

“Tax Evasion, Trust, and the Strong Arm of the Law”\*

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In 1997 a Russian civil servant asked the Swedish political scientist Bo Rothstein, how the Russians could solve the widespread problem of tax evasion. Almost all Swedes were honest in reporting and paying their taxes, while Russians regularly cheated the state (Rothstein, 2000, 477):

First, [Russian citizens] rightly did not believe that all “the other” taxpayers were paying their taxes properly, so it was really no point in being “the only one” who acted honestly. The goods (public, semi-public or private) that the government was going to use the money to produce, would simply not be produced because there were too little taxes paid in the first place. Secondly, they believed that the tax authorities were corrupted, so that even if they paid their taxes, a significant part of the money would never reach the hospitals or schools, etc. Instead, the money would fill the pockets of the tax bureaucrats. In both cases, *trust* in others was in extremely short supply.

The problem of tax evasion, Rothstein argued, could be solved by “creating trust from above”: Adopt a strong legal system and you are well on your way to forging a more trusting society with high levels of tax collection.

Levi (1998), Offe (1999), and others (Cohen, 1997, 19-20; Misztal, 1996, 198; Pagden, 1988, 139; Rothstein, 2000) argue that a state, and particularly a democratic state, can produce trust in people. Levi (1999, 82) maintains that states build trust through “the use of coercion” and that “democratic states may be even better at producing generalized trust than are nondemocratic institutions...because they are better at restricting the use of coercion to tasks that enhance

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rather than undermine trust.” Rothstein (2000) elaborates the link between trust and coercion: “If people believe that the institutions that are responsible for handling ‘treacherous’ behavior act in fair, just and effective manner, and if they also believe that other people think the same of these institutions, then they will also trust other people.” Levi (1998, 87) holds that “[t]he trustworthiness of the state influences its capacity to generate interpersonal trust...”. Rothstein (2000, ) argues:

...if you think...that these...institutions [of law and order] do what they are supposed to do in a fair and effective manner, then you also have reason to believe that the chance people of getting away with such treacherous behavior is small. If so, you will believe that that people will have very good reason to refrain from acting in a treacherous manner, and you will therefore believe that “most people can be trusted.”

A strong legal system will reduce transaction costs, making trust less risky. The more experience people have with compliance, the more likely they are to have confidence in others’ good will (Brehm and Rahn, 1997, 1008; Levi, 1998; Offe, 1999). Cohen (1997, 19) argues that “...legal norms of procedural fairness, impartiality, and justice that give structure to state and some civil institutions, limit favoritism and arbitrariness, and protect merit are the *sine qua non* for society-wide ‘general trust,’ at least in a modern social structure.”

The main reason why people obey the law *in general* is that they believe the laws are enforced fairly (Tyler, 1990). There is plenty of evidence that people are more likely pay taxes and to refrain from cheating if they trust government (Scholz and Lubell, 1998; Scholz and Pinney, 1995). Levi (1998) argues that rulers must gain the support of their citizenries if they are

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to raise the revenue necessary to run their countries (and, in earlier eras, to fund their armies to expand their territories).

There are very good reasons for expecting a strong link between honesty in paying taxes and trust. Trust, after all, reflects a sense of social solidarity—and more trusting societies redistribute resources from the rich to the poor (Uslaner, 2002, ch. 8). Taxes are the economic glue of social programs, the source of government’s ability to transfer resources—and, indeed, to function at all. Agreeing to pay taxes amounts to an acceptance of your place in helping society function.

Or does it? There *are* both theoretical and empirical arguments linking trust in other people to tax compliance. Slemrod (2001) presents a formal model of how trust in people leads to greater tax compliance. He also presents aggregate data analysis for 25 capitalist countries and finds that people are less willing to say that cheating on taxes is acceptable in countries where people are more trusting.<sup>1</sup>

The case is not closed. One can agree with Rothstein (and Levi, 1989, 60-61, 140) that people will agree to pay their taxes if they believe that other citizens are paying their taxes (cf. Scholz and Lubell, 1998) and if they believe that government officials are using tax money honestly and for the public weal. Yet, neither reciprocity nor faith in government is the same as trust in other people. Trust in other people is not built from above by government leaders. It is not built by example by what others do (or don’t do). Tax compliance is largely a contract with government officials. In return for paying a share of *a citizen’s wealth with the government*, people expect government agents to handle the money honestly (not enrich themselves) and to use it to make life better for the public.

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We don't pay taxes to our fellow citizens. We pay *to the government*. So our attitudes and behavior toward the tax system reflect our views of the honesty of the government—and of the legal protections (property rights) that will limit the corruptibility of officials. Economic inequality also shapes tax compliance, suggesting that people are more willing to pay their fair share when the distribution of wealth in society is more equitable. ***Tax compliance seems more about our reactions to government performance and honesty than to a sense of solidarity with our fellow citizens.*** Trust in people and trust in government have different roots (Newton, 1999; Uslaner, 2002, ch. 5), so one form of trust is not simply a surrogate for the other.

Trust in other people is an important element linking citizens to each other, but this type of trust *presumes* that people are trustworthy; the connection with good deeds (such as volunteering time, giving to charity, or serving on a jury) does not depend upon reciprocity or even an assessment of how many other people are giving of themselves (Uslaner, 2002, ch. 2). Trust in government is always contingent upon performance in office and the personal character of officials. And this is largely the deal that citizens make with their leaders on the collection of revenue. Tax compliance is not entirely strategic. Uslaner (1999) finds that moral sentiments do underly the acceptability of cheating on taxes in individual-level analyses in the United States, Canada, and Great Britain. However, there was *no significant* effect of trust on people's acceptance of tax evasion.

In this paper, I consider the connection between tax evasion and the two different types of trust: generalized trust (in other people) and trust in government, especially the legal system. Tax evasion is not easy to measure; I shall first consider some survey based evidence on the moral acceptability of cheating on taxes and then examine estimated rates of noncompliance.

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The analysis to follow offers little support for a strong link between generalized trust and tax compliance—either the belief that one *ought* not to cheat or the *actual* (estimated) level of tax evasion. Paying taxes is less a civic obligation than a contract with governing elites. Confidence in government, not faith in fellow citizens, matters for tax compliance. Even then, faith in governmental institutions and leaders matters more when citizens have evidence that their leaders are honest and pursuing policies that will lead to prosperity and when there is a strong system of rights that protect ordinary citizens.

I examine two sets of surveys on the morality of cheating on taxes: the first asks Romanians whether being a good citizen requires everyone to pay their taxes; the second is the World Values Survey, which asked national samples in over 60 countries in 1981, 1990, and 1995-97 whether cheating was ever acceptable.

Romania is an ideal case for this analysis. It is a comparable case to Russia and will permit us to examine Rothstein’s claims. Romania is a new democracy: Compliance to the state had never been in doubt and the idea of withholding money from the government must seem rather novel. On the other hand, rigid state control under Communism meant that the regime had little legitimacy. And the post-Communist era has been marked by one unpopular regime after another, each barely hanging on until the next election. Romanians are very pessimistic about the future and have little trust in government or their fellow citizens (Badescu, Sum, and Uslaner, in press). Tax evasion is much higher in the formerly Communist states (with an average score on the World Economic Forum measure discussed below of 2.26 out of 6, compared to 3.52 for the West). In a state where the temptations are strong and the institutions are weaker, what leads people to endorse the view that good citizens should pay taxes? This question wording seems to cry out for

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a strong linkage with generalized trust; it focuses on the sense of social solidarity that is essential to trust in others. Yet, trust in other people is only modestly related to tax compliance values; trust in governmental authorities (but not the courts) play a far stronger role in shaping attitudes toward taxes.

The World Values Survey (WVS) permits me to examine in a broader context the relationship between the acceptability of cheating and trust, both trust in people and trust in governmental institutions (especially the legal system). The WVS surveys show that there is a much stronger connection between attitudes toward tax compliance and trust in the legal system across a wide range of nations than there is between tax values and trust in people. And the linkage between tax attitudes and confidence in the law is strongest *in the most honest and open societies*.

Believing that everyone should pay their taxes is not the same as behaving honestly yourself. It is very difficult to get data on tax compliance, since we don't know who is cheating. However, the World Economic Forum in 1995 compiled a tax evasion/compliance index for a large sample of nations (LaPorta et al., 1998).<sup>2</sup> This is as close to a direct measure of cheating (or honesty, since higher scores indicate greater compliance) as we can hope to get. There is only a modest connection between the acceptability of cheating and the estimated tax evasion measure: People are far quicker to condemn failure to pay their fair share than to behave honestly themselves. There is just a modest connection between levels of generalized trust and tax evasion scores across nations. Tax compliance instead reflects the perception that *leaders* are corrupt rather than whether your fellow citizens are venal. Submission to the tax codes is also higher in countries with stronger legal protections (property rights).

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### *The Dimensions of Trust*

Moralistic trust is a moral commandment to treat people *as if* they were trustworthy. It is a paraphrasing of the Golden Rule (or Kant’s “categorical imperative”)—which can easily be seen to demand trust.<sup>3</sup>

The central idea behind moralistic trust is the belief that most people share your fundamental moral values. To put it another way, a wide range of people belong to your moral community. They need not share your views on policy issues or even your ideology. They may have different religious beliefs. Yet, despite these differences, we see deeper similarities. Fukayama (1995, 153) states the central idea behind moralistic trust: “...trust arises when a community shares a set of moral values in such a way as to create regular expectations of regular and honest behavior.” When others share our basic premises, we face fewer risks when we seek agreement on collective action problems. Moralistic trust is based upon “some sort of belief in the goodwill of the other” (Seligman, 1997, 43; cf. Yamigishi and Yamigishi, 1994, 131). We believe that others will not try to take advantage of us (Silver, 1989, 276).<sup>4</sup>

Moralistic trust is predicated upon a view that the world is a benevolent place with good people (cf. Seligman, 1997, 47), that things are going to get better, and that you are the master of your own fate. The earliest treatments of interpersonal trust put it at the center of an upbeat world view (Rosenberg, 1956). People who believe that others can be trusted have an optimistic view of the world. They believe that things will get better *and that they can make the world better by their own actions* (Rosenberg, 1956; Lane, 1959, 163-166).

All but the most devoted altruists will recall—and employ--the Russian maxim (adopted by President Ronald Reagan in dealing with the Soviets): trust but verify. When dealing with specific



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people, we use strategic trust. It is hardly contradictory for someone who places great faith in *people* to check out the qualifications and honesty of *specific persons*, such as contractors, mechanics, and doctors. Strategic trust is all about finding ways to minimize the risk inherent in social life. Moralistic trust is *not* faith in specific people; rather, it is faith in the “generalized other.” On the other hand, people who are *not* generalized trusters can only rely on strategic trust. For them, “trust” means experiences with specific persons.

Moralistic trust underlies our commitments to help those who are less fortunate than others. Trusting people have an expansive view of their “moral community,” seeing a commonality of values within a society—and, indeed, across societies. They have more favorable views of ethnic and racial minorities as well as other groups that have faced discrimination (women and gays). They put their sentiments into action, by volunteering and giving money to charity, especially for causes that help people of different backgrounds from themselves. And nations with large shares of trusting people spend more on education and on transfer payments from the rich to the poor.<sup>5</sup> ***If people’s sense of commitment to others drives their beliefs—and behavior—on tax compliance, then generalized trust should matter more than strategic trust.*** Generalized trusters should not calibrate their attitudes on tax compliance with whether other people pay their fare share (or pay at all). Generalized trust “lubricates cooperation,” Putnam (1993, 170) argues. It is a moral value that has its roots in the belief that strangers, including people who are different from yourself, nevertheless are part of your “moral community.” So if paying taxes is a collective action problem that stems from a sense of commitment to others, we would expect that people who have faith in others would be less likely to cheat on their taxes.

***If people argue that they should pay taxes only if most others do so, they are relying on***

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*strategic rather than moralistic trust.* We may not know *who pays taxes and who doesn't*, but we are invoking an argument from reciprocity, which is not the same as moralistic trust (Uslaner, 2002, chs. 2, 4). The arguments that Rothstein (2001) offered stem more from trust in government than from trust in other people: Are leaders honest? Does tax money go into the public purse or into leaders' pockets? Does government have sufficient resources to produce public goods? Trust in government is based upon strategic trust, not moralistic trust: Is government performance good? Are leaders honest? Do officials waste our tax money? In the American National Election Study (ANES), the question of whether government officials waste tax money is *part of the overall index of trust in government* (with the standard trust in government question, whether most public officials are crooked, and whether government is run for the benefit of all or by a few big interests).

There is a syndrome of corruption and wastefulness that people associate with leaders, *not with their fellow citizens*. The correlation (tau-c) in the ANES cumulative file (1964-2000) between trust in people and leaders wasting taxes is a mere .070, compared to the correlation of .293 (for 1958-2000) between trust in government and wasting public revenue. The mean correlation between trust in people and trust in government from 1964 to 1998 is just .117 (Uslaner, 2002, 152); and the connection is hardly any higher in other countries (Newton, 1999). ***People making strategic calculations about whether they should pay their taxes (or whether they do pay their taxes) are largely basing their decisions on their perceptions of government performance and honesty.***

In addition to trust in people and trust in government, people may pay their taxes because they fear the strong arm of the law. We might pay our full share because we are afraid that the

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authorities would catch up with us and prosecute us. Scholz and Lubell (1998, 405-406) find few effects for the “strong arm of the law,” the fear of being caught. The real power of the law comes not from fear but from the belief that the law is administered fairly.

*Government*, taken generally, can’t lead people to trust each other. But the situation *may* be different for the branch that is responsible for adjudicating disputes between strangers, the legal system. Rothstein (2001) argues (cf. Levi, 1998; Misztal, 1996, 251; Offe, 1996, 27; Seligman, 1997, 37):

Political and legal institutions that are perceived as fair, just and (reasonably) efficient, increase the likelihood that citizens will overcome social dilemmas.... In a civilized society, institutions of law and order have one particularly important task: to detect and punish people who are “traitors,” that is, those who break contracts, steal, murder, and do other such non-cooperative things and therefore should not be trusted. Thus, if you think that particular institutions do what they are supposed to do in a fair and efficient manner, then you also have reason to believe...that people will refrain from acting in a treacherous manner and you will therefore believe that “most people can be trusted.”

Courts can save us from rascals only if there are few rascals (cf. Sitkin and Roth, 1993). Law abiding citizens, not rogue outlaws, create constitutions that work. You may write any type of constitution that you wish, but statutes alone won’t create generalized trust. Macaulay (1963, 58, 61-63) argues that business executives and lawyers prefer transactions based upon trust—and handshake seals the deal—to those based upon contracts and threats of legal sanctions. Most executives and even lawyers have faith that other people will keep their end of a bargain.

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Resorting to formal documents might undo the goodwill that undergirds business relationships (Macaulay, 1963, 63; Mueller, 1999, 96). Coercion, Gambetta (1988, 220) argues, “falls short of being an adequate alternative to trust....It introduce an asymmetry which disposes of *mutual* trust and promotes instead power and resentment” (cf. Baier, 1986, 234; Knight, 2000, 365).

Generalized trust does *not* depend upon contracts. Indeed, trusting others is sometimes said to be a happy substitute for monitoring their standing (Offe, 1997, 12; Putnam, 2000, 135).<sup>6</sup>

Trust in the legal system is not so different from trust in government more generally. Our attitudes toward tax compliance likely stem from both a favorable evaluation of government performance and honesty *and a belief that miscreants, both ordinary citizens and especially corrupt leaders, will not get special treatment by the courts.* Scholz and Lubell (1998) had rare access to a United States Internal Revenue Service survey that asked about tax compliance and civic values. They found that both trust in government and the perception that most other people paid their taxes (both reflecting strategic trust) led people to be more likely to pay their full share of taxes, but there was no significant effect for a sense of civic duty (willing to make personal sacrifices for the benefit of the entire country).<sup>7</sup> Sheffrin and Triest (1992), analyzing the same survey, found attitudes toward government (including the belief that the government wastes tax money) as the strongest predictors of underreporting income and overstating deductions; these perceptions were more important than the probability of detection and whether other citizens did not pay their fair share.

#### *When Is It Acceptable to Cheat on Taxes?*

I first turn to a survey of Romanians conducted in 2001 as part of the cross-national Citizenship, Involvement, Democracy (CID) project.<sup>8</sup> As with other countries in the CID project

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we asked what makes a good citizen. One criterion (on an 11 point scale from zero to ten) was not evading taxes. I estimated an ordered probit model linking sentiments on taxation to generalized trust, confidence in government, and expectations about justice, as well as satisfaction with democracy, toleration of people of different races, membership in civic groups, attachment to religion, and age.<sup>9</sup> I expect that people who trust their fellow citizens and who trust government will be more likely to say that good citizens must pay taxes. So should people who believe that the courts treat everyone equally and that *you would be treated* better than the average person by the legal system (see Tyler, 1990, for the explanation of these questions). People who are satisfied with democracy and who are tolerant of people of different races (social solidarity) should also be more likely to endorse tax compliance.

If, as Putnam (1993, 170) group members develop a sense of social conscience, people who join many groups should be more likely to argue for obeying tax laws. Religious attachment is less obvious; however, the Romanian Orthodox church has long had a close relationship with the state (Stan and Turcescu, 2000); so people who are more strongly attached to their faith should be more supportive of compliance with tax laws. And so should older people, who grew up in an era when flouting the law was not an option.

I present the results of the ordered probit in Table 1 (suppressing the cut points, which are of no substantive interest). I focus on the “effects” (Rosenstone and Hansen, 2003), the change in probability from one value of the independent variable to another. It is customary to estimate the effects from the minimum to the maximum values of the predictor. However, some of the independent variables are highly skewed (few people belong to organizations) and others are factor scores with few people at the tails. So I calculated the effects for group membership

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between zero and one membership, for the tolerance and government trust factor scores at the 5<sup>th</sup> and 95<sup>th</sup> percentiles, and for age between 18 and 75. In a simple probit analysis, effects represent the difference between the two values in a dichotomous dependent variable. For an 11 point scale, we get effects at each pair of consecutive values. Since 67 percent of respondents answered that it was very important (11) for a good citizen not to evade taxes, I report the effects only between values of 9 and 10, the two most common responses.<sup>10</sup> All effects are expressed as proportions, and should be interpreted as deviations from the mean of .67.

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Table 1 about here

Generalized trust *is* a significant predictor of the obligation of a good citizen to pay taxes, but it has a modest effect. A truster is just seven percent more likely than a mistruster to agree most strongly with the argument that good citizens have tax obligations. Most surprisingly, there are no significant effects for *either measure of the fairness of the legal system*. Neither the belief that the courts treat all people equally, nor the expectation that you would receive favorable treatment by the legal system, lead people to demand more of their fellow citizens. It is trust in government that matters most. People who have the highest level of confidence in political authorities are 16.4 percent more likely to be the most demanding on tax compliance. Apart from trust in government, attachment to religion and tolerance of people of different races matter, while age does not.<sup>11</sup>

In Romania, at least, neither social solidarity nor the fairness of the system seems to drive the demand for tax compliance. Evaluations of the courts *do* matter for the obligation to pay taxes, but *not* because the courts treat everyone fairly. Romanians link the courts and the police

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with other political actors, not with the equity of the justice. Not even overall satisfaction with democracy matters. What counts most is faith in political leaders, the belief that public officials are making life better for the average person. Tax compliance seems to be a bargain between the elites and the public. The public says to leaders: If you want the resources to run the country, show us that you *can* run the country.

Is Romania typical or exceptional? Is there more support for the link between the obligation to pay taxes and generalized trust—as well as faith in the legal system—across a wider range of countries? Romania is of course exceptional in its recent history: It not only had a Communist government, but one of the most strongly authoritarian of all such governments. All forms of trust were low and the country was very poor. It should not be surprising that the first thing people wanted after the revolution was a government that could deliver a better life. The “deal” Romanians seem to have made makes sense, given the history of the country. Would citizens elsewhere make the same “deal” or would other concerns, such as social solidarity or the fairness of the legal system, shape attitudes toward tax compliance?

***Is Romania Exceptional?***

I turn next to the World Values Survey, which in its three waves (1981, 1990, and 1995-97) asked citizens in 68 countries whether it was ever acceptable to cheat on taxes. The question was scored on an 10 point scale, ranging from 1 (never) to 10 (always). Across the countries, the mean score was 2.56, ranging from 1.09 in Bangladesh to 3.88 in Belgium, followed by Moldova at 3.82. [Romania ranked at the moralistic end, with a mean score of 2.01 and 93 percent saying that cheating was not acceptable.]

The WVS also asked about generalized trust,<sup>12</sup> trust in the legal system, and confidence in

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the national government. I aggregated the scores for trust in government, the law, and other people together with the acceptability of cheating on taxes. In Figure 1, there is *no correlation* ( $r^2 = .001$ ) between country-level scores for generalized trust and the acceptability of cheating. The first result is not encouraging for a linkage between generalized trust and tax evasion. There is a slightly more powerful result ( $r^2 = .121$ ) establishing a positive relationship between confidence in the legal system and whether cheating can be justified (see Figure 2).

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[Figures 1 and 2 about here](#)

The individual-level correlations by country between the acceptability of cheating on taxes and generalized trust are surprisingly small. The *mean* correlation over 60 nations is *slightly negative* ( $-.007$ ): 37 of the 60 correlations are negative and only one (Ghana, which has a very small sample) is above .10; only four other correlations are above .05 (Hungary, Georgia, the Dominican Republic, and South Africa). Clearly, there is no “syndrome” of tax compliance and generalized trust. For confidence in government ( $N = 46$ ) and trust in the legal system ( $N = 60$ ), the correlations are much higher; they average .089 and .079, respectively. For trust in the legal system, only four correlations (including Ghana) are negative and 10 are greater than .15: The correlations are not significantly higher in the former Communist countries than in the West; however, four out of the five highest correlations (Bosnia, Belarus, Croatia, and Montenegro) come from Central and Eastern Europe. The pattern is largely the same for trust in government: four correlations of 46 are negative but 8 are above .15 (including  $r = .35$  in Montenegro). Again, there is no significant difference between the formerly Communist states and the West.

I shall focus on confidence in the legal system since there are more cases to analyze than



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with confidence in the government. The general patterns suggests that Romania is a bit exceptional: The simple correlations between the obligation to pay taxes and trust in governmental institutions are *lower* for the courts than for other political institutions. Across the full range of WVS countries, there are few differences in the size of the correlations. The correlations between the obligation to pay taxes and trust in government, on the one hand, and trust in the legal system on the other are strongly related: In the aggregate, these two correlations are related at  $r = .807$  ( $N = 47$ ). So there is nothing exceptional about the judiciary. People across a wide range of countries seem to be using a heuristic that is similar to that of Romanians: You have a greater obligation to pay your taxes if you think that the government (including the courts) are performing well.

Romania is exceptional in the connection, however modest, between tax obligations and generalized trust. Elsewhere, it is largely minuscule. And it may be exceptional in the weakness of the linkage between equal treatment under the law and tax obligations. But, then, Romania may not be quite so exceptional. There are no similar questions for judicial fairness and tax attitudes elsewhere, so I cannot evaluate this claim at the individual level. However, we shall see below that there is a modest aggregate linkage between perceptions of judicial fairness and tax compliance; where fairness is weaker, the connection may also be less pronounced.

Across countries (see Figure 3) the correlations of tax cheating with trust in people, on the one hand, and trust in the legal system, on the other, are negatively related. *In countries where there is a stronger correlation between tax evasion and trust in the law, there is a weaker relationship with generalized trust.* Trust in people and confidence in the law seem to be alternative rather than complementary routes to tax compliance.

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Why is the connection between disapproval of tax cheating and confidence in the law stronger in some places and weaker in others? I used the correlation as the dependent variable in an ordinary least squares regression (with robust standard errors to correct for heteroskedasticity) in Table 2. And the answer is straightforward: People make the connection between cheating on taxes and trust in the law *where there is more honesty already*. The strongest predictor of the correlation is the amount of money being hidden in the black market economy. It is the (logged) premium on the value of a nation’s currency due to the workings of the black market.<sup>13</sup> When the black market takes a strong toll on the nation’s economy, people will be *less likely to make judgments on tax evasion based upon their support for the legal system* (Levi, 1989, 159). A strong black market is one sign that law enforcement authorities do not have full control over extra-legal activities.

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Table 2 about here

Why should we look to the courts for guidance when they cannot control petty crime? Here is clear support for the first argument of Rothstein: When everyone does it, there is little faith in the legal system—or at least little reason to link your views of tax compliance to the strong arm of the law. There is also support for Rothstein’s second argument: Big scale corruption (as measured by the Transparency International corruption perceptions index) also weakens the link between views on taxes and confidence in the law. On the other hand, economic growth through trade (from 1980 to 1990) is the mark of an opening economy, with greater reliance on the formal economy and on more ordered relationships. The link between tax views and confidence in the law is stronger where there is more economic growth through the formal economy—and where

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larger shares of the population have some primary education. Overall, then, the linkage between the legal system and beliefs about tax cheating are stronger in “well-ordered societies,” where “everyone accepts and knows that the others accept the same principles of justice, and the basic social institutions satisfy and are known to satisfy these principles” (Rawls, 1971, 454).

The individual-level and aggregate results point to a common theme: The acceptability of cheating on taxes largely reflects the performance and integrity of those who govern. Citizens in both the West and in the former Communist countries use similar arguments for why people should pay their taxes.<sup>14</sup> But within each bloc, the strength of the correlation depends upon the performance of those in power. It may not make much sense to have much faith in the legal system where the courts and the police cannot—or will not—control corruption or where citizens cannot see that their contribution to the public weal actually makes the public more wealthy. In this sense, Romania is not exceptional: There may be less reason for Romanians to have faith in their leaders, who have been unable to control corruption or to bring its citizens prosperity. Even here, we see that the strongest connection to tax cheating is in faith in government, as we find in most other democracies.

### ***Obligations and Cheating***

John Mitchell, Attorney General of the United States under Richard Nixon and later a convicted felon, repeatedly answered reporters’ questions about how the President would handle the Watergate investigation: “Watch what we do, not what we say.” Moral exhortations fall under what game theorists call “cheap talk.” It is easy to say that everyone should pay taxes even while falling prey to the temptation to a little dishonesty oneself.

Does a country’s level of moral outrage at tax cheating reflect its level of honesty in tax

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compliance? Does mean response to the question on whether it is acceptable to cheat on taxes reflect the actual (or estimated) level of tax evasion (by the World Economic Forum). The disturbing answer, in Figure 4, is: Not much. There is only a modest connection between the acceptability of cheating on taxes in a country and its estimated level of tax compliance ( $r^2 = .027$ ). Countries where people say that it is always wrong to cheat are only slightly more likely to comply with tax regulations.

What, then, drives tax evasion? Initially, there is some support for the argument that more trusting countries have greater tax compliance. In Figure 5, I plot the levels of trust and tax compliance (higher scores mean *less* evasion) and the fit is reasonable:  $r^2 = .288$ . There is less support for a connection with confidence in the legal system. The fit is far more modest ( $r = .108$ , see Figure 6).

When people see their leaders stealing, they are more reluctant to pay taxes themselves: There is a powerful relationship between the Transparency International Corruption Perceptions Index and tax evasion ( $r^2 = .524$ , see Figure 7). And where there is a strong system of property rights, making it difficult for government to expropriate resources, people are more willing to pay their share of taxes ( $r^2 = .470$ , see Figure 8). People respond to elite behavior and legal guarantees. They do not try to shirk their obligations because the tax rates are too high ( $r^2 = .015$  between tax evasion and the income tax rate, not shown) or even if the marginal rates are too high ( $r^2 = .017$ , see Figure 9).<sup>15</sup>

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[Figures 4, 5, 6, 7, 8, 9 about here](#)

What, then, drives tax evasion? I present a regression in Table 3 for the tax compliance

### Uslaner, “Tax Evasion, Trust, and the Strong Arm of the Law” (20)

measure. Two things stand out: Generalized trust is *insignificant in a multiple regression analysis* and the *level of corruption is the strongest predictor of tax compliance*. As the graphs show, where corruption is strong and property rights are weak, tax evasion is more common. Three other variables also shape, to varying degrees, the level of tax compliance. High levels of economic inequality, as measured by the Gini index, lead to greater levels of evasion. Countries where people believe that all are equal before the law, as reflected in aggregated survey responses to the 2000 Gallup Millennium survey, have higher compliance rates. And countries where people say that is acceptable to cheat on taxes in the World Values Survey do have slightly lower rates of evasion.<sup>16</sup>

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#### Table 3 about here

There is some evidence that there may be an *indirect* linkage between generalized trust and tax evasion. Crime is a clear example of violating social solidarity. Lower levels of trust are associated with higher crime rates in the United States over time (Uslaner, 2002, ); and there is also strong evidence (see Figure 9) that more trusting countries rank lower on rates of theft ( $r^2 = .528$ ).<sup>17</sup> And there is also a moderate connection between theft rates and tax evasion ( $r^2 = .284$ , see Figure 11). When there is a lot of petty crime and the legal system does not seem capable of ensuring law and order, there may be few incentives for people to pay their fair share of taxes. However, it is difficult to make a more concrete link among trust, theft, and tax evasion because of the very small number of cases. And the strength of the relationship in Figure 11 depends largely upon the two cases with the highest theft rates (Colombia and the Phillipines). Without these two extreme cases, the relationship becomes much weaker ( $r^2 = .128$ ). There may be an

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indirect path from trust to tax compliance, but it is difficult to establish with existing data and it is far from certain that such a linkage would survive multivariate analysis.

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Figures 10 and 11 about here

The results for the World Economic Forum tax compliance/evasion measure complement the findings for the correlations between the acceptability of cheating and the trust measures. They also generally support the individual level analyses for Romania. People pay their taxes fairly when

They believe that the system is fair: the legal system isn't stacked against them and the economic system is not so heavily oriented toward the rich)

People have rights to what they own, so the state cannot expropriate their goods.

*And especially, the governing elite is honest and is pursuing policies that make life better for citizens.*

***Reprise***

Generalized trust might matter for tax compliance if people viewed taxation as some sort of collective good. But the evidence here suggests that people do not see taxes as an obligation to their fellow citizens as much as they do as a contract with the state. If people believe that others are not paying their fair share, they do not want to be the suckers (Scholz and Lubell, 1998). However, people generally look to public officials to determine whether the elites are behaving honestly when deciding whether they should pay their fair share.

This makes sense. People have more information about how elites behave, even if that information may be biased (or downright incorrect) than on how many other people are with-

### Uslaner, “Tax Evasion, Trust, and the Strong Arm of the Law” (22)

holding some or all of their taxes. We are more likely to justify tax evasion (or to practice it) by judging our leaders than our fellow citizens. They read about corruption in the press, or if it is widespread, experience in it their daily lives. And people attribute corruption to elites rather than to their fellow citizens, who are victims like themselves—or perhaps simply trapped in the cycle of dishonesty (Uslaner and Badescu, 2004). We are prone to overestimate the sincerity of fellow citizens, compared to government officials. In the 1972 ANES, the only time when all of these questions were asked in the same survey, 80 percent of Americans agreed that “most people are basically honest,” 64 percent said that most people in government were honest, but 69 percent said that most tax money was wasted.

Trust underlies altruistic deeds, but it is also the source of some civic obligations such as serving on a jury (Uslaner, 2002, 198-99). However, serving on a jury is more of a contract with fellow citizens than paying taxes. It seems easier to get out of jury service than to get away with tax fraud. And there is little gain for elites from jury service as there is with tax collection.

There are clearly elements of morality in the decision not to cheat on taxes (Scholz and Lubell, 1998; Uslaner, 1999). But there is at least as large a contingency in the willingness of citizens to pay taxes, based upon government performance (Levi, 1989). Citizens seem to respond rather rationally to their political, economic, and legal environment in making their decisions on tax compliance: Behave most fairly when the system treats you fairly, when elites don’t steal your money and when they spend it wisely, and when you have legal recourse.

Having a strong legal system matters. People are less likely to evade taxes when they have property rights and when they believe that all people are equal before the law. But confidence in the legal system only seems to matter *when there is an effective judiciary*. Where the

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legal system is weaker, as in Romania, perceptions that the courts and police are fair don't matter. Almost everywhere, people seem to base their commitment to pay taxes on how well the entire government works, not just the judiciary. And there is little indication of a spillover from trust in the law (or government more generally) to faith in fellow citizens. Indeed, where there are at least modest correlations between tax compliance attitudes and generalized trust, there are *lower* correlations between the obligation to pay taxes and confidence in the law (or government more generally). On average, however, the difference in these correlations is .088 (higher correlations are with trust in the legal system). Only eight countries have higher correlations between tax obligations and generalized trust compared to trust in the legal system, yet three are former Communist nations (Hungary, Poland, and Azerbaijan). So there might be a somewhat different pattern in the former Communist nations, but it is a matter of degree not of kind.

Herein lies a bit of good news for low trust societies such as Romania (and Russia). Since engineering trust is rather difficult (Uslaner, 2002, 249-55), it might be difficult for states to raise sufficient revenue if tax collections depended upon trust in other people. Getting better politicians might not be so easy either—Romania seems to be recycling many of the old regime leaders, who often seem less threatening than the emerging contenders—but there are other routes that might be achieved more easily. A stronger legal system with greater property rights might lead people to believe that they should pay their fair share. Open markets also create stronger linkages between tax compliance and support for the legal system. These may be small steps that may not gain people's support for the political system, but they are steps in the right direction. And with tax receipts, every penny (or euro) counts.



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TABLE 1

Obligation of Good Citizen to Pay Taxes (Romania): Ordered Probit Results

	Coefficient	Standard Error	MLE/SE	Effect
Generalized trust	.216**	.129	1.68	.070
Would be treated better by legal system	-.040	.091	-.44	-.027
Courts treat all equally	.165	.168	.98	.053
Trust in government factor	.138**	.064	2.14	.164
Toleration of other races factor	.101**	.059	1.72	.158
Satisfaction with democracy	-.028	.082	-.35	-.028
Memberships in civic groups	.128**	.074	1.72	.042
Attachment to religion	.055**	.024	2.28	.104
Age	.004	.003	1.22	.075

N = 564 Log Likelihood Ratio = 34.26 (p < .0001)

\*\* p < .05

Results from ordered probit; cut-points omitted

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TABLE 2

Determinants of Correlation Between Acceptability of Cheating on Taxes  
and Confidence in Legal System

	Coefficient	Standard Error	t
Change in growth due to trade 1980-1990	.010***	.004	2.763
TI Corruption Index 2001	.010***	.004	2.763
Black market currency premium log 1980 (Barro)	-.041****	.007	-5.460
Percent population some primary education (Barro)	.001**	.0004	1.742
Constant	-.018	.034	-.053

N = 36 RMSE = .047 R<sup>2</sup> = .587 Adjusted R<sup>2</sup> = .533

\*\*\*\* p < .0001 \*\*\* p < .01 \*\* p < .05 \* p < .10

Results from ordinary least squares with robust standard errors

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TABLE 3

Aggregate Regression Model for Tax Evasion

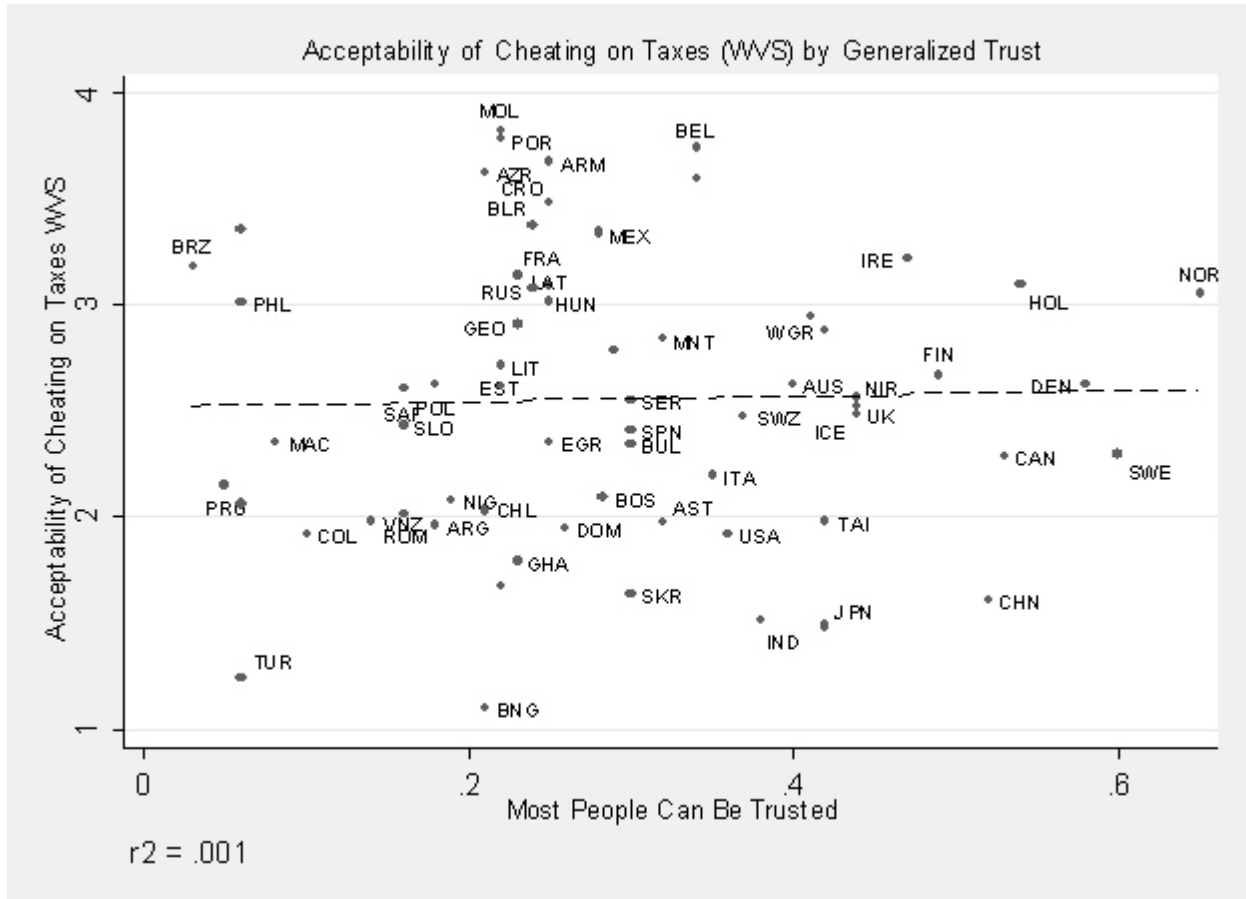
	Coefficient	Standard Error	t
Trust	-.219	1.236	-.178
Gini index of inequality	3.798***	1.594	2.383
TI Corruption Index 1998	-.307*****	.086	-3.574
Property Rights	-.593***	.216	-2.742
All people treated equally under law (Gallup)	.702*	.465	1.510
OK to cheat on taxes (World Values Survey)	-.268*	.197	-1.361
Constant	3.134**	1.470	2.132

N = 26 RMSE = .518 R<sup>2</sup> = .783 Adjusted R<sup>2</sup> = .714

\*\*\*\*\* p < .0001 \*\*\* p < .01 \*\* p < .05 \* p < .10

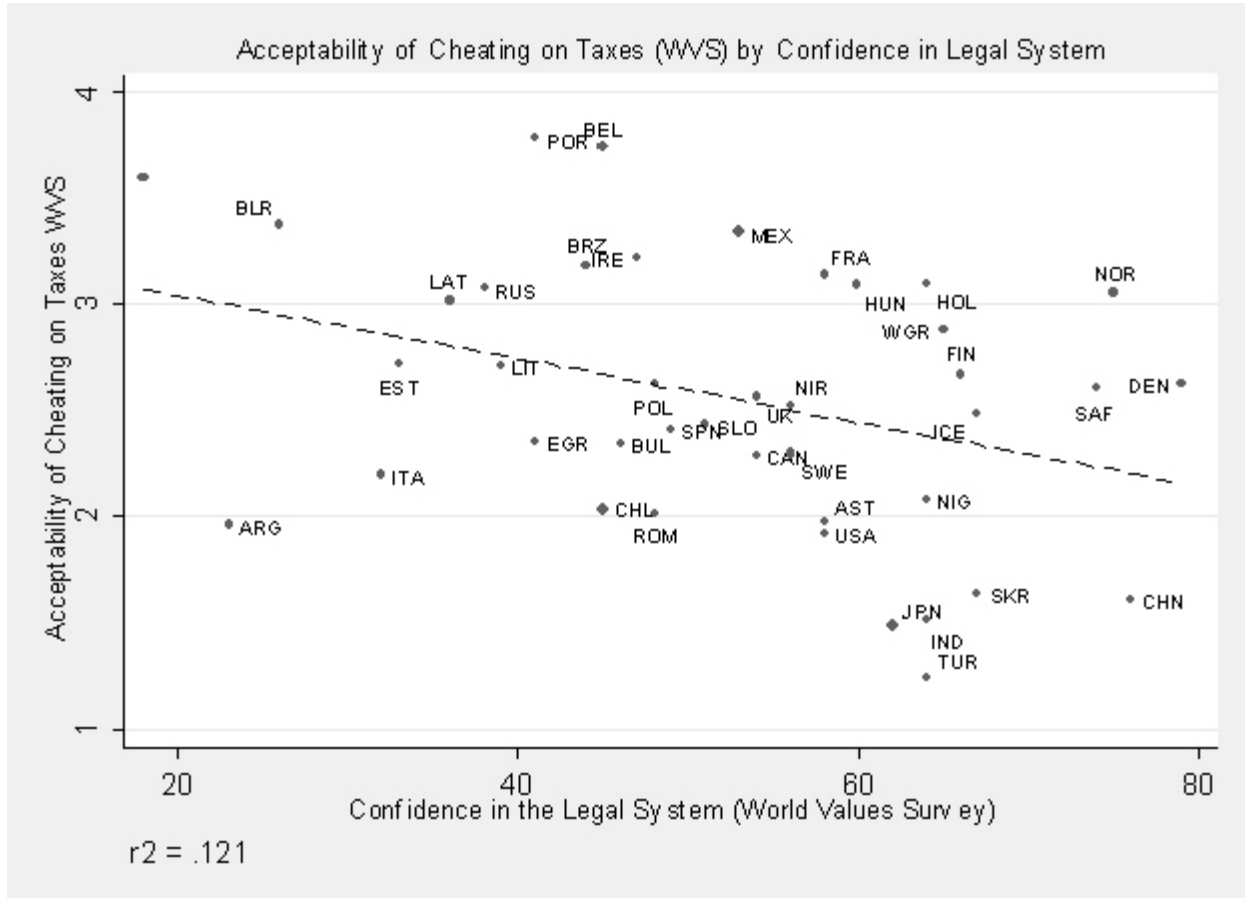
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (27)

Figure 1



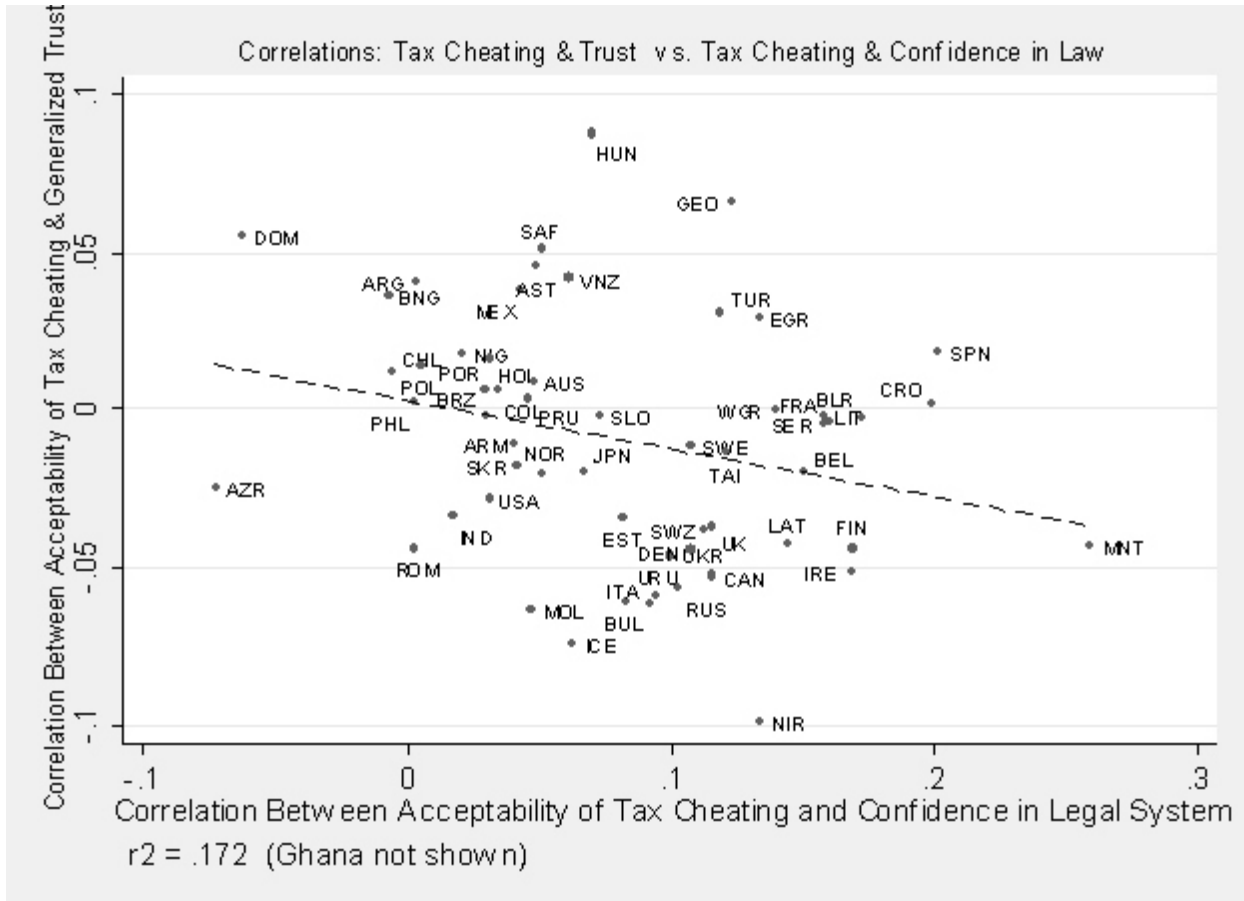
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (28)

Figure 2



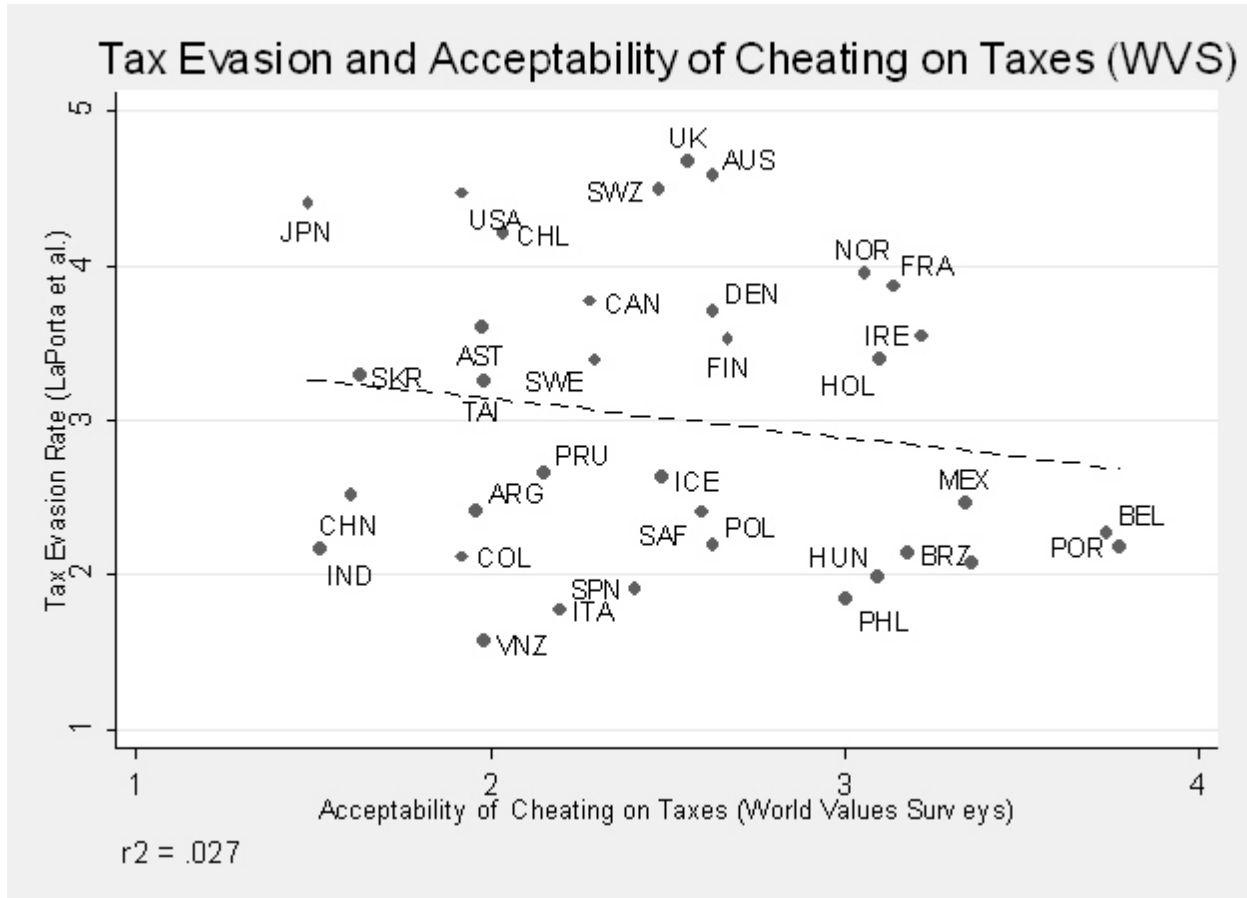
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (29)

Figure 3



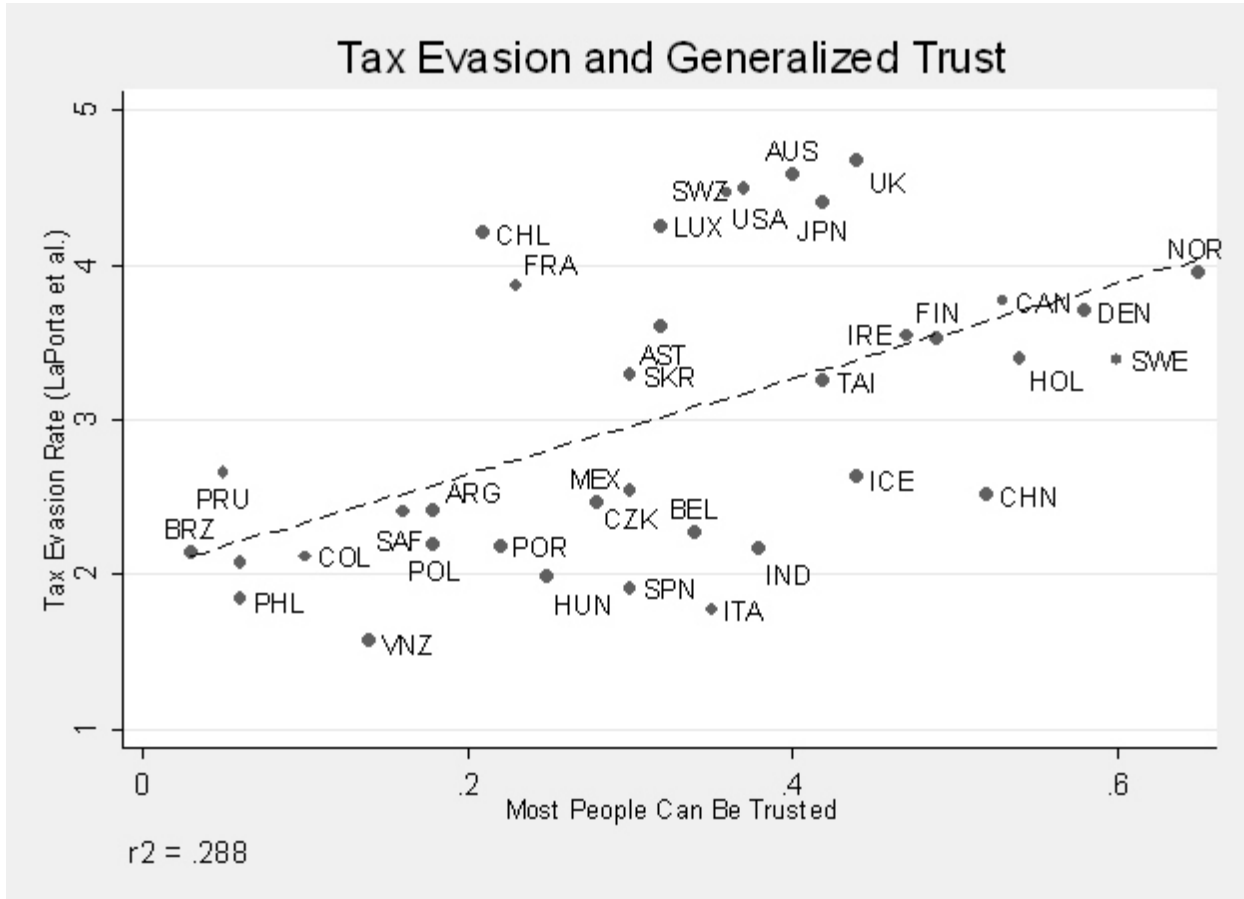
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (30)

Figure 4



Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (31)

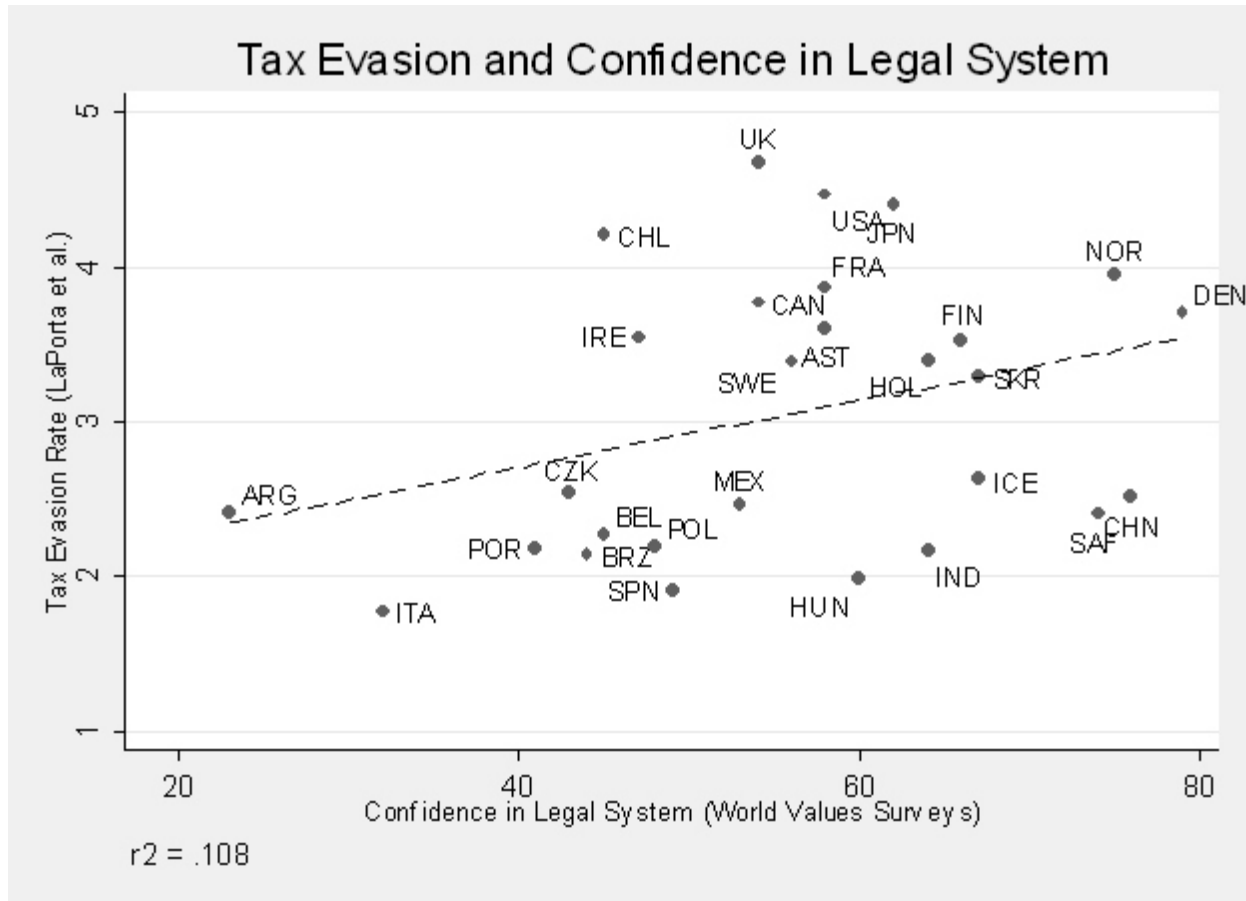
Figure 5





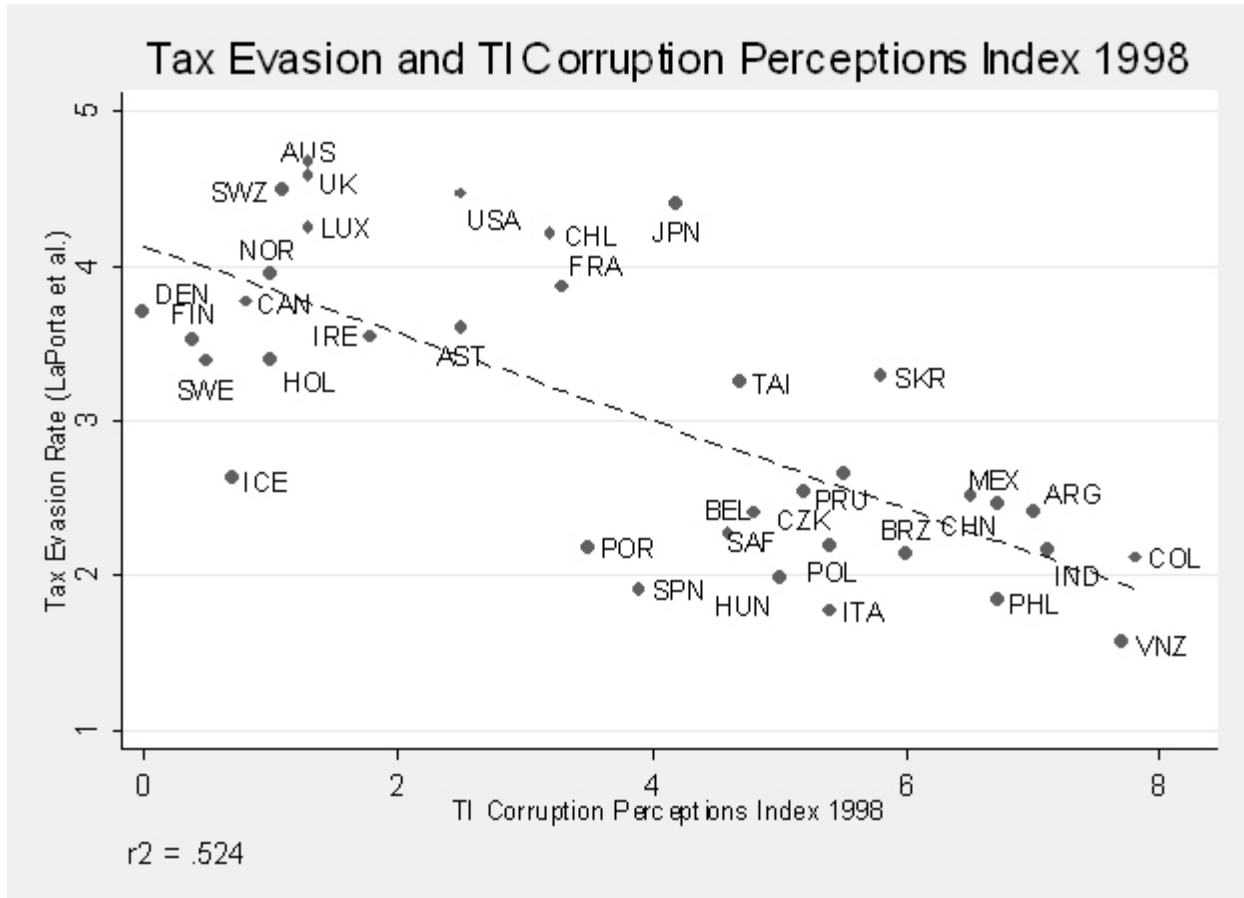
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (32)

Figure 6



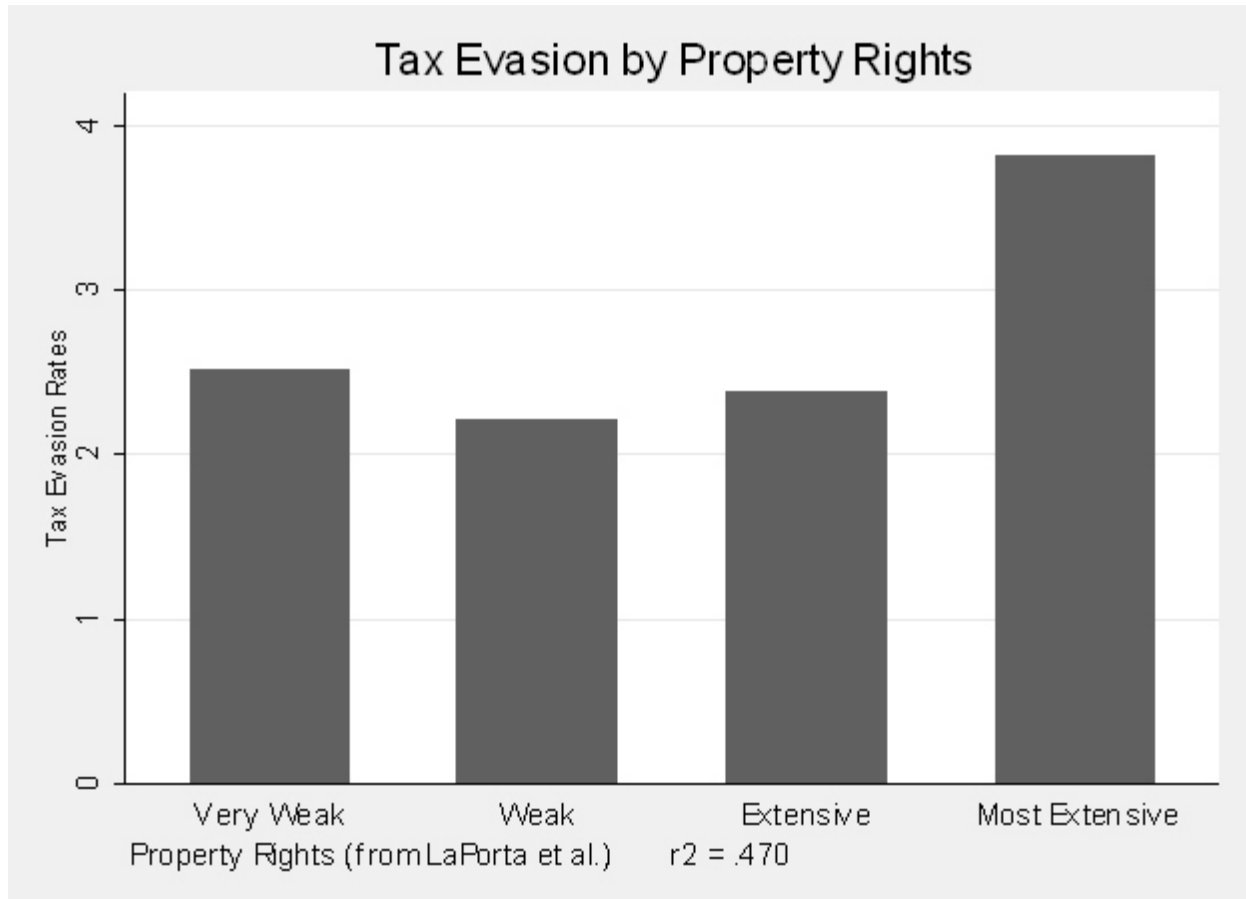
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (33)

Figure 7



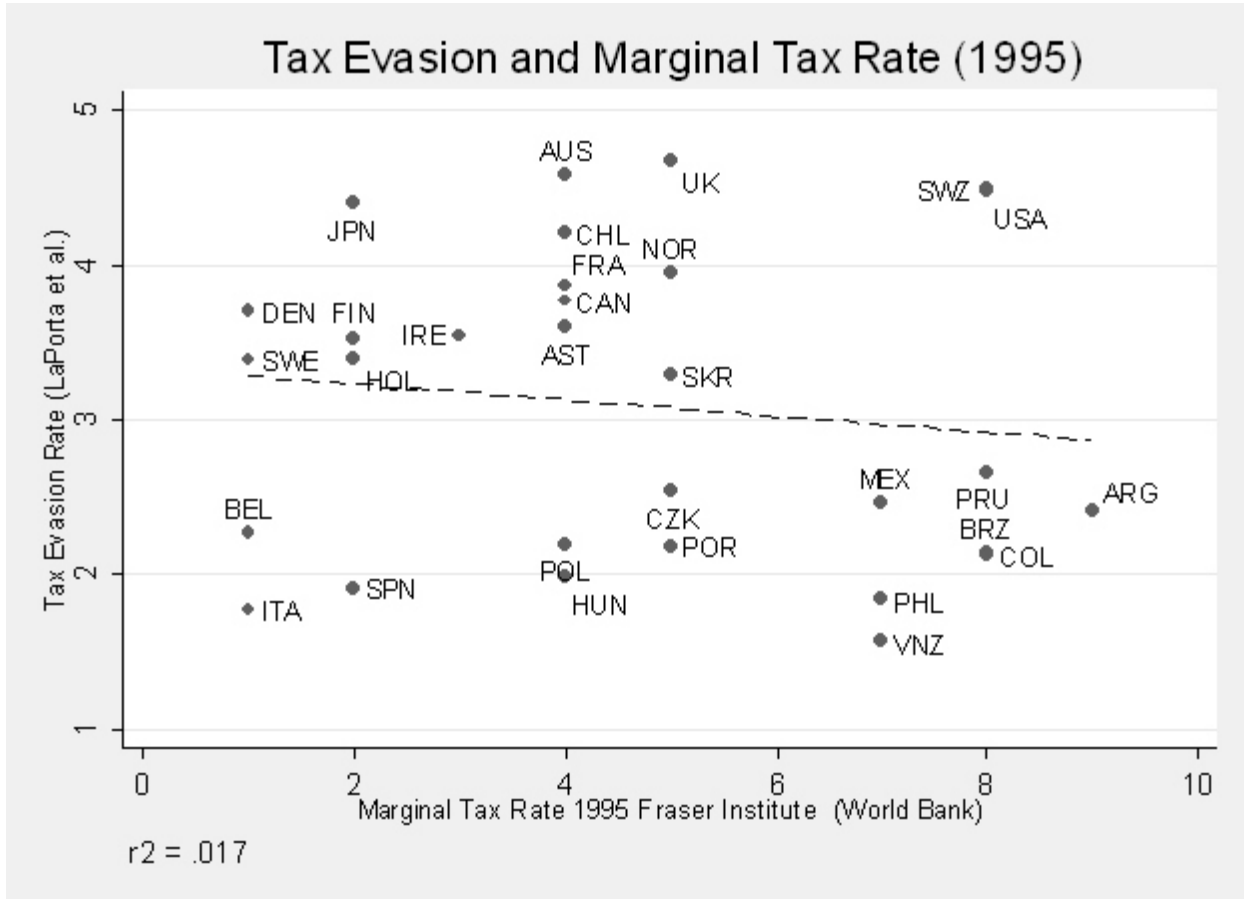
Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (34)

Figure 8



Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (35)

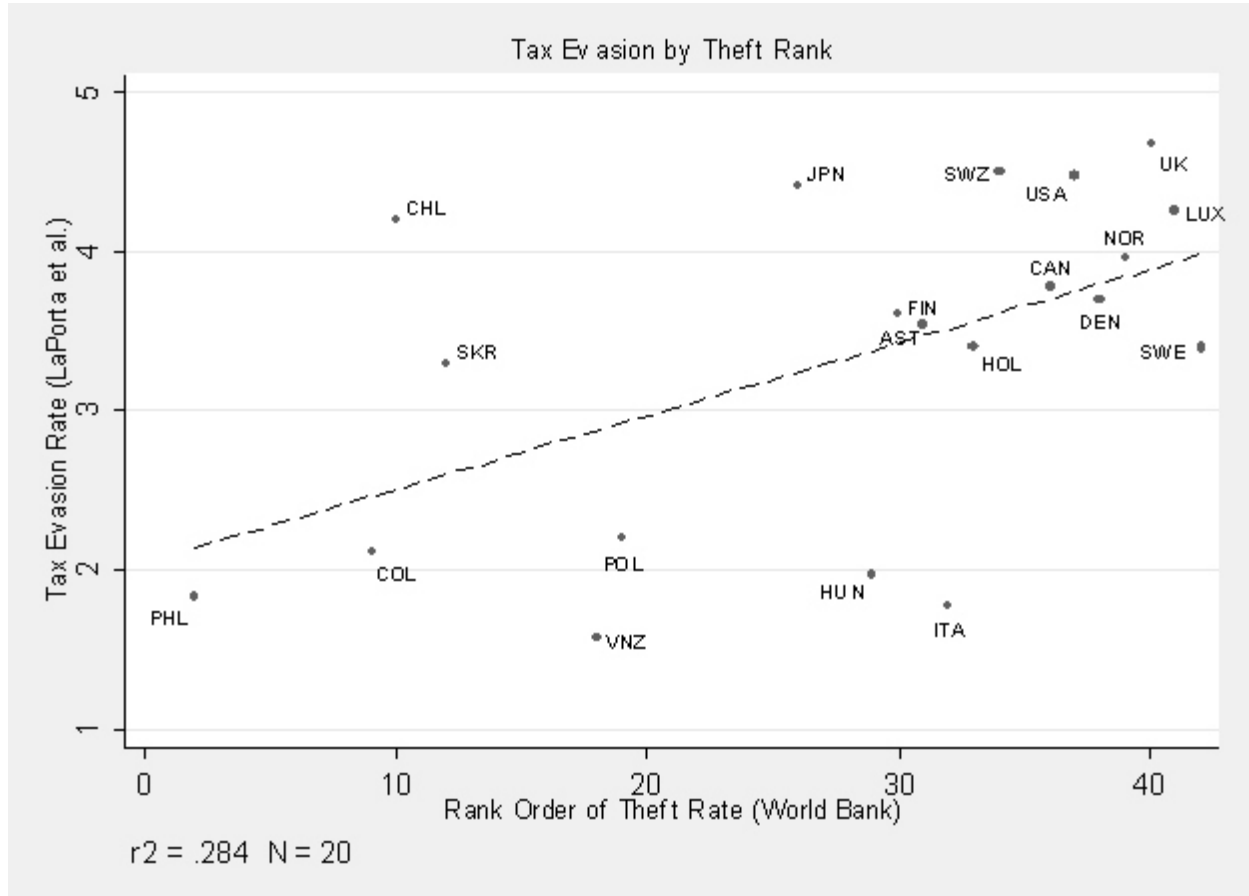
Figure 9





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Figure 11



Uslaner, "Tax Evasion, Trust, and the Strong Arm of the Law" (38)

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### NOTES

- \* I am grateful to the Starr Foundation, through the Institutional Research and Exchanges Board of the United States Department of State for a grant in conjunction with Paul Sum of the University of North Dakota, Gabriel Badescu, Mihai Pisica, and Cosmin Marian, all of Babes-Bolyai University under the IREX Caspian and Black Sea Collaborative Program (2001). I am also grateful to the Russell Sage Foundation and the Carnegie Foundation for a grant under the Russell Sage program on The Social Dimensions of Inequality (see [http://www.russellsage.org/programs/proj\\_reviews/social-inequality.htm](http://www.russellsage.org/programs/proj_reviews/social-inequality.htm)) and to the General Research Board of the Graduate School of the University of Maryland—College Park. Some of the data reported here come from the Inter-University Consortium for Political and Social Research (ICPSR), which is not responsible for any interpretations. I am also grateful to Meril James, Secretary-General of Gallup International, for sharing the Gallup Millennium surveys. Most of the arguments here come from Uslaner (2002). Many conversations with Gabriel Badescu and Bo Rothstein helped shape my thinking. They are absolved of any responsibility for my claims.
1. The countries Slemrod (2001) includes are Argentina, Austria, Belgium, Canada, Chile, Denmark, Finland, France, West Germany, Iceland, India, Ireland, Italy, Japan, (Republic Of) Korea, Mexico, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.
  2. LaPorta et al. (1998) report that the data (for 1995) are scaled from 0 to 6, where higher scores indicate higher compliance. Their source is the World Economic Forum’s Global Competitiveness Report 1996.

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3. Hardin (2002) sees strategic trust as knowledge, rather than action. Moralistic trust, in contrast, must also take action into account. What sense would it make to say that we need only *think about* doing unto others as they do unto us?
4. The original trust in people scale designed by Rosenberg (1956; cf. Brehm and Rahn, 1997) included a question of whether people were basically fair or would try to take advantage of you. The two ideas are related in the General Social Survey (tau-b = .421, gamma = .763), though they are clearly not the same thing. Almost 20 percent more people say that “most people are fair” (61.5 percent) than agree that “most people can be trusted” (42.5 percent). People who think that others will try to take advantage of you are almost certain (83.8 percent) to distrust others. But agreeing that most people are fair is no guarantee to say that most people can be trusted: Only 59 percent of people who say that people are fair trust others.
5. This paragraph summarizes findings in Uslaner (2002, chs. 5, 6, 7, and 8).
6. Others who see trust as knowledge-based—notably Dasgupta (1988, 53), Hardin (2002), and Misztal (1996, 121-123)—argue that it is *based upon* reputation.
7. Scholz and Lubell (1998) call the question asking whether most people pay their taxes fairly as “trust in people” (even though it is really about strategic trust) and their question on moral obligations to pay taxes “citizen duty” even though it is closer to moralistic trust.
8. The survey was conducted with Gabriel Badescu of Babes-Bolyai University, Cluj-Napoca, Romania and Paul Sum of the University of North Dakota. Our 2001 survey is

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part of a larger project funded by the Starr Foundation through the International Research and Exchanges Board (IREX) Caspian and Black Sea Collaborative Program (2001). We also conducted surveys of the mass public in Moldova and of organizational activists in Romania and Moldova using an expanded version of the Citizenship Involvement Democracy (CID) common core questionnaire. See the CID web page at <http://www.mzes.uni-mannheim.de/projekte/cid/>. See a description of our research project at <http://www.irex.org/programs/black-caspian-sea/grantees01-02.htm>, and at <http://www.policy.ro>.

9. The toleration of different races factor represents permitting people of opposite races, Gypsies, Jews, and Hungarians to hold meetings and accepting them as neighbors. The government trust factor is a summary of trust in politicians, the courts, the civil service, the Cabinet, political parties, municipal authorities, and the police.
10. The effects are estimated with the Stata ado file, oprobpr.ado.
11. Membership in civic associations is significantly related to the obligation to pay taxes, but its effect is small: 4.2 percent. If everyone belonged to 10 groups, the effect would be powerful indeed: Membership in 10 groups translates into a 26 percent change in the obligation to pay taxes. But only *one* person in our sample belonged to 10 organizations. And the actual level of group membership has much smaller effects. Attachment to religion also matters, as does tolerance for people of different races. Age is not significant.
12. All of the surveys use the standard trust question, “Generally speaking, do you believe that most people can be trusted, or can’t you be too careful in dealing with people?” For an

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explication of why this question works well, see Uslaner (2002, ch. 3).

13. This variable and the primary education measure come from the Barro-Lee (1994) data set (located at <http://www.nber.org/pub/barro.lee/ZIP/BARLEE.ZIP>).
14. Respondents to the World Values Survey outside the two blocs have less structured explanations. The mean (aggregate) correlation for countries outside the two blocs for cheating on taxes and confidence in the legal system is .026, compared to .10 for both the East and West blocs.
15. The property rights measure and marginal tax rates come from LaPorta *et al.* (1998); the income tax rate was computed by the investment and consulting firm Price Waterhouse Coopers and is available as part of the World Bank Unofficial Economy data set at <http://www.worldbank.org/wbi/governance/data.html#unofficial>.
16. The Gini indices are taken from Deininger and Squire (1996), using the best available measures for the years closest to the generalized trust measure for each country. See Uslaner (2002, ch. 8) for an explication. The Gallup Millennium survey was provided by Meril James of Gallup International.
17. The theft rate data were provided by Daniel Lederman of the World Bank.