

CULTURAL ROOTS OF TAX EVASION: A CROSS-COUNTRY STUDY

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Abstract: *Tax evasion remains a persistent challenge with major implications not only for national budgets but also for the development of a fair and functional society. This paper explores tax evasion through the lens of cultural, psychological, and institutional variables, with a specific focus on post-communist countries. Our research is grounded in the hypothesis that historical context, low trust in public institutions, and a legacy of informal practices visibly influence tax morale and the willingness to comply with fiscal obligations. To test this, we conducted a comparative analysis using one group as representative of post-communist states and another one as non-communist. The study is also supported by an empirical investigation. We analyzed and collected data from participants using a mixed method, combining descriptive statistics and regression models.*

Keywords: *tax compliance behavior, tax evasion, tax morale, history and influences on tax attitudes, tax perception*

JEL Classification: *H26; H71; H30;*

1. Introduction

Taxation serves as a crucial pillar in the structure of an economy. Tax evasion remains a critical issue, as it undermines the efficiency of tax administration and it impacts not only the cost of collecting taxes but also the way that the tax burden is distributed and can be understood as a violation of public trust, where individuals or entities intentionally cheat tax authorities to evade their responsibilities to society (Smith, 1776).

Tax morale—described as the intrinsic motivation to pay taxes—has an important role in the functioning of a taxation system. (Torgler, 2007). In Eastern Europe, historical and institutional legacies from communism—such as state inefficiency and public distrust—continue to impact tax morale and evasion rates. The two essential components of a modern and effective tax system—self-filing and voluntary compliance—were clearly absent after the collapse of socialism (Martinez-Vazquez & McNab, 2000).

This paper investigates tax evasion in post-socialist Eastern European countries, emphasizing how historical and institutional factors continue to shape compliance attitudes in transitional economies.

2. Theoretical Framework

The theoretical foundation draws from new institutional economics theory, which posits that institutional quality fundamentally shapes economic behavior and outcomes. This study builds upon North's (1990) framework of institutional constraints and Acemoglu and Robinson's (2012) distinction between inclusive and extractive institutions. North's framework helps explain why institutional quality is a key determinant of tax behavior. By influencing both the costs and benefits of compliance and evasion, institutions effectively shape the strategic choices taxpayers make—either reinforcing a culture of compliance or enabling a norm of avoidance. Path dependence represents a central concept in understanding post-communist taxation challenges. North's institutional theory emphasizes that historical experiences create lock-in effects that constrain future institutional development. Post-communist societies experienced what Acemoglu and Robinson (2012) characterize as extractive institutional arrangements, where political and economic institutions served elite interests rather than broad-based development. These extractive legacies create persistent effects on citizen attitudes toward state authority and tax obligations. The concept of institutional complementarity explains why multiple institutional weaknesses cluster together in post-communist contexts.

3. Literature Review: Tax Evasion and Compliance Behavior

3.1 The Role of Social Norms, Tax Morale and Fairness

Academic research investigating tax evasion and compliance behaviors has evolved beyond purely economic explanations, now recognizing that social norms and psychological factors play crucial roles in determining whether individuals fulfill their tax obligations. The decision to evade taxes is not only based on a rational calculation of costs and benefits, as suggested by the traditional deterrence model (Allingham, Sandmo, 1972).

Social norms operate as critical mediating mechanisms linking institutional characteristics to individual compliance behavior (Kirchler, 2007). Descriptive norms reflect perceived behavioral prevalence, where beliefs about widespread evasion ("everyone evades taxes") create social validation for non-compliance (Cialdini et al., 1991). Injunctive norms embody moral prescriptions establishing compliance as civic duty (Wenzel, 2004). These norms interact reciprocally: erosion of injunctive norms weakens descriptive compliance, while perceived widespread evasion undermines moral obligations, creating potential downward spirals in compliance cultures.

Tax morale emerges from this normative foundation, reflecting dynamic assessments of institutional reciprocity—the perceived balance between citizen contributions and state provisions (Lomsadze, 2021). This reciprocity principle explains systematic variations across political systems, with post-communist societies often exhibiting lower baseline levels due to historical experiences of state dysfunction. Trust in the state—particularly the belief that taxes are spent efficiently and equitably—strengthens tax morale (Kirchler & Wahl, 2008). If individuals believe that the tax system is just, transparent, and equitable, they are more likely to comply

(Torgler & Schneider, 2009). "Taxpayers will feel cheated if they believe that corruption is widespread and their tax burden is not spent well" (Torgler, 2011, p. 26).

Fairness perceptions function as proximate predictors of tax morale through three interconnected dimensions. Distributive fairness concerns equitable burden allocation, triggering social comparison processes when violated. Procedural fairness encompasses transparency and consistency in tax administration, influencing institutional trust. Interactional fairness involves respectful treatment by authorities, affecting emotional responses to compliance encounters. These forms of unfairness affect individuals differently: distributive injustice can lead to feelings of deprivation, procedural injustice erodes trust in legitimacy, and interactional injustice triggers negative emotions that may foster anti-system sentiments.

3.2 Psychological Mechanisms and Cognitive Biase

Individual compliance decisions occur within institutional contexts but are further shaped by systematic cognitive biases that interact with institutional quality. Prospect Theory, introduces (Kahneman & Tversky, 1979) loss aversion, the idea that people are more motivated to avoid losses than achieve gains. In this context, taxes are perceived as a loss, particularly in countries where citizens distrust government spending and this perception increases the idea of evasion.

Optimism bias leads to systematic underestimation of detection probability. Weinstein (1980) found that individuals consistently underestimate their risk of detection. In countries with historically weak tax enforcement, like many post-communist states, this bias can reinforce non-compliance.

Moral disengagement, a concept developed by Bandura (1999), describes how individuals justify unethical behavior by distancing themselves from moral standards. In the context of taxation, taxpayers may rationalize evasion by blaming government corruption ("They waste public money anyway"), minimizing their own impact ("One person won't make a difference"), or shifting responsibility ("Everyone does it").

These mechanisms interact dynamically: weak institutional legitimacy erodes injunctive norms, increasing descriptive norm perception of evasion, activating optimism bias, and facilitating moral disengagement. Cross-cultural research reveals systematic variations—Nordic countries with high institutional trust maintain strong injunctive norms despite lenient enforcement, while post-communist societies demonstrate particular vulnerability to moral disengagement due to historical legitimacy deficits.

3.3 From Control to Collapse—Historical Legacies and Institutional Transitions

Post-communist countries experienced an unprecedented institutional disruption through abrupt shifts from centralized to market economies, causing economic instability, hyperinflation, and institutional weakness. Romania and Bulgaria, for example, faced inflation rates over 200% in the early 1990s and severe financial crises (Charles, S., 2017). Weak rule of law institutions, characterized by slow judicial processes and normalized corruption across governmental levels, created environments where institutional trust could not develop organically. These historical

conditions established deep-rooted distrust in governmental authority that continues to undermine tax morale decades after initial transition. Trust in government—recognized as foundational for voluntary tax compliance—remains fragile in these societies (Mongelli, 2004). Contemporary challenges reflect these persistent legacies, as illustrated by observations that corruption control represents "the key to everything that is going on now in Romania" (Andreev, 2009, as cited in Torgler, 2011, p. 378).

4. Research Design and Data

4.1 Methodological Framework

This study employs a quantitative comparative case study design examining institutional quality differences between post-communist countries (Romania and Bulgaria) and established Western democracies (France and Ireland). The research utilizes Lijphart's (1971) most different systems design to isolate institutional variables while controlling for confounding effects. This methodological approach is particularly appropriate for investigating how historical institutional legacies influence contemporary governance outcomes and, by extension, tax compliance behaviors. The selection criteria prioritized: (1) sufficient data availability across all institutional indicators, (2) comparable development levels within regional contexts, and (3) representation of distinct historical-institutional trajectories that theoretically influence tax compliance behavior.

4.2 Data Sources and Indicators

Secondary data were obtained from World Bank Worldwide Governance Indicators and The Global Economy Database. Seven institutional indicators were selected based on theoretical relevance to tax compliance: Government Effectiveness, GINI Inequality Index, Corruption Perception, Informal Economy, Rule of Law, Uneven Economic Development, and Public Services. These indicators capture different dimensions of institutional quality relevant to tax compliance. Government Effectiveness measures administrative capacity and policy implementation quality. Corruption Perception reflects institutional integrity and trust. Rule of Law captures legal institutional strength and predictability. Public Services quality measures state capacity for service delivery. The Informal Economy indicator reflects the extent of economic activity outside formal institutional frameworks, serving as a proxy for institutional effectiveness in economic governance. All indicators utilize standardized ranking scales (1 = best performance, 27 = worst performance) enabling direct cross-country comparisons and quantitative analysis.

5. Statistical Methods

5.1 Econometric Model

The analysis employs a random-effects generalized least squares (GLS) regression model to account for unobserved heterogeneity between country groups: $Y_{it} = \alpha + \beta X_{it} + u_i + \varepsilon_{it}$

Where Y_{it} represents institutional quality indicators, X_{it} denotes country group membership, u_i captures country-specific random effects, and ε_{it} represents idiosyncratic error terms.

5.2 Testing Procedures

Statistical analysis incorporates multiple analytical approaches to ensure robust findings. Descriptive statistics and two-sample t-tests assuming unequal variances to test group mean differences, Pearson correlation coefficients to examine relationships among institutional variables. Model diagnostics include F-tests for random effects significance and variance component analysis to assess the proportion of variance attributable to systematic group differences versus random variation.

6. Statistical Results

6.1. Model Diagnostics

The random-effects GLS regression incorporates 14 observations across 2 country groups with strong model performance. Key diagnostic statistics include: correlation between random effects and predicted values ($\text{corr}(u_i, Xb) = 0.67$), overall model significance ($\text{Prob} > F = 0.0000$), variance components ($\sigma_u = 2.11$, $\sigma_e = 3.79$), intraclass correlation coefficient ($\rho = 0.236$), and random effects significance test ($F(6,7) = 5.42$, $\text{Prob} > F = 0.0012$).

6.2 Comparative Institutional Analysis and Statistical Analysis Results

Tabel 1. Institutional Quality Indicators by Country

Indicator	Romania	Bulgaria	France	Ireland
"Government effectiveness"	27	26	10	6
"Gini inequality index"	20	27	11	14
"Corruption perception"	25	26	11	6
"Informal Economy"	20	26	5	4
"Rule of law"	22	27	12	6
"Uneven Econ. Development"	26	27	14	6
"Public Services"	27	24	5	10

Source: Author

Preliminary analysis of these indicators reveals a distinct pattern. Romania and Bulgaria consistently exhibit higher (worse) rankings across most indicators, suggesting lower institutional trust, higher perceived corruption, and weaker public service systems. This aligns with the expectation that legacies of communism and

subsequent transitions impact institutional quality. Conversely, France and Ireland demonstrate more favorable rankings for all indicators.

Table 2. Random-Effects GLS Regression

corr(u_i, Xb) = 0.67 Prob > F = 0.0000

Indicator Std. Dev.2	T	Mean1 P> t	Variance1	Std. Dev.1	Mean2	Variance2
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Govern. effect. 26.5	0.5	0.71	8	8	2.83	8.974
GINI index	23.5	24.5	4.95	12.5	4.5	2.12
Corrupt percep. 25.5	0.5	0.71	8.5	12.5	3.54	6.668
Informal Econ.	23	18	4.24	4.5	0.5	0.71
Rule of law	24.5	12.5	3.54	9	18	4.24
Uneven Econ.Dev 26.5	0.5	0.71	10	32	5.66	4.093
Public Services 25.5	4.5	2.12	7.5	12.5	3.54	6.174

Pearson Correlations:

Gov. Eff. / GINI = 0.84577

Corruption / Informal Economy = 0.96940

Public Services / Uneven Econ. = 0.85461

sigma_u | 2.11

sigma_e | 3.79

rho | 0.236 (fraction of variance due to u_i)

F test that all u_i = 0: F(6, 7) = 5.42 Prob > F = 0.0012

Random-effects GLS regression Number of obs = 14

Group variable: country_group Number of groups = 2

**Significant at p < 0.05, -1 (perfect negative correlation) to +1 (perfect positive correlation), with 0 indicating no correlation*

Source: Author

The descriptive statistics reveal consistent patterns of institutional under-performance in post-communist countries across all seven indicators. Mean differences range from 11.0 points (GINI Inequality) to 18.5 points (Informal Economy), representing substantial effect sizes that exceed one standard deviation in most cases. These large effect sizes suggest practically significant institutional gaps beyond statistical significance considerations.

Post-communist countries show higher institutional dysfunction scores, with means scores from 23.0 to 26.5 compared to another group ranging from 4.5 to 12.5. The high differences provide empirical evidence for persistent institutional legacy effects, suggesting that three decades of post-communist transition have not eliminated fundamental institutional gaps.

7. Interpretation and Discussion

7.1 Model Performance and Group Effects

The random-effects GLS model demonstrates strong explanatory power with 67% correlation between composite errors and predicted values. The intraclass correlation coefficient ($\rho = 0.236$) indicates that 23.6% of total variance is attributable to systematic country-group differences, providing empirical support for historical-institutional legacy effects. The significant random effects test ($p = 0.0012$) confirms systematic institutional differences between post-communist and non-communist countries beyond random variation.

7.2 Institutional Legacy Effects

Post-communist countries exhibit consistently inferior institutional performance across all indicators, with effect sizes ranging from 11.0 to 18.5 points. Public Services achieves statistical significance ($p = 0.0400$), while Government Effectiveness ($p = 0.0553$), Corruption Perception ($p = 0.0828$), Informal Economy ($p = 0.0948$), and Rule of Law ($p = 0.0611$) approach marginal significance. The magnitude of observed differences exceeds what might be expected from temporary transition costs or short-term adjustment challenges. These substantial differences persist three decades after communist system collapse, providing strong empirical support for institutional path dependence theories emphasizing the persistence of historical legacies.

7.3 Institutional Clustering and Complementarity Effects

High intercorrelations among institutional variables provide empirical evidence for institutional complementarity theory. The exceptionally strong correlation between corruption perception and informal economy ($r = 0.969$) demonstrates near-perfect association, supporting theoretical predictions linking institutional trust to tax compliance behavior. Government effectiveness strongly correlates with income inequality ($r = 0.846$), while public services correlate with uneven development ($r = 0.855$), indicating that institutional deficiencies cluster systematically rather than occurring independently.

7.4 Supporting Empirical Evidence - Path Dependence

The relevance of this comparative framework receives support from prior empirical studies examining tax morale in Eastern European contexts. Torgler (2011) documents persistently low tax morale in Romania and Bulgaria between 1999 and 2008, with Romania exhibiting the lowest scores among Eastern European countries. Using Wilcoxon rank-sum tests, Torgler identified significant tax morale declines in 7 of 10 examined countries, including Romania, while some countries like Hungary demonstrated improvement over the same period. Despite various reform efforts, Bulgaria similarly lagged behind regional averages.

These empirical findings highlight the critical relationship between corruption control, institutional effectiveness, and citizen attitudes toward taxation. As Uslaner (2007, p. 36, as cited in Torgler, 2011) observes, "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," illustrating how institutional performance directly affects tax morale and compliance behavior.

The systematic clustering of institutional weaknesses in post-communist countries supports path dependence theory, suggesting that historical legacies create persistent institutional patterns transcending individual country characteristics. The near-perfect correlation between corruption and informal activity particularly supports fiscal psychology theories linking institutional trust to voluntary tax compliance.

These findings suggest that improving tax compliance in post-communist contexts requires comprehensive institutional reforms addressing governance effectiveness, corruption control, and public service quality.

8. Survey Analysis of Tax Morale and Perception

8.1 Methodology

A structured survey captured individual-level perceptions on tax compliance and institutional trust, distributed online between March 15-April 15, 2025, using convenience and snowball sampling. The sample comprised 65 respondents from eight countries: post-communist (Hungary, Romania, Bulgaria, Poland; $n=37$) and non-communist (France, Ireland, USA, Netherlands; $n=28$). The survey employed 5-point Likert scales measuring tax system fairness, government trust, perceived evasion prevalence, compliance attitudes, and hypothetical evasion behavior.

The following hypothesis guided the analysis:

Q₁: Which statement best reflects your view on tax compliance?

Q₂: How common do you think tax evasion is in your country?

Q₃: If you had the opportunity to evade taxes without legal consequences, would you?

8.2 Statistics, Results and Interpretations

Table 3. Descriptive Statistics

Dimension	Post-Communist	Non-Communist
Tax System Fairness	M=4.30 (SD=0.70)	M=2.11 (SD=0.79)
Government Trust	M=2.78 (SD=0.42)	M=1.68 (SD=0.72)
Perceived Evasion	M=3.57 (SD=0.55)	M=1.93 (SD=0.72)

Source: Author; Higher scores indicate more negative perceptions

Post-communist respondents consistently report lower fairness, trust, and higher perceived evasion, with differences exceeding two scale points on fairness measures.

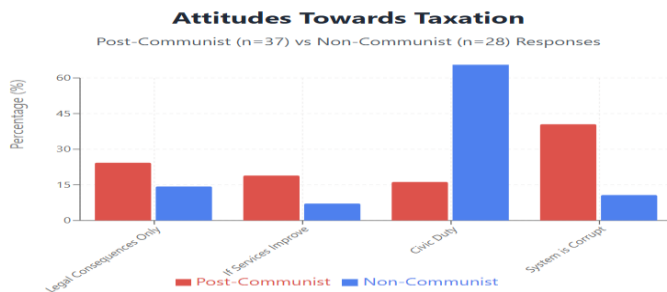


Figure 1. Tax Compliance Attitudes

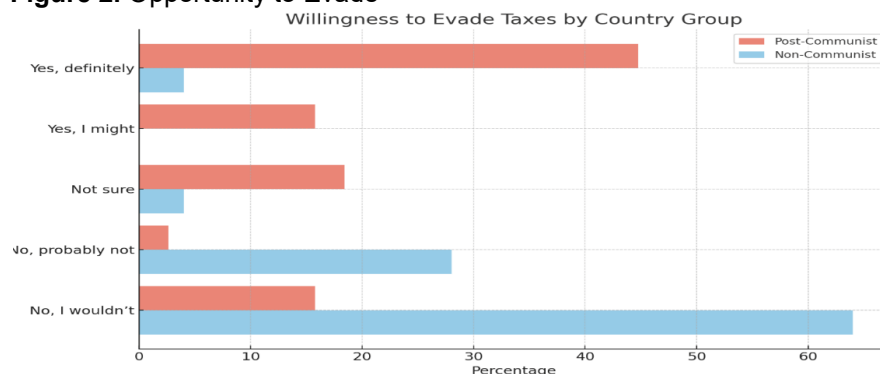
Source: own calculations

Table 4. Partial Results

Civic Duty	Non-communist respondents show much higher rates (67% vs 16% post-communist) of viewing tax payment as a civic duty
Corruption Concerns	40.5% believe system is corrupt (vs 10.7% non-communist) - nearly 4x higher

Source: own calculations

Figure 2. Opportunity to Evade



Source: own calculations

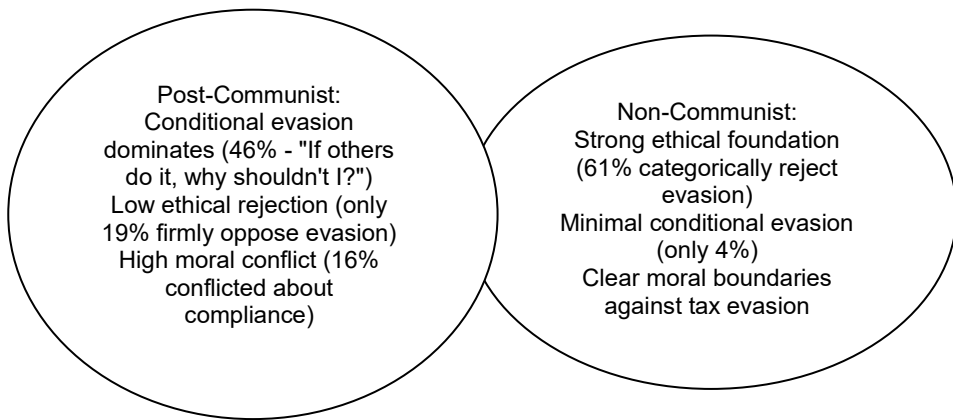


Figure 3. Visualization of clusters

Source: own calculations

The key findings reveal post-communist respondents view compliance instrumentally (corruption, consequences, conditions), while non-communist respondents embrace normative civic duty). Complete attitude reversal - post-communist respondents most likely to conditionally evade (46%) vs. non-communist most likely to categorically reject evasion (61%), and non-communist respondents show much higher rates of viewing tax payment as a civic duty.

Countries with stronger institutions and higher trust elicit higher tax morale. In practical terms, respondents from well-governed, non-communist contexts expressed a strong sense of duty and reported more voluntary compliance, whereas lower-trust environments breed conditional attitudes and reliance on deterrence.

8.3 Integration with Macro-Level Data

Survey findings align remarkably with objective institutional quality indicators. Country-level data reveals systematic differences: post-communist countries (Romania, Bulgaria) consistently exhibit worse institutional rankings across all seven indicators, with Government Effectiveness scores of 26-27 versus 6-10 for non-communist countries (France, Ireland).

Random-effects GLS regression confirms these groups differences are statistically significant ($F=8.974$, $p=0.0553$ for Government Effectiveness; $F=6.174$, $p=0.0400$ for Public Services). The substantial difference in perceived tax fairness (4.30 vs 2.11) directly correlates with objective Government Effectiveness performance ($M=26.5$ vs $M=8.0$). High correlations between corruption perception and informal economy ($r=0.97$) and between government effectiveness and inequality ($r=0.85$) demonstrate institutional coherence within country groups.

This convergence between individual perceptions and institutional quality measures validates both measurement approaches and confirms that citizens' tax morale accurately reflects underlying governance realities, supporting theories linking institutional quality to civic attitudes.

9. Limitations and Future Research

The analysis is constrained by limited sample size ($N = 4$) affecting statistical power, cross-sectional design preventing temporal analysis, and reliance on perception-based indicators potentially introducing cultural biases. The convenience sampling method and small sample size ($n=65$) limit generalization. Future research should employ probability sampling, larger samples, and longitudinal designs to confirm these preliminary findings.

10. Conclusions

Despite certain limitations, the alignment between individual-survey data responses and country-institutional indicators provides confidence in observed trends. The findings highlight effects of historical institutional legacies on tax morale and underscore the critical importance of governance quality and social norms in fostering voluntary tax compliance. Results suggest that post-communist countries require comprehensive institutional reforms addressing trust and legitimacy, not merely enforcement mechanisms, to achieve sustainable improvements in tax compliance. The goal of this research was to assess the relationship between cultural factors, institutional trust, and tax evasion in post-communist and non-communist countries. The results highlight a relevant difference in tax morale and tax compliance between these two groups.

Findings support the hypothesis that the historical legacy of the socialist regime, characterized by high corruption and economic issues from the transition period, continues to affect citizens' trust in government institutions.

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