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Abstract

This paper explores differences in the making of a 'modern' fiscal state under colonial and sovereign rule. Focusing on African and Asian colonies (1820–1970) and their respective European metropoles, it argues that while the introduction of 'modern' taxes was part of an imperial diffusion process of fiscal reforms, these new taxes were embedded in a distinctly colonial political, social and economic logic. In contrast to the imperial metropoles, where 'modern' taxes built on organically grown tax bases, fiscal 'modernity' and 'tradition' co-existed in a dualistic system in the colonies. The comparison of fiscal development under colonial and sovereign rule helps to move beyond the Eurocentric bias in the historical tax literature and develop a more global theory of fiscal modernization.

JEL Classification: N/A

Keywords: economic history, fiscal modernization, colonial rule, Africa, Asia

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Fiscal Development under Colonial and Sovereign Rule[*]

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This paper explores differences in the making of a 'modern' fiscal state under *colonial* and *sovereign* rule. Focusing on African and Asian colonies (1820–1970) and their respective European metropoles, it argues that while the introduction of 'modern' taxes was part of an *imperial diffusion process* of fiscal reforms, these new taxes were embedded in a distinctly *colonial* political, social and economic logic. In contrast to the imperial metropoles, where 'modern' taxes built on organically grown tax bases, fiscal 'modernity' and 'tradition' co-existed in a dualistic system in the colonies. The comparison of fiscal development under colonial and sovereign rule helps to move beyond the Eurocentric bias in the historical tax literature and develop a more global theory of fiscal modernization.

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1. Introduction

More than two-thirds of the world's present-day nation-states was under European, American, or Japanese colonial rule for a considerable part of the past two centuries. A large number of these nations were even the direct product of colonialism or the struggle against it. Much of the global diffusion of the 'fiscal state', including the adoption of 'modern' taxes, thus took place *in the context of imperial relations*. Therefore, to understand how 'modern' taxes diffused across the globe we need to examine how fiscal development under colonial rule may have *differed* from fiscal development under sovereign rule. This paper explores such differences and highlights two fundamental distinctions.

First, the *political economic context* in which fiscal reform took place differed markedly between colonial and independent states. Since colonial states were upheld by a foreign country (hereafter: the metropole), the social, economic, and geo-political interests of those in power were largely misaligned with the interests of the colonies' indigenous populations.[1] A key contrast between colonial and sovereign states was the degree to which colonial subjects were forced to foot the bill for safeguarding the interests of a foreign administration, foreign enterprises, and foreign settlers. While questions of legitimacy are at stake in any fiscal system, such thorny issues were embedded in more organic and multifaceted processes of political unification and fiscal consolidation in the European path of nation-building, in which newly conquered territories were integrated into existing states, rather than being administered by an alien satellite government.

Second, colonial territories had different *socio-economic structures* in which potential fiscal resources were embedded. For one, sovereign states that engaged in imperial expansion tended to be more affluent, more commercialized, more industrialized, more urbanized, more monetized, and militarily more powerful than the territories they brought under their control. To be sure, there was enormous variation across sovereign as well as colonial states in all of these respects. Nonetheless, in most colonial societies, fiscal systems reflected a distinct type of *socio-economic dualism* that was shaped by the penetration of metropolitan capital. While the degree varied over time and between colonies, foreign companies and settler communities tended to receive different fiscal treatment than the indigenous populations (Schlichte 2021). Such dualism was inherent to colonial rule, but remains largely neglected in comparative and theoretical analyses of fiscal development. As it is, political scientists and economists distinguish 'rich' from 'poor' and 'developed' from 'developing' countries in theories of fiscal modernization, but rarely differentiate between fiscal development in under colonial and

[1] This is not to say that the latter were uniform.

sovereign rule (e.g. Bird and Zolt 2005, Besley and Persson 2011, 2013, Genschel and Seelkopf 2016).

This paper uses the Tax Introduction Database (TID) to analyze the timing of fiscal reforms in sovereign and colonial states. The TID offers a chronology of the introduction of six information-intensive, generic taxes: the inheritance tax (INH), the personal income tax (PIT), the corporate income tax (CIT), social security contributions (SSC), the general sales tax (GST) and the value added tax (VAT) (Genschel and Seelkopf 2021). We refer to these taxes as 'modern' not because they were adopted in the 'modern era', but because these taxes added a particular dimension to the making of a fiscal state: they all testify to a high degree of control and coordination of resource flows by a central political entity (i.e. the state) and the existence of a tax code that applies equally to all state inhabitants (i.e. citizens).[2] As such, 'modern' taxes were most effective in societies with bureaucracies that were sufficiently professional to process the information needed for assessing economic transactions and monitoring tax collection. Knowledge of the chronology of 'modern' tax adoption is essential to understand the drivers of this dimension of fiscal state development.[3]

The TID offers three insights that are relevant for our discussion. First, the TID reveals that personal and corporate income taxes were not necessarily introduced later in colonial states than in sovereign states. Second, the new database shows that income taxes were far more often introduced in the colonies than the other four modern taxes. Third, the TID points to a pattern of clustered adoption in parts of the British and French empires, highlighting the influence of imperial policies on colonial fiscal state formation. What a chronological collection of 'modern' tax introduction dates cannot reveal though, but which matters greatly for a comparison of fiscal modernization in sovereign and colonial territories, is the *racially or ethnically segregated political system* in which these taxes were introduced. In virtually all colonies, 'modern' income taxes applied exclusively to settler communities and foreign companies that operated in specific niches of the colonial economy, while indigenous populations were paying 'native' taxes. While political discussions about differential tax-liability also occurred in sovereign states, such debates were primarily shaped by clashing interests between social classes or economic sectors

[2] This is not to say that all people are paying the same taxes or the same amount, but that conditional on equal conditions people pay the same type of taxes and/or the same tax rate. In other words, this is a non-discriminatory system.
[3] The TID is less ambitious in its rather technical definition of a 'modern' tax, and allows for social discrimination, for instance, a personal income tax levied exclusively on settler populations or social security contributions only for military servants. It should also be noted that a broad tax base does not necessarily imply broad social inclusion in the tax net.

(e.g. landed elites vs peasants; labor vs. capital; agriculture vs. industry; rural vs. urban), rather than ‘colonists’ vs ‘subjects’ (Lindert 2004, Mares and Queralt 2015).

A crucial within-colonies differentiation should be made though, between the so-called European ‘offshoots’ – those settler colonies that were overwhelmingly populated by European immigrants (the US, Canada, Australia, New Zealand, Argentina, Uruguay) – and the majority of non- or semi-settler colonies where the indigenous population constituted the great majority. In the Western offshoots, ‘modern’ taxes were generally adopted *after* independence and under political-economic conditions that closely resembled those in their former metropoles. Our focus in this paper, however, is on the latter group of colonies; ones that were widely present in Asia and Africa between 1820 and 1970, and where PITs and CITs were introduced by colonial governments – along with a range of other fiscal instruments.

Four features set the experience of ‘modern’ tax adoption in colonial Africa and Asia apart from those in sovereign states, including the major metropoles. First, ‘modern’ taxes came about without a complementary development of accountable government. Second, they were introduced absent independent military and monetary regimes. Third, welfare provision and the development of bureaucratic capacity remained modest in most colonies, certainly when compared to the standards enjoyed in the metropoles. Finally, as noted above, these new taxes did not apply equally to all colonial inhabitants or companies. In short, *the adoption of ‘modern’ taxes was not necessarily part of a wider process of fiscal ‘modernization’*.

Eurocentric bias in fiscal history has obscured such distinctions, even though this bias is now being corrected. While the literature for long focused exclusively on the rise of the fiscal state in Europe, *comparative* histories of fiscal state formation in Eurasia and the Americas have gained popularity over the last two decades (North et al. 2000, Engerman and Sokoloff 2000, 2005, Sokoloff and Zolt 2006, Grafe and Irigoin 2012, Yun-Casalilla and O’Brien 2012, He 2013). Additionally, there has been a notable upsurge in fiscal histories of former African and Asian colonies (Booth 2007, Brautigam 2008, Frankema 2011, Gardner 2012, Wahid 2013, Huillery 2014, Frankema and van Waijenburg 2014, Havik et al. 2015, Alexopoulou and Juif 2017, van Waijenburg 2018, Frankema and Booth 2019, Cogneau et al. 2021). Yet, despite a surge in cross-imperial investigations, the comparative features of colonial versus metropolitan fiscal development remain largely understudied. We argue that a better sense of the distinctive trajectories of fiscal development under colonial and sovereign rule is needed to develop a truly *global theory* of fiscal ‘modernization’ and to further reduce the Eurocentric bias in theories of fiscal state formation.

In section 2 we review the classic tale of European fiscal 'modernization' and some of the theoretical notions underpinned by this narrative. In section 3 we discuss the limitations of this lens for understanding fiscal development in colonial settings. In section 4 we use the TID to analyze the chronology of 'modern' tax adoption in sovereign and colonial states, focusing on the main metropolitan powers on the one hand (incl. Japan and the US), and the large group of African and Asian colonial states that were imposed during the nineteenth century. Section 5 develops a typology of distinct pathways to fiscal modernity under colonial rule. Section 6 concludes.

2. The Classic Tale of European Fiscal 'Modernization'

Although the term 'modernization' is widely criticized for its opacity and teleological reductionism, there is a broad consensus about the key features of fiscal 'modernity' dating back to the seminal contributions of Joseph Schumpeter (1918) and Max Weber (1921). First, the foundation of any fiscal state lies in the ability of a political regime to channel tax revenue into a central consolidated fund. Revenue centralization, in turn, provides the state with the financial resources to project power. A certain degree of commercialization will be required to impose indirect taxes, and a certain degree of monetization allows such taxes to be remitted to the center using bills of exchange or other cheap methods of transfer.

A second aspect of fiscal 'modernity' is the state's use of its revenue generating capacity to establish a long-term floating debt position (O'Brien and Hunt 1993, Dincecco 2009, 2011, He 2013). When governments substitute ad-hoc taxation for permanent taxation, they create new opportunities for the leveraging of state finances trough government borrowing. In the military-fiscal states of early-modern Europe, governments could borrow to finance exceptional expenses such as warfare. However, after war campaigns had ended, states redeemed their debts in order to start the next war with a blank sheet. The establishment of permanent taxes enhanced the ability to wage war with neighbors (Tilly 1990, Bonney 1999), and gave states the collateral needed to secure long-term loans from private investors, thereby laying the foundations for permanent public debt.

Tilly (1990) has argued that the survival of European states critically depended on their capacity to amass the resources to eliminate external and internal rivals, and their ability to mitigate other threats to state subjects (e.g. ecological disasters, epidemics, externally imposed trade barriers). Military competition had a Darwinian effect as it weeded out weaker states by integrating them in stronger ones. This so-called *bellicist* account of European state formation is most succinctly anchored in Tilly's famous adagio that "war made the state, and the state made war" (1975, 42; See also Frizell 2021). The growing ability of Europe's fiscal systems to finance aggressive mercantilist agendas, as opposed to the relatively inefficient and decentralized approach of the Chinese and Ottoman empires, is also regarded as one of the root causes for the post-1800 'Great Divergence' in the world economy (O'Brien and Hunt 1993, Vries 2015, Pamuk 2014). States that managed to build up fiscal and military muscle, promoted cultural symbols that reflected incipient national identities (e.g. coins, flags, hymns) and secured the commitment of elites through the protection and expansion of 'national' economic interests (Findlay and O'Rourke 2009). Military competition also fueled innovations in military technology and gave Europe the military supremacy to sub-ordinate vast parts of the world into their empires (Cain and Hopkins 2000, Hoffman 2015).

A third aspect of fiscal 'modernity' relates to the idea of the 'social contract'. To justify permanent taxes, governments had to broaden their responsibilities from a night-watchman state that *protects* tax-payers against violence, to a welfare state that *improves* the livelihoods of tax-payers. Peter Lindert (2004) has analyzed this process of 'growing public' in detail for Western Europe. The idea that the state, rather than the Church or other charitable institutions, was responsible for looking after the welfare of the general populace gradually gained ground in the course of the nineteenth century. A larger role for government, in turn, also implied fiscal reforms to finance public services and created new political discussions about access to education, health care and social insurance programs.

The idea of 'growing public' was closely intertwined with a fourth feature of fiscal modernization: the transition towards (more) accountable or responsible government. For one, the extension of the franchise had considerable implications for fiscal policy, as negotiations over the distribution of the tax burden and the allocation of public goods were conducted by representatives of several social classes and went hand in hand with the rise of political parties representing class interests. The push for responsible government in the British North American colonies grew, in part at least, out of popular resentment against new, war-related taxes imposed by Britain, and found expression in the famous slogan "no taxation without representation".

It would be a mistake, however, to see fiscal innovation in early modern Europe as an exclusively top-down process, in which expanding military power of a central state led to expanding opportunities to extract resources from the people it protected or defeated. Part of the process was generated by bottom-up forces. Tilly (2004), referring extensively to the work of Craig Muldrew (1993, 1998), has shown how interpersonal networks of trust were critically important for the growth of credit markets in Western Europe. Merchant networks, urban guilds, rural communities with joint control of agricultural resources, and clandestine religious sects all kept and exchanged resources within their networks. The capital flows that were controlled by these networks constituted an attractive source of revenue for states, and attempts to extract resources from them was a regular occurrence. When such trust networks expanded, increasingly *depersonalized* relations created a demand for more formal and centralized means of control. In such cases formal control over resources by state authorities (city councils, provincial or national governments) was driven by members of society, not by agents of the state.

The development of cities as partially self-sustained polities was crucial for the rise of the fiscal state. Conflicts over attempts by states to extract part of the accumulated capital in local economies – either via taxation or (forced) loans – were increasingly a matter of cities (rather than feudal lords) or city alliances defending their interests against larger principalities and ambitious royal families. Such fighting and bargaining over the control of 'public' resources spurred processes of fiscal innovation on both sides of the political spectrum: at the 'national' and the grassroots level. As the scale and scope of commercial interests and accumulated mercantile capital grew, resource-pooling and military investments at the 'national' level became critical for elite survival. The establishment of central banks by embryonic nation-states that were to issue paper money and regulate commercial transactions, gave central governments a larger handle on capital markets, including local credit markets (Tilly 2004, p. 7; Muldrew 1998, pp. 315-333). Indeed, the creation of the Bank of England in 1694, combined with parliamentary control over government debt, was made possible by heavy investments of London's big financiers, who believed that both institutions would serve their commercial interests by reducing insecurity (Armitage 1994, pp. 5-10).

Inspired by European fiscal history, Timothy Besley and Torsten Persson (2009, 2011) have put forward the notion of 'legal capacity' as one of the defining features of the 'modern' fiscal state. They define 'legal capacity' as the ability of the state to support markets with appropriate institutions and emphasize the *complementary nature* of fiscal and legal capacity. In their framework, the positive feedback loops between fiscal capacity and state support for markets are enhanced by external threats, but constrained by the presence of natural resources, which erode incentives to invest in fiscal capacity and market development as they offer a possibility to monopolize rents at relatively low surveillance costs. Besley and Persson (2013, 53-56) have also pointed out that investments in fiscal capacity that broaden the tax base – including monitoring, administration, and compliance – are *endogenous* to the structure of political institutions and the incentives of policy-makers. Investments in fiscal capacity and economic development may thus reinforce each other in a virtuous cycle: when governments increase their stake in the economy via tax returns, they also have more incentives to stimulate economic growth and the efficiency of public goods provision. Part of such dynamics includes a shift in the source composition of taxation, away from volatile indirect taxes towards more stable direct taxes.

3. Contrasting Colonial and Sovereign Settings

The classic tale of the simultaneous development of the 'fiscal state' and the 'nation state' in European history as *a universal pattern* is both compelling and potentially deceiving. This Euro-centered narrative of fiscal and state capacity building glosses over a number of patterns that were decidedly different under *colonial rule*. We see four major ways in which the 'logic' of colonial fiscal development in Africa and Asia are at odds with the European experience.

3.1. Tax legitimacy and tax enforcement

The *bellicist* thesis of fiscal state development emphasizes the need to pool resources to finance inter-state warfare. In colonial settings, however, resources were primarily needed to finance 'pacification' wars and to secure *internal* order after colonial conquest. Although the lion's share of such 'war bills' tended to be paid by metropolitan tax-payers, in the long run colonial subjects were taxed to sustain their own subjugation. The colonial fiscal state thus developed under a different political logic: the main aim was to substitute the collection of local revenue for metropolitan subsidies as quickly as possible (Frankema 2011, Gardner 2012). In this transition process, the legitimacy that the colonial state had in the eyes of subjected populations to raise taxes, and the means to enforce tax compliance, differed from that of a sovereign state taxing 'citizens' to defend their public interests.[4]

Western colonial governments justified their rule over colonial 'subjects' with reference to a 'moral', Christian paternalist obligation to 'civilize' native populations, which were seen as aspirant-citizens at best. Enforcing tax compliance while limiting the risk of social revolt was a precarious balancing act for colonial governments. Coercion required a credible commitment of the state to use force in case of non-compliance, but the use of violence was expensive and could worsen relations in the long run. In most cases, governments chose to limit the range of taxes imposed, and their total amount. This minimalist strategy involved the avoidance of direct taxes whenever possible, and a preference for less visible indirect taxes

[4] To be sure, wars of conquest and subsequent 'pacification' and taxation occurred in early-modern Europe too, but that does not deny the critical distinction in the logic of taxation for the security of the 'nation' versus subjugation of 'indigenous' peoples by an external overseas power.

(Gardner 2012, Frankema and van Waijenburg 2014). In the frequent cases where this left the colonial state with insufficient resources, the state had to rely more on direct taxes, or the implicit revenues from forced labor (van Waijenburg 2017, 2018).

The complications of fiscal expansion extended far beyond the relationship between the agents and subjects of 'colonialism'. Especially in Africa, people of varying ethno-linguistic identities were cast into newly demarcated polities without a clear sense of belonging. A lack of national identity created a basis for 'divide and rule' policies, but also enhanced the potential of distributive conflict. On whose behalf did the colonial state collect revenue? And who benefited from state expenditures? In this context, the development of a 'national' identity mainly occurred *in opposition to* colonial oppression, inverting the logic of fiscal 'modernization': rather than underpinning state and identity formation, resentment against colonial taxes caused a growing sense of national identity, which in turn became a factor of political instability.

3.2 Legal capacity

The positive feedback loop between fiscal capacity and legal capacity, as posited by Besley and Persson (2011, 2013), does not fit well with the experience of many African and Asian colonies. Although colonial governments may have had the legal capacity to support markets with appropriate institutions, they often restricted market access in favor of metropolitan capital and colonial settlers.[5] Besley and Persson (2013, 58-63) discuss rich and poor countries without contemplating what it means that the great majority of these 'poor' countries were (or had been) colonies of some sort, thereby overlooking how the distinction between sovereign and colonial rule affected the ways in which states sought to support markets. When markets are deliberately suppressed to facilitate control of metropolitan capital over indigenous labor, land, and natural resources, the *political-economic orientation* of legal capacity building is very different.

Contrary to the predictions of Besley and Persson, the presence of natural resources in a colonial setting did *not* crowd out the introduction and expansion of direct taxes. On the contrary, the presence of sub-soil deposits and tropical agro-ecologies created incentives for using direct taxes as a means to drive indigenous workers into mines and onto plantations, especially in labor-scarce areas (Gardner 2012, Frankema and van Waijenburg 2014). In similar vein, public spending was not primarily allocated to strengthen domestic economic linkages, but rather to open up specific production and consumption pockets to metropolitan investors, producers and consumers. Indeed, colonial fiscal capacity often facilitated the organization of

[5] This does not take away that they did stimulate commercialization and monetization across the board.

monopolies and monopsonies and the control of international trade to suit the interests of metropolitan capitalists.

3.3 Coercion and welfare

Colonial states held different conceptions of the kinds of taxes that were acceptable to impose, often explicitly discriminating between 'natives' and 'non-natives'. The most prominent example is the large-scale use of labor taxes, in the form of *corvée,* recruitment for public works projects, porterage, and forced cultivation. While forced labor schemes were defended as part of the 'civilizing mission', in which Europeans would improve labor discipline among the 'lazy natives' and prompt the development of a wage labor market, they were also a crucial element in solving many colonies' 'revenue problem' (Young 1994, van Waijenburg 2017). Although some of these coercive practices occurred under sovereign rule as well, they had been abandoned at a much earlier date, especially in the metropoles. While the colonies saw growing restrictions on the use of the forced labor in the course of colonial period, fiscal extraction through unfree labor schemes remained prevalent until well into the 1940s.[6]

Indigenous labor policies and their place in the overarching colonial 'civilizing mission', were a recurring subject of debate and revision (Cooper 1996). In Indonesia, the Dutch government broke with its earlier strategy of labor extraction by adopting the so-called 'ethical policy' in 1901. 'Ethical' referred to the outright exploitation of indigenous labor during the heydays of the Cultivation System (1830s – 1860s) and the recognition that liberal policies after 1870 had not achieved much in terms of improving living standards (Dick et al. 2002). The colonial government accepted that it had responsibilities beyond the 'night-watchman' obligations of law and order, but colonial budget constraints turned much of the ethical policies' welfare aims into a dead letter. This was especially true for the provision of schooling in many colonies, which relied to a large extent on private missionary organizations of various Christian and Islamic denominations (Frankema 2012). While such private efforts to increase school enrolment rates and provide basic forms of health care were valuable, they had little to do with the formation of a 'social contract' between the colonial state and tax-paying citizens.[7]

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[6] The emancipatory forces that were unleashed by the deployment of African and Asian soldiers in the First and Second World Wars forced colonial governments to revise their fiscal policies, and adopt more explicit development agendas build around the notion of 'trusteeship'. Restrictions on the use of forced labor, also pressed for by new international organizations such as the ILO, eventually took effect, although some metropolitan powers (France, Portugal) were more reluctant to abolish forced labor than others (Britain, see Cooper 1996, chapter 2).

[7] There were exceptions. The Philippines allocated 36 per cent of outlays to health and education compared with twelve percent in Indonesia and only four percent in French Indochina (Booth 2019, Table 2.4). Similar differences can be noted between Portuguese Africa and the more advanced parts of British and French Africa, where the former spent much larger relative and absolute amounts on security forces, thus limiting the budget available for welfare spending (Alexopoulou and Frankema 2019). The piecemeal development of public welfare services

3.4. Transaction costs and accountability

Colonial fiscal development in Asia and Africa occurred under considerable time pressure. Metropolitan tax-payers were not keen on providing long-term grants-in-aid to other parts of the empire. Pressure to become self-supportive quickly, colonial administrations had to rely on local indigenous elites, be it village heads, chiefs, sultans, kings or local war-lords. Part of the collected revenues – or rights of tax exemption – had to be shared with them. These intermediaries found themselves a precarious position though, caught between the coercive arm of the state on the one hand, while remaining dependent on locals' confidence in their authority on the other hand. At the same time, local intermediaries did have opportunities to benefit from the information asymmetries that were inherent to this system (Mamdani 1996).

Over time, colonial administrations aimed to absorb indigenous intermediaries into the state apparatus by putting them on the payroll, or replacing them with warrant chiefs that showed greater loyalty to the colonial government. This development had some analogies to the history of tax farming in Eurasia, where tax farmers bought the rights to collect taxes from the state – often through auctions – thereby providing the state with sub-optimal, but relatively predictable tax returns. The abolition of tax farming and the extension of the formal bureaucracy at the local level can be regarded as a distinct form of integration of indigenous trust networks into the state (Tilly 2004), through top-down power projection, as well as bottom-up demands from local rulers who considered access to state services (i.e. education), monthly salaries or specific privileges an attractive proposition to strengthen their local power base. The bottom-line here is that the transaction costs of direct tax collection tended to be larger in colonial than in sovereign states, because of high information asymmetries and greater social distance between foreign colonial officials and indigenous power brokers.

The transaction costs associated with monetary policy were substantial as well. In most colonies, local currencies were either replaced by, or linked to, the currency of the metropole. In case colonies retained their own currencies (e.g. the Indian rupee) these were pegged to the metropolitan currency and decisions about re- or devaluations were taken in the metropole (Roy 2012). Such monetary dependence meant that colonial economies were directly affected by exchange rate fluctuations between European currencies. For example, the devaluations of the Belgian and French francs in the interbellum generated inflation in the imperial territories as well. African migrant workers who came from British ruled territories to the Katanga mines and were expected to be paid in British pounds, were suddenly much more expensive than their

played out differently across Asian and African colonies, but nowhere did they receive the same priority as in the metropoles.

colleagues who were paid in Belgian francs (Juif and Frankema 2017). Such monetary fluctuations stimulated migration flows, for instance from (Belgian mandated) Ruanda to (British ruled) Uganda (de Haas 2017).

Some scholars have pointed to an important advantage that imperial ties provided to colonial states: the ability to engage in debt-financing as a result of the back-up of stronger financial markets in the metropole (Fergusson and Schularick 2006, Gardner 2017). Private investors were more likely to buy colonial government bonds knowing that the risk of default would ultimately be mediated by the metropolitan treasury. While such access to metropolitan capital markets enhanced the investment capacity of *colonial* governments, it hampered the development of local financial institutions in the long run, as few states could maintain credible commitments to investors after the imperial ties were dissolved. Again, a fundamental distinction between colonial and sovereign states is that monetary policies in the former were set by the metropole. Rather than using monetary policy to 'repair' fiscal balances – an option that was open to sovereign states – colonial states were forced to adapt their fiscal policies (i.e. major austerity measures) in the wake of imported inflation and economic crises.

Summing up, colonial fiscal systems could hardly progress beyond the first criterion of fiscal modernization. Colonial governments stimulated commercialization and monetization and were certainly effective in centralizing revenue flows (Frankema and Booth 2019). Yet, the *borrowing capacity* of the colonial state did not depend on the risk assessment of private investors, but on the political decisions taken by metropolitan officials who would weigh the value of colonial development projects – mainly infrastructure – against the default risk of the colonial revenue system (Sunderland 2007). Welfare services received (much) lower priority, and *accountable government* – the pinnacle of fiscal modernity – was entirely at odds with the principles of colonial rule, in which the mission to 'civilize' was put consistently above the right to self-determination. Indeed, in Europe 'modern' tax introductions were the outcome of a long evolutionary process of state building that may be traced back into the late medieval era (Bonney 1999), but the adoption of 'modern' taxes under colonial rule was subject to a rather different political, social and economic logic.

4. Chronologies of 'Modern' Tax Introduction

In theory 'modern' taxes are generic in nature, applying equally to all income-earning citizens, profit-earning corporations, producers, traders and consumers. Taxes on consumption and trade, such as excises or import duties, target specific categories of commodities, but a GST and VAT apply to all traded commodities and services. Tithes or land taxes target a specific sector of the (rural) economy, but ‘modern’ income taxes apply to all incomes earned, irrespective of the type of income-generating activity.

In practice, however, ‘modern’ taxes are hardly ever generic. Income taxes are usually limited to a minimum threshold income, and inheritance taxes to a minimum degree of inherited wealth. There is no point in taxing poor households if administration costs exceed collected revenue. In similar vein, a GST and VAT depend on transactions that are both observed and documented, making them near-impossible to levy in informal networks of exchange. The ‘modernity’ of ‘modern’ taxes, therefore, depends critically on the institutions and techniques adopted for the assessment and collection of taxes: their inclusivity requires a high degree of information-intensity in assessment, collection, and enforcement. In most African and Asian colonies this condition was not met.

The chronology of modern income taxes introductions reveals four interesting aspects of the diffusion of fiscal innovations from metropole to empire. First, as figures 1a and 1b show, the time-lag between the introduction of respectively the PIT and the CIT in sovereign states and in colonial states was not that large. While a handful of European states and offshoots (US, Canada, Australia and New Zealand) were at the fore of introducing the PIT and the CIT, most sovereign states adopted PITs and CITs at roughly the same time as colonial governments did, or some decades later. Especially during the interwar period, the majority of European colonies adopted a PIT and/or CIT. This is an important observation because it suggests that imperial relations sped up the global diffusion of modern tax adoption. The final wave of PIT adoptions in sovereign countries during the 1990s is mainly due to the collapse of the Soviet Union and the creation of many new sovereign states who adopted a PIT soon after.

Second, table 1 shows that the major imperial metropoles of the 19th and 20th centuries were among the early group of adopters of the PIT. The early experience with the PIT in the UK, France, the Netherlands, the US, and Japan played a crucial role in the diffusion of income taxation across their imperial dependencies. While the inheritance tax that was introduced in the late 18th and early 19th centuries hardly spread, the PIT and CIT were implemented almost everywhere under colonial rule. There were some notable variations in timing though. In the (Belgian) Congo, for example, both a PIT and CIT were adopted at roughly the same time as their introduction in Belgium. In similar vein, French-ruled Algeria also followed French tax introductions closely. This, however, was not the case for other parts of French Africa or Vietnam (French Indochina).

Figure 1a: Cumulative percentage share of colonial and sovereign states having adopted a PIT, 1820-2000

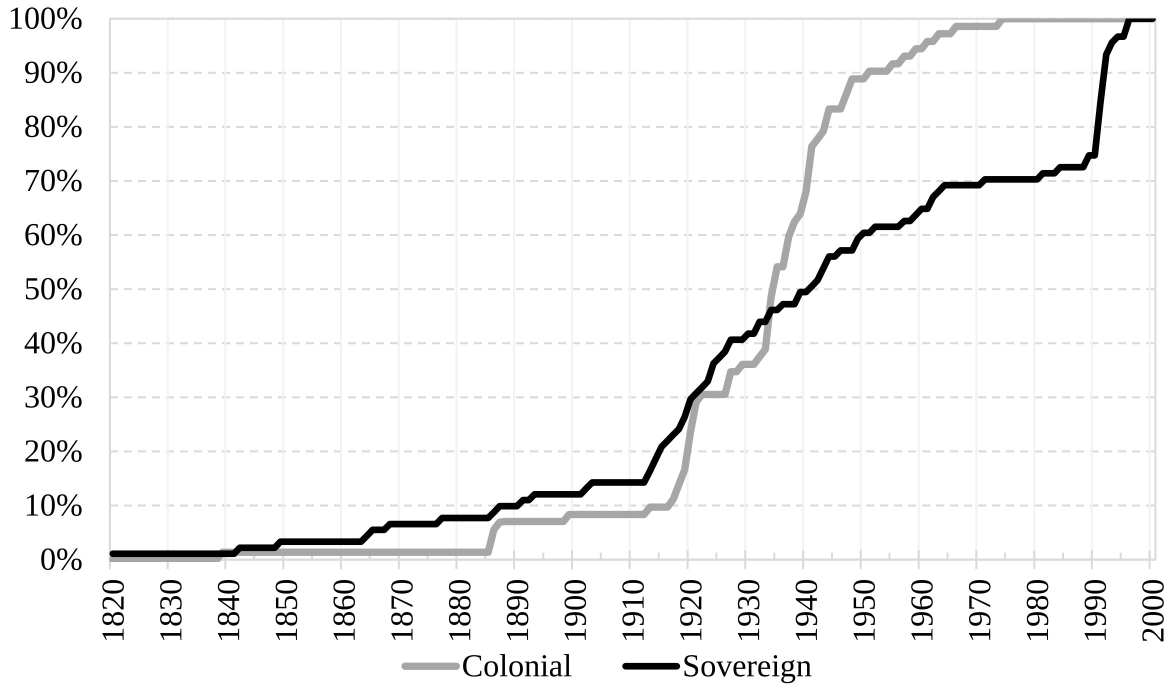
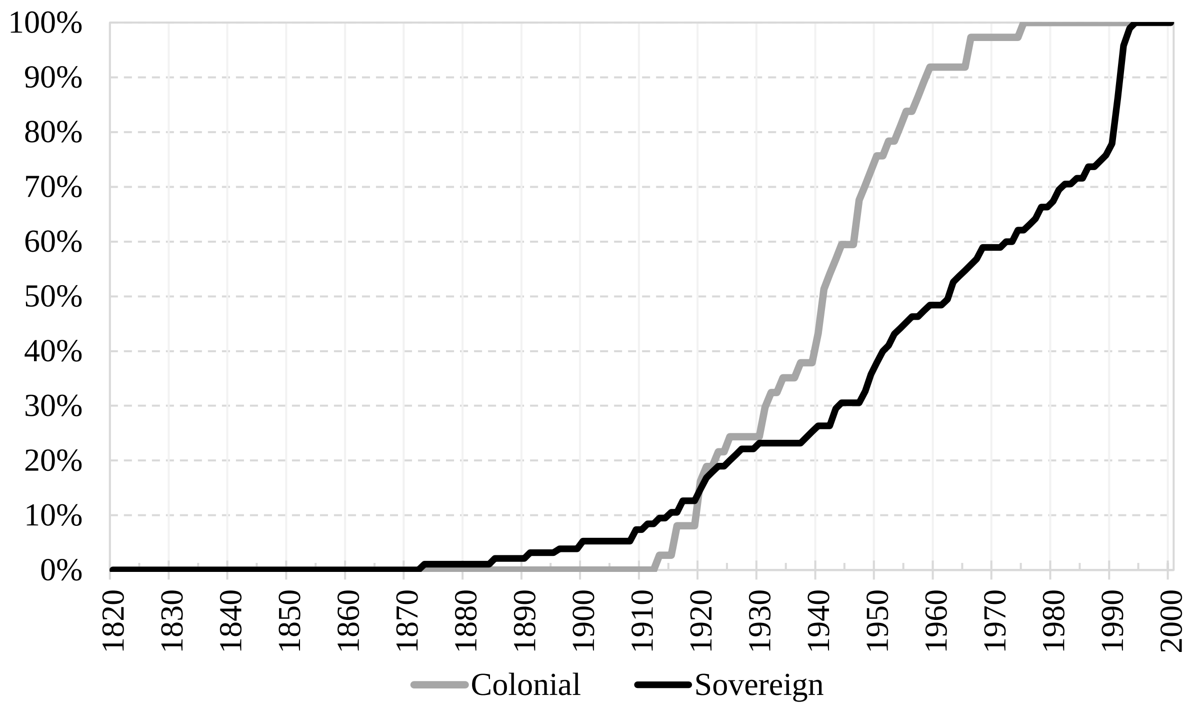


Figure 1b: Cumulative percentage share of colonial and sovereign states having adopted a CIT, 1820-2000



Source: Tax Introduction Database compiled by Seelkopf et al. (2019); see for the codebook Genschel and Seelkopf (2019). Codebook – Tax Introduction Dataset (TID). Version May 2019. Figure 1a is based on 71 colonial and 90 sovereign states. Figure 1b is based on 37 colonial and 95 sovereign states. For a list of states included see the Appendix.

Table 1: Tax introduction dates in the main metropoles and a selection of colonies

	INH	PIT	CIT	SSC	GST	VAT
United Kingdom	1796	1842	1965	1911	1940	1973
India	1953	1886	1916	1952	..	2017
Nigeria	1979	1943	..	1961	1986	1994
Kenya	1964	1937	1937	1965	1973	1990
France	1798	1914	1948	1928	1920	1968
Algeria		1918	1958	1949	1945	1992
Senegal	..	1933	1942	1952	1961	1980
Vietnam	2009	1991	1990	1947	1990	1999
United States	1916	1913	1909	1935	..	..
Philippines	1916	1913	1959	1954	1904	1988
Japan	1905	1887	1940	1942	..	1988
Korea (rep.)	1948	1934	1920	1973	1948	1976
Taiwan	1973	1936	1936	1950	1931	1986
Portugal	1838	1922	1988	1935	1966	1986
Angola	1931	1981	1975	1990	1996	..
Netherlands	1817	1893	1942	1901	1933	1969
Indonesia	..	1839	1925	1968	1951	1985
Belgium	1817	1919	1913	1894	1921	1971
The Congo	..	1920	1920	1949	1969	2010

Source: Tax Introduction Database compiled by Seelkopf et al. (2019); see for the codebook Genschel and Seelkopf (2019). Codebook – Tax Introduction Dataset (TID). Version May 2019.

Indonesia (the Netherlands Indies) is a unique case in the sense that the introduction of a PIT *preceded* its adoption in the Netherlands by more than half a century, and the adoption of a CIT by almost two decades. This exceptional case cautions against too rigorous interpretations of tax introduction dates as marker of the start of fiscal 'modernity'. While the early PIT in Indonesia was indeed a (2%) levy on "income from trading, business, personal and professional services above a certain threshold", it exempted the overwhelming majority of farming households (Heij 2009, 63). The Dutch colonial government mainly used the tax to target resources that were exchanged in trade networks dominated by Chinese middlemen, indigenous elites, and European settlers (merchants, planters, and government staff). A full-fledged PIT that was comparable to the one adopted in the Netherlands in 1893, was not established until 1920 when the separate tax codes for indigenous and European residents in Indonesia were unified (Heij 2009, 64). Only during the 1920s did the PIT in Indonesia start to contribute significant sums to the colonial treasury.

Third, there was a pattern of clustered tax introductions in parts of colonial Asia and Africa. Figures 2a and 2b show the cumulative percentage shares of Asian and African countries that respectively adopted a PIT and CIT. The figures show that Asia had a clear head start, as could be expected given the chronology of colonial encroachment in both regions. Yet, Africa caught up in the course of the 1920s and 1930s. In French West Africa, fiscal reforms were implemented in all federal states at more or less the same time, soon followed by the French Equatorial African federation. In the more loosely attached colonies of British West and East Africa, introduction of the PIT and CIT often occurred in similar years too. Not only had the Great Depression caused a major setback in revenues in the early 1930s, there was also growing agreement that salaried officials and metropolitan companies should share some of their income and wealth in order to distribute the burden of the depression a bit more evenly. After all, their salaries, pensions and wealth depended to a considerable degree on specific privileges granted by the colonial state.

The fourth pattern, which is not revealed in these figures, is perhaps the most important: while most colonial states appeared to have relatively 'modern' fiscal systems on the eve of independence in Asia and Africa, their tax systems were in reality *profoundly dualistic*. The introduced income taxes were never made as 'generic' as they were in the metropoles. 'Modern' taxes were introduced to target resource niches that had emerged around the colonial administration, such as mining enclaves, plantations, foreign companies, capital cities, and harbors. Hardly ever did the introduction of a PIT *replace* native poll or hut taxes. Instead, the PIT focused on the salaries of small groups of European government officials, merchants and settlers. As a result of these tiny bases, the PIT generated very little revenue in most African and Asian colonies. In similar vein, the reach of the CIT was limited to registered companies. As a result, most grassroots businesses that would today qualify as 'informal' enterprises were excluded, especially those in rural hinterlands. After independence, several national governments tried to dismantle the much-resented system of 'native' taxes and merge the two separate tax codes that had existed in the colonial era. Such reforms often eroded the fiscal base, as successful implementation required the capacity to assess, collect and enforce taxes; the lack of which had been one of the reasons colonial administrations had introduced 'native' direct taxes in the first place.

Figure 2a: Cumulative percentage share of Asian and African states having adopted a PIT, 1820-2000

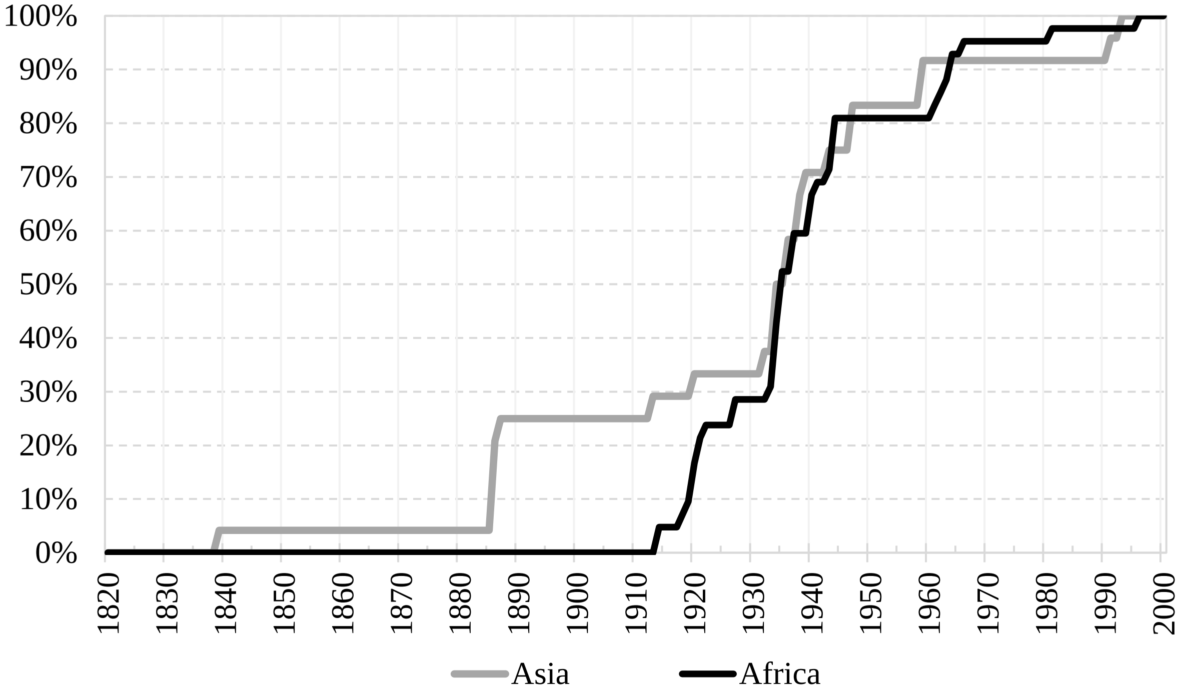
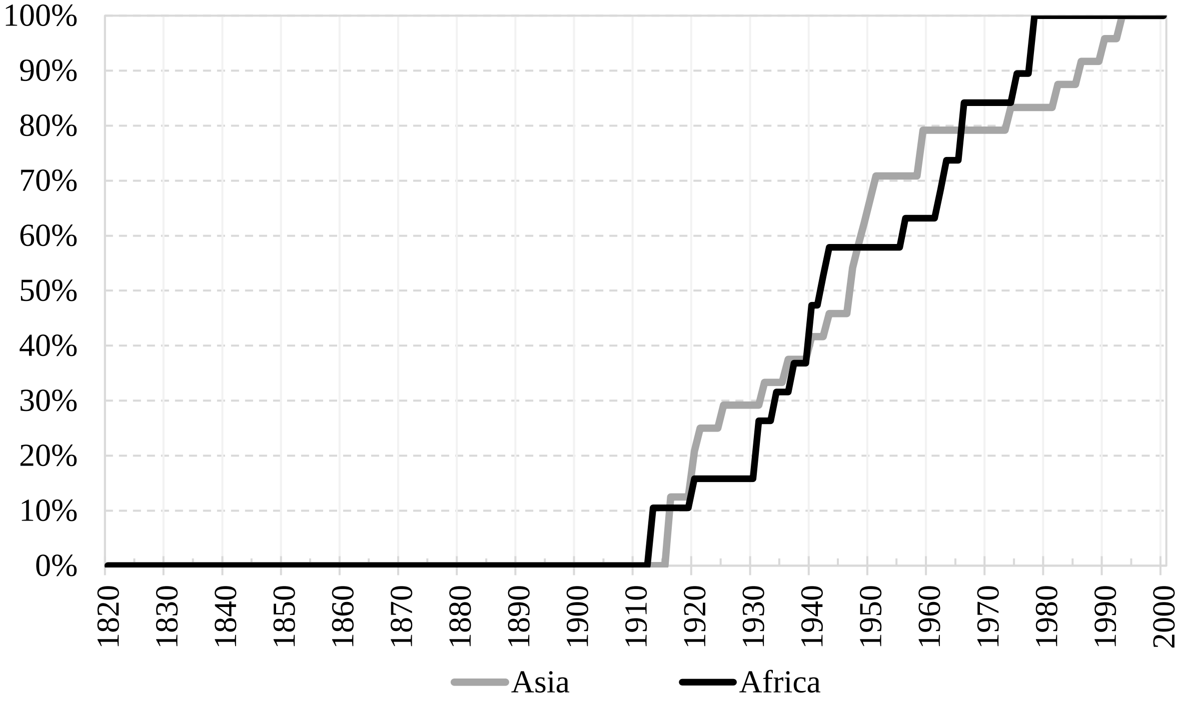


Figure 2b: Cumulative percentage share of Asian and African states having adopted a CIT, 1820-2000



Source: Tax Introduction Database compiled by Seelkopf et al. (2019); see for the codebook Genschel and Seelkopf (2019). Codebook – Tax Introduction Dataset (TID). Version May 2019. Figure 2a is based on 24 Asian and 42 African states. Figure 2b is based on 24 states in Southern and Eastern Asia (excl. Central Asia, Pacific islands) and 19 states in Sub-Saharan Africa (excl. North Africa). For a list of states included see the Appendix.

Indeed, one of the key differences between 'modern' tax adoption in the metropole and the colony was that in the former this rested on a long sequence of administrative modernization that allowed 'modern' taxes to contribute a significant share to total government revenue. In the colonies, in contrast, 'modern' taxes existed within the parameters of the dual economy: while foreign companies and a handful of European and indigenous government employees had income taxes deducted from their profits and salaries, the incomes of most rural dwellers were virtually impossible to assess in a cost-effective manner. The degree to which these limitations differed across colonies, and especially between African and Asian colonies, will be discussed in the next section.

To be sure, in some cases PITs and/or CITs added significant sums to the colonial treasury, especially in places with considerable numbers of settlers and/or foreign companies making large profits in mining and trade. In these settings, CITs often held greater revenue promise than PITs, as the potential tax-base of business and trade companies was larger, tax-rates on profit margins could be set at higher rates, and assessment costs were lower. Figure 3 illustrates this difference between PITs and CITs for British India. It shows that while the introduction of the PIT in 1886 did not add much to the colonial revenue base, the adoption of a CIT quickly compensated for the gradual of erosion of long-existing land and salt taxes.[8] The adoption of the CIT in 1916, which had been a war-time measure, increased the share of income taxation in total revenue from about 3% to over 15% in just five years.[9]

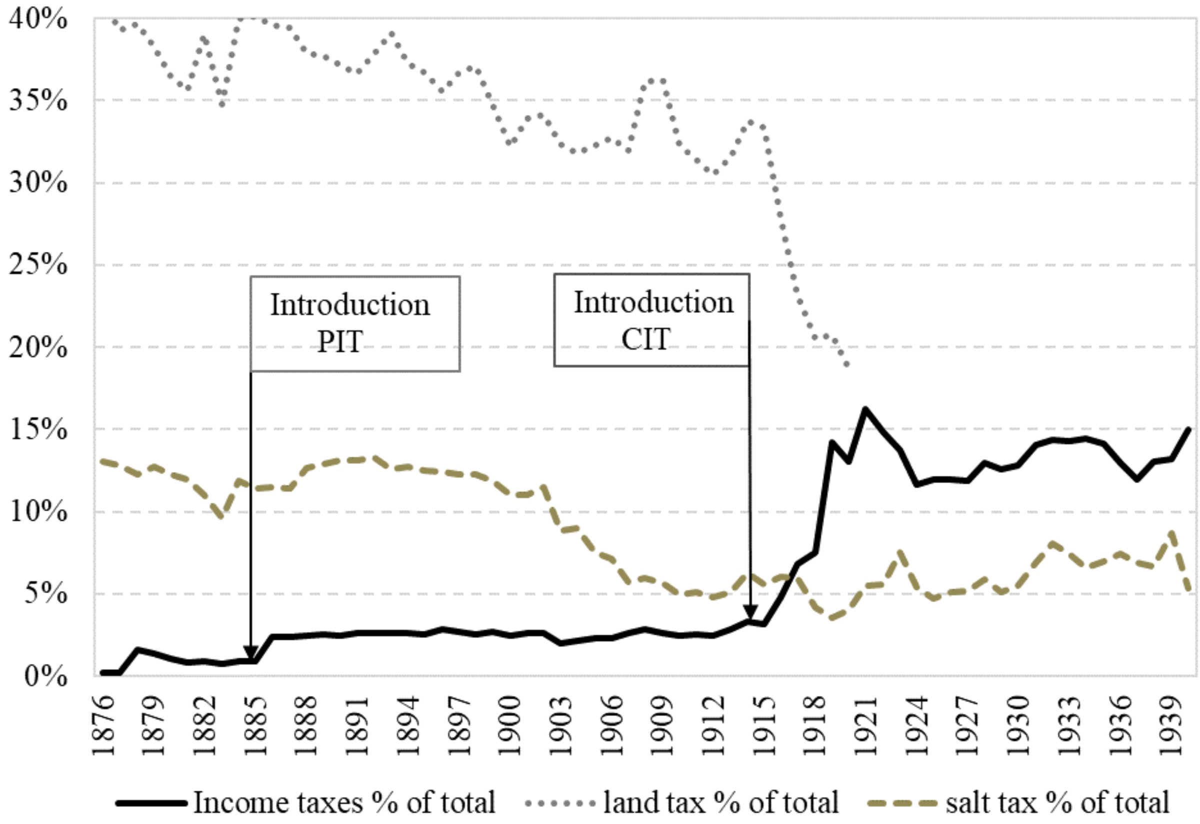
The Indian treasury benefited from accumulated capital in a sizeable industrial sector, which centered around cotton textile manufacturing, railways, food and construction industries. Similar or even higher contributions of the CIT have been recorded in a number of major mining enclaves in Africa. The copper mines in the Belgian Congo and Northern Rhodesia were an easy and justifiable target for colonial states, given the fact that they secured the investments of Western mining companies in the region. The PIT that was adopted in Zambia in 1920, applied almost exclusively to white settlers, while 'native' taxes were in place for the African population. The PIT soon contributed over 15% of total revenue. After the introduction of a CIT, both taxes combined made up nearly half of the total budget. In Zimbabwe and South Africa, which had gained political autonomy in respectively 1910 and 1923, income taxes contributed significant sums as well.

[8] British India had after Indonesia (in 1839) the earliest adoption of a PIT in a colonial setting,

[9] The CIT was implemented in the midst of World War One, when other segments of Indian society, and especially the colonial army, were making massive contributions to the defence of the British Empire in Africa, Europe and Asia (See: Roy 2019).

Yet, in colonies without mineral resources, such as Kenya and Malawi (Nyasaland), where British farmers and planters constituted small settler minorities, income taxes yielded far less. In Malawi, a colony with one of the lowest per capita revenue bases in the world, the PIT (1921) and CIT (1931) together only made up 7 percent of total revenue (Frankema 2011). In Kenya the government did not bother adopting income taxes until 1937. In fact, in many African peasant-export colonies, such as Uganda and the Gold Coast, income taxes were only introduced during the mid-1930s or the Second World War. Absent large foreign companies and a sizeable settler community, however, these taxes added little revenue.

Figure 3: Contribution of various taxes to total central government revenue in British India, 1876-1940



Sources: Mitchell 2007, Table G6, see also Roy (2019).

In Korea and Taiwan, the PIT was adopted in respectively 1920 and 1934, and the CIT in 1936. While these taxes hardly added anything to the overall revenue base in Korea, they increased government revenue with more than 20% in Taiwan. In Japan itself, the contribution of the PIT remained under 5% of the total between 1887 and 1940, but this was more than the

CIT added (Mitchell 2007a, Table G6).[10] In both Japan and South Korea, income taxes only gained significance in the postwar years and during the Korean war (1950-53). The Philippines, in contrast was one of the rare cases of early successful colonial tax reform. The PIT, which was adopted in 1913 in both the metropole (US) and the colony, profoundly altered the fiscal landscape in both places. Within a decade, the income tax accounted for more than half of US central government revenue (Mitchell 2007b, Table G6). Although the overhaul of the system was not as large in the Philippines, the PIT still amounted to 30% of total revenue in the years immediately after 1913 (Mitchell 2007a, Table G6).

In sum, the timing and budgetary impact of income tax adoption under colonial rule were influenced by at least five factors. First and foremost, the revenue potential mattered. Absent major foreign business activities, sizeable settler communities, or mineral resource wealth, governments often did not bother to adopt income taxes as a complement to existing native taxes, trade taxes, and/or forced labor schemes. Second, CITs were more important than PITs, since the former were easier to asses, collect and enforce. Third, given the diversity in economic structure across the colonies, there was no signature 'metropolitan blueprint' for income tax adoption across the larger empires. There were, however, clear signs of *clustered* adoption in large and diverse areas such as British India and French West Africa. At times, metropolitan fiscal reforms had an immediate effect on the dependencies: in both the Philippines and Korea, fiscal reforms in the metropole were directly carried over to the colony. Fourth, income taxes tended to be introduced in periods of fiscal distress: during or shortly after the First World War, during the Great Depression, and during the Second World War. Although income taxes hardly ever solved deficit problems, they often did alleviate such problems. Fifth, in some cases the PIT had symbolic value for colonized populations, as it placed part of the growing fiscal burden on the shoulders of the well-connected, capital-owning (mostly foreign) strata of colonial society. This issue was perhaps most prominent in Southern Africa, where minority settler populations laid disproportional claims on public revenues through segregated education and health care systems, pension funds and salaries of (white) government employees (Frankema 2011). In light of such highly unequal consumption of public services, over time settler communities were expected to contribute more to retain their excessive privileges (Mkandawire 2010).

[10] Note that the TID records the adoption of a CIT in 1940, but this tax was preceded by other corporate taxes for more than half a century.

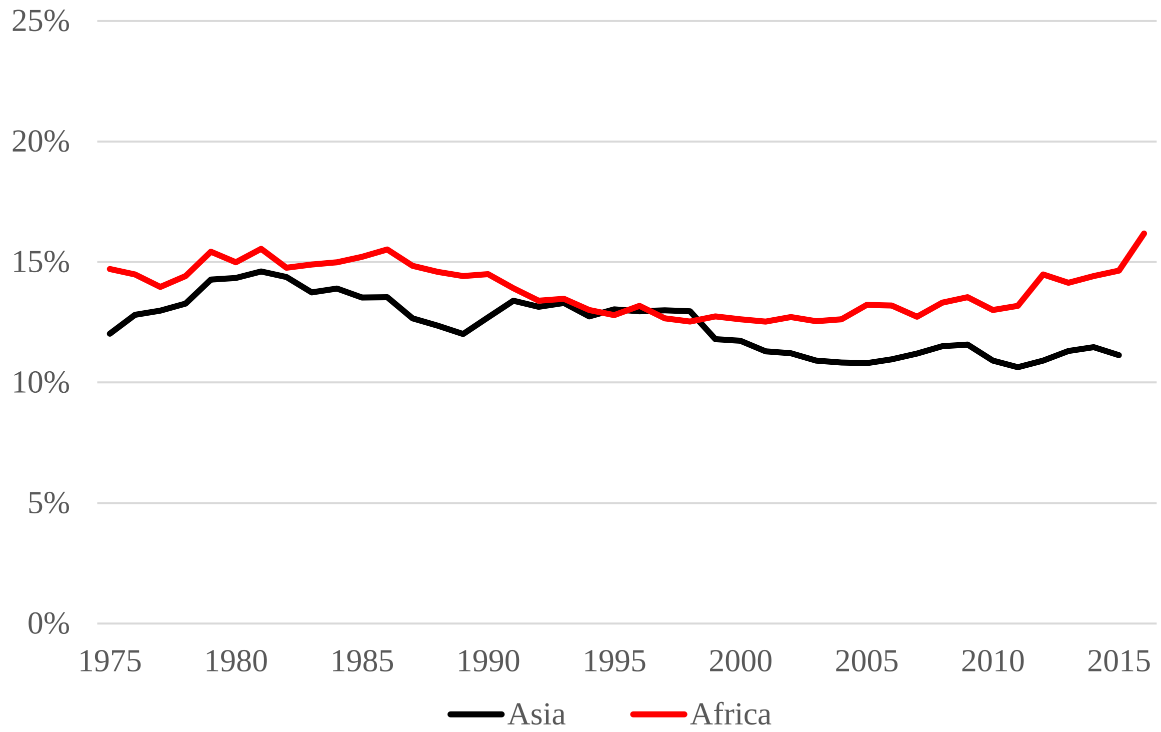
5. Tax Structures in post-colonial Africa and Asia

Colonial governments introduced 'modern' income taxes in Africa and Asia, but what happened with these arrangements after independence? To what extent did these income taxes become a major pillar of post-colonial public finance? How much of GDP was channeled to the central state via income taxes? It is hard to answer this question in general terms as the experiences in post-colonial Africa and Asia varied enormously. Public finance literature has emphasized the differences in tax structures of 'poor' or 'developing' countries, as opposed to 'rich', 'industrialized' or OECD countries (Besley and Persson 2011). Bird and Zolt (2005, p. 1567) have argued that, by the end of the 20th century, 'developing countries' had less capacity to appropriate part of national income via income taxation, and that such taxes contributed significantly less to total revenue than in 'developed' countries. This, in turn, limits the opportunities to use income taxes as an instrument for redistribution.

Yet, a historical analysis that looks more deeply into the legacies of colonial fiscal systems yields a rather different perspective on the varying trajectories of fiscal development in the global South, transcending the 'developing' versus the 'developed' world dichotomy. The economic, social and political structures that emerged under colonial rule – both altering and consolidating pre-colonial structures – shaped the paths of post-independence fiscal development in variegated ways. Here we highlight these paths by discussing a number of similarities and differences between Africa and Asia.

As shown in figure 4, overall fiscal capacity (tax revenue as share of GDP) remained relatively low in former African and Asian colonies, hovering between 10-15% between 1975-2015. These regional averages, however, obscure a significant degree of intra-regional variation. In Asia, for example, average fiscal capacity in Malaysia (17.8%) was almost three times that in Myanmar (6.1%) or in Bangladesh (6.6%). Even larger gaps characterize former African colonies, where average fiscal capacity in Namibia (26.6%) was more than four times the average of Chad (6.1%). In similar vein, figure 4 'averages out' diverging temporal trends. Whereas fiscal capacity in Bangladesh nearly doubled between the 1970s (5%) and the 2010s (9%), other countries saw a significant decline. Especially in countries where oil discoveries provided lucrative opportunities to finance the state via non-fiscal revenues (e.g. Nigeria and Indonesia), fiscal capacity plummeted in the course of the post-colonial period. Where in Nigeria, tax revenues still made up 15% of GDP in the 1970s, this had dropped to less than 2% in the new millennium.

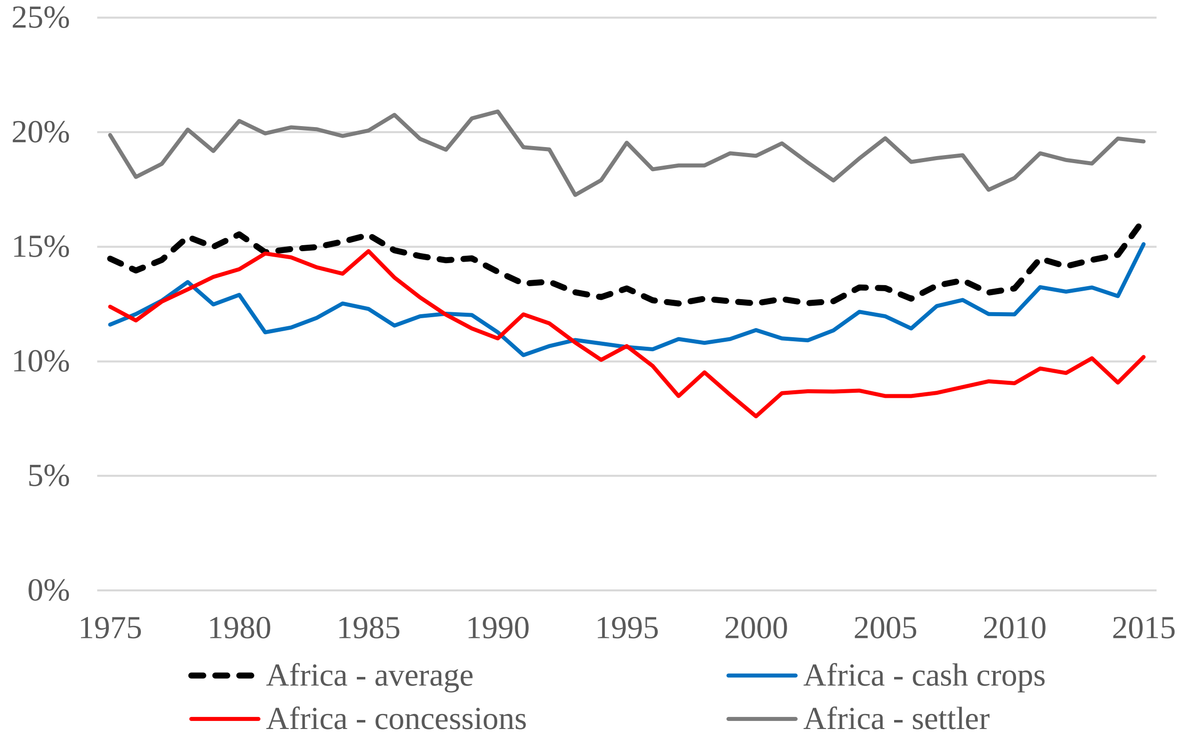
Figure 4: Tax revenue as share of GDP in post-colonial Africa and Asia, 1975-2015



Source: IMF, Government Finance Statistics (GFS)
Notes: These figures are based on former colonies for which data was available for a significant number of years between 1975-2015. Missing years were interpolated on the basis of a linear time-trend. For Asia this includes Bangladesh, India, Indonesia, Malaysia, Myanmar, Pakistan, the Philippines, Singapore, South Korea, and Sri Lanka. For Africa, this includes Burkina Faso, Burundi, Cameroon, Congo, DRC, Gabon, the Gambia, Ghana, Kenya, Madagascar, Malawi, Senegal, Sierra Leone, South Africa, Togo, Uganda, and Zambia.

Certain sub-regional 'colonial legacy' patterns can be detected among the temporal and spatial variation though. Following, but slightly adapting Thandika Mkandawire's approach on colonial tax efforts (2010), figure 5 highlights different post-colonial fiscal paths for three types of African colonial economies: 1) territories that primarily focused on the (forced or voluntary) production of agricultural export commodities; 2) territories whose economies were dominated by the presence of concession companies; and 3) territories that saw a comparatively high level of European settlement (and ensuing control of land and other productive resources). The figure illustrates how the fiscal paths of these sub-regions varied in the post-colonial era. The former settler economies had both higher and more stable fiscal capacity than the former cash-crop and concession company-based economies. While the pattern of the colonial cash-crop economies was largely in line with (and driving) the African average pattern, the former concession company eras witnessed a severe setback in the closing decades of the twentieth century. What explains the set-back in former concession company areas is not clear, and is a topic for further investigation. Perhaps the 'natural resource curse' in these countries eroded the tax base because of weak state legitimacy, and greater degrees of post-colonial crisis and civil conflict, while moving away from the remnants of colonial taxes to non-tax revenues was easier in resource-rich economies such as the Congo, Gabon and the DRC?

Figure 5: Tax revenue as share of GDP in post-colonial African economies, 1975-2015



Source: IMF, Government Finance Statistics (GFS)
Notes: For Africa, the cash-crop group includes Burkina Faso, Cameroon, the Gambia, Ghana, Madagascar, Malawi, Senegal, Sierra Leone, Togo, and Uganda. The concession company economies include Burundi, Congo, DRC, and Gabon, and the settler economies include Kenya, South Africa, and Zambia.

In terms of the source composition of the revenue, two clear intra-regional patterns stand out from figures 6a-b. First, albeit declining in relative importance over the last five decades, African countries remain more dependent on international trade taxes than Asian countries until today. In the 1970s, trade taxes still constituted 38% of total tax revenue in former African colonies versus 27% in former Asian colonies. While this share has fallen to 19% for Africa in the 2010s, this is still more than twice that in Asia (10%). Second, while domestic consumption taxes contributed more to total revenue in Asia in the 1970s – 35% vs. 26% – this pattern has by now reversed, constituting 44% of the budget in Africa vs. 37% in Asia.

The pattern for the share of tax revenue from income taxes, in contrast, shows less clear observable variety. While income taxes had gained more ground in Asia by the twenty-first century, the relative shares in Africa and Asia were roughly at par in the early post-colonial period. As illustrated in figure 7, these regional aggregates, again, hide important intra-regional variety. For one, the African average conceals the gap that existed between settler and nonsettler colonies, which yielded respectively 54% versus 26% of total revenues. Additionally, both in Africa and Asia, the share of income taxes that was derived from a PIT versus CIT varied significantly.

While it is tempting to assume that the relative importance of corporate tax revenues was a direct outflow of the limited efforts of colonial governments to invest in fine-grained assessments of personal income, reversals in such higher forms of fiscal capacity have taken place as well. The case of Indonesia illustrates such a pattern. Wahid (2013) provides detailed insights into how the Dutch colonial state organized and reformed an elaborate tax farm system on Java, thereby reaching deep into the rural economy. Several market commodities that were widely consumed by rural and urban households, such as salt, meat, and fish, had historically been taxed through a license system for local shops (through tax farming), and were eventually incorporated as state taxes in the early 20th century. Important commercial activities in retail, wholesale and finance (e.g. local pawnshops) were subject to taxation as well. With the Income Tax Ordinance of 1920, the existing income tax for Europeans, which was introduced in 1908 and included some 55,000 tax-payers in 1919, was extended to 2.6 million individuals (ca. 22 percent of all households). The expanded income tax reached a peak of 4.1 million tax payers in 1930, even though the majority of the population (millions of indigenous farmers who were paying the land tax), was exempted (Leigh and van der Eng 2014, pp. 176-77). Comparing the numbers of people covered by the PIT in India, passing just 1 million in 1960, Leigh and van der Eng emphasize that the Indonesian PIT was one of the most fine-grained and extensive income tax systems introduced in a poor country under colonial rule (2014, 177).

However, during the Great Depression, the PIT started to erode. Since the income brackets of the tax were not adjusted to deflationary price developments, millions of income earners ended up below the minimum threshold level of *ƒ*120 per year. The revision of these brackets in 1935 could not prevent that coverage declined to some 2.3 million tax payers in 1938. It is unclear what happened with the PIT during the Japanese occupation and the turbulence of the decolonization wars (1945-49), but after independence the land tax was abolished and farmers were integrated into the income tax. Yet, the erosion of administrative capacity under the Sukarno regime, and the increasing opportunities of tax evasion resulted in a sharp decline of tax-payers from 3.2 in 1952 to barely 0.6 million in 1971 (2.5 per cent of households). The decline in tax income revenue was only reversed after the introduction of a comprehensive tax reform in 1984, that combined personal and corporate income taxes, greatly extended the coverage and included a new withholding tax on monthly wage and salary earnings (Leigh and van der Eng 2014, 178-79).

Figure 6a: Tax structure in Asia in 1970s, 1990s, and 2010s

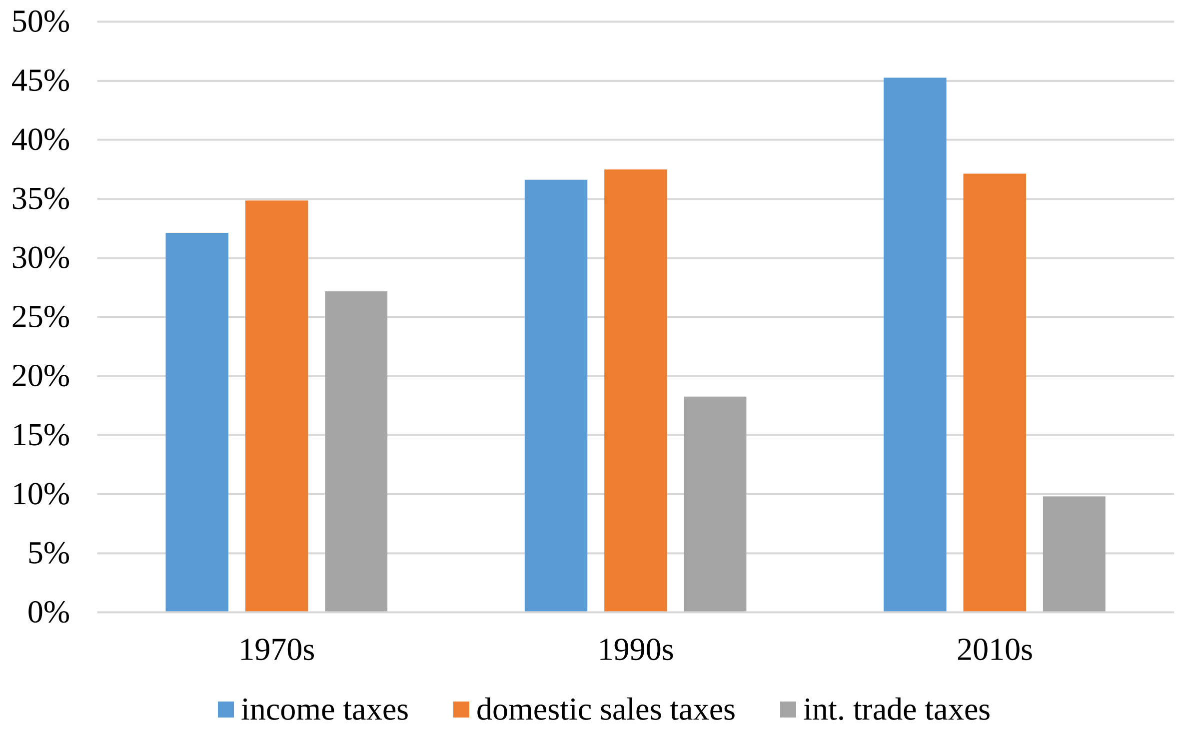
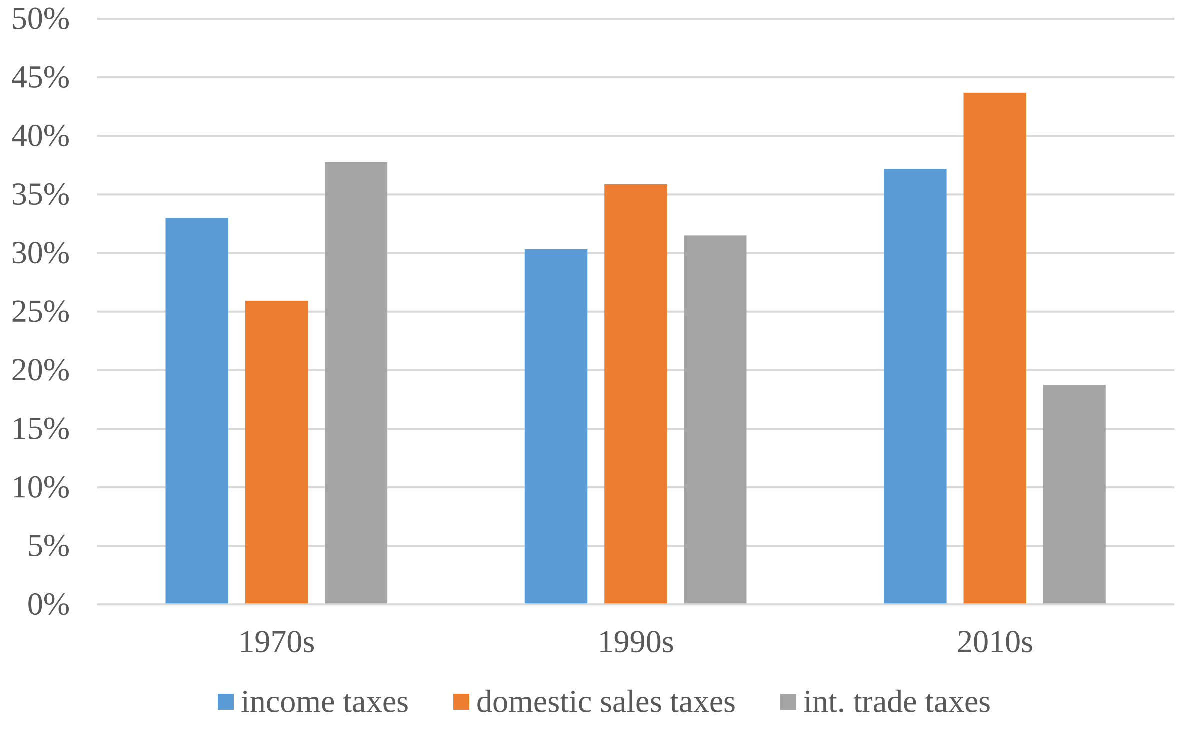
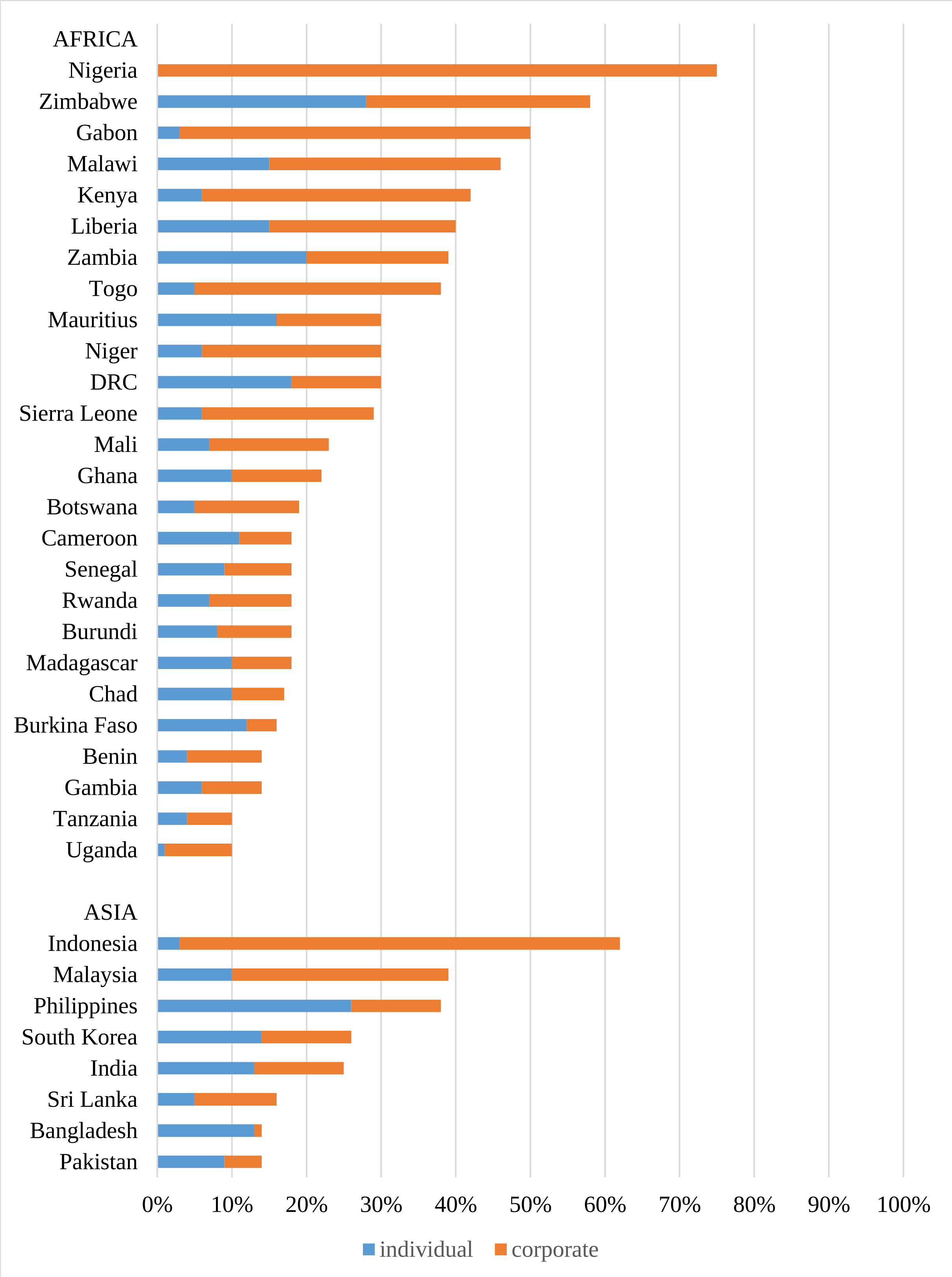


Figure 6b: Tax structure in Africa in 1970s, 1990s, and 2010s



Source: IMF, Government Finance Statistics (GFS)
Notes: these figures are based on former colonies for which data was available for all three benchmark decades. For Asia this includes India, Indonesia, Malaysia, Pakistan, the Philippines, Singapore, South Korea, and Sri Lanka. For Africa, this includes Botswana, Burundi, Congo, DRC, Ghana, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, South Africa, Uganda, Zambia, and Zimbabwe.

Figure 7: Decomposition income taxation as share of total tax revenue in former African and Asian colonies (1970s)



Across the board though, Asian fiscal systems were underpinned by more fine-grained systems of tax assessment, which is especially evident from the presence of local cadasters and information about annual harvests, which were virtually non-existent in Africa south of the Sahara.[11] with the exception of a few tiny enclaves such as the Dutch Cape colony and the feudal state of Ethiopia that remained largely independent (Frankema and Booth 2019, 20-23). By tapping into existing tax systems at the local level and administrative infrastructures, Asian colonial governments had greater capacity to collect such information-intensive taxes.[12] This in turn, invited public investments in agriculture (e.g. irrigation and drainage systems), which took part of these central funds back to the local level. This virtuous cycle of incorporating taxes at the village level in the central domain tied Asian peasants to the colonial state and enhanced the routines of local and central administrators.

Although such fiscal networks emerged in colonial Africa as well, they had to be built from scratch in most places, and were thus likely to rely on administrative short-cuts: a generic, flat rate hut or poll tax that may be differentiated from province to province, but not from household to household. In African countries where international trade taxes sufficed to fund the colonial state, direct taxes were hardly levied (Frankema and van Waijenburg 2014). While this strategy was politically less costly for colonial governments, such trade tax dependence created a major barrier to channel larger shares of a growing GDP to the central state. Whereas central government revenue in Ghana around 1960 was close to 20 percent of GDP, it fell back to under 10 percent in the post-colonial era.

While the windfall gains from easily taxable sub-soil deposits stimulated the introduction of CIT in parts of Africa, they also stimulated the introduction of direct taxes as a means to force indigenous labor into mines and onto plantations. After independence it proved hard, both politically as well as logistically, to integrate hut and poll taxes into a uniform PIT. In the most densely settled parts of Asia income taxes developed out of more deeply ingrained and more information-intensive systems of tax assessment. These systems recorded the incomes (or estimated income-earning capacity) of micro-enterprises, including millions of small-scale farms, retailers, pawnshops and manufacturing workshops. The long-term consequence was that the informal sector in Africa expanded enormously, especially in the urban areas. Income taxes were and are evaded at a scale much larger than in most Asian polities

[11] There were a few exceptions though, including the Dutch Cape colony and the feudal state of Ethiopia that remained largely independent (Frankema and Booth 2019, 20-23).

[12] We should note here that such endeavors were not necessarily equally successful everywhere in Asia. For instance, the French colonial government in Indochina decided to leave local village taxes as they were, and focus on trade taxation and the migration of labor out of the densely settled Red River delta in the North to the rubber plantations in the South (Lopez-Jerez 2019).

6. Conclusion

This paper has drawn attention to the distinctive features of fiscal development under colonial and sovereign rule. We have argued that existing theories of long-term fiscal development suffer from Eurocentric bias and are especially problematic to understand fiscal development in colonial settings. This is an important issue, as most present-day countries have a colonial history in which the basis of the fiscal state was (partly) laid. We have highlighted the implications of two main contextual differences that shaped fiscal development in colonial versus sovereign states: the *political economic conditions* of colonial governance and the *socio-economic structures* underpinning imperial relations. Colonial tax-payers were in myriad ways tied to metropolitan tax-payers, as both groups could in principle be forced to pay for the costs of imperial domains. To arrive at a global theoretical framework for understanding the dispersed paths of fiscal evolution in the context of the emergent modern world system after 1500, we need a more systematic conception of the key parameters that have shaped processes of fiscal modernization in colonial settings.

Regarding the introduction of 'modern' taxes we conclude that income taxes were not adopted (much) later in the colonial states of Africa and Asia than they were in sovereign states, and especially not in comparison to sovereign states in the global 'periphery'. The critical difference is that these 'modern' taxes co-existed for extended periods of time in virtual disconnect from parallel colonial taxes that tapped into local resources controlled by indigenous populations. The separation of both fiscal spheres was of course a matter of degree, as these spheres overlapped when indigenous elites and enterprises established links between local markets and export markets, as well as between local customers and state investments in the domestic economy. But in the majority of cases the contribution of 'modern' taxes to the state revenue occurred in a dualistic fiscal system.

In post-colonial times, fiscal systems were reformed and became more 'inclusive', but this did not result in higher fiscal capacity everywhere. The key distinction between former colonial states in Asia and Africa seems to be that, ultimately, Asian states could turn back to more fine-grained systems of taxation that were more deeply rooted in their rural economies. That said, natural resource revenues offered easy corridors to circumvent the administrative complexity of income taxation, and political and economic instability set the process of fiscal 'modernization' in many newly independent states in Asia and Africa back for considerable periods of time.

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