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Article — Published Version

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International Social Security Review

Provided in Cooperation with:

John Wiley & Sons

Suggested Citation: Burchi, Francesco; von Schiller, Armin; Strupat, Christoph (2020) : Social protection and revenue collection: How they can jointly contribute to strengthening social cohesion, International Social Security Review, ISSN 1468-246X, Wiley, Hoboken, NJ, Vol. 73, Iss. 3, pp. 13-32, <https://doi.org/10.1111/issr.12243>

This Version is available at:

<https://hdl.handle.net/10419/233710>

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Social protection and revenue collection: How they can jointly contribute to strengthening social cohesion

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Abstract Social protection and revenue collection are often regarded as potential drivers of social cohesion. The article joins this debate, providing three main contributions. First, we carefully discuss the concept of social cohesion and endorse one specific definition. Second, we propose using the concept of the “fiscal contract” as the key theoretical lens to understand the often neglected potential joint effects of social protection and revenue collection policies on social cohesion. Third, we illustrate three main mechanisms through which these policies can have positive or negative impacts on the different components of social cohesion and highlight the relevance of these for policy-makers deliberations.

Keywords social cohesion, social protection, collection of contributions, fiscal policy, public finance, taxation, international

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This article draws upon the DIE-GDI briefing paper entitled *Revenue collection and social policies: Their underestimated contribution to social cohesion* (Burchi, Strupat and von Schiller, 2020).

Open access funding enabled and organized by Projekt DEAL.

Introduction

Over recent years, societies around the world have been increasingly under pressure as they face multiple challenges arising out of international trends, such as international migration; climate change and environmental degradation; health crises, such as the current COVID-19 pandemic; ageing of the population; and rising income inequality. In this context, the concept of social cohesion, understood as an important driver of stability, peace and economic success (Easterly, Ritzan and Woolcock, 2006; African Development Bank, 2015; Dhéret, 2015), has attracted attention in the policy and academic debate. Policy-makers and academics have tried to understand the meaning and measure the degree of social cohesion in societies, as well as evaluate changes in its levels as a consequence of international trends. There is wide agreement that social cohesion is paramount to cope more effectively with the pressures emanating from these societal changes and to do so without generating major social conflicts.

Still, we know surprisingly little about social cohesion. In particular, there is a lack of consensus on what social cohesion actually is, and which policies can contribute to enhance it (Schiefer and van der Noll, 2017). At the same time, there are increasing expectations that social policies, in particular social protection policies, should contribute to enhance social cohesion (Evans et al., 2019; Valli et al., 2019; Koehler, forthcoming), though this is rarely mentioned as one of their primary objectives.¹ In most cases, these policies, such as those concerning social protection and revenue collection, are traditionally geared towards other outcomes. Nonetheless, researchers and policy-makers are increasingly certain that there are effects on social cohesion that should not be ignored. Accordingly, the question of how to maximize the potential positive effects of social policies on social cohesion, as well as how to minimize the risks of potential negative ones, is of central importance for researchers and practitioners.

In this article, which contributes to this special issue on social security, inclusive growth and social cohesion, we take a sectoral perspective and look at the social cohesion enhancing potential of social and revenue collection policies. We discuss in detail how, in the interaction between these policy sectors, there is great potential to increase social cohesion. However, this potential is often not

1. Based on the definition provided by UNRISD, in this article the term “social policy” means “public interventions that aim to guarantee adequate and secure livelihoods, income and well-being, and that enable all individuals to strive for their own life goals”. Social policies include social protection, education, health and labour market policies. In this article we more often refer to social policies, however, social protection is an important sub-set of social policies, especially in developing countries.

fully realized due to being addressed from a too narrow analytical perspective, from either the revenue collection or expenditure side of the budget.

Revenue mobilization and social policies are intrinsically intertwined. It is impossible to consider either of these policy fields independently of the other. Without sufficient domestic revenue, more ambitious social policies that enable countries to reach international goals, such as those of the United Nations 2030 Sustainable Development Goals agenda, cannot be achieved. Donors can help in financing social policies, but these will not be sustainable – neither technically nor politically – if, in the long run, the financing of these systems is not based on own-generated revenue. This is especially a problem in sub-Saharan Africa, where social safety nets are predominantly – and in countries such as the Central African Republic and the Democratic Republic of Congo, entirely – financed by donors. Indeed, in their analysis on Africa, Beegle et al. (2018, p. 35) find that:

On average, governments finance 46 per cent of program spending, development partners cover the other 54 per cent The share of development partners is higher in lower-income countries, in fragile and conflict-affected states, and in humanitarian crises. Given the fiscal constraints facing many governments, development partner support is likely to be crucial for bringing programs to scale in most countries.

In the short term, donors will continue to play a central role in financing the social system. The question is how to change these dynamics in the long run. In this regard, increasing the acceptance of citizens to pay taxes and fees, thereby strengthening revenue collection, is crucial. This outcome will hinge upon citizens' perceptions of "what" they can expect to get in return for their contribution. Hence, the design and content of social policies, as well as the perceptions of whether the benefits and costs are distributed fairly among all taxpayers, are pivotal, showing how the interaction between these sectors goes in both directions.

However, most technical discussions restrict themselves to either the revenue or social policy design questions. This is highly problematical, as it hinders the development of an integrated perspective on public financial management² and ignores detrimental effects on the effectiveness and efficiency of fiscal systems due to interlinkages between social policy and revenue generation. Moreover, this narrow view fails to consider all the far-reaching consequences that decisions in the public finance field have on the social and political realm. In particular, the

2. See for instance the Good Financial Governance concept promoted by the German Federal Ministry of Economic Cooperation and Development (BMZ, 2014).

(positive and negative) potential effects on the goal of strengthening social cohesion through their impact on the “fiscal contract”.

Concretely, in this article we stress the role that social protection and revenue policies play in this field and describe the causal mechanisms through which the interplay of these policies can influence social cohesion.

The article is organized as follows. The next section presents the concept of social cohesion endorsed in the article, as a fundamental step to precisely discuss causal mechanisms. We then introduce the concept of the fiscal contract, as a crucial conceptual bridge to bring together social and revenue policies. This is followed by a discussion of the mechanisms by which social policies and revenue collection can affect the fiscal contract and, thereby and ultimately, our main focus of interest, social cohesion. We then offer our conclusions.

Conceptualizing social cohesion

Over the last two decades, consideration of the term “social cohesion” has become important in policy circles (OECD, 2011; Marc et al., 2012; Lefko-Everett, 2016). One of the reasons for this is that with increasing income inequality in different parts of the world, monitoring the status of social cohesion at country level is viewed as central to predict and, where possible, adapt policies to prevent internal conflicts and war (Schiefer and van der Noll, 2017). In all these policy discussions, social cohesion carries a positive connotation, and is thus universally viewed as a desirable outcome. However, a clear, shared understanding of social cohesion is missing. To understand how social policies and revenue mobilization can influence social cohesion it is important to have a clear conceptualization of the phenomenon. Therefore, we provide a brief overview of the different definitions of social cohesion given in the available academic and policy literature and identify the one that is most theoretically sound and fits best the purpose of the present article.

The concept of social cohesion has a long history in the sociology and social psychology literatures (Chan, To and Chan, 2006; Lefko-Everett, 2016). There is agreement that the pioneer of this concept was the sociologist Emile Durkheim (Durkheim, 1893), who identified solidarity and shared loyalty among individuals as the two central pillars of social cohesion. The early work on social cohesion focused on *togetherness* as the main – if not the only – element of cohesion. Scholars, thus, mostly analysed the preconditions that a society should fulfil in order to maintain social order. They were mostly interested in questions, such as what brings individuals together and what motivates individuals to belong to groups and remain in such groups (Moreno, 1937; Festinger, Back and Schachter, 1950; Back, 1951). It should also be

highlighted that the bulk of this literature focused almost entirely on high-income countries, such as Canada, Germany and the United States.

Subsequent theoretical and empirical works have substantially expanded the view of social cohesion and focused also on low- and middle-income countries (Chan, To and Chan, 2006; OECD, 2011; Langer et al., 2017; Lefko-Everett, 2016). In a review article, Schiefer and van der Noll (2017), while stressing the lack of a common definition of social cohesion, identify six macro “ingredients” of social cohesion visible in these studies. Let us consider the first three: i) social relations between individuals and between groups, which also includes trust among members of the society and trust towards institutions; ii) identification with, and feeling of belonging to, the social entity such as a group or a country; iii) orientation towards the common good: in a cohesive society people should not act only for personal interests, but should also be committed to the needs of the larger collectivity.

More controversial are the remaining three elements identified by Schiefer and van der Noll (2017): iv) “shared values”, while some argue that uniformity in the values shared ensures better social interactions, others argue that a cohesive society should be one that is able to deal with the coexistence of people/groups with different values in a peaceful way (Jeannotte et al., 2002; Spoonley et al., 2005); v) “quality of life”, as explained by Schiefer and van der Noll (2017), “[c]onceptually, this dimension of social cohesion reveals the greatest lack of clarity”, and terms such as quality of life and social cohesion are often treated as synonyms; and, finally, in some studies, vi) “(in)equality” among individuals or groups (see, for instance, OECD, 2011; Langer et al., 2017).

We also have major concerns in considering these latter three attributes. As argued by Chan, To and Chan (2006), much research has focused on the “means” deemed as important to improve social cohesion, rather than on social cohesion per se (the end). One clear example offered by Chan, To and Chan, (2006) concerns reducing inequality. This is problematic, as definitions are supposed to reflect what the phenomenon is – or is not –, rather than how it could be enhanced: this implies strong value judgments and may give biased orientation to policy-makers on which factors they should work on (Burchi and De Muro, 2016). In line with this, we support the proposal of Chan, To and Chan, (2006) for a “minimalist definition” of social cohesion. This also allows to study empirically how certain phenomena, such as inequality, influence social cohesion; having inequality as part of the definition would not allow such an exercise.

In moving towards a definition of social cohesion that meets the above criteria, it is important to also distinguish between the “horizontal” and “vertical” dimensions. While early studies stressed almost exclusively the horizontal dimension – that is, the relationship between individuals and between groups – more recent studies also recognize the importance of the vertical aspect

(e.g. Marc et al., 2012; Chan, To and Chan, 2006; Fonseca, Lukosch and Brazier, 2019). Vertical relations refer to relations between individuals and the State (Marc et al., 2012) or, more generally, between individuals and institutions, which regulate the living together of people (Chan, To and Chan, 2006; Fonseca, Lukosch and Brazier, 2019). This is very important, as different groups of people as well as institutions are all members of society. In contemporary mass-based social orders, it is unlikely that a society will be cohesive if most people live peacefully with one another yet do not recognize, for example, national political institutions. Moreover, the addition of the vertical dimension permits to distinguish more clearly between social cohesion and social capital. Without the vertical dimension, it may be argued, the differentiation between these two concepts is often blurred.

Bearing in mind the above considerations, this article adopts the definition recently developed at the German Development Institute (*Deutsches Institut für Entwicklungspolitik* – DIE), according to which “social cohesion refers to both the vertical and horizontal relations among members of society and the State as characterized by a set of attitudes and norms that includes trust, an inclusive identity and cooperation for the common good” (Leininger et al., forthcoming). This definition entails three attributes, each of which is examined using both dimensions, horizontal and vertical. The attributes are:

1. *Trust* is frequently viewed as an important component of social cohesion (Chan, To and Chan, 2006; Dragolov et al., 2013; Langer et al., 2017; Schiefer and van der Noll, 2017). It comprises two aspects, generalized trust and institutional trust (Fukuyama, 2001; Zerfu et al., 2009; Langer et al., 2017). Generalized trust is the “ability to trust people outside one’s familiar or kinship circles” (Mattes and Moreno, 2018, p. 1). This is also sometimes referred to as “bridging trust”, as it may act as the “bond that people share across a society and across economic and ethnic groups, religions, and races” (Rothstein and Uslaner, 2005, p. 45). This type of trust captures the horizontal dimension. In turn, institutional trust concerns trust regarding “formal, legal organizations of government and State, as distinct from the current incumbents nested within those organization” (Mattes and Moreno, 2018, p. 2), and thus refers to the vertical level.
2. *Inclusive identity* recognizes that individuals have several identities, some super-imposed and some more freely chosen. A socially cohesive society is one in which individuals with different identities can co-exist in a peaceful way and where some particular identities are not dominant over the overall collective identity. In other words, different group identities are tolerated, recognized and protected. However, in order to conceive a society as cohesive, it is necessary that people feel first of all part of a

broader entity (e.g. the nation) that is more than the sum of individuals and that bridges different identities of a society.

3. *Cooperation for the common good* understands cooperation to refer to the positive social interactions within society, while the common good (*Gemeinwohl* in German) refers to the conception of the material and immaterial living conditions of a collectivity (Fraenkel, 1964). A society where many people and groups cooperate for interests that go beyond (and sometimes even conflict with) those of the individuals involved (van Oorschot and Komter, 1998) is considered as having a high level of social cohesion. This attribute is therefore strictly related to the concept of “solidarity”, which pushes an individual to “act in view of ends which are not strictly his own, to make concessions, to consent to compromises, to take into account interests higher than his own” (Durkheim, 1893). While the importance of cooperation among individuals and groups (horizontal dimension) has been stressed in the past, this definition incorporates also vertical cooperation (Chan, To and Chan, 2006). Individuals cooperate with the State through participation in public life and civic engagement (Acket et al., 2011; Chan, To and Chan, 2006; Jenson, 2010; Schiefer and van der Noll, 2017).

Linking social cohesion to social and revenue policies through the fiscal contract

In order to link social cohesion to social and revenue policies it is useful to adopt the concept of the fiscal contract (Timmons, 2005). The fiscal contract, in essence, alludes to the common understanding in a society of how much its members can expect to benefit from State action and how much they expect to contribute to it through paying revenue.

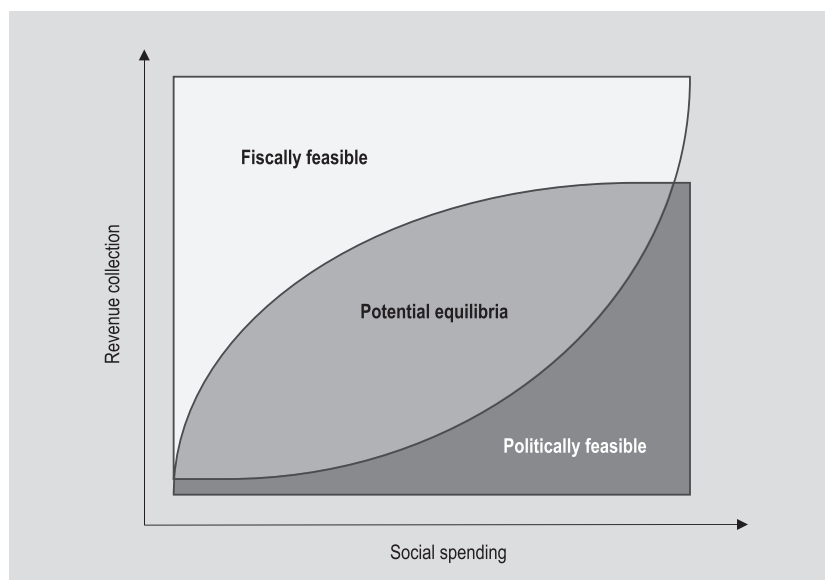
The fiscal contract can be conceived as an equilibrium position in a society with respect to the size and nature of the fiscal system. Such fiscal contracts are mutually beneficial, as citizens receive improved governance while the government receives larger, more predictable and more easily collected revenue (Levi, 1988). The content of the fiscal contract defines a level of exchange of revenue for public services between taxpayers and the government. It has an individual and an aggregated dimension, as it will not only influence the aggregate level of revenue and spending, but also who finances and benefits individually from State interventions. Naturally, the net fiscal effect for individuals will vary tremendously in a society. In terms of content, the fiscal contract also varies greatly between countries: between countries with more or less developed welfare states. For example, more developed welfare states usually have their equilibrium set at high levels for both revenue and social spending, while others, for instance

many developing countries with less comprehensive national systems of social protection, have a low revenue-low social spending equilibrium (Mosley, 2015).

Fiscal contracts reflect political and social power relations in a society, which limit the scope of the revenue-social spending equilibria that are politically feasible at the individual and at the aggregated level (Figure 1). This also implies that, to a certain degree, a fiscal contract can be implicit and imposed against the will of some citizens, and that, although they tend to be quite stable, fiscal contracts can evolve over time (Bird, Martinez-Vazquez and Torgler, 2008).

Fiscal contracts at the aggregated level can be characterized along two dimensions (Burchi, Strupat and von Schiller, 2020). The first is the level of *endorsement*, that is, the number of people and groups that at least accept – but, ideally, proactively sustain or support – the prevailing fiscal contract. In practice, it is impossible to have a fiscal contract unanimously supported. To what extent a person supports the fiscal contract depends, first of all, on their perception of the net fiscal effect on their own living standards. This could also include perceived indirect returns, in terms of social stability and peace generated by higher social spending. People, however, may also support the fiscal contract for less “individualistic” reasons: they may care about the conditions of the poor, even though they are not themselves poor (Berens and von Schiller, 2017).

Figure 1. *Fiscal contract as equilibrium*



Source: Authors' elaboration based on Burchi, Strupat and von Schiller (2020).

The second dimension of the fiscal contract is the level of *involvement*, that is, the share of the population involved as tax-payers and/or beneficiaries of social policies. Unlike in high-income countries, in low- and middle-income countries the level of involvement can be quite low: often, many citizens do not have much routine contact with the State, which tends to be only marginally present in their daily lives (e.g. for a description regarding Africa, see Herbst, 2014).

The two dimensions do not necessarily go hand in hand. For example, some societies may not value comprehensive welfare states, which are characterized by a high level of involvement.³ In this situation, the level of endorsement will decrease at a higher level of involvement.

The level to which the fiscal contract is endorsed and the level to which the different actors are involved plays a fundamental role in shaping social cohesion. Broadly speaking, higher levels of these two dimensions are associated with higher social cohesion. In this sense, to the degree to which revenue collection policies and social protection policies affect these two dimensions of the social contract, they will also affect social cohesion. Consequently, we first discuss the most promising causal mechanisms linking these policies to a change in the fiscal contract. Then, we discuss how these measures are connected to social cohesion.

How social policies and revenue collection affect the fiscal contract

Fiscal contract theories suggest that the State will be responsive to the interests of those who contribute revenue by prioritizing the spending they favour. Empirical evidence for high- and middle-income countries shows that countries that rely predominantly on extracting revenue from low- and middle-income earners provide more social benefits than States that rely more heavily on taxing high-income earners (Timmons, 2005). This empirical evidence underpins the fiscal contract logic that States provide services in exchange for revenue.

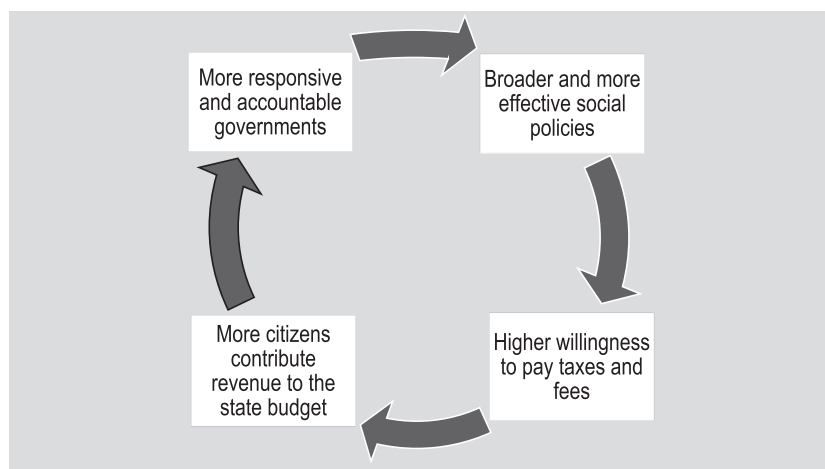
Due to a less stringent connection between domestically collected revenue and the delivery of social protection, this logic is less plausible for developing countries. One fundamental issue is the relevance of donor financing in many countries, as already highlighted, but also the fact that the linkage between revenue collected domestically and the provision of social services is less strongly emphasized and discussed. This blurs the connection between social spending and revenue collection. In fact, some have argued that aid can have a negative effect on fiscal bargaining and the development of a more inclusive fiscal

3. A conventional example in this context are liberal welfare states characterized by modest social protection policies targeted to a large extent towards the poor (Esping-Andersen, 1990, pp. 26-29). For a general account focusing more on developing countries, see Wood and Gough (2006).

contract (Eubank, 2012). Following this line, we argue that in these contexts, development interventions on social spending and revenue collection can have a major impact on the fiscal contract by triggering a virtuous cycle that strengthens it (Figure 2).

The virtuous cycle can be initiated from several angles. First, starting from the social policy side, introducing new social policies or expanding and improving already existing ones may improve perceptions of their benefits. In turn, this can increase beneficiaries' willingness to pay taxes and fees and, thus, raise revenue. In this vein, Ali, Fjeldstad and Sjursen (2014) analyse Afrobarometer data from four countries and show that the provision of public services is positively correlated with tax compliance. Similarly, results from a field experiment in Argentina show the positive effects of public service provision (Carrillo, Castro and Scartascini, 2016). In the field experiment, sidewalk construction or renovation was randomly assigned through a lottery to property owners who had complied with the payment of their property tax during the previous year. Winners of this lottery show consistently a statistically significant higher tax compliance rate than their peers. The winners not only complied more regularly with their tax obligations but were also more likely to pay taxes on time. The rewards for paying taxes also had some spill over effects on the neighbours of lottery winners. Thus, it would appear that people who do not directly benefit from public services may also exhibit a willingness to pay taxes. For instance, it might be that some people who are not directly eligible for social protection programmes, in particular those whose personal circumstances place them just above the eligibility criteria for income-tested or means-tested social

Figure 2. *The virtuous cycle in the interaction between social and revenue policies*



Source: Authors.

assistance benefits, may be in favour of a “safety net” in case their living standards deteriorate. Well-functioning social policies and public services, ideally financed from the public budget, and even when targeted at the poor, may be supported, or at least tolerated, by the better-off. This is especially the case when the better-off perceive the importance of reducing inequality and poverty for societal stability, and are aware that they are benefiting from these policies. Expanding social programmes, thus, can increase the level of involvement in the fiscal contract. Furthermore, the protective function of social protection programmes can increase endorsement of the fiscal contract as many non-beneficiaries might potentially benefit from the safety net in future times of hardship.

Second, the virtuous cycle can also be started by interventions on the revenue side. Broadening the tax base, meaning increasing the number of taxpayers and reducing the size of the sometimes very large unregulated informal sector, can affect social policy and the fiscal contract through two main channels. On the one hand, it will lead to an increase in the amount of revenue collected, and thereby increase the potential budget for social policies.⁴ On the other hand, a broader tax base increases involvement in the fiscal contract, as new taxpayers will have more intense interaction with State institutions. People asked to contribute can be expected to have stronger incentives to monitor and enquire about what is being done with their money (Paler, 2013; Bird and Zolt, 2015). This can initiate a process that strengthens demand for government accountability and responsiveness in the use of public resources (Martin, 2016; de la Cuesta et al., forthcoming; Weigel, forthcoming). In order to respond to this pressure, the government will be more inclined to accommodate the needs of those who have started contributing (Timmons, 2005). Ultimately, because new taxpayers can be expected to be poorer on average than those already registered and paying taxes, governments will be more eager to expand social policies towards groups previously excluded, resolving the first loop of the virtuous cycle. If people perceive that the fiscal contract expands the amount of revenue spent on social protection in a direction that mirrors more closely their preferences, then their attitude towards compliance with tax duties should improve (Ali, Fjeldstad and Sjursen, 2014) and this, in turn, may increase the level of endorsement of the fiscal contract.

4. Kato (2003) argues that the expansion of indirect – not particularly progressive – taxes was essential to generate the sufficient amount of funding to sustain the expansion of the welfare states in high-income economies. Taxing the wealthy more concretely certainly has a large potential. However, studies such as Ravallion (2010) show that given the levels of poverty in developing countries, in many countries the required marginal tax rate to be applied to the “rich” (defined as those with incomes above the US dollar poverty line) that would be needed to generate the revenue able to eradicate the poverty gap among the poor would be prohibitive. For instance the majority of countries in sub-Saharan Africa would need 100 per cent marginal tax rates or greater (Niño-Zarazúa et al., 2013).

Third, as emerges from the discussion above, how the fiscal contract is perceived is fundamental to understand its support within society. Hence, education and communication campaigns can be expected to play a significant role in shaping support and compliance with revenue policies. Ali, Fjeldstad and Sjursen (2014) also show that knowledge and awareness of the revenue collection system is correlated positively with tax-compliance attitude. It seems that, especially in contexts where information is poor and perceptions of unfairness of the fiscal system are high, more information and transparency may help improve endorsement of the fiscal contract. Certainly there will be cases where the negative perceptions held by citizens are legitimate; however, in other cases they will be based on broadly shared misconceptions about the use of public funds and where the funding actually comes from. The level of endorsement may decrease as a result of widespread perceptions that other members of the society free-ride and evade paying the revenue to be levied (Fjeldstad and Semboja, 2001). Similarly, simple mistrust generated by the inability to access reliable information about the public budget can be expected to reduce endorsement. In support of this point, Evans, Holtemeyer and Kosec (2019) provide evidence indicating that high-information environments magnify the positive effects of conditional cash transfers on trust and perception of government responsiveness. Yet, information is neither a panacea nor a sufficient condition. In their review of the existing literature on the effect of information campaigns (broadly defined) on service delivery, Kosec and Wantchekon (2020) point out three necessary conditions that have to be present for information to have an effect: “the information must be relevant to the individual, the individual must have the power to act on it, and the individual must have the incentive to act on it”.

The entry points for public administrations eager to communicate information are hence multiple, and include informing taxpayers on the actual functioning of the revenue system, more general campaigns in schools, as well as initiatives focusing on transparency regarding the use of resources and how cost and benefits are distributed among citizens.⁵ These activities can stimulate public debate and lead to a change in people’s perceptions about the performance as well as the fairness of the system. This requires that public institutions provide more information about the policies implemented, whom they reach, how much they cost and how they are financed. It also entails ensuring adequate monitoring and evaluation capacities, and setting up a transparent procurement system. More transparent and efficient management of the public budget can liberate resources, which could be spent to further strengthen the implementation of social policies, including social protection programmes, or allow a reduction of

5. For a list of measures ongoing in Africa from the tax side, see Mascagni and Santoro (2018).

the tax burden for individual groups or society in general. All of this will contribute to a higher level of endorsement of the fiscal contract.

These three described mechanisms can improve the level of endorsement for and the level of involvement with the fiscal contract, which can ultimately affect social cohesion. Initiatives that lead to more support for the existing fiscal contract, or its reformulation into one that garners more support, can contribute to developing and strengthening a common identity and mutual trust across individuals and different societal groups. More widespread support among a group indicates that a growing number of citizens share a common understanding of how members of a society are linked and the degree to which they have rights as well as responsibilities towards each other and towards the State. In this line, higher endorsement will be linked to better horizontal relations among members of society, as well as more constructive relations between the State and society. Only as far as this reformulation triggers a relationship in which the State is able to deliver on expectations, the positive effect on the vertical relationship will increase. The time lag for a positive effect on the vertical dimension can be expected to be shorter for the third set of measures. If education and communication campaigns are effective, perceptions that had undermined the vertical relation, might change rapidly.

Fiscal contracts with high levels of involvement are also expected to contribute to social cohesion. Expanding the level of involvement will naturally increase interaction in society and will reach out to people that live independently of the State. This touches upon politically and socially sensitive issues, which increase the possibility of confrontation but can also be used as focal points to find compromises and agreements leading to more cohesive societies. Thus, similarly to the effect of increasing endorsement, expanding the level of involvement can force and facilitate dialogue between groups and, if properly managed, lead to the development of a common vision and identity. Interaction and exchange create significant opportunities to bridge trust gaps between societal groups if healthy public debate accompanies the process.

In this sense, fiscal measures can be expected to affect all attributes of social cohesion and do so on both dimensions (vertical and horizontal). In particular, the more direct effects should be expected on the vertical dimension and for the attributes of *trust* and *cooperation for the common good*. Certainly, effects on horizontal relations are also to be expected, but these are probably more indirect as they are triggered by increased interaction and demand for coordination. Similarly, fiscal measures can contribute to enhancing inclusive identity, but will take more time to materialize. Supporting a common understanding and higher endorsement of the fiscal contract can support national identity if the diverse groups in society have an agreement on the shared fiscal contract. However,

identity seems to be the least volatile attribute of the three: it can remain stable also in periods in which both *trust* and *cooperation for the common good* rise.

Overall, we conclude that social and revenue collection policies can affect social cohesion directly and indirectly, as well as being positively and negatively affected by the fiscal contract. In this regard, policy-makers should not only focus on this debate from the perspective of how to improve social cohesion, but also acknowledge the potential unintended negative effects of certain measures. For, example, fiscal contracts that lack endorsement and are imposed against the will of society (or larger groups of it) will be perceived as unfair. Resistance will increase and the vertical relations between society and the State will deteriorate in particular, undermining social cohesion. The same can occur with regards to the horizontal dimension, if specific groups in society perceive that they are being treated unfairly compared to others.

Conclusion and policy implications

Social cohesion is increasingly seen as a major factor to help achieve sustainable development and to deal with external shocks that put societies at stress. In fact, the view that “without social cohesion, it will be difficult to attain the SDGs [Sustainable Development Goals] – in particular the objective of leaving no one behind” (Verbeek and Dill, 2017), is gaining centrality in policy discussions.

Several factors could potentially influence social cohesion. Ultimately, policies in any sector, by influencing the interaction of citizens with the State, as well as interaction among citizens, affect social cohesion. However, there are policy fields that appear particularly relevant in these discussions. Social protection systems, by defining who is eligible to benefit from social policies (and who is not), as well as revenue policies, by defining who should pay, how much and when, certainly belong to this list of key policy fields.

The article has sought to contribute to this debate by first presenting a concept of social cohesion and then discussing how social policies and revenue policies can affect social cohesion through the fiscal contract.

Reform in these policy fields can theoretically boost social cohesion, but may also harm it. Consider, for instance, a narrowly targeted social protection scheme. It may be the case that the target population will benefit, as defined by the terms of the main goals of the programme, but these measures may exacerbate social disintegration as a consequence of the stigma deriving from being eligible to receive these benefits (see, for example, Burchi and Roscioli, forthcoming; Li and Walker, 2016; Roelen, 2017). Social cohesion is not perceived to be the primary goal of social policy measures. This article is motivated by the consideration that too little debate has taken place regarding the expected causal links connecting social policies and revenue policies and their

final contribution to social cohesion. Without a clear conceptual framework, it is not possible to discuss theoretically whether and to what extent both policies can contribute to social cohesion, just as it is impossible to test it empirically.

We have identified three mechanisms that, specifically in the context of low- and middle-income countries, can initiate a virtuous cycle that leads to better public social spending and more revenue collection, both key necessities in many developing countries.⁶

First, increasing the effectiveness and/or the coverage of social policies can initiate the virtuous cycle from the social policy angle. Higher coverage can be achieved by implementing social policies that are universal and lead to equal opportunities for all. One example would be the implementation of a universal basic income (Gentilini et al., 2020; Loewe, 2020). Second, from the revenue collection side, broadening the tax base is the most promising avenue. A particularly good place to start seems to be to reduce tax exemptions granted to taxpayers often with the goal of attracting investors, but which on average have been assessed to have doubtful effectiveness (IMF et al., 2015). This would also help to reduce the tax system's complexity and the opportunities for corruption associated with the discretionary granting of exemptions (Moore, 2015, p. 165). Property taxation is a particularly under-used source of revenue in developing countries. Better use of this potential – a potential that is increasing because of growing urbanization globally (Fjeldstad, Ali and Goodfellow, 2017) – is a particularly promising avenue. Third, as a cross-cutting issue rather than a policy reform, it is essential to increase the transparency of the policy and administrative processes and stimulate public debate around the fiscal system to make sure that the social cohesion enhancing potential of policies materializes. This can be achieved through information campaigns about the policies realized, including their costs and financial sources, or through an improvement of the monitoring and evaluation system.⁷

We consider that much of the potential of the three mechanisms lies in improving the situation along the vertical axis of social cohesion. Attributes of trust in government institutions as well as openness to cooperate with State organizations will potentially improve. The sense of common identity will be improved as well, but probably will require more time. Less evident is the potential of the described policies to enhance the horizontal dimension of social cohesion. Benefits may emerge from more inclusive and transparent policies that enable everyone to understand who is actually benefiting.

6. See, for instance, European Commission (2015).

7. In this regard, the *ISSA Guidelines on Good Governance in Social Security Administration* is particularly useful for policy-makers.

Hence, all these measures can act to start the cycle, which may be virtuous, but which just as easily may become vicious. The potential for positive effects on social cohesion is high. Yet, if the expectations of citizens are not fulfilled, or if the socio-political process that accompanies a change of fiscal contract is conflictual, the effects of such measures may be negative. Poorly performing social policy systems can erode citizens' willingness to contribute revenue to the public budget, creating a situation where the revenue base is lowered and endorsement declines. Similarly, revenue systems perceived as being unfair will perform ineffectively and generate lower revenue, making it impossible for social systems, including social security protection, to expand. Hence, measures in the fiscal area, regardless of whether these are on the revenue or the social policy side of the budget, need to be closely coordinated with the broader governance agenda. Reforms in the social policy and revenue collection policy fields alone will not be sufficient if required changes to the institutional set-up and the underlying power and incentive structures remain unaddressed. Distributive conflicts can arise and escalate quickly when persons or groups are asked to contribute more, or when only some are accorded access to services. Thus, fostering transparency and public debates alongside policy measure is key to minimize the potential disruptive effects. Also, it is essential to underline that all the cited mechanisms, in order to be effective, need to be accompanied with a minimum level of State capacity.

Overall, while an expectation of a positive effect of the described measures on social cohesion is plausible, we should not ignore the potential for unintended negative effects. It is also crucial to think carefully about the causal impacts that any planned measures could have and to anticipate potential problems. In this article, we have presented a first step towards understanding the effect of social policy and revenue collection policies on social cohesion. In particular, we encourage further research along three paths. In order of priority, the first consists of consolidating the discussion around the conceptualization and measurement of social cohesion. The second consists of discussing in detail all the potential effects of measures in the social policy and revenue mobilization fields on social cohesion. The third consists of testing empirically the validity of our theoretical claims. The agenda is clear and the relevance of the topic obvious. We hope this article represent a first contribution to help take this research forward and encourage further work in this important area.

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