

Authors

Lucy Martin

University of North Carolina at Chapel Hill

Taxation, Loss Aversion, and Accountability: Theory
and Experimental Evidence for Taxation's Effect on
Citizen Behavior

Lucy Martin¹

University of North Carolina - Chapel Hill

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Abstract

While improving government performance is a key challenge for state development, we still know little about what factors affect citizens' toleration of poor performance by government officials. This paper argues that taxation is a significant predictor of citizens' demands, detailing and formalizing a micro-level theory of how taxation affects citizens' preferences over accountability. By taking away earned income, taxation pushes loss-averse citizens below their reference point, increasing the utility citizens lose from non-accountable government behavior and making them more likely to enact costly sanctions against officials. Laboratory experiments, conducted in Uganda, find that in a single-shot game taxation increases citizens' willingness to punish leaders by 12% overall, and by 30% among the group who has the most experience paying taxes in Uganda. Additional experiments confirm that this effect is driven by the loss aversion mechanism, and a survey experiment demonstrates that taxation increases politically-active Ugandans' willingness to punish corruption.

¹Email: lucymartin@unc.edu.

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