Abstract

States that are both strong and democratic are the most capable of delivering human development. Existing rational choice accounts explain why: effective social order depends on a state that can monitor compliance and punish free-riders (credible enforcement) and is constrained to act in the collective good (credible commitment). What these static accounts do not answer is how states with these characteristics emerge. We make a theoretical contribution with a dynamic model of the welfare-enhancing state which shows that institutional sequencing leads to fundamentally different outcomes: while credible enforcement before credible commitment (democratizing after the state has become strong) can lead to a constrained Leviathan and development (H1), credible commitment before credible enforcement (democratizing before the state has become strong) cannot (H2). We provide a test for the H2 with the case of Ireland.
In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. (Federalist, no. 51)

**Introduction**

Our understanding of the determinants of development has increasingly come to focus on the central role played by institutions in fostering growth and delivering a range of public goods and services with collective benefits: from human security, to clean water, roads, healthcare, and education (North 1981; Acemoglu, Johnson and Robinson 2001; Rodrik, Subramanian and Trebbi 2004 inter alia). The set of institutions seen to be most capable of delivering human development are states that are both strong and democratic. Existing rational choice accounts have provided a theoretical explanation as to why this is the case: effective social order depends on the ability of the state, as the external enforcer of collective agreements, to monitor compliance and punish free-riders (credible enforcement), and the state is constrained to act only in the collective good (credible commitment). In other words, they argue that the institutions most capable of enabling human flourishing are constrained Leviathans.

What these fundamentally static accounts do not provide is answers to the question of how credibly constrained Leviathans emerge, and specifically how the two processes – the accumulation of power and the constraining of power – interact over time. The question of whether constraining the state through democratization before it had accumulated significant powers could lead to a positive outcome was first raised by Samuel Huntington (1968). However, his concerns about the hazards of ‘premature’ democratization and so-called ‘reverse’ sequencing (democratizing before the state has become strong) received little scholarly attention and were over-taken by the democracy promotion agenda and further instances of the democratization in the early 1990s. The consensus view in this literature sees democracy as “a meta-institution for building good institutions” (Rodrik 2000, 3).
However the poor performance of many countries that democratized in the third wave has again brought into focus the relationship between democratization and state building, with some scholars emphasizing the need for state-building first, especially for post-conflict and otherwise ‘weak’ states (Fearon and Laitin 2004; Fukuyama 2004a, 2004b, 2004c, 2007; Mansfield and Snyder 1995, 2007a, 2007b; Krasner 2004). This culminated in the heated debate on institutional sequencing in the Journal of Democracy (Carothers 2007a, 2007b; Fukuyama 2007; Snyder and Mansfield 2007b). Without a clear resolution to this debate academic and policy approaches have converged on the position that ‘both liberal democracy and state capacity need to be strengthened in parallel to ensure effective development…” (Norris 2012, front page).

We challenge this position and provide what has up to this point been lacking from the sequencing debate: a theoretical argument about how and why sequencing matters. By harnessing the insights of rational choice accounts into a much-anticipated dynamic model of the effective state (Levi 2006), we provide an analytical foundation for the 200 years old thesis put forward by one of the founding fathers of the United States, James Madison (quoted above). Our argument explains why the government must first control the governed before it is obliged to control itself.

The paper proceeds as follows: the next section reviews the existing rational choice accounts of collective action and credible commitment. In section two we present our dynamic model, arguing that credible commitment before credible enforcement can constrain states from becoming Leviathans and trap societies in low efficiency equilibria. Section three provides two illustrative examples of alternative paths of institutional sequencing and its implications. We conclude with some thoughts for future research, and the normative implications of our argument.
Existing Static Models of the State

Existing rational choice accounts of the state depart from the assumption that the fundamental challenge in establishing effective social order is to solve collective action problems (CAPs). Collective action problems emerge from the fact that when collectives attempt to supply themselves with public goods, the dominant strategy pursued by rational individuals is to free-ride (Hardin 1968; Olson 1965). This literature emphasizes two conditions that are critical to solving CAPs: credible enforcement and credible commitment.

Credible enforcement refers to a mechanism to monitor individual compliance of collective agreements and punish those defecting and free-riding (Olson 1965). In a small group it is more straightforward to solve CAP because it is easier to reach the agreement and, more importantly, easier to monitor and enforce compliance (Ostrom 1990). Because of the high degree of visibility in a small group, everyone can ‘see’ each other, meaning that individuals have a high ability to judge whether or not everyone is contributing to a public good and to report and sanction those defecting. Everyone in the group has the capacity and incentive to enforce the agreement once it has been reached.

In large groups solving CAPs is more difficult as the behavior of group members is less visible so the effectiveness of a peer-to-peer monitoring and punishment regime is lower. Under these conditions free-riding becomes the dominant strategy of individuals, and the need for an external agent who can align individual incentives with collective objectives arises (Hobbs 2005 [1651]; Olson 1965). In other words, CAPs in large groups can only be solved with the backing of an external agent with both perfect monitoring capabilities that enable him to find the defectors and free-riders, and the ability to credibly threaten the subjects to its authority to inflict punishment for breaking the terms of the agreement. Being a credible enforcer is a crucial welfare-enhancing attribute of the external agent.
If the group is the citizens of a country and the external enforcer is the state, then it becomes clear that to be a credible enforcer the state must have a high monitoring capacity, and a high capacity to project coercive power over all the subjects to its authority and to apply this coercive power against those citizens found (through monitoring) to free ride. Unless the state is high on monitoring and coercive capacities it is not a credible enforcer and is not, as Thomas Hobbes stylized it, a Leviathan.

Transferring the task of monitoring and enforcement to an external agent raises two problems. Firstly, an external agent is, in reality, never a perfect monitor, as its ability to observe individual contributions is costly (Alchian and Demsetz 1972). As a result, an individual can calculate the odds of getting caught defecting, depending on the effectiveness of the enforcer. In other words, an individual will factor the effectiveness of the state as an enforcer into her calculations about how others are likely to behave, and therefore how she will behave herself.

The second problem arising from the existence of an external agent capable of inflicting punishment is that it opens up the possibility for a breach between the interests of the external agent and those of the group. By definition an external agent is outside of the group and his interests are not aligned with those of the group. How can we trust a ruler, who has accumulated considerable monitoring and coercive powers, to act in the common interest and not pursue his own agenda? The arrangement with an external agent supplying incentive-aligning services for the members of the group for a share of associated efficiency gains also provides this agent with the incentives to opportunistically manipulate the distribution of those gains to his own advantage.

The problem of how to constrain the external agent has been the central focus of the New Institutional literature. A considerable body of scholarship has cited the lack of commitment to the ‘rules of the game’ by the power-holders as the fundamental cause of the
failure of societies to increase general welfare (Kydland and Prescott 1977; North 1981). The answer to this problem has been a focus at the constitutional design that diffuses the power of the state among several actors (Falachetti and Miller 2001; Henisz 2000; North and Weingast 1989; Persson, Ronald and Tabellini 1997; Tsebelis 2002). In addition to this, elections (Barro 1973; Ferejohn 1986), formal organizations of critical economic agents (Grief, Milgrom and Weingast 1994), non-politicized public bureaucracy (Miller 2000) and institutionalization of ruling party (Gelbach and Keefer 2011) have also been put forward as solutions to the credible commitment problem. However, in the remainder of the paper we focus on democracy as the most important credible commitment devise as the kind of polity that is argued to best resolve the credible commitment problem is “a modern democratic society with universal suffrage” (North 1990, 109). The fundamental conclusion of the credible commitment literature is that to sustain efficient social outcomes a Leviathan is necessary but not sufficient, and its hands must also be tied through democratic institutions.

An important implication of the literature on collective action and credible commitment is that the sustainability of an effective social order depends on individuals having a high degree of confidence that the state can ‘see’ everyone, can punish defectors and will only act in the collective good. If one of these conditions is violated, individuals’ incentives to participate in a social endeavor and comply with its terms will diminish, and with it so will efficient social outcomes. Therefore, the extent of the cooperative (e.g. non free-riding) behavior, and therefore the very possibility of efficient social order, will always be conditional, tenuous and liable to fluctuations (Levi 1988, 69-70; 1997).

As rich and powerful as the insights from existing rational choice accounts are, they are essentially static institutional models. They explain why a society needs a Leviathan and why its hands should be tied. However, they fail to explain how a state becomes a Leviathan, as the majority of these scholars simply assume that the state is already a powerful
external agent when it hands are tied. Others, who began to probe the question of how states with both of these beneficial features emerge, concluded that ideal institutions are logically impossible (Miller 2000). Neither provides an answer to the crucial question of how constrained Leviathans emerge. As such they cannot address either the conditions in most developing countries today, where states are democratizing long before the state has acquired the properties of a Leviathan, or the historical reality that constrained Leviathans did emerge in certain parts of the Europe and the West. Both stands of the rational choice literature offer fundamentally static and ahistorical accounts that are of limited use in understanding the emergence of constrained Leviathans in both contemporary and historical perspective.

We take this literature forward by extrapolating from its static accounts to a dynamic, deductive model that theorizes how different institutional sequencings and, particularly, differences in the timing of democratization in state building, impacts on the ability to achieve efficient social order.

**A Dynamic Model of State-Building and Democratization: Credible Enforcement Before Credible Commitment**

The credible commitment literature starts with the assumption that states are already credible enforcers. However, no states are born as Leviathans to which citizens can willingly transfer enforcement functions. It is only once the state has become a Leviathan that citizens may be ‘willing’ to do so, the starting point for the ‘credible commitment’ analysis. But if it is not at this point that states themselves begin, then we must first ask the question of how the state becomes a credible enforcer?

If we accept the proposition of both the collective action and credible commitment literatures that credible enforcement is a necessary condition for citizens to comply, then it cannot be the case that states become credible enforcers through responding to
citizens’ preferences, as preferences to comply do not exist before the state has become credible. Rather, before this point, individuals have preferences towards non-compliance and few incentives to accept the state as the external enforcer. If this is the case, it must be true that to become a credible enforcer the state has to over-ride, rather than respond to, citizens’ preferences. It has to acquire ‘eyes’, i.e. the ability to monitor all citizens, and ‘teeth’, i.e. the ability to punish those free-riding and defecting, regardless of individual’s preferences to resist to this process.  

Archeological research of primary states suggest that acquiring ‘eyes’ and ‘teeth’ and becoming a Leviathan is a process, rather than a binary switch (Smith 2004; Spencer and Redmond 2004). The rise of the primary states was preceded by the emergence of chiefdoms – complex polities with sufficiently centralized but not deeply sophisticated administrations. There was great variability in the organization of early states (Smith 2004, 78-79) and medieval and early modern Europe states (Ertman 1997; Tilly 1992).

If becoming a Leviathan is a process, then the extent to which the state is credible and hence the strength of individuals’ preferences to resist the state should be understood as a continuum. Although individuals will always have incentives to free-ride, because the state can never be a perfect enforcer, the strength of these incentives is a function of how credible the state is as an enforcer. At the very beginning of the state-building process the incentives for free-riding will be strongest because the state is least credible as an enforcer. As the state improves its monitoring and coercive capabilities and becomes more credible as an enforcer, the strength of the preferences to defect will weaken, even if they never disappear. This means that the force the state needs to over-ride citizen preferences will also change throughout the state-building process. It will need to be most forceful in the

---

1 Here we do not explore the reasons why rulers turn states into Leviathans, and only emphasize that the incentive to state-build cannot come from below. Others have addressed this question, with most stressing the importance of internal and external threats in incentivizing rulers into developing state capacity to fight wars (Tilly 1992; Porter 1994; Ertman 1997).
initial phases, when it is least credible, and individuals have the strongest incentive to resist. As the credibility of the state improves, the strength of citizen opposition diminishes: they will not resist the government as the costs of resistance are exceptionally high in comparison to the costs of compliance.²

When looked at in these terms – that the state becomes a Leviathan by over-riding rather than responding to individuals’ preferences and that in the process of becoming a Leviathan there is a continuum in the strength of citizen preferences for defection and therefore the degree of the coercive capacity needed to ensure citizens’ compliance – then it becomes clear why democratizing before the state has become a Leviathan has profound implications for its ability to subsequently become one and ultimately for the likelihood of achieving an efficient social order.

Democracy, by definition, is designed to make states responsive to their citizens’ preferences and to limit their ability to over-ride them.³ Despite considerable operational differences, all the existing definitions of democracy imply a system of governance that is in some meaningful way reflective of the preferences of citizens.⁴ It ‘ties the hands’ of the state and its rulers, albeit partially, and thus provides for one of the conditions that needs to be in place in order to sustain an efficient social order, i.e. credible commitment of the external agent, but does not address the first – ensuring that the state is a credible enforcer. As both the collective action and credible commitment literatures make clear, if a state is not an effective enforcer and the cost of free-riding is low, citizens have few

---

² A fully-specified rational choice model of the strength of the citizens’ non-compliance should also take into account citizens’ satisfaction with what they get from the state in return for their contributions (Levi 2006), complemented with a norms-based explanation, such as trust and citizenship (Braithwaite and Makkai 1994). This task, however, is beyond the scope of this paper as our focus is on explaining the early stages of state-building when public goods production is necessarily low.

³ Fukuyama has emphasized the ‘potential contradiction’ between democracy and state-building which involves ‘limiting the central state’s authority to coerce…’ (2007: 11). We add to his insight by providing an explanation of why this contradiction exists.

⁴ This is not to deny the considerable literature on variation in democratic responsiveness, for example between different types of electoral system (Powell 2000). However, we see these as complimentary nuances to our argument that do not undermine the key point about the enhanced ability of citizens to constrain their governments in democracies, of all forms, as opposed to other regimes.
incentives to comply and strong ones to defect, regardless of whether the state is democratic or not.

If democracy makes rulers responsive to citizens’ preferences, and those are strongly held preferences to free-ride because the state is not a credible enforcer, then the state’s ability to become a Leviathan and to solve CAPs is undermined. As discussed above, before the state has become a credible enforcer, citizens’ preferences to defect are high. If the state must respond to these preferences, then it gets locked into the level of state-building that it has already achieved and the state becomes trapped in a cycle of low effectiveness and low compliance.

Moreover, democracy inhibits the ability of states to escape from this trap by minimizing the extent to which the state can apply force to overcome citizens’ preferences. As argued above, becoming a Leviathan requires the application of coercive force, with varying degrees of strength, depending on the stage of state-building. In the initial phases, when the state is least credible, individuals’ resistance is strongest and the state needs to apply the greatest force to overcome it. Consider an example from archeological research on early states: burned and forcefully abandoned settlements are considered as evidence of the governing presence of state authority in ancient civilizations (Spencer and Redmond 2004, 174). As the state becomes more credible, less force is needed. If force is most needed in the initial stages, but democracy takes away the ability to apply that force, this means that democratizing in the earlier phases of state-building will have the most serious consequences for the state’s subsequent ability to become a credible enforcer. At latter stages of state-building such a ‘democratic arrest’ of the state’s powers may matter less as the state has already acquired some credibility and the application of coercion is less needed.

The argument presented above suggests that different pathways of institutional sequencing will lead to different outcomes, and only one leads to the constrained Leviathans
we know to be the key to human flourishing. Using force to become a credible enforcer and then being constraining is how a state that can sustain efficient social order comes into being. Or, in the words of the authors of the Federalist Papers, ‘you must first enable the government to control the governed, and in the next place oblige it to control itself’. In contrast to those that argue that ideal institutions are logically impossible because of the inherent tension between the state’s need to exercise power over the governed, and the governeds’ need to constrain the state in its exercise of power (Miller 2000), we posit that ideal institutions are possible, but are only reached by one pathway of institutional sequencing: credible enforcement before credible commitment. The alternative pathway of institutional sequencing does not lead to a welfare-maximizing constrained Leviathan. Instead, tying the hands of a weak state traps societies in a sub-optimal equilibrium where citizens want to shirk on their individual contributions to public goods production and rulers cannot prevent them of doing so.

In sum, our theoretical account allows us to put forward three interrelated hypotheses about how the timing of democratization in state development impacts on the states ability to become an effective solver of CAPs:

H1: States that democratized after becoming a credible enforcer will be more efficient at solving CAPs.

H2: States that democratized before becoming a credible enforcer will be less efficient at solving CAPs.

H3: Democratizing before the state has become a credible enforcer lowers the probability that the state will become a credible enforcer able to solve CAPs.

In addition, we put forward sub-hypotheses about the causal pathways through which these effects occur:
MH1: Non-democratic institutions enable states to become credible enforcers through over-riding citizens’ preferences.

MH2: Democratic institutions constrain states from becoming credible enforcers through responding to citizens’ preferences.

Credible Commitment before Credible Enforcement: the Case of Ireland

In this paper we limit our empirical analysis to testing H3 and MH2. We empirically analyze our theoretical proposition using one primary explanatory case of the Republic of Ireland since democratization in 1922, and a shadow case, that of Sweden 1620s-1921. We operationalize our key concepts by focusing at state-building experiences of these countries in the area of taxation, following in a long tradition that has seen taxation as a first order collective action problem (Levi 1988; Bates 1989; Steinmo 1993) and a constitutive determinant of state capacity (Cheibub 1998; North 1981; Tilly 1975, 1992). Drawing on our theoretical framework, which emphasizes the importance of monitoring and punishment, we focus on monitoring and coercive capacities (MCC) of the state in the area of taxation. We consider effective monitoring in terms of the ability of the state to collect information on its taxable assets: people, land and property. As monitoring technology can vary across historical periods, we try to measure MCC in a historically sensitive way.

We use the Irish case to test H3 and MH2 concerning the effects of democratizing before the state has become a credible enforcer. Ireland was far from being a credible enforcer when it became independent and fully democratic in 1922 and has faced persistent governance problems, currently ranking 25th in the world in the 2012 Transparency International CPI rankings, with limited universal services in areas such as healthcare, recurrent problems with fiscal discipline (most acutely in recent years) and one of the lowest

\[5\] For example, the Doomsday Book in early Medieval England was effectively a form of property register, very advanced at that time period though quite different to modern methods of registering and valuing property.
tax yields in the OECD. The Irish case could be considered a ‘most likely’ case for existing theories that emphasize credible commitment in the form of democracy as the key institutional variable affecting developmental outcomes. Ireland has been a fully-fledged democracy for a considerable period of time, at least as long as, and in some cases longer than, other OECD countries. It has also been a fully consolidated democracy for that period of time. As an old, ‘high quality’ democracy, Ireland should be ‘most likely’ to score highly on indicators of governance and human development, according to the existing credible commitment accounts. We can therefore use the case to challenge these explanations and show instead that the high quality of democracy has in fact prevented the state from becoming a credible enforcer and to ensure effective solutions of CAPs.

Whilst Ireland is the primary explanatory case as it allows us to trace the causal effect of democratizing before the state is a Leviathan, we also use Swedish case as a shadow case. These two countries have followed two different pathways of institutional sequencing by democratizing at different levels of state development and so vary in terms of our key independent variable. Unlike Ireland, Sweden, was arguably already a very credible enforcer when it fully democratized in the beginning of the XXth century. The Swedish case permits better measurement of our key variables: just how poor the Irish state’s monitoring capacity is made clear by how effective the Swedish state was. We twin these cases together as they are in many ways very similar in terms of the usual explanations of how states can solve collective action problems. They are both small states, with populations of four and nine million respectively, on the geographic periphery of Europe, with relatively homogenous ethnic populations. They also became fully-fledged democracies at about the same time: Sweden in 1921 and Ireland in 1922.

As we are concerned with tracing causal pathways over time within case, we use process tracing. Process tracing is a method which ‘…attempts to identify the intervening
causal process – the causal chain and causal mechanism – between an independent variable (or variables) and the outcome of the dependent variable’ (George and Bennett 2005, 206-207). It involves a research process whereby ‘the cause-effect link that connects independent variable and outcome is unwrapped and divided into smaller steps; then the investigator looks for observable evidence of each step’ (Van Evera 1997, 64). Figure 1 outlines the smaller steps of the theoretical argument and the observable evidence, also known as the diagnostic evidence (Collier 2011), of each step. A number of sources were analyzed using this deductive framework: primary documents, historical accounts and recent academic research. Data has been triangulated between sources to increase reliability.

***Figure 1 is about here***

**Sweden 1620s – 1922: Credible Enforcement before Credible Commitment**

Sweden’s progression towards becoming a constrained Leviathan was gradual: from absolutism for the most of its pre-XVIIIth century history, to the Age of Liberty (1719-1772) when the power of the monarch was offset by the assembly of four estates with a franchise limited to a couple of percent of the population (Roberts 1986), to 1809 when the new constitution, which institutionalized separation of power in its contemporary form but still with a limited franchise, was adopted. By 1921, when tax weighting of votes ended and the first elections under universal suffrage were held, the state was already a credible enforcer as, since at least the XVIIth century, the Swedish state had acquired formidable capacity to closely monitor its people and lands, project power over its citizens and mobilize resources.

As in most European states, the processes of state building had been driven by military competition and warfare. Between 1520 and 1720 Sweden fought ten wars with
Denmark for dominance in Northern and Baltic Europe. During this period Sweden was one of the most militarized states in Europe: in 1600, 1.5 percent of the population was troops under arms, more than in France, England, the Netherlands or Russia (Tilly 1992, 59).

This militarization and the military successes it produced resulted from the creation of a state machine capable of controlling and mobilizing extensive resources even from the little monetized agricultural economy. In 1690 the *Indelningsverket*, a system for paying soldiers from the produce of the peasant economy, was introduced. Farm produce was paid in kind by units of five farms to provide individual soldiers or officers with food and housing. The success of this system, which persisted until 1873, ultimately rested on the state’s ability to broadcast power down to the lowest level of production, individual peasant households: ‘the control system inherent in a standing army billeted throughout the countryside reached every corner of the land’ (Lindegren 1985, 334).

A critical component of the Swedish state’s burgeoning power was the monitoring capacity provided by the Church. After the Reformation the Church in Sweden played a key role in expanding the state’s reach over the population and acting as an ‘instrument for controlling the population’ (Lindegren 1985, 332). Under Gustav Vasa, the new clergy was given extensive responsibilities in monitoring and record keeping for the state. Clergymen were responsible for keeping lists of those obliged to pay tax and of males eligible to become soldiers. These monitoring functions were legally enshrined in the 1686 Ecclesiastical Laws which confirmed the Church as being subordinate to the Crown and made the Church’s role in controlling the population through its list-taking one of the legal duties of Swedish clergymen. This very extensive monitoring meant that although the peasantry might have been ‘free’ from feudal domination, they were very much under the control of the state. With this monitoring power, the state had a very high capacity to detect those defecting and free-riding and punish them.
The case for Sweden being a Leviathan as early as the beginning of the XVIIth century is also evidenced by its unparalleled achievement in cadastral mapping.\(^6\) The cadastral map is widely understood as an instrument of control of the governed (Buisseret 1992) that both ‘reflects and consolidates the power of those who commission it’ (Kain and Baigent 1992, 344) and ‘a historically important, partisan, and active tool of statecraft’ (Conzen 1994, 1644-1645). Swedish cadastral maps were not only a high quality representation of the Swedish lands and those foreign lands that were in the sphere of geopolitical interests of Sweden; their marginal notes included information about the land ownership, tenure, use, yield and the value (Baigent 1990, 63, 67; Dahlstrom 2008, 564). It is difficult to underestimate the strength of the Swedish Leviathan as in 1628 – almost a century before the first attempt to tie the king’s hands – it carried out the first in modern Western history mapped cadaster of the entire country (Baigent 1990; Kain and Baigent 1992).

These extensive monitoring powers enabled the state to successfully mobilize resources from most of its population and territory. Although the state’s ability to raise revenue was substantially constrained before industrialization by the low degree of monetization of the economy and the weakness of towns, the Swedish state was collecting taxes, both in cash and in kind, from a broad base of the population long before democratization. During the early modern period, the Crown collected a wide range of tithes, levies and taxes from the peasantry. It was able to do so because ‘the state bureaucracy extended its monitoring directly to peasants and labourers’ (Tilly 1992, 136). In 1920, before the extension of the franchise, 80 percent of the economically active population was registered with the tax authority (Flora and Heidenheimer 1981, 193).

\(^6\) A cadastral map is ‘a large-scale cartographic record of property ownership that preserves not only the dimensions and shape of an owned land parcel on the earth’s surface but also the spatial relationship of all such individual parcels to each other’ (Conzen 1994, 1637).
The Swedish state is today one of the highest tax performers in the world (von Haldenwang and Ivanyna 2010) with average tax yields at 48 percent of GDP (including social security contributions) in 1990-2011 (OECD 2012). As Sven Steinmo (1993, 41) has argued ‘the hallmarks of the Swedish tax system have been its broad base, its stability and its high yield’. Broad based, high yield tax collection is only possible where the state has a high degree of administrative reach, i.e. where a high proportion of the population is effectively within the tax net. As argued above, these processes were in place not only before 1921 when Sweden became a fully-fledged democracy, but even before a meaningful separation of power between the king and the non-elected estate assembly was provided for by law in 1809. Although we do not have the counterfactual of whether or not the Swedish state would have been able to achieve this if it had not been in a Leviathan before democratization, we can say that the modes of taxation which emerged would not have been possible in a state that did not have such effective monitoring and enforcement capacities.

The Swedish case offers an example of a state that had considerable powers of enforcement before both the separation of power and universal suffrage was established. After their enfranchisement, Swedish citizens did not use the instruments of democracy to reverse high levels of state control (i.e. to leave the tax net). Instead they harnessed the power which credible enforcement and credible commitment provided for solving CAPs towards welfare enhancing ends. We are not arguing here that being a credible enforcer before democratization caused the extensive welfare reforms that happened subsequently, but that it was a critical enabling factor of their success. Sweden approximates the ideal-type credibly constrained Leviathan capable of solving collective action problems, but it reached this via a very particular path of institutional sequencing.
Ireland 1922-2012: Credible Commitment before Credible Enforcement

When Ireland became an independent and fully democratic country in 1922 the state itself was far from being a Leviathan. The persistence of relatively stable English rule from the XVIIth century onwards had not been achieved through the creation of a strong state capable of monitoring the population and territory, broadcasting power and maintaining control. Rather, as subsequently replicated in other colonies, the English authorities ruled through a web of local power-holders: in this case the Protestant Anglo-Irish aristocracy who owned the majority of the land (Barnard 2004; Brady and Ohlmeyer 2005; Dickson 2000). Although there were persistent rebellions, the English forces were able to use targeted coercion to put them down (Smyth 2000; Canny 2003). The Irish path to statehood, as Charles Tilly has argued, ‘demonstrates the capacity of the region (England) to create a relatively weak state along a coercion intensive path’ (1992, 158-159).

The weakness of the state in terms of monitoring and enforcement is clearly demonstrated in the area of taxation as it had never acquired the capacity to raise taxes from the majority of the population, relying heavily on taxes from customs and excise (Dickson 1983). Even when the cost of the Napoleonic Wars led the Irish Chancellor of the Exchequer to announce ‘taxes must operate on the bulk of the population’ (quoted in Dickson 1983, 47), the Crown was unable to bring the majority of the peasantry within the tax net. The state instead increased customs and excise taxes further and went heavily into debt.

This was the state structure inherited by the first Free State government in 1922. There was a great deal of continuity in much of the administrative apparatus modus operandi; for example, it continued to collect the same taxes in the same way as the English had (Chubb 1966; Fanning 1986; Garvin 1996). It was a very poor state with limited reach and a small tax base.
Although some important changes have occurred in the modes of taxation since 1922, the broad patterns have remained relatively static. In particular, the Irish state has persistently failed in its attempts to broaden the tax base and remains one of the lowest taxing states in the OECD. In 1990-2010 total tax revenue (excluding social security) was 26.1 percent of GDP, which is below the OECD average, and compared to an equivalent figure of 35.4 percent for Sweden (OECD 2012). Ireland lags behind particularly in its collection of direct taxes. The average tax revenues collected from individuals (including social security contributions) in 1990-2010 were 9.15 percent of GDP, compared to 16 percent in Sweden (OECD 2012).

The Irish state has also had difficulties dealing with tax evasion. Although data for the early years after Independence is hard to find, data from the 1990s indicates that tax evasion was widespread and endemic. In 1993 the tax authority, the Revenue Commissioners, announced a voluntary tax amnesty where individuals could declare income and assets, without being fined and only being liable to pay tax at a fixed rate of 15 percent. The £240 million raised via the amnesty indicated that there was £1.6 billion in hidden funds within the economy (Hardiman 2002). Similarly, an inquiry into the Deposit Interest Retention Tax in the early 1990s uncovered evidence that from 1986 to 1999, 302,000 bogus non-resident accounts, holding £1.5 billion, had been set up by residents for the purposes of tax evasion. An official estimate for underreporting and non-reporting of self-employment income and corporate profits was 2.5 percent of GDP in 1992 (Fagan 1994, 11).

Why has the Irish state struggled to broaden the tax base and reduce evasion? When the democratic Free State came into existence, it was far from being a credible enforcer, and as the high levels of tax evasion uncovered in the 1990s show, the state for a long time struggled to become more credible. This is arguably not simply a function of path dependency. Citizens have actively used the instruments of democracy – electoral
competition, independent courts and civil liberties – to successfully resist the state’s attempts to extend its control and become credible. The fact that the Irish state’s hands were tied before it became a Leviathan has played a large role in preventing it from becoming one.

Taxation, and especially the widening of the tax net, has been a focus for political debate and conflict, particularly since the 1960s (Hardiman 2002). Governments who have promised to and succeeded in cutting taxes have been rewarded at the polls for doing so. Governments who have attempted to broaden the tax base have met significant resistance in the form of mass protests and legal challenges. The remainder of this section briefly describes these processes with a focus on the period after 1970.

From the 1970s onwards, governments who have tried to increase taxes and broaden the tax base have met with widespread resistance. The Fine Gael and Labour coalition government, who came to power in 1973, introduced new taxes on capital gains, capital acquisitions and wealth, which met with significant opposition (Sandford and Morrissey 1985). That government lost power in 1977 to Fianna Fáil, who went on to abolish a plethora of taxes – both the newly introduced wealth and capital gains taxes, but also taxes on cars, and the very unpopular domestic rates charged by local authorities. Although tax policy was not the only issue leading to the coalition’s defeat, Fianna Fáil had promised the tax abolitions in advance of the election, and relevant constituencies (rural farmers, for example) were mobilized against the government because of the wealth tax, which had included assets such as land (O’Connor 1993, as quoted in Hardiman 2002).

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

Democratic freedoms to protest and strike were used by all sides in debates on taxation. Employees, who shouldered the great majority of the direct tax burden, also mobilized to resist further tax increases. Prior to the budget in 1980, an estimated 700,000 employees, led by a trade union, marched across the country (Sweeney 1983). One of their key grievances was the unfair distribution of the tax burden due to the government’s inability to extend direct taxes beyond employees. In response to these protests, that have become known as a ‘tax revolt’, the government promised a new Commission on Taxation to examine the issues. The 'tax-revolt' of 1980 has been seen to have had the aim of preventing increases in the tax burden on labor, and to have succeeded in pressuring governments throughout the 1980s into halting, though not reversing, the trend towards the increased taxation of personal income (O’Toole 1994).

Industrial unrest around fiscal policy and budget proposals contributed to the fall of two short lived governments in the early 1980s (Farrell 1987). Resistance from employees made it politically risky to tax them further. Caught between citizens outside the tax net refusing to be brought within it and citizens within it refusing to pay more tax, subsequent governments looked elsewhere for revenue. To plug fiscal deficits governments resorted to increasing borrowing, and debt began to grow (Barry and Bradley 1991). By 1987 debt was 117 percent of GDP (Somers 1992).

Faced with a continuing fiscal difficulty in the late 1980s, the government again tried to broaden the tax base, but this was met with significant challenges through democratic
mechanisms. In 1987 a minority Fianna Fáil government tried to engage in base broadening and to reform and strengthen the Revenue Commissioners. Two tax amnesties were announced in 1988 and 1993, that both confirmed widespread non-compliance. These reforms were not seen to have been very successful. One academic commentator concluded that, since 1980 ‘changes have been made in the Irish tax system but little tax reform has been implemented’ (O’Toole 1994, 110).

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

In the 1990s rapid economic growth temporarily masked the underlying weakness of the tax system, providing increased revenue from indirect taxes and, in particular, from stamp duty on property sales. The Fianna Fáil and Progressive Democrats coalition, during their ten years in government from 1997 to 2007, pushed for systematic reductions in income tax rates, tax credits and exemptions. By 2007 the tax burden as a percentage of gross wage earnings for a single person without children was 13.9 percent, almost half the OECD average of 25.4 (OECD 2010).

Rather than broadening the tax base in a way that would make it sustainable, governments in the late 1990s and 2000s made decisions that further eroded it. This underlying weakness became clear again when recession began in 2008. Excluding debt from the banking crisis, the gap between revenue and public expenditure in 2012 was 15 billion
euro or 8 percent of GDP (Government of Ireland 2013). In addition to austerity measures, there have been efforts to fill this gap by introducing a number of new taxes: a ‘universal social charge’, a household levy, a pension levy and a property tax. However, serious compliance issues have persisted: for example, in 2012 at the statutory deadline for paying the household levy, the compliance rate was 50 percent (Smyth 2012).

A great deal of the Irish state’s current fiscal challenges can be seen to result from its inability to solve the collective action problem of collecting tax. The state that the democratic governments from 1922 onwards inherited from the period of British rule was highly centralized with low enforcement and monitoring capacities, ineffective at collecting tax from the broad base of the population. Subsequent governments have struggled to alter this situation as citizens have used the electoral process; the right to unionize, strike and protest; and judicial independence to curtail the state’s ability to extend the tax net and improve compliance. Having begun as an enforcer lacking credibility, the Irish state has had difficulty becoming a true Leviathan and its challenges in solving collective action problems have persisted.

**Conclusion**

Rational choice literature has made a profound contribution to our understanding of the conditions under which efficient social order is possible. It emphasizes the need for states that are both strong and constrained. However, knowing what the optimal institutions are does not tell us much about how to get them. What the rational choice accounts are lacking is a dynamic explanation of how the processes that lead to a constrained Leviathan – the accumulation of power and the constraining of power – interact over time.

By synthesizing rational choice static accounts into a dynamic model, we address their ahistorical nature and so provide an account that can explain both how
constrained Leviathans emerged in parts of the West and why they are failing to emerge elsewhere. Our account firstly challenges those who reached the rather pessimistic conclusion that due to the conflicting nature of welfare-enhancing properties of state, i.e. strong and constrained, ideal institutions are logically impossible (Miller 2000). This pessimism is the result of their neglect of the issue of timing. (Close) to ideal institutions are possible, but there is only one pathway to their emergence: credible enforcement before credible commitment.

Secondly, our analysis provides a clear answer to the sequencing conundrum: ‘reverse’ sequencing cannot lead to states capable of providing efficient social order. As the example of Ireland shows tying the hands of a weak state can inhibit the state from becoming a Leviathan leading to sub-optimal social outcomes. If ‘reverse’ sequencing had this effect in Ireland, then democratizing at an even earlier stage of state development may be even more problematic for the majority of developing countries as, for example, the average contemporary African state is arguably far less credible as an enforcer than the Irish state was in 1922.

The argument we have presented here is analytical and theoretical, rather than normative. It is much more difficult to normatively argue for ‘state-building first’, when state-building inherently involves coercion and usually violence, than it is to point out the analytical implications of different institutional choices. Democracy has many intrinsic values that may be more important, in normative terms, than its impact on state-building. However, the potentially distasteful normative implications of an analytical argument are not a reason to withhold it. If anything, the strongest advocates of democracy have the greatest responsibility to know its weaknesses, so that they can protect it from itself. If there is any policy implication to be made from our argument, it is that we need to have a more realist and theoretically informed understanding of what democracy can and cannot do.
It is important to note that illuminating as the examples of Ireland and Sweden are we do use them to test our argument. Our contribution is theoretical, and it constitutes the ground work on which future research can build. Testing the theory would require more fine grained measures of state capacity than are currently available (both in terms the state’s historical and contemporary strength). Our approach provides conceptual tools for more focused operationalization of state capacity by emphasizing the specific aspects that matter for credible enforcement, such as monitoring and punishing.

Thinking historically about the fundamental problems of effective social order illuminates the paramount importance of institutional sequencing for achieving it. The message of our analysis is clear: optimal institutions are possible, there is only one pathway to their emergence, and this is not the pathway being followed by most countries today.

**Figure 1. Steps of Theoretical Argument and Diagnostic Evidence**

```
Democratization

State not a Leviathan → Citizen preferences: non-compliance → State responds to preferences → State cannot become a Leviathan

Diagnostic Evidence

State has low MCC → Non-compliant behavior, Citizen resistance to increasing of state MCC strong → Citizens use instruments of democracy to resist state attempts to expand MCC → State has low MCC
```
References


