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Is Good Governance the Driving Force Behind Raising Tax Revenues? A Panel Data Analysis*

İyi Yönetişim, Vergi Gelirlerini Artırmanın İtici Gücü mü? Panel Veri Analizi

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Abstract

The ability of governments to effectively perform their essential functions primarily depends on their access to adequate revenue sources. This makes the level of tax revenues a critical issue. Then, what determines the level of tax revenue? Responses to this question are typically approached from economic and fiscal perspectives. However, the growing recognition of the impact of institutions on societal welfare today necessitates updating these responses. Institutions can be seen not only as determinants of economic performance but also as factors influencing tax revenues. This study empirically investigates the impact of good governance, a significant aspect of institutional economics, on tax revenues. The central hypothesis is that good governance will enhance tax revenues. In this context, the effect of good governance and its components on tax revenues for 25 countries during the period 1996-2019 was examined using dynamic panel data analysis with the system GMM estimator. As expected, the findings confirm that good governance and its components boost tax revenues. Therefore, countries' efforts to enhance good governance serve as a driving force for increasing tax revenues.

Keywords: Tax revenues, good governance, panel data analysis, system GMM.

JEL Codes: H2; H27

Öz

Hükümetlerin temel görevlerini etkin bir şekilde gerçekleştirebilmesi yeterli düzeyde gelir ile yakından ilişkilidir. Bu durum vergi gelir düzeyini önemli bir konu haline getirmektedir. Peki vergi gelir düzeyini ne belirler? Bu soruya verilen cevaplar genellikle iktisadi ve mali perspektiftedir. Ancak günümüzde kurumların toplumların refahları üzerindeki etkisinin geniş kitlelerce kabul görmesi, soruya verilen cevabın güncellenmesini gerekmektedir. Kurumlar, ekonomik performansın yanı sıra vergi gelirlerinin de bir belirleyicisi olarak gösterilebilir. Bu çalışma kurumsal iktisadın önemli bir yanını oluşturan iyi yönetişimin vergi gelirleri üzerindeki etkisini ampirik olarak araştırmaktadır. Temel beklenti iyi yönetişimin vergi gelirlerini artıracağı savıdır. Bu bağlamda 25 ülke için 1996-2019 dönemine ilişkin iyi yönetişim ve bileşenlerinin vergi gelirleri üzerindeki etkisi dinamik formda panel veri analizi yardımıyla system GMM tahmincisi ile araştırılmıştır. Elde edilen bulgular, beklenildiği üzere, iyi yönetişim ve alt bileşenlerinin vergi gelirlerini artırdığını desteklemektedir. Dolayısıyla ülkelerin iyi yönetişim ile ilgili geliştirici adımları, vergi gelirlerinin artmasında önemli bir strateji olacaktır.

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Anahtar Kelimeler: Vergi gelirleri, iyi yönetişim, panel veri analizi, sistem GMM.

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1. INTRODUCTION

Institutional economics examines how institutions influence economic performance, the distribution of resources, and individual preferences, as well as how they evolve over time. It argues that economic activities cannot be fully understood without considering their social, legal, political, and cultural contexts (Williamson, 1979; North, 1990; Acemoğlu and Robinson, 2021). The institutional economics approach, proposed as an alternative to the neoclassical economic framework, emphasizes the significant influence of a country's institutional structure on its economic performance (Mukiyen Avcı, 2023). From this perspective, institutions play a crucial role in shaping behaviors related to the efficiency and equity of taxation, both of which are key determinants of tax revenues. Sound, transparent, and trustworthy institutions enhance tax compliance, thereby increasing tax revenues. In contrast, weak institutions can lead to tax evasion and the growth of the informal economy, both of which may reduce tax revenues. Within this framework, tax revenues, as the primary source of public finance, are influenced not only by economic and fiscal factors but also by institutional dynamics (Kirchler et al., 2008; Torgler, 2012; Torgler and Schneider, 2007; Alm et al., 2019).

North (1990) defines institutions as constraints created by people that shape interactions among individuals in a society. Institutions consist of formal and informal institutions, where the former refers to written laws and official bodies, and the latter encompasses unwritten social norms, traditions, and customs. In addition to economic and fiscal factors, institutional structures and social norms are key determinants of individuals' tax-related behaviors. For example, the effective design and enforcement of tax laws can influence both taxpayers' compliance behavior and the efficiency of tax administration. In other words, formal and informal institutional structures can influence individual taxpayer behavior and government actions, which are fundamental in shaping tax revenues.

Governance is an essential part of institutional economics. Certain international organizations, particularly the World Bank, have played a significant role in popularizing the concept of governance. The World Bank (1992) defines governance as the manner in which economic, political, and administrative authority is exercised in managing a country's affairs. Governance can also be expressed as strategic organizational activities carried out to achieve institutional goals, where mutual trust in communication and information sharing is embraced, operations are conducted within a transparent and accountable framework, and joint decisions are made (Fidan, 2011: 6).

Governance involves the management of institutional structures, the decision-making processes, the allocation of authority and responsibilities, and the regulation of economic interactions. In this context, good governance, as a key indicator of institutional performance, encompasses principles and practices of transparency, accountability, effectiveness, and participatory decision-making. It promotes a government approach that upholds fairness, adheres to the rule of law, and protects the interests of stakeholders. The objective of good governance is to promote active citizen participation in governance and to reach decisions through broad-based consensus. The World Bank (1992) outlines the key principles that good governance seeks to promote as follows:

- Ensuring political accountability

- Involving individuals from different social, economic, and socio-cultural backgrounds in governance
- Establishing a social and legal order
- Creating a foundation of bureaucratic transparency and integrity
- Ensuring freedom of access to information and monitoring governance
- Effective and appropriate use of public resources
- Fostering collaboration between the government and civil society

The rise in the number of democratically governed countries, along with the impact of good governance in this realm, has sparked a debate on how to measure this contribution effectively. An index can facilitate the comparison of governance quality differences at the international level by focusing on observable indicators, even if not all dimensions are included (Huther and Shah, 1998: 2). Approaches for assessing good governance typically involve a collection of indicators and indices that span various dimensions.

The Worldwide Governance Indicators (WGI) dataset is frequently used in academic research. It is a World Bank project that provides quantitative and qualitative measurements of governance for many countries. These indicators are designed to capture various aspects of governance and to provide information about the quality of institutions and government effectiveness in different countries. WGI is a valuable resource for researchers, policymakers, and analysts who seek to understand and compare governance performance at a global level. The WGI framework encompasses six key indicators, each addressing a specific aspect of governance: control of corruption, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law, and voice and accountability. Collectively, these indicators measure various dimensions of how public authority is exercised and the effectiveness of government institutions.

Good governance principles are vital for building public trust in the state and encouraging compliance with tax responsibilities. In this context, the link between good governance and tax revenues is vital, not only for strengthening the state's fiscal stability but also for fostering social trust. Therefore, advancing good governance stands out as a critical strategy for boosting tax revenue.

The rest of the study primarily focuses on empirical analyses of the relationship between good governance and its components with tax revenues. Next, the research methodology is examined. Following the presentation of the analysis results, the study concludes by evaluating the findings and offering policy recommendations.

2. LITERATURE

The participation of diverse actors, including politicians, voters, bureaucrats, and interest groups, in the public sector can create information asymmetry among the parties. This asymmetry can be analyzed through the lens of agency theory. In the theory, there is a framework in which one party acts as the principal and the other as the agent, with the agent being entrusted with carrying out tasks on behalf of the principal (Ross, 1973: 134). The theory can be applied within the context of the public sector. For example, in the politician-voter relationship, the politician serves as the agent, while the voters are the principals. Similarly, in the politician-bureaucrat relationship, politicians are the principals and bureaucrats are the agents. Agency theory suggests that the agent, who generally has more information, may have interests that diverge from those of the principal (Kiser, 1999: 146). This situation can result in behaviors that undermine the principal's utility. The root of this divergence is information asymmetry, which fosters distrust between the parties. From a tax perspective, it is a natural

outcome that tax compliance decreases in a society where trust between the government and individuals is not established. Therefore, good governance plays a significant role in addressing the trust deficit. It can motivate both the government and individuals to fulfill their tax obligations. The real-world implications of this can be explored through empirical analyses. In this regard, Table 1 summarizes the findings from studies in the literature that explore the link between good governance and tax revenues.

Table 1: Summary of Empirical Literature

Author(s)	Sample	Analysis Period	Types of Data Used in Analysis	Finding(s)
Sen Gupta (2007)	105 Developing Countries	1980-2004	Panel data	Political stability increases tax revenues.
Imam and Jacobs (2007)	13 Middle Eastern Countries	1990-2004	Panel data	Corruption reduces tax revenues.
Bird et al. (2008)	Developed and Developing Countries	1990-1999; 1998-2000	Panel data	In developed countries, improvements in institutional quality increase tax revenues. In developing countries, participation, accountability, and control of corruption increase tax revenues.
Ajaz and Ahmad (2010)	25 Developing Countries	1990-2005	Panel data	Corruption reduces tax revenues, while good governance increases them.
Hossain (2014)	55 Developing Countries	2002-2012	Panel data	Improvements in governance quality, control of corruption, and institutional capacity increase tax revenues.
Phuong (2015)	82 Developing Countries	1996-2013	Panel data	Good governance increases tax revenues.
Syadullah and Wibowo (2015)	Southeast Asian Countries	2003-2012	Panel data	Control of corruption, participation, accountability, and political stability reduce tax revenues, while rule of law and regulatory quality increase tax revenues.
Okoye et al. (2018)	Nigeria	2018	Cross-sectional data	Good governance increases tax revenues.
Arif and Rawat (2018)	10 Developing Countries	2001-2015	Panel data	Governance increases tax revenues.
Herman et al. (2019)	Indonesia	2019	Cross-sectional data	Good governance increases individual tax revenues.
Kahunde et al. (2019)	East African Countries	1996-2016	Panel data	Good governance increases tax revenues.
Mohammed and Sanusi (2020)	15 West African Countries	2009-2018	Panel data	Control of corruption and political stability increase tax revenues.
Günay and Topal (2021)	37 Sub-Saharan African Countries	2002-2015	Panel data	Good governance increases tax revenues. Indicators of good governance such as control of corruption, political stability, government effectiveness, participation and accountability, regulatory quality, and rule of law increase tax revenues.
Hassan et al. (2021)	Pakistan	1976-2019	Time series data	Government stability, rule of law, and absence of internal and external conflicts increase tax revenues in both the short and long term.
Dramene (2022)	West African Economic and Monetary Union Countries	1996-2017	Panel data	Governance increases tax revenues. Corruption reduces tax revenues.

Salman et al. (2022)	West African Countries	2005-2017	Panel Data	Governance effectiveness (rule of law and control of corruption) increases tax revenues.

The literature indicates that studies employing panel data, cross-sectional data, time series, and varying periods and samples generally find that good governance and its components contribute to increased tax revenues.

3. METHODOLOGY

This study examines the relationship between good governance and tax revenues across 25 countries from 1996 to 2019, utilizing dynamic panel data analysis. The dynamic specification of the research model is as follows:

$$TAXREV_{i,t} = \alpha TAXREV_{i,t-1} + \delta GOV_{it} + \beta X'_{it} + \mu_i + e_{it} \quad (1)$$

where $TAXREV$ represents the tax revenue of country i, X' is the vector of control variables, μ denotes the unobserved country-specific fixed effects, e is the error term α, δ ve β are parameters, i is cross-sections, and t is time periods.

The data utilized for the estimation of Model 1 is provided in Table 2.

Table 2: Data Information

Variable Description	Variable	Notation	Source
Tax revenue (of GDP)	Tax revenue	TAXREV	World Bank
Control of corruption	Good governance components	CC	
Government effectiveness		GE	
Political stability and absence of violence or terrorism		PS	
Regulatory quality		RQ	
Rule of law		RL	
Voice and accountability		VA	
GDP, per capita (%)	Control variables	PC	
Inflation (%)		INF	
Trade (of GDP)		TRADE	
Urbanization (%)		URBAN	

Good governance (GOV) is measured using six components (Kaufmann et al., 2010) and is determined by taking their simple average in this study. Both range from 0 to 100, with higher values indicating better performance in good governance. The control variables are economic growth, inflation, trade, and urbanization.

Considering data availability, the analysis was conducted for 25 countries, generally characterized as developing countries. The countries included are Argentina, the Bahamas, Belarus, Bulgaria, Croatia, Cyprus, the Dominican Republic, Guatemala, Jamaica, Jordan, China, Malaysia, Malta, Mauritius, Moldova, Namibia, Nepal, Nicaragua, Peru, the Philippines, Romania, Singapore, South Africa, Sri Lanka, and Thailand.

Table 3 provides an overview of the descriptive statistics for the data.

Table 3: Descriptive Statistics

Variable	Observations	Mean	Standard Deviation	Minimum	Maksimum
TAXREV	600	18.129	8.006	8.171	62.502
GOV	600	54.489	18.317	17.037	89.897
CC	600	53.475	20.611	12.5	99.039
GE	600	57.980	21.472	10.526	100
PS	600	49.667	24.232	1.942	99.498
RQ	600	59.650	20.015	3.431	100
RL	600	53.135	21.702	7.426	97.596
VA	600	53.025	18.744	3.365	92.040
PC	600	2.668	4.014	-23.042	23.558
INF	600	9.901	41.467	-9.380	914.12
TRADE	600	107.401	71.676	21.383	437.327
URBAN	600	1.628	1.541	-3.448	6.631

Descriptive statistics offer insights into the performance of the countries in the sample. The average TAXREV rate for the sample is 18.129%. Within the sample, the lowest observed TAXREV rate is 8.171% (Argentina in 1996), while the highest is 62.502% (Malta in 2007). The average GOV value in the sample is 54.489%. During the study period, the lowest value was recorded in Nicaragua in 2019 at 17.037%, while the highest value was observed in Singapore in 2012 at 89.897%.

This study employs the dynamic panel data model estimator developed by Arellano and Bover (1995) and Blundell and Bond (1998) to examine the link between good governance and tax revenues. A dynamic model incorporating the lagged dependent variable as one of the independent variables is expressed as follows (Baltagi, 2013):

$$y_{it} = \delta y_{i,t-1} + x'_{it}\beta + u_{it} \qquad (i = 1,...,N; t = 1,...,T) \tag{2}$$

where δ is a scalar, x'_{it} is $1xK$, β is $Kx1$, and u_{it} fallows a one-way error component model:

$$u_{it} = \mu_i + v_{it} \tag{3}$$

In dynamic panel models, the lagged value of the dependent variable causes an autocorrelation problem. y_{it} is a function of μ_i, and $y_{i,t-1}$ is also a function of μ_i. This leads to a correlation between the lagged term and the error term. Therefore, traditional ordinary least squares (OLS) and within-group estimators may yield biased and inconsistent results. Various estimation methods have been developed to address this issue in dynamic panel data models.

Anderson and Hsiao (1982) introduced the first-difference transformation as a method to eliminate individual effects in panel data models. This transformation is achieved by taking the difference between consecutive observations within each cross-section, effectively removing cross-sectional effects. As a result, the transformed model can be estimated without the issue of correlation between the lagged dependent variable and the error term. However, while the instrumental variable approach yields consistent parameter estimates, it may be inefficient as it does not fully exploit all available moment conditions or the structure of the differenced error terms (Baltagi, 2013).

Arellano and Bond (1991) later proposed the Generalized Method of Moments (GMM), which offers a more efficient alternative to Anderson and Hsiao's approach for dynamic panel data estimation. The GMM estimator is widely applied in the literature through two main approaches: difference GMM (Arellano and Bond, 1991) and system GMM (Arellano and

Bover, 1995; Blundell and Bond, 1998). Compared to other estimators, the system GMM provides more consistent and efficient parameter estimates (Blundell and Bond, 1998).

In this study, the system GMM estimator is employed to estimate Model 1. The reliability of this estimator is assessed through two key tests. First, the Arellano-Bond test ensures that the errors in the first-difference equation do not show second-order autocorrelation. Second, the validity of the instrumental variables is examined using the Sargan test and the Hansen J test. The Sargan test is suitable for one-step, non-robust estimators, whereas the Hansen J test applies to both one-step robust and all two-step estimators.

4. FINDINGS

Prior to discussing the estimators employed in the study, it is considered useful to present the correlation matrix among the variables as preliminary information. Table 4 presents the outcomes of the correlation matrix analysis.

Table 4: Correlation Matrix of Good Governance and Tax Revenues

	TAXREV	GOV	PC	INF	TRADE	URBAN
TAXREV	1.000					
GOV	0.465	1.000				
PC	0.045	-0.065	1.000			
INF	-0.048	-0.121	-0.134	1.000		
TRADE	0.247	0.568	0.079	-0.050	1.000	
URBAN	-0.052	-0.044	-0.138	-0.117	0.053	1.000

Table 4 shows a positive correlation between good governance and tax revenues. As good governance improves, indicated by the variable's value approaching 100, tax revenues are expected to increase. Additionally, PC, TRADE, and URBAN positively affect TAXREV, whereas INF has a negative impact. Table 5 displays the empirical findings from the dynamic panel data analysis.

Table 5: Estimation Results for Good Governance and Tax Revenues

Dependent Variable: TAXREV	Coefficient	Standart Error
TAXREV(-1)	0.852***	0.057
GOV	0.0439**	0.191
PC	0.101***	0.024
INF	0.003**	0.001
TRADE	-0.004	0.003
URBAN	0.141**	0.070
Number of groups	25	
Number of observations	575	
Number of instruments	15	
AR (1) test (p value)	0.118	
AR (2) test (p value)	0.856	
Hansen test (p value)	0.417	

Notes: The results of the two-step GMM estimation are reported. The t-statistics are based on robust estimates. The estimations were conducted using the *xtabond2* (Roodman, 2009) code in Stata. The collapse option was used to reduce moment conditions. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

The AR (2) test result for the consistency of the system GMM estimators shows that the model does not reject the presence of second-order autocorrelation, thereby affirming its validity. Furthermore, the Hansen test results verify the validity of the instruments. The lagged value of TAXREV is statistically significant, suggesting that past tax revenues are a strong predictor of current tax revenues. The coefficient of the GOV variable is statistically significant and positive, indicating that improvements in good governance lead to an increase

in TAXREV. This finding aligns with the main expectation of the research and is consistent with the results of several studies in the literature (Bird et al., 2008; Phuong, 2015; Okoye et al., 2018; Arif and Rawat, 2018; Kahunde et al., 2019; Herman et al., 2019; Günay and Topal, 2021; Dramene, 2022). In addition, PC, INF, and URBAN positively impact TAXREV. However, no statistically significant result was found regarding TRADE.

Table 6 summarizes the estimation results between the components of good governance and tax revenues.

Table 6: Estimation Results for Good Governance Components and Tax Revenues

Dependent Varibale: TAXREV	Model CC	Model GE	Model PS	Model RQ	Model RL	Model VA
TAXREV(-1)	0.826*** [0.073]	0.855*** [0.054]	0.871*** [0.050]	0.864*** [0.052]	0.859*** [0.059]	0.842*** [0.066]
PC	0.114*** [0.028]	0.108*** [0.026]	0.115*** [0.025]	0.099*** [0.025]	0.108*** [0.026]	0.086*** [0.026]
INF	0.003 [0.002]	0.003** [0.002]	0.002 [0.002]	0.003*** [0.001]	0.004** [0.001]	0.001 [0.001]
TRADE	-0.003 [0.005]	-0.002 [0.003]	-0.001 [0.003]	-0.002 [0.003]	-0.002 [0.004]	-0.002 [0.003]
URBAN	0.150* [0.070]	0.129* [0.073]	0.227** [0.093]	0.131* [0.072]	0.174** [0.087]	0.140* [0.072]
CC	0.049** [0.025]					
GE		0.036** [0.016]				
PS			0.031** [0.013]			
RQ				0.033** [0.015]		
RL					0.036** [0.018]	
VA						0.037** [0.017]
Number of groups	25	25	25	25	25	25
Number of observations	575	575	575	575	575	575
Number of instruments	15	15	15	15	15	15
AR (1) test (p value)	0.128	0.120	0.113	0.118	0.120	0.119
AR (2) test (p value)	0.840	0.840	0.818	0.847	0.847	0.855
Hansen test (p value)	0.297	0.369	0.450	0.420	0.438	0.274

Notes: The results of the two-step GMM estimation are reported. The t-statistics are based on robust estimates. The estimations were conducted using the *xtabond2* (Roadman, 2009) code in Stata. The collapse option was used to reduce moment conditions. Standard errors are presented in square brackets. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

The findings in Table 6 regarding the pre-tests indicate that the AR (2) test result for the consistency of the system GMM estimators does not reject second-order autocorrelation, confirming the model's validity. The Hansen test results demonstrate the validity of the instruments, while the lagged value of tax revenues is also significant. The results concerning the components of good governance in each model are as follows:

- CC has a positive effect on TAXREV, aligning with the findings of Imam and Jacobs (2007), Ajaz and Ahmad (2010), Hossain (2014), Syadullah and Wibowo (2015), Mohammed and Sanusi (2020), and Salman et al. (2022). In addition, PC and URBAN are found to positively influence TAXREV, while no statistically significant effect is observed for the other variables.

- GE has a positive impact on TAXREV, which aligns with the findings of Günay and Topal (2021). Additionally, PC, INF, and URBAN exhibit statistically significant positive effects on TAXREV.
- PS has a positive and statistically significant effect on TAXREV, consistent with the findings of Sen Gupta (2007), Hassan et al. (2021), and Mohammed and Sanusi (2020). Additionally, PC and URBAN are found to contribute to higher TAXREV.
- RQ has a positive impact on TAXREV. This result aligns with the findings of Syadullah and Wibowo (2015), which show that PC, INF, and URBAN each have a positive and statistically significant impact on TAXREV, while the coefficient for TRADE is not significant.
- RL has a positive impact on TAXREV. This finding is consistent with studies by Syadullah and Wibowo (2015), Günay and Topal (2021), Hassan et al. (2021), and Salman et al. (2022). PC, INF, and URBAN also have a positive effect on TAXREV.
- VA has a positive impact on TAXREV. This finding is consistent with the studies of Bird et al. (2008), Syadullah and Wibowo (2015), and Günay and Topal (2021). Additionally, PC and URBAN are found to have a statistically significant positive impact on TAXREV.

Overall, CC has the highest coefficient among the components of good governance, with a value of 0.049, indicating that a 1% improvement in CC is associated with a 0.049% increase in TAXREV. The second highest coefficient is observed for VA, where a 1% improvement corresponds to a 0.037% increase in TAXREV. RL and GE rank third, followed by RQ and PS. Additionally, the GOV variable, which represents overall governance, has a coefficient of 0.044, suggesting that a 1% improvement in GOV is linked to a 0.044% increase in TAXREV.

5. CONCLUSION

Taxes have served as the primary source of revenue for the government to carry out its roles and responsibilities. The fundamental aim of taxation is to finance public services. Over time, taxes have also begun to be used by the government as a policy tool to intervene in the economy. Regardless of the purpose, taxes hold significant importance for the government. Governments generally have a willingness to increase tax revenues because higher tax revenue signifies a stronger government. However, this is a double-edged sword. Politicians may engage in political behaviors to increase their votes out of a desire for re-election. Therefore, increasing taxes may not always yield favorable results for them. On the other hand, raising tax rates does not necessarily mean that tax revenues will increase. However, governments need a source of financing to implement their policies. Thus, under these constraints, optimal taxation policy must be applied.

Tax revenues are influenced by various factors, primarily economic, but also social, political, and institutional. Tax revenues are particularly closely related to economic development. Economic growth results in higher income levels, which subsequently lead to increased government tax collections. Conversely, higher tax revenue can also mean that the government can further promote economic growth and development. Thus, a mutual relationship exists between economic growth and tax revenues. Recently, institutional economics has gained significant attention in the economic growth literature[1]. The institutional economic perspective asserts that institutions are determinants of a country's

[1] At the time this study was written, the 2024 Nobel Prize in Economic Sciences was awarded to Daron Acemoglu, Simon Johnson, and James Robinson for their groundbreaking research on the formation of institutions and their impact on prosperity. Their work has made significant contributions to understanding how political and economic institutions shape national prosperity and drive economic growth. Their findings highlight the crucial role of institutions in addressing income disparities across countries.

economic performance. This perspective has manifested in public management through the spread of the concept of governance, which carries the meaning of joint management under the paradigm of new public management.

The World Bank defines governance as the way political, administrative, and financial authority is exercised in a country's management. Governance can be evaluated as strategic organizational activities carried out in line with common interests, where mutual trust in communication and information sharing is embraced, operations are conducted in a transparent and accountable framework, and joint decisions can be made. The concept of governance encompasses principles such as transparency, participation, accountability, equality, effectiveness, and the rule of law. Countries that closely adhere to these principles can be considered as having good governance. Furthermore, such countries may be better positioned to increase their tax revenues. Taxpayers' willingness to fulfill their tax obligations is positively correlated with their trust in public institutions. Research indicates that when citizens have higher levels of trust in the government, they are more likely to perceive the tax system as fair and transparent, which in turn promotes greater compliance. Trust in public institutions fosters a belief that tax revenues are used effectively for the public good, thus increasing taxpayers' readiness to contribute voluntarily. This relationship underscores the importance of institutional integrity and transparency in enhancing tax compliance rates and overall fiscal stability.

This study empirically investigates the effect of governance on tax revenues. It has been determined that good governance and each of its components positively affect tax revenues. In terms of details, the component that has the most significant impact on tax revenues, based on the magnitude of its coefficient, is the control of corruption. Therefore, tax revenues can be anticipated if corruption is reduced and effective anti-corruption policies are implemented. Corruption erodes citizens' trust in the government, and this distrust, in turn, influences individuals' behaviors on various issues, especially their willingness to pay taxes. Based on the findings, it is crucial for countries to focus on preventing corruption in order to boost tax revenues. This challenge is particularly linked to transparency and accountability. The public sector's structure is highly vulnerable to corruption, but by ensuring the availability of symmetric information among actors, a more accountable framework can be established.

On the other hand, efforts to engage individuals in decision-making processes play a significant role in increasing tax revenues. The analysis shows that voice and accountability are the second most influential factors in terms of coefficient magnitude. When individuals are informed about how their taxes are utilized, they are more likely to fulfill their tax obligations voluntarily. Additionally, involving citizens in decision-making allows them to better understand the workings of the public sector. Therefore, it is essential for policymakers to develop mechanisms that encourage citizen participation in public decision-making to boost tax revenues. With recent technological advancements, tools like e-government, citizen budgets, and participatory budgeting have become crucial in facilitating this involvement.

The realization of the issues mentioned above is closely tied to the rule of law, making the effectiveness of the law a critical factor. When the rule of law is upheld, individuals are more inclined to voluntarily fulfill their tax obligations. An effective legal system and the proper implementation of legislation increase the likelihood of individuals complying with the rules, which can lead to higher tax revenues. Additionally, the quality of services delivered by governments and the feasibility of the policies they implement also influence tax revenues. In particular, individuals are more likely to meet their tax obligations when they perceive improvements in government service quality.

In conclusion, strengthening good governance practices in a country leads to an increase in tax revenues. Therefore, it is essential for politicians to introduce reforms that promote good governance. The answer to the question posed in the title is yes: good governance is indeed a driving force behind increasing tax revenues.

Reference

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Etik Beyanı: Bu çalışmanın tüm hazırlanma süreçlerinde etik kurallara uyulduğunu yazarlar beyan eder. Aksi bir durumun tespiti halinde BİİBFAD Dergisinin hiçbir sorumluluğu olmayıp, tüm sorumluluk çalışmanın yazarlarına aittir.
Yazar Katkıları: Simge Bereketoğlu, çalışmada konunun belirlenmesi, literatür, verilerin toplanması, veri analizi ve raporlama bölümlerinde katkı sağlamıştır. Mehmet Avcı, konunun belirlenmesi, literatür ve verilerin analizi aşamalarında katkı sağlamıştır. 1. yazarın katkı oranı yaklaşık olarak %60, 2. yazarın katkı oranı ise %40'tır.
Çıkar Beyanı: Yazarlar arasında çıkar çatışması yoktur.
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