Migrants' Remittances, the Fiscal Contract and Tax Attitudes in Africa and Latin America

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Abstract

How does the receipt of remittances shape recipients' attitudes towards taxation? We argue that remittances are likely to reduce support for the fiscal contract of taxes in exchange for public services because recipients rely less on the national economy and the state for their well-being. Remittance recipients can use the money sent by friends or family overseas to obtain public services in the private market instead of, or in addition to, tax-funded welfare services. In doing so, remittance recipients become detached from the national political community and develop a transactional relationship with the state whereby they pay license fees, taxes and bribes to protect investment goods procured with remittances, making them less willing to support general taxation and more likely to approve of tax evasion and avoidance. We find strong support for our theory in analysis of survey data from Africa and Latin America. Our paper contributes to knowledge of the micro-foundations of the fiscal contract and the political-economic effects of emigration and remittances on migrants' homelands.

Keywords: international remittances, taxation, welfare, Africa, Latin America

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1. Introduction

Limited ability to collect taxation is a serious problem for governments in many developing countries. It undermines fiscal capacity and therefore the ability of governments to provide high-quality public goods and services such as infrastructure, healthcare and education (Brautigam et al. 2008). Poor or non-existent public services can lead citizens to emigrate and send remittances back to their families and communities (Stark 1991, 2009; Stark and Bloom 1985), thereby providing a cross-national social safety net to compensate for government failure (Germano 2018). We can therefore view emigration and remittances as responses to the failure to build states underpinned by a robust fiscal contact of taxes in exchange for good-quality public services. In this paper, we argue that remittances can further hinder the development of such a fiscal contract by making those who receive remittances less likely to support general taxation and to view tax evasion and avoidance more favourably.

Remittances can provide a short-term boost to tax revenue, but this comes at the price of the long-term development of a robust fiscal contract. While emigration reduces the supply of labour and thus the potential pool of workers who might pay income taxes, this effect is outweighed by the boost to the tax base for indirect taxes driven by increased consumption by remittance recipients (Ebeke 2014; Astrayan et al. 2017). Tax collection is not only influenced by the capacity of the state to collect revenue from citizens, but also by the citizen's attitudes towards the state and taxation (Ortega et al. 2016; Torgler 2005). Building stronger states in which governments provide high-quality public services funded by a robust system of taxation requires the development of a fiscal contract in which citizens generally accept the need to pay taxes because they see the benefits to themselves and their communities (Levi 1988). Building such fiscal contracts is a long-term process. Our contention in this paper is that, while remittances might cause short-term increases in tax revenue, they undermine the development of fiscal contracts and can thus have a negative long-term effect on tax revenues in developing countries.

The key contribution of this paper is to examine the micro-level relationship between remittances and tax attitudes and behaviours. We argue that receiving remittances makes individuals less supportive of paying taxes to fund the state. Individuals agree to pay taxes according to the quantity and quality of goods and public services they receive. Those who receive remittances, however, rely less on the national economy and the state for their well-being and can use the money sent by friends or family overseas to obtain public services in the private market instead of or in addition to tax-funded public services. Remittance recipients have less need for public services and therefore see less benefit from buying into the fiscal contract. Furthermore, when recipients do pay for services from the government, it is often for the specific purpose of registering or protecting investment goods purchased with remittances. The payment of license fees, property taxes and bribes promotes a transactional relationship between remittance recipients and the state which further undermines recipients' support for a general fiscal contract to benefit a national political community from which they feel disconnected.

To test our argument, we examine survey data from Africa (Afrobarometer) and Latin America (Latinobarometro). Our analysis shows that recipients are less supportive of taxation and more likely to approve of tax evasion and avoidance than non-recipients. These results are robust to controlling for a range of variables – including emigration plans and trust in authorities – as well as to matching individuals on observable characteristics. Consistent with our theory, remittance recipients feel lower levels of identification with the national (political) community and are more likely to engage to pay license fees, property taxes and bribes to the government to secure assets purchased with remittances. Our findings suggest that migrant remittances reduce individual support for the fiscal contract, which has important implications for the ability of labour-exporting states to raise revenue through taxation.

Our paper makes a series of contributions to the existing literature. By showing how support for taxation is shaped by connections with migrants already living abroad, and particularly those who send remittances to their country of origin, our findings add a new perspective to work on the migration-development nexus (Nyberg–Sørensen et al 2002, De Haas 2010). Our research also builds on recent literature examining the micro-foundations of the fiscal contract in developing countries by considering the influence of emigration and remittances (Ali et al. 2014; Castañeda et al. 2020; Flores-Macías and Sánchez-Talanquer 2020; Ortega et al. 2016). Finally, we contribute to work on the relationship between emigration, remittances and attitudes towards fiscal policy. Existing literature, focused on Latin America, has examined how migration and remittances affect support for redistribution (Acevedo 2020), social spending (Doyle 2015) and the role of the state in the economy (Meseguer et al 2016). We build on this work by examining how remittances affect the development of the broader fiscal contract and examining data from Africa in addition to Latin America.

2. Fiscal Contracts and Remittances in Developing Countries

A fiscal contract is an agreement in which citizens pay taxes to the state in exchange for public services and goods based on contractarian views of the state in which citizens offer taxation and restricted liberty in exchange for protection and public goods (Rousseau 1920). In more recent fiscal sociology, the fiscal contract promotes ‘quasi-voluntary compliance’ with taxation; it is much easier for states to offer public services in reciprocal exchange for taxation than to rely on coercion alone (Levi 1988). The concept of the fiscal contract has been used to explain both the macro-level development of fiscal systems (Emmenegger et al 2020, Timmons 2005) and micro-level tax attitudes (Castañeda 2020, McCulloch et al 2021).

How might the receipt of migrant remittances influence individual views on the fiscal contract? We begin to address this question by looking at migrants' motivation to emigrate and send money back home. According to the New Economics of Labour Migration (NELM), families in developing countries strategically send one or more members to live in a labour market abroad that is not correlated to the one at home (Stark 1991, 2009; Stark and Bloom 1985). Migrant households use remittances to overcome restricted access to labour, credit and insurance markets and to purchase welfare goods such as healthcare and education on the private market rather than relying on poor or non-existent government provision (Acosta et al. 2008; Adida and Girod 2010; Duquette-Rury 2014). From this perspective, dissatisfaction with the provision and delivery of public services and goods drives people to migrate abroad and send remittances. Remittance-receiving households might also forego access to state-provided goods and services because they do not view the state as efficient in providing welfare as the private sector (because of poor quality or perceived wasteful spending), or out of political considerations (abuse of power or clientelism, for instance) (Escribà-Folch et al 2015; Pfütze 2014). Irrespective of the circumstances, the scholarly consensus is that remittance recipients are less likely to rely on the state for welfare (Germano 2018), and more likely to buy welfare goods (such as education or health) in the private market with the money they receive from overseas (Drabo and Ebeke 2010).

The fiscal contract approach posits that citizens' attitudes and willingness to pay taxes depend on government performance in the provision of public goods and services. Accordingly, individuals who do not feel that they benefit from government services are less willing to support taxation in general and less likely to consider tax non-compliance as a negative social issue. This idea has been corroborated by recent studies of tax attitudes in

Africa and Latin America; individuals are more supportive of taxation if they perceive their government to be providing good-quality services (Ali et al. 2014, Ortega et al. 2016). Support for taxation is also increased by greater trust in state institutions (Berens & von Schiller 2017) and decreased by experiences of corruption (Jahnke and Weisser 2019). Castañeda et al (2020) argue that the fiscal contract is conceived as something that can be opted into or out of in Latin America. They find that those who purchase private health insurance are less willing to pay taxes than those who utilise government-provided public goods.

If citizens' engagement with the fiscal contract depends on the benefits that they believe they obtain from the state, and remittances are used to substitute the goods and services that the government provides, it follows that remittance recipients are more likely to justify cheating on taxes and to be hesitant to paying them because they do not (want to) use state-provided goods and services. Put another way, remittances diminish citizens' support for the fiscal contract by allowing recipients to buy substitutes for public goods and services.

Since their income and welfare originates primarily from abroad, remittance-receiving households are also less vulnerable to fluctuations in the national economy and allocations of public spending – mainly because remittances tend to be stable and countercyclical (Ratha 2006; Yang 2008). This can lead to a disconnection of remittance recipients from national political affairs, which has been evidenced by studies showing that remittances reduce formal political participation such as electoral turnout (Dionne et. al 2014; Germano 2018; Goodman and Hiskey 2008; López García 2018; López García and Maydom 2021). This reduced interest in national affairs can lead to a decline in a sense of shared national political identity which also reduces tax compliance (Konrad and Qari 2012, MacGregor and Wilkinson 2012). As a result of their conversations with relatives living in wealthier countries, remittance recipients may also develop higher expectations about the quality of public services. This could lead recipients of remittances from migrants in wealthier countries to feel even more dissatisfied with the quality of welfare delivered at home, and hence be less willing to contribute to the tax effort.

Although remittance recipients are less likely to use state-provided welfare services, this does not mean that they are isolated from and do not come into contact with state officials and institutions. In fact, they are likely to come into greater contact because of the way in which they spend their remittance income. There is good evidence that compared to other sources of income, remittances are more likely to be spent on asset accumulation and investment, for example purchasing durable goods such as vehicles, buying housing or property or opening small businesses (Adams Jr. 1991; Adams Jr. and Cuecuecha 2010; Airola 2007; Amuedo-Dorantes and Pozo 2006; Yang 2008). From the perspective of the NELM, these investments follow an insurance motive – they diversify households' sources of income and reduce the risk of income losses in case of an unexpected event.

Durable and investment goods are likely to be taxed by the state, in the form of property taxes, vehicle taxes or licence fees. As migrant households invest more, they become exposed to taxation in a transactional manner; they pay specific fees to own or license an asset or investment. Taxes are thus paid to protect access to or ownership of a specific good or investment rather than generally to provide public services. As recipients' increase their interactions with state officers, they are more likely to be solicited for bribes. These experiences of corruption can further reduce recipients' tax morale (Jahnke and Weisser 2019).

To summarise, we argue that remittances reduce support for the fiscal contract. We attribute this to the sources and uses of remittance income. Recipients are less reliant on the domestic economy and government services. Consequently, they are less likely to develop feelings of belonging to the national community or reciprocity or obligation towards the state.

Recipients' weak tax morale is furthermore heightened because of their increased exposure to and interactions with and state bureaucracies, and exposure to corruption. They develop a more transactional relationship with the state in which taxation becomes a fee for protecting or licensing specific assets and investments rather than a reciprocal fiscal contract in exchange for public services. On the basis of these considerations, we advance the following key hypothesis: *H1: The receipt of remittances decreases support for paying taxes.*

Our proposed causal mechanisms – the development of a transactional relationship with the state and a reduction in feeling part of the national political community embodied by the state – have a number of testable implications. We therefore posit: *H2: The receipt of remittances reduces national political identification, H3: The receipt of remittances increases the likelihood of payment of license fees and taxes on investment goods*, and H4: *The receipt of remittances increases citizens' exposure to corruption*

3. Data

Our theory applies to poor- and middle-income states that have yet to develop a robust fiscal contract. We test our hypotheses using survey data from two regions in which these states predominate: Africa and Latin America. In both regions, direct tax-collection levels are low, tax schemes are highly regressive and informality is very high. Nevertheless, there is significant variation in income, levels of emigration, democracy and political stability between and within the two regions. If our findings are robust across Africa and Latin America, we would therefore expect them to be applicable more widely to other developing regions.

Data for Africa comes from rounds 4, 6, and 7 of the Afrobarometer survey, conducted in 2008-2009, 2014-2015 and 2017-2018. Data for Latin America was gathered from the 2009 wave of the Latinobarometro survey.[1] Afrobarometer and Latinobarometro ask nationally-representative samples of respondents a wide range of questions about their social and political attitudes and behaviour in their respective regions.[2] In this paper, we focus on questions relating to tax, remittance receipt and strength of national identity. The surveys ask different sets of questions, so we analyse data from Afrobarometer and Latinobarometro separately. Where possible, we combine the different rounds of Afrobarometer.

The main independent variable in this study is individuals' status as remittance recipients. Remittance receipt is measured as a binary variable, coded as 1 if respondents reported having received remittances from abroad in the 12 months prior to the survey and 0 otherwise. The key dependent variables and their coding are described in Table 1.

Table 1: Coding of dependent variables

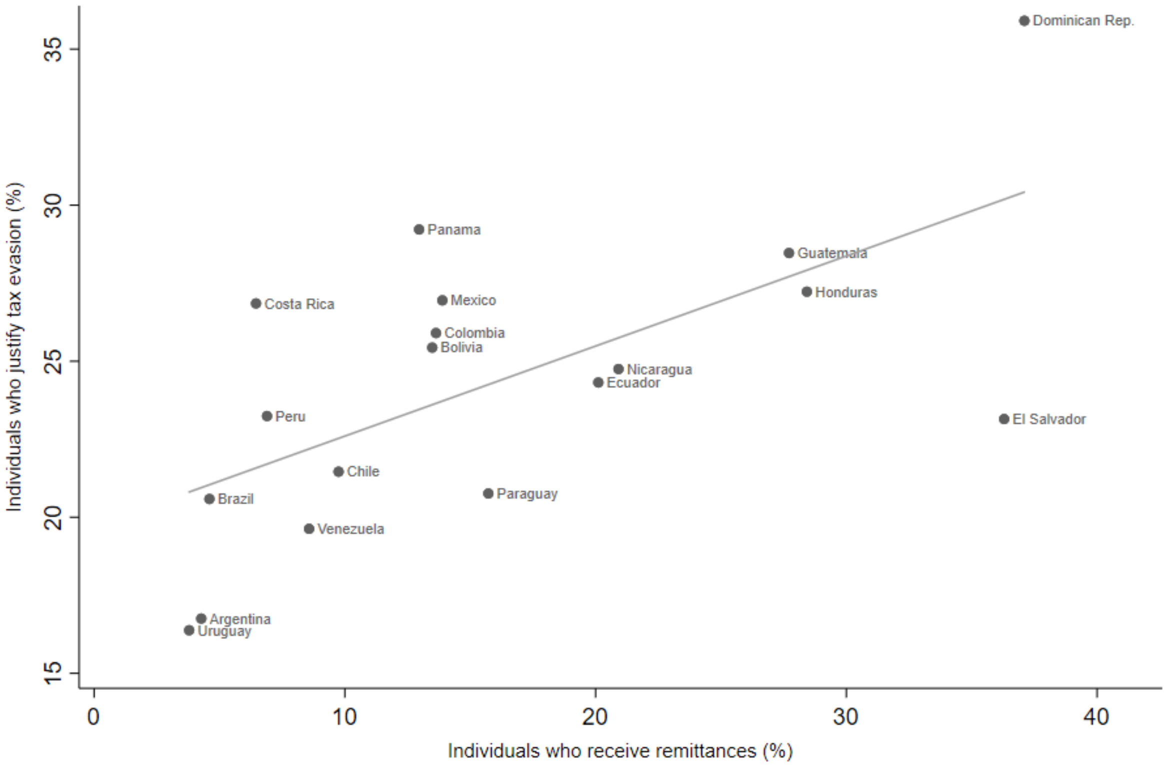
Variable	Afrobarometer	Latinobarometro
Support for taxation	(R4-7) "Should people pay taxes to authorities?" 1 if respondents agree, 0 otherwise	1 if respondents agree that paying taxes makes someone a good citizen, 0 otherwise
Tax compliance	(R6&7) 1 if reported refusing "to pay a tax or fee to government" in last 12 months, 0 otherwise	An ordinal variable ranging from 0 to 9, with higher levels indicating more tolerance of tax evasion
	-	1 if respondent recently knew or heard of someone who avoided paying taxes, 0 otherwise
Exposure to taxation	(R4) Two separate questions on payment of property taxes and license fees[3]: 1 if paid in last 12 months, 0 otherwise	-
National political identification	(R4-7) "Let us suppose that you had to choose between being a (respondent's nationality) and being a (respondent's ethnic group. Which of the following best expresses your feelings?" 1	"How much proud are you of been (nationality)?" 4-point ordinal scale with higher scores indicating greater national pride.

[1] Questions on tax attitudes and remittances receipt were asked in the 2009 waves of the Latinobarometro survey only.
[2] The countries surveyed in both regions are listed in the Online Appendix.
[3] The survey question gives examples of license fees paid "for a bicycle, cart or market stall."

	if reported feeling greater identification with the nation than with the ethnic group, and 0 otherwise.	

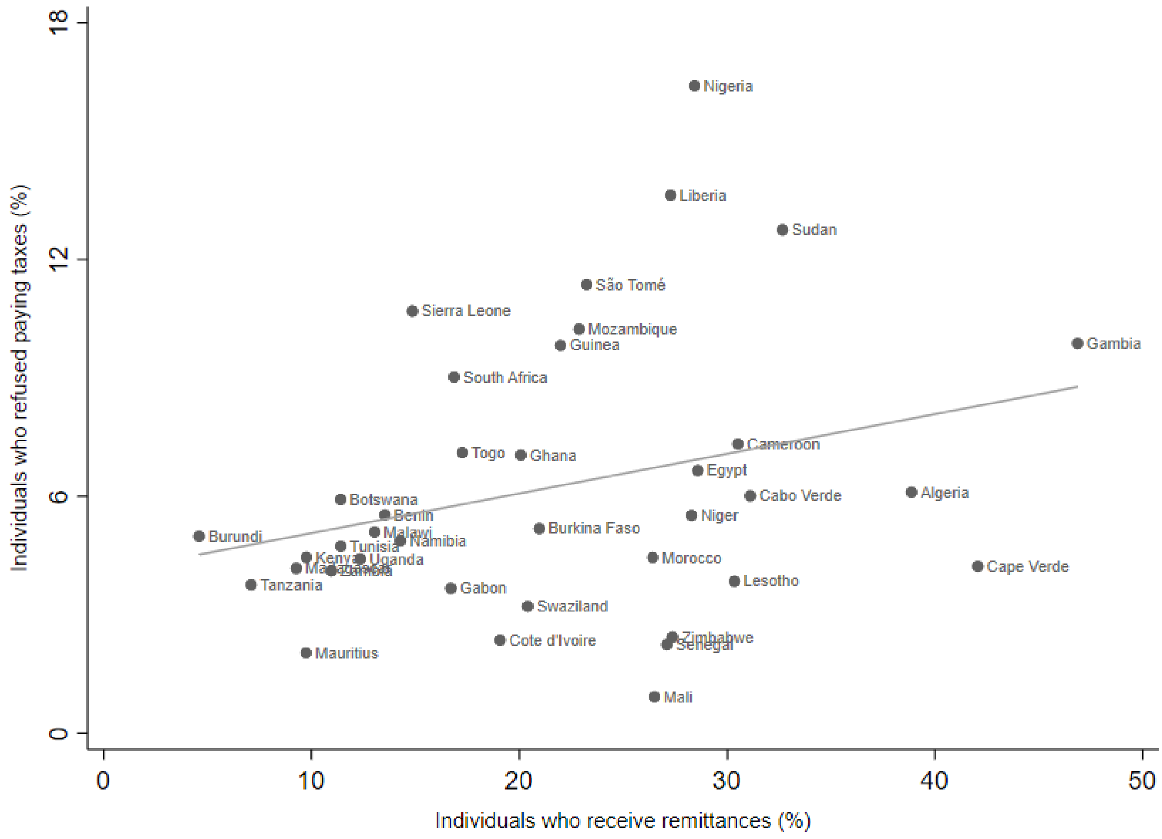
Survey questions on tax attitudes may be inaccurate if respondents fear reporting illegal activity or feel uncomfortable admitting that they do not support or have evaded paying taxes. This would be a particular concern for our analysis if any such propensity to misreport varied according to remittance recipient status. We examine the extent to which this might be a problem by considering the distribution of non-responses to the key questions on the survey. In the Afrobarometer sample, the share of respondents who were evasive about reporting their support for taxation and their tax behaviour is very small at 4.4% and 3.7% respectively. In the Latinobarometro, the share of individuals who did not report their support of tax evasion is 6.1%. These low rates of question evasion suggest that. in both regions. respondents are generally forthcoming about expressing their tax-related behaviours and attitudes. Furthermore, we find in both samples that non-response is marginally more frequent among non-recipients than recipients. In Afrobarometer, the share of respondents who refused to report their tax behaviour is 3.1% among remittance recipients, and 3.9% among non-recipients. Similarly, the share of respondents in Africa who did not report their support for taxation is 3.6% among remittance recipients, and 4.6% among non-recipients. In Latin America, the nonresponse is 5.5% among remittance recipients, and 6.3% among non-recipients. These small quantitative differences suggest that differential propensity to misreport across recipients and non-recipients is not a threat to our identification strategy.

Figure 1. Remittance Receipt and Support for Tax Evasion in Latin America



Source: Authors' calculation based on data from the R6-R7 of the Afrobarometer

Figure 2. Remittance Receipt and Tax Refusal in Africa



Source: Authors' calculation based on data from the R6-R7 of the Afrobarometer

There is significant heterogeneity in levels of remittance receipt and attitudes toward taxes across countries surveyed by Afrobarometer and Latinobarometro, as shown Figures A1 and A2 in the Online Appendix. At the country level, there is a positive correlation between the proportion of the population who receive remittances and attitudes towards taxation. Figure 1 demonstrates this relationship in Latin America. The Dominican Republic has both the highest proportion of remittance recipients in its population and the highest reported support for tax evasion, while Uruguay has the lowest proportion of both remittance recipients and supporters of tax evasion. The correlation is not as strong in Africa, as shown in Figure 2, but it is also positive. The general pattern in both regions is that the more remittance recipients there are in a population, the greater the support is for tax evasion. In what follows, we estimate a series of regression models to determine whether this pattern is driven by an individual-level relationship between remittance receipt and tax attitudes and behaviours.

4. Empirical Strategy

To explore the influence of remittance receipt on tax exposure and attitudes, we estimate the following baseline specification:

$$Taxation_{ij} = Remittance\ Receipt_{ij} \times \beta + X_i + \gamma_j + \varepsilon_{ij}$$

where *ij* refer to individual *i* in country *j*. $Taxation_{ij}$ represents the variables measuring exposure to or attitudes towards taxation that are to be examined. As our main independent variables, we use the remittance-receiving status of an individual, as described above. The vector X_i includes information on a variety of covariates that could influence individual tax attitudes and behaviour. These are: respondents' experiences with and perceptions of crime and corruption, and levels of trust in tax authorities (Torgler 2005). To address the possibility of individuals exhibiting negative attitudes towards taxation when they intend to stay in (i.e. not migrate from) their country of origin, models incorporate a binary variable measuring individuals' plans (or serious considerations) to work or live abroad in the future. This variable is highly correlated with remittance receipt and might capture some of the intrinsic characteristics of the individual as it relates to support of taxation.

We also take into account other socio-economic and demographic attributes that are likely to affect both the receipt of remittances and individual attitudes towards taxation. These are: gender, age, rural/urban residence and educational attainment (reference category: no education). All models control for employment status and a wealth index based on a series of questions about respondents' possession of various durable goods. Any correlations we identify between remittances and tax exposure and attitudes are therefore unlikely to be driven purely by a resource effect whereby those with greater amounts of resources (including from remittances) are more likely to support or report tax evasion.

Following the conditional-cooperation theory of taxation, support of taxation is contingent on other people paying taxes (Torgler 2005). That is, individuals who think that fellow citizens evade taxes are less willing to pay them themselves. Hence, we also include in our models a variable measuring respondents' perception of tax compliance in society. From R6 of the Afrobarometer, we use a binary variable that takes the value of 1 if the respondent thinks that fellow citizens always pay taxes and 0 otherwise. From the Latinobarometro survey, we use a variable that measures respondents' perceptions of tax compliance. It is derived from the question: "Based on what you have heard, what is the proportion of citizens who pay taxes properly?" This is an ordinal variable, ranging from (0 to 3) with poles of "none" and "all."

As additional controls in the models using data from Africa, four variables that can influence tax attitudes and compliance are included: (1) a binary variable measuring whether the respondent thinks the survey was sponsored by the government, (2) a binary variable measuring whether the respondent thinks that it is difficult to find information about what taxes and fees to pay, and (3) a binary variable measuring whether the respondent thinks that in their country it is difficult to avoid paying taxes.[4]

Finally, γ_j are country effects to control for any unobserved or unmeasured differences across countries, such as formal and informal institutions and norms about tax morale and compliance.

To test the hypotheses that the receipt of remittances influences tax attitudes and behaviours and national political identification, we estimate a series of regression models. We use logit and ordered logit estimators depending on the nature of the dependent variable. We

[4] A full description of all the variables used in the models is available in the Online Appendix.

estimate two models for each dependent variable. The first represents a baseline model including basic socio-economic and demographic control variables; the second adds all other control variables.

Addressing threats to causality

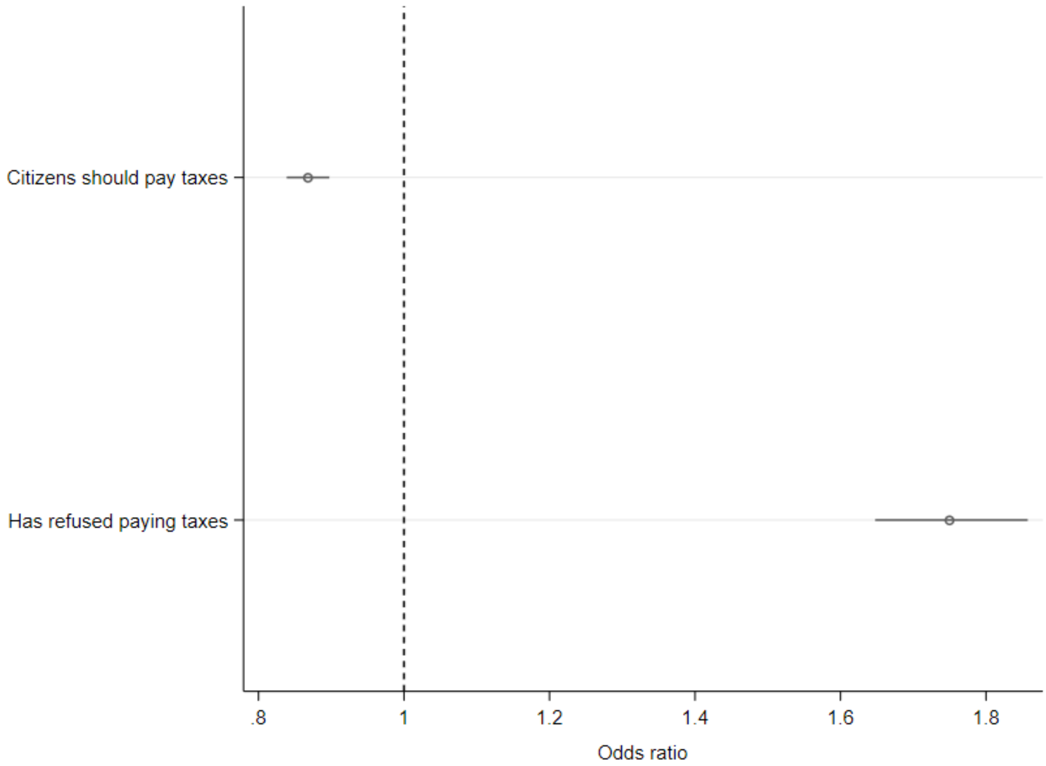
As noted above, members of remittance-receiving households may have specific unobservable attributes which could affect the probability that they will send relatives abroad as well as their attitudes towards taxation. In this context, omitted variables that are correlated with both the receipt of remittances and taxation attitudes and perceptions may bias our estimates. To mitigate the problem of "selection on observables", we use matching such that treated and control groups have similar covariate distributions (Ho et al. 2007). Specifically, we employ the Coarsened Exact Matching (CEM) method developed by Iacus, King and Porro (2012). CEM is a non-parametric matching method that reduces the imbalance between treated and untreated groups and is less susceptible to model misspecification than other matching techniques such as propensity-score matching.

In this study, the treatment group is made up of respondents who receive remittances. They were matched on the pre-treatment variables of age, gender, size of place of residence, years of education, employment status and wealth. By using CEM, we ensure that the treatment and control groups are similar in terms of the matched covariates, and that the results are not driven by self-selection based on these characteristics. Although our matching solution reduces the overall imbalance between treatment and control groups, we include also the additional previously discussed covariates as controls to address any remaining differences in terms of (non-matched) characteristics and increase statistical power. Our approach hence allows us to separate the influence of remittances from other factors shaping individuals' support of taxation. To compensate for the different sizes of the treatment and control groups, we use weights in our regressions. One caveat is the loss of observations (and hence statistical power) to obtain balance, but the inclusion of additional controls increases statistical precision.

5. Results

We begin by testing the hypothesis that remittance recipients are less supportive of taxation using data from R4, R6 and R7 of the Afrobarometer. We pool the data and include wave-fixed effects to control for temporal variation. Our models show that remittance recipients are significantly less likely to agree with the idea of citizens having an obligation to pay taxes to the government than non-recipients. Those who receive remittances are also more likely than non-recipients to report having refused paying taxes when asked to do so. The full results of these models are reported in the Online Appendix, and the exponentiated coefficients of the remittance variable are displayed graphically in Figure 3 below. Receiving remittances is associated with a 14% decrease in the likelihood of an individual agreeing that citizens should pay taxes to the government, and an increase of 61% in the probability of refusing to pay taxes. These results provide evidence to support our hypothesis that the receipt of remittances lowers tax morale and increases support for and the practice of tax evasion.

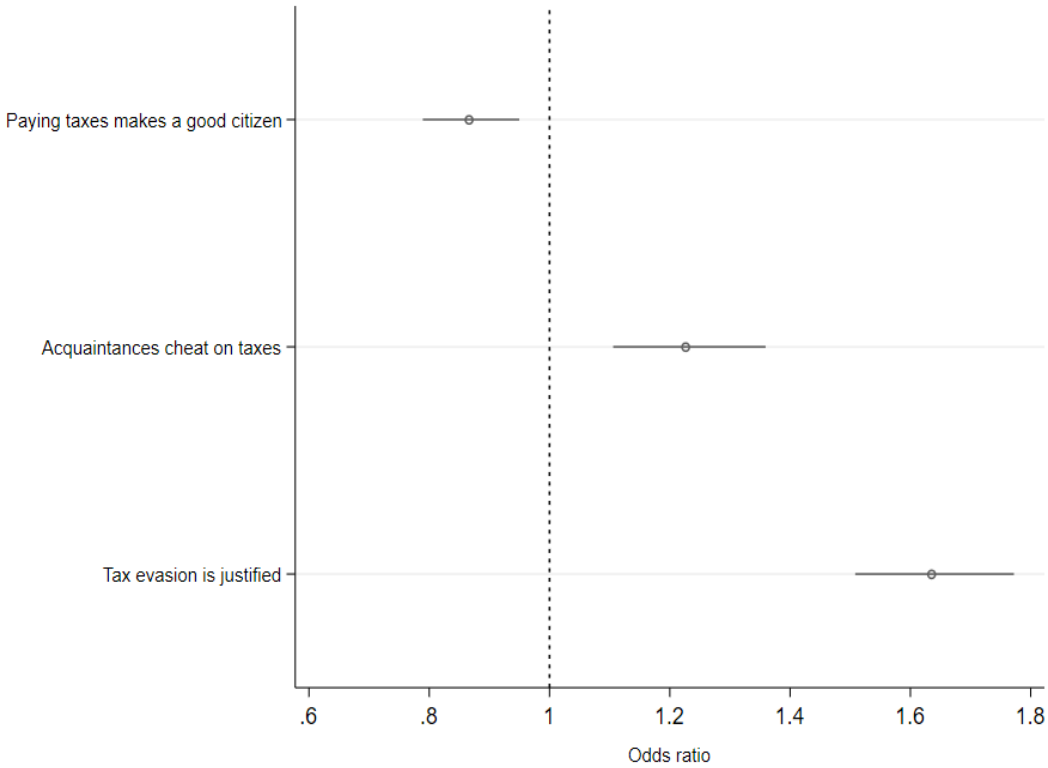
Figure 3. Effect of Remittances on Tax Attitudes and Behaviour in Africa



Exponentiated coefficients for remittance variable in models of tax attitudes and behaviour. Full results available in table A3 in the Online Appendix.

We find similar headline results when examining data from Latin America. The full regression tables for models using the Latinobarometro survey appear in the Online Appendix and are graphically presented in terms of average marginal effects in Figure 4 below. As in Africa, remittances in Latin America are associated with lower support for taxation in general and greater knowledge and approval of tax evasion. Holding all other variables constant, we estimate that receiving remittances leads to an 11% decrease in the likelihood of supporting the idea that paying taxes makes a good citizen, a 13% increase in the probability of having an acquaintance who cheats on taxes, and a 51% increase in the likelihood of justifying tax evasion. Evidence from both Latin America and Africa therefore supports our primary hypothesis that remittance recipients are less likely to support the fiscal contract than non-recipients.

Figure 4. Effect of Remittances on Tax Attitudes and Behaviour in Latin America



Source: Authors' calculation based on data from the 2009 wave of the Latinobarometro

In both the Afrobarometer and Latinobarometro models, our results are robust to the inclusion of socio-demographic controls and potentially confounding variables measuring emigration plans and considerations, trust in authorities, and perceptions of and experiences with corruption and crime.

To ensure that our results are not driven by outliers, we estimated separate models in which countries with very high levels of remittance recipients were excluded from the sample: Cape Verde, Algeria, Gambia, El Salvador and the Dominican Republic. The effects of remittances on tax behaviour and attitudes (reported in the Online Appendix) remain similar in the reduced sample.

To control simultaneously for the individual-level characteristics and country-level factors that may influence tax attitudes and behaviour, we also estimate a series of multilevel models with individual respondents nested in countries across which intercepts vary. Our models include the following country-level predictors: remittance inflows as a percentage of Gross Domestic Product (GDP) from the World Bank's World Development Indicators (as a proxy for both country levels of economic development and dependence on remittances); direct taxes as a percentage of the GDP from ICTD/UNU-WIDER Government Revenue Dataset;[5] and the control of corruption index from the World Bank (as a proxy of corruption). Results from these mixed models are reported in the Online Appendix.[6] Although the variance is statistically meaningful across models, indicating that there is a significant amount of between-country variability in the outcome, the coefficient for the receipt of remittances remains significant. Thus, even after accounting for a country's level of public corruption, remittance recipients are more likely than non-recipients to refuse paying taxes or justify tax evasion. Results are consistent when using the corruption perception index from Transparency International as alternative country-level predictor of corruption.[7]

<u>Causal Mechanisms</u>

To examine the mechanisms behind our results, we perform a series of analyses to examine the relationships between remittances, national political identification and the payment of taxes and fees to protect assets and investments, and exposure to petty corruption. The full regression tables are reported in the Online Appendix, and we display the key results graphically in the main text.

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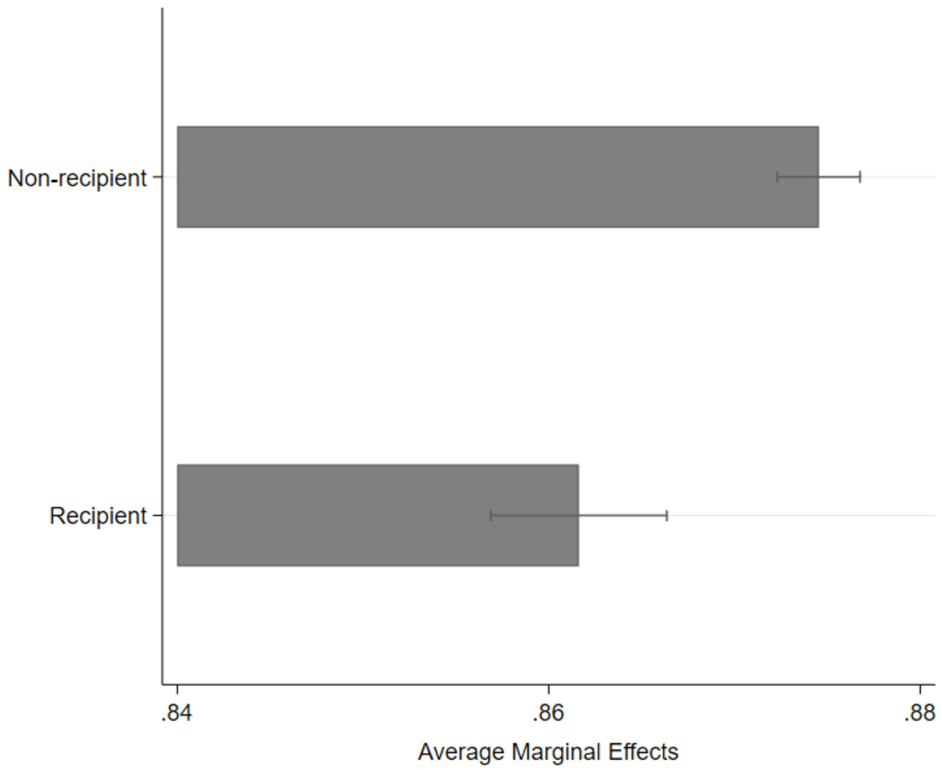
[5] This measure excludes social contributions and resource taxes, and includes non-resource taxes on income, profits and capitals gains, taxes on payroll and workforce and taxes on property.
[6] Complete data for these country-level indicators was available only for 29 countries in Africa and 14 countries in Latin America.
[7] The World Bank's Index for Control of Corruption captures "perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests." Meanwhile, Transparency International's Corruption Perception Index registers perceptions of administrative and political corruption from surveys and assessments of corruption.

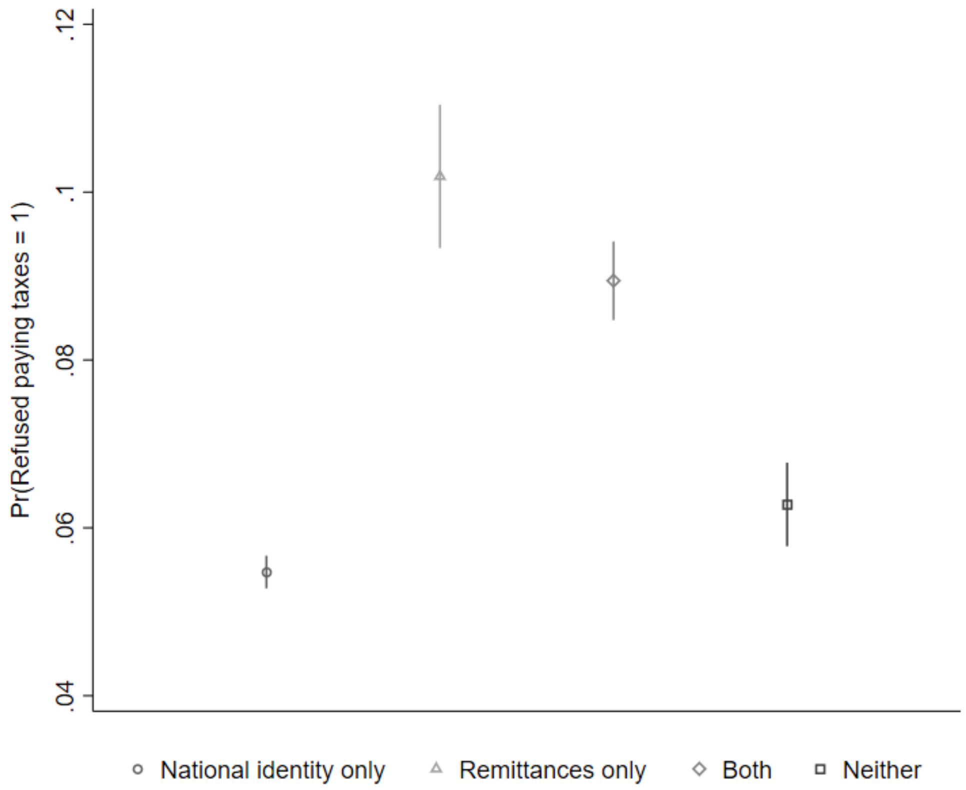
We first test our hypothesis that remittances weaken support for taxation because recipients have weaker feelings of national identity. Figure 5 plots the predicted probabilities of feeling identified more with one's nation than with the ethnic group for a set of hypothetical individuals who vary only on whether or not they receive remittances. As expected, feelings of national identity are weaker among individuals who receive remittances. Models (reported in the Appendix) show that once we control for feelings of national identity, the coefficient for remittance receipt remains positive and statistically significant but decreases across models. This is consistent with our hypothesis of remittances working (partially) through that channel. Figure 6 plots the average predicted probabilities of tax refusal for average hypothetical individuals who vary only on their national identification and whether or not they receive remittances. In line with our theory, the stronger the feelings of national identity the less likely individuals are to report having refused to pay taxes to the government, while those who receive remittances are more likely to report tax refusal than non-recipients. Having a high level of national political identification can mitigate the effect of remittances on tax refusal to some extent, but as we saw above, remittance reduce these feelings.

Figure 5. National Identification by Remittance Recipient Status in Africa



Source: Authors' calculations based on data from the R6-R7 of the Afrobarometer

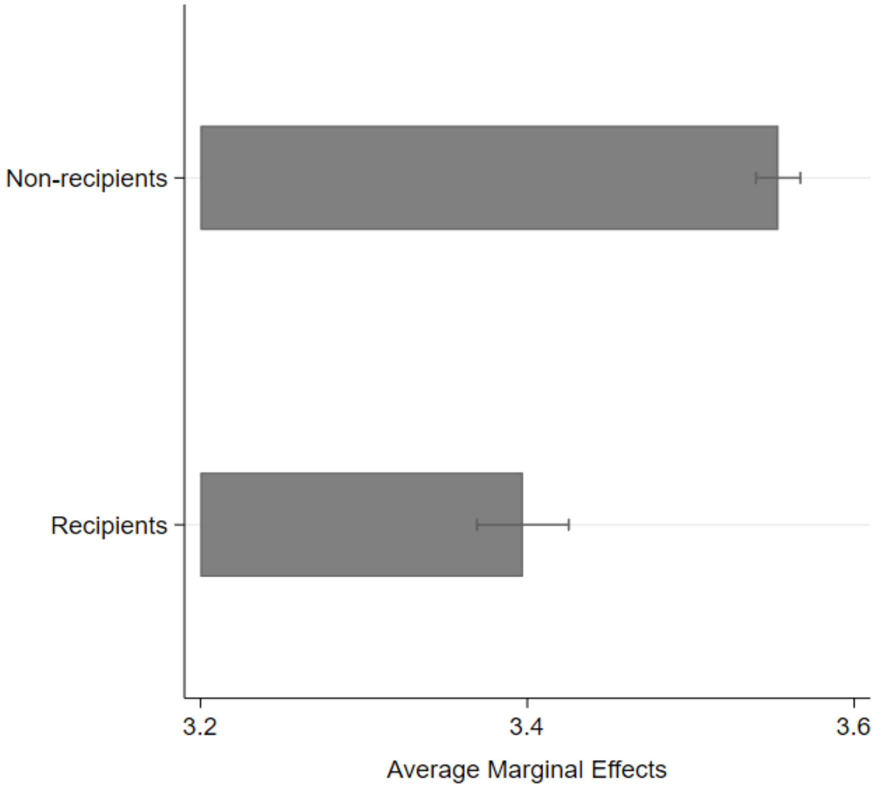
Figure 6. Tax Refusal, Remittances and National Identification in Africa



Source: Authors' calculations based on data from the R6-R7 of the Afrobarometer

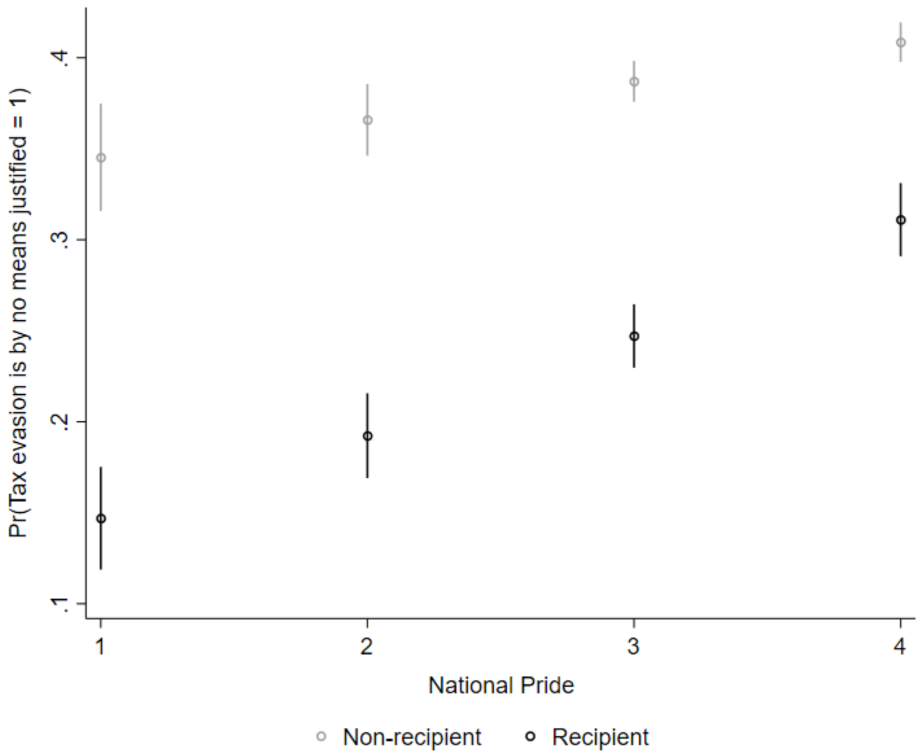
We find similar results in Latin America which are reported in Figures 7 and 8. Remittances are correlated to weaker feelings of national pride, and reduced levels of national pride are associated with a lower probability of opposing tax evasion. Increasing levels of national pride can somewhat mitigate the negative effect of remittances, but remittances recipients with the highest level of national pride are nevertheless more supportive of tax evasion than non-recipients with the lowest level of national pride. The evidence from Africa and Latin America thus supports our hypothesis that the receipt of remittances affects the fiscal contract by weakening feelings of national political identification.

Figure 7. National Pride by Remittance Recipient Status in Latin America



Source: Authors' calculations based on data from the R6-R7 of the Afrobarometer

Figure 8. Support for Tax Evasion, Remittances and National Pride in Latin America

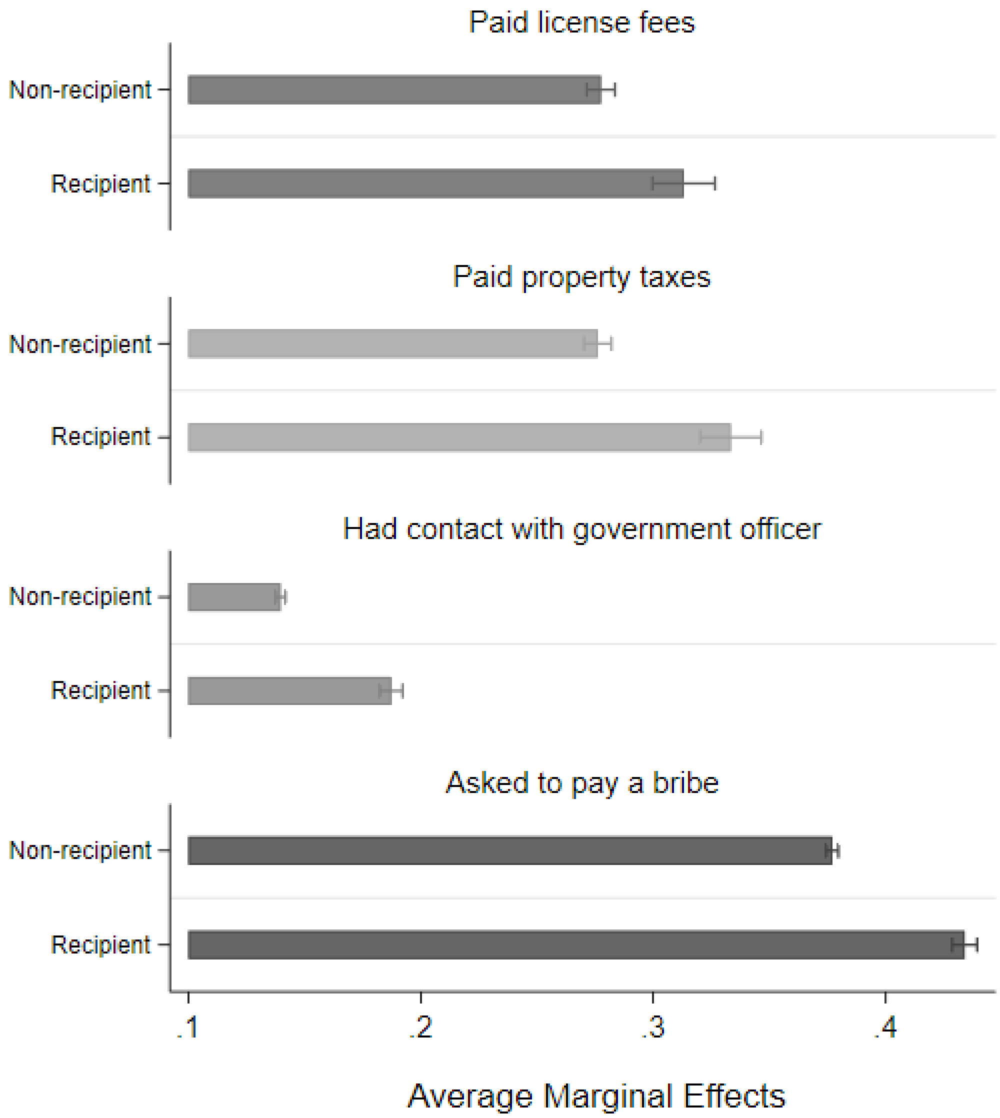


Source: Authors' calculation based on data from the 2009 wave of the Latinobarometro

We also test the hypothesis that remittances promote a transactional relationship with the state by examining whether recipients are more likely to pay license fees and property (housing) taxes. The headline results of models using Afrobarometer data are reported in Figure 9, with full regression tables available in the Online Appendix. Relative to non-recipients, remittance recipients are more likely to report both having paid licence fees and having paid property taxes to the government in the 12 months prior to the survey. These results provide evidence that remittance recipients must pay fees to register and protect the investment goods that they purchase with the remittances they receive. These taxes and fees are paid for a specific service – protection of assets – rather than to support the provision of state-funded welfare services.

We examine whether the receipt of remittances increases individual contact with state authorities, which might be expected if individuals develop a transactional relationship with the state. As noted earlier, in developing societies, like those in Africa, bribes are regularly paid when dealing with state authorities to secure public goods and services, speed up bureaucratic processes and avoid punishment. Thus, we measure exposure to state authorities in two ways: reported contact with state authorities and reported bribe solicitations. Figure 9 also corroborates our contention that remittances make recipients more likely to interact with government officers and be solicited for bribes. These results indicate that remittance recipients are more likely to have contact with state authorities, which can be attributed to their greater propensity to purchase durable and investment goods. To register and profit from these goods, contact with the state is necessary and license fees and bribes are frequently paid. Models from Africa confirm that the effect of remittance receipt on tax support and compliance travels (partly) through individual exposure to bribery. They also reveal that both contact with state officers and the payment of bribes magnify the influence of remittances on tax refusal.

Figure 9. Average Marginal Effects by Remittance Receipt with 95 Percent Confidence Intervals



Source: Authors' calculations based on data from the R4-R7 of the Afrobarometer

To further explore this mechanism, we examine how trust (and perception of corruptions) in the bureaucracy influence the relationship between remittances and support of taxation (Wahl et al. 2010, Kirchler et al. 2008). Using data from R6 and R4 of the Afrobarometer, we find that there are no meaningful differences across remittance recipients and non-recipients in their levels of trust in, and perceptions of corruption among tax authorities. Moreover, at all levels of trust and perceived corruption in tax offices, remittance recipients in Africa are less likely to think citizens should pay taxes to the government and are more likely to report having refused paying taxes than non-recipients. Similar results are found in Latin America; remittance recipients do not differ significantly from non-recipients in their levels of trust in the public administration. They are also less likely to disapprove of tax evasion than non-recipients at all levels of trust in the public administration. That is, the receipt of remittances makes individuals less supportive of taxation above and beyond their trust in the bureaucracy, or perceptions of corruption in it. Models from Africa furthermore suggest that even when individuals trust in tax authorities or do not see tax officers as corrupt, contact with states authorities magnifies the influence of remittances on tax refusal. These results are shown in the Online Appendix.

To rule out other mechanisms, we examine whether there are heterogenous responses of remittances according to individual evaluations of the household and the national economy. Previous studies have found that remittances are associated with better evaluations of the household and national economy and hence lower levels of disapproval of authorities (Ahmed 2017; Germano 2018; Ratha 2006; Tertytchnaya et al. 2018; Yang and Choi 2007). One might expect that individuals with positive evaluations of the household or national economy are more supportive of taxation. Although the receipt of remittances is a positive predictor of assessments of the national and domestic economy, we find that at all levels of economic evaluations, remittance recipients have a lower tax morale than non-recipients (as reported in Figures in the Online Appendix). This holds even when considering retrospective, present, and prospective evaluations of the household and national economy. The causal chain from remittances to tax attitudes therefore does not seem to work through the enhanced pocketbook and sociotropic perceptions of the economy generated by receiving remittances.

We also looked at whether remittance recipients are willing to shoulder a heavier tax burden provided the government uses the money to improve public services and goods provision. From R6 of the Afrobarometer, we examine this by examining responses to the question: "Would you pay higher taxes to increase health spending?" It is coded 1 if the respondent (strongly) supports paying more taxes to increase health spending, and 0 otherwise. We find that people who receive remittances from abroad do not differ meaningfully from non-recipient individuals in their support to increase their tax contributions even if it is for universal public services such as health.[8]

Additionally, we examine how plans (or serious considerations) to emigrate influence remittance recipients' tax attitudes and behaviour. We use data from R7 of the Afrobarometer and the 2009 wave of the Latinobarometro, since these are the only survey waves that include questions on both tax attitudes and behaviour and emigration plans (and serious considerations). Across both regions, we find that although remittances and emigration plans weaken support for taxation, the influence of remittances does not vary significantly with individual emigration plans. Evidence from Africa and Latin America thus suggests that the receipt of remittances influences tax attitudes and behaviour does not operate through an exit channel, even among individuals with emigration plans.

[8] To corroborate whether the same holds in Latin America, we use data from the 2012 and 2014 waves of the AmericasBarometer. This survey does not include questions on tax attitudes but asks respondents whether they would be willing to pay higher taxes to improve public education and healthcare. These items are available for ten countries, and are measured as two binary variables, coded 1 if respondents responded affirmatively, and 0 otherwise. Models reported in the Online Appendix confirm that there is no meaningful difference between remittance recipients and non-recipients in their willingness to pay higher taxes to increase welfare spending. This result is also consistent with previous findings by Meseguer et al. (2016).

Heterogeneity Analysis

Finally, we explore whether the relationship between remittance receipt and tax attitudes and behaviour exhibits heterogenous responses by the socioeconomic and demographic characteristics of individuals. Although non-employed individuals might be less supportive of (or exposed to) taxation, and non-employed remittance recipients might be more dependent on remittances than employed recipients, we find that employment status has no influence on tax attitudes and behaviour among remittance recipients. We also find that at all wealth levels, the receipt of remittances has a negative influence on tax behaviour and morale. This result suggests that the influence of remittances does not merely consist of recipients (becoming wealthier and hence) paying more tax and therefore disliking tax. Neither do we find heterogeneous responses by age or gender. Results of these analyses are available in the Online Appendix.

In sum, the results of the statistical analyses suggest that receiving remittances makes individuals more likely to justify and practice tax evasion. Although remittance recipients are self-selected and differ along a series of socioeconomic and demographic characteristics from non-recipients, our baseline results remain robust after matching individuals on observable characteristics and controlling for a set of potential confounders. Estimates also hold true after excluding outliers from the sample and controlling for variables at the country-level of analysis. As for the mechanisms, we do not find heterogeneous effects depending on levels of trust and perceptions of corruption in tax authorities, economic assessments, emigration plans, and employment status, wealth, age, or gender – factors that theoretically can affect tax attitudes and behaviour. This alleviates the possibility that the receipt of remittances is capturing unobservable heterogeneity that is not controlled for in our models.

However, we do find evidence that relative to non-recipients, remittance recipients are less likely to develop feelings of reciprocity towards or identification towards the state as the embodiment of the national community. Our analysis also confirms that remittance recipients are more likely to interact with and be solicited for bribes by state authorities and that interacting with or being solicited bribes by state authorities significantly lowers tax morale among remittance recipients. We therefore conclude that the foreign source of remittances and their use to purchase investment goods are the most likely explanations of why remittance recipients are less likely to support and comply with the fiscal contract. Relative to non-recipients, remittance recipients are less reliant on state welfare and hence less likely to develop feelings of reciprocity towards or identification towards the state as the embodiment of the national political community. Instead, recipients develop a transactional relationship with the state which involves paying license fees, property taxes and bribes to register and protect investment goods purchased with remittances. Such interactions further reduce tax morale among remittance recipients.

6. Conclusion

How do remittances influence the extractive capacity of the state in migrants' homelands? In this paper, we have found robust evidence from Africa and Latin America that the receipt of remittances reduces individual willingness to support taxation or pay taxes, thereby hindering the development of a robust fiscal contract in migrant-sending countries. Remittances insulate and disconnect recipients from the national political economy which reduces their national political identification. Rather than supporting the idea of funding the state to improve general public welfare, recipients develop a more transactional relationship with the state by paying fees, taxes and bribes for the specific service of protecting investment goods purchases with remittances.

Our findings raise important normative concerns. One of the most elementary state functions is the ability to collect taxes (Martin et al 2009). Without sufficient revenue, governments (whether democratic or not) cannot achieve their goals: they cannot monopolise the use of violence, provide public goods or enforce property rights. Where tax collection is limited, individuals are more likely to emigrate and send remittances back home. However, if remittance income lowers the support of recipients for taxation, this can further undermine the capacity of the state to collect resources, leading to a vicious circle that is difficult to escape from. Potential policy responses might be to restrict emigration, tax remittances directly or provide better public services without the need for taxation. Unfortunately, such measures are either unlikely to work – restricting legal emigration will encourage the illegal kind and taxing formal remittances will increase informal transfers – or fiscally difficult for governments without alternative sources of revenue. Furthermore, many regimes may be content with allowing high levels of emigration if doing so allows them to channel what limited resources they control towards supportive constituencies rather than undertaking the long-term project of developing robust taxation-based social contracts. Rather than a boon for development by providing a counter-cyclical source of foreign currency, remittances might trap countries in a cycle of underdevelopment. Our paper thus extends to the individual level, existing but untested notions of how non-tax revenue affects the accountability relationship between citizens and rulers, often referred to as part of the resource curse.

We would expect our argument to apply to all less developed countries which have not developed a robust fiscal system combining a high level of taxation with strong public services. We have found evidence for our argument in Africa and Latin America, two regions that vary in contemporary level of development, political institutions and colonial legacies. Future research could examine how the links between remittances and taxation attitudes play out in other regions around the globe, such as Eastern Europe, Asia or the Middle East.

Analysing how migrant remittances influence origin-country governments' tax-policy choices constitutes another promising avenue for future research. Given that norms are important correlates of support of taxation (Alm and Torgler 2006, Persson et al. 2015), it would also be fascinating to explore how the political and social norms that migrants send back home influence the motivation to pay taxes by those left behind (Boccagni et al. 2016; Krawatzek & Müller-Funk 2020). These future undertakings could help us to further understand how remittance recipients' relations with the state can contribute to the fiscal contract in their homelands.

7. References

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