

Does Political Intention Affect Tax Evasion?*

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Abstract

For quite sometime, tax evasion has attracted many researchers' attention in the field of public finance. Not enough attention, however, has been paid to the effects of political factors on tax evasion. This paper intends to provide an economic model of tax evasion, considering the interactions between tax authority and its sovereign government. It shows that tax evasion is influenced by the government's intention to control the economy, controlling for other determinants of tax evasion. The theoretical predictions are examined with annual data from the competitiveness reports published by the IMD and the WEF. The empirical evidence supports the theoretical model to a large extent.

Key Words : Tax Evasion, Tax Audit, Political Control of the Economy

1 Introduction

Tax evasion has been an important issue in tax administration for a long time. Especially, the effects of tax evasion on tax revenue and equity among citizens seem to be the major area of attention. For the past two decades, we have witnessed a fast growth in the literature on tax compliance and evasion.¹ The-

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¹For an excellent review of the literature on tax compliance, see Andreoni et al. (1998). Schneider and Enste (2000) also provide a good literature survey of size, causes, and consequences of tax evasion.

oretical advances have been made in the modeling of tax compliance decisions, and empirical studies have also flourished.²

Despite the abundance of the literature on tax compliance and evasion, however, not enough attention has been paid to the effects of political factors on tax evasion.³ It is postulated in the public choice literature that the politicians in power have incentives to control or at least affect the economy in some way. This strand of research is grouped under the title of political business cycle (PBC).⁴ The literature shows that there are political elements in certain highly visible public payments and prices. Nordhaus's study in 1975 was a breakthrough, introducing for the first time the election cycle model in the literature. MacRae (1977) and others have built upon this study later on. They investigated the effects of the election cycle on unemployment and inflation. The major implication of these studies is that before the election year, the government creates a slump to reduce citizens' expectations towards

²The literature on tax compliance and evasion can be divided into four big categories: theoretical investigation of tax compliance decisions; empirical examination of the compliance decisions; analysis of audit programs; and empirical estimation of magnitudes of tax evasion. The studies in the first category include Allingham and Sandmo (1972), Pencavel (1979), Cowell (1981), Sandmo(1981), and Engel and Hines Jr. (1994). More recent theoretical studies have tackled the interaction between tax payers and tax authorities (Graetz et al., 1986; Mookherjee and P'ng, 1989; Cremer et al., 1990; Beck et al., 1991; Sansing, 1993; Cronshaw and Alm, 1995). Beginning with the work of Clotfelter (1983), empirical studies of tax compliance have been very fruitful in recent years. The analysis of audit programs is a growing field whose main purpose is to investigate the tax agency's audit selection decisions. Alm et al. (1993), Erard and Feinstein (1996) are most prominent studies. The studies in the fourth category of tax evasion estimate the magnitudes of tax evasion with various types of data and econometric techniques: These include Gutmann (1977), Macafee (1980), Tanzi (1980), O'Higgins (1981), Pyle (1989), Feige (1989), Pissarides and Weber (1989), Plate et al. (1990), Erard (1992) and Beron et al. (1992).

³There are exceptions such as Hettich and Winer (1988, 1999). Even most of those studies considering the interactions between tax administration and tax payers have ignored the administrative relationship between tax authority and its sovereign government.

⁴Among the early works on the relationship between the politics and the economy, Kalecki (1943) and Akerman (1947) are most prominent. Later studies include Ben-Porath (1975), Hubka and Obermann (1977), MacCracken et al. (1977), and Tufte (1978). Paldam (1997) provides an excellent review of the literature.

unemployment and inflation, but in the election year, a boon is created with low rates of unemployment and inflation. Hibbs (1977) enriched the literature with a partisan cycle model. Many empirical studies have also flourished in the last three decades and most of them support the PBC theory.

Unemployment and inflation, the main tools of government's manipulation of the economy in the PBC theory, however, cannot be the only tools. If it is agreed upon that the politicians in power have incentives to affect the economy for some reasons, there might be many other ways of manipulating the economy: regulations, antitrust policies, government subsidies and tax auditing. For instance, the politicians in power might be able to influence tax administration, enforcing tax authority to conduct tax auditing to be used for their interests. In contrast to the case of direct influence, the politicians might be able to influence tax administration indirectly. In most countries, appointing the head of tax administration involves influences from key politicians in the ruling party. This enables the politicians in power to implicitly affect the behavior of tax administration even if it is the case that the politicians cannot influence tax administration directly.

Even though tax auditing tends to be affected by political factors in many countries, the actual political influence might vary across countries. In some developed countries, the politicians find it extremely difficult, if this is at all possible, to utilize tax auditing to affect the economy. In contrast, in other countries it might be easier for the politicians to use tax auditing according to his or her own will. This entails a model in which the level of tax auditing is endogenously determined incorporating the variations in the political influence

on the economy. However, this type of model has rarely been developed. This paper intends to fill this gap in the literature by providing an economic model of tax evasion, considering explicitly the interactions between tax authority and its sovereign government.

The main result of the paper is that when other determinants are taken into account, it is seen that tax evasion is influenced by the sovereign government's intention to control the economy. Empirical evidence supports the idea that political intention affects tax evasion. The major contribution of the paper is formulating a framework to find out the relationship between tax authority and its sovereign government. Moreover, it is one of the few studies to examine empirically the relationship between government's intention to control the economy and tax evasion.

The organization of the paper is as follows. The next section contains a simple model of tax evasion, in which the relationship between these two institutions is considered. Section 3 examines the theoretical predictions with cross-country data. The final section concludes.

2 The Model

Suppose there are N homogenous citizens and a proportion of them, e , evade a lump sum tax t . Then, the total tax revenue without any tax audits will be $tN(1 - e)$. It is assumed that the proportion of tax evaders is a function of tax auditing, measured with the proportion of citizens being audited, p . Other factors might also influence the level of tax evasion such as income, tax

rates, and the composition of government spending as suggested in previous studies.⁵ The proportion of tax evaders among the citizens will decrease when the tax audit level increases, implying $\frac{\partial e}{\partial p} < 0$. Since the efficiency of tax audits decreases with an increase in the level of tax audits, it is reasonable to assume that $\frac{\partial^2 e}{\partial p^2} > 0$.

It is assumed that when tax administration audits a citizen, all information regarding his tax evasion is revealed. If he is found to have evaded the tax, he faces a fine, F and has to pay the tax, t . Extra tax revenue accrues with a given level of tax auditing by the amount of $e(p)pN(t + F)$. Tax auditing, however, will result in some costs to tax administration, denoted by C .⁶ Administrative policy instruments except for tax audits are represented by a variable, a . As the level of a increases, administrative policy of governments moves in a positive direction. Net revenue cost of the administrative policy is denoted by $S(a)$. In the first, the administrative policy obtains more marginal tax revenue than marginal administrative cost. However, marginal tax revenue is overwhelmed by marginal administrative cost finally. This relationship is represented formally as follows:

$$S(a_1) < 0, \quad S(a_2) > 0 \quad \text{for some } a_1 < a_2, \quad \text{and } S'(a) > 0.$$

When administrative value is equal to zero, net administrative cost is supposed to be zero. From the above relations, net administrative cost is negative for a sufficiently small value of a . Some relatively small administrative policy

⁵Instead of using the standard expression with taste parameters, $e(p; z)$ where z is a vector of other factors shifting the tax evasion curve, we will suppress z without loss of generality, $e(p)$.

⁶As with a usual cost function, it is assumed that $\frac{\partial C}{\partial p} > 0$ and $\frac{\partial^2 C}{\partial p^2} > 0$.

results in positive net tax revenue to the state. When the administrative value, a satisfies $S(a) < 0$, we refer to the government as appropriate. By contrast, in the case that $S(a) > 0$, we consider the government to be too interventional. The total tax revenue, R , then can be written as follows:

$$R = tN[1 - e(p)] + e(p)pN(t + F) - C(p) - S(a). \quad (1)$$

Suppose the government aims to manipulate the economy in some way. This objective can be attained in two ways. First, the government can use tax auditing. If the government is to choose this option, the tax evasion level should be high enough. Only when many citizens evade tax, and therefore are in fear of being caught can the government use tax auditing to affect the economy. If we denote the government's control of the economy as $D(e, a)$, then it is reasonable to assume that $D'_e > 0$ and $D''_e < 0$. Second, there can be other policy tools that the government can utilize to manipulate the economy. One example is administrative regulation, which might be an effective means of influencing the economy if used selectively. Then, we assume that $D'_a > 0$ and $D''_a < 0$. Employing the theorem of implicit function, it is assured that the government objective curve shows a negative slope in a plane of e and a . In the case $D'_e > 0$, the following inequality shows that the government is willing to employ policy instruments p and a complementarily. That is, government prefers to combine more auditing and more positive intervention with the economy:

$$\frac{da}{dp} = - \frac{D'_e e'(p)}{D'_a} > 0. \quad (2)$$

As tax auditing, other policy tools, a , not only generate an indirect revenue increase but also result in costs to government. The government's problem can

then be written as follows: ⁷

$$\max_{p,a} D[e(p), a] \quad (3)$$

$$\text{subject to } tN[1 - e(p)] + e(p)pN(t + F) - C(p) - S(a) \geq \underline{R}, \quad (4)$$

where \underline{R} is a predetermined level of net tax revenue to be raised.

With $\lambda \geq 0$ denoting the multiplier of constraint (4), the first order conditions for maximization are:

$$D'_e e'_p + \lambda \left\{ -e'_p tN + N(t + F)[e'_p p + e(p)] - C'_p \right\} = 0, \quad (5)$$

$$D'_a - \lambda S'_a = 0, \quad (6)$$

$$\lambda \{ \underline{R} - tN[1 - e(p)] - e(p)pN(t + F) + C(p) + S(a) \} = 0. \quad (7)$$

Rearranging equation (5) and (6), we can obtain the following equations:

$$\frac{D'_e e'_p}{e'_p tN - N(t + F)[e'_p p + e(p)] + C'_p} = \frac{D'_a}{S'_a}, \quad (8)$$

$$\frac{D'_e S'_a e'_p}{D'_a} - e'_p tN + N(t + F)[e'_p p + e(p)] = C'_p. \quad (9)$$

Equation (8) implies that the ratio of marginal utility (marginal control of the economy) to marginal cost should be equal across the two activities. Consider an extreme case where the government cannot utilize tax auditing as in some western countries. This implies that $D'_e = 0$. Substituting this equality into equation (9), we can obtain the following equation:

$$-e'_p tN + N(t + F)[e'_p p + e(p)] = C'_p. \quad (10)$$

The tax audit level in the regime of “no political factors” and the level in the case of “political control of the economy” can be compared by contrasting

⁷Please recall that $S(a)$ represents net revenue cost.

equation (9) to (10). Denoting the tax audit level in the former by p^* and that in the latter by p^{**} , we can see that $p^* > p^{**}$ because $\frac{D'_e S'_a e'_p}{D'_a} < 0$ by equation (2). Therefore, it can be concluded that the effect of political intention on the economy decreases the level of tax audits and increases the level of tax evasion.

A question naturally arises at this point: is there any way to make p^* equal to p^{**} ? Equation (9) and (10) show that the only difference between them is the term, $\frac{D'_e S'_a e'_p}{D'_a}$. There are three ways for this term to be zero: $D'_a \rightarrow \infty$, $D'_e \rightarrow 0$, or $S'_a \rightarrow 0$.⁸ If other policy tools are infinitely effective in manipulating the economy ($D'_a \rightarrow \infty$ or $S'_a \rightarrow 0$), or tax evasion is not effective at all in affecting the economy ($D'_e \rightarrow 0$), the government does not need to use tax audits to control the economy. Therefore, the government sets the tax audit level as if there were no need to control the economy with tax audits.

Examining equation (9), we can see how the equilibrium level of tax auditing changes when there are exogenous shocks to the parameters. Suppose that the marginal cost of tax audits (C'_p) increases with an exogenous shock. The right hand side of equation (9) becomes larger. Therefore, the left hand side should also increase for the equality to hold. This implies that p^{**} should decrease since $e(p)$ is decreasing in p . Similarly, the equilibrium level of tax audits can be computed when other parameters change. The following table summarizes the comparative statics results.

<Table 1> around here

⁸In the case that $e'_p \rightarrow 0$ or $C'_p \rightarrow 0$, p^* equals p^{**} , but there are an infinite number of solutions in this case.

3 Empirical Evidence

3.1 Variables and Data Sources

Four types of data have usually been used in the empirical tax compliance studies: audit data, survey data, tax amnesty data, and data generated through laboratory experiments (Andreoni et al., 1993). As already shown in the previous section, this paper intends to examine the relationship between political intention to control the economy and the level of tax evasion. For this purpose, cross-country data are desirable because we cannot expect enough variation of political intention to control the economy within a country. The International Management Development (IMD) and the World Economic Forum (WEF) provide cross-country competitiveness reports based on surveys.⁹

In the model discussed in the previous section, tax auditing and tax evasion are endogenously determined. Since tax audit data are not available, the level of tax evasion is used as the dependent variable. In 1997, the WEF and the IMD began to report the degrees of tax evasion for 59 and 47 countries, respectively.¹⁰ The scale of tax evasion in the former report is from 1 to 7, and that in the latter is from 0 to 10. In both, a higher number signifies a lower level of tax evasion. For robustness, we estimate a separate regression equation for each

⁹It might be argued that the survey data have serious drawbacks. The major disadvantage of survey data is that they are based on self-reports and therefore provide inaccurate information (Andreoni et al., 1993). Elffers et al. (1987) shows that the correlation between assessed evasion and evasion reported on the survey is essentially zero. According to the study, survey results tend to overstate the degree of compliance. This might be true because citizens have incentives to overstate their compliance levels. However, the degree of tax evasion in the IMD and the WEF reports might not have been overstated as in a survey of personal compliance, since these surveys measure overall degrees of tax evasion rather than individual compliance levels.

¹⁰Table 2 presents the name of countries and their tax evasion.

measure of tax evasion.

<Table 2> around here

The theoretical model in the previous section provides information about independent variables to be included in the regression equation. First of all, we have seen that tax audits and tax evasion are influenced by the government's intention to control the economy that affects D'_e . The variable, **price controls**, from the IMD is used as a proxy for the government's intention to control the economy. The higher the number, the less the government's control of commodity pricing is. Therefore, a positive sign is expected on the estimated coefficient of the variable.

Public service from the IMD report also serves as a proxy for the shifts in the marginal control of the economy from tax evasion (D'_e). This variable is defined to be the degree of independence of public service from political interference. Since independence of public service from politics implies that the politicians in power find it hard to influence tax auditing, the marginal control of the economy from tax evasion decreases. Therefore, a positive sign is expected on the estimated coefficient of this variable.

As implied in the comparative statics, we need to control for exogenous shocks in the marginal cost function of tax auditing (C'_p) and in that of other activities (S'_a). However, appropriate variables to differentiate between these two different shocks are not available. **Litigation against government** from the WEF is used for the control of these two shocks. Since a higher number in

this variable implies a greater chance of citizens' winning disputes filed against governments or state agencies, it reflects a shift-out in the marginal cost of tax audits or in that of other activities. A negative sign is expected on the estimate of its coefficient.

Two variables from the IMD report can be chosen as proxies for tN : **collected personal income tax** and **collected corporate tax**. According to the comparative statics shown in table 1, the government strengthens tax auditing when there is an increase in tax revenue. The government might be more concerned about direct taxes than indirect taxes since the former is more easily evaded than the latter. Because income and corporate taxes occupy the biggest proportion of the direct tax revenue, these taxes might be good proxies for tN . Both variables are measured as a percentage of GDP and are expected to have positive coefficients in the estimation.

As a proxy for the change in the marginal control of the economy from other activities (D'_a), **administrative regulation** is selected from the WEF report. This variable measures the degree of administrative regulations that constrain business activities. Since the politicians in power can manipulate the economy more easily when there are more administrative regulations, the variable might be a reasonable proxy for the marginal control of the economy from other activities (D'_a). We expect that the variable will be estimated to have a negative sign on its coefficient.

Previous studies on tax compliance show that other parameters also affect the degree of compliance such as income, tax rates and fairness of the tax system. In addition, compliance might be affected by whether or not the

government spends the collected tax revenue appropriately. Changes in these parameters would shift the marginal tax evasion function (e'_p). To consider these changes, we use **GDP per capita**, **tax system**, and **composition of government spending** from the WEF report.¹¹ **Effective personal income tax rate** and **average corporate tax rate** are also included from the IMD report. **Tax system** measures how well the tax system promotes business competitiveness. **Composition of government spending** is to evaluate whether or not the composition of government spending provides necessary goods and services that the market does not provide. All these variables are expected to have positive signs on their estimated coefficients, except for the tax rate variables.

Table 3 summarizes the information about the variables used in the estimation. It shows the names, definitions, expected signs, and data sources of the variables.

<Table 3> around here

3.2 Estimation Results

Data for the variables discussed in the previous subsection are available for the period from 1998 to 2000. Even though we have observations for more than 50 countries each year, the valid number of observations is limited to 129 with all the variables included in estimation. The IMD and the WEF both provide

¹¹GDP per capita adjusted with the PPP (purchasing power parity) index is used for a meaningful comparison of cross-country data.

tax evasion data even though they are different in scale and in the number of observations. The correlation between the two measures of tax evasion turns out to be very high, 0.934. Descriptive statistics for the variables are shown in the following table.

<Table 4> around here

Table 5 reports the estimation results of regression equations. Two equations have been estimated: one with the WEF tax evasion as the dependent variable and the other with the IMD tax evasion. Both equations include all the variables discussed in the previous subsection. To control for the shifts in tax evasion during the period, we include two year dummies, **YEAR1998** and **YEAR1999**.

<Table 5> around here

As can be seen in table 5, the signs on the estimated coefficients are as expected, except for two variables: litigation against government and administrative regulation. The sign on litigation against government and that on administrative regulation alternate between the two equations. We can reject the null hypothesis at the .01 in the first model (WEF tax evasion data) and at the .05 level in the second model (IMD data) that the coefficient on price controls is zero. Public service and GDP per capita are also statistically significant at the .01 level regardless of the dependent variables. Collected corporate

tax and tax system are estimated to be statistically significant at the .10 and 0.05 level, respectively in the first model. However, they are not significant in the second model. The coefficient on the composition of government spending is significant at the .10 and .05 level, respectively. The coefficients on year dummies to control for the possible shifts in tax evasion over time are not statistically significant, even at the .10 level. This implies that there does not exist any systematic shift in tax evasion over time for the period.

To summarize the empirical results, tax evasion seems to be influenced by price controls, public service, collected corporate tax, GDP per capita, tax system, and the composition of government spending. In contrast, we cannot find strong evidence to conclude that litigation against government, collected personal income tax, or administrative regulations have significant influence on the level of tax evasion across countries. Tax rates are also found to be weakly associated with tax evasion.

4 Conclusion

Even though the literature on tax compliance and evasion is abundant, not enough attention has been paid to the effects of political factors on tax evasion. It is well documented that there exist interactions between politics and the tax administration: the sovereign government has incentives to affect the economy, and therefore to use tax audits to attain this purpose. The paper has intended to provide an economic model of tax evasion, considering the interactions between tax authority and its sovereign government. The model has predicted that

tax evasion is influenced by the sovereign government's intention to control the economy, taking other determinants into account. These determinants include the marginal cost of tax audits and the marginal cost of other activities by the government to manipulate the economy, the marginal control of tax audits and the marginal cost of other activities, tax revenue, and other parameters shifting the marginal tax evasion function.

The theoretical model has been tested with annual data from competitiveness reports of the IMD and the WEF. Strong evidence has been found that the variable, price controls, influences tax evasion: the proxy for the government's control of the economy. Therefore, it can be concluded that empirical evidence supports the idea that tax evasion is affected by the government's intention to control the economy.

We can derive an important policy implication from the result of the paper. It has been accepted that the cases of tax evasion can be decreased with an increase in the probability of being caught and/or an increased fine. The analysis of the paper, however, shows that political intention to control the economy is also influential. This implies that those countries where political influences are substantial should exert extra efforts to decrease tax evasion so that the tax administration might work independently from the sovereign government.

TABLE 1
COMPARATIVE STATICS

Parameter	Change in parameter	Change in tax auditing(p^{**})
D'_e	+	-
C'_p	+	-
tN	+	+
S'_a	+	-
D'_a	+	+
e'_p	+	-

TABLE 2
NAME OF NATIONS AND THEIR LEVEL OF TAX EVASION

Nation	Tax Evasion (WEF)	Tax Evasion (IMD)	Nation	Tax Evasion (WEF)	Tax Evasion (IMD)
Argentina	2.35	2.02	Jordan	3.98	
Australia	3.93	4.76	Korea	2.88	3.06
Austria	4.49	5.47	Luxembourg	4.78	6.57
Belgium	2.30	2.45	Malaysia	4.34	5.94
Bolivia	2.24		Mauritius	3.84	
Brazil	2.34	2.52	Mexico	2.41	2.50
Bulgaria	2.64		Netherlands	4.89	5.67
Canada	5.37	6.64	New Zealand	5.27	7.18
Chile	5.38	7.00	Norway	4.02	5.67
China	2.84	3.56	Peru	2.96	
Colombia	2.40	1.85	Philippines	1.95	2.39
Costa Rica	2.53		Poland	3.24	3.23
Czech	2.79	2.54	Portugal	2.75	2.92
Denmark	4.19	5.43	Russia	1.74	0.66
Ecuador	2.00		Singapore	6.00	8.18
Egypt	2.84		Slovakia	2.62	2.94
El Salvador	3.37		South Africa	2.54	2.53
Finland	4.53	7.02	Spain	4.04	5.09
France	3.29	5.44	Sweden	3.23	4.40
Germany	3.25	4.66	Switzerland	5.02	6.66
Greece	2.30	2.09	Taiwan	3.62	4.56
Hong Kong	5.19	7.68	Thailand	2.92	3.77
Hungary	2.68	3.06	Turkey	2.41	2.44
Iceland	3.59	4.19	Ukraine	1.99	
India	2.39	2.50	United Kingdom	5.52	6.03
Indonesia	2.85	2.70	United States	4.96	6.22
Ireland	3.88	4.84	Venezuela	2.23	2.04
Israel	3.86	4.96	Vietnam	2.50	
Italy	2.35	2.67	Zimbabwe	3.00	
Japan	4.59	6.15			

TABLE 3
VARIABLES USED

Parameter	Variable	Definition	Expected Sign	Data Source
D'_e	Price controls	Government price controls do not affect the pricing of products in most industries	+	IMD
	Public service	The public service is immune from political interference	+	IMD
C'_p	Litigation against government	The likelihood of winning a dispute filed against the government is high	-	WEF
tN	Collected personal income tax	On profits, income and capital gains as a percentage of GDP	+	IMD
	Collected corporate tax	On profits, income and capital gains as a percentage of GDP	+	IMD
D'_a	Administrative regulations	Administrative regulation that constrain businesses are minimal	-	WEF
e'_p	GDP per capita	Per capita GDP adjusted for the differences in purchasing power	+	WEF
	Tax system	The tax system promotes business competitiveness	+	WEF
	Composition of government spending	The composition of government spending provides necessary goods and services	+	WEF
	Effective personal income tax rate	As a percentage of GDP per capita	-	IMD
	Average corporate tax rate	As a percentage of profit before tax	-	IMD

TABLE 4
DESCRIPTIVE STATISTICS

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Tax Evasion (WEF)	224	1.58	6.19	3.47	1.12
Tax Evasion (IMD)	186	.66	8.56	4.45	1.85
Price controls	186	3.81	9.38	7.35	1.13
Litigation against government	171	2.20	5.93	4.13	.87
Public service	186	1.10	9.00	4.12	1.91
Collected personal income tax	183	.15	28.02	7.58	5.42
Collected corporate tax	180	.63	10.05	3.36	1.79
Administrative regulation	223	1.64	6.12	3.73	.78
GDP per capita	222	350.00	44206.00	13675.11	10017.99
Tax system	223	1.49	6.56	3.37	1.00
Composition of gov't spending	224	1.40	6.08	3.61	.90
Effective personal income tax rate	140	0.00	42.83	17.11	10.95
Average corporate tax rate	139	16.00	58.00	33.90	6.84
Valid Cases (listwise)	129				

TABLE 5
ESTIMATION RESULTS

Independent Variable	Dependent Variable	
	Tax Evasion (WEF)	Tax Evasion (IMD)
Intercept	-0.798 (.625)	-1.720 (1.055)
Price controls	.199*** (.073)	.260** (.124)
Litigation against government	-5.229E-02 (.105)	6.580E-02 .177
Public service	.184*** (.064)	.301*** (.108)
Collected personal income tax	1.393E-02 (.017)	2.197E-02 (.029)
Collected corporate tax	6.245E-02* (.034)	8.166E-02 (.057)
Administrative regulation	.132 (.125)	-.153 (.210)
GDP per capita	2.535E-05*** (7.749E-06)	4.584E-05*** (1.308E-05)
Tax system	.182** (.091)	.226 (.154)
Composition of gov't spending	.237* (.132)	.528** (.223)
Effective personal income tax rate	-1.100E-02 (.007)	-1.320E-02 (.012)
Average corporate tax rate	-1.439E-03 (.009)	-8.559E-03 (.015)
Year1998	2.160E-02 (.139)	.136 (.235)
Year1999	-6.183E-02 (.136)	-5.577E-02 (.229)
Observations	129	129
R^2	0.742	0.716
Adjusted R^2	0.712	0.684

Note. - Standard errors are in parentheses.

*, **, *** Statistically significant at the .10, .05, and .01 levels, respectively.

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