

Social norms and tax compliance

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Summary

■ While rarely examined, it is often taken for granted that social norms have a significant explanatory impact on tax evasion behavior. The first objective of the paper is to examine the relationships between predictor variables, such as the characteristics of tax systems and political processes, and social tax norms. The second objective is to analyze the relationships between social tax norms and tax evasion. The analysis is macro-oriented and the major OECD countries are treated as cases. The data on the social tax norm comes from the World Values Surveys 1981, 1990, 1995, and the International Social Survey Program surveys in 1991 and 1998. The results indicate that the general tax level has a slightly negative impact on tax norm support. However, political processes can modify, and in some cases even override, the negative influences of taxes on norm support. Assumptions that social tax norms influence the significance of tax evasion do not receive empirical support.■

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Pure economic cost-benefit explanations of tax evasion have been criticized for excluding social factors like attitudes, moral values, and social norms. Some critics take a polemic position and claim that non-economic factors, e.g., psychological and political factors, have superior explanatory potentials (Lewis, 1982; Laurin, 1986; Peters, 1991; Listhaug and Miller, 1985; cf. Sears and Citrin, 1985). Other scholars defend the economic position but realize that the complex issue of tax evasion calls for additional complementary factors (Wahlund, 1991; Schneider and Enste, 2000). In this context, it is often suggested that prevailing social tax norms are key variables when explaining cross-country differences in tax evasion. Here we find an obvious paucity of research, however. Previous empirical research has simply neither covered analyses of the determinants of social tax norms, nor the relationships between tax norms and tax evasion behavior in a comparative perspective. The first objective of this paper is therefore to analyze the relationships between several suggested predictor variables, such as the characteristics of tax systems and political processes, and moral values related to taxes. The second objective is to analyze the linkages between these social values and the size of the shadow economy. The analysis is mostly macro-oriented, and the major OECD countries are treated as cases.

1. Social norms, moral values and tax compliance: previous research

From a sociological perspective, it is often assumed that human behavior is determined by social norms to a substantial extent. Sometimes this also includes tax behavior as well as other economic behavior (Etzioni, 1988). Following Leslie, Larson and Gorman (1973, p. 99) "...social norms are rules developed by a group that specify how people must, should, may, should not, and must not behave in various

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situations". In the case of taxpayers' behavior, there are legally defined rules about incomes to declare and deductions to make as well as punishment that follows from deviations from these rules, if detected. But, the essence of a social norm is not basically what is legally defined; rather, it is informal or socially defined rules specifying what actions are regarded as proper and correct, or improper or incorrect. These rules are based on interests, values and attitudes developed within the group. The concept of sanction goes hand in hand with the concept of social norm; sanctions are the group's punishments for violation of social norms. Thus, a social norm is composed of a socially defined rule of behavior based on common values, backed up by a system of sanctions. Norm obedience may follow from internalization of the norm and the values upon which it is founded, and/or from an effective system of sanctions. Thus, we cannot assume a direct relation between a moral value regarding prescribed and actual behavior.

It should be emphasized that social norms are system level properties and, as such, interesting in their own right. Cross-country variation in tax norms may indicate differences in support for the tax policy as well as the policies financed by taxes. In our search for previous studies in this field, we have not been able to find any study that focuses on the explanations of social tax norms, neither their moral value component nor their associated systems of social sanctions. More has been done on the relation between tax norms and tax behavior. In this literature, it is often argued that tax evasion, or tax compliance, is determined by prevailing social tax norms to a substantial extent. For example, Alm, McClelland and Schultze (1999) turn to social norms of tax compliance in order to understand the puzzle that underreporting is not higher than it is, considering the low likelihood of detection and the weak penalties for tax cheating in most countries. Other arguments for norms and values as explanatory factors of tax evasion can easily be found in the literature. Smith and Kinsey (1987) develop a social-psychological model for tax paying behavior where normative expectations are given a central position. Lewis (1982) takes a similar position. After a literature review, Wentworth and Rickel (1985) conclude that norm commitment may be a crucial factor in the decision to comply with or evade legally mandated taxes. Alm, Jackson and McKee (1992) give experimental evidence for such a conclusion, and Frey and Weck-Hanneman (1984) draw the same conclusion based on tax surveys. They found that their measure of tax

morality was significantly related to the size of the hidden economy, estimated with the technique of unobserved variables.

Among the few comparative works devoted to social tax norms and tax behavior, the relationship between them is rarely examined. Listhaug and Miller (1985) analyzed relationships between the tax level and norms for tax evasion within the OECD area. While no analysis between strength of tax norm and tax evasion was conducted, they seem, however, to assume a strong linkage between norms and behavior. Peters (1991, p. 222) examined the influences of political and economic factors on tax evasion and concluded that “tax evasion is as much a *political* act as it is an economic act”.¹ While data on tax norms is not included in the analysis, their impact on tax evasion is assumed to be of importance. Further, it should be added that comparative macro-economic analyses on causes of tax evasion often give excuses for not having access to macro-data on values and norms, which are assumed to be important explanatory factors (Schneider and Enste, 2000).

However, there are also good reasons to question the value of norms as explanatory factors of tax compliance. In order to be created or survive, a norm must fulfill a function. A sufficiently large number of people must also have an interest in enforcing the norm. Most people probably have an interest in others paying their taxes, but if they do not pay themselves, they nevertheless get access to the public goods financed by taxes. This is a classical free-rider problem, which may partly be solved by measures like constructing a tax system where it is difficult to underreport, a control system that increases the risk of detection and legal punishments that intimidate tax cheating. But, it may also partly be solved by informal norms that condemn tax cheating. The more legitimate is the tax system, the more likely it is that such norms are widespread, and eventually internalized in people’s minds, thereby affecting their behavior. A high degree of norm internalization would here mean tax compliance as a more or less reflexive behavior, without taking the risk of detection and sanctions into consideration. Otherwise, norm obedience requires sanctions against those who deviate. For such sanctions to develop, communication about the issue must occur and others must be able to provide informal sanctions or rewards to the individual. These are weak links

¹ As readily admitted by the author, the quality of the tax evasion estimates is doubtful. The correlation (r) between the two measures of tax evasion used is only 0.06.

in the process of transforming shared moral values into an effective norm. Smith and Kinsey (1987) remark that taxpayers' reference groups seldom learn about non-compliant actions, even if discovered by the tax authorities. Further, conversations about taxes are probably not very frequent and perhaps more frequent among members of groups with a high opportunity for non-compliance, and might as well favor values against tax compliance norms as values against non-compliance.

The process of formation of norms and moral values related to tax behavior has, to our knowledge, not been empirically studied, and the arguments claiming that norms exert strong influences on tax behavior are not totally convincing. An intriguing research result presented by Hessing, Elffers and Weigel (1988) casts further doubts on the effectiveness of social tax norms in affecting tax behavior. They measured tax compliance in two ways, as self-reported and determined by independent audits, respectively. While subjective norm measures were found to correlate quite strongly with self-reported tax compliance, no correlation whatsoever with "objective" tax evasion behavior was observed. Further, it is doubtful whether experimental results in this area of research can be generalized to the real world and reliable comparative survey data on tax norms has not been available. Frey and Weck-Hanneman (1984) admit that the data used is of doubtful quality and, moreover, they seem to measure trust in government rather than tax morality.

Now the situation has changed. The availability of comparative data, relevant for the topic studied here, has improved considerably during the last decades, and as most studies known to us have been undertaken during the 1970s and 1980s, we find it worthwhile to use these data for further explorations of social norms associated with taxes. We will do that by focusing on the aggregate level where the size of the shadow economy is determined.

2. About data and the validity of the social tax norm indicators

When it comes to descriptions and features of tax systems, we rely heavily on OECD data (OECD, 2000) and results from previous research. Data on political system characteristics was kindly provided by

Svante Ersson (Ersson, 2001).² Data on voting behavior and demographics is drawn from the ISSP database (Davis and Jowell, 1989; Svallfors, 1996). The above data sources will be clearly presented whenever they appear in the following sections. We need, however, to devote some attention to the measurement of the paper's key variable: the social tax norm.

Data for the measurement of the social tax norm comes from two international survey projects: the World Values Surveys (WVS) (Inglehart et al., 2000) and the International Social Survey Program (ISSP). The social tax norm will be measured by two types of indicators. The first indicator is from the WVS and it is a specific question about tax evasion, which is part of a larger battery of questions dealing with moral issues. *Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between, using this card. Cheating on taxes if you have a chance...* Answer categories run from 1 (never justifiable) to 10 (always justifiable). The second indicator is a question from the ISSP surveys. The question is part of a two-item battery and it is formulated in the following manner. *Consider the situations listed below. Do you feel it is wrong or not wrong if a taxpayer does not report all of his or her income in order to pay less income taxes?* The answer categories are: (1) Not wrong, (2) A bit wrong, (3) Wrong, (4) Seriously wrong. For the WVS-variable, the percentage of respondents answering "never justifiable" (code 1) indicates the aggregate support for the social tax norm. For the ISSP-variable, support for the social tax norm is indicated by the percentage of respondents answering that it is "wrong" or "seriously wrong" (codes 3 and 4 collapsed) if a taxpayer does not report all of his or her income in order to pay less income taxes.

Since the two indicators differ with respect to the wording, context, and sequence of the questions, it seems to be of crucial importance to assess the validity of the two indicators. First, a characteristic of a social norm is that it is reasonably stable over time. When examining the relationships over time for each indicator, we should therefore expect to find relatively pronounced correlations. Second, if both indicators tend to measure the same concept (i.e. criterion-related validity (Evans, 1996), we should find a substantial agreement between them.

² This database contains similar variables as a database used in a thorough examination of Western democratic political systems published in Woldendorp et al. (2000).

In the following analysis, 18 OECD countries are included. Since the number of participating countries differ across the surveys, the sample size in the below validity test varies between 7 and 15. (The percentage distributions for the two indicators broken down by country and year are displayed in the appendix, Table A1.) In Table 1, rows 1-3, the correlations for the WVS indicator over time are shown.³ The magnitude of the correlations is rather strong, as predicted. Furthermore, the shorter the time-span between measurement periods, the stronger the correlations are. The ISSP indicator (row 4) also tends to correlate convincingly over time. Rows 5 and 6 also show that there is a considerable agreement between the two indicators.⁴

Table 1. Correlations (r) between social tax norm indicators.

	Data & Year		Data & Year	(r)	(n)
1	WVS 81	-	WVS 90	.76 ***	15
2	WVS 90	-	WVS 95	.80 **	8
3	WVS 81	-	WVS 95	.55	8
4	ISSP 91	-	ISSP 98	.91 ***	9
5	WVS 90	-	ISSP 91	.76 **	7
6	WVS 95(90) ^a	-	ISSP 98	.77 ***	15

Notes: ^a Data from countries missing in the 1995 survey is replaced with data from the 1990 survey. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

3. Tax systems, political processes, and social tax norms

Social tax norms are, as mentioned, often assumed to be of great importance for tax compliance. However, they are also of interest in their own right. Regardless of the effect of these values on tax behavior, they might indicate the degree of acceptance of prevailing tax policy and therefore have significant political relevance. Knowledge about the determinants of social tax norms is probably as important as knowledge about the effects of these values on tax behavior.

As pointed out by Coleman (1990), social norms are usually taken for granted in social theory. Norms are system-level properties and, as

³ The correlation coefficient used in the paper is the Pearson Product Moment Correlation Coefficient (Pearson's r) also known as the coefficient of correlation.

⁴ It should be mentioned that Austria represents an extreme outlier in these analyses. The results obtained by the WVS and ISSP indicators are very different. Since it is not possible to determine which of the two measures, if any, that is valid, Austria has been excluded from the data set.

such, supposed to bear some influence on individual behavior in the system. This is a macro to micro relation. Neglected, but equally important, is the reverse relation. Why are social norms created and how do they get strength and support from the members of the social system? Following Coleman, we assume that social norms do not exist unless a significant number of members of the system have an interest in upholding them. The extent to which this is the case is indicated in our study of social tax norms by the degree of support for the legal tax norm. Strong support probably indicates a positive attitude towards the tax policy. However, the degree of support for the legal tax norm in a certain country might also be influenced by a general tendency to accept laws based on the authority and legitimacy of the country's legislative body.

Norm support is determined by the pattern of relationships between those who are *targets of the norm* and those who are *beneficiaries*. When it comes to tax systems, the target actors (the taxpayers) are often also the beneficiaries (the recipients of tax expenditures). This is named a conjoint situation by Coleman. But the target actors might also be others than the beneficiaries, which is called a disjoint situation. In such cases, one can assume that beneficiaries are more supportive of the tax policy compared to target actors and the two categories can be expected to develop different social tax norms.

The concepts of *target actors* and *beneficiaries* will structure our analyses as they can help us identify main blocks of variables that might affect social tax norms. The target actors of a tax norm are pointed out by the tax system itself. It determines the level of taxes that is levied on various categories of people, such as wage earners, consumers, employers, possessors of capital, et cetera. Thus, in our search for factors that might influence social tax norms, we will first turn to the tax system itself. Second, we move to the expenditure side of taxes and focus on the beneficiaries. However, social tax norms cannot be regarded as solely derived by patterns of winners and losers, or beneficiaries and target actors. Tax systems are continuously changed in a political process, which can be assumed to correspond with people's immediate self-interests to varying degrees, but also with power structures and more basic values that go beyond short-term self-interests. The political system can produce outcomes that are more or less in harmony with citizens' interests and values through the implemented policy, but also through the political activities that form these values. Hereby the political process contributes to the communicative proc-

ess in which norms are developed. Thus, in our search for factors that might influence social tax norms, we will finally turn to the character of the political process.

3.1. Tax systems and target actors

The character of a tax system is primarily determined by the size of the tax revenue. Tax systems in countries with high tax levels identify more, usually more heavily taxed, target actors than tax systems in low-tax countries. This means that there are more options for tax evasion in high-tax countries compared to low-tax countries, and one may assume that economic incentives to evade taxes are stronger in high-tax countries. This requires strong norms in order to counterbalance taxpayers' options to evade taxes. But, as pointed out earlier, economic cost-benefit rationality may override norm compliance when options to avoid taxes are available. If many people are tempted to avoid taxes, they might feel uncomfortable with moral values that put them in a cross-pressure situation. As people usually try to avoid cognitive dissonance (Festinger, 1957), they might feel reluctant to support norms that put them in such situations. Further, it can be assumed that extensive possibilities to avoid taxes might also create mistrust in others, thereby undermining tax norms. If this is correct, it can be assumed that increasing tax levels tend to produce weaker social tax norms. When Schneider and Enste (2000) mention the size of the tax burden as the most important factor behind tax evasion in their literature review on tax evasion, they could have pointed at two explanatory mechanisms. A high tax burden might be associated with many options and incentives for tax evasion as well as weak social tax norms. It can also be argued that strong social tax norms are more important in high tax countries than in low tax countries, provided that social tax norms really have some influence on people's tax behavior. Thus, theory does not predict an unambiguous sign for the correlation between the tax level and social tax norms.

The crucial factor here is the size of the tax level, measured as a percentage of GDP, but the structure of the tax system might also be of importance. Target actors, considerably more taxed than others, can also be assumed to be more dissatisfied with the tax policy. Breaking tax laws, regarded as unfair, might be a behavior with which they can sympathize. Different target actors are identified by the structure of the tax system, i.e. such taxpayers as labor, consumers, capital owners and high-income earners. Effective tax rates on labor,

consumption, capital and top marginal tax rates indicate a tax burden on these categories. But here we have an analytical problem. The extent to which different target actors are taxed is closely related to the general tax level. The correlation (r) between the general tax level and the effective tax rate on labor is about 0.85 in all three years we are studying, with the effective tax rate on consumption being about 0.75 in all three years and, with a top marginal tax rate about 0.70 in 1981 and 1990, but only 0.30 in 1998. The correlation between the tax level and the effective tax rate on capital is almost zero in all three years.⁵ Therefore, effective tax rates on labor and consumption are not included in the following regression analyses. The top marginal tax rate is only included in 1998 while the effective tax rate on capital is included in all three years.

As shown in Table 2, the relation between social tax norms and the general tax level is negative, as expected. The higher the taxes, the weaker is the social tax norm. However, the relation is weak and almost zero in 1998. There might still be a tendency that high tax levels (which are associated with broad tax bases, many taxpayers, and large segments of citizens tempted to evade taxes) undermine tax norms.⁶ But there are high tax countries with relatively strong moral values and low tax countries with weak values. Countries with stronger social tax norms than predicted by their tax level are Sweden, Denmark and Japan. Countries with weaker social tax norms than predicted are Germany, Belgium, Ireland and the Netherlands. Although there is a negative relationship between the tax level and social tax norms, it is clear that a substantial variation remains to be explained.

⁵ Sources for data on effective tax rates and top marginal tax rates are Carey and Tchilinguirian (2000, Table 1), and Leibfriz et al. (1997, Table 14), respectively.

⁶ Unfortunately, we have not been able to get comparative data on the risk of tax evaders being detected and the punishments associated with tax evasion.

Table 2. Social tax norms related to the general tax level, the effective tax rate on capital, and the top marginal tax rate. OLS-regression

	WVS 81				WVS 90				ISSP 98			
	Beta	t	Beta	t	Beta	t	Beta	t	Beta	t	Beta	t
General tax level	-0.37	-1.42	-0.37	-1.46	-0.54**	2.48	-0.58**	-2.90	-0.24	-0.94	-0.26	-0.83
Effective tax rate on capital			0.32	1.27			0.40*	2.03			.63**	2.96
Top marginal tax rate											0.01	0.05
R²	0.14		0.24		0.29		0.45		0.06		0.46	
N	14				16				15			

Notes: * $p < 0.10$; ** $p < 0.05$.

Turning to the structure of the tax system, some explanatory power is gained. However, this does not concern the effects of tax rates on labor and consumption, as we are unable to single out their effects from the effects of the tax level. Heavy taxation on high incomes, indicated by top marginal tax rates, was included in the analysis in 1998, but we could not observe any relation between that variable and the social tax norm. However, with effective tax rates on capital, the result is different. Here, we find a surprisingly high correlation with social tax norms, which increases over time. It is difficult to give this result a full explanation. Part of the explanation might be found in the fact that relatively few people, often conceived as well off, are target actors as far as taxes on capital are concerned. Other types of taxes tend to identify a comparatively larger number of target actors. If the effective tax rate on capital is very low, about 15 percent on gross generating surplus, as is the case in many countries, people might find it unfair as they have to pay much higher effective tax rates on salaries and consumption. Admittedly, this is a tentative *ad hoc* explanation, but it might indicate support for a hypothesis: tax systems that treat target actors very differently might get into problems of legitimacy, especially if the mistreated are in majority.

3.2. The expenditure side of taxes: beneficiaries and social tax norms

We will continue our search for explanatory variables by looking at beneficiaries and the expenditure side of taxes. Taxes are primarily used to cover expenditures for the legal system, national defense, administration and other basic functions with which governments are concerned. But taxes have increasingly been used also for financing the production of public services in care and education and for covering costs of public social insurance systems. It is basically differences in the ambitions to finance such welfare arrangements by taxes that explain differences in tax levels between countries. The higher the social expenditures⁷, the higher are the tax levels. The correlation between the two is 0.93 for 17 OECD countries in 1998. The net redistributive effect of taxes and transfers is strongly related to the size of social expenditures. The higher is the tax level, the higher the size of social transfers, and the more the initial income distribution is

⁷ Public and mandatory private social expenditures. Source: OECD (2000).

changed. The correlation between tax level and redistribution⁸ is 0.88. This produces losers and beneficiaries and disjoint situations between target actors and beneficiaries.

A straightforward hypothesis is that the net winners, or beneficiaries, will have positive attitudes towards paying taxes as they get more than they are paying for. They might see tax evasion as a more serious crime than the net losers and will therefore support strong social tax norms. If the two groups are of equal size, it can be assumed that the mean strength of the social tax norm is unaffected by redistribution. If, on the other hand, redistribution increases, the value gap between winners and losers is also expected to increase. Theoretically, one can also expect unbalanced situations with winners or losers in majority. If winners are in majority, they gain little per head and losers lose much per head, a fact that sets clear limits to how much redistribution there can be in such systems. If the losers are in large majority, they lose so little per head that their attitude to taxes will probably be unaffected by the redistribution that is produced. It is well known that in low-tax countries small amounts of money are used for redistribution targeted to the really poor. In countries with extensive welfare state arrangements almost everybody is involved as contributors and receivers of goods and services that are financed by tax revenues. When taxes are increased and welfare state arrangements are introduced, there is a movement from a situation with few winners and many contributors to a more balanced situation with many net losers and many net beneficiaries and increased redistribution (Åberg, 1989; Korpi and Palme, 1998).

Thus, we do not expect to find any association between the size of social expenditures and the social tax norm when the general tax level is held constant. This is also the case. For example, the correlation (r) between the two is only $-.09$ in 1998. But, also as expected, the relation between social expenditure, as well as the tax level, and the *variance* in the social tax norm is larger and with a positive sign, as shown in Table 3.

⁸ Change in income distribution Gini coefficients. Source: Burniaux et al. (1998, Table 3.2).

Table 3. Correlations (r) between the variance in social tax norms and social expenditure and tax level

	Correlations (r) between variance in tax norm and...	
	...social expenditure	...tax level
WVS 1981	0.19	0.27
Sweden excluded	0.45	0.55*
WVS 1990	0.68**	0.52*
Sweden excluded	0.76**	0.64**
ISSP 1998	0.39	0.32
Sweden excluded	0.51*	0.47*

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

These results indicate that the redistributive effects of social expenditures, which are strongly associated with the tax level, contribute to increasing differences in moral obligations to pay taxes. Here, Sweden is an outlier. It shows less variance in these moral obligations than expected in relation to the size of social expenditures and the level of taxation. Therefore, the correlations in Table 3 are calculated with Sweden both included and excluded. Even if outliers exist, we find it quite safe to conclude that heavy taxation tends to create more severe tax norm conflicts. Our micro data set makes it possible to take a closer look at the character of this conflict, which is the purpose of the next section.

3.3. Size of tax level and size of social tax norm conflict

As pointed out above, there is a very strong correlation between the tax level and the redistributive size of the budget. Moreover, there are differences in effective tax rates as well as in visibility of taxes between groups. Different hypothetical types of tax norm conflicts generated by group belongings can therefore be distinguished. First, propelled by the redistributive effects of progressive taxes and social transfers, there might be a cleavage between the better-off and the worse-off. This should be manifested in tax norm differences between the working classes and the upper middle classes.⁹ Second, it

⁹ Class positions are based on the EGP classification of occupations (Erikson & Goldthorpe, 1992). In this schema, classes are distinguished by the employment relations that occupations entail according to their position in markets and production. The internal consistency of the class schema has been empirically validated

has been suggested that “painfully visible taxes” are important in explaining opposition against taxes (Wilensky, 1976). If this is true, then it is likely that negative attitudes towards taxation are more common among the self-employed compared to employees. The strategies adopted by the government in some countries, e.g., Sweden, for collecting taxes on income, social security, goods and services, differ markedly between employees and the self-employed. Taxes tend to be substantially less visible for the former group compared to the latter. Perceptions of being targets rather than beneficiaries may be more common among the self-employed than among employees.

Two alternative sources of conflict are gender and sector of employment. High-tax countries tend to have a more developed public sector that organizes the social services. It is argued that this can encourage divisions between a private sector of taxpayers, and a tax receiving public sector (Esping-Andersen, 1990, 1993; Hoel and Knutsen, 1989). Others have put a more specific emphasis on gender and argue that the scope and structure of state social provisions significantly determine work opportunities and standards of living for women and in extension, gender specific interests (Orloff, 1993; Daly, 1994). The argument is that public support for taxes should be stronger among women compared to men because women are seen as more dependent on the welfare state in terms of social services, benefits, and employment (Hernes, 1987; Borchorst and Siim, 1987).

Age may also be of relevance (Turner, 1989, 1998; Irwin, 1996). A material redistribution of wealth over the life-cycle is achieved via taxes and transfers. Dependency on state benefits and social services is more common among the young and, in particular, the elderly, compared to the middle-aged working population.

Finally, in many countries, the traditional left-right axis is associated with political expressions and beliefs about preferred responsibilities and ambitions of the state in terms of welfare. Left parties are generally more supportive of welfare statism compared to conservative parties. It is assumed that affiliates of left-wing parties support the tax norm to a greater extent compared to those sympathizing with right-wing parties. Furthermore, the centrality of tax politics and the political tensions between the left and the right around matters of

(Evans, 1992, 1993, 1996; Evans and Mills, 1998a, 1998b). Six different classes are distinguished: unskilled workers, skilled workers, routine non-manuals, intermediate non-manuals, higher non-manuals (professionals and managers) and self-employed.

taxation are suggested to be more pronounced in high-tax countries compared to low-tax countries.

In order to analyze whether the above-hypothesized patterns of conflict are associated with the general tax level, we have first calculated the difference in tax norm support between groups for each country. The average difference for each factor (gender, age, sector of employment, social class, political party preferences) is reported in Table 4 under the heading ASD (average difference).¹⁰ In the second step, countries are treated as cases. The size of the tax norm conflict for each factor is correlated with the tax level variable. We have carefully checked to what extent outliers affect relationships, and the results are commented upon below.

Table 4. Relationships between taxes in percent of GDP (1998) and the size of tax norm conflict in six social groupings

	(r)		ASD	(n)
Gender	0.39		4.9	16
Age	-0.15		11.8	16
Sector of employment	0.42		6.3	15
Sector of employment^a	0.50	*		14
Social class I	0.05		8.2	13
Social class II	0.37		6.1	13
Social class II^b	0.56	*		12
Political party preferences	0.57	**	5.5	16

Notes: Cell entries are coefficients of correlation (r) and average size of difference (ASD) in percentage points. a Sweden excluded; b Germany excluded. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$. Variables not available: Sector (US); Social class (Italy, Japan, UK).

Sources: ISSP (1998); OECD (2000).

The results in Table 4 show that the variables can be ordered into three categories. In the first, we find two variables whose relationships with the general tax level are weak and non-systematic: gender¹¹

¹⁰ For instance, the ASD coefficient for gender is calculated in the following way. First, the absolute difference (that is, differences can only take positive values) in percentage points in norm support between men and women in each country is calculated. Second, the mean value of the gender differences across countries is calculated. The mean value is the ASD coefficient.

¹¹ The degree of gender conflicts varies extensively between the countries. Whenever more accentuated differences occur, support for the tax norm is higher among women than among men. The largest gender differences can be observed in Canada, UK, Norway, and Sweden; two low-tax and two high-tax countries.

and social class I¹² (upper middle class vs. lower-middle/working classes). The second category comprises age, which has a similar and distinctive influence across countries, irrespective of the general tax level.¹³ However, rather than being a cleavage between the middle-aged on the one hand, and the young and the elderly on the other, as hypothesized, we can observe a positive linear correlation between age and tax norm support.¹⁴ In the third category, we find three variables that behave in accordance with the above hypotheses, i.e. the magnitude of the tax norm differences between social groupings is systematically associated with the level of taxes.

- *Sector of employment.* In virtually all countries, there is a tendency that those in the private sector have a weaker tax norm than public sector employees. More importantly, sector differences tend to be stronger, the higher is the tax level.¹⁵
- *Social class II.* This variable distinguishes between self-employed and employees. Here, we find that tax norm support tends to be higher in the latter group compared to the former. In line with the predictions, the higher the level of taxes, the larger the difference between the self-employed and employees.¹⁶
- *Political party preferences.* The significant correlation coefficient indicates that tax norm differences between those on the political left and the political right tend to be stronger the higher is the tax level. While political support for the tax norm is usually more solid among supporters of left parties, it is worth noticing that in low-tax countries, tax norm support is more closely associated with the political right than the left. The political support for taxes observed across countries coincides with broader images of advanced

¹² It is shown that conflicts are either non-existent or contradicting the initial hypothesis. Whenever substantial differences occur, the upper middle class (service class I: higher level administrators and managers) shows a higher degree of tax norm support compared to the middle/working classes (routine non-manuals, skilled and unskilled workers).

¹³ Except in Italy, the Netherlands, and New Zealand where age differences are very small.

¹⁴ The ASD coefficient indicates that on average, the tax norm difference is 11.8 percentage points between the young (18-25 years old) and the elderly (65 years or more).

¹⁵ Sweden, where sector conflicts are weaker than expected, represents an anomaly in this respect.

¹⁶ Germany is an outlier due to the exceptionally low degree of tax norm support among the self-employed in this country.

welfare states as mainly a leftist project, while the less ambitious night-watchmen state is essentially a conservative project.

Thus, we can conclude that social tax norm conflicts tend to be more accentuated in countries where the government collects substantial tax revenues. This conflict is usually expressed as a political left-right conflict, which points at the political process as another crucial determinant of social tax norms.

3.4. The political process and tax norms

As shown in Woldendorp et al. (2000), the characteristics of the democratic system and the government vary tremendously among OECD countries. In this section, we will focus on two factors. The first is the legacy of ideological positions of governments. This variable is an average score on a left-right scale classification of governments for the time-period 1945-2000. It is relatively clear that the tax level is related to the ideological legacy of government. Our data indicates that in countries dominated by left governments, the size of tax revenues is generally higher compared to countries run by right-wing governments ($r = 0.72$). Does this also mean that tax norm support is lower in countries dominated by left-wing governments? In Table 5, rows 1-2, it is shown that this assumption is difficult to justify. The ideological legacy of government has a rather small influence on the tax norm.

Table 5. Relationships between the social tax norm, the ideological legacy of government, and the long-term stability of government

	Year	Tax norm		(n)
1. Ideological legacy of government	1990/95	0.36		(17)
2. Ideological legacy of government	1998	0.00		(16)
3. Long-term stability of government	1990/95	0.55	**	(17)
4. Long-term stability of government	1998	0.67	***	(16)
5. Long-term stability of government	1990/95	0.56	**	(16)

Notes: Cell entries are coefficients of correlation (r). 1990/95 and 1998.

Sources: Ersson (2001) rows 1-4; Steinmo and Tolbert (1998) row 5; ISSP (1998); WVS (1990/95). * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

The second factor is the long-term stability of government. Our hypothesis is that public trust in the political processes is more easily

gained in countries where—depending on either the democratic system or the voting results or both—the cabinet is dominated by a single or very few political parties. It is likely that multiple party cabinets are more often subjected to internal strains on policy issues compared to single party cabinets. Internal strains and external demands on government to cater for more diverse interests are both obstacles to efficient long-term policy implementation. These obstacles probably undermine the likelihood of public trust in the political process. Finally, and perhaps most important, the probability for the government to anchor and justify policy implementations, and furthermore, to influence, respond and adjust to the wishes of public opinion is likely to be higher in countries characterized by governmental stability. Mutual streams of communication between the government and the citizens tend to facilitate public legitimacy for government actions and, in extension, stronger tax norm support. Hence, public support for the tax norm should be stronger in single party dominant countries, compared to countries where multiple party governments are common. As shown in Table 5, rows 3-5, this hypothesis receives empirical support.¹⁷ It is thus likely that stable political majorities tend to generate strong social tax norms. Among the countries characterized by stable political government, some have been dominated by left-wing and some by right-wing governments. Despite the substantial differences in general tax levels, it is worth noticing that public tax norm support does not differ between countries with stable left-wing and right-wing governments.¹⁸

The next question is how the negative relationships between the social tax norm and the tax level presented earlier in the paper are affected by holding the long-term stability of government constant. We run two OLS-regressions in which the independent variables are treated as continuous (Table 6). Note that the stability of the government variable is coded from high to low stability. Beginning with the WVS sample, it is shown that both the tax level and governmental stability are related to the strength of the social tax norm. In the ISSP

¹⁷ The long-term stability of the government variable is measured as the average score of the number of parties in the cabinet for the time-period 1945-2000 (rows 3 and 4) (Ersson, 2001), and the percentage of seats won by the dominant party for the time-period 1968-1988 (row 5) (Steinmo and Tolbert, 1998).

¹⁸ Average tax level 1998: RW=31.8%, LW=40.4%. Average tax norm support 1998: RW=82.5%, LW=78.5%. (RW=stable right-wing countries, n=4. LW=stable left-wing countries, n=3).

sample, relationships are somewhat different. The influences of the tax level on the social tax norm seem to be non-existent when controlling for the impact of governmental stability.

Table 6. Social tax norm support by long-term stability of government and tax level. OLS-regression. 1990/95 and 1998

	WVS 1990/95		ISSP 1998	
	Beta	t	Beta	t
Long-term stability of government	-0.35*	-1.71	-0.67***	-3.05
Tax level	-0.48**	-2.31	0.00	0.00
R²	0.49		0.45	
(n)	(17)		(16)	

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

Sources: Ersson (2001), ISSP (1998), WVS (1990/95), OECD (2000).

We should perhaps not draw too strong conclusions about the relative strength of taxes and politics, respectively, on tax norm support, based on the evidence in Table 6. We may, however, conclude that it is likely that the structure of political processes can either facilitate or discourage legitimacy for the tax system.¹⁹ The probability of successful communication and mutual responses between the government and the general public in issues of taxation is likely to be higher in countries where long-term policy implementation has been accommodated through the dominance of a single or very few parties. In short, efficient tax policy making in accordance with public opinion is likely to result in stronger tax norms.

4. Social tax norms and tax evasion

While tax evasion is certainly a criminal act, we have not found any criminologist that has taken it up as a research topic;²⁰ it seems first of all to be a matter of interest for economists. Their approach to ex-

¹⁹ An additional OLS-regression using Steinmo and Tolbert (1998) data and WVS 1990/95 does not affect the conclusion that both taxes and political processes matter for tax norm formation (Beta: -0.42 (tax level), -0.31 (stability of government), $R^2 = 0.42$, $n = 16$).

²⁰ In *The Oxford Handbook of Criminology* (Maguire, Morgan, and Reiner, 1997), tax evasion can be found in the subject index referring only to one page where tax evasion was mentioned *en passant* and not treated as a research topic. *Handbook of Criminology* (Glaser, 1974) did not come closer to tax evasion than “taxi driver”.

plain the behavior is usually the familiar rational cost benefit calculation as a base for individual decisions to avoid taxes. When the options for tax avoidance increase, other things being equal, tax evasion is expected to increase. And, as earlier mentioned, there are probably more options for tax evasion when the tax level is high than when it is low.²¹ However, in our study, other things are not equal, as our main purpose in this section is to determine whether social tax norms make a difference. Strong social norms, if internalized, should reduce the perceived opportunity structure and, as mentioned, reduce the will to cheat on taxes.²² To what extent that is the case remains to be empirically determined.

Data on tax evasion is taken from Schneider and Enste (2000, Table 1). The size of the shadow economy, which in their estimations is treated as synonymous with the difference between the amount of taxes that should have been paid if all taxable incomes had been taxed and the actual taxes paid, is estimated by the currency demand method. This method has not escaped criticism. First, not all transactions in the shadow economy are paid in cash. Second, estimates of the size of the shadow economy using this method tend to be suspiciously high. However, for our purposes, it is less of a problem if the estimates of the absolute size of the shadow economy are uncertain, as long as the measurement errors are of approximately the same size and evenly distributed across countries. We have performed a number of validity tests, and based on these results, we have no reason to believe that the rank-order of countries estimated by the currency demand method is unreliable.²³ Furthermore, the availability of countries and time periods in this data-set is a true advantage, given the analytic approach of this paper.

²¹ This way of thinking about the size of tax evasion resembles the “routine activity approach” to explain crime rate trends and cycles (Choen and Felson, 1979). The basic assumption in this approach is that crime rates are determined by the options to commit crimes which, in turn, are dependent upon the frequency of contacts between individuals and the availability of things to steal.

²² Here we can also refer to criminology and “social control theory” emphasizing formal as well as informal, by socialization internalized, norms and values that prevent some actions and stimulate others (e.g. Hirschi, 1969).

²³ The correlation between the estimates by the currency demand method and estimates of tax evasion related to VAT (national accounts data) (Woon Nam et al., (2001, Table 3) is (R^2) 0.89. Similarly, the correlation between the currency demand method data and estimates of tax evasion rates across European countries, based on national accounts data (summarized in RSV 2002, Table 3), is (R^2) 0.86.

Beginning with the relation between tax level and shadow economy, we find a trend from an almost nonexistent relation towards a positive one in the regression analyses presented in Table 7. Two countries have extremely high levels of tax evasion, Italy and Spain. These countries, of all included in the analysis, also showed the highest tax increases between 1981 and 1998. Excluding them, we find a rather strong relation between the tax level and the shadow economy in 1998. Thus, the data gives some weak support for the argument that high tax levels generate more opportunities and incentives to evade taxes, and that this is what people actually do.

Table 7. The relations between shadow economy, tax level, and social tax norm 1981, 1990 and 1998. OLS regression

	WVS 81		WVS 90		ISSP 98		ISSP 98 ^a	
	Beta	t	Beta	t	Beta	t	Beta	t
General tax level	-0.11	-0.33	0.39	1.36	0.52*	2.00	0.74***	3.23
Social tax norm	0.10	0.30	-0.13	-0.45	0.20	0.77	0.14	0.65
R²	0.03		0.21		0.28		0.54	
(n)	13		15		14		12	

Notes: ^a Italy and Spain excluded. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

However, the main objective here is to see if social tax norms have some influence on tax evasion. Based on the results reported in Table 7, it must be concluded that they seem to have little or no influence on actual tax behavior. At least, we cannot demonstrate that the aggregate social norm level does have an effect on the size of the shadow economy. Tax behavior seems to be determined by other factors than the individual's moral values. These may be ineffective as behavior moderators due to low degrees of internalization or low risks of social sanctions associated with them. Moral values do not seem to outbalance economic self-interest.

5. Conclusions

There is a considerable difference between developed countries regarding the tax level, the structure of the tax system, and the size of the shadow economy. With a few exceptions, there is a positive relation between tax evasion and the tax level. This could be interpreted

as an indication that public legitimacy for tax policy tends to decrease when taxes are increased. However, such a conclusion is probably too hasty to draw. The extent to which people accept tax systems, as measured by social tax norms, is only moderately related to the tax level. However, it is clear that increased tax levels mean increased social expenditures, redistribution, and social conflicts in matters of tax policy. These factors put great demands on the political process; i.e. that the policy implemented and the taxes needed are decided in a stable political climate in congruence with the values and interests of the citizens. Thus, there are high-tax countries as well as low-tax countries that have developed tax policies with high moral support. Stable political majorities, which might be conservative as well as left wing, have dominated in all countries with a strong tax norm support.

However, strong tax norm support is probably not the most efficient tool for reducing tax evasion. Tax norms are seldom so strongly internalized in people's minds that they have the power to counteract opportunities and incentives for tax evasion. Here, it is likely that forces of economic self-interest take over. Moreover, although not empirically studied by us, we believe the formal control system to be a powerful explanatory factor. If people can trust that everybody is paying their legally mandated taxes, they might have greater confidence in the tax system, as well as a reduced interest in evading taxes.

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Appendix

**Table A.1. Social tax norm indicators
WVS 1981, 1990, 1995. ISSP 1991, 1998**

	WVS	WVS	WVS	ISSP	ISSP
	1981	1990	1995	1991	1998
Australia	48		62	83	85
Belgium	43	34			
Canada	67	59			80
Denmark	59	57			76
Finland	59	40	58		
France	49	47			58
Germany	53	40	40	45	52
Ireland	38	49		65	59
Italy	75	55		74	70
Japan	82	82	81		84
Netherlands	38	43		46	61
New Zealand				79	81
Norway	40	43	48	77	76
Spain	50	58	70		81
Sweden	69	56	49		82
Switzerland		64	54		66
UK	58	54		74	73
US	67	67	74	85	85

Notes: Cell entries are percentage distributions (WVS: never justifiable) (ISSP: wrong or seriously wrong). For the WVS-variables, cell entries indicate the percentage of respondents saying that “cheating on taxes if you have a chance is never justifiable” (code 1). Cell entries for the ISSP-variables show the percentage of respondents answering that it is wrong or seriously wrong (codes 3 and 4 collapsed) if a taxpayer does not report all of his or her income in order to pay less income taxes.

