

# Institutional Asymmetry and the Acceptability of Undeclared Work

## SYNTHESIS REPORT

Ioana A. Horodnic & Colin C. Williams  
Sheffield University Management School

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## Introduction

Studies estimating the share of the undeclared economy show that about 60 per cent of the global labour force have their main employment in the informal economy (Jütting and Laiglesia, 2009). However, although the share of undeclared work is larger in the developing economies (ILO, 2013), undeclared work is far from being a peripheral issue in advanced economies. Indeed, in the European Union it is estimated that the undeclared economy is equivalent to 17.9 per cent of GDP (Schneider, 2016), that undeclared work represents about 14 per cent of gross value added in the private sector in 2013 (Williams et al, 2016) and that 4 per cent of EU28 citizens are involved in undeclared work (Williams and Horodnic, 2017a). Tackling undeclared work is therefore important. This is not only because governments lose money that could have been used for improving countries' structural conditions but also because undeclared work creates unfair competition for the legitimate businesses and leads to poorer working conditions for workers (Horodnic and Williams, 2018a, 2018b).

This report is part of the project SHADOWS which aims to investigate the effectiveness of different policy measures in reducing undeclared work. As such, the project evaluates not only the effectiveness of using a *rational economic actor* approach (that tackles undeclared work by ensuring that the payoff from undeclared work is outweighed by the costs), and a *social actor* approach (grounded in a view that undeclared work arises when tax morale is low), but also analyses the interaction effects (between deterrents and tax morale, and vertical and horizontal trust) in various contexts. This report focuses on the *social actor* approach, which is grounded in institutional theory, and aims to produce a more nuanced and variegated deeper understanding of citizens views on *horizontal* and *vertical trust* and the determinants of their tax morale. Which institutions and who do citizens not trust, and why? What causes trust and distrust? Does vertical trust influence horizontal trust, or is it the other way around? Under what circumstances is undeclared work deemed acceptable by citizens? And what are the main narratives on accepting and/or participating in undeclared work? Are these similar in different contexts?

To answer these questions, the report briefly reviews how scholarship on participation in undeclared work has increasingly adopted the lens of institutional theory, and three



waves of thought in institutional theory will be outlined regarding how to explain citizens' participation in undeclared work (Williams, 2017). This will be followed by a methodological section of the qualitative research conducted where details about the country case studies will be provided (as well as the type of questions used to investigate the issues). The third section then reports the results obtained using in-depth-interviews, focusing on how tax morale and trust in public institutions and/or in other citizens are shaped by formal institutional failings. The results will be structured into four main categories of formal institutional failure, namely: resource misallocations and inefficiencies; formal institutional voids and weaknesses; formal institutional powerlessness; and formal institutional instability and uncertainty (Williams, 2017). The report concludes with the policy implications of the findings.

### **An institutionalist perspective on participation in undeclared work**

Drawing inspiration from a variant of institutional theory (Helmke and Levitsky, 2004; North, 1990), a social actor approach has emerged when explaining undeclared work. This focuses upon developing the social contract between the state and its citizens to engender willing or voluntary commitment to compliant behaviour rather than forcing citizens to comply using threats, harassment and/or incentives (e.g. the focus of the rational economic actor approach). Institutions represent the rule of the game existent in a society (Denzau and North, 1994; Mathias et al., 2014) and, according to this institutional theory, all societies have both formal institutions (i.e., codified laws and regulations) that set out the legal rules of the game (prescribing what is *state morality*), as well as informal institutions which are the “socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels” (Helmke and Levitsky, 2004, p. 727), and are citizens' norms, values and beliefs reflecting their individual morale about what is right and acceptable (prescribing what is *civic morality*). Thus, the term *institution* is used here to describe both the informal institutions such as customs or behaviour rules important to a society, and the society's formal institutions, which are the laws and regulations created and enforced by entities such as the government and public services (Williams, 2017).

Viewed through this institutionalist lens, declared work occurs within the formal institutional prescriptions set out in the codified laws and regulations, whilst, in



contrast, undeclared work occurs outside of formal institutional prescriptions but within the norms, values and beliefs of informal institutions (Godfrey, 2011; Williams, 2017; Williams and Horodnic, 2015a). In this report, three waves of thought in institutional theory on how to explain participation in undeclared work will be briefly described. Accordingly, in the first wave of institutional theory explaining participation in undeclared work, the focus was upon formal institutional failures and imperfections (e.g. misallocation and misuse of public resources). The second wave of thought started to recognise the role of informal institutions, acknowledging that even in the situations where formal institutional failings are identified, this would not necessarily lead to participation in undeclared work unless it would be acceptable by the informal institutions. As such, participation in undeclared work is attributed to the asymmetry between the codified laws and regulations of a society's formal institutions (*state morale*) and the socially shared unwritten rules of its informal institutions (*civic morale*). The third wave of thought has then brought together the first two waves and argued that formal institutional failings and imperfections produce the asymmetry between the formal institutions (*state morale*) and informal institutions (*civic morale*), which, in turn, leads to a greater participation in undeclared work (Williams, 2017).

### ***First wave of thought: formal institutional failures and imperfections***

Within the first wave of institutional thought, participation in undeclared work has been explained by focusing almost exclusively upon the formal institutions with little attention given to informal institutions or on whether a symmetry between formal and informal institutions exists. The major types of formal failure and imperfection used in previous studies for explaining participation in undeclared work are summarised in Table 1. This table follows the categorisation proposed by Williams (2017), namely: formal institutional resource misallocations and inefficiencies; formal institutional voids and weaknesses; formal institutional powerlessness; and formal institutional instability and uncertainty.

**Table 1.** Formal failures and imperfections

		Explanation/ link to undeclared work participation
<b>Formal institutional resource misallocations and inefficiencies</b>		
Lack of modernisation of the government	Lack of redistributive justice	Citizens do not feel that they receive the goods and services they deserve given the taxes they pay.
	Lack of procedural justice	Citizens believe that authorities adopt a <i>cops and robbers</i> approach and do not treat them in a respectful, impartial and responsible manner.
	Lack of procedural fairness	Citizens do not believe that they pay a fair share compared with other citizens.
	Misuse of public office for private gain	Government officials demand or receive gifts and bribes and therefore citizens perceive that they are being extorted by public officials.
Corruption	State capture	Powerful groups influence the formulation of laws and other government policies to their own advantage resulting in their preferential treatment and resources being available to these groups, which reduces the resources for public services to citizens.
	Personal connections	Citizens perceive that other citizens circumvent the formal rules and use personal connections to get preferential access to public services (e.g. education, health services).
<b>Formal institutional voids and weaknesses</b>		
Neo-liberal perspective	Burdensome regulatory environment	Citizens <i>voluntarily decide to exit</i> the over-regulated declared sector with its high taxes and large number of state-imposed institutional constraints.
Political economy perspective	Lack of worker protection	Citizens are <i>excluded</i> from the declared sector due to inadequate levels of state intervention in work and welfare provision, which leaves workers less than fully protected, resulting in participation in undeclared work as a survival strategy.
<b>Formal institutional powerlessness</b>		
Lack of capacity to enforce the formal rules	Weak deterrence measures	Citizens' participation in undeclared work is explained by a low level of actual and/or perceived penalties and risk of detection ( <i>sticks</i> ).
Lack of ability to provide incentives to encourage adherence to the formal rules	Low benefits of operating in undeclared sector	For reducing participation in undeclared work, the government can use incentives and rewards to increase the benefits of operating in the declared sector and to encourage citizens to participate in compliant behaviour ( <i>carrots</i> ). Examples include support and advice hotlines, amnesties, individual-level voluntary disclosure and so on.
<b>Formal institutional instability and uncertainty</b>		
Instability and uncertainty of the formal rules	Continuous changes in laws and regulations	Citizens do not expect the current rules to remain in force in the future due to the fact that they have experienced continuous changes in the formal rules. As a result, they perceive little benefit to paying social contributions because they do not believe that in the future the same rules will apply to allow them to benefit from unemployment benefits, pensions, etc.

Source: abridged and adapted from Williams (2017)



### ***Second wave of thought: the role of informal institutions and institutional asymmetry***

The second wave of thought argues that even if there are formal institutional failings, participation in undeclared work does not necessarily result from these failings unless the informal institutions (e.g. socially shared norms, values and beliefs of citizens) are in asymmetry with the formal institutions (Webb *et al.*, 2009; Williams, 2017; Williams and Horodnic, 2015a). Therefore, when the norms, values and beliefs of a society's informal institutions are *complementary* and reinforce the formal institutions, participation in undeclared work does not occur, regardless of the shortcomings of the formal institutions. It is only when the informal institutions are *substitutive* to the formal institutions, prescribing incompatible rules, that participation in undeclared work occurs (Helmke and Levitsky, 2004; North, 1990). The greater the institutional asymmetry, the higher is the likelihood of undeclared work.

As such, the second wave of thought started to recognise the role of informal institutions and used proxy measures for evaluating what is legitimate from the point of view of informal institutions (*civic morale*). A proxy frequently used for measuring the acceptability of undeclared work and thus the asymmetry between formal and informal institutions in relation to such practices is *tax morale*. Tax morale is defined most often as the intrinsic motivation to pay taxes (Torgler, 2012; Torgler and Schneider, 2007a), but also referred as *civic duty* (Orviska and Hudson, 2003) or as the totality of nonpecuniary motivations and factors for tax compliance which fall outside the expected utility maximization (Luttmer and Singhal, 2014). As Table 2 displays, in previous studies, tax morale was usually measured by asking the respondents to rate the level of acceptability of various forms of undeclared work. The number of the undeclared work practices explored depends on the survey or experiment designed, ranging from one single question to nine or ten items in more complex approaches. However, the most common refers to the acceptability of cheating on taxes when an opportunity occurs, such as under-reporting or even claiming benefits not entitled to.

**Table 2.** Measures of tax morale

Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<ul style="list-style-type: none"> <li>World Values Survey (WVS)</li> <li>6 Waves: 1981-2014</li> <li>e.g.: 6th Wave of WVS - 60 countries</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>European Values Study (EVS)</li> <li>4 Waves: 1981- 2017</li> <li>4<sup>th</sup> Wave of EVS - 47 European countries; Pre-release of the EVS-WVS 2017 data – 16 European countries</li> </ul>	<ul style="list-style-type: none"> <li>'Please tell me for each of the following (actions) whether you think it can always be justified, never be justified, or something in between:' ... 'Cheating on tax if you have the chance' [1 = Never justifiable, 10 = Always justifiable]. [Alm and Torgler (2004, 2006); Belmonte et al. (2018); Bilgin (2014); Blaufus et al. (2015); Doerrenberg and Peichl (2010); Doerrenberg et al. (2012); Feld and Torgler (2007); Frey and Torgler (2007); Hug and Sporri (2011); Ibrahim et al. (2015); Kondelaji et al (2016); Leonardo and Martinez-Vazquez (2016); Martinez-Vazquez and Torgler (2009); Martins and Gomes (2014); McKerchar et al. (2013); Rodriguez-Justicia and Theilen (2018); Sá et al. (2015); Torgler (2002/2003, 2003a, 2003b, 2003d, 2003e, 2004a, 2006, 2011, 2012); Torgler and Murphy (2004); Torgler and Schneider (2004, 2006, 2009); Torgler et al. (2007a); Trüdinger and Hildebrandt (2013)]</li> <li>'Please tell me for each of the following (actions) whether you think it can always be justified, never be justified, or something in between:' ... A) 'Claiming government benefits to which you are not entitled'/ 'Claiming state benefits which you are not entitled to' B) 'Someone accepting a bribe in the course of their duties' [1 = Never justifiable, 10 = Always justifiable]. [Blaufus et al. (2015)]</li> <li>Only in EVS: 'Please tell me for each of the following (actions) whether you think it can always be justified, never be justified, or something in between:' ... 'Lying in your own interest.' [1 = Never justifiable, 10 = Always justifiable]. [Blaufus et al. (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Eurobarometer 67.3 and 79.2</li> <li>2007 and 2013</li> <li>29 European countries in 2007, 28 European countries in 2013</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>GREY surveys</li> <li>2015</li> <li>Bulgaria, Croatia and FYR Macedonia</li> </ul>	<ul style="list-style-type: none"> <li>'Now I would like to know how you would rate various actions or behaviours. For each of them, please tell me to what extent you find it acceptable or not. Please use the following scale:' 1 = absolutely unacceptable and 10 = absolutely acceptable. 1) 'Someone receives welfare payments without entitlement'; 2) 'An individual is hired by a household for work and he/she does not declare the payment received to the tax or social security authorities even though it should be declared'; 3) 'A firm is hired by a household for work and it does not declare the payment received to the tax or social security authorities'; 4) 'A firm is hired by another firm for work and it does not declare its activities to the tax or social security authorities'; 5) 'A firm hires an individual and all or a part of the wages paid to him/her are not officially declared'; 6) 'Someone evades taxes by not declaring or only partially declaring their income'. [Williams and Horodnic (2015a, 2016a, 2017b); Williams et al. (2015); Williams and Yang (2017, 2018); Williams and Bezeredi (2017a, 2017b, 2018b); Williams and Franic (2017)]</li> </ul>
<ul style="list-style-type: none"> <li>Latinobarómetro</li> <li>2003-2017</li> <li>18 Latin American countries</li> </ul>	<ul style="list-style-type: none"> <li>'On a scale of 1 to 10, where 1 means "not at all justifiable" and 10 means "totally justifiable", how justifiable do you believe it is to: ... Manage to avoid paying all taxes/ Evade paying taxes.' [Castañeda Rodríguez (2015); Daude and Melguizo (2010); Gerstenbluth et al. (2012); Torgler (2003a, 2005a, 2011); Torgler and Schneider (2006, 2009)]</li> </ul>
<ul style="list-style-type: none"> <li>Afrobarometer</li> <li>7 Rounds: 1999-2018</li> <li>e.g.: 6<sup>th</sup> Round - 36 African countries</li> </ul>	<ul style="list-style-type: none"> <li>'For each of the following actions, please tell me whether you think it is something a good -citizen in a democracy should always do, never do, or do only if they choose. → Pay taxes they owe to government.' [Jahnke (2015)]</li> <li>'... Please tell me whether you, personally, have done any of these things during the past year: ... Refused to pay a tax or fee to government.' [4 = Often, 3 = Several times, 2 = Once or Twice, 1 = Would if had the chance, 0 = Would never do this].</li> <li>'For each of the following statements, please tell me whether you disagree or agree? → The tax authorities always have the right to make people pay taxes.' [1 = Strongly disagree, 5 = Strongly agree]. [Daude et al. (2012); D'Arcy (2011); Levi and Sacks (2009)]</li> </ul>





Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<ul style="list-style-type: none"> <li>▪ The International Social Survey Programme (ISSP) – Religion II</li> <li>▪ 1998</li> <li>▪ 31 countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Consider the situations listed below. Do you feel it is wrong or not wrong if: → A taxpayer does not report all of [his/her] income in order to pay less income taxes.’ [1 = Not wrong, 4 = Seriously wrong]. [Torgler (2003a, 2003d, 2005b); Torgler and Schneider (2007b); Torgler et al. (2007a, 2010b)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ European Social Survey</li> <li>▪ 2<sup>nd</sup> Wave, 2004</li> <li>▪ 26 European countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Citizens should not cheat on their taxes.’ [1 = Agree strongly, 5 = Disagree strongly]. [Kountouris and Remoundou (2013); Lago-Peñas and Lago-Peñas (2010)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Palestinian Public Opinion Survey</li> <li>▪ 2007</li> <li>▪ Palestinian Territories</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘In your opinion can you justify these behaviours by other people?’ → ‘Tax evasion’ [1 = ‘can’t justify at all tax evasion’ and 0 = otherwise; 1 = ‘I can justify it’, 2 = ‘I can justify it sometimes’, 3 = ‘I can’t justify it at all’]. [Andriani (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Experiments (239 subjects between 2002 and 2007)</li> <li>▪ Australia, Switzerland, Costa Rica</li> </ul>	<ul style="list-style-type: none"> <li>▪ Index: unweighted average of the following questions (1 = Strongly disagree, 5 = Strongly agree):            ‘1) Given present tax burdens, one can hardly blame tax evaders; 2) Given the easy availability of opportunities to evade taxes, one can hardly blame tax evaders; 3) If in doubt about whether or not to report a certain source of income, I would not report it; 4) Since the government gets enough taxes, it does not matter that some people evade taxes; 5) Taxes are so heavy that tax evasion is an economic necessity for many to survive; 6) If I receive \$2000 in cash for services rendered, I would not report it; 7) Cheating on taxes is justifiable in light of the unfairness of the tax system; 8) Taxes are something which is taken away from me; 9) Since everybody evades taxes, one can hardly be blamed for doing it; 10) There is nothing bad about under-reporting taxable income on one’s tax return.’ [Torgler et al. (2003a, 2010a, 2011)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Survey on tax morale among higher education students</li> <li>▪ 2014</li> <li>▪ Turkey and Spain</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Tax evaders encourage other people to evade tax; In my country, a person who evades tax may be discredited and be reprovved; I reprove a person who evades tax; Tax evasion is defined as theft; I think that tax evasion is not right morally; If taxpayers evade in small quantities, it is normal.’ [1 = Totally agree, 5 = Strongly disagree]. [Goksu and Sahpaz (2015)]</li> <li>▪ ‘If I get the opportunity, I may evade tax.’ [1 = Totally agree, 5 = Strongly disagree]. [Goksu and Sahpaz (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Spain’s Survey of Fiscal Policy (Public Opinion and Fiscal Policy)</li> <li>▪ 2005</li> <li>▪ Spain</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Do you mostly agree or mostly disagree with the following statements? → Actually, it is not that bad to hide part of your income since nobody is really affected by it.’ [Alm and Gomez (2008)]</li> <li>▪ ‘In terms of paying taxes, you yourself are ...’ [Very aware and responsible; Quite aware and responsible; Somewhat aware and responsible; Irresponsible; N/A]. [Alm and Gomez (2008)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Survey on university students</li> <li>▪ Spain</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘It is justifiable to cheat on your taxes or pay fewer taxes to the State than are expected?/, if it is highly unlikely that you will be discovered.’ [1 = Yes, 2 = NO]. [Molero and Pujol (2012)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Graduates’ Hopes, Visions and Actions Survey (GHVA)</li> <li>▪ 2000</li> <li>▪ Australia</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘... extent to which graduates expressed commitment to the tax system and a belief that taxpaying is socially responsible: (a) Paying tax is the right thing to do; (b) Paying tax is a responsibility that should be willingly accepted by all Australians; (c) Citizenship carries with it a duty to pay tax; (d) Citizenship carries with it a shared responsibility between Government and citizen; (e) I believe paying tax is good for our society, and therefore it is good for each of us; (f) It’s disappointing that some people do not pay their tax; (g) It makes it difficult to govern the country when people don’t pay their tax; and (h) The harm to the community through people not paying tax is</li> </ul>





Database/Year/Coverage	Item/ Used in previous studies (e.g.):
	regretful.' [1 = Strongly disagree, 2 = Disagree, 3 = Neither, 4 = Agree, 5 = Strongly agree]. [Braithwaite and Ahmed (2005)]
<ul style="list-style-type: none"> <li>■ Baseline Taxpayers' Perception Survey</li> <li>■ 2014</li> <li>■ Pakistan</li> </ul>	<ul style="list-style-type: none"> <li>■ 'Cheating on taxes in Pakistan is never justifiable.' [1 = Strongly disagree, 5 = Strongly agree]. [Cyan et al. (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>■ Bank of Italy Survey of Household Wealth and Income (SHIW)</li> <li>■ 2004</li> <li>■ Italy</li> </ul>	<ul style="list-style-type: none"> <li>■ To what extent do you agree with the statements: 1) 'The more someone earns, the more (in percentage) he/she should contribute to Government spending'; 2) 'Paying taxes is one of the basic duties of citizenship'; 3) 'Not paying taxes is one of the worst crimes a person can commit because it harms the whole community'; 4) 'It is right not to pay taxes if you think they are unfair'; 5) 'Even if someone thinks a tax is unfair, he/she should pay it first and then complain if necessary'; 6) 'It is right to pay tax because it helps the weak'; 7) 'If everyone paid taxes, in the end we would all pay a little less'. [1 = Not at all, 5 = Very much]. [Barone and Mocetti (2011); D'Attoma (2015); Filippin et al (2013); Lubian and Zarri (2011)]</li> </ul>
<ul style="list-style-type: none"> <li>■ Texas resident taxpayers Survey</li> <li>■ 2013</li> <li>■ Texas, USA</li> </ul>	<ul style="list-style-type: none"> <li>■ '1) Tax rates are too high, so it is not really cheating when you bend the rules a little to find ways to pay less than you are supposed to; 2) Since many rich people pay no taxes at all, if someone like you underpays a little, it is no big deal; 3) With what things cost these days, it's okay to cut a few corners on your tax form just to help make ends meet; 4) When you're not really sure whether or not you deserve a tax deduction, it makes sense to take a chance and take the deduction anyway; 5) It's all right to occasionally underreport certain income or claim an undeserved deduction if you are generally a loyal and law-abiding citizen; 6) Slightly overstating deductions (like medical, charitable or business deductions) on income taxes is perfectly acceptable; 7) Trading goods or services with a friend and not reporting it on your tax form is perfectly acceptable; 8) Reporting your main income fully, but intentionally not including some small outside income is perfectly acceptable; 9) Being paid in cash for a job and then not reporting it on your tax form is perfectly acceptable.' [Çevik (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>■ Taxpayer Opinion Survey</li> <li>■ 1987</li> <li>■ United States</li> </ul>	<ul style="list-style-type: none"> <li>■ 'People feel differently about reporting certain financial transactions on their income tax return like the ones on this card. Using a scale of "1" to "6", where "6" means perfectly acceptable and "1", at the other end of the scale, means not at all acceptable please rate each transaction. a) Trading or exchanging goods or services with a friend or neighbor and not reporting it on your tax form; b) Reporting your main income fully, but not including some small outside income; c) Being paid in cash for a job and then not reporting it on your tax form; d) Not reporting some earnings from investments or interest that the government would not be able to find out about.' [Torgler (2003a, 2003c)]</li> </ul>
<ul style="list-style-type: none"> <li>■ Taxpayer Opinion Survey</li> <li>■ 1987</li> <li>■ United States</li> </ul>	<ul style="list-style-type: none"> <li>■ 'Here are a number of statements that people have made which you may or may not agree with': a) 'With what things cost these days, it's okay to cut a few corners on your tax form just to help make ends meet'; b) 'It's not so wrong to hold back a little bit of taxes since the government spends too much anyway'; c) 'The chances of getting caught are so low that it is worthwhile trying to cut corners a little on'; d) 'When you're not really sure whether or not you deserve a tax deduction, it makes sense to take a chance and take the deduction anyway'; e) 'It is not so wrong to underreport certain income since it does not really hurt anyone'; f) 'There is nothing wrong with interpreting the ambiguous or grey areas of the tax law to your own advantage'. [Torgler (2003a)]</li> </ul>

Source: authors' compilation



Using different measures of tax morale and different databases, the most dominant finding is that a low tax morale is associated with a high participation in various non-compliant practices such as tax evasion (Brink and Porcano, 2016; Dell'Anno, 2009; Torgler, 2004b), the shadow economy (Halla, 2012; Torgler and Schneider, 2007a; Torgler *et al.*, 2007b), participation in undeclared work (Williams and Horodnic, 2016b; Windebank and Horodnic, 2017b) or participation in under-reporting salaries (Williams and Horodnic, 2015a, 2015b, 2017b). Due to the importance of tax morale in explaining participation in undeclared work and to explain the asymmetry between the formal and informal institutions, a number of studies have investigated the variables associated with tax morale.

Recently, Horodnic (2018) conducted a systematic review of the factors associated with tax morale. The analysis included research articles, conference papers, books, thesis dissertations and official reports and started from an initial 600 results and narrowed to 82 studies where the tax morale has been used as the dependent variable. A large number of explanatory variables were identified in the tax morale literature, but the most salient factor identified was *trust*. On the one hand, *vertical trust* or the trust in public institutions (e.g. government, parliament, courts and legal systems/ rule of law, police, tax authority and public servants, political parties, etc.) has been identified as associated with tax morale in an overwhelming number of studies (for a full review see Horodnic, 2018). On the other hand, *horizontal trust* or trust in other taxpayers and the perceived level of undeclared work has also emerged from a number of studies (e.g., Çevik, 2016; Kondelaji *et al.*, 2016; Torgler, 2004b; Trüdinger and Hildebrandt, 2013). As such, the perceived behaviour of the other taxpayers (i.e., the norm of informal institutions) was identified as associated with the tax morale. Thus, the finding is that a low level of trust in public institutions as well as a low level of trust regarding the compliant behaviour of other taxpayers is associated with a low tax morale. Furthermore, using various data sets and measures of undeclared work (Eurobarometer surveys, GREY data<sup>1</sup>, estimates based on labour force surveys, and shadow economy measured using MIMIC methodology), Horodnic and Williams

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<sup>1</sup> GREY data (European Commission's Framework 7 Industry-Academia Partnerships Programme (IAPP) grant no. 611259 entitled 'Out of the shadows: developing capacities and capabilities for tackling undeclared work in Bulgaria, Croatia and FYR Macedonia').



(2018a) conclude that there is a close relationship between engagement in undeclared work and the level of horizontal and vertical trust (Horodnic and Williams, 2018a). As such, for exploring the asymmetry between formal and informal institutions and its impact on the participation in undeclared work, alongside tax morale, both, vertical and horizontal trust are important to be investigated. This is due the fact that previous studies show how both low tax morale and participation in undeclared work are associated with low levels of vertical and horizontal trust. Table 3 provides a list of the questions used in previous studies for investigating the issues of vertical and horizontal trust in relation to either tax morale or participation in undeclared work.

**Table 3.** Measures of vertical and horizontal trust

Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<b>VERTICAL TRUST</b>	
<ul style="list-style-type: none"> <li>▪ World Values Survey (WVS)</li> <li>▪ 6 Waves: 1981-2014</li> <li>▪ e.g.: 6<sup>th</sup> Wave of WVS - 60 countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ 'I am going to name a number of organizations. For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?' → The armed forces, The police, The courts, The government, Political parties, Parliament, The Civil service. [Bilgin (2014); Doerrenberg and Peichl (2010); Feld and Torgler (2007); Ibrahim et al. (2015); Kondelaji et al (2016); Leonardo and Martinez-Vazquez (2016); Martinez-Vazquez and Torgler (2009, 2003a, 2003b, 2003c, 2003d, 2003e, 2004); Torgler and Murphy (2004); Torgler and Schneider (2004); Torgler et al (2007a); Trüdinger and Hildebrandt (2013)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ European Values Study (EVS)</li> <li>▪ 4 Waves: 1981-2017</li> <li>▪ e.g.: 4<sup>th</sup> Wave of EVS - 47 European countries; Pre-release of the EVS-WVS 2017 data - 16 European countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ '... For each item listed, how much confidence you have in them, is it a great deal, quite a lot, not very much or none at all?' → The armed forces, The education system, The police, Parliament, Civil service, The social security system, Health care system, The justice system, Political parties, Government. [Doerrenberg and Peichl (2010); Feld and Torgler (2007); Frey and Torgler (2007); Martins and Gomes (2014); Sá et al. (2015); Sønderskov and Dinesen (2016); Torgler (2012); Torgler and Schneider (2004)]</li> <li>▪ 'People have different views about the system for governing this country. Here is a scale for rating how well things are going:' [1 = Very bad, 10 = Very good].</li> </ul>
<ul style="list-style-type: none"> <li>▪ Afrobarometer</li> <li>▪ 7 Rounds: 1999-2018</li> <li>▪ e.g.: 6<sup>th</sup> Round - 36 African countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ 'How much do you trust each of the following ...?' → The President, Parliament, The Tax Department, Your Local Government Council, The Police, The Army, Courts of law. [0 = Not at all, 3 = A lot]. [Daude et al. (2012); Jahnke (2015)]</li> <li>▪ 'How many of the following people do you think are involved in corruption, ... ?' → The President and Officials in his Office, Members of Parliament, Government officials, Local government councilors, Police, Tax Officials (like Ministry of Finance officials or Local tax collectors), Judges and Magistrates. [0 = None, 3 = All of them].</li> </ul>
<ul style="list-style-type: none"> <li>▪ The International Social Survey Programme (ISSP) – Religion II</li> <li>▪ 1998</li> <li>▪ 31 countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ 'How much confidence do you have in courts and the legal system?' [1 = No confidence at all, 5 = Complete confidence]. [Torgler (2003d, 2005b); Torgler et al. (2007a, 2010b)]</li> </ul>



Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<ul style="list-style-type: none"> <li>Latinobarómetro</li> <li>2003-2017</li> <li>18 Latin American countries</li> </ul>	<ul style="list-style-type: none"> <li>'Please tell from the following list, who do you believe in ... ?' → Judges, Policeman, Public officials, Government, Parliamentarians, Military, President. [1 = Mentioned, 2 = Not mentioned]/ 'Please look at this card and tell me, how much trust do you have in each of the following groups/institutions. Would you say you have a lot, some, a little or no trust.' → National Congress/ Parliament, Judiciary, Armed forces, Public administration, Local government.</li> </ul>
<ul style="list-style-type: none"> <li>AsianBarometer</li> <li>2001-2003, 2005-2008, 2010-2012, 2014-2015</li> <li>e.g.: 4<sup>th</sup> Wave - 14 countries</li> </ul>	<ul style="list-style-type: none"> <li>'I'm going to name a number of institutions. For each one, please tell me how much trust do you have in them? Is it a great deal of trust, quite a lot of trust, not very much trust not very much trust, or none at all? → The president (for presidential system) or Prime Minister (for parliamentary system); The courts; The national government; Parliament; The military; The police; Local government.'</li> </ul>
<ul style="list-style-type: none"> <li>AsiaBarometer</li> <li>2003-2008</li> <li>e.g.: 2007 survey - 7 countries</li> </ul>	<ul style="list-style-type: none"> <li>'Please indicate to what extent you trust the following institutions to operate in the best interests of society. If you don't know what to reply or have no particular opinion, please say so.'</li> <li>[Daude et al. (2012)]</li> <li>'How much you agree with the statement' → 'There is wide spread corruption among those who govern the country.'</li> </ul>
<ul style="list-style-type: none"> <li>Palestinian Public Opinion Survey</li> <li>2007</li> <li>Palestinian Territories</li> </ul>	<ul style="list-style-type: none"> <li>'How is your trust of these institutions? → Clan, Government, Political parties, Local government, Parliament, President, Juridical system, Police' [1 = No trust, 2 = Little trust, 3 = Somehow trust, 4 = Lot of trust].</li> <li>[Andriani (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>GREY surveys</li> <li>2015</li> <li>Bulgaria, Croatia and FYR Macedonia</li> </ul>	<ul style="list-style-type: none"> <li>'Now I would like to know your level of agreement with the following statements.' → 'If people had greater trust in government, they would be more willing to pay their taxes' [1 = Strongly disagree, 5 = Strongly agree].</li> </ul>
<ul style="list-style-type: none"> <li>Study on factors of tax morale</li> <li>2014</li> <li>Hungary and Romania</li> </ul>	<ul style="list-style-type: none"> <li>'Why do you think the tax morale is low in your country?' (e.g., People generally do not trust the state).</li> <li>[Sipos (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Spain's Survey of Fiscal Policy (Public Opinion and Fiscal Policy)</li> <li>2005</li> <li>Spain</li> </ul>	<ul style="list-style-type: none"> <li>'And, in your opinion, which level of government manages better the money collected through taxes, the Central, Regional or Local level of government?'</li> <li>[Alm and Gomez (2008)]</li> </ul>
<ul style="list-style-type: none"> <li>Survey on university students</li> <li>Spain</li> </ul>	<ul style="list-style-type: none"> <li>'Do you believe that the State wastes the money it receives in taxes?' [1 = Yes, 2 = NO].</li> <li>[Molero and Pujol (2012)]</li> </ul>
<ul style="list-style-type: none"> <li>Baseline Taxpayers' Perception Survey (Pakistan's Federal Board of Revenue)</li> <li>2014</li> <li>Pakistan</li> </ul>	<ul style="list-style-type: none"> <li>'Good Use of Tax, Taxes Used for Public Benefit, Investments are Unaffected by Taxation, Tax Ineffective due to Recurring Govt. Spending, Tax Ineffective due to Waste to Unproductive Projects, Tax Ineffective since Consumed in Corruption, Tax Ineffective since Leadership Unaware of its Best Use.'</li> <li>[Cyan et al. (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>Bank of Italy Survey of Household Wealth and Income (SHIW)</li> <li>2004</li> <li>Italy</li> </ul>	<ul style="list-style-type: none"> <li>To what extent do you agree with the statement: 'People try to avoid paying taxes because they know the Government spends the money badly' [1 = Not at all, 5 = Very much].</li> <li>[Lubian and Zarri (2011)]</li> </ul>
<ul style="list-style-type: none"> <li>Danish Social and Political Attitudes Survey (SPAPS)</li> <li>2 Waves (2002/ 2004/ 2008 - 2012)</li> <li>Denmark</li> </ul>	<ul style="list-style-type: none"> <li>Trust in the following state institutions → the parliament, the judiciary, the police, and politicians [0 = No trust at all, 10 = Trust completely].</li> <li>[Sønderskov and Dinesen (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>Taxpayer Opinion Survey</li> <li>1987</li> </ul>	<ul style="list-style-type: none"> <li>'Public officials can usually be trusted to do what's right.' [1 = Strongly agree, 4 = strongly disagree].</li> </ul>



Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<ul style="list-style-type: none"> <li>United States</li> </ul>	<ul style="list-style-type: none"> <li>[Torgler (2003a, 2003b)]</li> </ul>
<b>FAIRNESS</b>	
<ul style="list-style-type: none"> <li>Latinobarómetro</li> <li>2003-2017</li> <li>18 Latin American countries</li> </ul>	<ul style="list-style-type: none"> <li>'In general, with respect to taxes ... Do you trust they will be collected impartially?' [1 = Yes, 2 = No, 0 = Don't know, No answer].</li> </ul>
<ul style="list-style-type: none"> <li>GREY surveys</li> <li>2015</li> <li>Bulgaria, Croatia and FYR Macedonia</li> </ul>	<ul style="list-style-type: none"> <li>'Now I would like to know your level of agreement with the following statements.' → 'Ensuring a sense of fairness in how people are treated by the tax authorities would reduce evasion of taxes and social contributions' [1 = Strongly disagree, 5 = Strongly agree].</li> </ul>
<ul style="list-style-type: none"> <li>Survey on tax morale among higher education students</li> <li>2014</li> <li>Turkey and Spain</li> </ul>	<ul style="list-style-type: none"> <li>'I think that tax amnesties are not fair.' [1 = Totally agree, 5 = Strongly disagree]. [Goksu and Sahpaz (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Study on factors of tax morale</li> <li>2014</li> <li>Hungary and Romania</li> </ul>	<ul style="list-style-type: none"> <li>'Why do you think the tax morale is low in your country?' (e.g., The tax morale is low because people don't feel the return of collected taxes in healthcare or education, the living standard is too low). [Sipos (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Spain's Survey of Fiscal Policy (Public Opinion and Fiscal Policy)</li> <li>2005</li> <li>Spain</li> </ul>	<ul style="list-style-type: none"> <li>'Do you think that, in general, taxes are levied fairly, that is richer people pay more taxes?' [Yes, it is a fair system; No, I don't think so; Did not know; N/A]. [Alm and Gomez (2008)]</li> <li>'In general, considering the public services and social assistance provided, would you say that, overall, society benefits a lot, sufficiently, little or nothing from what we pay the state in the form of taxes and other tributes?' [Alm and Gomez (2008)]</li> </ul>
<ul style="list-style-type: none"> <li>Baseline Taxpayers' Perception Survey (Pakistan's Federal Board of Revenue)</li> <li>2014</li> <li>Pakistan</li> </ul>	<ul style="list-style-type: none"> <li>'Richer Pay More Taxes, Tax System is Fair' [Cyan et al. (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>Bank of Italy Survey of Household Wealth and Income</li> <li>2004</li> <li>Italy</li> </ul>	<ul style="list-style-type: none"> <li>'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.' [D'Attoma (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Texas resident taxpayers Survey</li> <li>2013</li> <li>Texas, USA</li> </ul>	<ul style="list-style-type: none"> <li>'1) How much do you think that the government wastes the money it receives in taxes?; 2) All things considered, I believe the current tax system to be fair; 3) Compared to other taxpayers, I pay more than my fair share of taxes; 4) I get fair value for my income tax dollars in terms of benefits received from the government. [Çevik (2016)]</li> </ul>

## HORIZONTAL TRUST

### SOCIAL NORMS

<ul style="list-style-type: none"> <li>Latinobarómetro</li> <li>2010-2017</li> </ul>	<ul style="list-style-type: none"> <li>'Could you tell me if recently you have known someone or have someone you know comment about somebody who has: Managed avoid paying all his tax.' [0 = No, 1 = Yes]. [Torgler (2005a)]</li> </ul>
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Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<ul style="list-style-type: none"> <li>18 Latin American countries</li> </ul>	<ul style="list-style-type: none"> <li>'As you know or have heard, on a scale of 1 to 100, with "1" is "none" and "100" is "all", how many (nationality) than having to pay taxes, pay properly?'</li> </ul>
<ul style="list-style-type: none"> <li>Eurobarometer 67.3 and 79.2</li> <li>2007 and 2013</li> <li>29 European countries in 2007, 28 European countries in 2013</li> </ul>	<ul style="list-style-type: none"> <li>'Do you personally know anyone who works without declaring their income or part of their income to the tax or social security authorities?' [1 = Yes, 2 = No]. [Horodnic and Williams (2018a)]</li> </ul>
AND	
<ul style="list-style-type: none"> <li>GREY surveys</li> <li>2015</li> <li>Bulgaria, Croatia and FYR Macedonia</li> </ul>	
<ul style="list-style-type: none"> <li>Afrobarometer</li> <li>7 Rounds: 1999-2018</li> <li>e.g.: 6<sup>th</sup> Round - 36 African countries</li> </ul>	<ul style="list-style-type: none"> <li>'Corruption is normal / Everyone does it / everyone is involved.'</li> </ul>
<ul style="list-style-type: none"> <li>GREY surveys</li> <li>2015</li> <li>Bulgaria, Croatia and FYR Macedonia</li> </ul>	<ul style="list-style-type: none"> <li>'What would you estimate as the share of population in (OUR COUNTRY) which works without declaring the income or part of the income to tax or social security institutions?' [Less than 1 %, From 1 % to less than 5 %, From 5 % to less than 10 %, From 10 % to less than 20 %, From 20 % to less than 30 %, From 30 % to less than 40 %, From 40 % to less than 50 %, 50 % or more]. [Williams and Bezeredi (2017a, 2017b, 2018a)]</li> </ul>
<ul style="list-style-type: none"> <li>Survey on tax morale among higher education students</li> <li>2014</li> <li>Turkey and Spain</li> </ul>	<ul style="list-style-type: none"> <li>'There are many people who evade tax in my immediate environment' [1 = Totally agree, 5 = Strongly disagree]. [Goksu and Sahpaz (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Spain's Survey of Fiscal Policy (Public Opinion and Fiscal Policy)</li> <li>2005</li> <li>Spain</li> </ul>	<ul style="list-style-type: none"> <li>'In terms of paying taxes, do you think Spanish people are ...' [Very aware and responsible; Quite aware and responsible; Somewhat aware and responsible; Irresponsible; Did not know; N/A]. [Alm and Gomez (2008)]</li> <li>'In your opinion, do you think there is a lot, much, some or hardly any fiscal fraud in Spain?' [Alm and Gomez (2008)]</li> </ul>
<ul style="list-style-type: none"> <li>Survey on university students</li> <li>Spain</li> </ul>	<ul style="list-style-type: none"> <li>'What percent of Spanish people believe it justifiable to cheat on their taxes or pay fewer taxes to the State than are expected?' [Open question]. [Molero and Pujol (2012)]</li> </ul>
<ul style="list-style-type: none"> <li>Bank of Italy Survey of Household Wealth and Income</li> <li>2004</li> <li>Italy</li> </ul>	<ul style="list-style-type: none"> <li>'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%].' [D'Attoma (2015)]</li> </ul>
<ul style="list-style-type: none"> <li>Texas resident taxpayers Survey</li> <li>2013</li> <li>Texas, USA</li> </ul>	<ul style="list-style-type: none"> <li>1) 'If I excluded some of my income in my tax return, I would feel guilty'; 2) 'If I cheated with my taxes, my family would react negatively'; 3) 'If I cheated with my taxes, my friends would react negatively'. [Çevik (2016)]</li> </ul>
GENERALIZED TRUST	
<ul style="list-style-type: none"> <li>World Values Survey (WVS)</li> <li>6 Waves: 1981-2014</li> </ul>	<ul style="list-style-type: none"> <li>'Generally speaking, would you say that most people can be trusted or that you need to be very careful (can't be too careful) in dealing with people?' [1 = Most people can be trusted, 2 = Need to be very careful/ Can't be too careful].</li> </ul>





Database/Year/Coverage	Item/ Used in previous studies (e.g.):
<ul style="list-style-type: none"> <li>▪ e.g.: 6<sup>th</sup> Wave of WVS - 60 countries</li> <li>AND</li> <li>▪ European Values Study (EVS)</li> <li>▪ 4 Waves: 1981- 2017</li> <li>▪ 4<sup>th</sup> Wave of EVS - 47 European countries; Pre-release of the EVS-WVS 2017 data - 16 European countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ [Frey and Torgler (2007); Kondelaji et al (2016); Sá et al. (2015); Sønderskov and Dinesen (2016)]</li> <li>▪ ‘Do you think most people would try to take advantage of you if they got a chance, or would they try to be fair?’ [1 = People would try to take advantage of you/ Most people would try to take advantage of me, 10 = People would try to be fair/ Most people would try to be fair]. [Martins and Gomes (2014)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Latinobarómetro</li> <li>▪ 2003-2017</li> <li>▪ 18 Latin American countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Generally speaking, would you say that you can trust most people, or that you can never be too careful when dealing with others?’ [1 = You can trust most people, 2 = You can never be too careful when dealing with others, 0 = Don’t know, No answer].</li> </ul>
<ul style="list-style-type: none"> <li>▪ European Social Survey</li> <li>▪ 2<sup>nd</sup> Wave, 2004</li> <li>▪ 26 European countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Generally speaking, would you say that most people can be trusted, or that you can’t be too careful in dealing with people?’ [0 = Can’t be too careful, 10 = Most people can be trusted]. [Lago-Peñas and Lago-Peñas (2010)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ AsiaBarometer</li> <li>▪ 2003-2008</li> <li>▪ e.g.: 2007 survey - 7 countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Generally, do you think people can be trusted or do you think that you can’t be too careful in dealing with people (that it pays to be wary of people)?’</li> </ul>
<ul style="list-style-type: none"> <li>▪ Palestinian Public Opinion Survey</li> <li>▪ 2007</li> <li>▪ Palestinian Territories</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Do you trust people in general?’ [1 = Yes, 2 = No]. [Andriani (2016)]</li> </ul>
<ul style="list-style-type: none"> <li>▪ Danish Social and Political Attitudes Survey (SPAPS)</li> <li>▪ 2 Waves (2002/ 2004/ 2008 - 2012)</li> <li>▪ Denmark</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Generally speaking would you say that most people can be trusted, or that you can’t be too careful in dealing with people?’ ‘Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?’ ‘Would you say that most of the time people try to be helpful or that they are mostly looking out for themselves?’ [0 = You can’t be too careful/ Most people would try to take advantage of me/ People mostly look out for themselves, 10 = Most people can be trusted/ Most people would try to be fair/ People mostly try to be helpful]. [Sønderskov and Dinesen (2016)]</li> </ul>

Source: authors’ compilation

To summarise, in second wave thought in institutional theory, participation in undeclared work is viewed as more extensive in some countries due to the existence of asymmetry between formal and informal institutions, which drive the citizens to use the informal institutions prescribed rules as an alternative guiding framework (Williams, 2017). Little to no undeclared work will occur when there is a symmetry between the formal and informal institutions because the shared norms, values and beliefs of citizens will be aligned with the law and regulations. However, when there is asymmetry between the formal and informal institutions, such as when there is a lack of trust in the public institutions, undeclared work will emerge grounded in the socially shared norms that perceive them as legitimate.



### ***Third wave of thought: institutional asymmetry as a consequence of formal institutional failures***

In this report, to further advance institutional theory, and deriving inspiration from Williams (2017), the third wave is reported that has sought to bring together the two waves of thought discussed above. As such, in the first wave of thought, participation in undeclared work was explained to result from formal institutional failures and imperfections. The second wave of thought started to recognise the importance of informal institutions and explains the participation in undeclared work as resulting from an asymmetry between formal and informal institutions. The rationale behind this is the recognition that formal institutional failings would not automatically result in participation in undeclared work unless the citizens' norms, values and beliefs prescribe this behaviour as acceptable, and therefore their prescribed rules are substitutive of the formal rules.

The third wave argument synthesizes the first two waves and argues that participation in undeclared work is not explained solely by institutional asymmetry *per se*. Rather, institutional asymmetry is itself a result of formal institutional failings. Therefore, the mechanism is more complex and formal institutional failings determine an asymmetry between formal and informal institutions, and this asymmetry then, in turn, generates a higher participation in undeclared work. Following this argument, the next part of the report will seek to identify what formal institutional failures create institutional asymmetry (i.e., low tax morale). Is there low tax morale amongst citizens? Do the citizens share low levels of horizontal and vertical trust? If so, what formal institutional failures do they use to explain their lack of trust and participation in undeclared work? Are these similar in different contexts? And does vertical trust influence horizontal trust, or is it the other way around? The next section, therefore, details the methodology used to investigate these issues.

### **Methodology**

To produce a more nuanced and variegated deeper understanding on how (if) the formal institutional failures affect citizens' *horizontal* and *vertical trust*, their *tax morality* and whether there is a link with the participation in undeclared work, 40 in-



depth-interviews were conducted at the end of 2018.<sup>2</sup> For a deeper and more nuanced understanding, these interviews were conducted in two different contexts, firstly in one country where *vertical trust* is low (i.e., there is high institutional asymmetry meaning a lack of trust in government and the rule of law) and undeclared work is perceived as widespread (i.e., low *horizontal trust*) and secondly, in a country where there are high levels of *vertical* and *horizontal trust*.

Previous studies show that, across Europe, undeclared work is perceived as more prevalent in Eastern countries, especially in Bulgaria and Romania (Murphy, 2012; Schneider, 2016) and less prevalent in Western Europe in countries such as Austria, the Netherlands, Luxembourg and the UK (Grabiner, 2000; Schneider, 2016). Similarly, in terms of *vertical trust*, Eastern Europe with Bulgaria and Romania at the top have the lowest level of *vertical trust*, whilst Nordic nations and Western Europe have higher levels of *vertical trust* (Williams and Horodnic, 2015b). As such, and considering the setting of SHADOWS project, the countries chosen for in-depth interviews were the UK and Romania. Table 4 displays the differences in tax morale, horizontal trust and vertical trust of citizens in the UK and Romania using the results of the Special Eurobarometer 402 (2013) and the Standard Eurobarometer 86 (2016).

**Table 4.** Tax morale, horizontal trust and vertical trust in the UK and Romania

	UK	Romania
<b>Vertical trust</b>		
<b>Tax Morality*</b>		
(where six non-compliant behaviours were rated using a 10-point Likert scale with 1 meaning absolutely unacceptable and 10 meaning absolutely acceptable)	1.98	2.34
<b>Trust in national public authorities**:</b>		
<input type="checkbox"/> The Government	35%	29%
<input type="checkbox"/> The Parliament	37%	22%
<input type="checkbox"/> Justice/ The legal system	62%	40%
<input type="checkbox"/> The police	74%	50%
<b>Horizontal trust</b>		
<b>Knowing other persons engaged in undeclared work*</b>	15%	20%

Source: own calculation based on the Special Eurobarometer 402 (2013) \* and the Standard Eurobarometer 86 (2016) \*\*

<sup>2</sup> Interviews conducted within the project 'SHADOWS: Tackling Undeclared Work in the European Union', European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No 746358.



Considering the sensitive topic, a snowball sampling method was employed as this method is widely applied and recommended for qualitative research in order to reach participants where their number is small and/or where some degree of trust is required to initiate contact (Atkinson and Flint, 2001). Nevertheless, both genders, residents from urban and rural areas, in different occupations and education levels were included in the study.

The interviews aimed to identify whether there is any dominant narrative on formal institutional failures that determine low tax morality and a higher participation in undeclared work within and between countries. As such, the study did not for example aim to analyse a specific sector but rather the general views of the citizens' across sectors, occupations and countries. The interviews were conducted in the native language with adults at different ages, ranging from 23 years old to 69 years old. Regarding education, the sample covers all educational levels, ranging from persons who stopped full education at primary school level to persons who graduated their PhD studies. As for sectors, the most prevalent is represented by construction (where undeclared work is perceived as rife), but the sample covers beauty services and coaching, freelancers, the creative sector and craft work, consultancy, education, health services/care, home cleaning, car repair services, and commerce (including bar and catering workers).

Before starting the interviews, the aim of the research and other technical issues were once again reiterated to the interviewees (in addition to the information letter sent prior the interview) and the definition of undeclared work used in the project and examples of such work arrangements were provided to the interviewees to enable them to provide more informed answers to the interview questions. Therefore, it was explained that in the current research the European Commission definition is used and, as such, undeclared work represents "any paid activities that are lawful as regards their nature but not declared to public authorities, taking into account differences in the regulatory systems of the Member States". This was followed by providing examples covering fully undeclared work, under-reported work (envelope wages), freelance undeclared work, undeclared work in the platform economy, side undeclared activities beside the formal employment and so on. The interview schedule then adopted a graduated approach, commencing with a question on the perceived share of population



which works without declaring their income or part of their income to tax or social security institutions in their country and whether there are specific sectors where undeclared work is more likely to be found. This was narrowed to the perceived share of undeclared work in their sector and, for those feeling comfortable, narrowed to their acquaintances. These questions were meant to explore the perceived extent of the undeclared work in the whole labour market as well as whether in the sector and/or the interviewee's social group undeclared work is perceived as more or less prevalent than the country average. As such, the role of social norm could be explored. The next questions explored what interviewees perceive as positive and less positive about the fact that a certain share of people (mentioned by themselves) work undeclared.

This was the bridge to a question related to their tax morale. As such, the question was designed to enable the identification of the main narratives used to explain institutional asymmetry and participation in undeclared work (i.e., to identify what formal institutional failures generated their views on the acceptability of undeclared work). Thus, the interviewees were asked the following question: *Under what circumstances do you think it is okay if people do not declare their income for tax purposes and when do you think it is not?* Following this, questions on whether they perceive that themselves and other people paying taxes in their country receive the goods and services they deserve in return for the taxes they pay and questions on trust in public (formal) institutions were explored. Starting from a general open question (*Which public institutions in [country] you find more reliable and which one you trust less?*) aimed at investigating spontaneous answers, the interview continued offering other examples of institutions not covered by the interviewees and related directly with undeclared work (e.g., tax authorities, labour inspection) to investigate the level of trust of the interviewees in these institutions. Regardless of the level of trust (high/low) for each institution, interviewees were asked whether their trust/distrust was generated by a specific issue and/or direct interaction with that formal institution or whether this is rather a socially shared attitude. These questions were meant to reveal the mechanism of trust/distrust for enabling better policy proposals.

Finally, the last topic covered was related to policy measures effectiveness and the interviewees were asked their opinion on what authorities could do to determine people to fully declare their income. Important to mention is that an interpretative



approach was used, and the follow-up questions for each topic investigated were determined not only by the interviewees' answers but also by the unexpected insights identified during previous interviews, to explore whether those insights are rather individual beliefs or a more extended social norm. Similarly, the topics where certain interviewees felt uncomfortable were skipped. Therefore, the length and the topics covered varied from interview to interview as did the interview duration (ranging from about 30 minutes to 90 minutes).

Considering the topic in hand, three categories of interviewees were included in respect to their nationality and the country they work in, namely: British citizens working in the UK, Romanian citizens working in Romania and Romanian citizens working in the UK (we were unable to reach British citizens working in Romania due to their low prevalence). The inclusion of Romanians working in the UK provided a good comparative group for explaining how tax morale is influenced by the formal institutional failures considering that they have experienced two different formal institutional settings. Similarly, this enabled the exploration of whether their level of trust in public institutions and their tax morale is different with different formal institutional settings or whether they rather resort to their informal institutions predominantly shaped by the socially shared norms and values from their national country.

The next section will provide a brief overview of the interview results focusing on the most dominant narratives (i.e., not an exhaustive list) related to what formal institutional failures and imperfections shaped the tax morale and citizens' trust in both formal institutions and in other citizens. When a different narrative is identified between the three groups of interviewees mentioned above, the differences are underlined in the results section.

## Results

Before starting to explore the formal institutional failures and imperfections that lead to a reduced level of trust and a low tax morale, a short description of the main findings related to the perceived share of undeclared work in the country in the sectors





interviewees work and among their social groups is provided, alongside the perceived acceptability of undeclared work (i.e., tax morale).

Starting with the perceived share of people doing undeclared work, differences between the two countries were identified. While for the British citizens the perceived share of undeclared work in UK range from about 10 per cent of the population to about 50 per cent (with a high perceived prevalence amongst people receiving unemployment benefits), the Romanian citizens perceive that in Romania the share of people engaged in undeclared work is higher, ranging from 50 per cent to the whole population (e.g., offering examples how even public servants have side activities besides their main jobs).

Turning to their sectors, the share of undeclared work is not perceived necessarily, in all sectors, as higher compared with the country average. A notable exception is represented by the construction sector, where most of the interviewees working in that sector (including both British and Romanian citizens working in the UK as well as Romanian citizens working in Romania) estimate a higher share of people working undeclared compared with other economic sectors. Interviewees underlined some methods of finding/selling undeclared work, such as the presence of Facebook groups for home repairs in most cities, E-bay advertisements where, for example, renting a van and the services of the owner are well advertised, and the presence of a happy hour culture in pubs, as exemplified below:

“My point is happy hour in pubs. Is where you got so many workers all talking about what they do, when they can do it at the week-end. So happy hour generates massive cash in hand culture. [pause] It is just massive.” (British, male, 35 years).

“So for example, we are in a pub (pause) and the pub culture and happy hour in many pubs, especially country pubs, happy hour is to, uh (pause), is to bring all the trade money in construction industry together and that is more often than not where people start to discuss work in the happy hour. So I would suggest that (pause), I would say a third of people would come to the local pub after work are discussing cash in hand work.” (British, male, 37 years).



The share of undeclared work in the construction sector is not considered high only by those working themselves in the sector but also by the rest of the interviewees. Indeed, large share of undeclared work is perceived to be found in construction, cleaning, services (e.g. beauty, hospitality, consultancy, car repair).

Turning to the acquaintances and social groups, from the answers of those willing to talk about their friends, no straightforward pattern has been identified. In all three groups of citizens, there were cases where the social groups were perceived as being involved in undeclared work in a similar share as the country average, as well as cases where their perceived participation was higher or lower compared with the national average. However, as a general finding, about 1 in 3 British citizens perceived that their social group is involved in undeclared work to a higher degree than the national average while 1 in 2 Romanian citizens (regardless of whether they work in Romania or the UK) share the same view. This might suggest a lower degree of horizontal trust of Romanians citizens. What institutional failures result in such a view will be returned to below when discussing the formal institutional failures influencing citizens' tax morale.

As for the acceptability of undeclared work, the views of the three groups does not differ. In all three groups, opinions equally ranged from always acceptable to not pay the taxes owed to never acceptable to do so. No stark contrast in the views on acceptability of undeclared work activities was observed between Romanians and British citizens. This is not necessarily surprising. Although, the data from Table 4 shows different results in terms of tax morale of Romanian and British citizens, with a higher tax morality amongst British citizens, more recent studies underline that British citizens' tax morale has decreased over the past years due to unmet expectations on how the tax money should be spent (Stanley, 2018) and this research was conducted during the Brexit process when trust in the state was perhaps reaching a low point among British citizens.

Indeed, a recent experimental study covering Sweden, Italy, the UK, the USA, and Romania, reveals some apparently contradictory findings. On the one hand, against the initial hypothesis of the study, British interviewees were found to display the lowest tax morale of all five countries included in the study. This, however, is not reflected in



tax compliance, which is increasing in the UK, mainly due to the fact that taxes on wages are managed through the PAYE (pay as you earn) system, which provides few opportunities for citizens to cheat. The results on their reduced willingness to pay taxes was explained by the perceived higher burden of middle class and the perceived misuse of funding by the government and the citizens (Stanley, 2018). On the other hand, the same study concluded that Romanians displayed the highest tax morale during the experiments, which is in contradiction with the fact that Romania faces a high level of tax evasion compared with other European countries (Todor, 2018). The fact that Romanians display a high willingness to pay taxes when they are presented with an ideal tax system, but, in contrast, in reality, they cheat on taxes, was explained as a result of the environment they live in, with high level of corruption and an inefficient tax system (Todor, 2018). Indeed, it is argued that inequality, corruption and poor service performance have negative influences on trust in government and on tax compliance (Kumlin et al., 2018). These results offer additional support for the hypothesis of third wave thought that the formal institutional failures influence the tax morality which will then influence participation in undeclared work (Williams, 2017). Indeed, the *never acceptable* answers were followed by a justification on why people are still doing it even if it is not acceptable. It is to these failures of formal institutions and how they affect participation in undeclared work that attention now turns.

Starting with the ***institutional resource misallocations and inefficiencies***, and exploring the ***lack of the modernisation of government***, large differences between the views of British and Romanian citizens were identified. While in the interviews with the British citizens, only the lack of procedural fairness was invoked, the Romanian citizens perceive a lack of government modernisation manifesting in all three areas, namely, lack of redistributive justice, lack of procedural justice and lack of procedural fairness. However, it seems that for Romanians, the most important failure is perceived as being the ***lack of redistributive justice*** considering that all the interviewees (those working in Romania and those working in the UK) underlined their dissatisfaction with the public health system and the road infrastructure (as the most prevalent narrative regarding the lack of the goods and services that does not reflect the taxes paid). Below are some of the responses to the questions on whether they receive goods and services they deserve given the taxes they pay.



“No. Actually we do not in fact receive anything for the taxes we pay. What do I pay for? For using a road that destroys my car? I go on my alley and it is dark. Let us continue, at hospital, you broke your finger (*personal experience mentioned previously in the interview*) and you have 50-100 RON (about 20 EUR) in your pocket and you look around to whom to offer it to get some attention. No. What do we receive?” (Romanian, male, 51 years).

“You absolutely do not receive what you deserve for giving to the state one third of the money [...] Let us take them in turn. Hospitals? Hmm, no. Transports? Come on! We pay rovinette, we pay road taxes and how the roads look like? If you get with your car into some holes... what are we discussing here? No. Absolutely not. What other public services are there? [...] Police? Let us be serious. You have an issue, as for example a robbery happened in my area. Nothing was solved.” (Romanian, male, 33 years).

“You don’t receive what you deserve. For example, if you need medical services you go to private because in public hospitals there is no available place or you have to pay anyway.” (Romanian, female, 30 years).

“I think in the UK is much better than in Romania. Just as an example (*referring to Romania*). At one point, my grandma needed some health investigations and she was in a position to stay to a queue starting from 6AM only to receive some papers necessary for getting to another doctor where she had to stay and wait at 6AM again in order to be able to benefit from those investigations. Otherwise, it was the risk of funds running out. I do not find acceptable this lack of funds as long as me, and not only me, everybody pays in every month a contribution. I do not find acceptable that the funds are ran out from the 5<sup>th</sup> day of the month, or, the fact that even in the first 3 days all the funds are used. I do not find this acceptable” (Romanian working in UK and owning a small business in Romania, female, 23 years).

“People should receive their rights. Something should be offered for the taxes paid.” (Romanian working in UK, female).

On the other hand, British citizens tend to be rather happier with the public goods and services they receive. Even if they identify certain shortcomings such as a reduced number of public servants, a reduced regularity of certain services, they do not tend to see these as extremely important. Indeed, no vital public provision unavailability or



malfunction was evoked by the interviewees. An example is provided below. This example is quite telling suggesting how people would avoid paying the taxes (when they can do so) when these taxes are not used in a responsible manner.

“Council tax is spent wrong. Not so often collecting the bins, library closed, minimising the services to the people. So we pay more every year and we get less back. But this tax is not something people get round. [...] In general, even if we receive less and pay more, I think we still receive enough.” (British, male, 48 years).

Turning to citizens' views on how they are treated in public institutions and whether they perceive a ***lack of procedural justice***, only the Romanian interviewees invoked such issues. Although some of the interviewees mentioned that the attitude of the public servants has improved over the years, more often, the interviewees brought into the discussion their negative experiences and views. However, the views are rather divided. While some interviewees are dissatisfied in general, others are only dissatisfied with certain public institutions and are rather happy with the rest of them. Similarly, when exploring their views on the enforcement agencies directly related with undeclared work (i.e., labour inspections and the tax authority), again, the views are divided, with some people describing positive interactions with one of them and negative with the other, and some interviewees having the opposite experience. This provides support on how trust is based on personal experience (or even close friends' experiences), and how important the person/inspector they interacted with is in shaping the way in which the agency as a whole is perceived. Indeed, it has been argued that a negative image of a certain individual (based on personal experiences or second-hand sources such as family or friends), generated by immoral behaviour for example, will generate distrust not only in that individual, but also in their position (e.g., inspector position) and the whole institution (Sztompka, 2003). Thus, it is very important for the public institutions to be more careful in terms of their human resources for avoiding general distrust due to the existence of a few employees who do not behave in an acceptable manner.

Interesting, however, is that some of the interviewees share a negative view not only about public servants, but also of other citizens underlining that Romanians “know to



use the back door” when necessary or that they have a predilection not to be truly honest with their taxes. Nevertheless, this type of example occurred on a rather isolated basis and therefore, not so often as the views displayed below.

“There is a general lack of respect in Romanian public institutions.” (Romanian working in UK, female).

“Regarding ANAF (*National Agency of Fiscal Administration*) I do not trust them although I am aware that they do good things. But I have interacted with them very often and I do not trust them [...] Something specific why? They do not know how to manage their people and the information they have. They do plenty of mistakes. I do not accuse them of malicious intentions but rather of a poor management. This is why I do not trust them. When I flagged mistakes, everything was sorted out in the end but the effort on my part was very high. Half year for a correction. [...] Those from ANAF have “graduated” another school (*as compared with labour inspection*). Another approach. If to be mean, I could say that they have, uh (pause), some kind of manipulation school. They know the intimidation techniques. They want to scare you. And is not only me saying it [...] And due to the communist past, we are a nation obeying in case of fear or terror.” (Romanian, female, 37 years).

“As far as I heard, the Labour Inspection has a high number of requests [...] They look for small unimportant things, they are looking on finding out a mistake, they have the mind-set that they have to find a mistake. They do not come to verify, to help, to suggest or to improve something. They come with a fine in their minds. It is like they have to meet a fine target and to collect a specific budget.” (Romanian, female, 33 years).

Imperfections of the public institutions were also mentioned by the British citizens, such as the long waiting time for medical services, long queues in public institutions, long waiting time for obtaining a direct connection on telephone when needing help/support from a public institution and so on. However, these imperfections did not generate a feeling of unfair treatment from the public servants but rather they perceive a misallocation of resources by the government, which in turn resulted in overloading the public servants and the imperfections. Indeed, British interviewees perceive the





public servants in a positive light and tend to blame those who take decisions and not those implementing them. Below some examples are provided:

“[...] the emergency sector I think they are great. I think they need more. They need more support. They, they, NHS (*National Health Service*), I think they do great. The doctors, fantastic. I don't think they get paid enough some of them. I probably would have been different a year ago, but (pause) my children's nan had a brain haemorrhage a few months ago, and (pause) without the experience of those doctors she wouldn't be with us today, without the ambulance service saving her life she wouldn't be with us today. And she wouldn't be a very well and healthy lady today if it wasn't for them so (pause) it goes to show that they are worth (pause) everything. [...] HMRC (*Her Majesty's Revenue and Customs*), I think they (sigh) ... uhmm, I have never had a problem with them to be honest. I have never had a problem with them. I think they do great. I think they (pause) all the way down, from the support they offer, the guidance they offer to the taxes that they do. I think it is great. I think they, they work hard. A lot of them don't get paid a lot of money. I know friends work for HMRC and their salaries aren't as much as people might think. But, I think, again if they (*referring to government*), if they trimmed it the right areas, rather than putting cuts on HMRC and fire services and took it away some of these (sigh) people in parliament who got like two or three houses that we all paid for, then they would be better. These services would be better. I would not have to sit on the phone waiting for two hours to be answered by HMRC. I would go with 20 minutes.” (British, male, 31 years).

“Police and nurses need more money and lots more respect” (British, male, 54 years).

Turning to the ***lack of procedural fairness***, broadly the same narrative has been identified in both countries, namely less contribution of the wealthier persons. However, amongst the British citizens, the view is that the middle-class is paying more than lower income tax category that rather benefit than contribute, and also more that the very wealthy persons avoid paying the taxes by getting professional financial advice and/or by moving the money in different companies or countries. The perceived lack of procedural fairness is also caused by not understanding how the tax system functions. Meanwhile, for Romanian citizens the view is that the taxes are too high for those in the lower income category, and paying that level of taxes is not fair for them



due to the fact that they remain with too little money, not sufficient for ensuring a decent living standard. In the same direction, the narrative on how progressive tax system is perceived as being more reasonable than the flat taxation system is identified amongst Romanians working in the UK. Below are some examples:

“The tax authorities in this country definitely tend to have a very strong focus on easy targets. [...] They don’t tend to pick the big tax evaders because it is harder work and (pause) it looks like a big number but in fact it is much easier sometimes to get thousand small people to jump on (laughing).” (British, male, 48 years).

“We get taxed on everything in this country. Sugar tax for example, where that 10p cent go? What is that spent for? We are not explained fully where the taxes go. [...] The more you work the more you pay. I paid more in tax in a week than my girlfriend paid in a month. I just don’t understand that. Where this is going?” (British, male, 54 years).

“When you go to a very high earning bracket [...] you are in the group of people working that are all working out with their accountants how little tax they can get away with paying (pause) and you have to pay it at the end of the year and you have to declare it yourself when you have already got the money in your pocket (*referring in comparison with wages of regular employees that are taxed through with PAYE system and the full income never gets to the worker’s pocket*). Thus, it’s not the same peer pressure on you partly, and also you don’t use public services. So, if I am incredibly rich [...] I probably don’t put my kids in a state school, I probably do not walk in a local park, I probably do not go the library and (pause), uh, I do not know what else. I probably got private health insurance, so I probably do not use NHS hospitals. And I do not use the buses or public transport and so I am stood around thinking: hang on a minute, I do not use any of these and now they expect me to pay for it. So, I think is a big disconnect so as the peer pressure on that, whereas if you are just ordinary (laughing) normal ... (*suggestion to previous statements on how ordinary people pay taxes via PAYE system and face to peer pressure to pay the taxes*).” (British, male, 48 years).

“I think that everybody should declare their income. Their full income, I mean. But, I think, this should be supported somehow by the society. Meaning that in our case (*referring to Romania*) the minimum wage which is theoretically about



1,900 RON (*around 400 EUR*) ... But you have to pay taxes and you end up with about 1,165 RON or so. From this money? From 1,900 you have to pay taxes and you end up with 1.200 let us say. Here is 700 RON you give to the state. Here, in this case, it is very difficult to survive with this money. Meaning that the state does not help you and I think this is why the result is undeclared work. Because the person can keep 1,900 and not only 1,200. But in the UK if you earn like 700 GBP or 800 GBP you do not pay taxes at all.” (Romanian working in UK and owning a small business in Romania, female, 23 years).

However, although issues related with the lack of modernisation of the government were not evoked by the British interviewees to the same extent as by the Romanian interviewees, this does not mean that the British citizens are fully happy with how the tax money is allocated by their government. In this direction, three main sources of dissatisfaction were invoked more often, namely the benefits system, the use of money for the interest of the high rank officials and the use of money for external issues instead of for the people paying and living in the UK. These will be detailed in turn.

The main issue invoked in nearly all the interviews was the benefits system. Even more interestingly, everyone tends to be dissatisfied with how the system is designed, including those who never applied for any type of support (and display a sense of pride about this), those applying and failing to receive support (and found the system unfair) and those currently benefiting by this type of support (and considering that the way it is designed reduce their possibility to work a high number of hours and to (re)integrate in the labour market). The benefits system was brought into discussion by the interviewees as a problem when discussing each of the interview topics (e.g., the groups where undeclared work is more prevalent, the acceptability of undeclared work, the use of public money, the policy measures necessary for reducing undeclared work and so on). The benefits system was described as a system that makes people hide their work and therefore, generates undeclared work, as a system that discourages people to work, as the most unacceptable type of benefiting of support from government because the beneficiaries work undeclared and receive support simultaneously, and it was argued that cuts and reconfiguration of how the system works represents an important policy measure necessary for reducing undeclared work. Below a few examples are provided. These results are not surprising in the light



of other previous studies. For example, Stanley (2018), using data from British Social Attitudes Survey, displays how the attitude toward unemployment benefits hardened between 1983 and 2011, with 60 per cent of the population considering in 2011 that the allowance is too high and discourages work. Furthermore, a 2012 YouGov survey revealed that people perceive that about 41 per cent of the budget goes to benefits for unemployment when the real figure was 3 per cent (Stanley, 2018).

“Where the government falls short is on the benefits system. So I know friends that are...they`re in the benefits world. (pause) They would only work the certain amount of hours because otherwise the benefits would drop. So the benefits are actually outweighing the... (pause) Fundamentally, ah, benefits are more powerful, the more then wage would be. So if they keep that, the government is shooting itself in the foot, we say (laugh), because they, uh, they basically keeping people on minimum hours. Some (pause), my friend wants to be on minimum hours because the benefits are more (pause), more stronger than the wage would be if he did a 40 hour week. [...] So this guy wants, he wants to stay part-time, he wants his benefits and he will still do cash in hand work. Now, he has far more money than what he would have if he had a 40 hours week and was just, ah, putting all this 20 per cent into the tax system.” (British, male, 37 years).

“I think more people rely on the benefit system these days. I mean, back in the day, I (pause), I am (pause) throw out my life, I throw out my family. I do not know anybody who was on benefits. It was not sociably acceptable within our level. We worked. My father would have thrown me out of the house at seventeen and said: go and get a job. You know? Not, lets see how it goes and if you can`t get one then it doesn`t matter `cos you can always get some benefits. That was not ever acceptable. Whereas these days it is more acceptable to actually use the benefits scheme. [...] I can see why the government wants to cut back on this. But in doing that, is got to be very difficult to (pause) decide who are the people who really need help and who are the people they`re scammers. Who are the people who are using the system? Who are professionally unemployed people? Yeah? You, know, they are professionals at not paying their taxes or (pause) and getting as much benefits as possible. That`s what they are good at. That`s their job. That`s what they are spending their day doing, is making sure they get the maximum benefits that are available. [...] When I was in Canada (*as self-employed*) I paid my tax in England and what I found out is



they refused to give me any unemployment benefits because I have not paid the correct national insurance contributions. I only paid the minimum and not the maximum. I was quite annoyed about that `cos that was never made clear to me. And now it was based on the past three months' payment. So the fact that for 40 years before that I paid everything in didn't count for the fact that I just wanted for this, at the moment. And funny enough two days after I got a job (laughing). [...] But I was quite annoyed about that. So, there are one of two, I think, anomalies in the system which frighten people. So... they think I better have the cash. Better I keep the cash." (British, male, 69 years).

"Some people don't care. Some people stay on benefits all their life but I don't like that. [...] After the surgery I could not work for months. [...] Not fair to take the money of those with disabilities when the partner has a certain amount of income." (British, male, 54 years).

"I think they encourage people not to work. They provide them too many benefits." (Romanian working in the UK, female).

"There are people who claim and never search for a job. I do not agree with that." (British, male, 25 years).

"There are lots of people not declaring work because of the benefits. Doing the right thing (*referring to working*), you should be rewarded. But you are worse off or only slightly better off if working comparing with receiving benefits." (British, male, 48 years).

"They need to change the system. I know they are trying to do it with the universal credit where you can log in how many hours you do, but it is just not quick enough. It is not up to date enough. `Cos I got friends who have done it and they lost (*not intelligible*), because the system does not work at the moment. (British, female, 33 years).

Worthwhile to mention here is, as one of the examples above underlines, citizens are expecting entitlements based on their contribution in taxes, regardless of their working employment status. As such, the lack of meeting the eligibility criteria for unemployment benefits due to reduced contributions based on a self-employment working status was perceived as unfair by an individual that has been previously contributing to the tax system as an employee for a number of years. This suggest that social benefits would be considered fairer by the citizen if they would be portable,



attached to individual workers rather than to their employers, as suggested by the World Employment Confederation (2016).

The next main narrative regarding the misallocation of funding refers to how public money is used by the politicians and government, either on their own benefits, either spending the money for administrative meetings or for goods not considered useful to the citizens (e.g., buses used in electoral campaigns perceived as extremely expensive). Below are some examples of responses on whether the taxes are spent by the government in a responsible manner.

“Uh, (laughing) I think that they`re all spent in the right way. They all get spent on the right aspects. But I think that there are a lot of places where they are not spent correctly. They spent to keep, up keep, the country, which is great. Country looks good. They take care, council take care, things like that. And I think that side of it, the NHS is all warranted, it`s great. But (pause), I think, where is spent wrong is when it comes around to elections and things like that. They don`t get fussed about spending millions of pounds on getting you to elect them. So you have six-seven parties, if they all spend two million each that`s a lot of money that can go to provide shelter for the homeless. That is where I find it very wrong. I think it`s (pause) immoral and they should be looking after people that need help rather than (long pause) organising something which ... (pause) that`s not what we raise our children to stay. [...] But when it comes to government services, I honestly think most of it is a waste of time. I really really do, because they just... they are not interested in people they are interested in what they can gain. They want to be a, I do not know, prime minister or something, they don`t care whose toes they step on. They don`t. They don`t care how much money they spend. They don`t think twice about spending that money. So from that side I think a lot of those are wrong but from the emergency sector I think they are great.” (British, male, 31 years).

“Not always. Not always. I think that there are too many people and they spend too much time having lots of meetings up at the top, you know, and they should be getting it from the people at the top and getting it to people on the bottom to make a few more decisions `cos they know more what`s going on. [...] Politicians I suppose. The government. They spend a lot of money on a lot of (pause) rubbish I think.” (British, female, 51 years).





“More taxes than when I was young but I can see less. Less police persons on the street, less local offices for public services...” (British, male, 54 years).

Finally, a topic that was invoked in few interviews and linked with why people would decide not to declare their taxes fully is represented by the allocation of funds to the military forces, as exemplified below.

“In term of my moral beliefs? [...] Do I feel that cash in hand is wrong? I don't think so. I don't think so. Because.... Not completely. Because I think what is potentially more wrong is how the government actually spend the tax money. [...] There is a lot of a bad play with tax money. [...] The government are taking money out. The money goes to world stage for example uh, where, you (pause) you are flexing your muscles in the Middle East which causes billions and billions of expenditures. But the police services becoming squashed. The medical services keep going down [...] But the tax keeps coming. So you develop cuts, but the taxes stay the same, where is the money going? I am pretty sure that is all about protecting and keeping yourself on top of the global pile (pause) in terms of (stop)...this is not about the citizens in the UK, that's more about the UK or America being on top of the political pile in the world. As a world power.” (British, male, 37 years).

“I think always is okay (*referring to the circumstances when is acceptable not to declare fully your income*). If you are not trying to buy a house because... (pause) The government just spent 1.3 million pounds for an aircraft carrier. [...] I do not want my money to be spent on destroying countries. So it is a moral thing for me. [...] We should pay more tax but the problem is that we're spending on wrong things after.” (British, male, 35 years).

Turning to **corruption**, both British and Romanian citizens used it for justifying people's low tax morale and participation in undeclared work. However, the difference is that Romanian citizens perceived that the corruption is spread amongst all levels of society, while the British people associate corruption with the persons having high powers of decision (e.g., politicians and government officials). As exemplified below, amongst the British interviewees, there is a low trust in government and parliament and these formal institutions are often associated with corruption. Indeed, unlike the general positive attitude towards public servants, nearly all the British interviewees



display a massive lack of trust in government and politicians. Other studies display similar findings. For example, a recent study conducted on a nationally representative sample displays that 77 per cent of British citizens are fairly or very dissatisfied with political parties because they perceive them as focusing on elections over people needs and lacking integrity (Dommett and Temple, 2019). The lack of trust in government and politicians seems to be shared by the Romanians working in the UK as well.

“Local, everybody is trying to do their jobs. [...] Areas I do not trust are the government because of the power. Because power corrupts.” (British, male, 50 years).

“I think that there is a lot of corruption in this country, at high level. And maybe the government isn’t as corrupt as some eastern countries but (pause) how the contracts are awarded to uh, construction companies...” (British, male, 35 years).

“I do not trust in councils in general. [...] I think we do not see it in a day to day basis, the corruption, so it is quite easy to forget about it.” (British, female, 33 years).

“They are not having my trust at all. I don’t even vote anymore. They are the worst people. They ruin people’s life.” (British, male, 54 years).

“I am English but I am not very proud of English politics really. I don’t think they are doing a very good job. [...] I definitely don’t trust government.” (British, male, 37 years).

“The local council bother us very often. They come to your door and promise all kind of things. I think there as well (*referring to the UK as compared to Romania*) a lot of wrong things happens. [...] The politicians are the same everywhere, they are all of the same kidney.” (Romanian working in UK, female, 30 years).

Meanwhile, related with Romanian formal institutions, all three types of corruption summarised in Table 1 appeared in the interviewees’ discourse, namely misuse of public office for private gain, state capture and personal connections. The most often invoked type of corruption that produced dissatisfaction and made them find rather acceptable not to fully declare wages is the ***misuse of public office for private gain***.



Here, several examples can be brought into discussion regarding how enforcement bodies ask for a bribe, how for obtaining treatment in a hospital it is necessary to pay (envelope payments/bribes) or how certain public servants impose people or organisations to employ their private companies for obtaining certain authorisations (e.g. to hire private security companies for obtaining an authorisation from the police office, to hire a fireman in his capacity of self-employed in order to be able to obtain an authorisation from the Inspectorate for Emergency Situations and so on). Below a few examples are provided.

“When inspectors make a control? You provide them a full diesel fuel tank and make them a free service for their car, oil change, and everything is perfect. It does not matter that all the mechanics have the minimum wage on their formal working contract (*referring to the fact that in reality the wages of these people are much higher as discussed in an earlier stage of the interviews*). [...] This guy from labour inspection as well as the fiscal inspector have cars. And they come and say: you know my car would need the distribution block changed but you know, we have public funded wages (*referring they are low*), so you know, maybe.... You have no choice because otherwise they create problems for your business. They come with a fan belt from another store because they have previously been there for an inspection and... they were sponsored. One bearing is in their carry bag taken from who knows where (laughing). They come and they say: I have my own supplies, you don't have to provide them, only the workmanship. They ask for little bits and therefore, it makes you sick of it, and you say: be it this way. [...] When I worked in a furniture factory, they needed shelves ...” (Romanian, male, 51 years).

“In construction, the labour inspection appeared as a consequence of a complaint and, to a friend of mine, they only applied a warning in exchange for a certain amount of money to the inspector. So, it has been possible to be solved in a different way. [...] Our school went to the police multiple times for asking whether is possible that the police officers will patrol next to the school in weekends because there is a lot of damage at weekends. They gave us some answers (*expressing disappointment*) ... and on top of this, they obliged the school to undertake a risk analysis with huge investments necessary for it from the school part [...] Do you have the risk analysis undertaken? No. You have, look, you have three weeks or a month to do it otherwise the fine is from I do not know how many hundreds of millions (RON) to how many hundreds of



millions [...] Are you insane? What are we doing? One state institution tries to put down another state institution. The state fights the state. [...] These risk analyses (pause), those from police and gendarmerie, those belonging to the Ministry of Internal Affairs cannot have other businesses, to undertake other activities. This, with the risk analysis, to make the documents for it, it is the only business accepted for those in the Ministry of Internal Affairs. So ... (laughing)" (Romanian, male, 33 years).

"(referring to Romania) You pay a lot of taxes, but when you get to emergency with your kid, all these taxes are forgotten. You have to pay (bribe)." (Romanian working in UK, female, 30 years).

Turning to the **state capture**, Romanian citizens perceive that, currently, there is a problem with the present government which is focused on changing the legal system to protect the leaders of the ruling party and also they perceive that public procurement is, in general, allocated to privileged persons or companies. They perceive that the result is that the public goods and/or services are expensive and poor quality. Below some examples are provided.

"First of all, those in power should inspire trust in you. Meaning, you know, looking at them (pause) makes you think: yes, indeed, these people want to do something or want to do something good. And then, if you have a conscience, you say to yourself, look, these people want to do something, then why I would not do something myself? Why I would not be correct? Or at least partially correct. It is a matter of reciprocity [...] And more than that, you would like to see some tangible things, to see that indeed a highway is built, that indeed something gets renovated and modernised and it is renovated with high quality supplies, not the project costs (pause) 100 RON and you do it with 50 RON, because the difference of 50 RON is split between those obtaining the procurement contract and those awarding the procurement contract. Come on, let us be serious. Considering the money used, we should have the best buildings, the best highways. [...] The construction contracts are overpriced. [...] I do not trust the justice system anymore. I do not understand why they want to change the penal code and the new measures for helping the corrupt people." (Romanian, male, 33 years).



“The public procurement system is rigged in 100 per cent of cases. My husband tried to obtain a place for a fishery in our city. Oh dear... The contract was allocated before we did the specifications requested. But what is surprising is the fact that the fishery exists now and it is designed after our project. This is surprising. [...] Of course, because they offered bribes, they have not a project nor the specifications. Therefore, the one who wanted to actually do a thing, did all the steps required by the council. However, the one who received it was already appointed before the public procurement and perhaps this happens in many sectors” (Romanian, female, 48 years).

“There are outrageous public procurements like one pen or one pansy at one million each (about 20 EUR)” (Romanian, female, 30 years).

“(referring to Romania) The highest fear is that your money goes into someone’s pocket.” (Romanian working in UK, female, 30 years).

Finally, the importance of **personal connections** was not only mentioned with respect to obtaining public procurement contracts but also as important in day-to-day activities, as for example, getting decent healthcare, filing the documents related to the annual income and so on, as exemplified below:

“I do not trust the fiscal authority. Everything is based on personal connections. Absolutely everything.” (Romanian working in UK, female, 30 years).

“If you go to hospitals you need connections and money.” (Romanian, female, 48 years).

In addition to the perceived corruption being prevalent at all levels so far as public servants are concerned, another narrative that was very prevalent in the interviews conducted with Romanians is the perceived low level of competence and willingness and availability to help the citizens. So too is this the case with politicians, as exemplified below.

“When I have a problem, regardless of the problem, I get angry because of the people working in public institutions. They are incompetent. They have a job for life and they do not progress, they do not want to keep learning. Oh, how I



hate this! And then they make you go to different places. You want to open a business, they send you to several places, and you get a different answer from each of them. There is no interest in progress. [...] People do not know what to do to make their company formal.” (Romanian, female, 32 years).

“Previously, I was registered as an authorised natural person (*self-employed*). It took me 10 e-mails with the fiscal agency to find out how much do I have to pay in taxes. And all this with all the documents made available to them. [...] They requested all sort of documents for proving the same thing.” (Romanian working in UK and owning a small business in Romania, female, 23 years).

I personally know some senators and deputies who are from my city and who are (pause) worthless. They are not prepared for taking decisions in parliament. There is a need of people with the power of decision and well educated, not some ne'er-do-well who got rich overnight and bought their position. Because this is what is happening. [...] From what we see on the television, the circus we see on the television, I am certain that this is the case (*referring whether the representatives in the parliament from other counties are similar to those they personally know*).” (Romanian, female, 48 years).

In sum, corruption is considered a problem to a much greater extent in Romanian participants' views, and it is used very often to justify why people find it acceptable to not respect the formal regulations and to decide to not fully declare their work.

Turning to the ***formal institutions voids and weaknesses***, the views of citizens provide *support for the political economy perspective* which argues that undeclared work is the last resort used by people due to inadequate protection from the state, as a survival strategy. Indeed, in both countries, the motives related to the over-excessive regulations were mentioned to a much lesser extent than motives related to the difficulty of making a living. Several interviewees were not dissatisfied with the level of taxes or the system but rather with how the money is spent, as exemplified in the previous sections. Interviewees in both countries consider that undeclared work is more prevalent when people are struggling and also find it acceptable in these instances. Below, the most common narratives on when people engage in undeclared work and when they find this acceptable, is exemplified.





“I know it sounds bad, but you have to do it, just to keep going, get by. [...] Morally, it is never okay because it is an immoral thing and there`s a lot of people that can work and want to work, there`s a lot people (pause) struggling to find work, who could be able to have a job if people didn`t do these things. So it is never correct to do it but (pause) when you have mouths to feed or a roof to put over your head and (pause) that`s when people find it okay to do it.” (British, male, 31 years).

“I suppose it`s never okay to not declare it but (pause) it is a way to live life. You have to do it. It is not legal, it`s very illegal. You can go to prison for it but you know if it`s (pause) in some cases is making sure your family is alright.” (British, male, 54 years).

“I think it is okay... (pause) I think it is different in different people`s life. As a single mom with two children... It is okay to do a bit of extra to buy kids uniforms.” (British, female, 33 years).

“Well, I think it is okay not to declare if you are a single mother who`s struggling. [...] Or for people being at the border line of not paying the rent and being kicked out of the house” (British, male, 69 years).

“It is acceptable when the income is very low. For example, when you give birth and a new member of family appears, the state does not give you at least the income equivalent of your previous salary, you receive 85 per cent. But now, there is a new member in the family.” (Romanian, female, 33 years).

Similarly, people of both nationalities find undeclared work acceptable when it is not something undertaken with regularity and the amount of undeclared money is not high.

Moving to **formal institutional powerlessness**, this explanation rarely appeared. In general, in both countries, the level of deterrence is not perceived as low but the interviewees argument is that, as shown above, when struggling, people have to do it even if they realise the penalty level. Similarly, measures related to the increase of deterrence were very rarely spontaneously mentioned as a policy measure that government should use for reducing the share of people involved in undeclared work. Instead, the modernisation of the government, changing the laws in order to enhance the moral duty of citizens or educating them to understand the effects of undeclared work, were mentioned to a greater extent. Similarly, examples on how to educate



people to understand the benefits of declared work were provided. These views are exemplified below.

“I do not even know what the fiscal agents or labour inspectors can do at the moment to be able to control everybody (pause) or to reduce undeclared work. [...] If the services we receive would be better, I think that people would be more conscientious in terms of the work they have to undertake, and also conscientious in paying their owed taxes. It comes from people’s moral beliefs after all. Yes, indeed, I have to do this. [...] I have to pay my taxes. At the moment, people do not see it like that. (long pause) At the moment people think: the state steals from me. This is the current view. I am robbed by the state because it takes so much from me.” (Romanian, female, 48 years).

“Oh, do actually people understand where the money goes? So, if they declare their work, how can they see any benefits? What are the benefits? You can only see the negative side of it, can’t you, a lot of people. You see the negative side which is: if I declare my work I pay the government 30 per cent and I get 70 per cent. So that is all you see but... Do you know what you will see from those 30 per cent? Do you understand where the money goes to? Do you understand that it will help you get the pension when you get older? [...] I think I get back to my point, on education. [...] Education to actually persuade, to educate people that paying the taxes is the right thing to do. Showing them what the benefits are either for them or for their children or for their grandchildren, for the future. [...] If you got to change something, you’ve got to make people believe that start paying their taxes is a good thing. You cannot say: well, I am gonna put you in jail if you don’t pay. And then they’re going to say: well, I am not going to work then. (laughing) Yeah?” (British, male, 69 years).

Similarly, issues related to *institutional instability and uncertainty* such as continuous changes in laws and regulations were used to explain participation in undeclared work to a lesser extent and mostly by the Romanian interviewees. For example, they mentioned issues such as the high emigration of young people and the lack of a workforce for paying pensions in the future and the difficulty to keep up with the legislative changes. This is not surprising considering that, for example, the Fiscal Code has been modified between 2004 and 2013 about one hundred times (Todor, 2018).



“The bad side is that there is not a legislation put in order. [...] As all people know, in our country the law threatens you only. (laughing) We do not have a legislation that provides you guidance. [...] And there are so many laws and all the time they are amended. You, as a consultant, never know whether the way you work is correct or not.” (Romanian, female, 37 years).

## Conclusions and discussions

In recent years, a debate has emerged about how undeclared work should be tackled in a more efficient manner. This report started to explore citizens' views on the acceptability of undeclared work and how the acceptability level and consequently, participation in undeclared work, is influenced by formal institutional failures and imperfections. Drawing inspiration from a variant of institutional theory (Helmke and Levitsky, 2004; North, 1990), this report's argument is that undeclared work arises when there is an asymmetry between the codified laws and regulations of a society's formal institutions (*state morale*) and the socially shared unwritten rules of its informal institutions (*civic morale*). However, participation in undeclared work is not explained solely by institutional asymmetry *per se*. The mechanism is much more complex and the report hypothesises that formal institutional failings cause an asymmetry between the formal and informal institutions, and this asymmetry then in turn generates a higher participation in undeclared work.

To evaluate this assumption, 40 in-depth-interviews have been reported that were conducted in the United Kingdom and Romania during late 2018. This report investigates which types of formal institutional failures are used by the interviewees to justify participation in undeclared work. Four major types of formal institutions failures have been explored, namely formal institutional resource misallocations and inefficiencies, formal institutional voids and weaknesses, formal institutional powerlessness and formal institutional instability and uncertainty. Although, only exploratory and by its nature qualitative, and not representative, the findings reveal that the interviewees spontaneously explain participation in undeclared work to result from formal institutional failures belonging to all four categories. However, explanations drawing upon formal institutional resource misallocations and



inefficiencies as well as formal institutional voids and weaknesses were evoked by the interviewees to a much greater extent.

Overall, in consequence, the report suggests that if participation in undeclared work is to be reduced, there should be greater focus upon improving citizens' tax morale. Thus, both the formal and informal institutions need to be altered. Government authorities should focus on altering those institutional failures causing a low tax morale among citizens. Therefore, not only policies aimed at improving the economic environment and the social protection of vulnerable groups (Dau and Cuervo-Cazzurra, 2014; Thai and Turkina, 2014) are necessary, but also modernising the quality of government by improving procedural and distributive justice and fairness (Gangl et al., 2013; Kirchgässner, 2011; McGee, 2005; McGee et al, 2008; Murphy, 2005).

This is important considering that there is evidence that the lack of trust in formal institutions alters citizens' views on the behaviour of other citizens, and therefore, worsens the social capital in a society. A perceived lack of fairness and effectiveness of the formal institutions (e.g., parliament, the legal system, police) informs citizens on the norms of other citizens and encourages dishonest behaviour (Sønderskov and Thisted Dinesen, 2015). Indeed, using panel data and investigating the relationship between institutional trust and social trust, it has been found that social trust is changing over time and an important role in this fluctuation is represented by the experiences which shape the trust in formal institutions (Sønderskov and Thisted Dinesen, 2015).

In addition, as the interviewees' narratives reveal, measures such as education initiatives to educate citizens about the benefits of undeclared work are necessary, aiming to alter their views on the acceptability of undeclared work (*i.e., civic morale*). However, these findings are based on explorative research, and therefore, they are only tentative. Future studies at a larger scale are necessary to test whether these results hold when representative samples are investigated. Indeed, as this study suggests, the failures of formal institutions generate an asymmetry between the formal and informal institutions (*i.e.* low tax morale), which in turn results in participation in undeclared work. However, the current available data does not enable these assumptions to be tested quantitatively considering that they do not include all the variables necessary in



the same dataset. Most often, questions related to trust in the government and the fairness of spending are available in the same dataset with variables related to tax morale but which lack the variables related to undeclared work participation and/or tax evasion. Similarly, other datasets (e.g. Eurobarometer surveys) include questions on both tax morale and participation in undeclared work, but lack questions on determinants of tax morale (e.g., trust in public institutions, perceived level of fairness and effectiveness of government expenditure and so on). This is the value of the current qualitative research. It fills this gap.

In sum, if this study stimulates future extended data collection to include all three of categories necessary for testing how formal institutional failures lead to an increase in the asymmetry between formal and informal institutions, resulting in participation in undeclared work, then this paper will have fulfilled its intention.

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