to meet the informational requirement in the taxation–representation model. Recent studies in behavioral economics and political science suggest that ordinary citizens tend to underestimate the tax burden, particularly for low-salience taxes, such as sales taxes, tariffs, and VAT, all common in the developing world (de la Cuesta et al., 2020; Fochmann et al., 2010; Moore, 2004; Prichard, 2015). Such cognitive biases can be highly consequential, affecting consumption and labor allocation decisions (Blumkin, Ruffle and Ganun, 2012; Chetty, Looney and Kroft, 2009) as well as political behavior. For instance, Cabral and Hoxby (2012) and Finkelstein (2009) show that elected politicians in the US take advantage of low-salience local taxes to dodge electoral accountability. If taxpayers underestimate the tax burden, expecting tax reform to activate representation demands among them is not logically consistent.

Third, even when ordinary citizens meet the informational requirement, they may lack

⁷Recent tax reforms in African countries illustrate the comparative advantage that business organizations have in advancing their collective interest relative to atomized tax payers (Joshi and Ayee, 2008; Meagher, 2018; Moore, 2015; Prichard, 2015).

key resources (e.g., capital, time, expertise) to collectively advance their preferences into the policy-making arena. Highly atomized, ordinary citizens face strong obstacles to collective action, significantly limiting their relative bargaining power vis-à-vis government. This problem is most stark in autocratic regimes because parties representing the best interests of ordinary citizens are unlikely to exist. Even when political institutions are open, elites tend to exploit those opportunities more efficiently than nonelites: The wealthy are heard more,⁸ give and raise more,⁹ vote more,¹⁰ and run for office more often than ordinary citizens.¹¹

The comparative advantage of the wealthy in using power-sharing institutions to advance their group interest is not limited to consolidated democratic regimes. In nineteenth-century nondemocratic Europe and Latin America, elites exploited their disproportional access to shape tax policy to their advantage against political rivals and nonelites.¹² The disproportional representation of modern-day wealthy Chinese nationals in elected positions suggests that they find those opportunities profitable to advance their interest. Despite constituting 1.1% of the population in China, managers and entrepreneurs account for 28.7% and 26.6% of the seats in the Standing Committee of the National People’s Congress and the National People’s Congress (the executive and legislative branches of the government), respectively (Truex, 2016, ch.5). The influence of the wealthy is also reflected at the local level: Whereas peasants are disproportionately represented in popularly elected local bodies (“townships”), private business person and enterprise managers are disproportionately nominated by voters and the Communist Party in county-level elected bodies (Manion, 2017, pp.377-378).

Because ordinary citizens are resource poor and unlikely to meet informational and organizational requirements in the taxation–representation model, we expect them to prioritize a simpler “cost–benefit” calculus in paying taxes (Ross, 2004), namely receiving some government services in return. According to this interpretation the fiscal contract is not built on an

⁸See Gilens (2012) for an overview, and Bartels (2008, ch.7) and Carnes (2016) for applications to tax policy.

⁹For giving, see Bonica, Chilton and Sen (2016); for fundraising, Eggers and Klasnja (2019).

¹⁰Kasara and Suryanarayan (2015).

¹¹Carnes (2018) and Thompson, Feigenbaum, Hall and Yoder (2019).

¹²See Ansell and Samuels (2010, 2015) and Mares and Queralt (2015, 2020) for Europe, and Beramendi, Dinicco and Rogers (2019) for Europe and Latin America.

expectation of representation for taxation but on the “exchange of services for support” (Lake, 2016, p.17).¹³ To meet this contract, autocrats are likely to keep citizens’ expectations to a bearable minimum (Gottlieb, 2016)—possibly by limiting public information about the tax burden and incidence—and to solidify the taxation-for-services calculus by targeting benefits to regime supporters. Consistently, the literature of patronage and clientelism has extensively documented citizens’ willingness to relinquish their “paper stones” in exchange for public or private goods.¹⁴ More generally, public spending is shown to be a popular tool to garner political support in authoritarian regimes (Albertus, Fenner and Slater, 2018; Svobik, 2012).

Autocrat promises to offer government services to ordinary citizens are not exempted from credibility issues. These likely exist, and strategic autocrats will do their best to keep expectations within range. We do not contend that gains in representation cannot help ordinary citizens to secure better government services, but that is disputed (Harding and Stasavage, 2014; Ross, 2006). We argue that gains in political say may not be prioritized by ordinary citizens at time of tax reform. In addition to informational requirements, organizational characteristics limit the relative gains of IPI concessions for the nonelite. Under the cost–benefit model, we anticipate most ordinary citizens to expect some government services being provided in return for their usually modest tax payments and to accept that minimal contract unless terms are suddenly, publicly, and widely changed in favor of the ruler. Keeping that caveat in mind, we expect rising economic elites in autocratic regimes to lead much of the pressure for IPI at times of tax reform.

The preceding discussion leads to our Hypothesis 2: Rising economic elites have stronger preferences for IPI at times of tax reform than nonelites.

¹³For instance, Flores-Macías (2014, 2018) offers experimental evidence that earmarking specific government services increases support of tax increases by ordinary citizens in Latin America.

¹⁴See Golden and Min (2013) for a comprehensive review.

3 Empirical Strategy

In the previous section, we emphasized two scope conditions under which the taxation–representation connection is likely to be salient: One speaks to the institutional conditions, the other to unequal exposure to state predation during great economic transformation. Combined, we expect preference for representation at times of tax reform to be disproportionately strong among rising economic elites in autocratic polities.

To test our argument, we seek to compare preferences of rising economic elites and ordinary citizens separately, both across and within regime type. Individual preferences between groups may be shaped by additional factors, such as individual taste, ethnic fragmentation, or culture (Alesina, Baqir and Easterly, 1999). To address these concerns, we leverage both commonality and difference in China and Taiwan in our research design.

First, both China and Taiwan exhibit ethnic homogeneity with majority Han populations;¹⁵ furthermore, both societies are strongly influenced by Confucianism, emphasizing education and respect for authority.¹⁶

Second, both China and Taiwan have experienced significant economic transformation through industrialization. The industrial sector represented 39% and 35.6% of their GDP in China and Taiwan in 2019, respectively.¹⁷ In terms of the degree of taxation capacity, China has achieved better success than Taiwan, but China relies more on less visible indirect taxation.¹⁸ This asymmetry is expected if autocrats seek to minimize political demands derived from taxation, which brings us to a key difference between the two: their political regimes.

Our theoretical argument suggests that preference for IPI derived from taxation is stronger in autocracies. To test our first hypothesis, we leverage the difference between the political

¹⁵Identity politics in Taiwan is not fundamentally driven by ethnic identity but by position on the China–Taiwan relationship (Chu, 2004).

¹⁶Confucianism in China may be weaker than in Taiwan after decades under communism; however, this concern cannot explain the difference between elites and nonelites in China, key to our argument.

¹⁷The GDP breakdown by sector was obtained from <https://www.statista.com/>

¹⁸We use tax revenue as percent of GDP as the measure of taxation capacity, and China and Taiwan achieved 21.5% vs. 16% of GDP in 2016, respectively. The VAT and consumption tax accounted for 31.9% and 24.7% in China and Taiwan, respectively.

regimes of these two societies in our research design. Given that Taiwan has electoral competition at different levels of government and better transparency than China, we expect demand for IPI to be stronger in China than in Taiwan at time of tax reform, *ceteris paribus*.

Arguably, China and Taiwan differ in dimensions other than the aforementioned factors, such as the history of colonization and political development, political status in the international system, and the size of jurisdiction. Key to our argument, those differences cannot account for the within-regime elite–nonelite differences in the relative preference for IPI that we observe in our data.

3.1 Design

To formally evaluate citizens’ preference for IPI in return for their taxes, we conducted four original online surveys for an urban sample of Chinese and Taiwanese respondents aged 18 and above.¹⁹ We commissioned Survey Sampling International (SSI) to implement identical survey experiments in both China and Taiwan.²⁰

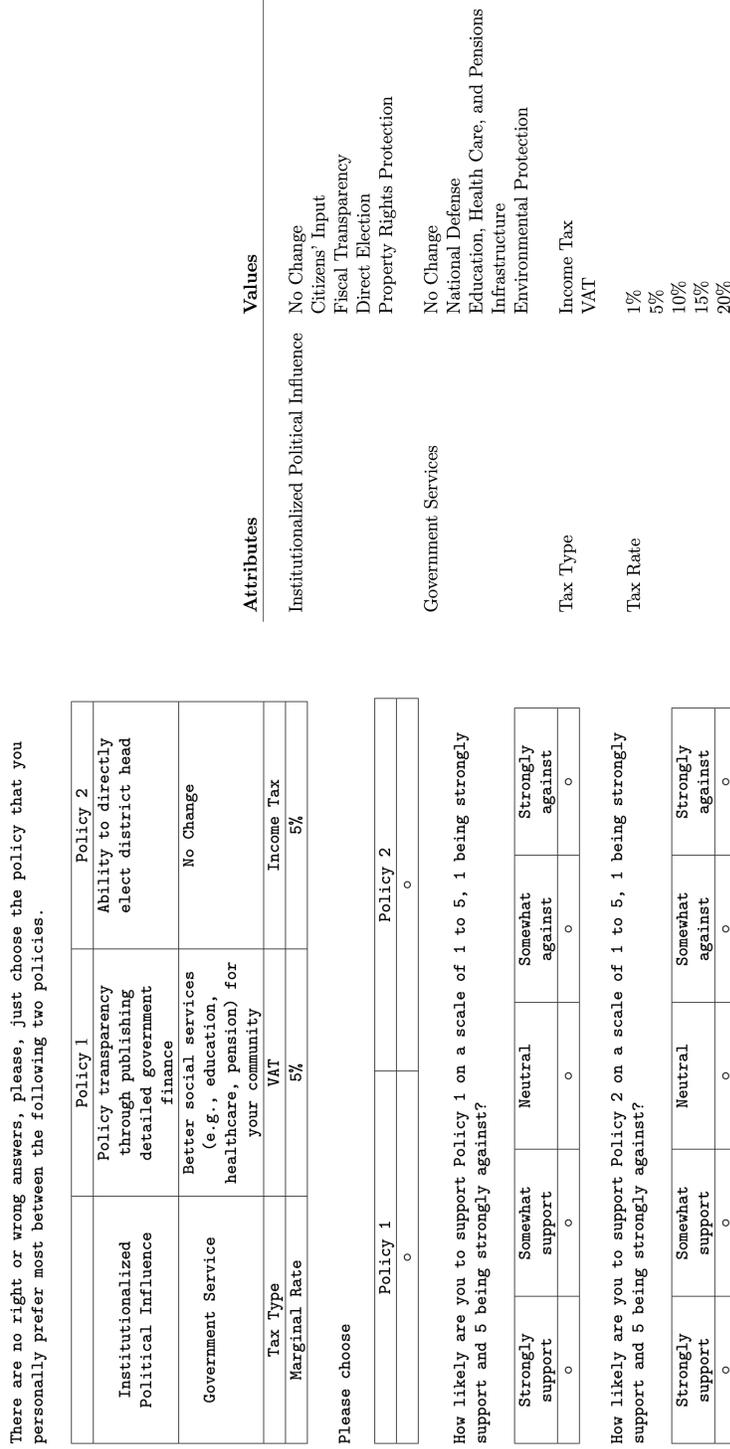
The results reported in this paper are based on the survey experiment we carried out between October and November 2017. To evaluate the preference for IPI associated with tax reform, we implement a conjoint experiment, a survey method in which respondents compare and choose between pairs of hypothetical tax policies. The conjoint experiment includes four dimensions: one focusing on IPI, another on government services, and two more on tax types and tax rates.

We chose the conjoint experiment design over a one-dimension survey experiment design for two reasons. First, the conjoint allows us to evaluate the effect of various aspects of a hypothetical tax reform on preference formation net of the influence of other dimensions. Hence, it is particularly suited to establish the *relative* preference for the various IPI values

¹⁹We believe our main results could be stronger if we include the rural sample for two reasons. First, rural residents in China have participated in rural elections since the 1980s; therefore preference for IPI should be weaker there. Second, rural residents also tend to lack information with respect to the VAT burden. Thus, the observed preference for government services among Chinese nonelites would potentially be stronger.

²⁰This study was granted an exemption by the Human Subjects Review Committees of three universities.

Figure 1: Attributes and Values in Conjoint Experiment



(b) Attributes and values

(a) A randomly generated paired comparison

raised in our theoretical framework: elections, participation, transparency, and property rights protection.

Second, a growing number of studies show that conjoint experiments mitigate social desirability issues because sensitive items are made part of a choice bundle (Hainmueller, Hopkins and Yamamoto, 2014; Horiuchi, Markovich and Yamamoto, 2020; Incerti, 2020). This property is particularly important to retrieve preferences for IPI in our autocratic case, where we expected and found some evidence of social desirability bias.²¹

Figure 1(a) shows an example of a paired comparison in our conjoint experiment. Each tax reform comprises four dimensions or *attributes*, the values of which are randomly drawn from a list of plausible values reported in Figure 1(b). The conjoint experiment allows us to evaluate how support for a hypothetical tax reform becomes stronger when it is accompanied by advances in IPI relative to government services while factoring out the implementation details of the reform, namely the type of tax used (direct–indirect) and its rate (low–high).²²

The values of the IPI dimension are based on several considerations, key among them our determination to resort to familiar and understandable concepts to our survey respondents. We carefully choose values that match the conceptualization of political participation, accountability, and representation commonly used in the existing literature while maintaining consistency with local context and language. For example, *the submission of citizens' opinions online or via telephone as well as through public hearing* is a typical form of political participation in both China and Taiwan (Chen, Pan and Xu, 2016; Distelhorst and Hou, 2017; Shi,

²¹To evaluate the existence and extent of social desirability bias, we embed a series of list experiments in the China survey. We create a hypothetical scenario in which annual income tax increased by RMB1,000 and ask respondents how many (not which) policies they think government should adopt given the increased tax burden. The control group chooses from among four nonsensitive demands. We allow for three treatment groups, whose members could choose among the four baseline items plus a randomly assigned sensitive one: establishing recall elections to remove poorly performing local politicians (Treatment Group #1), strengthening property rights (Treatment Group #2), and organizing a public hearing, where citizens could communicate their concerns and opinions to public officials (Treatment Group #3). Results of the list experiments, plotted in Appendix F.1, suggest that both elites and nonelites exhibit some social desirability bias. Although none of the between-group differences are statistically significant, results for the election treatment are nontrivial, suggesting that nonelites may be disproportionately reluctant to reveal their preferences for representation. This evidence makes a strong case for the use of conjoint experiments to retrieve preferences for IPI in China.

²²Refer to Appendix C for the translation of the attribute values and a sample screenshot of the conjoint experiment.

2015). Meanwhile, *fiscal transparency* is often part of the open information campaign in many countries that aims at enhancing government accountability.

One may argue that the former two values are not necessarily strong enough to ensure representation and accountability—the government may choose not to respond to citizens’ demands. We thus include a third value: citizens’ ability to *elect the district government executive*, enabling responsiveness to the constituents’ demands via electoral accountability (Ferejohn, 1986). The design of this value takes into account the differences in the electoral systems: Both China and Taiwan hold direct elections of village chiefs in rural areas, but Chinese citizens in urban areas can elect only representatives to local legislatures, not government executives (e.g., district heads, mayors, governors). Taiwanese citizens can directly elect mayors in urban districts. In other words the district executive is appointed by the municipal government instead of chosen by direct election in both China and Taiwan; thus our attribute value in the conjoint experiment concerning the election of the district government executive is a meaningful political reform for greater representation in both societies.

Last but not least, under IPI we list *property rights protection*, the primary concern among elites in the standard taxation–representation models (Ansell and Samuels, 2010, 2015; Bates and Lien, 1985). Although one could treat property rights protection as a government service, we group it with the rest of IPI values to emphasize the limits imposed by property safeguards on state predation.

Under government services, the second attribute, we include four common-interest goods in modern economies: *Education, health care, and pensions; National Defense; Environmental Policy; and Infrastructure*. These are all salient, tax-funded public goods and services in both China and Taiwan.

The third and fourth attributes account for the implementation details of hypothetical tax reform. By randomizing the tax type and tax rate we intend to factor out any preconceived notion of what a tax reform is and how tax progressivity might influence the taxation–representation connection, an important consideration that we seek to analyze in future

work. We consider two hypothetical tax types—the *income tax* and *VAT*—with five possible rates, starting at a negligible 1% and up to 20%. We purposively disregard a 0% rate to avoid impossible combinations with other values that involve government spending.

Every respondent is asked to complete six paired comparisons. In each round, respondents are assigned a different pair of randomly generated tax reform proposals, and are requested to choose which is most preferred.²³ We then estimate the average marginal component-specific effect (AMCE), namely the unconditional marginal effect of an attribute value averaged over all possible values of the other attributes. The AMCE can be estimated with linear regression under conditional independent randomization of attribute values (Hainmueller, Hopkins and Yamamoto, 2014). We clustered the standard errors at the individual level.²⁴

3.2 Data

Full and Unfiltered Sample. To test our hypotheses, we recruit business elites and ordinary citizens in our democratic and autocratic cases, four separate samples in total. For the elite sample we recruited 347 and 106 business elites in China and Taiwan, respectively, from the business-to-business panel of the SSI. These individuals hold top-level management positions: chairman of the board of directors, executive vice president, general manager, member of the board of directors, president or managing director, senior vice president, vice president, chief executive officer, and chief financial officer. The response rates were 13% in China and 35% in Taiwan, a common rate for business elite samples (e.g., Osgood, Tingley, Bernauer, Milner and Spilker 2016).

For the nonelite sample, we also leverage differences across regime types by sampling respondents from urban districts in both China ($N = 755$) and in Taiwan ($N = 718$). Quota samples based on age and gender were applied in the data collection.

²³The order of attributes and attribute values are randomized across respondents to avoid framing effects of any attribute. We confirm that results are robust to profile and attribute order.

²⁴AMCE estimates may hide important heterogeneity, just like average treatment effects (see the debate between Abramson, Koçak and Magazinnik (2019) and Bansak, Hainmueller, Hopkins and Yamamoto (2019)). Our mechanism section unpacks theoretically informed sources of preference heterogeneity. Also, the conjoint results are backed up by a direct question about policy concessions derived from tax payments (more below).

Filtered Sample. To approximate as much as possible the *rising economic elite* and *nonelite status* ideals in Ansell and Samuels (2010, 2015), we impose additional filters on the original SSI samples for our data analysis in the next section.²⁵

To ensure that our businesspeople approximate *rising economic elite* status, we impose two additional filters to the original SSI business samples: First, we declare our respondents part of the rising economic elite if they own or occupy managerial positions in *major* private firms and state-owned enterprises (SOEs), that is, with an employment size in the top 10% decile,²⁶ and if their monthly household income is at least twice the median income.²⁷ After the two filters are applied, the resulting rising economic elite samples include 272 and 79 respondents in China and Taiwan, respectively.

In creating the nonelite samples, we exclude all government employees and military personnel from the original data while keeping respondents who are wage earners, unemployed, retired, or students, and live in households earning below the median monthly income. By this definition, our nonelite samples include 264 and 315 in China and Taiwan, respectively.

3.3 Hypothesis 1: Difference Between Regime Types

We expect the connection between taxation and representation to be stronger in non-democratic regimes because of the credibility issues of autocrats. Since our argument is one of relative preferences, we report between-regime differences in the weight of each value in our conjoint analysis, namely parameter β_{ijk} , with attribute $i \in \{1, 2, 3, 4\}$, value j , and country k in Model Specification 1:

²⁵See Appendix B for a visual guide.

²⁶According to the 2013 China Economic Census the median firm size in China is under 7 employees. Firms are classified in the top 10% if they have 50+ employees. Taiwan's economy consists primarily of small and medium-sized firms. According to the Directorate General of Budget Accounting and Statistics in Taiwan, the median firm size in Taiwan is under 5 employees. Taiwan firms are classified in the top 10% if they have 10+ employees. In Appendix F.2, we restrict the sample to the top 5% and top 1% employment size firms, and results hold.

²⁷Median household income is around RMB15,000 (China) and TWD40,612 (Taiwan). See Appendix A for details.

$$\begin{aligned}
\text{Preferred Tax Reform} = & \beta_0 + \beta_{1j}(\sum_{j=1}^4 IPI_j) + \beta_{2j}(\sum_{j=1}^4 GovtService_j) \\
& + \beta_{3j}(\sum_{j=1}^4 TaxRate_j) + \beta_{4j}VAT_j + \beta_5Country_{k=China} \\
& + \beta_{1jk}(\sum_{j=1}^4 IPI_j \times Country_{k=China}) \\
& + \beta_{2jk}(\sum_{j=1}^4 GovtService_j \times Country_{k=China}) \\
& + \beta_{3jk}(\sum_{j=1}^4 TaxRate_j \times Country_{k=China}) \\
& + \beta_{4jk}(VAT_j \times Country_{k=China}) + \epsilon_{jk}
\end{aligned} \tag{1}$$

These estimates are directly interpretable in percentage points and comparable within and across attributes. We report the between-regime results for both the full and filtered samples in Figure 2.

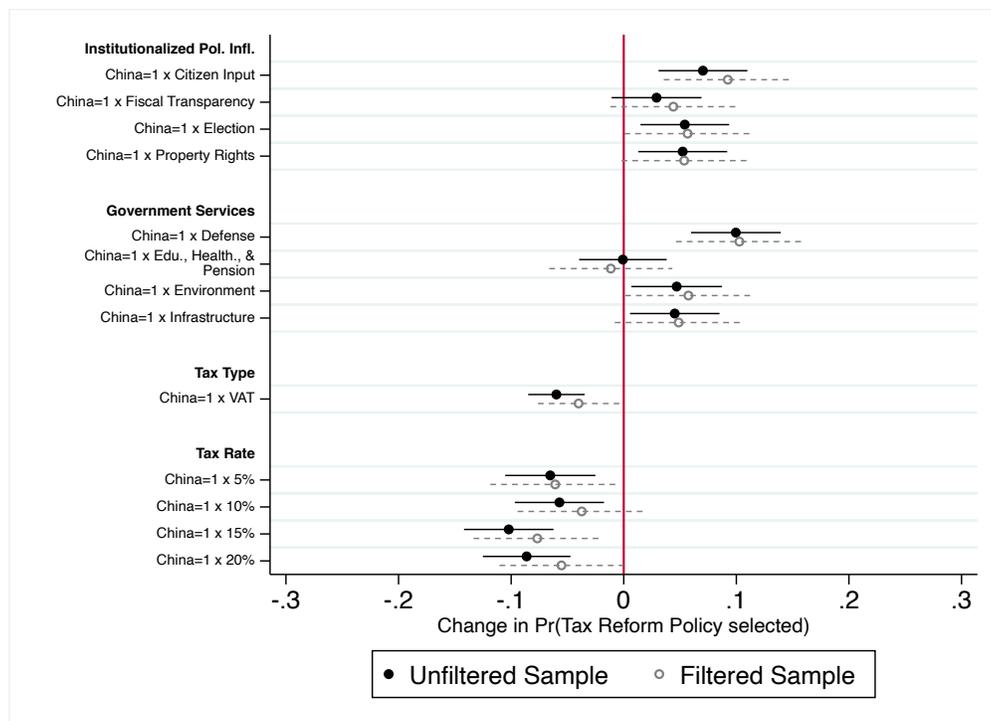
To investigate differences between political regimes, in Figure 2 we pool elite and nonelite samples in each country and show cross-country differences for the unfiltered and filtered samples, separately. Three important patterns emerge: First, in the context of a hypothetical tax reform, the average respondent in China shows stronger preference for three forms of IPI than the average respondent in Taiwan: Citizen’s input, Election of the Executive in District Government, and Property Rights Protection receive stronger weights in the Chinese sample. For instance, granting citizens opportunities to influence policy-making increases support for tax reform in China by 10% points relative to Taiwan, *ceteris paribus*.

Second, we find that Chinese respondents are also more likely to demand greater public goods provision than Taiwanese respondents with the exception of education, healthcare, and pensions. Although this result does not directly speak to Hypothesis 1, it is consistent with the underprovision of public goods in autocracies resulting from low political accountability. Moreover, Chinese respondents are in general less favorable to high tax rates because they arguably lack mechanisms to discipline the autocratic government.

Third, we find little differences between the unfiltered and filtered samples. The latter decreases the precision of the estimates because of its smaller size but reinforces our confidence

in its representativeness of the ideal elite–nonelite types in Ansell and Samuels (2010, 2015). For the remaining analyses, we primarily focus on the filtered samples.

Figure 2: Differences in Conjoint Estimates Between Regime Types



Note: This plot shows the differences in estimates between China and Taiwan respondents on the probability of supporting a tax reform policy. Samples are pooled within countries and compared between countries. The filtered *rising economic elite* sample is populated by respondents who own or occupy managerial positions in private firms and SOEs in the top 10% employment decile, whose monthly household income exceeds twice the median income. The filtered *nonelite* sample is populated by wage earners, the unemployed, retired people, and students living in households earning below the median monthly income. The bars indicate 95% CI. This figure plots results for a model without controls. Refer to Appendix D for the nondifferentiated estimates. Results with controls are virtually identical, and we report them in regression format in Appendix E.

3.4 Hypothesis 2: Difference Between Elites and Nonelites in the Autocratic Case

Relative to ordinary citizens we expect rising economic elites to disproportionately favor advances in IPI at times of tax reform, particularly in the nondemocratic case, where the ruler’s credibility issues are greater. To test our second prediction, we rerun the conjoint results by focusing on the filtered Chinese samples of rising economic elites (N=272) and nonelites (N=264).

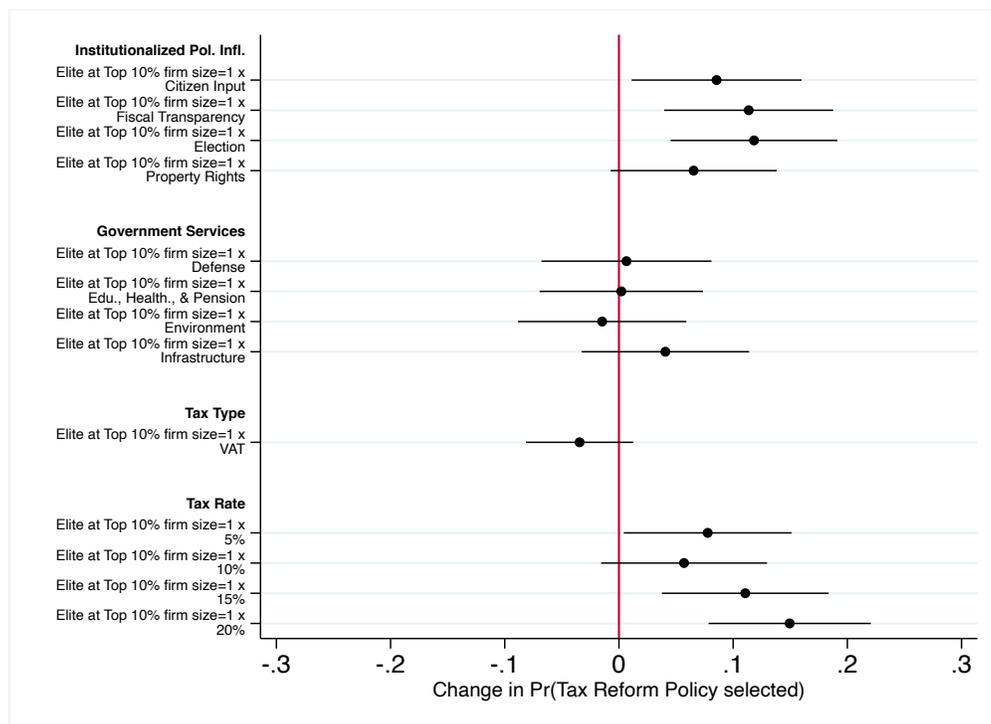
Because we are interested in relative preferences, we report between-group differences in the weight of each value in our conjoint analysis, namely parameter β_{ijg} , with attribute $i \in \{1, 2, 3, 4\}$, value j , and group $g \in \{\text{rising economic elites, nonelites}\}$ in Model Specification 2:

$$\begin{aligned}
 \text{Preferred Tax Reform} = & \beta_0 + \beta_{1j}(\sum_{j=1}^4 IPI_j) + \beta_{2j}(\sum_{j=1}^4 GovtService_j) \\
 & + \beta_{3j}(\sum_{j=1}^4 TaxRate_j) + \beta_{4j}VAT_j + \beta_5 Group_{g=elite} \\
 & + \beta_{1jg}(\sum_{j=1}^4 IPI_j \times Group_{g=elite}) \\
 & + \beta_{2jg}(\sum_{j=1}^4 GovtService_j \times Group_{g=elite}) \\
 & + \beta_{3jg}(\sum_{j=1}^4 TaxRate_j \times Group_{g=elite}) \\
 & + \beta_{4jg}(VAT_j \times Group_{g=elite}) + \epsilon_{jg}
 \end{aligned} \tag{2}$$

We report elite–nonelite differences in Figure 3, which reveals interesting patterns: First, relative to nonelites, rising economic elites in China attach stronger preference to IPI: Support for a hypothetical tax reform is 10+ points higher for this group than for nonelites when it is accompanied by advances in fiscal transparency, citizens’ input, and local elections. Results for property rights protection are not statistically significant at 95% confidence, but they meet the 90% cutoff ($p = 0.078$, two-tailed).

Second, rising economic elites attach weight to government services similar to nonelites, confirming that business owners and managers benefit from functional states and qualified and a healthy labor force (Beramendi, Dincecco and Rogers, 2019). Indeed, the auxiliary data confirm that our rising economic elites and nonelites are similarly satisfied with public goods

Figure 3: Differences in Conjoint Estimates Between Rising Economic Elites and Nonelites in China



Note: This plot shows the differences in estimates between rising economic elite respondents and nonelite respondents in China. Estimates are drawn from the filtered samples. Recall, the filtered rising economic elite sample is populated by respondents who own or occupy managerial positions in private firms and SOEs in the top 10% employment decile, whose monthly household income exceeds twice the median income. The filtered nonelite sample is populated by wage earners, the unemployed, retired people, and students living in households earning below the median monthly income. The bars indicate 95% CI. We report absolute values in Appendix D.

in China (refer to Appendix F.3).

Third, both elites and nonelites reduce their support for a hypothetical tax reform as tax rates increase and almost in a linear fashion (see absolute values in Appendix D). Figure 3, however, suggests that rising economic elites are relatively less averse to higher taxation than nonelites. Below we show that rising elites have better understanding of the tax system; hence the tax rate values in the conjoint experiment may be less of a negative shock for them than for nonelite subjects. Perhaps more relevant for the argument is that nonelites' seemingly greater aversion to tax rates does not translate into stronger preference for IPI.

Last but not least, our results suggest that the cooptation strategy does not attenuate demand for representation among economic elites in China. Consistently, we find in Appendix

G that no statistically significant differences exist in preferences for IPI between CCP and non-CCP members in the rising economic elite.

3.4.1 Direct Request

The conjoint experiment elicits respondents' preferences for IPI through a bundle of policy attributes. This technique is particularly advantageous in dealing with sensitive topics, but it might not be well equipped to directly test the tension in the standard tax bargaining model (Moore, 2004; Ross, 2004).

We included a question in the survey that allows us to evaluate the relative preferences of Chinese rising economic elites and nonelites in a more direct fashion. We asked respondents to choose between two ways to conceptualize the connection between taxes and policy-making. The first option emphasizes gains in government services following taxation, explicitly excluding advancement in institutionalized political influence, whereas the second option explicitly connects it with tax increases. The exact wording of the question in English reads as follows:

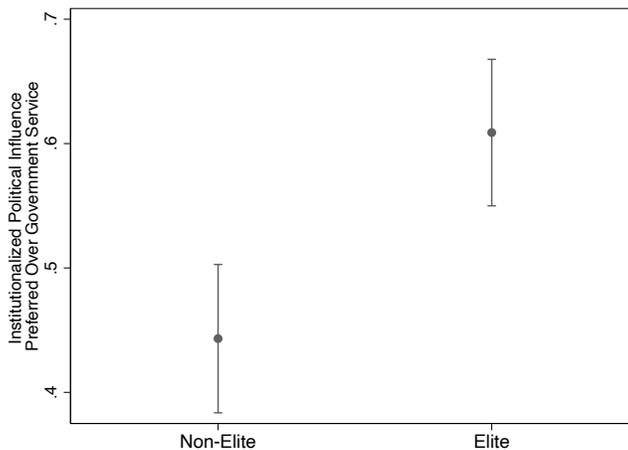
- (a) As long as government spends my tax money on high-quality and generous public goods, I do not care about participating in policy-making.
- (b) In return for paying taxes, I would like to have some say in policy-making.

We plot in Figure 4 the proportion of respondents in each group option choosing option (b). Seemingly, the rising economic elites would be more inclined to prioritize gains in political representation than nonelites at time of tax reform. The elite–nonelite difference is 17 points and statistically significant at 95%.

4 Evaluating Mechanisms for Hypothesis 1

Our analysis suggests that respondents attach more weight to IPI in the autocratic case, particularly so the rising economic elites. Results are consistent with the autocrat's credibility issues in not using the tax apparatus to seize private wealth created by recent economic growth. To shed light on how credibility issues shape preference for IPI, we first study rising economic

Figure 4: Direct Request about Preferences for IPI and Government Services by Elite Status in China



Note: The vertical axis indicates the proportion of respondents who choose political say over government services when they are directly requested. Estimates are drawn from the filtered samples. 95% CI.

elite differences between regimes. Then, we evaluate whether rising economic elites who least trust the Chinese government develop a stronger preference for IPI.

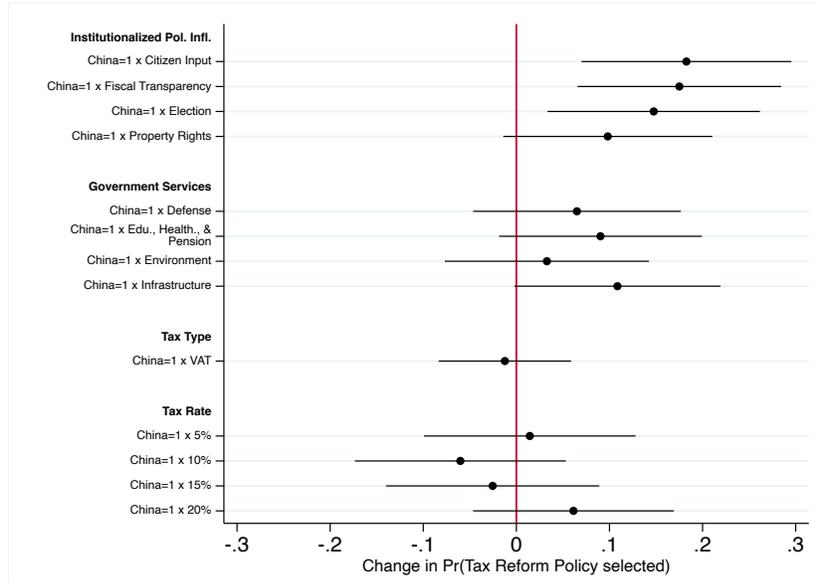
4.1 Differential Exposure to Predation

Representation is meant to mitigate the risk of expropriation by a revenue-maximizing ruler. Because autocrats have a comparative disadvantage at credibly committing not to use taxation as an expropriation tool, we expect rising economic elites in China to value IPI more strongly than their counterparts in Taiwan. To show evidence of this, we compare conjoint estimates for rising economic elites in the two regime types.

Figure 5 plots AMCE differences for rising economic elites in China and Taiwan.²⁸ Consistent with our expectation, remarkable differences exist for the IPI values between Chinese and Taiwanese rising economic elites. A hypothetical tax reform in China accompanying stronger preferences in citizen input, fiscal transparency, or elections increases support by 15+ points relative to the same reform in Taiwan, *ceteris paribus*. The effect of property rights protection

²⁸The model specification is similar to Model Specification 2 but now the group index refers to rising economic elites in China and Taiwan.

Figure 5: Differences between Chinese and Taiwanese Rising Economic Elites



Note: This plot shows the differences in estimates between rising economic elite respondents in China and Taiwan, our autocratic and democratic cases, respectively. Estimates are drawn from the filtered samples. The bars indicate 95% CI. We report absolute values in Appendix D.

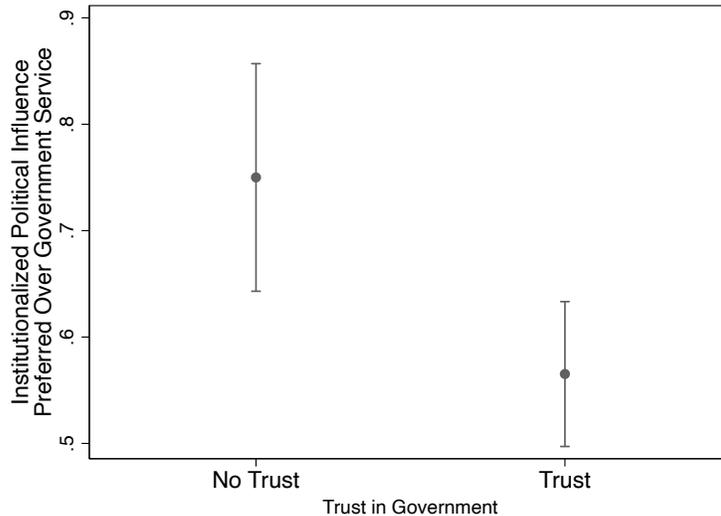
is also substantial, 10+ points, but is significant only at 90% (p-value=0.086, two-tailed).

Next, we investigate how the autocrat’s credibility issues shape preferences for IPI among rising economic elites in China by soliciting levels of Trust in Government. Levi (1998) offers an extensive discussion on the relationship between credible commitment and trust in government:

despite that trust and commitment are different mechanisms for resolving uncertainty, commitment is one of the means to create trust. [She adds,] credible commitments [...] reduce the citizen’s need to make a personal investment in monitoring and enforcing government and thus enhance citizen trust of government. (p.85-6)

We retrieve trust in government by the levels of agreement with the following question: “How much can you generally trust government officials to make good policies and implement them?” We expect low levels of individual trust in government to correlate with perceived low credibility of the rule, strengthening preference for IPI in exchange for tax payments.

Figure 6: Trust and Preference for IPI among Rising Economic Elites in China



Note: This figure reports the proportion of rising economic elites who choose IPI (relative to government services) if the tax burden increases, divided by levels of trust in the government. We measure trust by levels of agreement with “How much can you generally trust government officials to make good policies and implement them?” The Trust indicator used in the analysis equals 1 if respondents “strongly” or “somewhat” trust the government, and 0 if they distrust government “somewhat” or “strongly.” Estimates drawn from the filtered rising economic elite sample in China: N = 64 for Elite + No trust, and N = 208 for Elite + Trust. The bars indicate 95% CI.

We split the respondents in the China elite sample into two groups based on their expressed trust in government and investigate differences in their answers to the survey question used in Figure 4, namely whether respondents prefer political participation or public goods provision in return for taxation. The proportion of Chinese elites who prefer political say over government services upon taxation is 18 points higher (and statistically significant at 95%) for those who express low levels of trust in government.

Credibility issues in China might be mitigated by joining the CCP; that is, in the absence of IPI, business owners may secure property rights by joining the party (Hou, 2019). This strategy is likely to ameliorate the risk of expropriation, but it may still be vulnerable to credibility issues. Consistently, we find that rising economic elites who are CCP members but do not trust the government disproportionately prefer having a say in policy-making upon paying taxes (details in Appendix G)

Overall, this section provides supporting evidence that rising economic elites articulate

strong preference for IPI in autocratic regimes because of government credibility issues. Representation potentially offers mechanisms with which the winners of rapid economic growth alleviate the autocrat’s temptation to expropriate private wealth via taxation.

5 Evaluating Mechanisms for Hypothesis 2

Why do preferences differ between rising economic elites and nonelites, particularly in the autocratic case? We argue that rising economic elites are disproportionately exposed to predation risks because of their accumulated wealth. Our review of the literature identifies two additional reasons: One speaks to informational considerations, the other to collective action problems. We expect rising economic elites to meet these requirements more often than nonelites, strengthening their preference for IPI. Our findings are consistent only with the tax awareness mechanism arguably because the political climate prevents us from properly testing for the collective action mechanism. We consider two additional mechanisms for elite–nonelite differences—income effects and culture—but our data are not consistent with them.²⁹

5.1 Information Requirement

We conjecture that having some understanding of the tax burden and tax incidence is necessary to activate the taxation–representation connection. We expect rising economic elites to be more familiar with the tax system than ordinary citizens, meeting the information requirement more often. For instance, our data show that roughly 80% of our rising economic elites have paid an income tax for five or more years relative to 60% of nonelites. Still, differences in tax awareness are greatest when we examine indirect taxation. Figure 7(a) shows that twice as many rising economic elites are aware of the existence of the VAT than nonelites.³⁰ VAT awareness is a compelling benchmark to measure tax literacy in China

²⁹Capital mobility, such as the ability to move asset overseas, could increase the rising economic elites’ bargaining power vis-à-vis the state, thus strengthening their preference for IPI relative to nonelites. This mechanism, inspired in Bates and Lien (1985), is unlikely to apply to China, where capital controls are tight.

³⁰In Appendix H.1, we show that these differences do not mask education levels.

because this tax remains hidden in the vast majority of consumer receipts despite being the largest in East Asia.

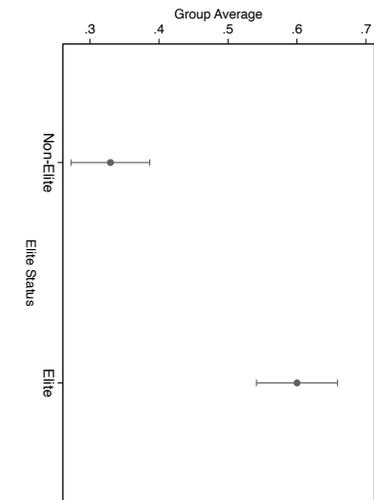
We examine the information mechanism by considering two simple subset analyses: First, in Figure 7(b) we see that a few nonelites who score high in VAT awareness have preferences similar to those of rising economic elites who also score high in that dimension. Notice that these estimates denote differences in AMCE, not the absolute values. The lack of statistical difference between both groups suggests that informed nonelites, although in the minority, show preference profiles similar to those of rising economic elites.³¹ Second, in Figure 7(c) we see that the subgroup of nonelites who score high in tax awareness show stronger preference for two of the four IPI values in the conjoint experiment—Fiscal Transparency, and Elections of Local Government—but at only 90% confidence ($p = 0.049$ and $p = 0.095$, two-tailed, respectively). Together, Figures 7(b)–(c) offer suggestive evidence that an understanding of the tax burden and incidence, here approximated by VAT awareness, potentially activates the taxation–representation connection.

Arguably, fiscal illusion is more likely when tax rates are low. When tax rates increase substantially, they may turn more salient, potentially activating the taxation–representation logic in the general population (Prichard, 2015). To investigate differential responses to tax rates, we evaluate AMCE responses to policy bundles for *high* and *low* tax rates, separately. The former group of policy bundles includes tax reforms involving 15 and 20% tax rates; the latter 1, 5, and 10%. When tax rates are high, respondents may evaluate more scrupulously the proposed use of public funds.

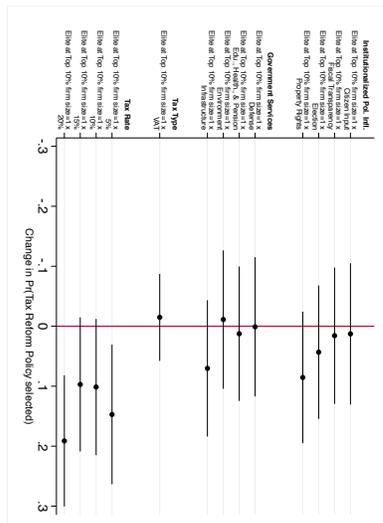
We report the results of this exercise in Figures 8(a) and 8(b). An interesting pattern emerges: The differences between groups in preferences for IPI are more pronounced for lower tax rates. When the hypothetical tax rate is mild, rising economic elites show stronger preference for Fiscal Transparency and Elections than ordinary citizens; yet the elite–nonelite differences grow smaller in Figure 8(b) when we focus on policy bundles including high tax rates only. The point estimates of the elite–nonelite differences in 8(b) are smaller than those

³¹ The non-differentiated values of VAT-aware elites and nonelites can be found in Appendix H.1.

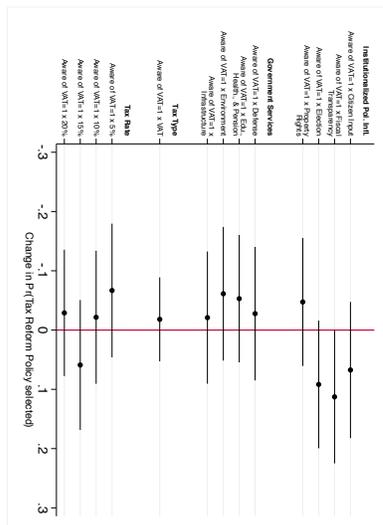
Figure 7: Differences in IPI Preference by VAT Awareness and Elite Status in China



(a) VAT Awareness



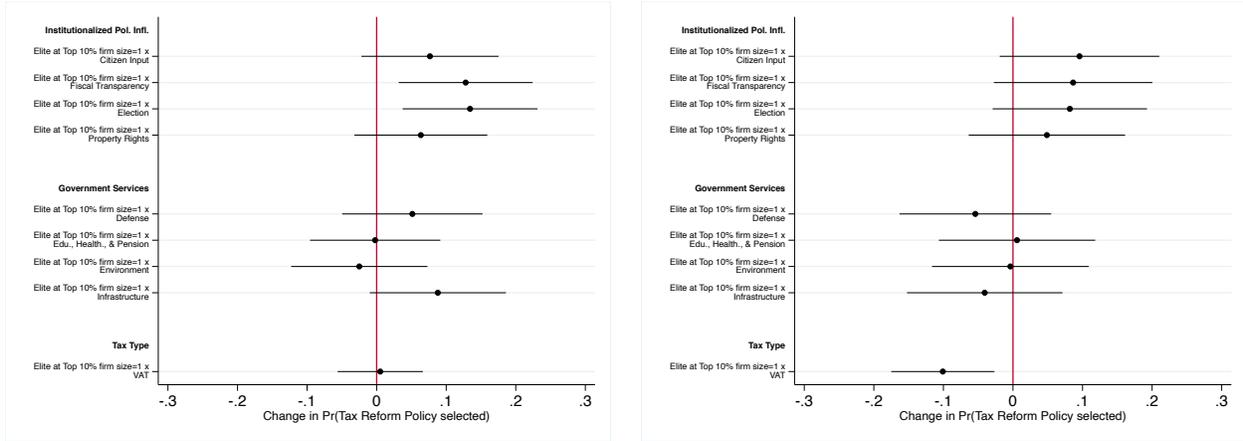
(b) Elites and Nonelites Aware of VAT



(c) Nonelite Only

Note: We ask respondents how often VAT is levied on purchases. We transform the four-category response into a dummy variable: Never/Seldom (0) vs. Often/Always (1). Estimates are drawn from the filtered samples in China. The bars indicate 95% CI.

Figure 8: Differences in Conjoint Estimates between Chinese Rising Economic Elites and Ordinary Citizens for Low and High Tax Rates



(a) Low Tax Rate

(b) High Tax Rate

Note: This plot shows the differences in estimates between rising economic elite and nonelite respondents in China for high and low tax rates. In the high tax rate group, we pool all tax reforms that include 15% and 20% tax rates, and in the low tax rate group we include all tax reforms that include 10%, 5%, and 1% tax rates. Estimates are drawn from the filtered sample in China. The bars indicate 95% CI.

in 8(a), and they lose statistical significant at 95% (also at 90%).

Combined, Figures 8a and 8b offer some suggestive evidence that ordinary citizens may become more scrupulous in evaluating a tax reform when the proposed tax rates are high, arguably more salient. In other words higher rates seem to make nonelite respondents more prone to prioritize advances in IPI, narrowing the gap with rising economic elites. Although this test draws from a very small sample and should be interpreted with caution, differential responses to IPI depending on the ambition of the tax reform point to a promising path in the research of the microfoundations of the taxation–representation connection

5.2 Organizational Requirement

We argue that rising economic elites are more likely to meet organizational requirements to effectively advance their collective interest: They are well informed about the tax burden, have deep pockets, and are few in number. These characteristics are meant to give rising economic elites comparative advantage in exploiting the opportunities offered by IPI, hence

their stronger preference for it relative to nonelites.

Questions about group organization and collective action could put our respondents in China at risk for political reasons (King, Pan and Roberts, 2013), so we approximate their answers rather imperfectly by retrieving self-reported levels of “internal” and “external” political efficacy. Individuals have high internal political efficacy if they think they are capable of influencing policy-making, and high external efficacy if they think that public officials care about people like them. We presume that individuals who have a comparative advantage in acting collectively score high in both dimensions. Although we can confirm that rising elites score significantly higher on both types of political efficacy, the relatively weak preference for IPI for the nonelite remains even for those who show high efficacy levels. We report all these results in Appendix H.2. Our measure of collective action is too imperfect to draw definitive answers from this test. We hope to revisit this important mechanism using a different strategy in the near future.

5.3 Income Effect and Exposure to Western Ideas

We consider a third mechanism to explain the elite–nonelite differences, one that is not necessarily grounded in the taxation–representation model. The rising economic elite may be able to buy into the private market services otherwise provided by the state (e.g., health care), allowing this group to prioritize IPI demands in a hypothetical tax negotiation. We refer to this mechanism as an income effect.

Because income is subsumed into elite status, we test this mechanism in two other ways: First, exploiting differential time-horizons between rising economic elites and ordinary citizens. In this test nonelites are assumed to prioritize short-term consumption over long-term investment; that is, ordinary citizens may more strongly prefer government services at hand than any future service that could result from gains in IPI. In Appendix H.3 we confirm that nonelites have shorter time horizons, but a subset analysis does not provide strong support for this mechanism. Nonelites with longer time horizons do not show stronger preference for

IPI.

Second, elites' preferences for IPI could be driven by their greater satisfaction with government goods and services; however, our additional analysis does not provide supporting evidence for this alternative explanation (See Appendix F.3 for more details). We collected information about both individual consumption of and satisfaction with a battery of government services: education, healthcare, infrastructure, and the environment. We first find that the level of satisfaction with education and infrastructure is statistically indistinguishable between elites and nonelites in China. Meanwhile, elites are more satisfied in healthcare and environment than nonelites by 12 and 9 percentage points, respectively. Nonetheless, we do not find that greater satisfaction with healthcare and environment increases elites' preference for IPI in our subset analysis.

Finally, relative to ordinary citizens, rising economic elites might be more widely exposed to Western ideas, including the notion of "No Taxation without Representation" (NTWR), popular in the Anglo-Saxon world. Chinese elites study and travel overseas for business and leisure, increasing their potential exposure to the NTWR logic. We evaluate this explanation in Appendix H.4 by manipulating exposure to NTWR and drawing from an episode of tax resistance led by Karl Marx in 1848.³² Although our manipulation strengthens preference for IPI, we conclude that it cannot account for the relative differences between rising economic elites and ordinary citizens.

6 Conclusion

In this article we highlight two scope conditions under which taxation might prompt pressures for representation in rapidly industrializing economies. Seminal contributions on the origins of limited government emphasize the role of monarchs' credibility issues in spurring taxpayers' demands for IPI (Bates and Lien, 1985; North and Weingast, 1989). Meanwhile, scholars who study the expansion of liberal democracy in the heyday of the Industrial Revo-

³²We draw from Western communist ideology to preempt any censorship.

lution emphasize the new commercial elites' push for IPI as a means to protect their wealth from state predation (Ansell and Samuels, 2010; Congleton, 2010; Llavador and Oxoby, 2005; Mares and Queralt, 2015).

Building on these insights, we expect demand for IPI to be most preferred under autocratic regimes and disproportionately so by rising economic elites. Results drawn from simultaneous survey experiments in China and Taiwan lend support to both predictions. The evidence in the mechanism section is also consistent with the autocrat's credibility issues in fiscal policy. Rising economic elites in China seem to be more wary of state predation than their counterparts in Taiwan, hence attach greater weight to advances in IPI at times of tax reform. Consistently, rising economic elites who distrust the government in China show stronger preference for IPI than elites who show confidence in government. These patterns are robust to CCP membership, indicating that cooptation strategies are not immune to credibility issues. Our findings suggest that business organizations may someday play a leading role in "tying the autocrat's hand" in the realm of tax policy, emulating what they did in the domain of foreign direct investment (Wang, 2015).

Our investigation draws interesting implications for the resource curse literature. The vast majority of this scholarship focuses on the weakening effects of oil and aid on ordinary citizens' demands for political accountability (Ross, 2015). Our findings shed light on a nonmutually exclusive, elite-based mechanism connecting windfall revenue to regime stabilization. Autocrats who can secure funds with windfall revenue may be less tempted to expropriate private wealth, weakening the rising economic elites' incentives to pressure for gains in representation. In other words, windfall revenue may demobilize the most combative and arguably effective societal group in their quest for democratic reform. We hope to see this conjecture tested in future work.

Nonelites in our data show on average weaker preference for IPI; however, we find that those who are more aware of the tax system show preference profiles similar to those of the rising economic elites. This finding is consistent with the conclusions in Herbst (2000) and

Moore (2004) and Prichard (2015), among others, who suspect that low-salience taxes like tariffs and VAT are at the bottom of autocratic rule in large parts of the developing world. At the same time, our findings resonate with the work of Paler (2013), who points out to the key role of information in activating the taxation–representation connection among ordinary citizens.

Our findings suggest that in drafting conditionality and policy prescription for the developing world and emerging economies (e.g., Kentikelenis, Stubbs and King 2016), international financial institutions may consider the potential adverse effects on political accountability that highly efficient but low-salience taxes (e.g., VAT) may introduce into fragile democracies and autocratic polities. Tax reform that weakens citizens’ understanding of the effective tax burden will do little to improve fiscal responsibility and accountability.

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****NOT FOR PUBLICATION****

Supplementary Online Appendices

These appendices contain materials, results and robustness checks that supplement the main text.

A	Data Details	2
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A Data Details

Sample of Survey October-November 2017. The breakdown of the age and gender quota in China is as follows: aged 18-24: 19% aged 25-34: 22%; aged 35-44: 23%; aged 45-54: 21%; aged 55+: 16%; Male: 51%; Female: 49%. These quotas were based on the 2010 China Census for the urban population, the most recent census. The breakdown of the age and gender quota in Taiwan is as follows: aged 18-24: 15% aged 25-34: 17%; aged 35-44: 19%; aged 45-54: 19%; aged 55+: 30%; Male: 50%; Female: 50%. These quotas were based on Taiwanese 2010 Census. We adjust the quotas slightly at the end of data collection for both rounds of survey in China and Taiwan because it is extremely difficult to fully fulfill the quota for the 55+ age groups in China and Taiwan. The response rates for elite sample were 35% and 13% in Taiwan and China, respectively.

Income and Elite Status: China. In the main document, we restrict economic elite in China to those whose monthly household income is at least RMB15,001. According to the National Bureau of Statistics in China, the median annual disposable income for an urban resident is 33,834 RMB. We assume the household income reported by our respondents derives from two wage earners. Hence, the median for an urban resident's monthly disposable income is around 5,639RMB. Thus our economic elites' household income is at least three times larger than the median urban household income in China. For more details about the raw data from the National Bureau of Statistics in China, see http://www.stats.gov.cn/tjsj/zxfb/201801/t20180118_1574931.html (Accessed March 18, 2018).

Income and Elite Status: Taiwan. For Taiwan, we restrict economic elites to those living in households with a total monthly income of 92,001 TWD, where the median monthly household income is 40,612 TWD. See the following page from the Directorate General of Budget, Accounting and Statistics in Taiwan for more details. The <https://www.dgbas.gov.tw/ct.asp?xItem=41083&ctNode=5624>(Accessed March 18, 2018).

Tables A-1 and A-2 report descriptive statistics for the pooled sample, and the elite and nonelite samples for the October-November 2017 surveys in China and Taiwan, respectively. The pooled sample includes all individuals in both the general and the SSI business-to-business samples before we apply additional filters to identify elites and nonelites within the two sample pools, as explained in Section 3.2.

Table A-1: China Sample: Summary statistics

Variable	Pooled Sample					Elite Sample					Nonelite Sample				
	Mean	Std.Dev.	Min	Max	N	Mean	Std.Dev.	Min	Max	N	Mean	Std.Dev.	Min	Max	N
Choice	0.538	0.499	0	1	1047	0.507	0.501	0	1	270	0.565	0.497	0	1	262
Elite Status	0.507	0.5	0	1	536	1	0	1	1	272	0	0	0	0	264
Tax Conception†	0.533	0.499	0	1	1061	0.609	0.489	0	1	271	0.443	0.498	0	1	264
Trust in Government	0.696	0.46	0	1	1077	0.765	0.425	0	1	272	0.625	0.485	0	1	264
Time Horizon	0.62	0.486	0	1	1079	0.515	0.501	0	1	272	0.64	0.481	0	1	264
Years paying Income Tax (Categorical)	3.891	1.24	1	5	1060	4.115	0.903	1	5	270	3.629	1.512	1	5	264
Awareness of VAT existence	2.473	0.909	1	4	1057	2.737	0.832	1	4	270	2.246	0.941	1	4	264
Satisfaction with Education	0.634	0.482	0	1	1056	0.674	0.47	0	1	270	0.648	0.479	0	1	262
Satisfaction with Health Care	0.505	0.5	0	1	1055	0.631	0.484	0	1	268	0.504	0.501	0	1	262
Satisfaction with Infrastructure	0.839	0.368	0	1	1053	0.829	0.377	0	1	263	0.837	0.371	0	1	263
Satisfaction with Environment	0.566	0.496	0	1	1055	0.637	0.482	0	1	270	0.546	0.499	0	1	260
Male	0.562	0.496	0	1	1102	0.662	0.474	0	1	272	0.473	0.5	0	1	264
Age	37.959	11.624	19	72	1102	36.331	7.652	20	61	272	39.182	14.664	19	72	264
Married	0.838	0.369	0	1	1055	0.967	0.18	0	1	270	0.686	0.465	0	1	264
CCP Member	0.31	0.463	0	1	1055	0.322	0.468	0	1	270	0.269	0.444	0	1	264
Income (Categorical)	8.114	2.521	1	14	1051	10.515	2.089	8	14	270	5.841	1.188	1	7	264
Education (Categorical)	5.873	0.765	3	8	1102	6.301	0.647	4	8	272	5.549	0.778	4	7	264

† Proportion of respondents that prefer political say over public goods when asked directly.

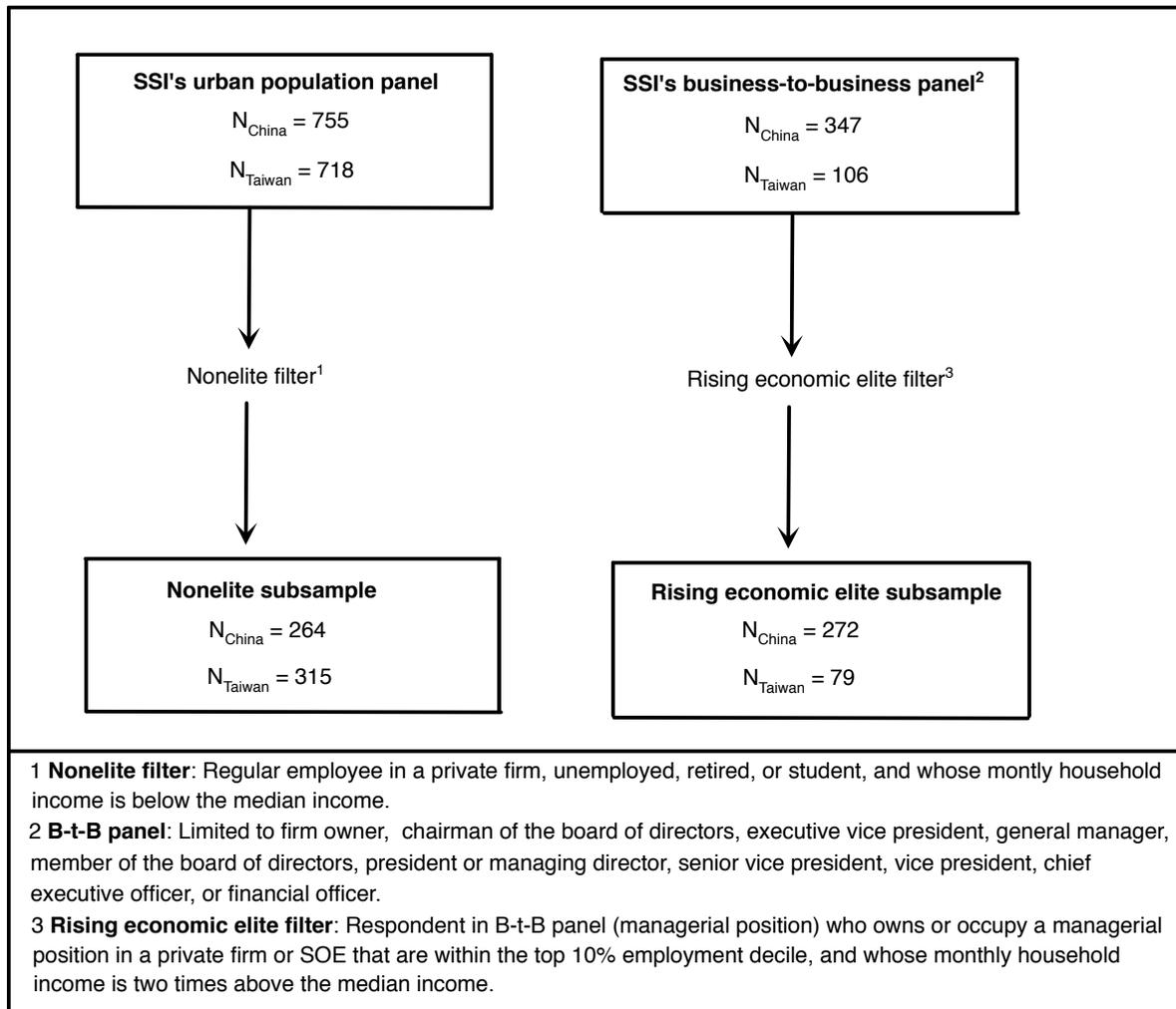
Table A-2: Taiwan Sample: Summary statistics.

Variable	Pooled Samples					Elite Sample					Nonelite Sample				
	Mean	Std.Dev.	Min	Max	N	Mean	Std.Dev.	Min	Max	N	Mean	Std.Dev.	Min	Max	N
Choice	0.517	0.5	0	1	801	0.558	0.5	0	1	77	0.518	0.5	0	1	313
Elite Status	0.201	0.401	0	1	394	1	0	1	1	79	0	0	0	0	315
Tax Conception [†]	0.492	0.5	0	1	805	0.623	0.488	0	1	77	0.483	0.5	0	1	315
Trust in Government	0.193	0.395	0	1	809	0.351	0.48	0	1	77	0.203	0.403	0	1	315
Time Horizon	0.584	0.493	0	1	811	0.494	0.503	0	1	77	0.622	0.486	0	1	315
Years paying Income Tax (Categ.)	3.903	1.447	1	5	805	4.091	1.183	2	5	77	3.581	1.583	1	5	315
Awareness of VAT existence	3.017	0.994	1	4	805	3.286	0.792	1	4	77	2.87	1.07	1	4	315
Satisfaction with Education	0.441	0.497	0	1	786	0.597	0.494	0	1	77	0.458	0.499	0	1	306
Satisfaction with Health Care	0.763	0.426	0	1	788	0.781	0.417	0	1	73	0.794	0.405	0	1	310
Satisfaction with Infrastructure	0.587	0.493	0	1	799	0.688	0.466	0	1	77	0.627	0.484	0	1	311
Satisfaction with Environment	0.355	0.479	0	1	797	0.506	0.503	0	1	77	0.348	0.477	0	1	310
Male	0.557	0.497	0	1	824	0.772	0.422	0	1	79	0.457	0.499	0	1	315
Age	39.927	12.92	19	79	824	40.646	10.492	21	69	79	37.448	13.263	19	79	315
Married	0.549	0.498	0	1	804	0.714	0.455	0	1	77	0.422	0.495	0	1	315
Party Membership (Categ.)	3.563	0.975	1	4	805	3.169	1.207	1	4	77	3.622	0.924	1	4	315
Income (Categ.)	6.558	3.184	1	14	803	10.61	2.183	8	14	77	4.305	1.923	1	7	315
Education (Categ.)	5.728	0.996	2	8	824	6.215	0.915	4	8	79	5.502	0.962	2	8	315

[†] Proportion of respondents that prefer political say over public goods when asked directly.

B Rising Economic Elite and Nonelite Samples

Figure A-1: From Raw Samples to Rising Elite and Nonelite Subsamples



Refer to Appendix F.2 for stricter criteria to define rising economic elite.

C Conjoint Experiment: Implementation Details

In this Appendix, as an example, we show a real screenshot of a paired comparison for China and Taiwan, and the Chinese translation of all values in the conjoint experiment.

Figure A-2: Conjoint Analysis in China

不管您做出怎样的选择，这些选择都没有对错。我们只是想知道您在比较两个不同税制改革方案时您个人最倾向的是哪个方案。

	方案一	方案二
税种	个人所得税	个人所得税
税收主要用于增加以下方面的支出	增加社区周围的绿化空间和公园	不需要任何改变
税收主要用于改善以下的政府职能	让老百姓直选区长	提供更好的法律措施保护私人产权
税率	20%	1%

请选择

方案1	方案2
<input type="radio"/>	<input type="radio"/>

在以下1至5的维度之中，1表示强烈支持，5表示强烈反对。请问您在多大程度上支持方案1？

1.强烈支持	2.有些支持	3.没有意见	4.有些反对	5.强烈反对
<input type="radio"/>				

在以下1至5的维度之中，1表示强烈支持，5表示强烈反对。请问您在多大程度上支持方案2？

1.强烈支持	2.有些支持	3.没有意见	4.有些反对	5.强烈反对
<input type="radio"/>				

Figure A-3: Conjoint Analysis in Taiwan

不管您做出怎樣的選擇，這些選擇都沒有對錯。我們只是想知道在這兩個不同的賦稅改革方案中，您個人最傾向的是哪個方案。

	方案一	方案二
稅種	個人綜合所得稅	個人綜合所得稅
稅收主要用於改善以下的政府職能	不需要任何改變	讓人民直選區長
稅收主要用於增加以下方面的支出	增強國家安全與國防支出	不需要任何改變
稅率	5%	20%

請選擇

方案1	方案2
<input type="radio"/>	<input type="radio"/>

在以下1至5的維度之中，1表示強烈支持，5表示強烈反對。請問您在多大程度上支持方案1？

1. 強烈支持	2. 有些支持	3. 沒有意見	4. 有些反對	5. 強烈反對
<input type="radio"/>				

在以下1至5的維度之中，1表示強烈支持，5表示強烈反對。請問您在多大程度上支持方案2？

1. 強烈支持	2. 有些支持	3. 沒有意見	4. 有些反對	5. 強烈反對
<input type="radio"/>				

Attributes	Values
制度化的政治影响力	不需要任何改变 透过网络和电话向政府反馈意见，或者经由听证会让政府知道老百姓的意见 公布详细的政府财政信息来增加政策的透明度 让老百姓直选区长
政府服务	提供更好的法律措施来保障财产权 不需要任何改变 增强国家安全与国防支出 增加社区周围更好的社会服务（例如教育、医疗、退休福利等等） 提供社区更好的基础建设（例如地方道路、高速公路、电力供应等等） 增加社区周围的绿化空间和公园
税种	个人所得税
税率	增值税 1% 5% 10% 15% 20%

Table A-3: Translated Policy Dimensions and Values for the Tax Reform Conjoint Experiment (China)

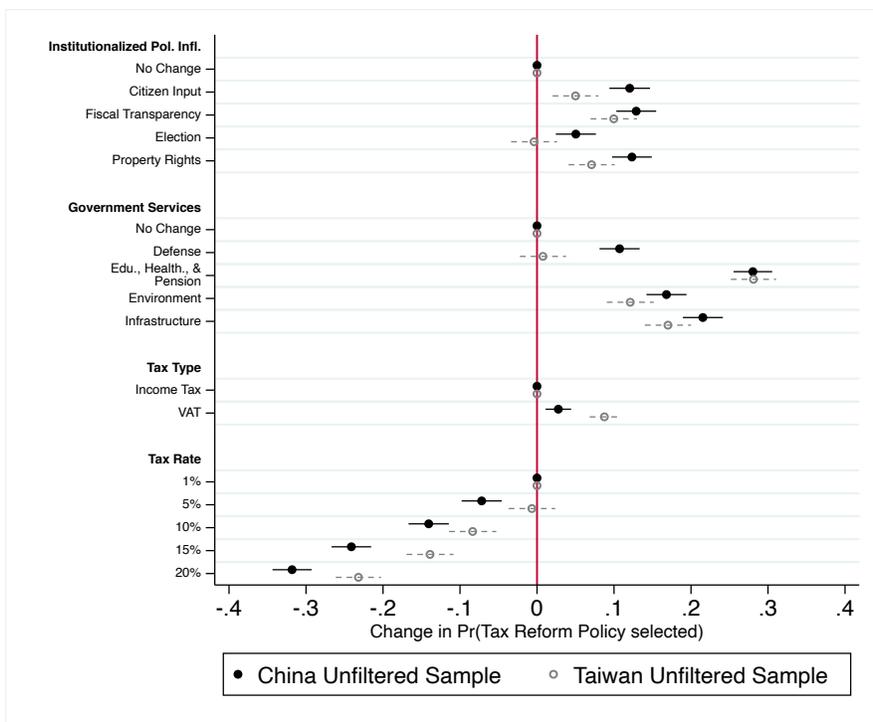
Attributes	Values
制度化的政治影響力	不需要任何改變 透過網路和電話向政府反饋意見，或者經由公聽會讓政府知道人民的意見 公佈詳細的政府財政資訊來增加政策的透明度 讓人民直選區長
政府服務	提供更好的法律規範來保障財產權 不需要任何改變 增國家安全與國防支出 增加社區周圍更好的社會服務（例如教育、醫療、退休福利等等） 提供社區更好的基礎建設（例如地方道路、高速公路、電力提供等等） 增加社區周圍的綠化空間和公園
稅種	個人綜合所得稅 營業稅
稅率	1% 5% 10% 15% 20%

Table A-4: Translated Policy Dimensions and Values for the Tax Reform Conjoint Experiment (Taiwan).

D Conjoint Experiment: Baseline Results without Interaction Terms

In Figure 2 in the main text we report differences in conjoint estimates between the pooled samples in China and Taiwan. Figure A-4 reports the undifferentiated AMCE.

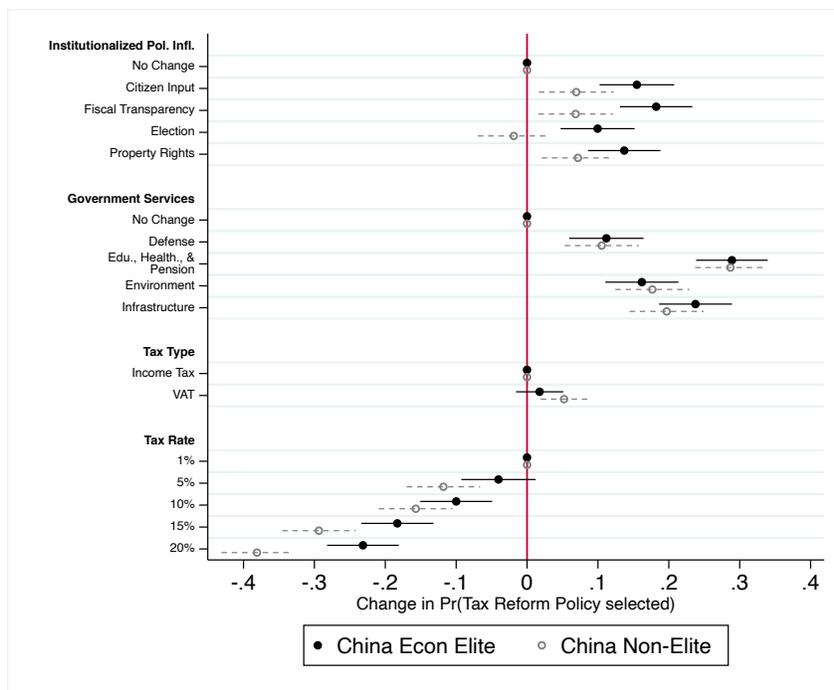
Figure A-4: Conjoint Experiment Baseline Model



Note: This plot shows estimates of the effects of randomly assigned attributes for different tax reform dimensions on the probability of supporting a tax reform policy. Estimates are drawn from the unfiltered samples. The bars indicate 95% confidence intervals.

In Figure 3 in the main text we report differences in conjoint estimates by elite status within China. Figure A-5 reports the undifferentiated AMCE.

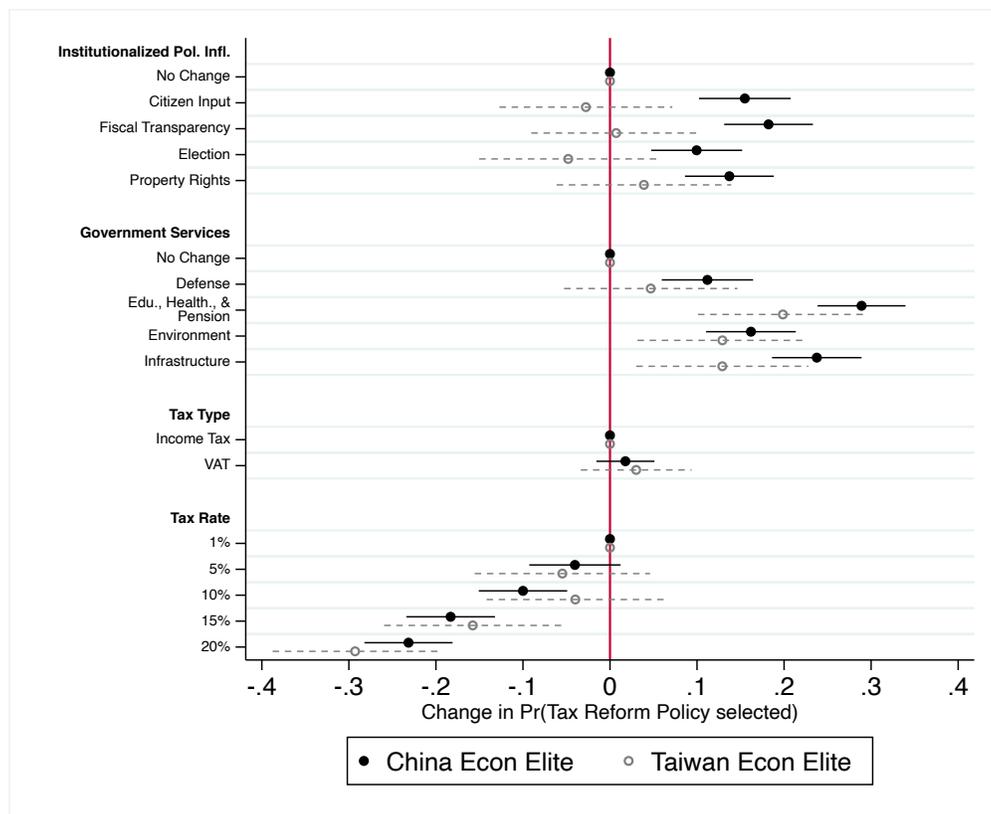
Figure A-5: Conjoint Experiment by Elite Status within the Autocratic Case



Note: This plot shows estimates of the effects of randomly assigned attributes for tax reform dimensions on the probability of supporting a tax reform policy. Estimates are drawn from the filtered sample. The bars indicate 95% confidence intervals.

In Figure 5 in the main text we report differences in conjoint estimates between Chinese and Taiwanese rising economic elites. Figure A-6 reports the undifferentiated AMCE.

Figure A-6: Conjoint Experiment by Political Regime within the Rising Elite Sample



Note: This plot shows estimates of the effects of randomly assigned attributes for tax reform dimensions on the probability of supporting a tax reform policy. Estimates are drawn from the filtered samples. The bars indicate 95% confidence intervals.

E Conjoint Experiment: Results in Regression Format

Table A-5: Main Conjoint Experiment for Hypothesis 1

	UNFILTERED SAMPLE		FILTERED SAMPLE	
	(1)	(2)	(3)	(4)
China = 1	0.011 (0.024)	0.012 (0.024)	-0.028 (0.034)	-0.028 (0.034)
Institutionalized Pol. Infl.: Citizen Input	0.050*** (0.015)	0.050*** (0.015)	0.019 (0.022)	0.019 (0.022)
Institutionalized Pol. Infl.: Fiscal Transparency	0.100*** (0.015)	0.100*** (0.015)	0.082*** (0.022)	0.082*** (0.022)
Institutionalized Pol. Infl.: Election	-0.004 (0.015)	-0.004 (0.015)	-0.016 (0.022)	-0.017 (0.022)
Institutionalized Pol. Infl.: Property Right	0.071*** (0.015)	0.071*** (0.015)	0.050** (0.022)	0.050** (0.022)
China × IPI: Citizen Input	0.070*** (0.020)	0.070*** (0.020)	0.092*** (0.029)	0.093*** (0.029)
China × IPI: Fiscal Transparency	0.029 (0.020)	0.029 (0.020)	0.044 (0.029)	0.044 (0.029)
China × IPI: Election	0.054*** (0.020)	0.054*** (0.020)	0.057** (0.029)	0.057** (0.029)
China × IPI: Property Right	0.052*** (0.020)	0.053*** (0.020)	0.054* (0.028)	0.054* (0.028)
Government Service: Defense	0.008 (0.015)	0.008 (0.015)	0.006 (0.022)	0.006 (0.022)
Government Service: Pub. Goods & Services	0.281*** (0.015)	0.282*** (0.015)	0.302*** (0.022)	0.303*** (0.022)
Government Service: Environment	0.121*** (0.016)	0.121*** (0.016)	0.112*** (0.022)	0.112*** (0.022)
Government Service: Infrastructure	0.170*** (0.015)	0.170*** (0.015)	0.171*** (0.022)	0.171*** (0.022)
China × Government Service: Defense	0.100*** (0.020)	0.100*** (0.020)	0.103*** (0.029)	0.103*** (0.029)
China × Government Service: Pub. Goods & Services	-0.001 (0.020)	-0.001 (0.020)	-0.012 (0.028)	-0.013 (0.028)
China × Government Service: Environment	0.047** (0.021)	0.047** (0.021)	0.057** (0.029)	0.058** (0.029)
China × Government Service: Infrastructure	0.045** (0.020)	0.046** (0.020)	0.049* (0.029)	0.048* (0.029)
Type of tax reform: VAT	0.088*** (0.010)	0.087*** (0.010)	0.076*** (0.014)	0.076*** (0.014)
China × Type of tax reform: VAT	-0.060*** (0.013)	-0.060*** (0.013)	-0.040** (0.018)	-0.040** (0.019)
Marginal rate: 5%	-0.007 (0.015)	-0.006 (0.015)	-0.015 (0.022)	-0.015 (0.022)
Marginal rate: 10%	-0.084*** (0.016)	-0.083*** (0.016)	-0.089*** (0.022)	-0.089*** (0.022)
Marginal rate: 15%	-0.139*** (0.016)	-0.139*** (0.016)	-0.160*** (0.022)	-0.161*** (0.022)
Marginal rate: 20%	-0.232*** (0.015)	-0.232*** (0.015)	-0.249*** (0.021)	-0.250*** (0.021)
China × Marginal rate: 5%	-0.065*** (0.020)	-0.066*** (0.020)	-0.061** (0.029)	-0.061** (0.029)
China × Marginal rate: 10%	-0.057*** (0.020)	-0.057*** (0.020)	-0.037 (0.029)	-0.038 (0.029)
China × Marginal rate: 15%	-0.102*** (0.020)	-0.103*** (0.020)	-0.077*** (0.029)	-0.077*** (0.029)
China × Marginal rate: 20%	-0.086*** (0.020)	-0.087*** (0.020)	-0.055** (0.028)	-0.055** (0.028)
N	22,176	22,176	11,064	11,064
Socio-Economic Controls	No	Yes	No	Yes
R-squared	0.096	0.096	0.097	0.097

Estimates drawn from rising economic elite and nonelite unfiltered and filtered samples in China and Taiwan. Constant not reported. Socio-economic controls are: Gender, age, education, marital status, and monthly household income. Cluster standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table A-6: Main Conjoint Experiment for Hypothesis 2

	(1)	(2)
Elite at Top 10% firm size	-0.145*** (0.043)	-0.190* (0.113)
Institutionalized Pol. Infl.: Citizen Input	0.069*** (0.027)	0.071*** (0.027)
Institutionalized Pol. Infl.: Fiscal Transparency	0.069** (0.027)	0.069** (0.027)
Institutionalized Pol. Infl.: Election	-0.019 (0.026)	-0.019 (0.026)
Institutionalized Pol. Infl.: Property Right	0.072*** (0.026)	0.072*** (0.026)
Elite × IPI: Citizen Input	0.085** (0.038)	0.082** (0.038)
Elite × IPI: Fiscal Transparency	0.114*** (0.038)	0.114*** (0.038)
Elite × IPI: Election	0.118*** (0.037)	0.115*** (0.038)
Elite × IPI: Property Right	0.065* (0.037)	0.064* (0.037)
Government Service: Defense	0.105*** (0.027)	0.106*** (0.027)
Government Service: Pub. Goods & Services	0.287*** (0.025)	0.288*** (0.026)
Government Service: Environment	0.177*** (0.027)	0.178*** (0.027)
Government Service: Infrastructure	0.197*** (0.027)	0.198*** (0.027)
Elite × Government Service: Defense	0.007 (0.038)	0.008 (0.038)
Elite × Government Service: Pub. Goods & Services	0.002 (0.036)	0.007 (0.037)
Elite × Government Service: Environment	-0.015 (0.038)	-0.019 (0.038)
Elite × Government Service: Infrastructure	0.041 (0.037)	0.043 (0.038)
Type of tax reform: VAT	0.052*** (0.017)	0.052*** (0.017)
Elite × Type of tax reform: VAT	-0.034 (0.024)	-0.035 (0.024)
Marginal rate: 5%	-0.118*** (0.026)	-0.118*** (0.026)
Marginal rate: 10%	-0.157*** (0.027)	-0.158*** (0.027)
Marginal rate: 15%	-0.294*** (0.026)	-0.295*** (0.026)
Marginal rate: 20%	-0.381*** (0.026)	-0.383*** (0.026)
Elite × Marginal rate: 5%	0.078** (0.037)	0.075** (0.038)
Elite × Marginal rate: 10%	0.057 (0.037)	0.058 (0.037)
Elite × Marginal rate: 15%	0.111*** (0.037)	0.107*** (0.038)
Elite × Marginal rate: 20%	0.150*** (0.036)	0.149*** (0.037)
N	6,384	6,288
Socio-Economic Controls	No	Yes
R-squared	0.104	0.105

Estimates drawn from rising economic elite and nonelite filtered samples in China. Constant not reported. Socio-economic controls are: Gender, age, education, job sector, CCP membership, and monthly household income, and marital status. Cluster standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

F Conjoint Experiment: Motivation and Robustness

F.1 Social Desirability

We retrieve preferences for IPI with a conjoint experiment because we anticipate social desirability issues. To measure levels of social desirability, we implement the following list experiment. Results are commented in Ft.21 in the main text.

Suppose that the government was about to increase your annual income tax by 1,000 yuan. How many of the following policies do you think the government should prioritize given your additional tax payment? We do not need to know which policies you think government should prioritize, we only want to know how many of these four policies you think that government should prioritize.

[Control and Treatment]

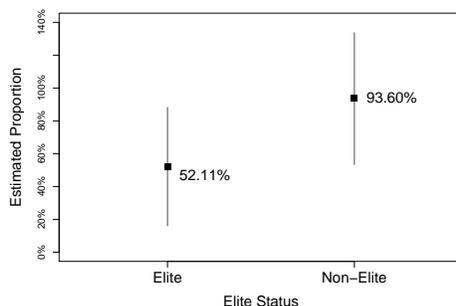
1. Building nuclear plants near big cities in order to guarantee power supply.
2. Expanding social services (e.g., education and health care, etc.).
3. Improving infrastructure (e.g., roads, bridges, etc.).
4. Hosting the 2030 Asian Game.

[Treatment Groups 1-3]

- 5.1 Ability to remove low-performing local politicians with a recall election.
- 5.2 Strengthening property rights protection.
- 5.3 Organize public hearings to offer citizens opportunities to communicate their concerns and opinions to public officials.

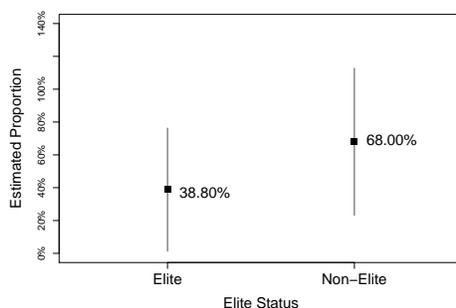
Results by elite status are plotted in Figures A-7-A-9. None of the Welch's t-test can reject the null hypothesis of no difference at conventional levels. However, results for Figure A-7 recommend using survey techniques to overcome social desirability bias among the nonelite. To that end, we implement a conjoint experiment (Horiuchi, Markovich and Yamamoto, 2020).

Figure A-7: List Experiment with *Holding Local Elections in Response to Tax Increase* being the Sensitive Topic.



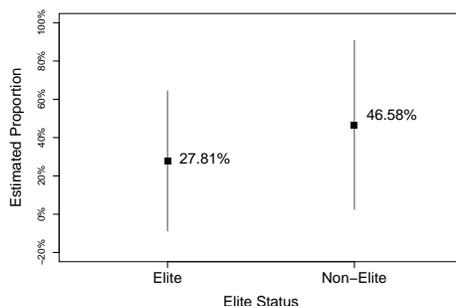
Note: Difference between control and treated group average of number of items plotted with 95 CI by elite status. Estimates drawn from China Rising Economic Elite and Nonelite filtered samples. Sample size: Elite = 146, Nonelite = 135. A Welsch's t-test: $p = 0.128$ (two-tailed).

Figure A-8: List Experiment with *Strengthening Property Rights in Response to Tax Increase* being the Sensitive Topic.



Note: Difference between control and treated group average of number of items plotted with 95 CI by elite status. Estimates drawn from China Rising Economic Elite and Nonelite filtered samples. Sample size: Elite = 132, Nonelite = 135. Welsch's t-test: $p = 0.327$ (two-tailed).

Figure A-9: List Experiment with *Organizing Public Hearing in Response to Tax Increase* being the Sensitive Topic.



Note: Difference between control and treated group average of number of items plotted with 95 CI by elite status. Estimates drawn from China Rising Economic Elite and Nonelite filtered samples. Sample size: Elite = 147, Nonelite = 119. Welsch's t-test: $p = 0.851$ (two-tailed).

F.2 Stricter Criteria for Rising Economic Elites Status

Results in Figure 5 (differentiated) and Figure A-6 (undifferentiated) are restricted to rising economic elites working at firms within the top 10% of the employment distribution. These correspond to firms with 50+ employees in China and 10+ employees in Taiwan. We can elevate the threshold to select respondents working at firms in the top 5% and top 1% employment distribution. The number of rising elite observations changes as follows:

The number of elite observations based on different China elite firm size definitions:

Top 10% (50+ employees): N=272 (main text)

Top 5% (100+ employees): N=231

Top 1% (200+ employees): N=207

The number of elite observations based on different Taiwan elite firm size definitions:

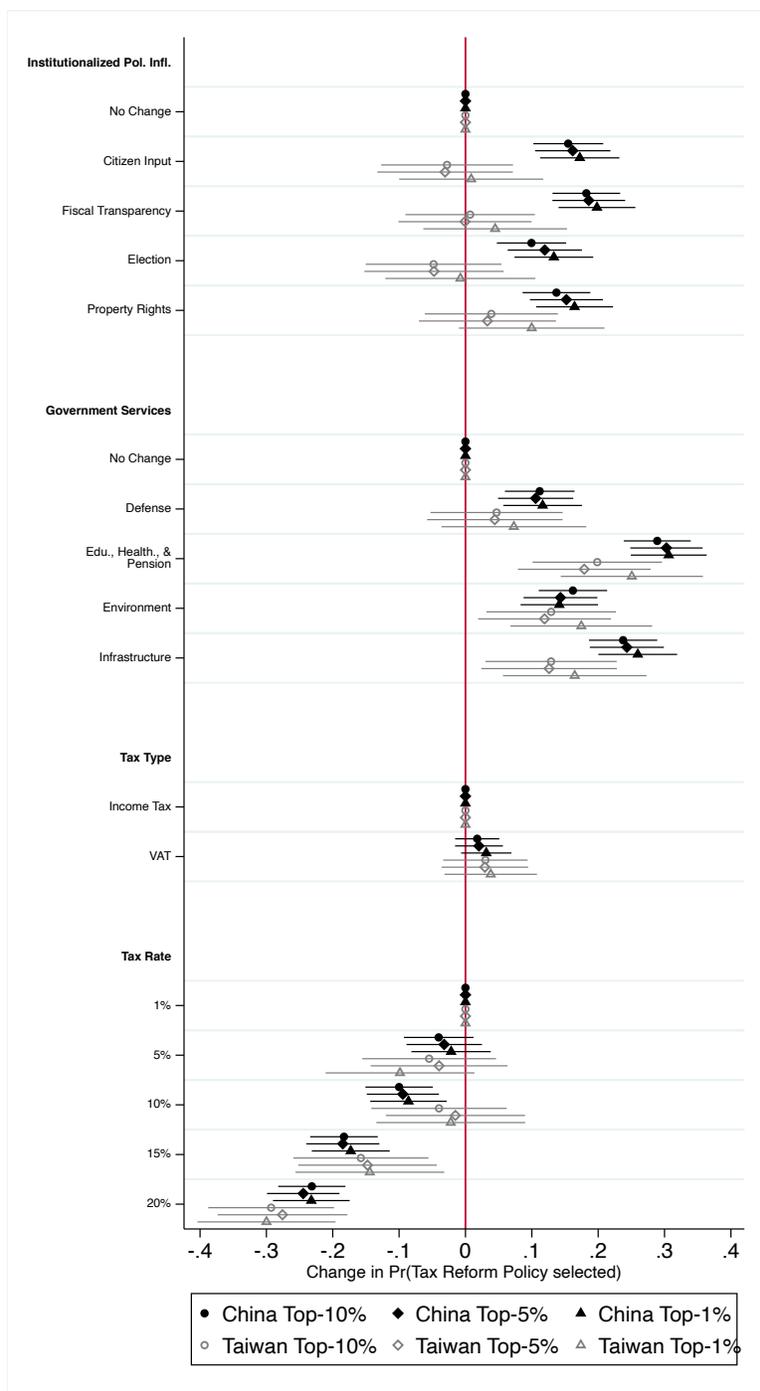
Top 10% (10+ employees): N=79 (main text)

Top 5% (20+ employees): N=76

Top 1% (50+ employees): N=65

Figure A-10 plots undifferentiated AMCE when we restrict rising economic elite status to belonging to the 5% largest and 1% largest firms in China and Taiwan. For reference, we plot results for the top 10%, those reported in Figure A-6. Results are virtually identical for the three definitions.

Figure A-10: Conjoint Experiment with Stricter Definition of Rising Elite: Top 10%, 5%, and 1% firms, measured by total employees

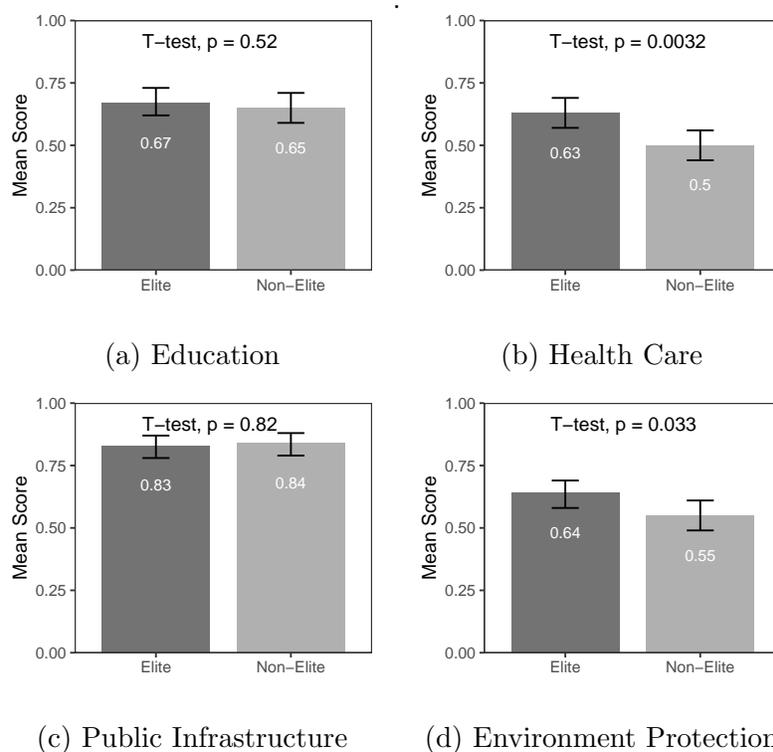


Note: This plot shows estimates of the effects of randomly assigned attributes for different tax reform dimensions on the probability of supporting a tax reform policy. Estimates drawn from China and Taiwanese Rising Economic Elites samples. The bars indicate 95% CI.

F.3 Satisfaction with Public Goods

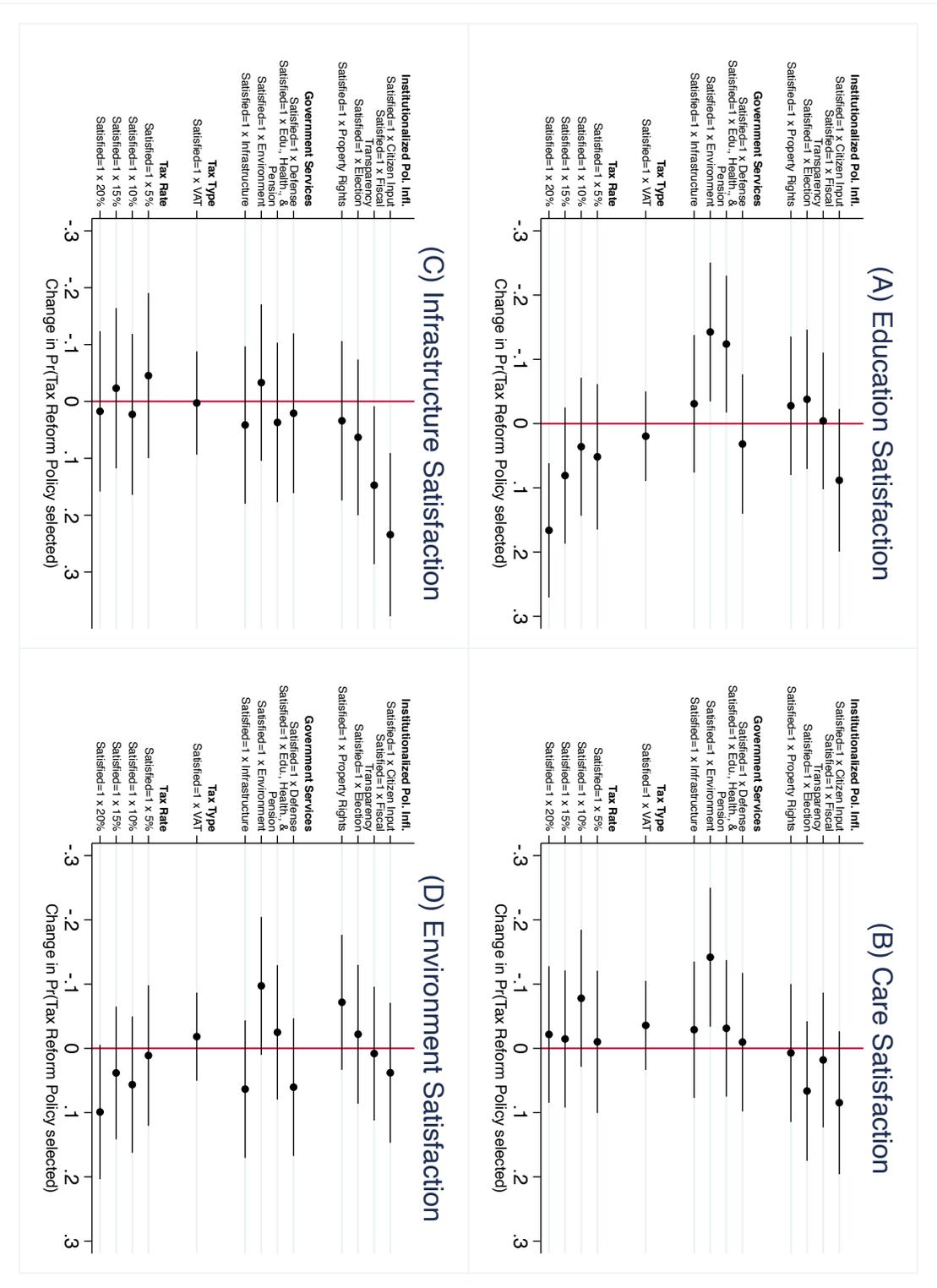
Figure A-11 shows the proportion of Chinese respondents satisfied with public education, health care, infrastructure, and the environment by economic status. First, we find that the level of satisfaction with education and infrastructure is statistically indistinguishable between elites and nonelites in China. Meanwhile, elites are more satisfied in healthcare and environment than nonelites by 12 and 9 percentage points, respectively. However, in Figure A-12 we do not find that greater satisfaction with healthcare and environment protection increases elites' preference for IPI.

Figure A-11: Satisfaction with Government Services Goods in China by Elite Status



Note: We ask respondents how satisfied they are with four types of government services. We transform the four-category response into a dummy variable: Not satisfied at all/Somewhat dissatisfied (0) vs. Somewhat satisfied/Very satisfied (1). Estimates are drawn from the filtered samples in China. The bars indicate 95% CI.

Figure A-12: Conjoint Analysis by Satisfaction with Public Goods for Rising Economic Elites in China



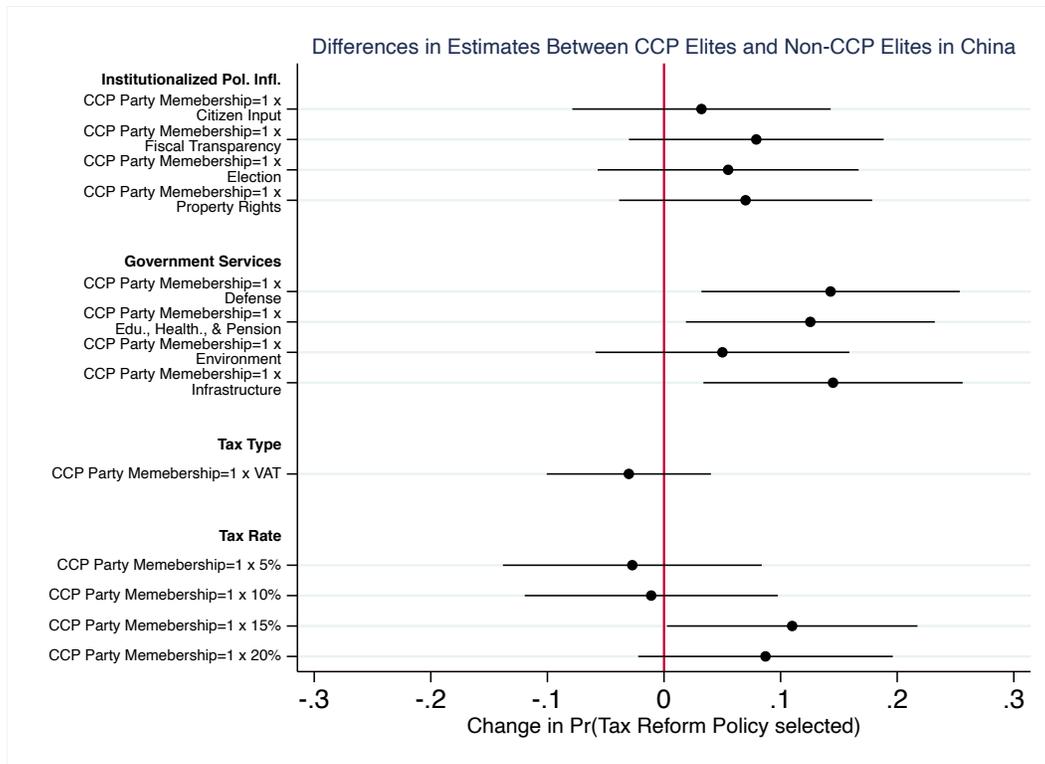
Note: This plot shows the differences in estimates for rising economic elites in China satisfied and dissatisfied with a battery of government services. Estimates drawn from the filtered sample. N for Rising economic elites in China satisfied (dissatisfied) with education, health care, infrastructure, and environment are: 182(88), 169(99), 218(45), and 172(98), respectively. The bars indicate 95% CI.

G Cooptation and Party Membership

Businessmen and women in China may reduce the risk of expropriation by becoming members of the CCP (Hou, 2019). Cooptation likely reduces the risk of expropriation but, we conjecture, to a lower extent than institutionalized ability to constrain the executive’s discretion, or IPI. We show evidence of this twofold: First, we run a subset analysis of the main conjoint experiment by CCP membership. Second, we compare the proportion of rising elites who are also CCP members who prefer gains in political say following a tax increase for different levels of trust in government.

First, Figure A-13 shows differences in AMCE by CCP membership within the rising economic elite sample in China. IPI coefficients do not change in any systematic change by party membership and if any, they move against the notion that CCP membership fully solves credibility issues.

Figure A-13: Conjoint Analysis by CCP membership China

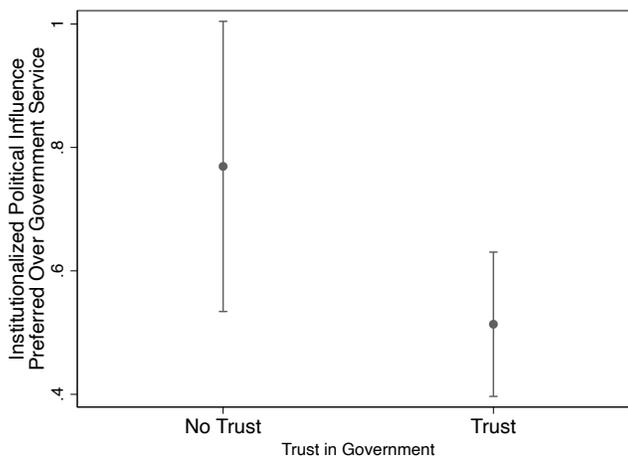


Note: This plot shows differences in AMCE by CCP membership within the rising economic elite sample in China. Estimates are drawn from the filtered sample. IPI coefficients do not change in any systematic change by party membership and if any it moves against the notion that CCP membership fully solves credibility issues. Estimates are drawn from the filtered sample. The bars indicate 95% confidence intervals.

Second, Figure A-14 shows that rising economic elites who are also CCP members but distrust the government express stronger preference for political say following a hypothetical

tax increase. The difference between groups is of 25.6 points, and it is significant at 90% level (p-value = 0.056) despite the small sample size.

Figure A-14: Party Membership, Trust, and Political Say Within the Rising Economic Elites in China



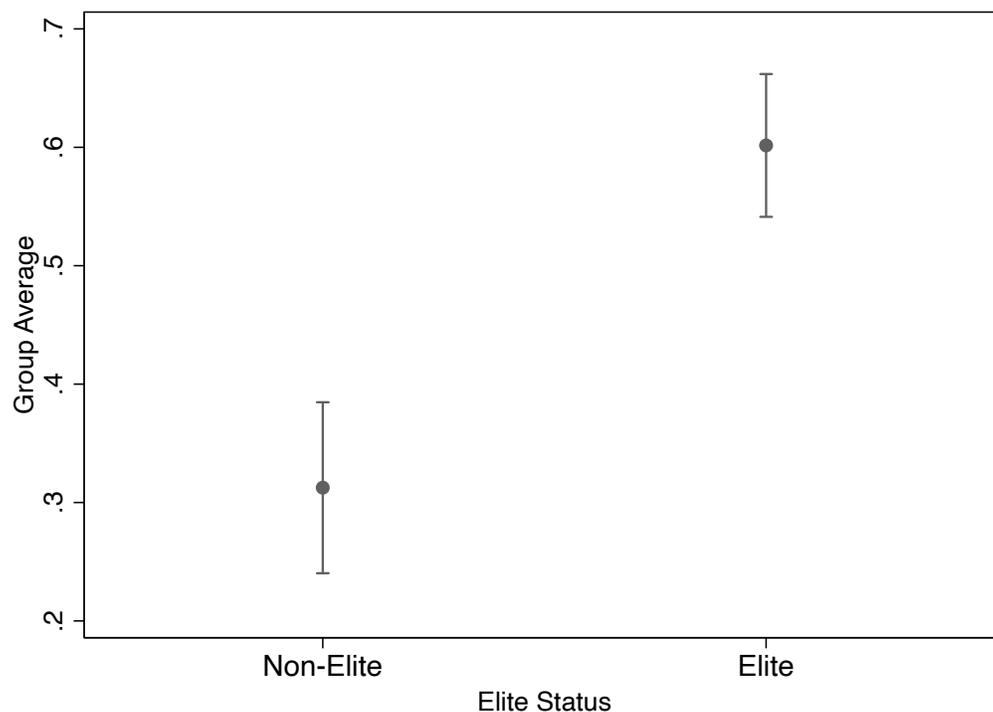
Note: This figure reports the proportion of rising elites who are CCP members who prioritize IPI if tax burden increases (relative to those who prioritize government services) by levels of trust in the government. The group difference is of 0.256 points (p-value = 0.056, two-tailed). We measure trust by levels of agreement with “how much can you generally trust government officials to make good policies and implement them?” Estimate are drawn from the filtered rising economic elite sample in China: N = 13 for Elite + CCP + No trust, and N = 74 for Elite + CCP + Trust. The bars indicate 95% CI.

H Additional Tests for Elite–Nonelite Differences

H.1 VAT Awareness

In Figure A-15 we show that different levels of VAT awareness remain when we subset the sample to elite and nonelite respondents who have at least college degree, suggesting that education does not mask VAT awareness.

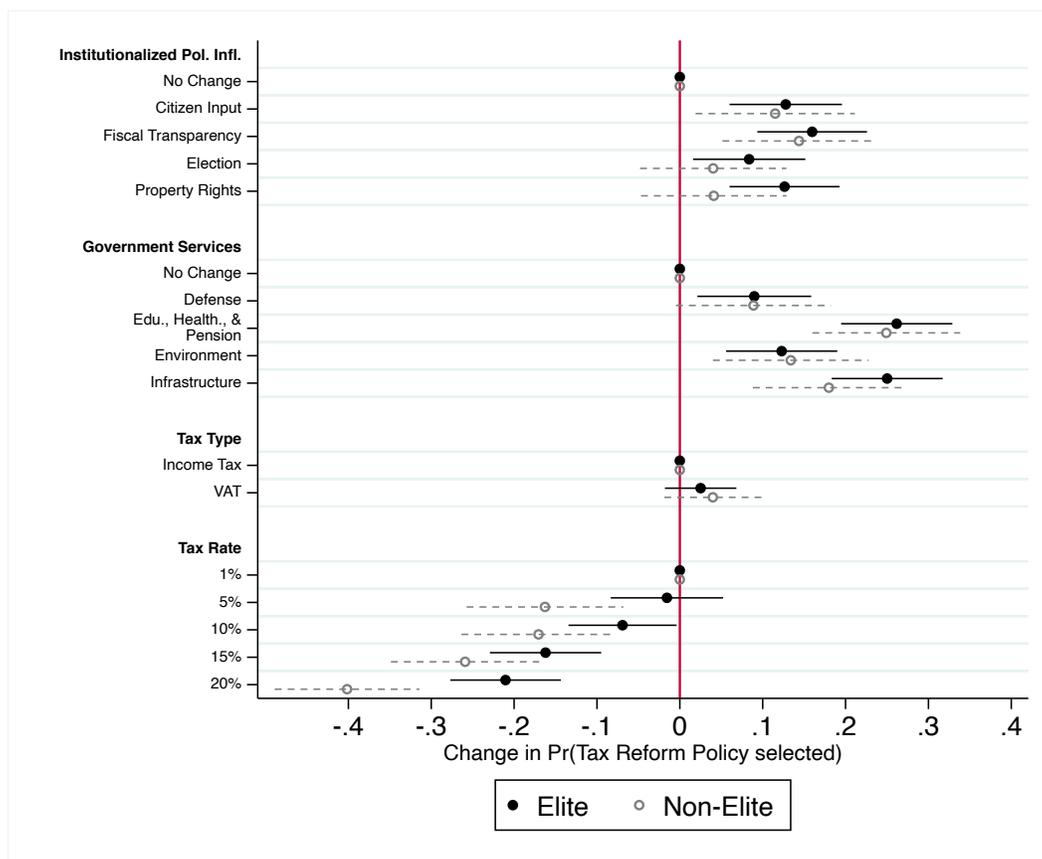
Figure A-15: VAT Awareness Does Not Mask Education Levels



Note: Our measure of tax awareness might capture education levels instead of understanding the tax system. To address this possibility, we compare levels of tax awareness for respondents with at least a college degree. Results suggest that education is not a substitute of awareness of the tax system. Estimates are drawn from the filtered sample. To measure VAT awareness, we ask respondents how often VAT was levied on purchases. We transformed the four category response (from “Never” to “Always”) into a dummy variable: Never/Seldom vs. Often/Always. The bars indicate 95% confidence intervals.

In Figure A-16 we show the non-differentiated AMCE for elite and nonelite respondents in the VAT awareness group, confirming that nonelites who are aware of the VAT show similar preference profiles to rising economic elites who also have high VAT awareness (this discussion connects to ft. 31 in the main text).

Figure A-16: Conjoint Estimates of Elites and Nonelites with High VAT Awareness in China



Note: This plot shows estimates of the effects of randomly assigned attributes for tax reform dimensions on the probability of supporting a tax reform policy. Only respondents with VAT awareness are considered. Estimates are drawn from the filtered samples in China. The bars indicate 95% CI.

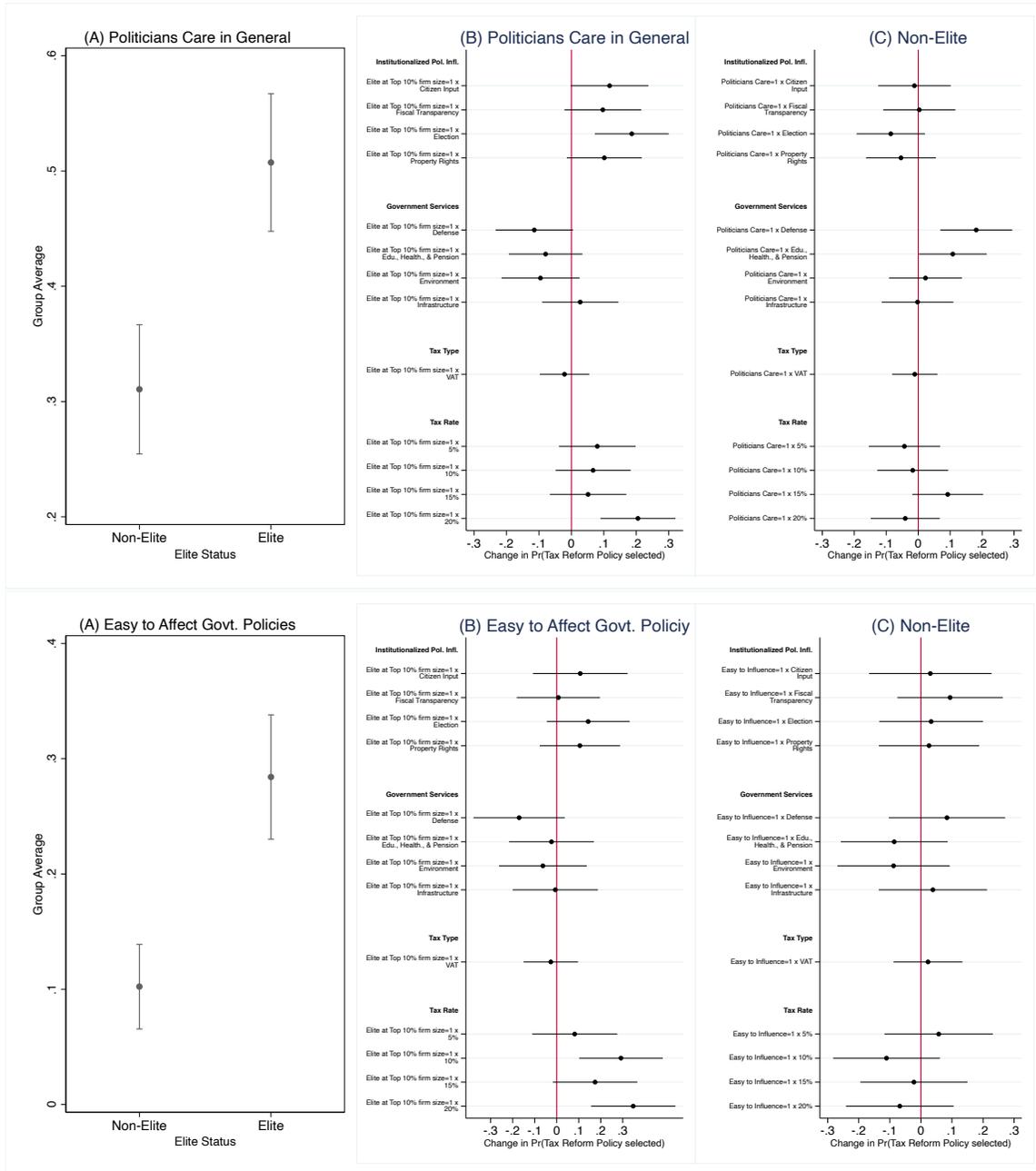
H.2 Political Efficacy

The organizational capacity mechanism would require a survey instrument that addresses (perceived) collective capacity to influence in tax policy-making. This survey item cannot be incorporated in our autocratic case. Instead, we rely on two measures of perceived ability to influence policy-making: The first one is *internal political efficacy*, or the subjective capacity to understand politics and influence policy. Figure A-17(Top A) shows that, on average, elites report higher levels of internal efficacy. Figure A-17(Top B) shows that nonelites reporting high levels of efficacy show similar preference for IPI than rising economic elites with high internal efficacy. However, A-17(Top C) shows that nonelites show similar preferences for IPI regardless of their levels of internal political efficacy.

Alternatively, individuals might show preference only for IPI when they think that the political system disregards people like themselves, or *external efficacy*. Figure A-17(Bottom A) shows that elites have higher levels of external efficacy than nonelites; however, A-17(Bottom B) shows that nonelites who have high external efficacy show weaker preference for IPI than rising economic elites with similar levels of efficacy.

Political efficacy does not seem to explain why nonelites show preference order different from economic elites; however, note that it is challenging to manipulate political efficacy, hence our results are only suggestive.

Figure A-17: Conjoint Analysis by Internal (Top) and External (Bottom) Efficacy in China



Note: For internal efficacy, we asked respondents how difficult or easy it is for them to influence policies concerning their personal benefits. We recoded the four response category (from “very difficult” to “very easy”) into a dummy variable: Very difficult/difficult vs. Easy/very easy). For external Efficacy: We asked respondents whether politicians in general care what people like the respondent thinks. We recoded the four response category (from “no politician care” to “most politicians care”) into two categories (high and low external efficacy). Estimates are drawn from the rising economic elite and nonelite filtered samples. The bars indicate 95% CI.

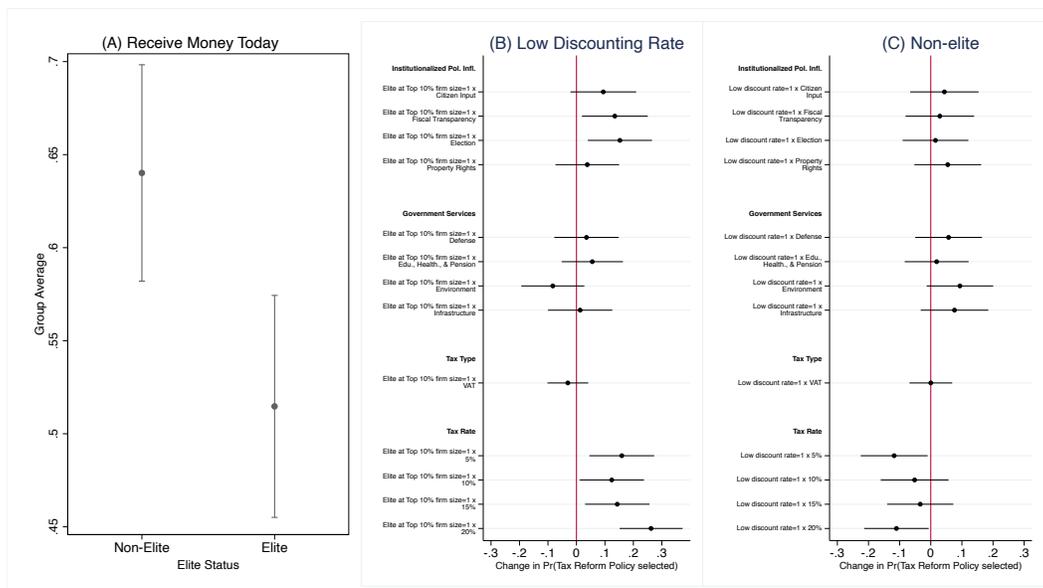
H.3 Time Horizons

Levi (1988) argues that quasivoluntary tax compliance ensues when rulers and taxpayers have long time horizons. We have argued that nonelites might have shorter time horizons given, primarily, their worse economic circumstances relative to economic elites. Members of low income households might not be able to afford the uncertainty of a participatory process of public-policy making. They might prefer to secure a certain but plausibly suboptimal stream of public good in the short run. More generally, if low-income subjects discount the future at high rates, government services are expected to be preferred over institutionalized political influence, which produce the former with some unknown future probability.

Following our conjoint experiment, we solicit respondents' time horizon by asking them to choose between receiving, hypothetically, the equivalent to \$100 today (shorter time horizon) or \$200 in one year (longer time horizon). Figure A-18(A) shows that nonelites have shorter time horizons than economic elites. Consistently, the data also show that a higher share of nonelite respondents live in households that failed to thrive in the past five years.³³ The discount factor, however, does not seem to be the driving factor in the differences between elites and nonelites' preferences. Figure A-18(B) shows that the preference for IPI for nonelites with long time horizons is still significantly lower than that for rising economic elites. Similarly, Figure A-18(C) indicates that the preference for IPI among nonelites does not change for different time horizons.

³³For household economic situation, we asked respondents whether compared to five years ago, their household's economic situation had *Much Declined* (value 1) to *Much Improved* (value 5). The average value for elites is 4.46 and for nonelites 3.77, the difference significant at 99%.

Figure A-18: Conjoint Analysis by Time Horizon and Elite Status in China



Note: We ask respondents to choose, in the abstract, one of two options: Receiving the equivalent to \$100 today (value 1, shorter time horizon) or \$200 one year from today (value 0, longer time horizon). Plot (A) shows the group proportions. Plot (B) shows across group differences for respondents with long time horizons. Plot (C) show differences for nonelites by time horizon. All estimates are drawn from the rising economic elite and nonelite filtered samples. Sample sizes are: Chinese elite + Long Horizon = 132 ; Chinese elite + Short = 140 ; Chinese nonelite + Long = 95; Chinese nonelite + Short = 169. The bars indicate 95% confidence intervals.

H.4 Prior Exposure to NTWR

The connection between taxation and political concessions might not be an obvious one, particularly in a country that has never experienced liberal democracy and political parties have never socialized individuals into that calculus. Lack of prior exposure to the taxation–representation exchange might disproportionately concentrate among the nonelite, who are presumably less exposed to liberal democracy debates than numerous Chinese elites who have studied abroad in Western democracies.

To investigate this mechanism, we manipulate exposure to the taxation–representation logic to test whether *treated* nonelites develop preferences similar to those of elites. We anticipated that the *no taxation without representation* exchange could be interpreted as a Western invention and potentially alienate respondents. To minimize dissonance, we drew on a tax-related political boycott initiated by Karl Marx in 1848.

We divided our sample into a control and treatment group. The latter was exposed to a short vignette about Karl Marx’s initiative to boycott tax payments until the popularly elected Parliament in Berlin was recognized by the Austrian Emperor.³⁴ We then asked respondents whether they thought this narrative was true and revealed the right answer immediately after they responded. Finally, both groups were asked to report levels of agreement with the following statement: ‘‘Citizens are entitled to have some influence in policymaking because they pay taxes to government.’’

Response categories to the outcome variable ranged from 1 (strongly disagree) to 4 (strongly agree).

	Control	Treated	t-value	<i>Treated Only</i>		
				Wrong Guess	Right Guess	t-value
Pooled	3.26	3.32	0.98			
Rising Economic Elite	3.40	3.44	0.53	3.20	3.4	1.76
Nonelite	3.14	3.21	0.81	3.09	3.23	0.87

Table A-7: **The Karl Marx Boycott: Results.** In the left section of the table, we compare the difference for the outcome variable between the control and treatment group for the pooled sample, and the filtered elite and the nonelite samples separately. The t-value of the difference between both groups is reported in column 4. In the right section of the table, we compare the effect of learning about the tax boycott initiated by Karl Marx. The last column reports the difference between those that rightly recognized the history as true and those that did not and learned about it.

The left section in Table A-7 suggests that the manipulation is associated with higher levels of agreement with the proposed statement; however, differences are not statistically significant for the pooled sample or for the elite and nonelite subsamples. Next we assessed the effect of updating beliefs among the treated group by elite status. As shown in the right section of Table A-7, prior beliefs of elites and nonelites are statistically indistinguishable. Over 80% of

³⁴Marx, Karl “No Tax Payments!” *Neue Rheinische Zeitung* num.145 (November 1848).

respondents in both groups identified this story as true. Learning about the veracity of this story did not change beliefs either. If anything, it reinforced preexisting ones (although that effect is only marginally different from zero).

Altogether, our manipulation suggests that the relatively weaker preference of nonelites for institutionalized political influence compared to elites in relationship to government services is not explained by a lack of awareness of the taxation–representation exchange. Nonelites were aware of the Karl Marx episode at rates similar to elites. Exposure to our treatment did not change reported preferences.

Manipulation Design

We divided the sample in two random groups: treatment and control. Only the treated group receive the following prompt.

Can you tell us whether you think the following story is true or false: In 1848 in Germany, the royal and military aristocracy prohibited the first popularly elected parliament from assembling, and that parliament responded by declaring the government out-of-business:

"So long as the National Assembly is not at liberty to continue its sessions in Berlin, the Brandenburg cabinet has no right to dispose of government revenues and to collect taxes."

Karl Marx, via his newspaper, the *Neue Rheinische Zeitung*, expressed support for the National Assembly and called for boycott on tax payments. Is this story true or false? True/False

(If True) Yes, this is true. Marx was later prosecuted for promoting tax resistance, but was acquitted after arguing that it was not illegal to promote tax resistance against a government that has not been elected by the people.

(If False) This is actually true. Marx was later prosecuted for promoting tax resistance, but was acquitted after arguing that it was not illegal to promote tax resistance against a government that has not been elected by the people.

Immediately after we asked both the treatment and control groups the following question:

Do you agree with the following statement: citizens are entitled to have some influence in policymaking because they pay taxes to government

1. Strongly agree 2. Agree 3. Disagree 4. Strongly disagree