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What explains regional disparities in  
Italian Tax Morale?  
Testing the *Amoral Familism* \*

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Abstract

Using the 2004 Bank of Italy Survey of Household Wealth and Income, we undertake a comparative study assessing the regional effects of social capital and civic culture on tax morale in Italy. We demonstrate that Southern Italy is substantively and significantly different than Northern Italy with regards to tax morale, and the South demonstrates lower levels of civic culture and social capital. *Tax morale*, however, is constructed within a specific institutional environment and reflects the particular quality of institutions with which an individual associates. To test this hypothesis, we use controlled tax compliance experiments. For our experiments, conducted in Milan, Rome, and Bologna, participants partake in clerical tasks and are paid based on how well they performed in those tasks. They are then asked to report their incomes in three different scenarios mimicking different types of tax regimes. Institutions are held constant throughout the experiment allowing us to isolate cultural variation. Contrary to moralist explanations of an individual's tax morale, when controlling the institutional environment there is no difference in tax compliance. Furthermore, using *Social Value Orientation* as a proxy for an individual's civic-ness, we find no differences between the two regions.

Keywords

tax morale, taxation, tax compliance, experimental research, comparative politics

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## 1. Introduction

Ex-Prime Minister Silvio Berlusconi once famously claimed that the “evasion of high taxes was a God-given right” in Italy. Reports from Istat, Corte dei Conti, and l’Agenzia delle Entrate estimate that tax evasion in Italy costs the state 120 billion euros per year in lost revenue. Recent scholarship on international political economy has brought new life to the tax evasion debate, precipitated by sovereign debt crises throughout Southern Europe. Prevailing academic discourse revolves around two perspectives: the theoretical models utilize game theory and an economics of crime approach (Allingham and Sandmo 1972); the empirical models draw on simulations mimicking taxpayer/revenue-collector scenarios. Both models rely heavily on the probability of detection and the severity of the punishment. More recently, social scientists have examined different sociopolitical and cultural variables and their impact on evasion and compliance. Their research centers on why taxpayers voluntarily pay, rather than evade the state. Tax morale refers to citizens’ intrinsic motivation and a general willingness to pay taxes (Alm and Torgler, 2006; Torgler, 2002; Torgler and Valev, 2010; Schaltegger and Torgler, 2007; Ross and McGee, 2011).

Cross-national social surveys account for tax morale across a wide variety of political cultures, but little research is available regarding tax morale in Italy. Since tax evasion, by definition, is difficult to estimate, researchers use the size of the underground economy as a core indicator. Only Greece (27.5% of GDP) surpasses Italy (17% of GDP) in the size of its underground economy among Western EU states. Italy’s unique history and regional complexity provide researchers with a multitude of case study options in a single country. Research that examines the causes of tax morale has significant practical, theoretical, and methodological implications.

Italy presents a crucial case for studying tax morale because of the sizeable level of evasion in the country. While Italy collects approximately 350 billion euros per year in tax revenue, it loses an estimated 250 billion euros due to tax evasion and underground economy (Santoro, 2010; *World Development Indicators*, 2014). Other estimates place evasion rates at 25%-30% of GDP. Estimates suggest that Italy fails to collect around 26% of the income tax its citizens owe due to evasion. Considerable disparities register among different types of workers; self-employed individuals and entrepreneurs evade approximately 60% of their income taxes, while dependent workers only evade approximately 10%. Evasion rates vary in different sectors of the economy as well; estimates suggest the agricultural sector evades 70.57% of regional production tax while the commercial sector evades 54.78% and the business services sector evades 46.41%. Family services such as housekeepers and maids evade approximately 42%. Construction and industrial sectors evade the least, 23.82% and 9.24%, respectively (Santoro 2010).

In addition to industry variation, research reveals alarming regional variation. *Imposta Regionale sulle Attività Produttive* (IRAP, a regional production tax) evasion ranges from 13% and 50% in northern Italy, while southern regions vary from 54% to 94% (Calabria). Figure 1 presents all regions by level of IRAP evasion. Considering the sheer size of evasion, its economic determinants have grave importance to social scientists, demanding holistic approaches that account for deterrence, detection, and citizens' social characteristics.

Figure 1

Scholars such as Edward Banfield, Francis Fukuyama, and Robert Putnam have all employed cultural arguments to explain divergences in economic performance and government effectiveness between the Italian regions (Banfield, 1967; Putnam, Leonardi and Nanetti, 1994; Fukuyama, 1995). In their influential study *Making Democracy Work*, Putnam and colleagues suggest that a long history of civic virtue and social capital in the Northern regions of Italy is reflected in their past republican governments and their current institutions, whereas the Southern regions can be characterized by strong familial, inward facing ties which mirrors their autocratic history and present development. Since Putnam, a multitude of studies have tested the *Southern Question*.

Exploiting a set of surveys from the Italian National Bureau of Statistics (ISTAT), Sabatini performs Principle Component Analyses to build measures of bonding social capital, bridging social capital, and linking social capital. Bridging refers to weak ties between groups, linking individuals from diverse backgrounds, while bonding is associated with strong ties often found between family members. Northern Italy is typically referred to as endowed with high levels of bridging social capital and the South with high levels of bonding. Linking social capital is an area that is not typically mentioned in the literature, but for Sabatini is an important type of social capital. Linking social capital refers to weak formal ties linking different socioeconomic backgrounds mainly through voluntary organizations. He consistently demonstrates that the higher bridging in the North of Italy was positively correlated with several indicators of positive development. In the South, higher levels of bonding were negatively correlated with those same indicators. Strong family ties exert a negative influence on human development and economic performance. Weak ties may act as bridges across differing communities fostering knowledge sharing and the diffusion of trust, and therefore, benefiting the process of economic development. Bridging negatively affects income and development, while linking has a positive effect. (Sabatini, 2006, 2005*b,a*). Guido De Blasio and Nuzzo (2006), using the Bank of Italy Survey of Household Wealth and Income and Putnam et. al's regional data for the period following the 1870 unification, provide empirical evidence to support Putnam et. al's findings.

If we apply this logic to taxpayer behavior, a more civic oriented individual would gain utility by paying taxes because the increased wellbeing of their fellow citizens, as well as the state would also increase their utility. A person who is less civic and has strong inward facing ties would actually lose utility by paying taxes by decreasing the income of the family unit, while benefiting others, including a state which is far removed from the familial unit. We can express this in a basic utility function similar to that used by Murphy, Ackermann and Handgraaf (2011), but with an added family unit:

$$TaxMorale(\pi_{self}, \pi_{other}, \pi_{family}) = \pi_{self} + \alpha \pi_{other} + \alpha \pi_{family} - tax \quad (1)$$

where  $\pi_{self}$  denotes the taxpayers payoff,  $\pi_{other}$  indicates the payoffs to another person,  $\pi_{family}$  signifies the payoffs to the taxpayers family,  $\alpha$  measures the weight a taxpayer puts on others or family's wellbeing, and tax represents the amount of tax to be paid. More balanced weights between family and other exemplifies a citizen with a high level of bridging social capital. This is compared to a taxpayer who sacrifices the utility of others, favoring a heavily weighted family utility.

Using the 2004 Bank of Italy Survey of Household Wealth and Income, we undertake a comparative study assessing the regional effects of social capital and civic culture on tax morale in Italy. We demonstrate that Southern Italy is significantly different than Northern Italy with regards to tax morale, and the South evinces lower levels of civic culture and social capital. We argue, however, that cultural backwardness, often referred to as *amoral familism*, does not explain why certain tax behaviors are legitimized or not. Tax morale is constructed within a specific institutional environment, reflecting the particular quality of government with which a citizen associates. In other words, if the quality of government is so poor that circumventing laws is necessary to accomplish simple functions, such as paying taxes, side-stepping the state is legitimized, while the state itself is deligitimized. This then becomes a question of institutional effectiveness, rather than cultural deficiency. Although Italy's government ranks near the bottom of the Quality of Government Index, the Northern regions are amongst the highest ranked. On the other hand, all of the Southern regions fall near the bottom (see Table 1). In a Hobbesian world in which there is an absence of an effective state, a power vacuum is left behind in which non-governmental actors (i.e. the Mafia) often fill that void, leading to highly corrupt (low-trust) societies (Levi, 1996). This may explain some of what is perceived as dishonest behavior in the South.

Table 1 about here

To test the hypothesis that tax morale is shaped by institutions, we use tax compliance experiments conducted in Milan, Rome, and Bologna for which participants partook in simple clerical tasks and were paid based on how well they performed those tasks. They were then asked to report their incomes under three different scenarios, mimicking different types of tax regimes. Institutions were held constant throughout the experiment allowing us to isolate cultural variation. Challenging the culturalist argument, we find no difference in tax compliance when controlling for the institutional environment. Using Social Value Orientation as a proxy for an individual's civic consciousness we discern no differences between the two regions.

Our contribution to the literature is twofold. First, we demonstrate compelling evidence from our survey and the SVO experiment suggesting that an individual's interaction with others positively affects their willingness to pay taxes. We believe that this is due to the increased utility a person gains by increasing the utility of others outside their familial unit which is often a byproduct of paying taxes. Second, by using tax compliance experiments we are able to control the institutional environment leading to evidence that supports an institutionalist analysis of tax morale.

## 2. Methods

In this study, we first use OLS models to examine the effects of region, social capital, and civic culture on tax morale. The Bank of Italy Survey of Household Wealth and Income, 2004 (BI), which analyzes wealth and income in Italy dating back to 1970, provides the data. The survey is conducted every two years with a sample size of approximately 8,000 respondents. Based on the survey, this study examines whether living in Southern Italy indeed has a negative impact on tax morale, and how much that can be explained by social capital.

The 2004 BI survey has a section pertaining exclusively to public spirit and taxation. The study generated a random sample of 3,798 from its broader sample by selecting those respondents who owned a home with an odd year of birth to partake in this section. It posed a variety of questions regarding honesty, number of associations, perceptions of the extent of evasion, and a number of questions referring to tax morale. We operationalized the concept of tax morale by creating an index from Cronbach's alpha using several questions, which provided statements about Italy's tax system and asked respondents to indicate their level of agreement with the statements:

- The more someone earns, the more (in percentage) he/she should contribute to Government spending
- Paying taxes is one of the basic duties of citizenship
- Not paying taxes is one of the worst crimes a person can commit because it harms the whole community
- Even if someone thinks a tax is unfair, he/she should pay it first and then complain if necessary

- It is right to pay tax because it helps the weak
- If everyone paid taxes, in the end we would all pay a little less

1= not at all; 5 = very much

We also used a variable to represent evasion, based on a question which requires respondents to assess the seriousness of the problem of tax evasion in relation to other problems facing the government, asking respondents to rate it as 1. Very serious, 2. Serious, 3. The same as any other, 4. Marginal, or 5. Non-existent. The alpha score is .72 for the scale as a whole, signifying a reliable scale. The index has a minimum value of -2.92 and a maximum value of 1.13. At the 10th percentile, tax morale has a value of -.85, and a value of .75 at the 90th percentile.

The twenty Italian regions have been collapsed into two regions representing the traditional north and south divide in Italy. It could be argued that the regions of central Italy, once controlled by the papacy, should also be represented here. We find no statistical difference between the once papal states and the more northern regions, therefore we believe there is a strong argument for using the dichotomous region variable. Our independent variables are centered on the concepts of social capital and civic culture. We operationalize social capital and civic culture as interest in politics and number of associations. In addition, we have created an index for honesty, consisting of not paying for public transportation and not returning money found by accident. The alpha score is .82.

Using an independent variable for self-employed respondents reflects their consistently higher level of evasion in Italy. We control for individual demographic variables. All descriptive statistics for variables in the multivariate analysis are outlined in Table 2.

Table 2 about here

Survey responses are not without bias, however. Self-reporting may cause respondents to overstate their actual degree of compliance. Various studies addressing this upward bias find that the average person tends to exaggerate his or her willingness to pay for a variety of goods and services when given hypothetical situations. Hypothetical bias applies more strongly to private goods than to public goods, which could be related to an even greater upward bias on tax morale questions. Hillman (2010) argues that survey responses represent inconsequential expressive behavior because respondents are aware that answers to survey questions will benefit them expressively, but have no effect on their material utility. This can result in biased responses to tax morale questions because respondents' material utility is not affected, as it would be in real world taxpayer situations. However, the use of a multi-item scale increases the reliability of the measure by capturing the

diverse aspects of tax morale. The multi-item scale also tends to compensate for error in any single item (Alm and Torgler, 2006). Asking about tax morale is also less invasive than asking about tax evading behavior, and should thus evince a higher degree of honesty. The fact that the BI reveals significantly higher tax morale in the North than in the South further verifies the validity of the measure, since this is consistent with other non-survey data on tax evasion in Italy.

### 3. Results

To test the impact of region on tax morale we use a bivariate model, only analyzing the effect of region on tax morale. The first column of Table 3 shows the North is robust at the .05 level and positively correlated with tax morale, meaning respondents born in the North have higher tax morale scores than respondents in the South. The coefficient implies living in the North increases tax morale by .19 tax morale units. In other words, looking at Figure ?? living in the north moves tax morale from the second to third quartile when all else is held constant.

Table 3 about here

Figure 2 about here

Column II of Table 3 exhibits the results of my multivariate model adding our social capital and civic culture variables. All social capital and civic culture variables are robust and moving in the predicted direction; however, when controlling for social capital and civic culture there is only a modest decrease in the North variable, suggesting that social capital and civic culture account for only a small amount of the variation in the region variable. Interest in politics is an important indicator of civic participation. Interest in politics represents a general awareness and engagement with the political process; in this regard, it is an important aspect of civic culture. The more a citizen is involved in the political process the more likely they are to follow norms and rules, therefore increasing their tax morale. The positive coefficient predicts that a one-unit increase in interest in politics increases tax morale by .06 tax morale units. This implies that moving across the range of interest in politics from not at all interested in politics (1) to fairly interested in politics (3), tax morale moves from the second to third quartile when all else is held constant. Honesty (see appendix for explanation) also proxies for civic culture, because it indicates ones level of civic virtue and feelings about reciprocity. Here honesty has a coefficient of .11, predicting as honesty increases by one unit, tax morale will also increase by .16 units. More substantively, this means that as honesty moves from the 10th percentile (-1.3) to the 90th (.64), tax morale changes from the second to the third quartile *ceteris paribus*. These tests

all support the hypothesis that increased social capital increases tax morale, while also increasing tax morale across regions.

Social capital, represented by the number of associations to which a respondent belongs, is assessing the cooperative nature of a respondent and their outward ties, which can improve the efficiency of society (Putnam 1993, 126). The more an individual associates with other individuals as part of a formal or semiformal organization (i.e. unions, environmental clubs, etc...), the more emphasis will be placed on  $\pi_{other}$  in formula 1, and hence tax morale will also increase. In the difference-in-means t-test shown in Figure 4, Northern respondents frequent associations significantly more than their Southern counterparts. We propose that Northerners' social capital is not only quantitatively different, but also qualitatively as demonstrated by Sabatini (2006, 2005*b,a*).

By qualitatively different we mean the difference between bridging and bonding. Bridging represents associations between people of different socioeconomic and ethnic groups, whereas bonding relates to inward facing organizations such as ethnic fraternal organizations and country clubs. (Putnam, 2000, 22-23) illustrates the difference between the two as "bonding constitutes the kind of sociological superglue, whereas bridging provides a sociological WD40." Because bonding can result in strong out-group antagonism and distrust, tax morale could be negatively affected; bridging should have a positive effect on tax morale.

In our individual level model, the coefficient is .15, indicating that a one unit increase in associations increases tax morale by .15 units when all other variables are held at their mean. The results suggest that social capital and civic culture variables have a significant impact on tax morale. Specifically, knowledge sharing and the diffusion of trust increases the more often a person attends formal or semi-formal associations, which in turn, positively affects tax morale. If my tax morale is linked to the amount of utility that I get from the betterment of societal position of others + family, taking part in associations should, in theory, increase my tax morale.

Figure 4 about here

In column III and IV we add a set of demographic control variables: education, self-employed, and income are all statistically significant, moving in the predicted direction. Field and experimental research has shown that women in advanced and industrialized societies are less likely to evade taxes (Giese and Hoffmann, 2000; Torgler, 2002). In a study that uses Albania as a case study, Gërxhani (2007) notes that most explanations for these differences reference biology or socioeconomic conditions. Building on the work of Ferber and Nelson (2003), she argues that "gender differences, together with class, ethnic, and age differences, relate to legal arrangements, power differences, the historical division of labor, economic incentive patterns,



and institutional arrangements” (120). However, contrary to previously reviewed studies, sex is negative, signifying that women have lower tax morale than men in Italy.

Research exploring the effects of education and income on tax morale have have varying results. Some find a positive relationship between educational levels and tax compliance (Friedland, Maital and Rutenberg, 1978; Wallschutzky, 1984). One study, which samples 426 Swedes, establishes a negative relationship (Wärneryd and Walerud, 1982). Yet Milliron (1985), who samples 34 randomly selected adults from a jury duty pool in Las Angeles, performing taxpayer simulations, finds no relationship. Being self-employed has a large negative effect on tax morale and since self-employed individuals make-up a large portion of the Southern Italian workforce, this might further explain the differences in tax morale.

The results of the OLS regression models have many important implications for tax policy in Italy. I have demonstrated that variables, which represent social capital and civic culture, are significant predictors of an individual’s tax morale. Tax morale varies significantly between the North and South, but when social capital and civic cultural variables are considered in the model, the differences taper slightly. Although prominent scholars such as Robert Putnam and Edward Banfield have made the amoral familial argument regarding Southern Italian culture, we do not believe our findings support broad generalizations about the differences between Northern and Southern Italian cultures. We support the argument that institutions shape culture. That is, tax morale, is largely a product of the both the formal and informal rules of the community. If the government does not function properly and actually legitimizes evasion, chances are that we will less willing to support those public institutions with our tax dollars. Using tax compliance experiments we can test this hypothesis by holding the institutions constant.

#### **4. Experimental Overview**

Our experiments were conducted in three universities throughout Italy during the 2013-2014 academic year.<sup>1</sup> These universities use an electronic database to which the students or past students voluntarily submit their information for participation in experiments. The participants are then randomly selected and invited by email to partake in the experiment.<sup>2</sup> Once the participants arrive at the laboratory they are given an anonymized identification number and assigned to a partitioned computer to limit the interaction between themselves and other participants. We link participant pay to id number thus ensuring complete anonymity.

We began the session by reading a short script introducing the participants to the experiment. They were told that they will be asked to perform a series of simple clerical tasks and make a series of decisions for which they will receive real Experimental Currency Units (ECUs) which will be converted into real money

once the experiment is completed. Participants could also choose to leave the experiment receiving a small show up payment of 5 euros. Once all tax compliance and SVO tasks were completed, respondents were asked to complete a short survey.

This study is part of a larger cross-national project in which we perform experiments in Italy, the United Kingdom, Sweden, the US, and Romania. Since we are only concerned here with Italy, we have dropped a large portion of our observations. Our Italian participants were specifically asked to state in which region they were born. For our study, there were 270 Italian subjects. The participants in the North are demographically very similar to those in the South. In our pool the average age was 23.87, 53% were male, just under a quarter were employed, and about 40% were economics majors. The vast majority, 84%, of our subjects had participated in experiments before. Northerners, however, are significantly more likely to be employed and economics majors.

To earn money, our subjects were asked to copy rows of data from a sheet of paper to a computer. They would receive 10 ECUs for each row copied correctly, followed by reporting round. In the reporting round, participants are asked to declare their income under three different scenarios, mimicking actual tax regimes. Individuals are given free-reign to declare anywhere from 0% - 100% of their income with a 5% probability of being audited. There are a total of three clerical tasks, each followed by three reporting rounds. With each reporting round the rules and redistribution vary slightly.

In the rounds 1-3 we maintain a 30% flat tax rate, but vary how the money is redistributed reflecting behaviors under different levels of efficiency. We hold redistribution constant in rounds 4-6, but we introduce new tax rates. Lastly, rounds 7 and 8 are progressive taxation rounds. In the first progressive round, the top 10% of incomes paid a 50% tax rate, the bottom 10% paid a 10% tax rate, and everyone else paid a 30% tax rate. The progressive taxation round 8 is similar to a marginal tax system in that all incomes over 100 ECUs were taxed at 50%, incomes between 50-100 were taxed at 30%, and any income under 50 was taxed at 10%. In the ninth and final round, we donate all revenue to a real world charity (see Table 4) .

Table 4 about here

## 5. Methods

Our dependent variable is the average compliance rate across all ranges. Because it is censored at 0 and 1, we perform a series of Tobit analyses. We are interested in how participants from Northern Italy play our games, compared to those from the South. We therefore use a dummy variable for our respondents from the North. Since our experiments were conducted only in the Northern regions, there is reason to argue that

those participants who left the south might behave differently from southerners who remain in the South. Feldman and Rice (1997) suggest, however, that civic culture is usually retained from one location to the next and from generation to generation. To examine the effects of civic culture on tax compliance, we use *Social Value Orientation* (SVO), which gauges how interested a person is in guaranteeing the welfare of other participants, as a proxy for civic culture.

Murphy, Ackermann and Handgraaf (2011) represent SVO as a basic utility function:

$$U(\pi_{self}, \pi_{other}) = \pi_{self} + \alpha \pi_{other} \tag{2}$$

To measure SVO, our participants perform a series of dictator games in which they allocate decisions between themselves and a randomly selected partner. The decisions are then assembled on a coordinated plane with the x-axis displaying allocation to self and the y-axis revealing allocation to other. The six allocations can then be averaged into a single angle with a range from -16.26 to 61.40. If we were to arrange these numbers on a scale, -16.26 would represent a participant who is highly competitive, even willing to sacrifice their own income to lessen the welfare of their partner, whereas 61.40 would represent a complete altruist willing to sacrifice their own income to increase the wellbeing of their partner. Most people lie somewhere in the middle as either an individualist to the left side of the scale or prosocial to the right. Figure 6 and Figure 5 represent how we constructed our angle. Finally, we control for sex, employment status, past participation in experiments, whether the participant is an economics major, and their willingness to accept risk.

Table 5 about here

Table 6 about here

## 6. Results

Survey data only allow researchers to test the determinants of tax morale within a given institutional environment, while tax compliance experiments enable us to control the environment. We therefore have a good reason to believe that our results reflect actual taxpayer behavior under an *ideal*, constant tax regime. The results of our individual level Tobit models are exhibited in Table 5. Column I displays the results of a bivariate analysis of the effects of living in Northern Italy on tax compliance. Contrary to the results found in the BOI<sup>3</sup>, when respondents from the North and South are given the same institutional environment, our model uncovers no difference in their tax behavior. Considering the abundance of studies suggesting that culture is a significant predictor of tax morale, we consider this a valuable contribution to the literature.

In column II, we demonstrate that participants who demonstrate prosocial behavior are significantly more compliant than more individualistic people; however, unlike the BOI models where civic culture and social capital vary significantly in the North and South, the experimental models unveil no significant divergence in SVO between residence of North and South. Figure 5 shows the almost identical distributions between North and South. When controlling for several demographic variables shown in column III, being prosocial increases tax compliance by 19 percentage points. In the BOI survey, we found women have less tax morale than men, which came as a surprise. In our experiments, however, we find that men are less compliant, corresponding with the vast majority of tax compliance studies. In addition, risk acceptance is consistently significant and negative in both models.

Table 5 about here

Table 3 about here

When the state lacks the capacity to govern and redistribute goods efficiently, citizens will often pursue other means of redistribution (i.e. clientelism) (Fargion, 1997; Bergman, 2009; Rothstein, 2011). By contrast, citizens are more likely to pay taxes if they believe their tax money is being spent efficiently (Cummings et al., 2009; Edlund, 1999; Frey and Feld, 2002; Frey and Torgler, 2007; Levi, 1989; Pommerehne, Hart and Frey, 1994; Scholz and Lubell, 1998; Smith, 1992; Smith and Stalans, 1991; Torgler and Schneider, 2007). Table 1 demonstrates that the quality of government in every Southern region is considerable lower than government in the North. This is not to say that southerners are less civic or culturally deficient. We demonstrate above that when the institutions are efficient, they are just as prosocial as their northern counterparts. Instead, to receive a fairer distribution of benefits and incomes, Southerners must sidestep the state.

To sum up our findings, when controlling for the institutional environment we find no significant difference in tax compliance between the North and South challenging the often employed *moralist* argument. Confirming the BOI, we display that civic culture and social capital are indeed important in shaping tax morale. In addition, the experiments tell us that institutions play a large roll in how social capital and civic culture is materialized. Individuals from southern Italy may be less involved in the formal organizations to which the BOI was referring such as union, but this could largely be the result of a large industrial base in the North, not a lack civic conscience in the South (Tarrow, 1996; Sabetti, 2000). We believe that the similar SVO angles provide further evidence to contradict the culturalist argument.

## 7. Conclusion

There is an old Neapolitan tradition known as *caffè sospeso* (suspended coffee). The customer instead of purchasing one coffee pays for two; one for herself and another *suspended coffee* for an unknown patron who cannot afford one. The suspended coffee has become an entire movement representing a sense of duty to others. Although Neapolitans are extremely generous when it comes to coffee, their taxpaying behavior would suggest something entirely different about their preferences towards others. Edward Banfield and Robert Putnam, have written influential books suggesting that Southern citizens' only immediate concern is to their familial unit, which in turn, has had a negative effect on the efficiency of government and economic development.

In the first section, we demonstrated evidence revealing that one's willingness to pay taxes is indeed linked to civic culture and social capital, leading us to accept the moralist argument. Contrary to our expectations, when we controlled the institutional environment through our tax compliance experiments there is no difference in tax compliance between the North and South. Although minimal, participants in the South were actually more others-regarding than those in the North, on average. We thus conclude that although civic culture and social capital are linked to tax morale, civic-ness, and hence, tax morale, is a function of the institutional environment in which an individual lives. Examples of southerner generosity can be uncovered throughout Southern Italy; however, due to the inefficiency of the state in providing public services, redistribution often takes place through private channels supplementing the state's ineptitude.

### Notes

<sup>1</sup>The research leading to these results has received funding from [anonymized grant]. All data can be downloaded from [website anonymized]

<sup>2</sup>For more details on the online recruitment system (ORSEE), see Greiner (2004).

<sup>3</sup>Filippin, Fiorio and Viviano (2013) demonstrates the North to be positively correlated with tax morale using the BOI.

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## A. Appendix: Construction of Dependent Variable

Bank of Italy Survey of Household Wealth and Income

**DV: Tax Morale:** Index of questions regarding citizens' opinions concerning public spirit and taxation.

The gauge citizen attitudes about the Italian tax system. They were requested to identify the extent to which they agree to the following statements:

1. Here is a set of statements that some interviewees before you made about Italy's tax system. To what extent do you agree with each of them: not at all, very little, so-so, quite a lot, very much?

(a) The more someone earns, the more (in percentage) he/she should contribute to Government spending

(b) Paying taxes is one of the basic duties of citizenship

(c) Not paying taxes is one of the worst crimes a person can commit because it harms the whole community

(d) Even if someone thinks a tax is unfair, he/she should pay it first and then complain if necessary

(e) It is right to pay tax because it helps the weak

(f) If everyone paid taxes, in the end we would all pay a little less

1= not at all; 2= very little; 3= so-so; 4 = quite a lot; 5 = very much.

2. Generally speaking, among the problems facing the Government, that of tax evasion is:

(a) Very serious

(b) Serious

(c) The same as any other

(d) Marginal

(e) Non-existent

Before creating the index I will reverse the direction of this variable so that it moves in the same direction as tax morale (i.e., very serious represents high tax morale).

## B. Appendix : Construction of Independent Variables

*Political Culture and Social Capital*

1. Interest in politics: Coded from 1 to 4

- (a) 1 being not at all,
- (b) being not very,
- (c) being fairly interested,
- (d) being very interested.

2. Number of associations: Based on the question: "In the last year, have you taken an active part in gatherings of any of the following groups or associations: associations/groups involved in social, environmental, union policy, religious, cultural, sports or recreational, professional, or voluntary activities?"

- (a) (no),
- (b) (yes, with only one group/association)
- (c) (yes, with more than one group/association)

3. Government responsibility to provide public services: Based on the question: Considering the Government's need to guarantee public services, please say which statement is closest to your own opinion:

- (a) The Government's duty is to provide all citizens with as many public services as possible (e.g. school, healthcare, pensions, transport, etc.) even if it means heavy taxes;
- (b) The Government has some unavoidable expenses for social welfare, which should be covered by taxes and duties, increasing these as and when necessary;
- (c) Taxation is too high, so if there is not enough money, expenses should be reduced by cutting back services; and
- (d) The Government should raise the bare minimum in taxes and duties to cover absolutely essential public services (e.g. defense, justice, the police, etc.) and leave the rest to private initiative. The coding has also been reversed to better reflect the direction of tax morale.

4. Perception of Evasion: Based on the question: What percentage of the total amount of tax due from the population does the Government lose as a result of tax evasion?

- (a) Less than 10%;
- (b) Between 10% and 20%;
- (c) Between 20% and 30%;

(d) Between 30% and 50%;

(e) More than 50%.

5. Amnesty is an index of the following two questions: What is your opinion of the practice of granting amnesties?

(a) Amnesties are a good system and should be granted as often as possible to recover some of the lost revenue;

(b) Amnesties are a good system, but should be used sparingly so as not to encourage tax evaders;

(c) Amnesties are an unfair but necessary method of balancing the national accounts; and

(d) Amnesties are a very unfair system because they discourage honest citizens.

6. What do you think is the main outcome of a tax amnesty?

(a) Tax evasion diminishes because previously undeclared income is uncovered;

(b) Tax evasion increases because the amnesty rewards tax evaders and discourages honest taxpayers;

(c) Tax evasion doesn't change because once tax evaders have regularized their past position, they begin to evade tax again until the next amnesty.

7. Tax inspection: Based on the question: Do you think it would be a good thing if tax inspections were made more often, or not?

(a) Yes, I would like them to be done much more often because it's the only way to stop tax evasion;

(b) Yes, I would like them to be done more often, but within limits, to stop the Government interfering too much in people's lives;

(c) I think things are all right as they are;

(d) No, I wish they were done less often because the present level of control is already too great;

(e) No, absolutely not; I think they should be done less often.

8. Honesty

(a) Not paying for public transportation:

(b) Keeping money found by accident: Measure citizens honesty and are based on a series of scenarios in which the respondents are asked to judge the extent of which the activity is justified on a scale from 1-10 (1 = never justifiable; 10 = always justifiable). I will reverse the coding so it better reflects tax morale.

## C. Tables

**Table 1:** Quality of Government: Italian Regions

Region	Quality	Region Score	Rank
Trento	1.043	1.981	41
Valle d’Acosta	0.653	1.603	82
Friuli-Venezia	0.373	1.331	109
Veneto	-0.186	0.788	146
Emilia-Romagna	0.217	0.757	149
Umbria	-0.495	0.488	168
Toscana	-0.495	0.450	170
Marche	-0.535	0.448	172
Lombardia	-0.542	0.442	174
Piemonte	-0.652	0.335	182
Liguria	-0.848	0.144	190
<b>Italy</b>	<b>-0.930</b>		<b>193</b>
<i>Abruzzo</i>	-1.097	-0.097	200
Sardegna	-1.307	-0.302	204
Basilicata	-1.423	-0.414	208
Lazio	-1.512	-0.500	211
Sicilia	-1.588	-0.575	213
Puglia	-1.604	-0.590	216
Molise	-1.6609	-0.645	220
Calabria	-1.687	-0.671	222
Campania	-2.242	-1.210	232

Data are drawn from nationally-representative public opinion surveys conducted by the Quality of Government Institute about perceptions of local education, health and law enforcement institutions. Participants were asked to rate each of the three institutions on quality, impartiality, and corruption (Charron, Dijkstra and Lapuente, 2013, 2014).

**Table 2:** Summary statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Tax morale	0	0.617	-2.92	1.133	3798
Interest in Pol	1.877	0.894	1	4	3798
North	0.589	0.492	0	1	7687
Associations	1.141	0.348	1	2	3798
Sex	0.39	0.488	0	1	8012
Education	3.445	1.639	1	8	8012
Log income	10.086	0.66	5.521	13.838	8008
Self-employed	0.107	0.309	0	1	8012

**Table 3:** OLS Regression: Tax Morale

	Dependent Variable: Tax Moral			
	(1)	(2)	(3)	(4)
North	0.19*** (0.021)	0.13*** (0.02)	0.16*** (0.021)	0.12*** (0.020)
Associations		0.15*** (0.029)		0.15*** (0.029)
Interest in Politics		0.06*** (0.0114)		0.05*** (0.0122)
Honesty		0.16*** (0.011)		0.16*** (0.011)
Sex			-0.09*** (0.0211)	-0.08*** (0.0205)
Log income			0.05*** (0.018)	0.02 (0.018)
Education			0.03*** (0.00676)	0.02*** (0.00682)
Self-employed			-0.22*** (0.03)	-0.21*** (0.03)
Constant	-0.11*** (0.016)	-0.37*** (0.036)	-0.67*** (0.170)	-0.5*** (0.166)
N	3,660	3,660	3,658	3,658
R-squared	0.023	0.104	0.050	0.118

Standard errors (in parentheses)

\*\*\* p&lt;0.01, \*\* p&lt;0.05

**Table 4: Summary of Tax Reporting Rounds**

<b>Task</b>	<b>Description</b>
Clerical 1	Earn income that is reported in Rounds 1 through 3
Round 1: No Redistribution	Flat tax rate of 30% on all reported income Tax revenues are not redistributed
Round 2: Redistribution	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, which is redistributed on an equal per capita basis to all participants
Round 3: Redistribution x 2	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Clerical 2	Earn income that is reported in Rounds 4 through 6
Round 4: 10% Tax Rate	Flat tax rate of 10% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 5: 30% Tax Rate	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 6: 50% Tax Rate	Flat tax rate of 50% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Clerical 3	Earn income that is reported in Rounds 7 through 9
Round 7: Progressive 1	Top 10% of earners in Clerical 3 pay 50% tax on reported income Bottom 10% of earners in Clerical 3 pay 10% tax on reported income Everyone else pays 30% tax on reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 8: Progressive 2	participants pay tax of 10% on all reported income under 50 ECU participants pay tax of 30% on all reported income between 50 and 100 ECU

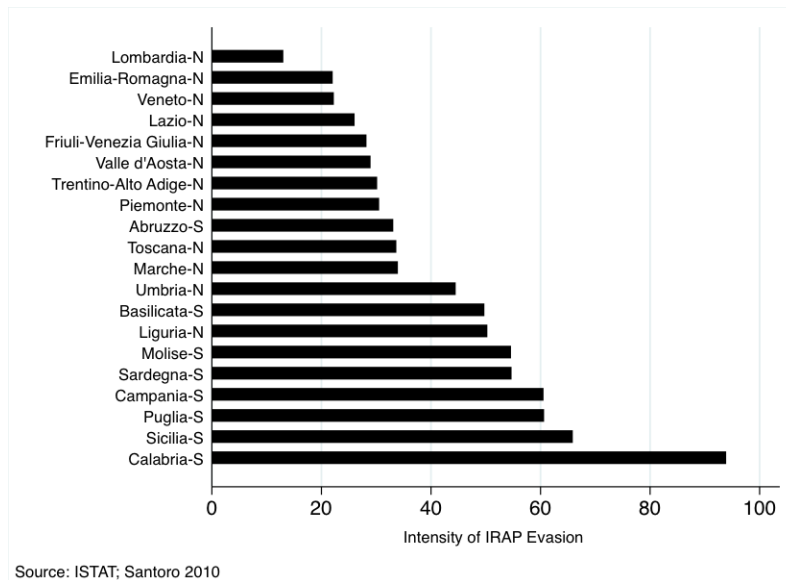
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Table 4 – *Continued from previous page*

Task	Description
	<p>participants pay tax of 50% on all reported income over 100 ECU</p> <p>Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants</p>
Round 9: Charity	<p>Flat tax rate of 30% on all reported income</p> <p>Tax revenues are collected into a common fund, the amount in the fund is doubled, and then donated to charity</p>

## D. Figures

**Fig. 1:** Intensity of Evasion of IRAP by region 1998-2002





**Table 5: Tobit Regressions: Personal Characteristics**

	Dependent Variable: Average % Income Declared, All Rounds					
	(1)	(2)	(3)	(4)	(5)	(6)
North	0.00467 (0.0456)					
Prosocial		0.224*** (0.0438)	0.199*** (0.0404)	0.202*** (0.0443)	0.220*** (0.0434)	0.189*** (0.0422)
Altruist		2.522 (0)	2.447 (0)	2.499 (0)	2.433 (0)	2.336 (0)
Competitive		0.0179 (0.180)	-0.168 (0.152)	0.0281 (0.169)	0.0492 (0.146)	-0.0993 (0.132)
Age			0.0140** (0.00685)			0.00996 (0.00676)
Male			-0.239*** (0.0413)			-0.204*** (0.0405)
Currently Employed			-0.123** (0.0505)			-0.0674 (0.0488)
Economics				-0.103** (0.0433)		-0.0639 (0.0410)
Past Participation				-0.0662 (0.0560)		-0.0682 (0.0551)
Risk Acceptance					-0.0393*** (0.00914)	-0.0257*** (0.00868)
Constant	0.665*** (0.0355)	0.584*** (0.0270)	0.418** (0.172)	0.688*** (0.0623)	0.786*** (0.0583)	0.696*** (0.190)
No. Uncensored Obs.	275	278	276	275	268	265
No. Left-Censored Obs.	7	7	7	6	7	6
No. Right-Censored Obs.	40	40	40	40	38	38
Log-Likelihood	-144.0	-131.2	-107.5	-124.6	-115.3	-94.36
Pseudo R <sup>2</sup>	3.44e-05	0.0968	0.257	0.121	0.181	0.309

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

**Fig. 2:** Tax Morale Scale Measures

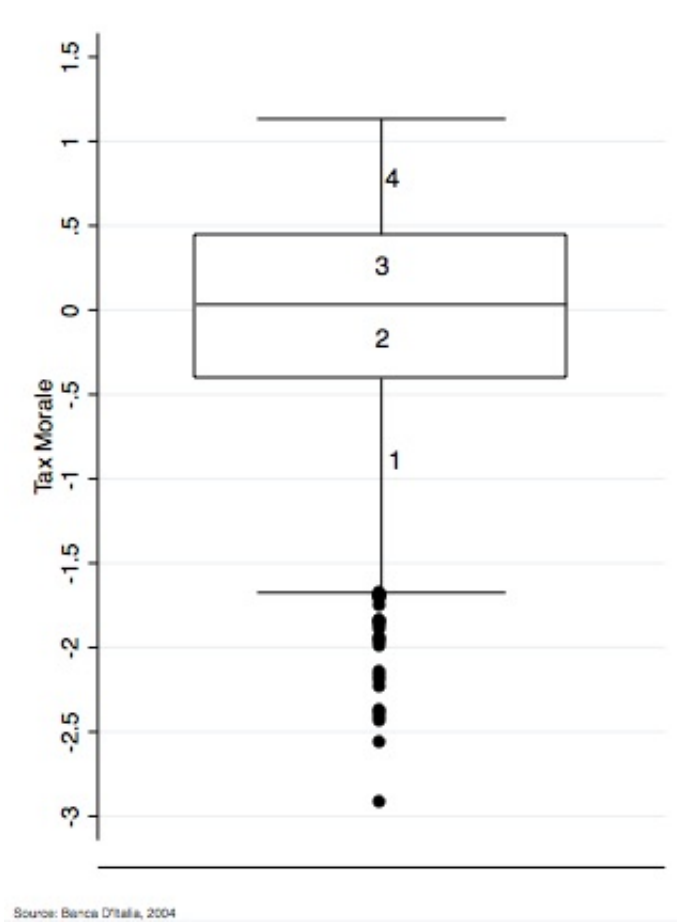
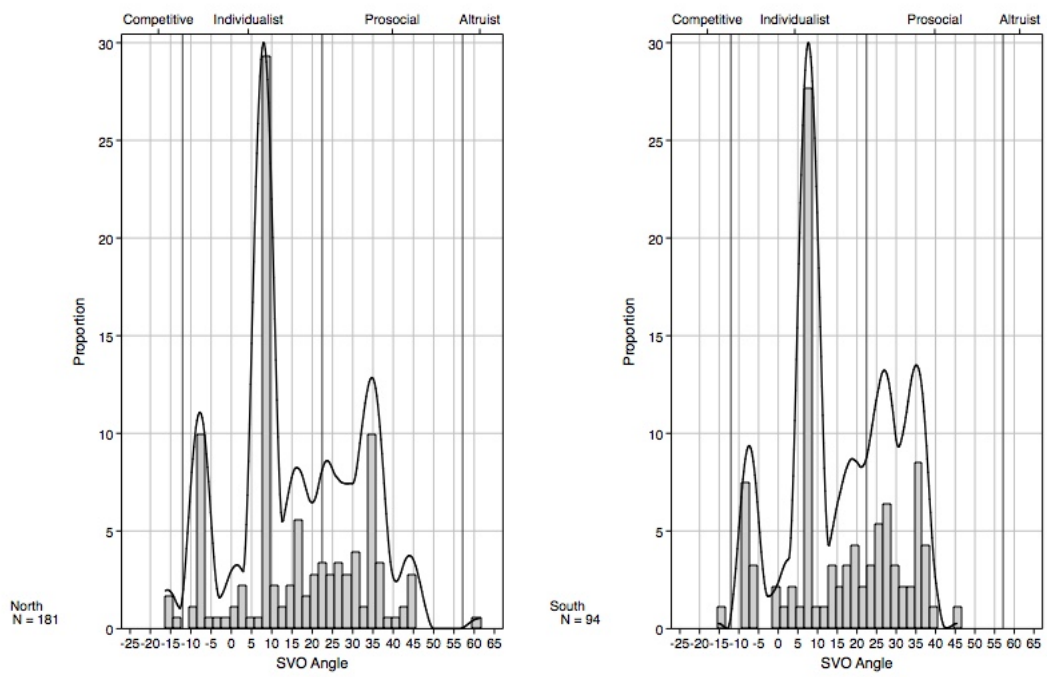


Fig. 3: SVO Angle: North *vs.* South



**Fig. 4:** Number of association a respondent attends per year: Mean comparison between respondents in Northern and Southern Italy

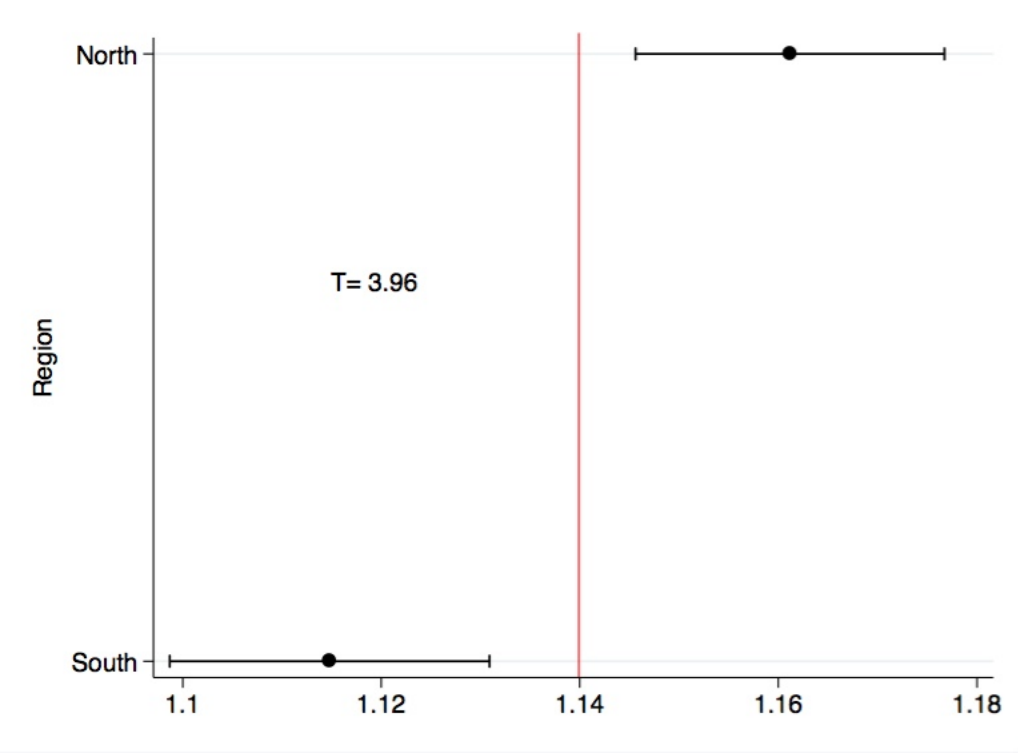
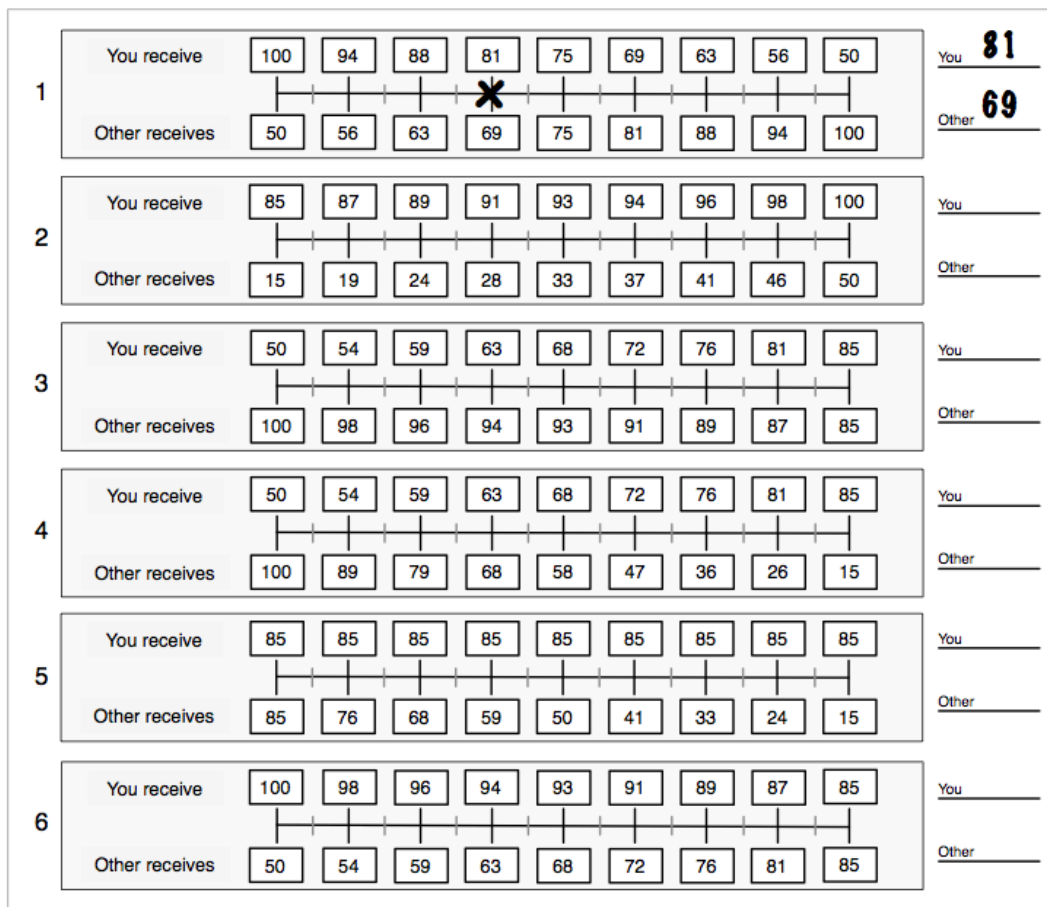
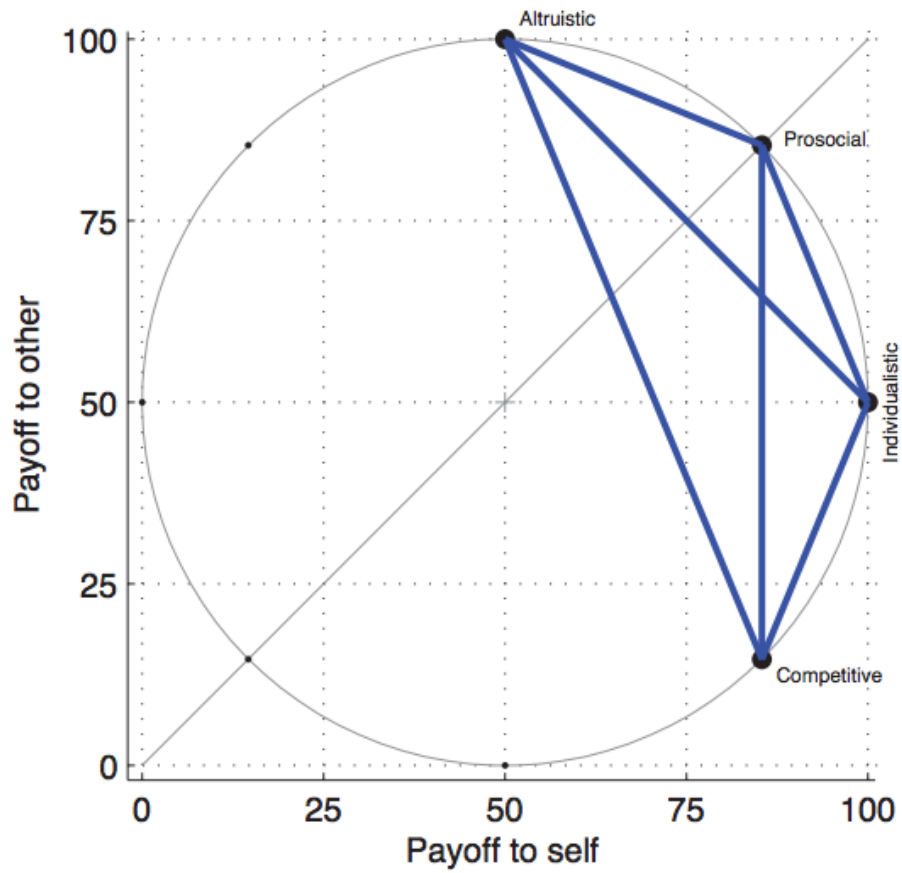


Fig. 5: SVO Mini-Dictator Games



From Murphy, Ackermann and Handgraaf (2011), Figure 1, p.772.

**Fig. 6:** Constructing the SVO Angle



From Murphy, Ackermann and Handgraaf (2011), Figure 2, p.773.