

Who Cares about Representation in Exchange for Taxation? Experimental Evidence from China

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Abstract

The connection between taxation and representation plays a central role in theories of democratization; however, recent empirical evidence probing this microfoundation remains inconclusive. We contend that the *taxation–representation connection* remains valid in modern times but primarily among business elites in nondemocratic regimes. These individuals are subject to higher risks of state predation, but also possess better information and resources for political participation, facilitating the connection between taxation and representation. To test our prediction, we recruit separate samples of business elites and ordinary citizens in China and retrieve their preferences for various forms of political demands during a hypothetical tax reform. We found that business elites express stronger preference for representation gains in exchange for taxation than nonelites. We explore various mechanisms and find supporting evidence that credibility issues of autocratic rulers and tax burden awareness are key channels activating the taxation–representation connection in modern-day autocracies.

Keywords: Taxation; Representation; Credibility; Tax Salience; Business Elites; China.

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1 No Taxation Without Representation?

Bargaining over taxation between rulers and taxpayers lie at the heart of theories of consent and representation in early modern Europe (Bates and Lien, 1985; Levi, 1988; North and Weingast, 1989) and democratization transitions at the turn of the nineteenth century (Acemoglu and Robinson, 2006; Boix, 2003). Despite the prominence of the “fiscal contract hypothesis” in modern-day political science, empirical evidence of the *taxation–representation connection* remains largely mixed. While some studies find a positive relationship between taxation and representation in cross-country analysis (Prichard, Salardi and Segal, 2014; Wiens, Poast and Clark, 2014), others show that results are sensitive to measurement and model specifications (Garcia and von Haldenwang, 2016; Prichard, 2015; Ross, 2004).¹

Attempts to overcome the empirical conundrum with individual-level experimental data have led to similarly inconclusive findings. Some researchers find supportive evidence that taxation induces political participation and pressure for political accountability (Paler, 2013; Weigel, 2020), while others show that taxation does not lead to greater demand of accountability relative to non-tax revenue (de la Cuesta, Milner, Nielson and Knack, 2019). The absence of consistent evidence of the taxation–representation connection in contemporary setting is concerning because the fiscal contract hypothesis is central to theories of democratization and distributive politics.

In this paper, we contend that an important way to resolve the mixed evidence is by focusing on *who* cares more about gaining political representation for taxation. Seminal contributions in the fiscal contract literature maintain that merchants (in early-modern Europe) and industrialists (in the Industrial Revolution)—not ordinary people—were at the forefront of demands for representation in return for taxation (Ansell and Samuels, 2010; Bates and Lien, 1985). Today, business elites in industrializing autocracies are the closest equivalent to merchants and industrialist in the past. First, business owners are dispropor-

¹Surveying a large body of case studies, Brautigam, Fjeldstad and Moore (2008) and Moore, Prichard and Fjeldstad (2018, ch.8) conclude that the taxation–representation connection is more complex and context-dependent than often assumed.

tionally exposed to higher tax burden, even expropriation because state predation targets large income streams rather than atomized individuals (Gehlbach, 2008). Second, business elites have a good understanding of the tax burden and tax incidence, activating the “ownership effect of taxation” that connects taxation with political demands (de la Cuesta, Martin, Milner and Nielson, 2020). Third, business elites have a *comparative advantage* in using various resources to advance their interest if channels of political influence are opened by the state (Grossman and Helpman, 2001).

Taken together, we expect the taxation–representation connection to be stronger among business elites than nonelites and particularly in autocratic settings, where ruling elites face biggest credibility issues. We test the hypothesis in modern-day China, a paramount autocratic regime that has experienced rapid economic growth over the last four decades. Our experimental design entails two major departures from previous studies. The first is sample selection: We recruited separate *business elite* and *nonelite* samples. The elite sample draws from a dedicated panel of business owners and managers, and the nonelite sample from a standard panel of ordinary citizens. Second, we solicit *preferences* over representation in an autocratic setting, where government credibility issues are severe. We implement conjoint experiment techniques, which allows us to evaluate relative preference order of different demand in return from taxation and overcome social desirability issues that could bias responses against advances in political representation (Hainmueller, Hopkins and Yamamoto, 2014; Horiuchi, Markovich and Yamamoto, 2020).

Among nondemocratic regimes, China is perhaps one of the least likely cases in which business elites embody strong preference for political representation. As one of the most resilient nondemocratic regimes today, scholars have argued that Chinese business elites are allies of the regime and exploit the existing political system to their own advantage (Chen and Dickson, 2010; Hou, 2019; Truex, 2014). If these business elites are satisfied with the existing institutional configuration or fear to express their political preferences, we should observe null results in the conjoint experiment and auxiliary questions.

Nonetheless, our conjoint experiments show compelling evidence that tax reform disproportionately strengthens business elites' preference for political demands in China. Specifically, we operationalize the concept of political demands by focusing on four dimensions—electoral accountability, policy responsiveness, fiscal transparency, and guarantees of property rights protection—which we collectively refer to as *Institutional Political Influence* or IPI. Our finding of stronger preference for all four forms of IPI among business elites is robust for a number of considerations, including preference falsification, party membership, and satisfaction with existing public goods provision.

To shed light on the business elites' preferences and their differences with those of nonelites, we explore a number of mechanisms and find supporting evidence for two of them. First, business elites who do not trust the government express stronger attachment to IPI gains at time of tax reform, consistent with credibility issues of the rulers in Levi (1988) and North and Weingast (1989). Second, business elites and nonelites differ in their tax literacy or awareness. Importantly, the (few) nonelites who score high in tax awareness show similar preferences for IPI than economic elites, suggesting that tax literacy is an important mechanism enabling the connection between taxation and representation. Our analysis also shows that the elite–nonelite gap in the preference for IPI narrows as the tax rate increases, namely when taxation becomes a salient issue. Together, the mechanism section points to information requirements and tax salience as key factors explaining preference formation for IPI.

Our findings underscores the recent turn to the study of *economic* elites in understanding autocratic rule and transition to democratic politics. Recent scholarship shows that these elites play a critical role in shaping (and gaming) political institutions to their own advantage and against that of competing elites and the populace (Albertus and Menaldo, 2018; Gehlbach and Keefer, 2012; Grzymala-Busse, 2002; Haggard and Kaufman, 2006). This paper contributes new evidence to this literature by stressing that business elites are likely to be the focal point of the fiscal contract in modern nondemocratic regimes, much alike they

were in European history.

Our findings also offer important theoretical implications for studies of democratization. We show that the underlying fiscal contract hypothesis remains a valid microfoundation in the modern world and offers actionable strategies for future empirical designs testing the political consequences of taxation. The rest of the paper is organized as follows. In Section 2 we delineate the scope conditions of the taxation–representation connection based on our reading of canonical work on this topic. In Section 3 we outline the empirical strategy and report the main empirical results. Section 4 contains an evaluation of a number of potential mechanisms connecting taxation and representation for business elites and, to a lesser extent, nonelites. We conclude in Section 5 by discussing practical implications of our analysis for the study of political effects of taxation in *already* democratic settings.

2 Economic Elites and the Fiscal Bargain Hypothesis

Economic elites play a central role in theories of limited government and democratization. The former theory emphasizes credibility issues in fiscal policy faced by monarchs when executive constraints were absent in early-modern Europe (Bates and Lien, 1985; Levi, 1988; North and Weingast, 1989). Monarchs overcame credibility issues by sharing power over fiscal policy with powerful merchants, leading to the rise of representation and consent—the original *fiscal contract* hypothesis. Theories of democratization for the Industrial Revolution emphasize a different but related credible commitment: Traditional, land-based elites in power could not credibly refrain from expropriating the wealth of the new industrial elites nor to redistribute the tax burden towards the modern industrial sector (Ansell and Samuels, 2015; Mares and Queralt, 2015). To secure an even distribution of tax incidence across sectors and protect property rights of industrial investment, the new industrial elites demanded franchise extensions and further political representation (Lizzeri and Persico, 2004; Llavador and Oxoby, 2005).

We contend that the political dynamics concerning taxation and political reform in modern-day autocracies resemble those in the past once scope conditions are adjusted to present times. For a start, owners and managers of middle- and large-sized firms in modern-day industrializing autocracies resemble merchant elites in theories of limited government and democratization. These individuals accumulate considerable wealth but differ from highly connected plutocrats because they are not in the pinnacle of the economic *and* political system. Lacking institutionalized means to protect their wealth, rising business elites are disproportionately exposed to the threat of state predation in the form of confiscation and disproportional tax incidence (Dickson, 2008; Gans-Morse, 2012; Markus, 2012).

Business elites do not necessarily oppose taxation. They benefit from public spending that strengthens public infrastructure and improves the quality of labor force.² Nonetheless, the new elites have major concerns whether the government will spend their tax money wisely or refrain from imposing the incidence of taxation onto them—a covert form of property rights erosion. Gains in Institutionalized Political Influence (IPI) such as political representation and accountability can help business elites mitigate predatory behavior by the state. By holding the autocrat somewhat accountable to them and the public (via competitive elections or fiscal transparency), business elites may reduce the risks of state predation.

Connecting taxation to IPI is not necessarily obvious for everybody; however, we expect business elites to activate this link relatively often for three reasons: First, state predation tends to prioritize high-yield economic assets owned or managed by business elites. Second, business elites have better information about the tax burden because they have to deal with tax codes on a regular basis to make profit-maximizing decisions, avoid taxation, or both. Awareness of the tax burden also makes business elites more likely to experience the “ownership effect,” a psychological mechanism that makes one perceive the government monies as own, spurring demands of political accountability (de la Cuesta et al., 2020; Prichard, 2015; Weigel, 2020). Third, business elites tend to be more politically active in advancing their

²Lizzeri and Persico (2004) and Beramendi, Dincecco and Rogers (2019).

interests. In democratic contexts, business elites make their voice heard louder,³ give and raise more,⁴ vote more,⁵ and run for office more often than ordinary citizens.⁶ We contend that, relative to ordinary citizens, business elites have a *comparative advantage* in exploiting opportunities created by Institutionalized Political Influence to advance their interests. Accordingly, we expect business elites to hold particularly high valuation of IPI gains in the autocratic context.

Conversely, nonelites are less likely to make the connection between taxation and IPI. First, their modest income make them less vulnerable to state predation, and even then, ordinary citizens often demand tax breaks, not necessarily gains in IPI (Bernstein and Lü, 2003; Bianco, 2001; Tilly, 1993). Second, nonelites tend to underestimate the tax burden, particularly for low-salience taxes, such as sales taxes, tariffs, and the VAT.⁷ If taxpayers underestimate the tax burden, expecting tax reform to activate political demands among them is unrealistic. Third, even when ordinary citizens are informed about tax burden, they may lack key resources to advance their preferences into the policy-making arena: capital, time, expertise (Schlozman, Brady and Verba, 2018).

Taken together, we expect ordinary citizens to prioritize a simpler *tax-for-services* calculus (Ross, 2004). According to this interpretation, the fiscal contract is not built on an expectation of representation for taxation but on the “exchange of services for support” (Lake, 2016, p.17). Consistently, Beramendi and Rueda (2007) and Timmons (2005) show that ordinary citizens in wealthy and developing democracies pay taxes in expectation of public-funded goods and services, not political rights. Moreover, studies of patronage and clientelism extensively document citizens’ willingness to relinquish their “paper stones” in exchange for public or private goods (Golden and Min, 2013). The *tax-for-services* calculus is also present in nondemocratic regimes. Public spending is shown to be a popular tool to

³See Gilens (2012) for a theoretical overview; Traber, Hänni, Giger and Breunig (2021) for cross-national evidence in Europe; and Bartels (2008, ch.7) and Carnes (2018) for applications to tax policy in the USA.

⁴Bonica, Chilton and Sen (2016).

⁵Kasara and Suryanarayan (2015).

⁶Carnes (2018) and Lupu and Warner (2021) for US and crossnational evidence, respectively.

⁷See, for example de la Cuesta et al. (2020); Fochmann et al. (2010); Moore (2004); Prichard (2015).

garner political support in authoritarian regimes (Albertus, Fenner and Slater, 2018; Svulik, 2012). Certainly, a autocrat’s promises to offer government services to ordinary citizens are not exempted from credibility issues. These likely exist, and strategic autocrats will do their best to keep citizens’ expectations to a bearable minimum (Gottlieb, 2016).

3 Hypothesis and Empirical Design

The preceding discussion leads to the following hypothesis:

Business elites express stronger preferences for institutionalized political influence than nonelites in nondemocratic polities at time of tax reform.

To test this claim, we examine the taxation–representation connection in China with separate samples of rising business elites and nonelites. In the next sections, we elaborate on our case selection, experimental design, and sample recruitment strategies.

3.1 Case Selection

China is a compelling case to test our hypothesis above: First, this country has experienced a significant economic transformation through industrialization and globalization in the last four decades, not only pushing close to 800 millions out of poverty but also giving rise to an *upper* middle and *high* class, 16.17% and 1.44% of total population today, respectively.⁸

Second, Chinese business elites have been increasingly active in the political arena. The disproportional representation of wealthy individuals in the National and Local People’s Congresses suggests that they find those opportunities profitable to advance their interest (Truex, 2014). Despite constituting 1.1% of the population in China, managers and entrepreneurs account for 26.6% of the seats in the National People’s Congress (Truex, 2016,

⁸Upper middle class is defined by the World Bank as individuals who spend between \$20 and \$50 per day, and the high class +\$50. Source: China Power: <https://chinapower.csis.org/china-middle-class/>.

ch.5). The influence of the wealthy remains important in local People’s Congress in China (Hou, 2019; Manion, 2017).

Third, despite political activism of business elites, China is a least-likely case to identify demand for Institutionalized Political Influence by rising economic elites. Scholars have contended that the rising middle class and business elites are allies of the state (Chen and Dickson, 2010) who aim to exploit the existing political system to reap economic benefits. More importantly, those who are critical of the government and top leaders are likely to face severe repercussion to their businesses and personal well-being.⁹ If business elites are captured by the state, we should see small (or null) political demands in response to tax hikes.

3.2 Experimental Design

To evaluate the preference for IPI associated with tax reform, we implement a conjoint experiment, a survey method in which respondents compare and choose between pairs of hypothetical tax policies which include randomized combinations of IPI, government services, tax types, and tax rates.

Motivation. We prefer a conjoint experimental design over a typical survey experiment design with different question framing for two reasons: relative preferences and social desirability bias. First, respondents may have a wide range of preferences in return for taxation, and Institutionalized Political Influence is a multifaceted phenomenon. Not only does the conjoint experiment allow us to evaluate the effect of various aspects of a hypothetical tax reform on preference formation, but it is also suited to establish the *relative* preference for the various IPI values raised in our theoretical framework: elections, policy responsiveness, transparency, and property rights protection.

Second, a growing number of studies show that conjoint experiments mitigate social

⁹One of most prominent cases is the treatment to Ren Zhiqiang, an outspoken real estate tycoon who received 18 years jail time for his criticism of President Xi ([BBC.com](http://www.bbc.com)).

desirability issues because sensitive items are made part of a choice bundle (Hainmueller, Hopkins and Yamamoto, 2014; Horiuchi, Markovich and Yamamoto, 2020). This feature is particularly important to solicit preferences for Institutionalized Political Influence in China, where we expected (and confirmed) social desirability bias if preferences over IPI were directly requested.¹⁰ Ideally, we would have complemented the conjoint analysis with some (quasi-) behavioral instrument involving actual *demand* for IPI. In light of the current political climate in China, we chose not to implement this design because it could cause repercussions to our respondents.

Conjoint Experiment Attributes. Each tax reform comprises four dimensions or *attributes*, the values of which are randomly drawn from a list of plausible values reported in Figure 1(a). The values of the IPI dimension are based on several considerations, key among them our determination to resort to familiar and understandable concepts to our respondents. We carefully choose values that match the conceptualization of political participation, accountability, and representation commonly used in the existing literature while maintaining consistency with local context and language.¹¹ For example, the submission of citizens’ opinions online or via telephone as well as through public hearing is a typical form of political participation in China (Chen, Pan and Xu, 2016; Distelhorst and Hou, 2017; Shi, 2015). Meanwhile, *fiscal transparency* is often part of the open information campaign in many countries that aims at enhancing government accountability.

One may argue that the former two values are not necessarily strong enough to ensure representation and accountability—the government may choose not to respond to citizens’ demands. We thus include a third value: citizens’ ability to *elect the district government executive*, enabling responsiveness to the constituents’ demands via electoral accountability.

Last but not least, under IPI we list *property rights protection*, the primary concern among elites in the standard taxation–representation models (Ansell and Samuels, 2015;

¹⁰In our survey, we study social desirability bias. Appendix G.3 reports a battery of list of list experiments which support the use of conjoint experiments over direct questions.

¹¹See Appendix D for the translation of the attribute values and a screenshot of the conjoint experiment.

Figure 1: Attributes and Values in Conjoint Experiment

Attributes	Values
Institutionalized Political Influence	No Change Citizens' Input Fiscal Transparency Direct Election Property Rights Protection
Government Services	No Change National Defense Education, Health Care, and Pensions Infrastructure Environmental Protection
Tax Type	Income Tax VAT
Tax Rate	1% 5% 10% 15% 20%

(a) Attributes and values

There are no right or wrong answers, please, just choose the policy that you personally prefer most between the following two policies.

	Policy 1	Policy 2
Institutionalized Political Influence	Policy transparency through publishing detailed government finance	Ability to directly elect district head
Government Service	Better social services (e.g., education, healthcare, pension) for your community	No Change
Tax Type	VAT	Income Tax
Marginal Rate	5%	5%

Please choose

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

How likely are you to support Policy 1 on a scale of 1 to 5, 1 being strongly support and 5 being strongly against?

Strongly support	Somewhat support	Neutral	Somewhat against	Strongly against
<input type="radio"/>				

How likely are you to support Policy 2 on a scale of 1 to 5, 1 being strongly support and 5 being strongly against?

Strongly support	Somewhat support	Neutral	Somewhat against	Strongly against
<input type="radio"/>				

(b) A randomly generated paired comparison

Bates and Lien, 1985). Although one could treat property rights protection as a government service, we group it with the rest of IPI values to emphasize the limits on state predation imposed by property safeguards.

Because our theoretical framework highlights the importance of *government services* to ordinary citizens' demand in return for taxation, we consider a battery of those under the second attribute of the conjoint experiment: *Education, health care, and pensions*; *National defense*; *Environmental policy*; and *Infrastructure*. These are all tax-funded, common-interest public goods and services in China.

The third and fourth attributes account for the implementation details of hypothetical tax reform. By randomizing the tax type and tax rate we intend to factor out any preconceived notion of what a tax reform is and how tax progressivity might influence the taxation–representation connection, an important consideration that we seek to analyze in future work. We consider two hypothetical tax types—the *income tax* and *VAT*—with five possible rates, starting at a negligible 1% and up to 20%. We purposively disregard a 0% rate to avoid impossible combinations with other values that involve government spending.

Figure 1(b) shows an example of a paired comparison in our conjoint experiment. Every respondent is asked to complete six rounds of paired comparisons. In each round, respondents are assigned a different pair of randomly generated tax reform proposals, and are requested to choose which is most preferred.¹² We then estimate the average marginal component-specific effect (AMCE), namely the unconditional marginal effect of an attribute value averaged over all possible values of the other attributes. The AMCE can be estimated with linear regression under conditional independent randomization of attribute values (Hainmueller, Hopkins and Yamamoto, 2014). We clustered the standard errors at the individual level.

¹²The order of attributes and attribute values are randomized across respondents to avoid framing effects of any attribute. We confirm that results are robust to profile and attribute order.

3.3 Samples

To formally evaluate citizens' preference for Institutionalized Political Influence in return for their taxes, we conducted original online surveys for an urban sample of Chinese respondents aged 18 and above. The urban sample is ideal for our inquiry in China because village elections have been carried out in China since the 1980s; therefore preference for IPI should be weaker among rural residents. We commissioned Survey Sampling International (SSI) to implement identical survey experiments in fall 2017.¹³

Full and Screened Sample. To test our hypotheses, we recruit business elites and ordinary citizens in separate samples.¹⁴ For the elite sample we recruited 349 business elites from the China business-to-business panel of the SSI. By design, these individuals hold top-level management positions: chairman of the board of directors, executive vice president, general manager, member of the board of directors, president or managing director, senior vice president, vice president, chief executive officer, and chief financial officer. The response rate for the business sample was 13 percent, a common rate for elite samples (Osgood, Tingley, Bernauer, Milner and Spilker, 2016).

Despite recruiting respondents directly from the Business-to-Business sampling pool, some of the respondents may not qualify as business elites because of their income level or firm characteristics. Hence, we applied two screening criteria to the SSI sample to ensure that our elite respondents approximate *business elite*. First, we kept respondents whose monthly household income is at least twice the median income, +RMB15,000, *and* own or occupy managerial positions in *major* private firms and state-owned enterprises (SOEs) with an employment size in the top 10% decile, corresponding to firms with 50+ employees.¹⁵ These screening criteria reduce the effective business elite sample from 349 to 272, but better approximates the target population.

¹³This study was granted IRB exemption in three universities.

¹⁴For our sampling strategies, see Appendix B for more details.

¹⁵Source: 2013 China Economic Census. Note that the median firm size in China is under 7 employees.

For the nonelite group, we sampled respondents from urban districts in China ($N = 755$). Quota sampling based on age and gender were applied in the data collection. To approximate as much as possible the *nonelite status*, we kept wage earners in the private market, unemployed, retired, or students living in households whose total earnings were below the median monthly income. Upon imposing these additional requirements, our nonelite sample included 264 respondents.

Last but not least, the AMCE analytical framework for conjoint experiments allow us to mitigate statistical power issues in our screened samples because the number of observations in conjoint analysis is equal to *sample size* \times *number of profiles*(2) \times *rounds of comparison*(6).

4 Main Findings

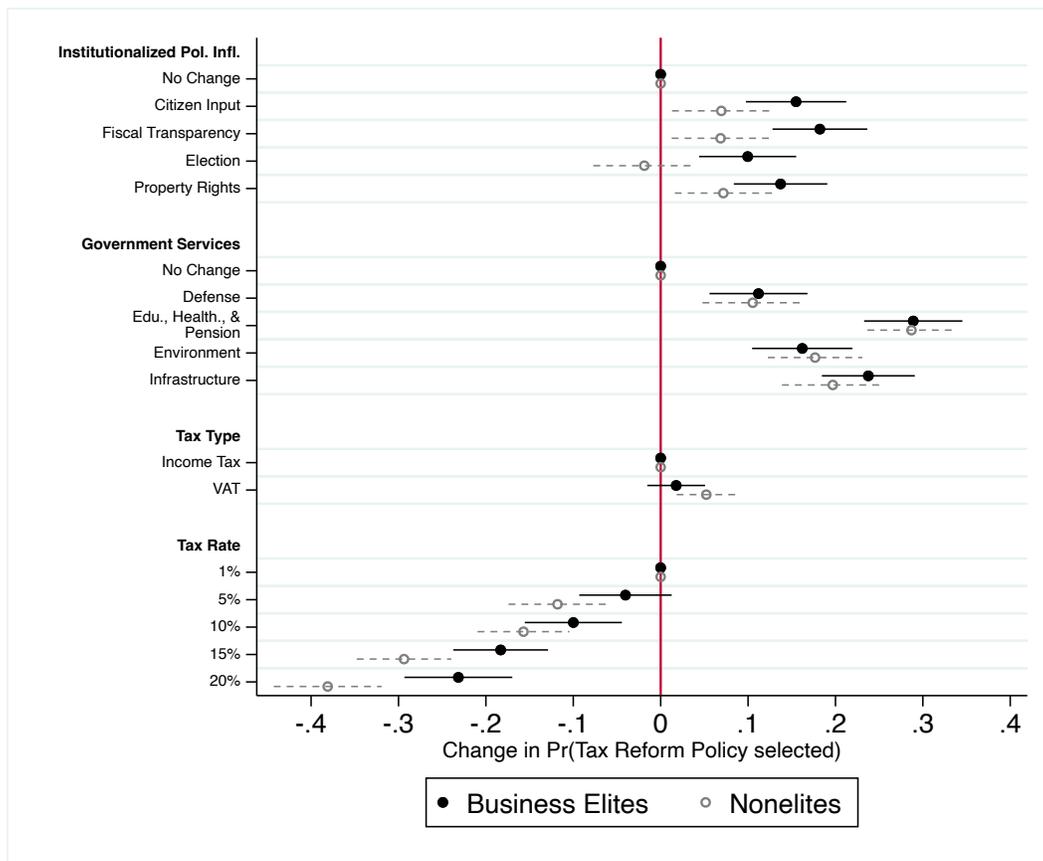
In this section, we report the findings of the conjoint experiment. The main results are followed by two sets of robustness tests: first, we retrieve preferences in return for taxation in an explicit, direct fashion; second, we evaluate any potential impact of preference falsification and sensitivity to sample selection. Results hold across methods and specifications.

4.1 Coinjoint Results

Figure 2 reports the baseline results for the screened elite and nonelite samples. Conveniently, these estimates are directly interpretable in percentage points and comparable within and across attributes. Consistent with our expectation, Chinese business elites show stronger preferences for every value of Institutionalized Political Influence than nonelites. Any given tax reform proposal that is accompanied by new opportunities for citizens to elect the district government executive (i.e., *Election*) increases support for that tax reform among business elites in almost 10 percentage points; by contrast, the point estimate of Election for nonelites is not statistically different from zero. In addition, a tax reform proposal that

entails *Fiscal Transparency* increases support by 18.2 percentage points for economic elites, but only 6.9 percentage points for nonelites. Finally, *Citizen Input* and *Property Rights* increase economic elites' support by 15.5 percentage points and 13.7 percentage points, respectively. For nonelites, the increase is only 6.9 percentage points and 7.2 percentage points, respectively.

Figure 2: China Conjoint Experiment by Elite Status



Note: This plot shows estimates of the effects of randomly assigned attributes for tax reform dimensions on the probability of supporting a tax reform policy. Estimates are drawn from the screened samples. Model in regression format (also including socioeconomic controls) can be found in Appendix E. The bars indicate 95% confidence intervals.

Meanwhile, both elites and nonelites reveal similar preference for government services. *Education, Health Care, and Pensions* receive the highest score of all in both groups, followed by *Infrastructure, Environmental Policy, and National Defense*. Substantively, a tax reform proposal that increase spending on *Education, Health Care, and Pensions* would increase

support by 28.9 percent points for elites and 28.7 percentage points for nonelites. This result is consistent with the “tax-for-services” rationale for tax compliance and seemingly applies to elites and nonelites.

Crucially, results reported in Figure 2 do not qualitatively change when we work with the original sample—a more liberal definition of elite—nor when we focus only on owners and managers of top 5% and top 1% firms based on employment size—a more conservative definition. Likewise, conjoint results for nonelites are similar if we work with the original, full sample. Both sets of results are reported in Appendix F.

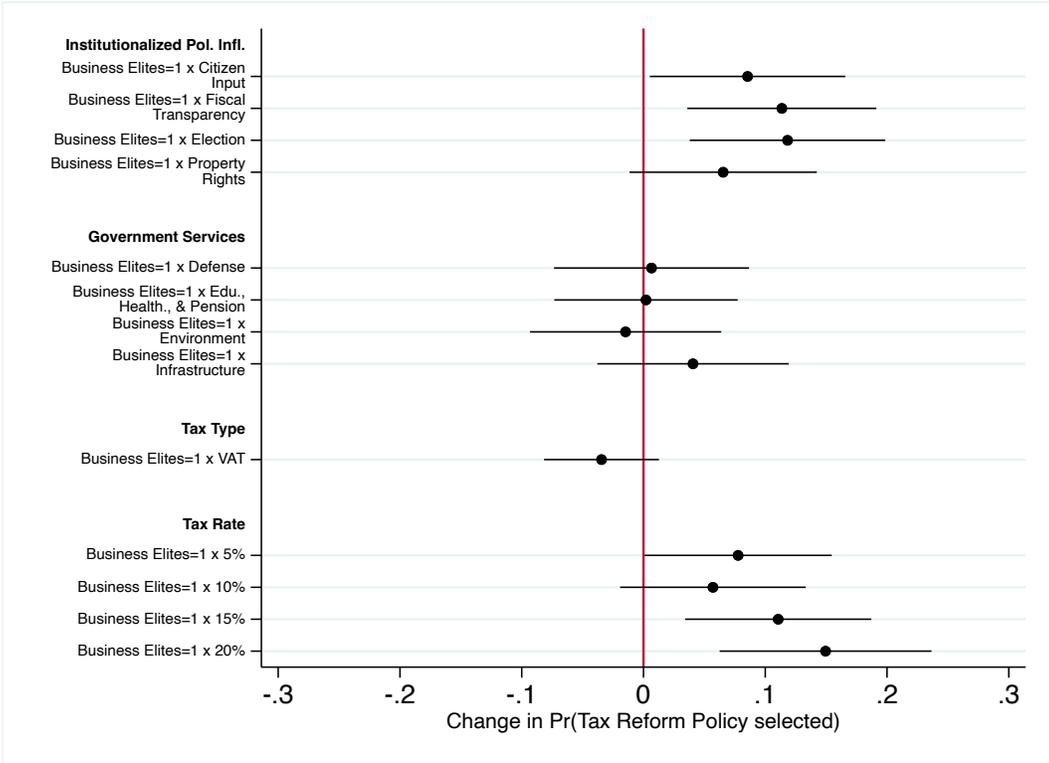
In general, Figure 2 demonstrates that Chinese citizens reveal strong preference for government services compared to Institutionalized Political Influence. This set of results is unsurprising in light of Chinese government’s strategies to use public spending to bolster regime support (Dickson et al., 2016; Lü, 2014). However, key to our argument is the elite–nonelite *difference* in the preference for IPI in return for taxation. To evaluate this point in further detail, we estimate between-group differences with the following interaction model:

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

where $i \in \{1, 2, 3, 4\}$ denotes attributes, j values for each attribute, and group $g \in \{\text{business elites, nonelites}\}$. Figure 3 shows the estimated between-group differences for each value in the conjoint experiment. Results confirm that elites and nonelites value government services to the same extent—differences overlap with the zero line. By contrast, business elites attach stronger preference for IPI than nonelites. In particular, support for hypo-

thetical tax reform is 10+ points higher for business elites than nonelites if accompanied by advances in citizens' input, fiscal transparency, and local elections, holding everything else constant. The coefficient for property rights protection, although half the size, remains statistically different from zero with 90 percent confidence ($p = 0.078$, two-tailed). Taken together, Figure 2 and Figure 3 suggest that both elites and nonelites care about IPI and government services, but elites care disproportionately more about IPI than nonelites.

Figure 3: Differences in Conjoint Estimates Between Business Elites and Nonelites



Note: This plot shows the differences in AMCE between business economic elite respondents ($Business\ Elites = 1$) and nonelite respondents ($Business\ Elites = 0$) as defined in Equation 1. Estimates are drawn from the screened samples. The bars indicate 95% CI. We report regression results in Appendix E.

Other dimensions of our hypothetical tax reform in the conjoint experiment, the *Tax Type* and *Rate*, offer somewhat unexpected results. Nonelites do not penalize policy reform involving consumption taxes or VAT, often considered regressive. At the same time, nonelites dislike higher tax rates more intensely than business elites. Our mechanism section sheds some light on these results: Nonelites have generally a vague understanding of the tax system

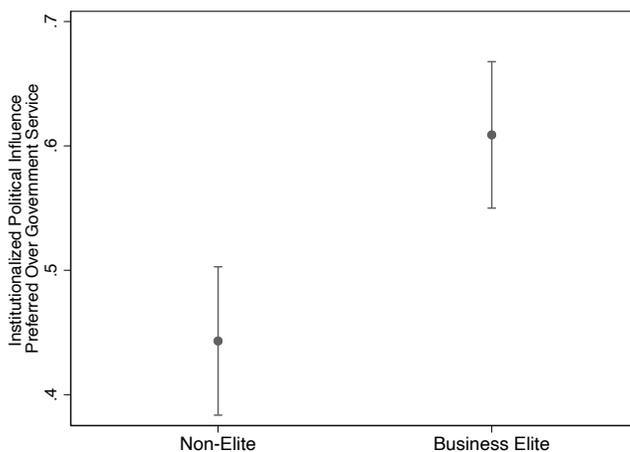
and are relatively unaware of what the VAT is.

4.2 Direct Question

The conjoint experiment elicits respondents' preferences for IPI through a bundle of policy attributes. This technique is particularly advantageous in dealing with sensitive topics. Alternatively, we made respondents choose between two ways to conceptualize the connection between taxes and policy-making. The first option emphasizes gains in government services following taxation, explicitly excluding advancement in institutionalized political influence, whereas the second option explicitly connects it with tax increases. Although institutionalized political influence may be a means towards better government services, our wording is meant to retrieve what respondents prioritize if faced with a stark choice. The exact wording of the question in English reads as follows:

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

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



Note: The vertical axis indicates the proportion of respondents who prioritize IPI over government services when they are directly requested. Estimates are drawn from the screened samples. The bars indicate 95% CI.

We plot in Figure 4 the proportion of respondents in each group choosing option (b). This figure shows that business elites would be more inclined to prioritize gains in political representation than nonelites at time of tax reform. The elite–nonelite difference is 17 points and statistically significant at 95%. Combined, Figures 3 and 4 indicate that elites and nonelites in authoritarian regimes have different preferences for IPI in return from taxation. Next, we discuss two potential issues in our results: state capture and preference falsification.

4.3 CCP and SOE Business Elites

In our elite sample, 87 (31.98%) and 51 (18.75%) respondents are members of the CCP or working in an SOE, respectively. Party members and SOE managers may be considered agents of the state, thus they may be able to find ways to escape predation (Hou, 2019). If this were the case, the inclusion of CCP members and/or SOE managers in the elite sample would have attenuated differences between elites and nonelites. Nevertheless, Appendixes G.1 and G.2 show no substantive change in the weight of IPI values when we exclude all CCP and SOE respondents from the sample. Hence, we do not find evidence that our results are affected by CCP members/SOE managers. Those findings reassure us in the nature of our sample: Although the SSI business panelists are winners of economic modernization, they are still exposed to state predation and prefer IPI in return from taxation.

4.4 Preference Falsification

Chinese respondents might refrain from openly expressing preferences for Institutionalized Political Preferences. In particular, social desirability would confound results in Figures 3 and 4 if bias was disproportionately concentrated among nonelites respondents. To examine this possibility, we replicate the analysis reported in Figure 2 by restricting the sample to respondents who explicitly stated that they distrust the government.¹⁶ The underlying

¹⁶Our survey included this question: *How much can you generally trust government officials to make good policies and implement them?* We collapse the four-category response into an indicator variable that equals 1 if respondents “strongly” or “somewhat trust” the government, and 0 if they respond government

assumption is that if a respondent openly stated that they do not trust the government, it is unlikely they would falsify their preferences in the conjoint experiment. Appendix G.3 shows that our main findings remain robust within this group of “government distrustful” respondents. Specifically, we find that (i) *distrustful elites* hold stronger preference for IPI than *distrustful nonelites*, and (ii) *distrustful nonelites*’ coefficients for IPI values remain indistinguishable from zero.

5 Mechanisms

Why do preferences for IPI differ between business elites and ordinary citizens in China? We argue that rising economic elites are disproportionately exposed to predation risks because of their accumulated wealth. In addition to *motive*, business elites have better information and means (i.e., comparative advantage) to advance their interest if they are granted IPI, hence their stronger valuation of the latter. We assess the constituent parts of our reasoning in order.

5.1 Credible Commitment

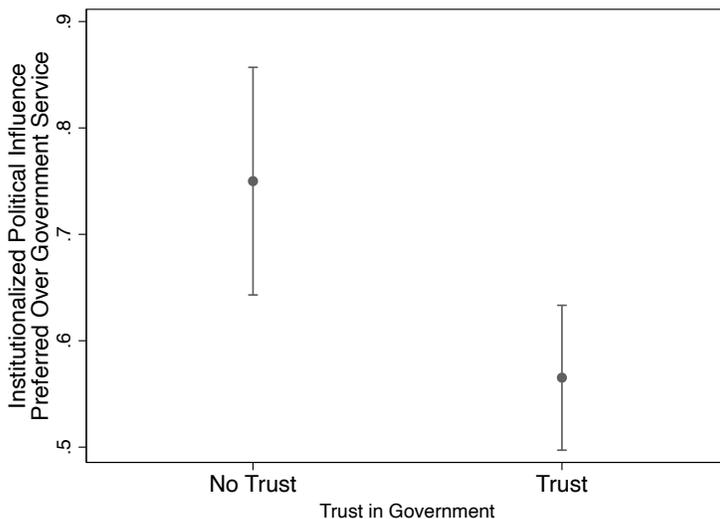
We expect rising economic elites to have grave concerns about state predation, particularly those who do not find government’s promises credible. Measuring the latter perception is challenging. Here we follow the lead of Levi (1998), who offers an extensive discussion on the relationship between credible commitment and trust in government:

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

“somewhat” or “strongly distrust.”

Building on this reasoning, we split the respondents in the business sample into two groups—those who trust the government and those who do not¹⁷—then investigate differences in their preferences for government services and IPI using the instrument employed in Figure 4. Results, reported in Figure 5, suggest that the proportion of Chinese elites who prefer political say over government services upon taxation is 18 points higher (and statistically significant at 95%) for those who express low levels of trust in government, consistent with the idea that IPI alleviates credibility issues of fiscal policy within the group that is most exposed to state predation.

Figure 5: Trust in Government and Preference for IPI among Business Elites



Note: This figure reports the proportion of trust- and no-trust business elites who prioritize IPI over government services. Estimates drawn from the screened samples: N = 64 for Elite + No trust, and N = 208 for Elite + Trust. The bars indicate 95% CI.

5.2 Tax Burden Awareness

Ordinary citizens often underestimate the tax burden of automated and consumption taxes such as contributions, sales tax, and the VAT (Chetty, Looney and Kroft, 2009). In the United States, cognitive biases have political ramifications: Elected politicians take

¹⁷See fn. 16 for measurement of trust in the survey.

advantage of low-salience local taxes to dodge electoral accountability (Cabral and Hoxby, 2012; Finkelstein, 2009).

Building on this literature, we conjecture that having some understanding of the tax burden is necessary to activate the taxation–representation connection. We evaluate this claim by examining results in light of levels of tax awareness. To begin, our data suggest that business elites are indeed more familiar with the tax system than ordinary citizens. For instance, our data show that roughly 80% of our business elites stated that they have paid an income tax for five or more years relative to 60% of nonelites.

Differences in tax awareness are even greater when we examine indirect taxation. The VAT is not explicitly presented in the vast majority of consumer receipts in China despite being the largest in East Asia (17 percent rate). Consistent with the low-visibility of the VAT, Figure 6(a) shows that twice as many business elites are aware of the existence of the VAT than nonelites despite everybody pays this tax on a regular basis. We further examine the tax awareness mechanism by considering two additional analyses.

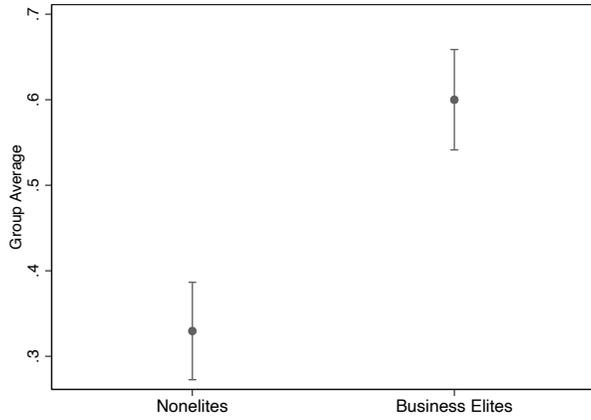
In Figure 6(b) we focus on elites and nonelites who score high on their VAT awareness and find that they have similar preferences. Notice that these estimates denote differences in AMCE, not the absolute values. The lack of statistical difference between both groups suggests that informed nonelites, although in the minority, show preference profiles similar to those of rising economic elites.

In Figure 6(c) we focus on ordinary citizens only and compare the estimates for respondents who are aware of the existence of the VAT vs. those who are not. The former group shows stronger preference for two of the four IPI values in the conjoint experiment—*Fiscal Transparency* and *Elections of Local Government*—than the latter group, with differences being statistically significant at 90 percent confidence ($p = 0.049$ and $p = 0.095$, two-tailed, respectively).

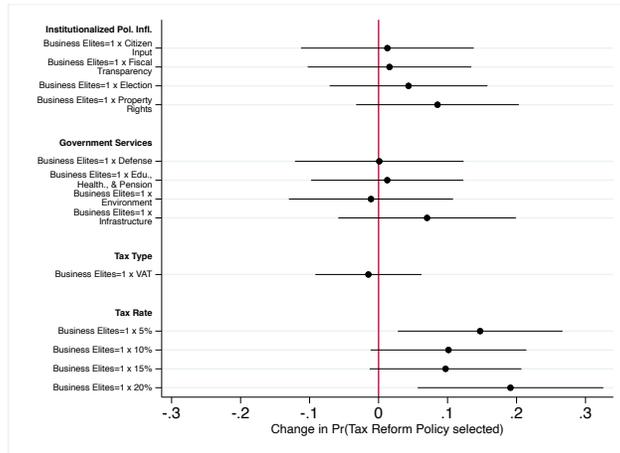
Together, Figures 6(b)–(c) offer suggestive evidence that an understanding of the tax burden and incidence, approximated by VAT awareness, sheds light on the elite–nonelite

Figure 6: Preference for IPI by VAT Awareness and Elite Status in China

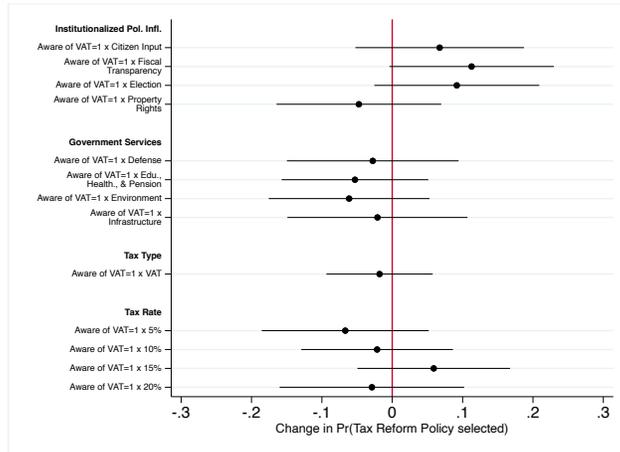
(a) VAT Awareness (Proportions)



(b) Differences between Aware elites and Aware nonelites



(c) Differences between Aware nonelite and Unaware Nonelite



Note: We ask respondents how often the VAT is levied on purchases. We transform the four-category response into a dummy variable: Never/Seldom (0, or “nonaware”) vs. Often/Always (1, or “aware”). In figure (a) we show the proportion of VAT awareness for business elites and nonelites; in figure (b) we compare elites and nonelites that score high in VAT awareness; and in figure (c) we compare nonelites who are aware and unaware of the VAT. Estimates in figures (b) and (c) follow the structure of Equation 1. Estimates are drawn from the screened samples. The bars indicate 95% CI.

differences in the IPI scores in the conjoint experiment. That is, tax literate nonelites forge preferences towards IPI similar to business elites.

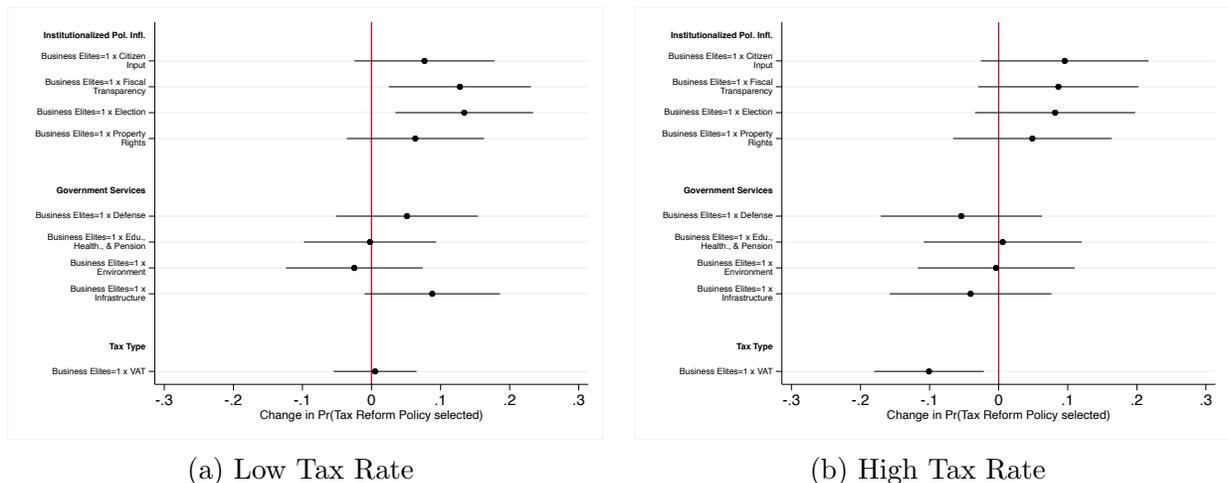
The awareness of tax burden may become more salient when the tax rate is high. When rates increase substantially, ordinary citizens might pay more attention to tax reform, potentially activating the taxation–representation connection (Prichard, 2015). We evaluate responses to different levels of tax rate in our conjoint estimation by dividing tax reforms into two groups: Those including a tax rate of 15 or 20 percentage points are listed under the *high tax rate* group; those including a tax rate of 1, 5, and 10 percent are listed under the *low tax rate* group.

We report the results of this exercise in Figures 7(a) and 7(b). An interesting pattern emerges: The elites–nonelites differences in preferences for IPI are more pronounced for lower tax rates. When the hypothetical tax rate is mild, business elites show stronger preference for *Fiscal Transparency* and *Elections* than ordinary citizens. The elite–nonelite differences grow smaller and lose statistical significance in Figure 7(b) when we focus on policy bundles including high tax rates only. These findings suggest that ordinary citizens may become more scrupulous in evaluating a tax reform when the proposed tax rates grow salient, confirming the importance of tax burden awareness.

5.3 Other Mechanisms

We explore two competing mechanisms that could explain the preference profile differences between elites and nonelites. Business elites may have access to better education/healthcare through private markets and/or have longer time horizons, enabling forward looking calculations embedded in the taxation–representation connection. We do not find supporting evidence of these mechanisms in our data. Although business elites show longer time horizons than nonelites, *patient* nonelites do not show stronger preference for IPI than *impatient* nonelites (refer to Appendix H.1). We do not find evidence either that satisfaction levels with a wide range of public goods and services explain different preferences for business

Figure 7: Differences in Conjoint Estimates between Business Elites and Ordinary Citizens for Tax Reforms with Low and High Tax Rates



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

elites and nonelites (details in Appendix H.2).

6 Conclusion

Is taxation still a thriving force motivating political representation? Despite mixed empirical support from recent studies, we contend that the taxation–representation connection remains a valid logic in nondemocratic regimes and especially so among business elites. Our argument builds upon a crucial but often overlooked scope condition in seminal studies of limited government: business elites are the main contender for political influence because they are disproportionately exposed to state predation.

Building on this insight, we design a survey experiment and recruit respondents into separate elite and nonelite samples. Our conjoint experiment lends compelling support to our hypothesis. The evidence in the mechanism section, although only suggestive, is consistent with the autocrat’s credibility issues pointed out in theories of democratization and with the

importance of tax burden awareness in activating the taxation–representation connection. In particular, nonelites in our data show, on average, weaker preference for IPI; however, we find that those who are more aware of the tax system exhibit preference profiles similar to those of the business community. This finding is consistent with the conclusions in Moore (2004) and Prichard (2015), among others, who suspect that low-salience taxes like tariffs and the VAT are at the bottom of autocratic rule in large parts of the developing world. At the same time, our findings resonate with the work of Paler (2013), who points out the key role of information in activating the taxation–representation connection among ordinary citizens.

Our empirical finding could be unique because of Chinese culture or the conjoint experimental design. We complement our main empirical analysis with a shadow test in Taiwan (reported in the Appendix I). Exploiting key differences and commonalities with Mainland China—different political regimes, but similar cultural legacies—we replicated the conjoint experiments with separate elite and nonelite samples in Taiwan. We found null results between taxation and IPI for both elites and nonelites, which is consistent with existing experimental research focusing on *already democratic* settings. Results for our shadow case confirm the scope conditions of the original fiscal bargain hypothesis: IPI demands are strong when rulers are unconstrained and have credibility issues. In democratic settings, we cannot expect individuals to demand policy concessions that are already in place, hence the importance of fine-tuning empirical designs to theoretical expectations. A promising avenue for further research could be exploiting a similar design in other industrializing autocracies, which will further enhance our understanding of the conditions under which preferences translate into action in the fiscal contract hypothesis.

This paper offers important implications for understanding the political dynamics of tax policy in China today. The Chinese government has been relying on indirect taxation (e.g., the VAT, consumption tax, and land conveyance fees) as the prime source of government funds over the last three decades. However, the growth of fiscal revenues has slowed down

significantly since 2012, and the Chinese government is likely to consider alternative sources of revenue in the future. Moreover, the Chinese government has avoided using tax policies as a lever to mitigate rising inequality in China. Taken together, future tax reforms in China may have to tackle both issues—together or separately—and address their political ramifications. For instance, recently the Chinese central government announced a five-year program of property-tax trials in urban China. The proposal faced significant resistance within the party and generated a chilling effect across the society, making real estate taxation a salient issue in urban China.¹⁸ It remains to be seen whether this tax reform (or others that will follow) will generate unintended political changes in the near future.

Last but not least, our analysis suggests that in drafting conditionality and policy prescription for the developing world, international financial institutions may consider the potential adverse effects on political accountability that highly efficient but low-salience taxes (e.g., VAT) may introduce into fragile democracies and autocratic polities. Tax reform that weakens citizens' understanding of the effective tax burden will do little to improve fiscal responsibility and accountability.

¹⁸See “In Tackling China’s Real-Estate Bubble, Xi Jinping Faces Resistance to Property-Tax Plan” ([WSJ.com](#)).

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****NOT FOR PUBLICATION****

Supplementary Online Appendices

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

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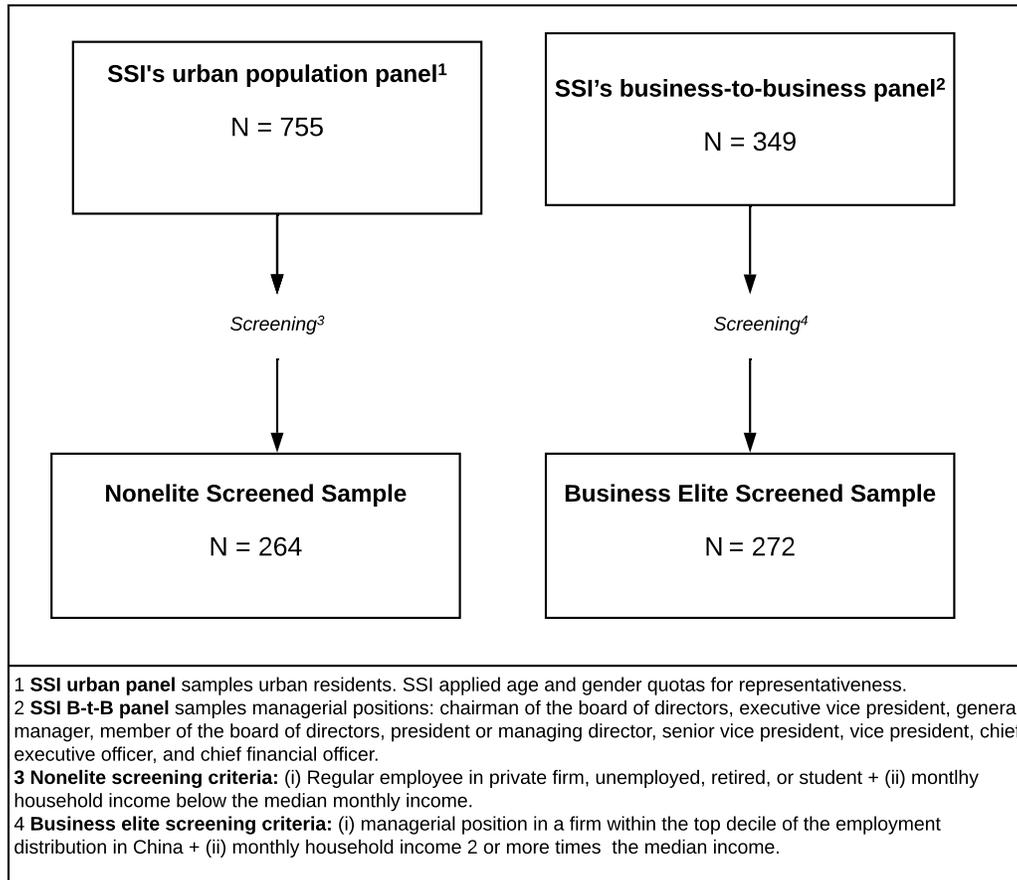
A Preregistration

The surveys for this manuscript were designed in 2016 and implemented in 2017. Since then we have learned the benefits of preregistration. In this manuscript, we try to be as transparent as possible about our coding decisions. We would be happy to address any questions or clarifications about the data, coding, and modeling.

B Business and Nonelite Samples

Figure A-1 describes how we screened our original samples.

Figure A-1: Original and Screened Samples



C Data Descriptives

Tables A-1 and A-2 report descriptive statistics for the original samples and the screened samples for business elites and nonelites, respectively.

Table A-1: Summary statistics (Business Elite Sample)

<i>Variable</i>	Original Elite Sample					Screened Elite Sample				
	<i>Mean</i>	<i>Std.Dev.</i>	<i>Min</i>	<i>Max</i>	<i>N</i>	<i>Mean</i>	<i>Std.Dev.</i>	<i>Min</i>	<i>Max</i>	<i>N</i>
Choice	0.54	0.499	0	1	346	0.507	0.501	0	1	270
Tax Conception [†]	0.605	0.49	0	1	347	0.609	0.489	0	1	271
Trust in Government	0.749	0.434	0	1	347	0.765	0.425	0	1	272
Time Horizon	0.556	0.498	0	1	347	0.515	0.501	0	1	272
Years paying Income Tax (Categorical)	4.049	0.948	1	5	346	4.115	0.903	1	5	270
Awareness of VAT existence	2.723	0.822	1	4	346	2.737	0.832	1	4	270
Satisfaction with Education	0.683	0.466	0	1	344	0.674	0.47	0	1	270
Satisfaction with Health Care	0.589	0.493	0	1	341	0.631	0.484	0	1	268
Satisfaction with Infrastructure	0.85	0.358	0	1	340	0.829	0.377	0	1	263
Satisfaction with Environment	0.64	0.481	0	1	344	0.637	0.482	0	1	270
Male	0.646	0.479	0	1	347	0.662	0.474	0	1	272
Age	35.487	6.903	20	59	347	36.331	7.652	20	61	272
Married	0.962	0.19	0	1	346	0.967	0.18	0	1	270
CCP Member	0.321	0.467	0	1	346	0.322	0.468	0	1	270
Income (Categorical)	9.779	2.421	4	14	346	10.515	2.089	8	14	270
Education (Categorical)	6.228	0.656	4	8	347	6.301	0.647	4	8	272

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

Note: In screening the business elite sample, we restricted the B-t-B SSI sample to respondents who (i) are owners or managers of firms hiring 50+ individuals—the threshold above which are the top 10% largest firms in China—and (ii) whose monthly household income is at least RMB15,001. Why this threshold? According to the National Bureau of Statistics in China, the median annual disposable income for an urban resident is 33,834 RMB. We assume the household income reported by our respondents derives from two wage earners. Hence, the median for an urban resident’s monthly disposable income is around 5,639RMB. Thus our business elites’ household income is approximately three times larger than the median urban household income in China. For more details about the raw data from the National Bureau of Statistics in China, see http://www.stats.gov.cn/tjsj/zxfb/201801/t20180118_1574931.html (last accessed: March 18, 2018).

Table A-2: Summary statistics (Nonelite Sample)

<i>Variable</i>	Original Nonelite Sample					Screened Nonelite Sample				
	<i>Mean</i>	<i>Std.Dev.</i>	<i>Min</i>	<i>Max</i>	<i>N</i>	<i>Mean</i>	<i>Std.Dev.</i>	<i>Min</i>	<i>Max</i>	<i>N</i>
Choice	0.536	0.499	0	1	701	0.565	0.497	0	1	262
Tax Conception [†]	0.497	0.5	0	1	714	0.443	0.498	0	1	264
Trust in Government	0.671	0.47	0	1	730	0.625	0.485	0	1	264
Time Horizon	0.65	0.477	0	1	732	0.64	0.481	0	1	264
Years paying Income Tax (Categorical)	3.814	1.352	1	5	714	3.629	1.512	1	5	264
Awareness of VAT existence	2.352	0.925	1	4	711	2.246	0.941	1	4	264
Satisfaction with Education	0.61	0.488	0	1	712	0.648	0.479	0	1	264
Satisfaction with Health Care	0.465	0.499	0	1	714	0.504	0.501	0	1	262
Satisfaction with Infrastructure	0.833	0.373	0	1	713	0.837	0.371	0	1	263
Satisfaction with Environment	0.53	0.499	0	1	711	0.546	0.499	0	1	260
Male	0.523	0.5	0	1	755	0.473	0.5	0	1	264
Age	39.095	13.089	19	72	755	39.182	14.664	19	72	264
Married	0.777	0.416	0	1	709	0.686	0.465	0	1	264
CCP Member	0.305	0.461	0	1	709	0.269	0.444	0	1	264
Income (Categorical)	7.296	2.138	1	14	705	5.841	1.188	1	7	264
Education (Categorical)	5.71	0.756	3	8	755	5.549	0.778	4	7	264

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

Note: The original SSI nonelite sample was designed with a quota system to enhance representation. The breakdown of the age and gender quota is as follows: aged 18-24: 19% aged 25-34: 22%; aged 35-44: 23%; aged 45-54: 21%; aged 55+: 16%; Male: 51%; Female: 49%. These quotas were based on the 2010 China Census for the urban population, the most recent census. We adjust the quotas slightly at the end of data collection because it was extremely difficult to fully fulfill the quota for the 55+ age groups in China.

D Conjoint Experiment: Implementation Details

In this section, we show a real screenshot of a randomly generated paired comparison in the conjoint analysis and the Chinese translation of all values in the conjoint experiment.

Figure A-2: Conjoint Analysis in China

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

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

请选择

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

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

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

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

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

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

Table A-3: Policy Dimensions and Values for the Tax Reform Conjoint Experiment in Chinese translation.

E Conjoint Experiment in Regression Format

In Tables A-4 and A-5 we report results in Figures 2 and 3 in the main text, respectively, in regression format.

Table A-4: Main Conjoint Experiment by Elite Status

	Business Elites		Nonelites	
	(1)	(2)	(3)	(4)
Institutionalized Pol. Infl.: Citizen Input	0.155*** (0.029)	0.153*** (0.030)	0.069** (0.029)	0.071** (0.029)
Institutionalized Pol. Infl.: Fiscal Transparency	0.182*** (0.028)	0.183*** (0.028)	0.069** (0.028)	0.069** (0.029)
Institutionalized Pol. Infl.: Election	0.100*** (0.028)	0.096*** (0.029)	-0.019 (0.030)	-0.019 (0.030)
Institutionalized Pol. Infl.: Property Rights	0.137*** (0.027)	0.136*** (0.028)	0.072** (0.028)	0.072** (0.028)
Government Service: Defense	0.112*** (0.028)	0.115*** (0.029)	0.105*** (0.029)	0.106*** (0.030)
Government Service: Public Goods & Services	0.289*** (0.029)	0.295*** (0.029)	0.287*** (0.026)	0.288*** (0.026)
Government Service: Environment	0.162*** (0.029)	0.160*** (0.030)	0.177*** (0.027)	0.177*** (0.028)
Government Service: Infrastructure	0.238*** (0.027)	0.241*** (0.027)	0.197*** (0.030)	0.198*** (0.030)
Type of tax reform: VAT	0.018 (0.017)	0.018 (0.017)	0.052*** (0.017)	0.053*** (0.017)
Marginal Rates: 5%	-0.040 (0.027)	-0.043 (0.027)	-0.118*** (0.028)	-0.118*** (0.029)
Marginal Rates: 10%	-0.100*** (0.028)	-0.101*** (0.029)	-0.157*** (0.027)	-0.158*** (0.027)
Marginal Rates: 15%	-0.183*** (0.028)	-0.188*** (0.028)	-0.294*** (0.027)	-0.295*** (0.028)
Marginal Rates: 20%	-0.231*** (0.031)	-0.234*** (0.032)	-0.381*** (0.031)	-0.383*** (0.031)
N	3,240	3,144	3,144	3,144
Socio-Economic Controls	No	Yes	No	Yes
R-squared	0.089	0.090	0.120	0.121

Note: Estimates drawn from screened samples of business elites and nonelites. Constant not reported. Socio-economic controls are: Gender, age, education, marital status, and monthly household income. Cluster standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table A-5: Main Conjoint Experiment with Elite Status Interaction

	(1)	(2)
Business Elites	-0.145*** (0.047)	-0.190*** (0.066)
Institutionalized Pol. Infl.: Citizen Input	0.069** (0.029)	0.071** (0.029)
Institutionalized Pol. Infl.: Fiscal Transparency	0.069** (0.028)	0.069** (0.029)
Institutionalized Pol. Infl.: Election	-0.019 (0.030)	-0.019 (0.030)
Institutionalized Pol. Infl.: Property Rights	0.072** (0.028)	0.072** (0.028)
Business Elites × IPI: Citizen Input	0.085** (0.041)	0.082** (0.041)
Business Elites × IPI: Fiscal Transparency	0.114*** (0.040)	0.114*** (0.040)
Business Elites × IPI: Election	0.118*** (0.041)	0.115*** (0.041)
Business Elites × IPI: Property Rights	0.065* (0.039)	0.064 (0.039)
Government Service: Defense	0.105*** (0.029)	0.106*** (0.030)
Government Service: Public Goods & Services	0.287*** (0.026)	0.288*** (0.026)
Government Service: Environment	0.177*** (0.027)	0.178*** (0.028)
Government Service: Infrastructure	0.197*** (0.030)	0.198*** (0.030)
Business Elites × Government Service: Defense	0.007 (0.041)	0.008 (0.042)
Business Elites × Government Service: Pub. Goods & Services	0.002 (0.038)	0.007 (0.039)
Business Elites × Government Service: Environment	-0.015 (0.040)	-0.019 (0.040)
Business Elites × Government Service: Infrastructure	0.041 (0.040)	0.043 (0.040)
Type of tax reform: VAT	0.052*** (0.017)	0.052*** (0.017)
Business Elites × Type of tax reform: VAT	-0.034 (0.024)	-0.035 (0.024)
Marginal Rates: 5%	-0.118*** (0.028)	-0.118*** (0.029)
Marginal Rates: 10%	-0.157*** (0.027)	-0.158*** (0.027)
Marginal Rates: 15%	-0.294*** (0.027)	-0.295*** (0.028)
Marginal Rates: 20%	-0.381*** (0.031)	-0.383*** (0.031)
Business Elites × Marginal rate: 5%	0.078** (0.039)	0.075* (0.040)
Business Elites × Marginal rate: 10%	0.057 (0.039)	0.058 (0.039)
Business Elites × Marginal rate: 15%	0.111*** (0.039)	0.107*** (0.039)
Business Elites × Marginal rate: 20%	0.150*** (0.044)	0.149*** (0.045)
N	6,384	6,288
Socio-Economic Controls	No	Yes
R-squared	0.104	0.105

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

F Analysis with Alternative Screening Criteria and Original Samples

F.1 Stricter Screening

Here we change the definition of business elites by elevating the threshold to select respondents working at firms in the top 5% and top 1% employment distribution. The number of rising elite observations changes as follows:

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

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

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

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

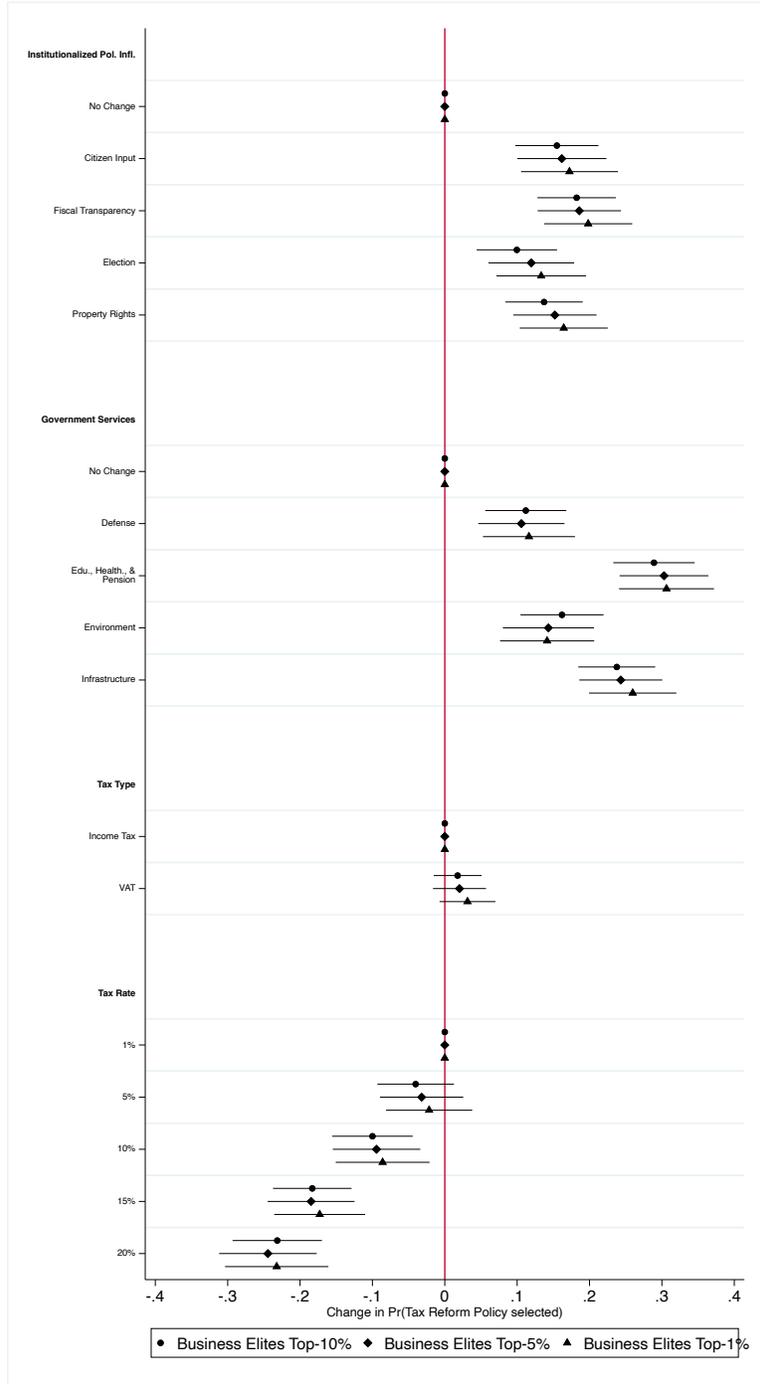
Figure A-3 plots undifferentiated AMCE when we restrict rising economic elite status to belonging to the 5% largest and 1% largest firms in China. Results are virtually identical for the three definitions.

F.2 Conjoint Experiment with Original Samples

In Figure 3 in the main text we report differences in conjoint estimates by elite and nonelites status. Figure A-4 below reports the analysis of elite and nonelite samples without applying any screening criteria (i.e., the original SSI samples).

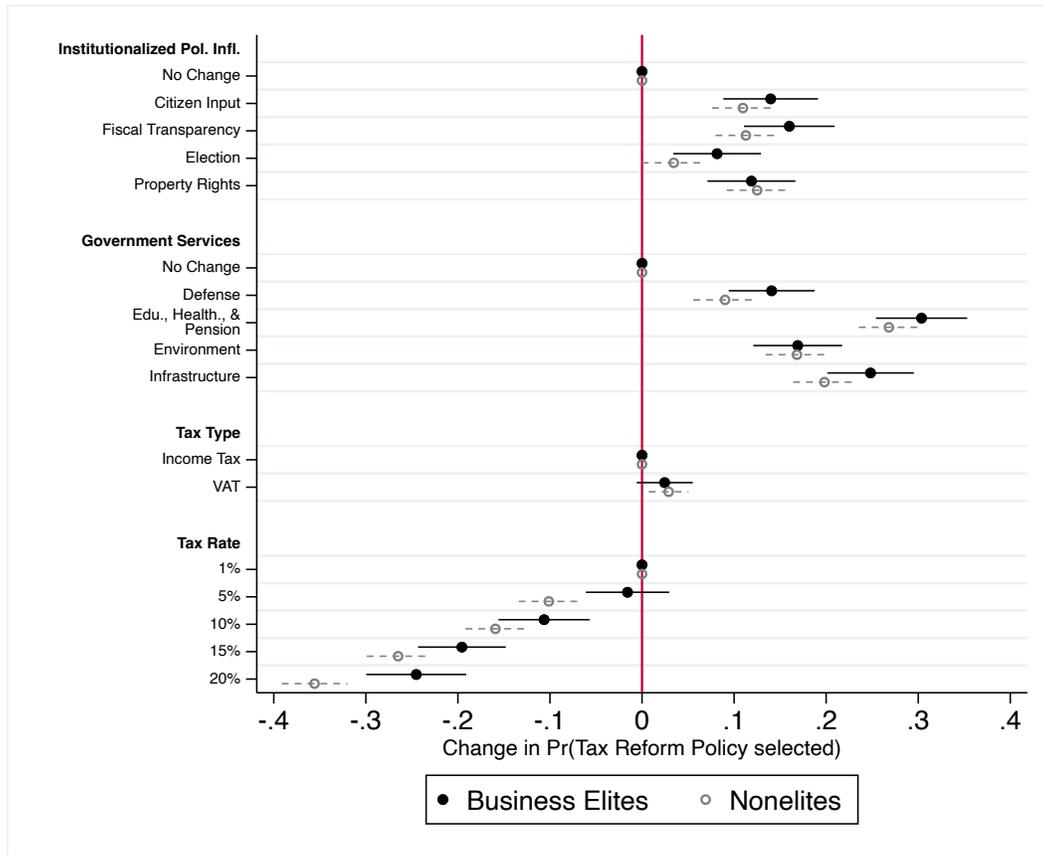
In Figure A-4 we still observe that respondents from the elite sample have strong demands for IPI than nonelites, but the differences in point estimates are smaller, largely because some of the respondents in either sample cannot be qualified as business elites and nonelites due to their social economic stratus. Specifically, some respondents in our nonelite sample are high income earners while other respondents in the elite sample reported low income or small business characteristics.

Figure A-3: Conjoint Experiment with Stricter Definition of Rising Elite: Top 10%, 5%, and 1% firms, measured by total employees



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

Figure A-4: Conjoint Analysis Using Unscreened Sample



Note: This plot shows differences in AMCE by original elite and nonelites samples without imposing any screening criteria. The bars indicate 95% confidence intervals.

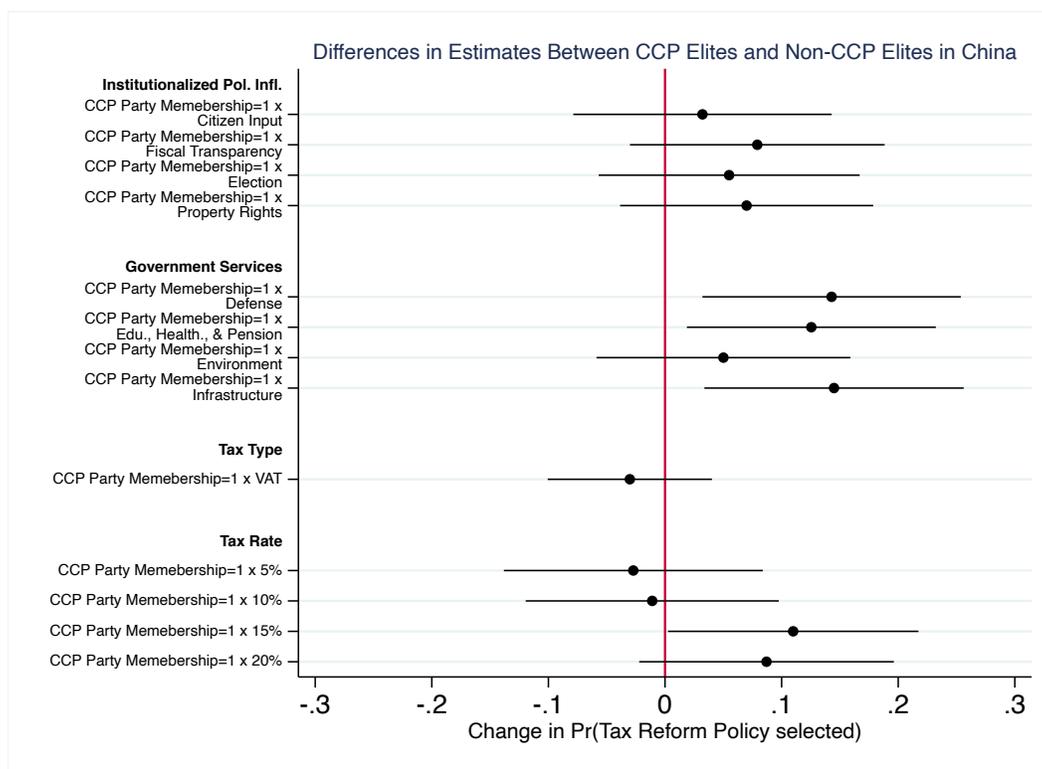
G Conjoint Experiment: Robustness Checks

G.1 Cooptation and Party Membership

If businessmen and women are captured by the state, their inclusion should attenuate differences between business elites and nonelites. But we still found significant differences in point estimates in the main analysis. Here we run two additional analyses by focusing on CCP party members:

First, Figure A-5 shows differences in AMCE by CCP membership within the business elite sample following Expression 1 in the main text. IPI coefficients do not change in any systematic change by party membership and if any, they move against the notion that CCP membership fully solves credibility issues.

Figure A-5: Conjoint Analysis by CCP membership China

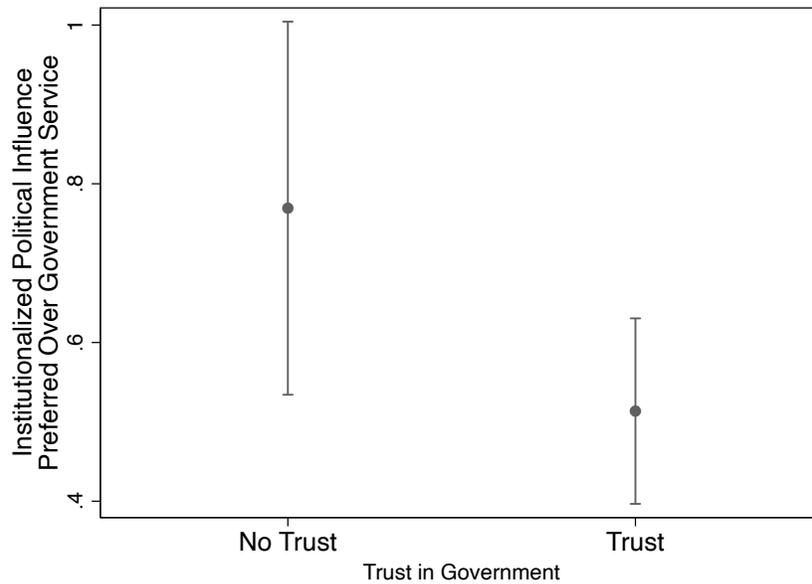


Note: This plot shows differences in AMCE by CCP membership within the business elite sample in China. IPI coefficients do not change in any systematic change by party membership and if any it moves against the notion that CCP membership fully solves credibility issues. Estimates are drawn from the screened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

Second, Figure A-6 shows that business elites who are also CCP members but distrust the government express stronger preference for political say following a hypothetical tax increase (Please refer to the section *Direct Question* in the main text for the logic of this test). The

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

Figure A-6: CCP Membership, Trust, and Political Say Among Business Elites in China

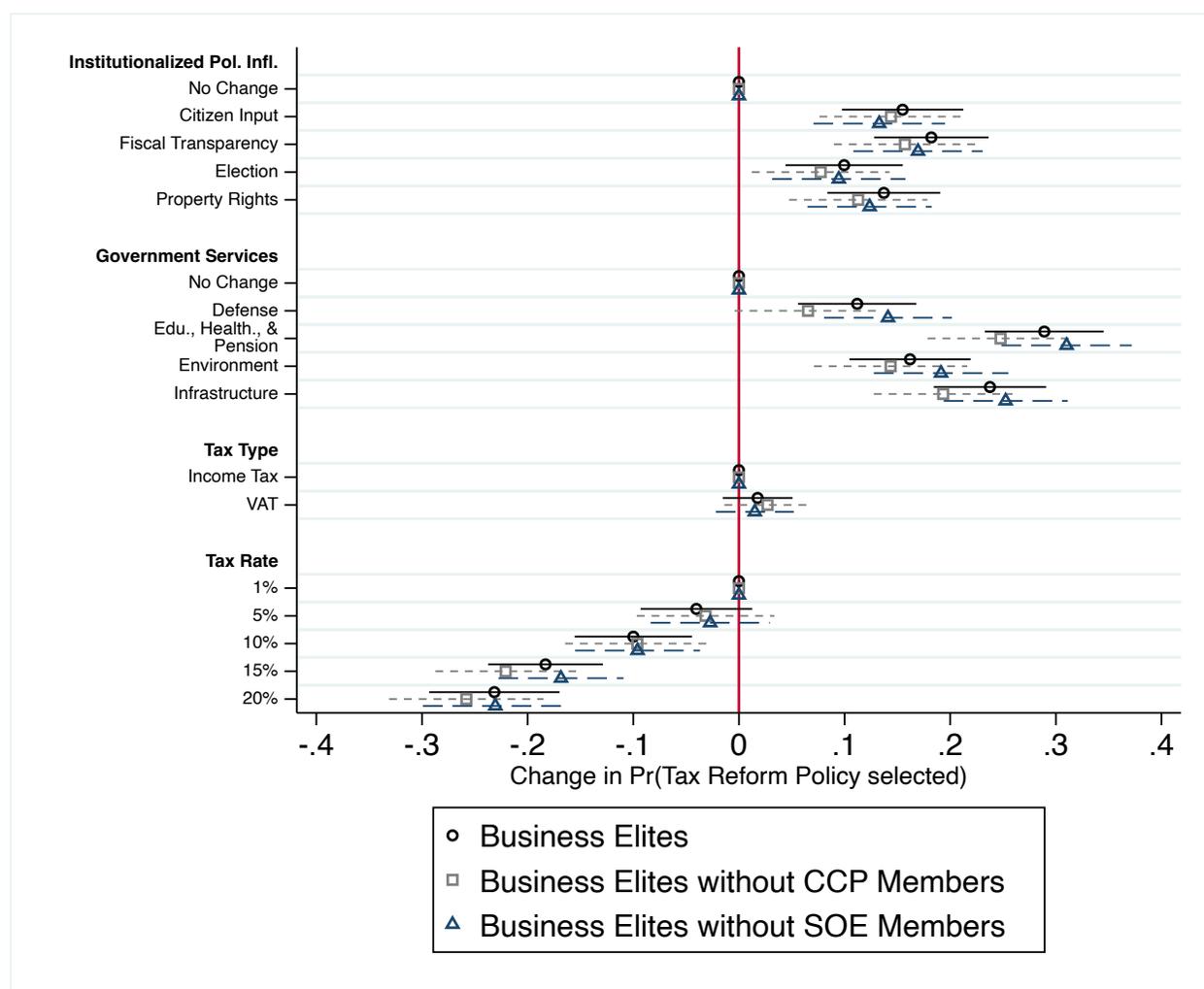


Note: This figure reports the proportion of business elites who are CCP members who prioritize IPI if tax burden increases (relative to those who prioritize government services) by levels of trust in the government. The group difference is of 0.256 points (p-value = 0.056, two-tailed). We measure trust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

G.2 Excluding SOE and CCP respondents in the Business Sample

In Figure A-7, we report additional results with different definitions of business elites. Specifically, we exclude respondents in the elite sample working in an SOE or are CCP members. The point estimates of conjoint analysis using different elite samples are virtually indistinguishable from those reported in Figure 2 in the main text. In the interest of statistical power, we keep SOE and CCP respondents in the elite sample for the main analysis.

Figure A-7: Conjoint Analysis Without CCP and SOE Members

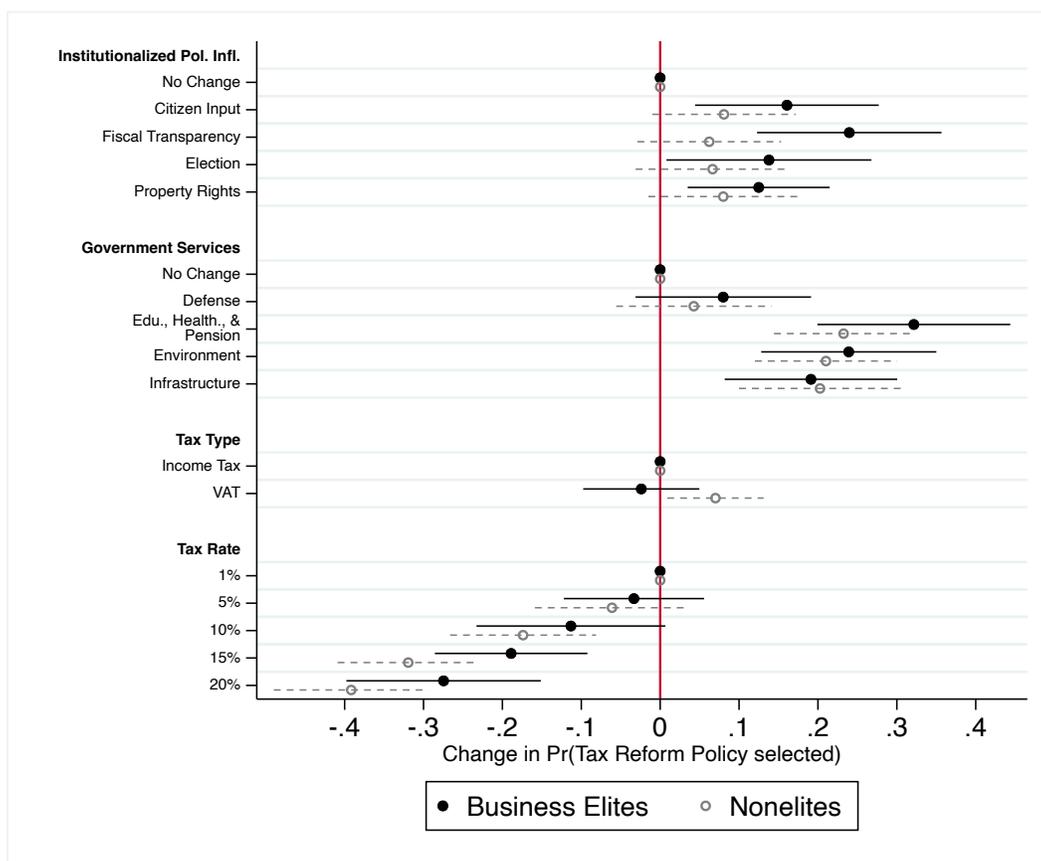


Note: This plot shows differences in AMCE by various definitions of business elite. Estimates are drawn from the screened sample. IPI coefficients do not change in any systematic change by definitions of elites samples. The bars indicate 95% confidence intervals.

G.3 Social Desirability

We focus on respondents who indicated that they do not trust the government in the conjoint analysis below. The underlying assumption is that if a respondent openly stated that they do not trust the government, it is unlikely they would falsify their preferences in the conjoint experiment. In our data, we have only 64 elites and 99 nonelites who indicated no trust toward the government, but our main findings still hold: the AMCE point estimates for business elites are positive for all IPI values, but indistinguishable from zero for nonelites.

Figure A-8: Conjoint Analysis



Note: This plot shows differences in AMCE by business elites and nonelite who reported that they did not trust the government. The bars indicate 95% confidence intervals.

H Two Additional Tests for Elite–Nonelite Differences

H.1 Time Horizons

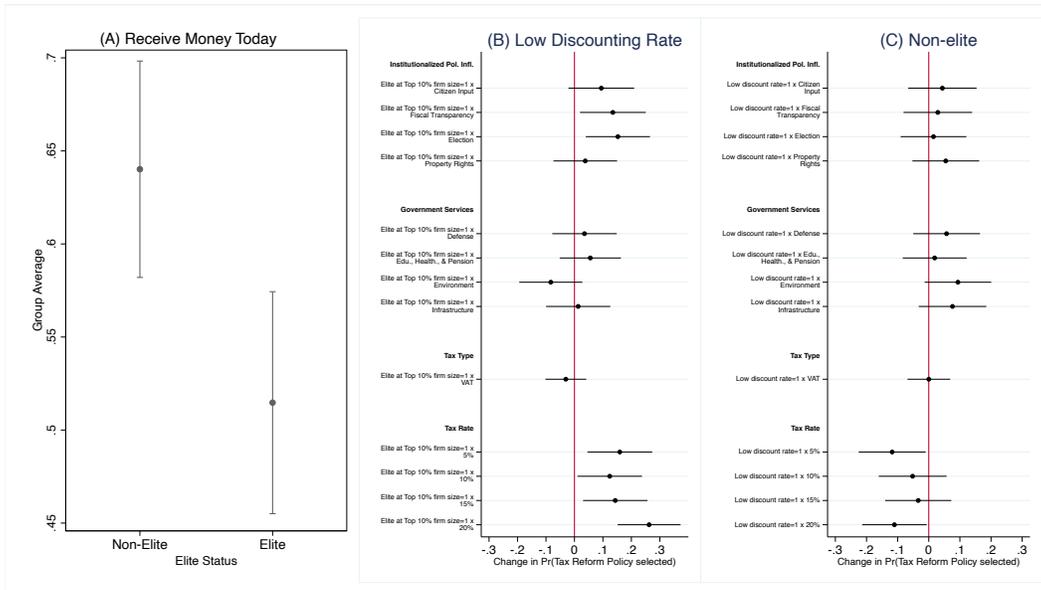
Levi (1988) argues that quasivoluntary tax compliance ensues when rulers and taxpayers have long time horizons. Nonelites might have shorter time horizons given, primarily, their worse economic circumstances relative to economic elites. Members of low income households might not be able to afford the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

Following our conjoint experiment, we solicit respondents’ time horizon by asking them to choose between receiving, hypothetically, the equivalent to \$100 today (shorter time horizon) or \$200 in one year (longer time horizon). We run a series of subset analyses:

Figure A-9(A) shows that nonelites have shorter time horizons than economic elites. Consistently, the data also show that a higher share of nonelite respondents live in households that failed to thrive in the past five years.¹⁹ The discount factor, however, does not seem to be the driving factor in the differences between elites and nonelites’ preferences. Figure A-9(B) shows that the preference for IPI for nonelites with long time horizons is still significantly lower than that for business elites. Similarly, Figure A-9(C) indicates that the preference for IPI among nonelites does not change for different time horizons.

¹⁹For household economic situation, we asked respondents whether compared to five years ago, their household’s economic situation had *Much Declined* (value 1) to *Much Improved* (value 5). The average value for elites is 4.46 and for nonelites 3.77, the difference significant at 99%.

Figure A-9: Conjoint Analysis by Time Horizon and Elite Status in China

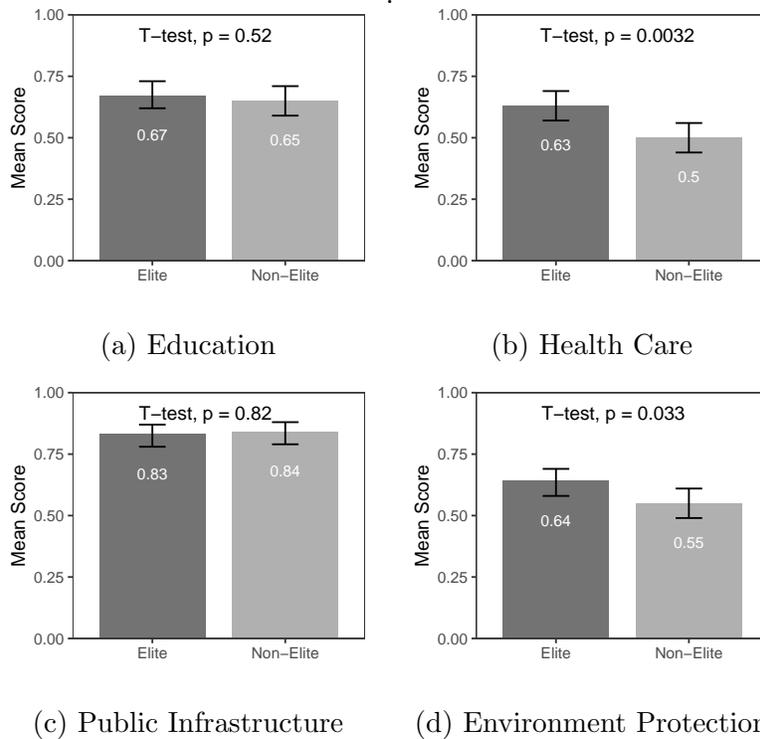


Note: We ask respondents to choose, in the abstract, one of two options: Receiving the equivalent to \$100 today (value 1, shorter time horizon) or \$200 one year from today (value 0, longer time horizon). Plot (A) shows the group proportions. Plot (B) shows across group differences for respondents with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

H.2 Satisfaction with Public Goods

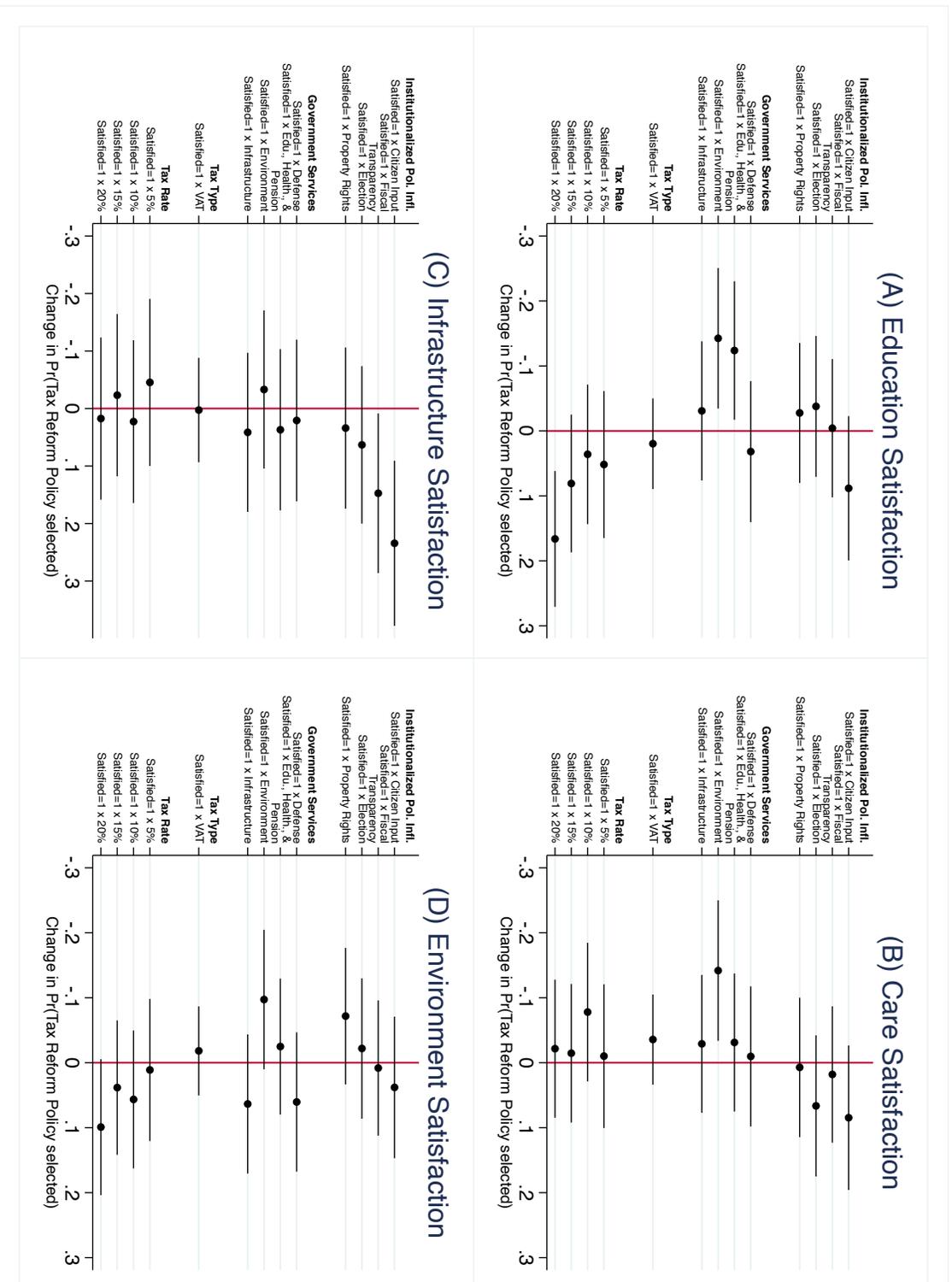
Figure A-10 shows the proportion of Chinese respondents satisfied with public education, health care, infrastructure, and the environment by economic status. First, we find that the level of satisfaction with education and infrastructure is statistically indistinguishable between elites and nonelites in China. Meanwhile, elites are more satisfied in healthcare and environment than nonelites by 12 and 9 percentage points, respectively. However, in Figure A-11 we do not find that greater satisfaction with healthcare and environment protection increases elites' preference for IPI.

Figure A-10: Satisfaction with Government Services Goods in China by Elite Status



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

Figure A-11: Conjoint Analysis by Satisfaction with Public Goods for Rising Economic Elites



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

I Experiment Replication in Taiwan

We replicate our conjoint experiment in a different setting: Taiwan. The replication was motivated by two considerations. First, individual preferences between groups may be shaped by additional factors, such as ethnic fragmentation and culture. Both China and Taiwan exhibit ethnic homogeneity with majority Han populations;²⁰ furthermore, both societies are strongly influenced by Confucianism, emphasizing education and respect for authority.

Second, our theoretical argument suggests that preference for IPI derived from taxation is stronger in autocracies. Given that Taiwan has electoral competition at different levels of government and better transparency than China, we expect demand for IPI to be weakened in Taiwan at time of tax reform, *ceteris paribus*. More importantly, business elites may not have stronger demand for political influence than nonelites, largely because business elites do not want to dilute their access to political power.

Arguably, China and Taiwan differ in dimensions other than the aforementioned factors, such as the history of colonization and political development, political status in the international system, identity politics, and the size of jurisdiction. Although these factors may explain some differences in the observed preferences across regimes, they cannot account for the within-regime elite–nonelite differences in the relative preference for IPI, key to the economic context scope condition.

I.1 Sampling Strategy

We commissioned SSI, the same firm for our China experiment, to carry out an identical conjoint experiment in Taiwan in fall of 2017. Similar to our recruiting strategy in China, we recruit business elites and ordinary citizens from two sampling pools. For the elite sample we recruited 106 business elites in Taiwan from the business-to-business panel of the SSI. These individuals hold top-level management positions: chairman of the board of directors, executive vice president, general manager, member of the board of directors, president or managing director, senior vice president, vice president, chief executive officer, and chief financial officer. The response rates was 35% in Taiwan. For the nonelite sample, we sample respondents from urban districts in Taiwan ($N = 718$). We employed quota sampling based on age and gender.

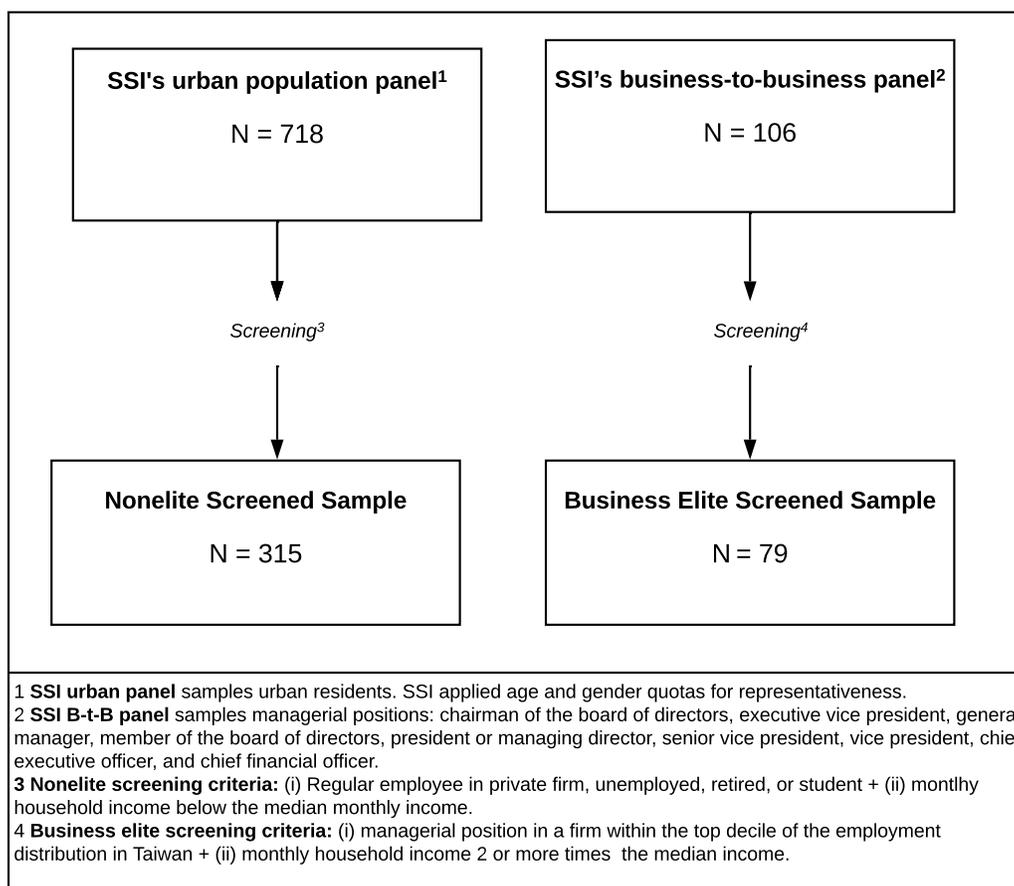
We impose additional screening criteria on the original SSI samples for our data analysis so that the definitions of business elites and nonelites are consistent in both China and Taiwan.

²⁰Identity politics in Taiwan is not fundamentally driven by ethnic identity but by position on the China–Taiwan relationship (Chu, 2004).

Again, we declare our respondents part of the business elite if they own or occupy managerial positions in *major* firms with an employment size in the top 10% decile,²¹ and if their monthly household income is at least twice the median income.²² After the two screening criteria were applied, the resulting rising economic elite sample includes 79 respondents in Taiwan.

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

Figure A-12: Original and Screened Samples



²¹Taiwan's economy consists primarily of small and medium-sized firms. According to the Directorate General of Budget Accounting and Statistics in Taiwan, the median firm size in Taiwan is under 5 employees. Taiwan firms are classified in the top 10% if they have 10+ employees.

²²Median household income is around TWD40,612 (Taiwan).

I.2 Design

We employed the exact same conjoint experiment design in Taiwan as in China. In below for the translation of the attribute values and a screenshot of the conjoint experiment in Taiwan. Note that the wording of some conjoint attributes are slightly different so that they are consistent with the ways Taiwanese speak.

Note that our attribute, *elect the district government executive*, enables responsiveness to the constituents' demands via electoral accountability in both settings. The design of this value takes into account the differences in the electoral systems: Both China and Taiwan hold direct elections of village chiefs in rural areas, but Chinese citizens in urban areas can elect only representatives to local legislatures, not government executives (e.g., district heads, mayors, governors). Taiwanese citizens can directly elect mayors in urban districts, but not the executive of district governments, who are appointed by the municipal government. In other words the district executive is not chosen by direct election in either China or Taiwan; thus our attribute value in the conjoint experiment concerning the election of the district government executive is a meaningful political reform for greater representation in both societies.

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

Table A-6: Translated Policy Dimensions and Values for the Tax Reform Conjoint Experiment for Taiwan Respondents).

Figure A-13: Conjoint Analysis in Taiwan

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

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

請選擇

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

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

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

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

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

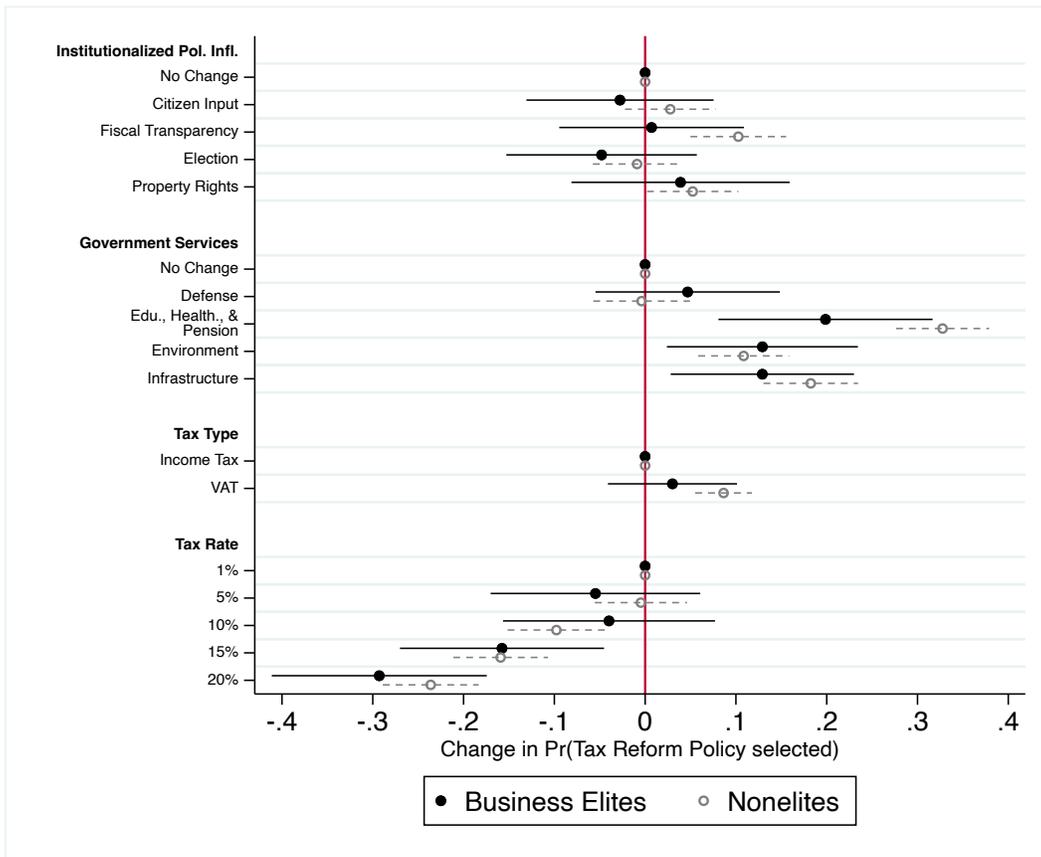
I.3 Main Results

In Figure A-14 below, we report the conjoint experiment results in Taiwan. Two patterns in this figure worth noting. First, we do not find evidence that business elites have strong demand for IPI than nonelites in Taiwan. The point estimates of values for IPI are small for both business elite and nonelites, and the differences are not statistically significant. The only exception is *Fiscal Transparency*, where Taiwanese nonelites have slightly stronger demand than business elites.

Second, we found both elites and nonelites have strong demand for different kinds of government services in Taiwan, with the exception of *Defense*. The point estimates are for different values of *Government Services* are larger and statistically significant. Moreover, we found both elites-nonelites differences in point estimates are small and statistically insignificant.

Our finding for the conjoint experiment in Taiwan is consistent with the null or weak results in recent studies (de la Cuesta et al., 2019; Paler, 2013). We show that demand for IPI is general weak in *already* democratic regimes, confirming the scope condition for the taxation–representation link highlighted in our Section 2.

Figure A-14: Conjoint Analysis in Taiwan



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