TAX EVASION & SOCIAL NORMS
DEAR COLLEAGUE,

We cordially welcome you to the international conference The Shadow Economy, Tax Evasion and Social Norms. We hope you will find the conference intellectually stimulating and enjoyable with respect to the social program. Almost 100 submissions were sent to us and about 60 papers will be presented at the conference. Papers cover a wide range of aspects within the main conference topics, but also in related areas such as corruption and social benefit fraud.

We are delighted that keynote addresses will be given on highly relevant topics by James Alm, Axel Dreher, John Duffy and Friedrich Schneider.

Without our sponsors, The University of Münster, The Münster School of Business Administration and Economics and The Institute of Public Economics we would have been unable to organize this event and, therefore, we highly appreciate their support.

Finally, without the administrative assistance of Tina Althoff, Korbinian von Blanckenburg, Henrike Feuerstein, Manfred Gäbler, Andreas Hadamitzky, Sascha Hokamp, Rosi Ji, Thomas Krauskopf, Magdalena Mai, Gabriele Musiolik, Clara Selina Reinicke and Sebastian Schleich we would not have been able to run this conference.

With all good wishes,
Michael Pickhardt and Aloys Prinz

Conference Organizers
Important Information

HOMEPAGE
http://www.wiwi.uni-muenster.de/shadow2009/

PHONE NUMBERS
Please note that the number you need to dial depends on the type of phone you are using. If you use your mobile (cell phone) dial the full number including the numbers in parenthesis (i.e., including 049). If you call from a public phone within Germany, but outside Münster, dial the number without (049). If you call from a public phone within Münster just use the bold numbers.

CONFERENCE REGISTRATION DESK
(Room: Landois, Mercure Conference Hotel)
Mr. Korbinian von Blanckenburg: 0(049)173-2122637
Mr. Sascha Hokamp: 0(049)170-3521502

BACK OFFICE
Mr. Andreas Hadamitzky
Institute of Public Economics
Wilmergasse 6-8
48143 Münster
0(049)251-8322875
0(049)176-64010431

CONFERENCE VENUES
On Thursday, July 23, the welcome reception takes place at:
University Castle, Aula (Main Entrance, turn left, first floor)
Schloßplatz 2
48149 Münster
0(049)1732122637
0(049)1703521502

On Friday and Saturday, July 24-25, the conference takes place at:
Mercure Conference Hotel Münster
Engelstrasse 39
48143 Münster
0(049)251-41710

On Friday, July 24, the gala conference dinner takes place at:
Zwei-Löwen-Klub (Two-Lions-Club)
Am Kanonengraben 9
48151 Münster
0(049)251-532715

EMERGENCY NUMBERS
Police 110
Medical Help 0(049)251-19292
Emergency Help 112

TRANSPORTATION
Taxi 0(049)251-60011

NAME BADGES
Your personal badge is your entrance ticket to all sessions, keynotes and meals. Please remember to wear your badge at all times during the conference, the gala conference dinner and the social events.

COFFEE BREAKS AND MEALS
Coffee and tea will be served during the designated coffee breaks along the concourse / foyer of the Mercure Conference Hotel Münster. Lunch will be served on Friday and Saturday at 12h30, in the Mercure restaurant area.

The gala conference dinner will be held in the Zwei-Löwen-Klub (Two-Lions-Club) on Friday, July 24, at 20h00. The Zwei-Löwen-Klub (Two-Lions-Club) is located in about 5 to 10 minutes walking distance from the Mercure Conference Hotel, at “Am Kanonengraben 9”. It is a larger brick building with two large white entrance doors guarded by two lions (set in stone). These meals are included in the registration fee, but please make sure that you wear your name badge.

INFORMATION FOR PAPER PRESENTERS AND SESSION CHAIRS
Each paper has a total time slot of 30 minutes. We suggest that about 20 minutes are used for the presentation, about 5 minutes for the discussant and 5 minutes for questions from the floor.

Please keep the order of presentations to allow participants to switch between sessions. Paper presenters should make sure that their presentation is uploaded on the computer in the room where the presentation takes place. However, you may also use overhead transparencies.
Please contact the registration desk (Room: Landois), if you have any technical problems.
MONEY
Germany is a part of the euro zone. Money can be withdrawn from the many Automatic Teller Machines (ATM’s) that are located throughout the city and are accessible 24 hours per day. Most banks are open from Monday to Friday between 9 am and 4 pm. On Saturdays and Sundays banks are closed. All major credit cards are accepted widely, but not everywhere.

ELECTRICITY
The voltage in Germany is 220 volts. Hotels may have a 110-volt or 120-volt outlet for shavers. Depending on your country of residence, you may wish to bring along a universal travelers’ plug.

LANGUAGE
German is the national language of Germany. However, almost everyone speaks English, and many people speak some French, Spanish or Russian.

TIME
Germany is in the Central European Time Zone.

SMOKING
Smoking is prohibited in public buildings, pubs and restaurants, except for designated smoking areas. Please note that smoking is strictly prohibited at all three conference venues.

TIPPING
Value Added Tax and service charges are included in your check / bill in hotels, shops, taxis and restaurants. Tipping is always appreciated, but not necessary. It is customary to give taxi drivers and waiters a tip of around 10 percent, if the bill is around 50 Euro or below.

INTERNET AND COMPUTER ACCESS
Free internet access is available on a limited number of laptops in the registration office (Room Landois) at the Mercure Conference Hotel. Ask at the registration desk for a user ID and a password. Please limit your access to no more than 15 minutes, if demand is high. If you have your own laptop with you, please ask at the Hotel reception for individual access codes (available for hotel guests and conference participants at a small fee).

THE SCHEDULE

The schedule is based on a 24h clock, where o00h to 12h00 corresponds to ‘am’ and 13h00 to 24h00 corresponds to ‘pm’.

**Thursday, July 23**
- 17h00 – 18h00: Registration (University Castle, Aula)
- 18h00 – 18h15: Opening of Conference and Welcome Addresses (University Castle, Aula)
- 18h15 – 20h00: KEYNOTE ADDRESS / Friedrich Schneider (University Castle, Aula)
- 20h45 – 24h00: Welcome Reception (University Castle, Aula)

**Friday, July 24**
- 9h00 – 10h30: Parallel Sessions A1 - A4 (Mercure Conference Hotel)
- 10h30 – 11h00: Coffee Break / Mercure Foyer
- 11h00 – 12h30: Finger Food Lunch / Mercure Restaurant
- 12h30 – 14h00: Parallel Sessions B1 - B4 (Mercure Conference Hotel)
- 14h00 – 15h30: Coffee Break / Mercure Foyer
- 15h30 – 16h00: KEYNOTE ADDRESS / James R. Alm (Mercure Conference Hotel)
- 16h00 – 17h30: Gala Conference Dinner / Zwei- Löwen-Klub (Mercure Conference Hotel)

**Saturday, July 25**
- 9h00 – 10h30: Parallel Sessions C1 - C4 (Mercure Conference Hotel)
- 10h30 – 11h00: Coffee Break / Mercure Foyer
- 11h00 – 12h30: Finger Food Lunch / Mercure Restaurant
- 12h30 – 14h00: Parallel Sessions D1 - D4 (Mercure Conference Hotel)
- 14h00 – 15h30: Coffee Break / Mercure Foyer
- 15h30 – 16h00: Parallel Sessions E1 - E4 (Mercure Conference Hotel)
- 16h00 – 17h00: The Münster Harbor Tour (Meet at Mercure Conference Hotel Entrance)

**Sunday, July 26**
- 10h30 – 12h30: Guided Münster Walking and Sight Seeing Tour, Historical City Center (Meet at Mercure Conference Hotel Entrance)
- 12h30 – 14h00: Lunch at Leisure alongside Lake Aa

**Option 1**
- 14h00 – 14h30: Boat Cruise on Lake Aa to Münster Zoo
- 14h30 – 16h30: Visit to Münster Zoo
- 16h30 – 17h00: Boat Cruise on Lake Aa back to City Center

**Option 2**
- 14h00 – 16h00: Visit to Pablo Picasso Museum Münster
THURSDAY, JULY 23

17h00 – 18h00  Registration (University Castle, Aula)

18h00 – 18h15  Opening of Conference and Welcome Addresses (University Castle, Aula)

18h15 – 20h00  KEYNOTE ADDRESS (University Castle, Aula)

Friedrich Schneider, University of Linz, Austria
The Morals of (not) Paying Taxes - Economic, Institutional and Psychological Factors

20h00 – 21h00  Welcome Reception (University Castle, Foyer)

20h45 – 24h00  Guided Pub Crawl tour

“Explore Münster in the Shadow of the Night”

The tour will take place in small groups. Participants will be assigned to groups when they register. All groups will be guided by locals so that you all get to restaurants and pubs, which you normally may not find.

Meeting points will be in the University Castle, Foyer, in the reception area, starting at about 20h45.

FRIDAY, JULY 24

9h00 – 10h30  PARALLEL SESSIONS A (Mercure Conference Hotel)

A1  TAX EVASION I – Experiments I (Room: Monasterium I)

SESSION CHAIR: Erich Kirchler

Miguel Sanchez Villalba (University of Alicante):
Tax Evasion as a Global Game (TEGG) in the Laboratory
DISCUSSANT: Cécile Bazart

Cécile Bazart (University of Montpellier I) / Marc Willinger (University of Montpellier I):
Tax Evasion: Presumption of Innocence, Presumption of Guilt
DISCUSSANT: Erich Kirchler

Erich Kirchler (University of Vienna):
The “Slippery Slope Model” – Explaining Two Routes to Tax Compliance
DISCUSSANT: Miguel Sanchez Villalba

A2  TAX EVASION II – Labour Market (Room: Monasterium II)

SESSION CHAIR: Lindsay Tedds

Edoardo di Porto (University of Turin) / Bruno Contini (University of Turin):
Audit, Tax Compliance and Irregular Work: The Italian Case
DISCUSSANT: Melanie Khamis

Melanie Khamis (Institute for the Study of Labor (IZA)):
Is Informal Sector Work an Alternative to Workfare Benefits? The Case of Pre-program Expansion
DISCUSSANT: Lindsay Tedds

Lindsay Tedds (University of Victoria):
Working Under the Table: A Study of Firms in Developing Countries that Employ Informal Workers
DISCUSSANT: Edoardo di Porto
A3  SHADOW I (Room: Bomberg)

SESSION CHAIR: Katarina Ott

Bas van Aarle (European Business School, Wiesbaden)
Eelke de Jong (European Business School, Wiesbaden)
Robert Sosoian (Price Waterhouse Coopers):
Effects of the Shadow Economy in Ukraine: An Analysis Using a Macroeconomic Model
DISCUSSANT: Philippe Adair

Philippe Adair (University of Paris)
Non-Observed Economy and Informal Employment in the European Union Countries:
A Comparative Analysis of Estimates and Determinants
DISCUSSANT: Andreas Buehn

Andreas Buehn (TU Dresden) / Friedrich Schneider (Johannes Kepler University of Linz):
Corruption and the Shadow Economy: A Structural Equation Model Approach
DISCUSSANT: Bas van Aarle

A4  CORRUPTION I (Room: Galen)

SESSION CHAIR: Lars Siemens

Francisco Azpitarte (University of Vigo):
Can the Perception of Corruption Constrain the Size of Governments?
DISCUSSANT: Grigory V. Kalyagin

Grigory V. Kalyagin (Lomonosov Moscow State University)
Vladimir V. Ivanov (Lomonosov Moscow State University):
Corruption and Judicial Independence
DISCUSSANT: Lars Siemens

Axel Dreher (Georg-August University Göttingen) / Lars Siemens (RWI Essen):
The Nexus Between Corruption and Capital Account Restrictions
DISCUSSANT: Francisco Azpitarte

10h30 – 11h00  Coffee Break (Mercure Foyer)
11h00 – 12h30  KEYNOTE ADDRESS
Axel Dreher, University of Göttingen, Germany and KOF, Switzerland
Institutions, Corruption and the Size of the Shadow Economy

12h30 – 14h00  Finger Food Lunch (Mercure Restaurant)

14h00 – 15h30  PARALLEL SESSIONS B (Mercure Conference Hotel)

B1  TAX EVASION III – Compliance (Room: Monasterium I)

SESSION CHAIR: Salmi Qari

Maurizio Bovi (Institute for Studies and Economic Analyses, Rome)
Peter Claeys (University of Barcelona):
Treasury vs Dodgers. A Tale of Fiscal Consolidation and Tax Evasion
DISCUSSANT: Alain Trannoy

Gwenola Trotin (University of Aix-Marseille II) / Alain Trannoy (University of Aix-Marseille II):
Do High Tax and Tax Evasion Go Along?
DISCUSSANT: Salmi Qari

Kai A. Konrad (WZB Berlin) / Salmi Qari (WZB Berlin):
The Last Refuge of a Scoundrel? Patriotism and Tax Compliance
DISCUSSANT: Peter Claeys

B2  TAX EVASION IV – Business (Room: Monasterium II)

SESSION CHAIR: Zhiyong An

Sebastian Eichfelder (Free University of Berlin) / Michael Schorn (Free University of Berlin):
Tax Compliance Costs: A Business Administration Perspective
DISCUSSANT: Lindsay Tedds

Lindsay Tedds (University of Victoria) / Ryan Compton (University of Manitoba) / Daniel Sandler (University of Western Ontario):
QUANTIFYING THE BENEFITS OF BACKDATING: A CANADA – US COMPARISON
DISCUSSANT: Zhiyong An

Zhiyong An (Central University, Beijing) / Tao Zhang (The People’s Bank of China, Beijing):
Are Foreign Investment Enterprises Responding to China’s New Corporate Income Tax Law by Income Shifting?
DISCUSSANT: Sebastian Eichfelder
Saturday, July 25
9h00 – 10h30 | PARALLEL SESSIONS C (Mercure Conference Hotel)

C1 TAX EVASION V – Firms and VAT (Room: Monasterium I)

SESSION CHAIR: Albert Braakmann
Alessandro Santoro (University of Milano-Bicocca):
The Cost of Disclosure in Tax Auditing: the Case of Italy
DISCUSSANT: Sevgi Ineci
Sevgi Ineci (Galatasaray University): VAT Evasion: VAT Losses Due to the Consumer and Supplier Incentives in the European Union
DISCUSSANT: Albert Braakmann
Albert Braakmann (Federal Statistical Office, Wiesbaden):
Smuggling and VAT-Evasion – A Challenge for Measuring Economic Growth
DISCUSSANT: Alessandro Santoro

C2 TAX EVASION VI – Theory (Room: Monasterium II)

SESSION CHAIR: Bernhard Neumärker
Rosaria M. Marino (Bank of Italy) / Roberta Zizza (Bank of Italy):
The Personal Income Tax Evasion in Italy: An Estimate by Taxpayer’s Type
DISCUSSANT: Joao Luis Brasil Gondim
Joao Luis Brasil Gondim (Toulouse School of Economics):
The Tax Compliance Game with Some Evasion-Averse Taxpayers
DISCUSSANT: Bernhard Neumärker
Bernhard Neumärker (University of Freiburg) / Gerald Pech (American University in Bulgaria):
Penalties in the Theory of Equilibrium Tax Evasion: Solving King John’s Problem
DISCUSSANT: Rosaria M. Marino

15h30 – 16h00 Coffee Break (Mercure Foyer)
16h00 – 17h30 KEYNOTE ADDRESS
James R. Alm, Georgia State University, USA
Designing Alternative Strategies to Reduce Tax Evasion
20h00 – 24h00 GALA CONFERENCE DINNER (Zwei-Löwen-Club)

The Zwei-Löwen-Club (Two-Lions-Club) is located in about 5 to 10 minutes walking distance from the Mercure Conference Hotel, at “Am Kanonengraben 9”. It is a larger brick building with two large white entrance doors guarded by two lions (set in stone).
lory Barile (University of Genoa and CER):
Firms’ Tax Evasion: An Experimental Approach
DISCUSSANT: Cécile Bazart

Cécile Bazart (University of Montpellier I) / Michael Pickhardt (University of Münster):
Fighting Income Tax Evasion with Positive Rewards: Experimental Evidence
DISCUSSANT: Stephan Mühlbacher

Barbara Kastlunger (University of Vienna) / Stephan Mühlbacher (University of Vienna) / Erich Kirchler (University of Vienna) / Luigi Mittone (University of Trento):
An Experiment on Rewarding Honest Taxpayers
DISCUSSANT: lory Barile

C3 TAX EVASION VII – Experiments II (Room: Bomberg)

SESSION CHAIR: Erich Kirchler

14h00 – 15h30 | PARALLEL SESSIONS D (Mercure Conference Hotel)

D1 TAX EVASION VIII – Ethics (Room: Monasterium I)

SESSION CHAIR: Aloys Prinz

Gloria Alarcón García (University of Murcia) / Arielle Beyaert (University of Murcia)
Laura de Pablos (University of Madrid):
Fiscal Awareness: A Study of the Female Attitude Towards Fraud in Spain
DISCUSSANT: Jennifer Nabaweesi Kakooza

Jennifer Nabaweesi Kakooza (Makerere University Business School) / Arthur Sserwanga
(Makerere University Business School): Social Norms, Taxpayers’ Morale and Tax
Compliance Among Small Business Enterprises in Uganda
DISCUSSANT: Aloys Prinz

Aloys Prinz (University of Münster): A Moral Theory of Tax Evasion
DISCUSSANT: Arielle Beyaert

D2 TAX EVASION IX – Determinants (Room: Monasterium II)

SESSION CHAIR: Zsófia L. Bárány

Ajit Mishra (University of Bath) / Long Wang (University of Dundee):
On the Incidence of Non-Compliance and Corruption
DISCUSSANT: Lisa Yiqun Wang

Lisa Yiqun Wang (Lingnan University, Hong Kong):
Tax Evasion: The Effects of Competition and Other Determinants
DISCUSSANT: Zsófia L. Bárány

Zsófia L. Bárány (London School of Economics and CEP):
Some Tax Evasion – More Redistribution: A Political Economy Model of Tax Evasion
DISCUSSANT: Long Wang

C4 SHADOW III – Income (Room: Galen)

SESSION CHAIR: Herbert Walther

Ozan Hatipoglu (Bosphorus University, Istanbul) / Gulenay Ozbek (Bosphorus University, Istanbul):
On the Political Economy of the Informal Sector and Income Redistribution
DISCUSSANT: John Robert Stinespring

John Robert Stinespring (University of Tampa):
Dynamic Scoring, Tax Evasion and the Shadow Economy
DISCUSSANT: Alfred Stiassny

Herbert Walther (Vienna University of Economics and Business Administration) / Alfred Stiassny (Vienna University of Economics and Business Administration):
International Comparisons of Household Saving Rates and Hidden Income
DISCUSSANT: Ozan Hatipoglu

10h30 – 11h00 Coffee Break (Mercure Foyer)
11h00 – 12h30 KEYNOTE ADDRESS
John Duffy, University of Pittsburgh, USA
Social Norms, Information and Trust Among Strangers
12h30 – 14h00 Buffet Lunch (Mercure Restaurant)
**D3 SHADOW IV (Room: Bomberg)**

SESSION CHAIR: Gerhard Graf

**Korbinian von Blanckenburg (University of Münster) / Alexander Geist (University of Münster): Detecting Illegal Activities: The Case of Cartels**
DISCUSSANT: Stanislaw Cichocki

**Stanislaw Cichocki (University of Warsaw) / Joanna Tyrowicz (University of Warsaw): Shadow Employment in Transition – A Matter of Choice or No Choice?**
DISCUSSANT: Gerhard Graf

**Gerhard Graf (Verwaltungsfachhochschule Wiesbaden, University of Mainz): Some Stylized Facts about the Connections between Cash and Black Economies in Germany**
DISCUSSANT: Korbinian von Blanckenburg

**D4 SHADOW V (Room: Galen)**

SESSION CHAIR: Andreas Buehn

**Miroslava Kostova Karaboytcheva (University of Alicante): The Impact of the Shadow Economy on the Country Risk Index**
DISCUSSANT: Michael Pickhardt

**Michael Pickhardt (University of Münster) / Jordi Sardà (University Rovira i Virgili): The Size of the Underground Economy in Germany and Sweden: Evidence from the Modified-Cash-Deposit-Ratio Approach**
DISCUSSANT: Andreas Buehn

**Andreas Buehn (TU Dresden): The Relationship between Socioeconomic Characteristics and the Shadow Economy: A Structural Equations Model Approach**
DISCUSSANT: Miroslava Kostova Karaboytcheva

**15h30 – 16h00 Coffee Break (Mercure Foyer)**

**16h00 – 17h00 PARALLEL SESSIONS E (Mercure Conference Hotel)**

**E1 TAX EVASION X – Methods (Room: Monasterium I)**

SESSION CHAIR: Miguel Sanchez Villalba

**Indrani Hazarika (Business Faculty Dubai): Can the Method of Levy, Assessment and Collection of Tax Deter Tax Evasion?**
DISCUSSANT: Miguel Sanchez Villalba

**Miguel Sanchez Villalba (University of Alicante): Anti-evasion Auditing Policy in the Presence of Common Income Shocks**
DISCUSSANT: Indrani Hazarika

**E2 TAX EVASION XI – Norms (Room: Monasterium II)**

SESSION CHAIR: Guido Mehlkop

**Juan Carlos Molero (University of Navarra) / Francesco Pujol (University of Navarra): Walking Inside the Potential Tax Evaser’s Mind**
DISCUSSANT: Guido Mehlkop

**Guido Mehlkop (TU Dresden) / Peter Graeff (University of the Federal Forces Munich): How the Decision to Evade Taxes is Mediated by Social Norms: Subjective Expected Utilities, Norms, and Interactions**
DISCUSSANT: Juan Carlos Molero
**E3 TAX EVASION XII – Agent-based Models (Room: Bomberg)**

SESSION CHAIR: John Duffy

Kim M. Bloomquist (Internal Revenue Service, Washington):
Tax Compliance as an Evolutionary Coordination Game: An Agent-based Approach
DISCUSSANT: John Duffy

Sascha Hokamp (University of Münster) / Michael Pickhardt (University of Münster):
Tax Evasion and Ethical Behavior: Evidence from an Agent-based Model
DISCUSSANT: Kim M. Bloomquist

**E4 SOCIAL BENEFIT FRAUD I (Room: Galen)**

SESSION CHAIR: Friedrich Heinemann

Renato Roda (University of Turin):
Social Resources and Lack of Meritocracy: The Italian Case
DISCUSSANT: Friedrich Heinemann

Friedrich Heinemann (ZEW, Mannheim): Economic Crisis and Benefit Morale
DISCUSSANT: Renato Roda

**19h00 – 24h00 The Münster Harbor Tour**

Meet at Mercure Conference Hotel entrance shortly before 19h00.

We will then go in small groups toward the Münster Harbor area, where we will find a number of nice restaurants and pubs, can sit outside along the harbor basin, watch boats passing by on the Dortmund-Emms canal … and discuss new research ideas …

**Sunday, July 26**

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<thead>
<tr>
<th>Time</th>
<th>Activity</th>
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<tr>
<td>10h30</td>
<td>Guided Münster Walking and Sight Seeing Tour in the Historical City Center</td>
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<td>(Meet at Mercure Conference Hotel Entrance, shortly before 10h30)</td>
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<tr>
<td>12h30</td>
<td>Lunch at Leisure alongside Lake Aa</td>
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Participants may sign in for their preferred option at the registration desk.

**Option 1**

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<th>Time</th>
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<tr>
<td>14h00</td>
<td>Boat Cruise on Lake Aa to Münster Zoo</td>
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<tr>
<td>14h30</td>
<td>Visit to Münster Zoo</td>
</tr>
<tr>
<td>16h30</td>
<td>Boat Cruise on Lake Aa back to City Center</td>
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**Option 2**

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<th>Time</th>
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PARALLEL SESSIONS A

A1 TAX EVASION I – EXPERIMENTS I

MIGUEL SANCHEZ VILLALBA (UNIVERSITY OF ALICANTE):
TAX EVASION AS A GLOBAL GAME (TEGG) IN THE LABORATORY

Sanchez Villalba (2007) claims tax evasion can be modelled as a global game when income shocks are common and prescribes that the tax agency should audit each individual taxpayer with a probability that is a non-decreasing function of every other taxpayers declarations (contingent policy rule). This paper uses experimental data to test the predictions of the model and finds supporting evidence for the hypothesis that the contingent policy rule is superior to the alternative cut-off one. It also finds that data fits the qualitative predictions of the global game model, regarding both participants decisions and the experiment’s comparative statics.

CÉCILE BAZART (UNIVERSITY OF MONTPELLIER I)
MARC WILLINGER (UNIVERSITY OF MONTPELLIER I):
TAX EVASION: PREASSUMPTION OF INNOCENCE, PREASSUMPTION OF GUILT

Tax evasion must be distinguished from other crimes for at least two reasons. First, the victim of tax evasion, the state, is able to organize its “self-defence”. Second, for most crimes, the starting point of the investigation is the crime itself. The tax evasion deterrence process is reversed: the crime is observed only at the population level, not at the individual level. The costly deterrence process is therefore devoted to picking out potential tax evaders, among honest plus dishonest taxpayers, and proving their culpability. The tax authority cannot observe who or how many people evade taxes; it can only observe the difference between the total income and the total amount of taxes collected. By subtraction, the authority can estimate, at no cost, the total amount of tax evasion. In this paper we experimentally compare two extreme cases: presumption of innocence and presumption of culpability and how the perception of the policy to fight tax evasion may alter the motivation of taxpayers to pay or evade their taxes. (...)

ERICH KIRCHLER (UNIVERSITY OF VIENNA):
THE “SLIPPERY SLOPE MODEL” – EXPLAINING TWO ROUTES TO TAX COMPLIANCE

By taking an economic psychologists’ approach research on tax compliance focuses on social representations, personal and social norms, justice considerations and motivational postures. Economists, however, focus mainly on the deterrence approach and investigate the effects of tax audits and sanctions. The ‘slippery slope framework’ integrates both stances and explains under which conditions audits and sanctions are effective and when they are ineffective or even counterproductive. Accordingly, it explains when psychological variables are or are not effective in influencing tax compliance. It is assumed that there is (i) a voluntary and (ii) an enforced route to tax compliance and that it depends on trust in the governmental authorities and in the power of the state which route is more effective. People who trust the government may develop an attitude of ‘commitment’ towards the tax authority and tax paying (cf. motivational postures, Braithwaite, 2003) and consequently comply voluntarily.

A2 TAX EVASION II – LABOUR MARKET

EDOARDO DI PORTO (UNIVERSITY OF TURIN) / BRUNO CONTINI (UNIVERSITY OF TURIN):
AUDIT, TAX COMPLIANCE AND IRREGULAR WORK: THE ITALIAN CASE

To encourage tax compliance towards the Italian tax contributive system, the Italian Social Security Institute (INPS) develops a number of audits on the Italian firms. The aim of these inspections is to detect possible evasions and to threaten cheating entrepreneurs with penalties, if necessary. In our case “to cheat” means to hide a part of the labour forces to the authority, underdeclaring their real dimensions and thus to evade a certain amount of social-insurance taxes. “Black work” and contributive evasion are identical concepts, indeed as in the DG Employment definition: “we define as undeclared work all remunerated activities which are in principle legal but circumvent declarations to tax authorities or social security”. Taking advantage from this similarity, we can study undeclared work in a tax compliance pattern by using socio-economic literature on tax evasion in order to emphasize important aspects about the entrepreneurial propensity to engaging non declared workers.

MELANIE KHAMIS (INSTITUTE FOR THE STUDY OF LABOR (IZA)):
IS INFORMAL SECTOR WORK AN ALTERNATIVE TO WORKFARE BENEFITS? THE CASE OF PRE-PROGRAM EXPANSION

Limited availability of workfare programs and unemployment insurance and a large informal sector are features of the Argentine labour market at the outset of the 2001 economic crisis. This paper tests the hypothesis whether informal work is an alternative to workfare participants before program expansion based on matching on common observable characteristics. Results from the propensity score matching indicate that observable characteristics of these two groups are significantly different. However, within these groups, it is possible to identify subgroups that exhibit similar observable characteristics. This indicates that only a subset of the individuals see workfare and informal sector work, which constitutes jobs without social security coverage, as substitutable alternatives.
LINDSAY TEDDS (UNIVERSITY OF VICTORIA):
WORKING UNDER THE TABLE: A STUDY OF FIRMS IN DEVELOPING COUNTRIES THAT EMPLOY INFORMAL WORKERS

The informal sector covers a wide range of economic activities that are not taxed, regulated, or reported to or by governments. While all economic systems contain some element of informality, the informal sector constitutes an essential component of the overall economy in developing countries. Studies have shown that, in many developing countries, the informal sector has grown rapidly and could account for over 50% of non-agricultural employment and nearly 30% of non-agricultural GDP. One aspect of the informal sector that has fuelled this growth in recent years is informal employment in the formal sector. That is, firms which operate in the formal sector but which employ some workers “under the table”. Unfortunately, very little is known about the firms who employ informal workers and this type of information is needed as an evidence-based tool for research and policy-making. (…)

A3 SHADOW I

BAS VAN AARLE (EUROPEAN BUSINESS SCHOOL, WIESBADEN)
EELKE DE JONG (EUROPEAN BUSINESS SCHOOL, WIESBADEN)
ROBERT SOSIOIAN (PRICE WATERHOUSE COOPERS):
EFFECTS OF THE SHADOW ECONOMY IN UKRAINE: AN ANALYSIS USING A MACROECONOMIC MODEL

This paper tries to shed some light on these matters, focusing on the role of the shadow economy in Ukraine. We develop and estimate a dynamic open macroeconometric model of the Ukrainian economy, decomposing it into an official economy and its unofficial counterpart. The main goal is to gain more insight in the Ukrainian economy. This study is built as follows: Section 1 analyses briefly the macro-economic adjustments in Ukraine during the period 1993-2004. Section 2 reviews two commonly applied methods to estimate the size of the shadow sector and suggests a few factors as the major determinants of Ukraine’s informal economy. Section 3 develops a macroeconomic model of Ukraine. The model is used to analyse macroeconomic adjustment in the Ukraine and the role and workings of the shadow economy. After estimation of the model, we use it to simulate the effects of alternative scenarios of the relative size of the shadow economy. (…)

PHILIPPE ADAIR (UNIVERSITY OF PARIS):
NON-OBSERVED ECONOMY AND INFORMAL EMPLOYMENT IN THE EUROPEAN UNION COUNTRIES: A COMPARATIVE ANALYSIS OF ESTIMATES AND DETERMINANTS

Non-Observed Economy (NOE) covers the whole spectrum of unrecorded market and household output, whether illegal or legal. Macroeconomic estimates of NOE in terms of GDP proceed from various non matching methods. Direct approaches are based on tax audits and informal employment surveys. Indirect measurements are issued from discrepancies on the commodity market (Income-Expenditure gap), on the money market (currency demand, transactions) and on the labour market (implicit labour supply), as well as from dynamic multi-variables modelling. The size of NOE varies across European Union countries – Mediterranean area being prominent, although no North-South divide shows up –, as well as over time: It increased throughout the 1990s, although displaying fluctuating trends. Analysis is tackled through tax evasion models and segmented labour markets. Comparative studies suggest that determinants do not result so much from tax load, but relate to the costs of regulation, as regards labour and the operation of small firms.

ANDREAS BUEHN (TU DRESDEN) / FRIEDRICH SCHNEIDER (JOHANNES KEPLER UNIVERSITY OF LINZ): CORRUPTION AND THE SHADOW ECONOMY: A STRUCTURAL EQUATION MODEL APPROACH

Since no consensus exists, this paper aims to shed more light on the ongoing debate about the dual relationship between corruption and the shadow economy. From a theoretical point of view both can either exhibit a negative relationship as predicted by Choi and Thum (2005) or being complements as recently demonstrated in Echazu and Bose (2008). Presenting a structural equation model with two latent variables we provide empirical evidence for the hypothesis that a large shadow economy and corruption go hand in hand. Corruption and the shadow economy are two sides of the same coin.

A4 CORRUPTION I

FRANCISCO AZPITARTE (UNIVERSITY OF VIGO):
CAN THE PERCEPTION OF CORRUPTION CONSTRAIN THE SIZE OF GOVERNMENTS?

This paper analyzes the relationship between government size and the perception of corruption. In a sample with 56 countries, a negative relationship is obtained between these two variables. We propose a theoretical model where the
possibility of producing in the underground economy generates multiple equilibria that can explain the empirical relationship. When individuals perceive a high level of bureaucratic corruption, they are more reluctant to pay taxes and to deal with bureaucrats. Thus, the unofficial economy becomes more attractive than the official one. Consequently, when individuals move from the official to the underground sector, the size of the government decreases because the share of output it collects through taxes is reduced.

GRIGORY V. Kalyagin (Lomonosov Moscow State University) 
VLADIMIR V. IVANOV (Lomonosov Moscow State University): 
CORRUPTION AND JUDICIAL INDEPENDENCE

Independent, transparent and accountable judicial system is a key question for high quality of governance and curbing corruption. Providing the rule of law, effective judicial power forms the legal frameworks, protects property rights and contracts and, the most important, constraints the executive and legislative powers. At the same time judicial system in many countries remains fragile and vulnerable to capture. The inefficiency of the judicial system means that court decisions are influenced by something other than the law. So there are two main types of judicial inefficiency: “bottom up” – bribery, and “top down” – political interference in judicial process (the second one phenomenon is also called “telephone justice” in sociological analysis). Captured or corrupted courts with shortage of trust from the citizens become an instrument of executive power or special-interested groups. Consequently, the great opportunities for redistributive behavior emerge in such society. The experience of modern Russia illustrates this process [TI, 2007]. Court corruption can’t be analyzed as one of the cases in line of corrupted official services because of the specific role of judicial power in modern society.

AXEL DREHER (Georg-August University Göttingen) / LARS SIEMERS (RWI Essen): 
THE NEXUS BETWEEN CORRUPTION AND CAPITAL ACCOUNT RESTRICTIONS

We provide a formal model illustrating the mutual relationship between corruption and capital account restrictions. Corrupt countries are more likely to impose capital controls because corruption reduces a government’s ability to collect tax revenue. If controls exist, however, individuals try to mitigate the burden and evade taxes by offering bribes, thereby increasing corruption. We test the model using panel data for 80 countries over the period 1984-2002 and find that corruption and restrictions indeed affect each other. Government’s attempts to increase revenue via controls on capital might thus invoke a restrictions-rent-seeking spiral with destructively high levels of both. Using capital controls to increase revenue should be reconsidered.
KAI A. KONRAD (WZB BERLIN) / SALMAI QARI (WZB BERLIN):
THE LAST REFUGE OF A SCOUNDBREL? PATRIOTISM AND TAX COMPLIANCE

We study the effects of patriotism on tax compliance. If individuals feel a (random) patriotic warm glow from honest tax compliance, this has implications for optimal auditing and tax compliance. A higher expected warm glow reduces the government’s optimal audit probability and yields higher tax compliance. Also, individuals with higher warm glow are less likely to evade taxes. This prediction is confirmed empirically by a multivariate analysis on the individual level while controlling for several other potentially confounding factors. The findings survive a variety of robustness checks, including an instrumental variables estimation to tackle the possible endogeneity of patriotism. On the aggregate level, we provide evidence for a negative correlation between average patriotic warm glow and the size of the shadow economy across several countries.

B2 TAX EVASION IV – BUSINESS

SEBASTIAN EICHFELDER (FREE UNIVERSITY OF BERLIN)
MICHAEL SCHORN (FREE UNIVERSITY OF BERLIN):
TAX COMPLIANCE COSTS: A BUSINESS ADMINISTRATION PERSPECTIVE

The paper analyses the relationship of tax compliance costs and business strategy. Due to instruments, like information technology, simplified cash accounting or outsourcing tax administration to external advisers, private businesses have a set of strategies to minimise their compliance cost burden. Assuming rational choice a private business should choose a cost-optimal administration strategy. In contrast, we find empirical evidence for small German businesses to use external tax advice to an insufficient manner. Therefore, a considerable number of small German businesses should be able to reduce compliance costs by a higher degree of outsourcing. Contradicting, we find no significant evidence for a cost reduction by an electronic data interchange with the authorities or by a simplified cash accounting method. Taking into account that high compliance costs may also encourage tax evasion, an increase in outsourcing tax administration could not only reduce the compliance burden but also convey the compliance level of small businesses.

LINDSAY TEDDS (UNIVERSITY OF VICTORIA)
RYAN COMPTON (UNIVERSITY OF MANITOBA)
DANIEL SANDLER (UNIVERSITY OF WESTERN ONTARIO):
QUANTIFYING THE BENEFITS OF BACKDATING: A CANADA – US COMPARISON

This paper examines the pre- and post-tax returns to Canadian and US executives who receive backdated stock options (that appear to be at-the-money options) compared to currently-dated at-the-money options. We begin by comparing the Black-Scholes value of backdated at-the-money options to currently-dated in-the-money options (with the same strike price as the back-dated options). We then contrast the pre- and post-tax returns of such options on the assumption that the options are eventually exercised at a time then the options are in the money and the shares sold (either immediately or later) at a profit. We demonstrate that a Canadian executive can earn a significantly larger after-tax return from backdated options compared to a US executive due to the favourable Canadian tax treatment of executive options relative to their treatment in the United States. The comparison suggests that the personal tax regime may have had an impact on the propensity to backdate in Canada but would not have had such an impact in the United States.

ZHIYONG AN (CENTRAL UNIVERSITY, BEIJING)
TAO ZHANG (THE PEOPLE’S BANK OF CHINA, BEIJING):
ARE FOREIGN INVESTMENT ENTERPRISES RESPONDING TO CHINA’S NEW CORPORATE INCOME TAX LAW BY INCOME SHIFTING?

This paper takes China’s new Corporate Income Tax Law that took effect on January 1, 2008 as a natural experiment and uses the difference-in-differences methodology to check whether foreign investment enterprises (FIEs) are responding to the law by income shifting. Our analysis shows that the difference between the change in pre-tax profit of the treatment group (i.e., FIEs) and the change in pre-tax profit of the control group (i.e., domestic enterprises (DEs)) is insignificant. However, the average pre-tax profit of the treatment group is much lower than that of the control group. Overall, our work implies that FIEs may not yet have enough time to carry out much income shifting in response to the law.
B3 SHADOW II

BOGDAN MRÓZ (WARSAW SCHOOL OF ECONOMICS):
INFORMAL SECTOR IN NEWLY EMERGED MARKET ECONOMY: EVIDENCE FROM POLAND

The transition towards fully-fledged market economy in Poland has brought radical changes in different areas of the country’s economic and social life. The newly established free-market environment offers economic agents much more flexibility and room for individual entrepreneurship than it was possible under old command-economy system. The switch towards market-driven economic system in Poland has created fertile ground for the development and expansion of different forms of unregistered economic activities. In the paper an attempt will be made to identify major forms and manifestations of unofficial economy, including new, “innovative” ways of tax evasion which appeared in Poland during transition phase towards market economy. Analysis of different forms of informal economic activities in Poland will be based on diverse data sources including latest empirical research findings. The author would also like to shed some light on the causes, methodological problems of estimating the size of the informal sector as well as social and economic implications of the expansion of shadow economy in Poland. (...)

HELMIUT HERWARTZ (CHRISTIAN ALBRECHTS UNIVERSITY OF KIEL)
FRIEDRICH SCHNEIDER (JOHANNES KEPLER UNIVERSITY OF LINZ)
EGLE TAFENAU (CHRISTIAN ALBRECHTS UNIVERSITY OF KIEL):
ONE SHARE FITS ALL? REGIONAL VARIATIONS IN THE EXTENT OF SHADOW ECONOMY IN EUROPE.

For the first time, in this paper a multiple indicators multiple causes approach is adopted to estimate the extent of the shadow economy in the European Union at the NUTS 2 regional level. It turns out that in the year 2004 regions in the Netherlands had the smallest shadow economy quota, below 10% of gross domestic product, while regions in Poland where those with the highest shadow economy quota in the sample, around 30%. Our results are in general consistent with the estimates of shadow economy quotas from earlier studies with country level data. The variation of the extent of the shadow economy is in some countries considerable. Thus, policy measures against shadow activities should take the specific regional situation into account.

B4 CORRUPTION II

J. ROBERTO PARRA-SEGURA (UNIVERSITY OF CAMBRIDGE):
SOCIAL NETWORKS, ACHIEVEMENT MOTIVATION, AND CORRUPTION: THEORY AND EVIDENCE

We develop an equilibrium model to analyse the influence of economic and cultural factors on the level of corruption that can be found in different countries. The agents in the model choose how to allocate their time between productive activities and leisure, and also decide whether to trade in a competitive market or in the informal economy. Our model considers that countries with high levels of achievement motivation and economic activity based on the use of social networks are the ones that normally suffer from higher levels of corruption. These cultural elements, together with the ability of authorities to punish corruption, determine the level of corruption that prevails in equilibrium. There are multiple equilibria and societies may get trapped in a steady state equilibrium of generalized corruption. We test the predictions of the theoretical model using empirical evidence from a variety of sources for a large cross-section of countries.

LUISANNA ONNIS (UNIVERSITY OF MILAN)
PATRIZIO TIRELLI (UNIVERSITY OF MILAN):
CHALLENGING THE POPULAR WISDOM. NEW ESTIMATES OF THE UNOBSERVED ECONOMY

We adopt the Modified Total Electricity approach in order to estimate the dynamics and size of unrecorded economy of a large panel of 49 economies for the period 1981-2005. The first conclusion from our estimates is that for most countries the relative size of the unobserved economy has decreased during the last decades. This result is broadly consistent with the country-specific economic performances and with key episodes of economic reform and liberalization but in contrast with the recent and highly criticized values obtained by Schneider (2004, 2005) with the MIMIC method. We also find that the relative size of the unobserved economy falls with economic growth and exhibits a cyclical pattern which is inversely related to that of the official economy.
NAVIDA JOUBERT (UNIVERSITY OF LYON) / JEAN-LOUIS RULLIÈRE (UNIVERSITY OF LYON AND CNRS) / HIND SAMI (UNIVERSITY OF LYON):
NEVER SEEK THAT BY FOUL MEANS WHICH YOU MAY HAVE BY FAIR: EXPERIMENTAL APPROACH OF THE MONITORING EFFICIENCY

In a context of adverse selection, we study with an experimental protocol, the intensity and the efficiency of a control policy as an instrument of screening illegal activities. We base the model on a long term relationship between a public agency and firms for which some of these could develop potential illegal activities. Three effects of the control are put in evidence: disciplining, educative and screening. While the first effect is waited, the educative effect of the control leaves the place with a crowding out effect already observed in other experiments in a moral hazard context. Finally, the experiment highlights the main issue, a screening effect based on a trade-off between the efficiency and the intensity of the control: it’s better to control little to discover a little as to control too much to discover nothing at all.

JÜRGEN G. BACKHAUS (UNIVERSITY OF ERFURT):
CRIMINAL NETWORKS: LESSONS FROM THE MADOFF CASE

The Madoff case is the biggest fraud in human recorded history and was facilitated by the Fed’s low interest policy. The biggest net winner, indeed, was the IRS, since Madoff paid source taxes on the imaginary gains. The scheme was possible only because Madoff used a peculiar networking technique in order to create (undeserved) trust. Based primarily on accounts taken from the WSJ, this article provides a first attempt at a law and economics analysis of this unique case.

ALBERT BRAAKMANN (FEDERAL STATISTICAL OFFICE, WIESBADEN):
SMUGGLING AND VAT-EVASION – A CHALLENGE FOR MEASURING ECONOMIC GROWTH

Economic growth is usually measured by the Gross Domestic Product (GDP), a key aggregate in the system of national accounts. The general goal of the paper is to highlight the impact of smuggling and tax evasion on the GDP growth rate and level. This issue will be dealt with from two perspectives, a more theoretical and a more practical one: At the theoretical level, the conceptual treatment of smuggling and tax evasion in national accounts according to the worldwide System of National Accounts 1993 and the European System of Accounts 1995 is presented, particularly the impact on GDP. At the statistical level, the challenges of implementing the conceptual treatment are addressed in more detail. By way of example, a procedure to compile tobacco smuggling in Germany is provided as well as the possibilities and limitations of such estimates. In addition, the question about the interplay between conceptual considerations and statistical data will be raised briefly.
C2 TAX EVASION VI - THEORY

ROSARIA M. MARINO (BANK OF ITALY) / ROBERTA ZIZZà (BANK OF ITALY):
THE PERSONAL INCOME TAX EVASION IN ITALY: AN ESTIMATE BY TAXPAYER’S TYPE

This paper estimates the propensity to evade the Italian personal income tax (Irpef) by comparing per capita income in 2004 from the Bank of Italy’s Survey of Household Income and Wealth (SHIW) with that from tax records provided by SOGEI for the same year. The comparison is made at a high level of detail, according to variables common to the two sources (gender, age, geographical area, income type). Going beyond the standard dichotomy between dependent and independent workers, typical in this strand of literature, we identify a richer classification of taxpayers looking also at inactive and secondary positions. After an accurate harmonisation of the two datasets, for each category we define as evaded income the (positive) difference between income from the Survey and income from the fiscal source, along the lines of the methodology first developed by Marenzi (1996).

JOAO LUIS BRASIL GONDIM (TOULOUSE SCHOOL OF ECONOMICS):
THE TAX COMPLIANCE GAME WITH SOME EVASION-averse TAXPAYERS

This paper introduces another dimension (evasion-aversion) into Reinganum and Wilde (1986) tax compliance model. It endogeneizes the size of the group of “honest” taxpayers and produces a pooling equilibrium in which the tax administration does not discover taxpayers’ true income before auditing. It delivers analytical results for the audit probability function and investigates the properties of taxpayers’ reporting strategy.

BERNHARD NEUMÄRKER (UNIVERSITY OF FREIBURG)
GERALD PECH (AMERICAN UNIVERSITY IN BULGARIA):
PENALTIES IN THE THEORY OF EQUILIBRIUM TAX EVASION: SOLVING KING JOHN’S PROBLEM

We characterize equilibria of an income reporting game with bounded returns where a predatory government fines detected tax evaders the maximal feasible amount. We derive a unique equilibrium as the limit of equilibria where the fine is slightly less than the maximum value: For sufficiently low auditing costs, the poorest citizens evade, intermediate citizens are honest and the richest citizens are indifferent between evading and truth-telling. We introduce commitment to impose less than the maximal punishment on some offenders. With low auditing costs commitment never pays. At high auditing costs, commitment may result in an increase in tax revenue.

C3 TAX EVASION VII – EXPERIMENTS II

LORY BARILE (UNIVERSITY OF GENOA AND CER):
FIRMS’ TAX EVASION: AN EXPERIMENTAL APPROACH

The aim of this work is to analyze tax evasion as a factor that potentially affects internal control of firms as an application of the Chen and Chu’s model (2005). For this purpose an experimental approach has been employed. Treatments varied whether agents were assumed to be risk-neutral or risk-adverse. According to the gift-exchange game (Fehr, Kirchsteiger & Riedl, 1993) results show a positive relationship between wages offered by principal and efforts provided by agents. In general, higher wages lead to more costly effort provision. However, when evasion and risk aversion are introduced in the analysis efforts are considerably low suggesting that, when uncertainty plays a role, individuals are less willing to cooperate for the wealth of the firm.

CÉCILE BAZART (UNIVERSITY OF MONTPELLIER I)
MICHAEL PICKHARDT (UNIVERSITY OF MÜNSTER):
FIGHTING INCOME TAX EVASION WITH POSITIVE REWARDS: EXPERIMENTAL EVIDENCE

This paper provides experimental evidence regarding the influence of positive rewards on income tax evasion behavior. In particular, we experimentally test the impact of positive rewards in form of individual lottery winnings for honest taxpayers. Among other things, we find that these positive rewards lead to a significantly higher rate of tax compliance. Moreover, there are two gender effects. Males not only evade taxes to a much higher extent than females, they also show a stronger positive response to the lottery scheme. This allows us to draw some interesting policy recommendations.

BARBARA KASTLUNGER (UNIVERSITY OF VIENNA)
STEPHAN MÜHLBACHER (UNIVERSITY OF VIENNA)
ERICH KIRCHLER (UNIVERSITY OF VIENNA)
LUIGI MITTONE (UNIVERSITY OF TRENTO):
AN EXPERIMENT ON REWARDING HONEST TAXPAYERS

Research on incentives for tax compliance predominantly deals with negative incentives, i.e., fines for evading all or part of the tax due. Though in theoretical analyses and discussions the idea of introducing positive incentives was repeatedly put forward, empirical evidence on the effects of rewards on tax compliance is scarce. We conducted an experiment with two reward conditions (low vs. high) and a control condition. Participants
in the reward conditions received a financial reward if an audit revealed that they had honestly declared their income. Additionally, as in the control condition, tax fraud was fined. Overall, tax compliance was not affected by the rewards. However, a change in compliance strategies was observed. It seems that positive incentives provoke an all-or-nothing behaviour. Whereas in the reward conditions participants where either completely honest or evaded all of their income, in the control condition the amount of evasion varied more strongly.

C4 SHADOW III – INCOME

OZAN HATIPOGLU (BOSPORUS UNIVERSITY, ISTANBUL)
GULENAY OZBEK (BOSPORUS UNIVERSITY, ISTANBUL):
ON THE POLITICAL ECONOMY OF THE INFORMAL SECTOR AND INCOME REDISTRIBUTION

In this paper we analyze a general equilibrium model in which agents choose to be employed in formal or in the informal sector. The formal sector is taxed to provide income subsidies and the level of redistribution is determined endogenously through majority voting. We explore how the demand for redistribution determined by majority voting interacts with the incentive to work in the untaxed informal market. We also investigate how different levels of the informal sector wage can explain simultaneous changes in the size of the informal sector and level of redistribution. The model is simulated to produce qualitative results to illustrate the differences between economies with different distributional features. The model accounts for the different sizes of informal sector and income redistribution in Mexico and United States.

JOHN ROBERT STINESPRING (UNIVERSITY OF TAMPA):
DYNAMIC SCORING, TAX EVASION AND THE SHADOW ECONOMY

Estimates of the impact of tax policy on tax evasion are crucial in estimating government revenues. In the United States, the government claims that budget deficits could disappear overnight if the $300-$400 billion lost each year to tax evasion were collected. This paper combines dynamic scoring with household preferences for tax evasion à la Feige and McGee (1983) to measure the macroeconomic feedback effects from tax cuts to changes in output, revenues and tax evasion. Using a simple dynamic scoring model based on Mankiw and Weinzierl (2007) the feedback effects are divided into their constituent substitution, income and evasion effects for an analysis of individual behavior at the microeconomic level. Calibrating the model to U.S. data reveals that the growth effects of income tax rate cuts can offset a significant percentage of the potential revenue losses and that evasion can rise or fall with tax cuts.

HERBERT WALTHER (VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS ADMINISTRATION) / ALFRED STIASSNY (VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS ADMINISTRATION):
INTERNATIONAL COMPARISONS OF HOUSEHOLD SAVING RATES AND HIDDEN INCOME

In this paper, it is argued that shadow activities and different levels of marketization of household production systematically distort international comparisons of aggregate gross household saving rates (HSR): Higher shares of hidden income increase observed HSR. Cross-sectional data for eighteen (twenty-four) countries covering a period of a decade show that gross HSR are positively related to the degree of corruption (used as a proxy of the propensity to shift economic activities into the shadow) and to the share of income from property and self-employment. They are negatively related to the female employment rate, the ratio of indirect taxes to direct taxes and to the tax wedge. A plausible story behind these phenomena might be that unobserved consumption and ‘wages’ in the black labour market induce an upward bias of observed HSR and profit shares, while the price level effects of a higher share of indirect taxes and a ‘welfare state’ effect lower observed HSR. As expected, the female employment rate (used as an indicator of marketization) is negatively related to household saving rates.

PARALLEL SESSIONS D

D1 TAX EVASION VIII – ETHICS

GLORIA ALARCÓN GARCÍA (UNIVERSITY OF MURCIA)
ARIELLE BEYAERT (UNIVERSITY OF MURCIA) / LAURA DE PABLOS (UNIVERSITY OF MADRID):
FISCAL AWARENESS: A STUDY OF THE FEMALE ATTITUDE TOWARDS FRAUD IN SPAIN

Our paper studies fiscal awareness in Spain, with a particular focus on the attitude towards tax fraud among the female population. The reason for this is that women seem to constitute a social group with a specific behaviour in several aspects. A previous study (Alarcón et al., 2008) shows, indeed, that fiscal awareness of women in Spain seems to be lower than men’s. Additionally, women appear to be more tolerant towards tax fraud than men. In accordance with most of the academic literature, it seems that we are in front of another evidence of ‘lower citizenship’ of Spanish women. For years they have been restricted to home, family and personal activities whereas men have kept a higher profile in public affairs. This paper is aimed at going further into the research, digging into the data in order to establish prevalence of a female fiscal behaviour in Spain depending on education, work, salary and family status.
JENNIFER NABAWESI KAKOOZA (MAKERERE UNIVERSITY BUSINESS SCHOOL)  
ARTHUR SSERWANGA (MAKERERE UNIVERSITY BUSINESS SCHOOL):  
SOCIAL NORMS, TAXPAYERS’ MORALE AND TAX COMPLIANCE AMONG SMALL BUSINESS ENTERPRISES IN UGANDA

While rarely examined, it is often taken for granted that social norms and taxpayers’ morale have a significant explanatory impact on tax compliance behavior. This study sought to establish the relationship between social norms, taxpayers’ morale and tax compliance among Small Business Enterprises (SBEs) in Uganda. Social norms and taxpayers’ morale explain 25.2% of the variation in tax compliance amongst SBEs. The implication for tax collecting bodies is to put in place deliberate strategies addressing Social norms and Taxpayer’s morale in an attempt to improve Tax Compliance, especially in developing economies.

ALOYS PRINZ (UNIVERSITY OF MÜNSTER):  
A MORAL THEORY OF TAX EVASION

In this paper, five different types of taxpayers are defined, depending on their attitudes towards tax evasion. The morale of taxpayers is modelled as a state variable in their utility functions which gives those functions a state-dependent character. Beside the benchmark case of the economic taxpayer who does not care about tax morale, four other types of taxpayer are distinguished: loyal and illoyal taxpayers as well as loyal opportunistic and illoyal opportunistic taxpayers. The tax evasion behavior and the reactions to increasing tax rates, incomes, detection probabilities and fines are analyzed. The result is that different reaction can be distinguished which in turn provide a more specific basis for empirical studies than is currently available. A particularly noteworthy result of this paper is that opportunistic taxpayers will respond stronger to increases in the detection probability than to increases of the fine.

D2 TAX EVASION IX – DETERMINANTS

AJIT MISHRA (UNIVERSITY OF BATH) / LONG WANG (UNIVERSITY OF DUNDEE):  
ON THE INCIDENCE OF NON-COMPLIANCE AND CORRUPTION

This paper demonstrates the coexistence of high and low compliance equilibria in a model of enforcement with corrupt officials. We model an enforcement process where law abiding individuals also can bear some cost, depending on the information technology and informational status of the officers. When the number of violators is large, this expected cost can be high leading to more violators and the low compliance equilibrium. On the other hand, fewer violators would imply a low or zero cost to the potential abiders leading to the high compliance equilibrium. The low compliance equilibrium vanishes with improvements in the information technology.

LISA YIQUN WANG (LINGNAN UNIVERSITY, HONG KONG):  
TAX EVASION: THE EFFECTS OF COMPETITION AND OTHER DETERMINANTS

This paper investigates the determinants of informality (tax evasion in particular) utilizing international data of firm-level survey from the World Bank, and hypothesizing that competition is a significant factor determining tax evasion behaviors. Competition pressure is a key stimulus to induce questionable manipulations of tax reporting behaviors. However its effect works at a decreasing speed. The benefits and profits from evasion grow smaller when competition grows fiercer, thus reducing evasion incentives. It is also hypothesized that business obstacles such as tax administration and corruption play significant roles in explaining tax evasion. This paper further hypothesizes that firms relying more on informal financing generally evade more tax. Empirical results are found supporting these hypotheses above. The analysis controls for country fixed effects, for instance the quality of the legal environment. Firm-specific characteristics such as size, age, ownership, and industry sector are all found to be significant in explaining of firms’ tax evasion levels.

ZSÓFIA L. BÁRÁNY (LONDON SCHOOL OF ECONOMICS AND CEP):  
SOME TAX EVASION – MORE REDISTRIBUTION: A POLITICAL ECONOMY MODEL OF TAX EVASION

Tax evasion seems to be a persistent phenomenon: no matter how effective the tax enforcement, or how simple the rules of taxation become, it remains present in all countries. The variation in its estimates for different economies suggests that politicians might be turning a blind eye to tax evasion in order to gain popularity. The tax rates and the enforcement structure implicitly define the benefits from evading taxes. However, the society is heterogeneous in the sense that some members can take advantage of these benefits while others cannot. This heterogeneity implies that the presence of tax evasion changes tax incidence significantly. This paper outlines a model where taxes, enforcement and public good are determined in an electoral competition. The model predicts two different equilibria: a "bad equilibrium" and a "good equilibrium". In the "bad equilibrium" a big fraction of the population evades taxes, with low public good provision. (…)
KORBINIAN VON BLANCKENBURG (UNIVERSITY OF MÜNSTER)
ALEXANDER GEIST (UNIVERSITY OF MÜNSTER):
DETECTING ILLEGAL ACTIVITIES: THE CASE OF CARTELS

This paper considers enhancements of a comparatively new method to detect cartels, the System of Cartel Markers (SCM), introduced by Blanckenburg/Geist (2009). The aim of SCM is to find illegal collusion on legal markets with observable market data. SCM already analyzes real market processes by means of time series analysis and can be used as a tool for detecting cartels. It uses expected behavior patterns such as low level of capacity utilization, slackness of price adjustments to exogenous shocks, excess rates of return, nearly constant capacities, lower variance of price changes and lower variance of capacity growth rate. However, testing innovation ability is lacking so far and cartels tend to have lower research and development investments. Therefore, we enhance SCM and use innovation inefficiency as a further marker in order to detect cartels. At the end of the paper we will give a short example.

STANISLAW CICHOCKI (UNIVERSITY OF WARSAW)
JOANNA TYROWICZ (UNIVERSITY OF WARSAW):
SHADOW EMPLOYMENT IN TRANSITION – A MATTER OF CHOICE OR NO CHOICE?

Shadow employment may follow from two main labour market failures. In the first, official market labour taxation distortions make it ineffective for some agents to engage in registered employment due to a tax wedge, which makes the revenues from unofficial employment higher than the corresponding official ones (tax evasion hypothesis). The alternative explanation draws to labour market tightness - for workers regular employment may be unattainable, which results in seeking earning opportunities beyond the boundaries of the official labour market (market segmentation hypothesis). We use a unique data set from a survey on undeclared employment. Using propensity score matching and decomposition techniques we demonstrate that workers of the shadow economy are characterized by slightly higher endowments, while their revenues are considerably lower than among the matched official economy counterparts. Although unobservable heterogeneity is considerable, results are robust and point to social exclusion and the market segmentation hypothesis.

GERHARD GRAF (VERWALTUNGSFACHHOCHSCHULE WIESBADEN, UNIVERSITY OF MAINZ):
SOME STYLIZED FACTS ABOUT THE CONNECTIONS BETWEEN CASH AND BLACK ECONOMIES IN GERMANY

The currency approach assumes black economies to entail larger cash volumes than those needed for transactions in the official economy. Estimates of this hypothesis use e.g. overall cash data. But, for the case of Germany, the growing DM cash amounts in circulation did not only accompany transactions in the national economy, they also disseminated in international uses. A series of adjusted cash figures is derived which shows the maximum dimension of national cash uses either for official or black activities. The adjusted cash figures in general grow less fast than overall cash, private consumption, GDP or M1 respectively. They even diminished relative to sales figures which often are accused of being a basis for black activities. This enhances the presumption that, contrary to some contentions in literature, black activities during the times of the DM-regime play a minor or even decreasing role in Germany.

MIROSLAVA KOSTOVA KARABOYCHEVA (UNIVERSITY OF ALICANTE):
THE IMPACT OF THE SHADOW ECONOMY ON THE COUNTRY RISK INDEX

The aim is to introduce a new variable into the estimation of Country Risk Index and to identify what are the changes produced in two groups of countries, developed and developing. The total number of countries analysed is 54 (31 developing and transition countries and 23 developed countries). Using traditional variables, the average value for developing and transition countries’ group was negative which explains their high Country Risk Index. However, the result was positive in the group of developed countries explaining their low Country Risk Index. Observing the results when the shadow economy as a percentage of GDP was introduced into the analysis, some changes were demonstrated. The average values were in this case different than the previously calculated ones. The Country Risk Index has increased negatively in the group of developing and transition countries, but there was no significant change into the developed ones.
MICHAELOH PICKHARDOH (UNIVERSITY OF MÜNSTER)
JORDI SARDÀ (UNIVERSITY OF ROVIRA I VIRGILI):
THE SIZE OF THE UNDERGROUND ECONOMY IN GERMANY AND SWEDEN: EVIDENCE FROM THE MODIFIED-CASH-DEPOSIT-RATIO APPROACH

In this paper we introduce a Modified-Cash-Deposit-Ratio (MCDR) approach, which may be used for calculating the size of the underground economy. We apply the MCDR to Germany and Sweden for the period 1960 to 2008. In contrast to results from the original approach, results from the MCDR are by and large in line with previous studies that apply rather complex approaches to estimate the size of the underground economy. Due to its simplicity, the MCDR approach may therefore be regarded as a useful alternative or as a complement to other approaches that employ more complex techniques.

ANDREAS BUEHNL (TU DRESDEN):
THE RELATIONSHIP BETWEEN SOCIOECONOMIC CHARACTERISTICS AND THE SHADOW ECONOMY: A STRUCTURAL EQUATIONS MODEL APPROACH

Many studies have shown that the size of the shadow economy can be attributed to economic determinants such as high taxes and regulatory burdens. But the decision to work underground or evade taxes also depends on socioeconomic components such as tax morality, social capital, or national pride as shown by a growing number of papers. In this paper we use a structural equation model to extract information from different dimensions of individual socioeconomic characteristics. This allows us to provide a more comprehensive analysis of the relationship between socioeconomic determinants and the size of the shadow economy.

INDRANI HAZARIIKA (BUSINESS FACULTY DUBAI):
CAN THE METHOD OF LEVY, ASSESSMENT AND COLLECTION OF TAX DETER TAX EVASION?

Direct tax is a financial burden to the tax payer as it involves cash outflow in the nature of statutory financial obligation but to the government it is an instrument of economic and social welfare. An increase in the tax rate will augment revenue but as tax rates get very high without additional relief for savings and investment there is a reduced incentive to work and increased tendency to evade tax. Ideally tax structure of a nation should aim at balancing the resources required by public sector and tax benefits extended to private sector, ensuring equity in burden and certainty in collection of tax. The present study aims at ensuring better compliance of tax laws based on ability to pay index and marginal ability of income. The focus is on how taxpayers view the need for compliance with tax legislations; if imposed for stabilization and growth objectives of the economy.

MIGUEL SANCHEZ VILLALBA (UNIVERSITY OF ALICANTE):
ANTI-EVASION AUDITING POLICY IN THE PRESENCE OF COMMON INCOME SHOCKS

When fairly homogeneous taxpayers are affected by common income shocks, a tax agencies’ optimal auditing strategy consists of auditing a low-income declarer with a probability that (weakly) increases with the other taxpayers declarations. Such policy generates a coordination game among taxpayers, who then face both strategic uncertainty about the equilibrium that will be selected and fundamental uncertainty about the type of agency they face. Thus the situation can be realistically modelled as a global game that yields a unique and usually interior equilibrium which is consistent with empirical evidence. Results are also applicable to other areas like regulation or welfare benefit allocation.

JUAN CARLOS MOLERII (UNIVERSITY OF NAVARRA) /
FRANCESCO PUJOL (UNIVERSITY OF NAVARRA):
WALKING INSIDE THE POTENTIAL TAX EVADER’S MIND

We propose to conduct an empirical study on the determinants of the psychological costs of tax evasion, also known as tax morale. As a preliminary step, we build
a model of tax evasion including non-monetary considerations, in order to show the relationship between tax compliance and tax morale. In the empirical analysis of tax morale we find, using a binomial logit model, that the justification of tax evasion can be explained by: the presence of grievance in absolute terms (those who feel that taxes are too high, those who feel that public funds are wasted and those who accept underground economic activities) and grievances in relative terms (the suspected level of others’ tax evasion). The sense of duty and the level of solidarity are also relevant factors, but to a lesser extent.

GUIDO MEHLKOP (TU DRESDEN)
PETER GRAEFF (UNIVERSITY OF THE FEDERAL FORCES MUNICH):
HOW THE DECISION TO EVADE TAXES IS MEDIATED BY SOCIAL NORMS: SUBJECTIVE EXPECTED UTILITIES, NORMS, AND INTERACTIONS

Referring to the classic Rational Choice models of tax evasion, this paper presents an extended Subjective Expected Utility Model that is more in line with the requirements of theorizing and empirical testing than former models. In our model, the decision of an actor is influenced by the expected utility of tax evasion and the norms that prohibit the delinquent action. It is suggested that there is an interaction between utility and norms which reflect different patterns of decision making that leads to different probabilities for the occurrence of tax evasion. The model is tested by using survey data from Germany. Applying a new technique to uncover interaction effects in nonlinear models reveals that in one pattern, internalized norms that label criminal action as not appropriate per se, takes place instead of deliberation. In another pattern, the recognition that certain actions are connected to societal norms increases deliberation about costs and benefits of criminal behavior.

E3 TAX EVASION XII – AGENT-BASED MODELS

KIM M. BLOOMQUIST (INTERNAL REVENUE SERVICE, WASHINGTON):
TAX COMPLIANCE AS AN EVOLUTIONARY COORDINATION GAME:
AN AGENT-BASED APPROACH

Tax reporting compliance by small business owners is modelled in an agent-based framework that incorporates concepts and methods from evolutionary game theory. Business owners exhibit heterogeneous tax morale and compliance propensity based on a stochastically assigned behavioral “archetype” (Stahl and Wilson 1995). The Strategic archetype uses a simple reinforcement learning algorithm to determine how much income to report to tax authorities. Honest and Defiant archetypes play fixed strategies while the Random archetype plays a variable strategy with no learning behavior. A firm’s “fitness” for survival is a function of net after tax (and post-audit) income. The model is calibrated to observations from laboratory experiments and taxpayer random audits. The calibrated model is used to simulate evolutionary changes in a static population of 10,000 small business owners. A simulation using realistic parameters for the probability of audit and penalty rate finds that after 15 time periods the initial number of Honest taxpayers declines by approximately one-third due to this group’s heightened vulnerability to bankruptcy. The Honest business owners are displaced by firm owners having either Defiant or Strategic compliance behaviors.

SASCHA HOKAMP (UNIVERSITY OF MÜNSTER)
MICHAEL PICKHARDT (UNIVERSITY OF MÜNSTER):
TAX EVASION AND ETHICAL BEHAVIOR: EVIDENCE FROM AN AGENT-BASED MODEL

We analyze tax evasion in an artificial society of heterogeneous agents. In particular, we consider four different agent types: a-types, who always show an expected utility maximizing behavior in line with the Allingham and Sandmo model; b-types that show an imitative behavior pattern in the sense that they copy successful tax evasion behavior, if they observe it within their social network; c-types who strictly follow certain behavioral norms (Kantian behavior, Patriotism, etc.) and, therefore, always declare their true income, and finally d-types, who also wish to declare their true income, but may make mistakes within an epsilon environment around their true income, for example, because of the complexities of the tax law. Within this framework we then simulate the impact of different type shares in the population, changes in tax law complexity, political cycles and the like.

E4 SOCIAL BENEFIT FRAUD I

RENAITO RODA (UNIVERSITY OF TURIN):
SOCIAL RESOURCES AND LACK OF MERITOCRACY: THE ITALIAN CASE

Most of the main theories about individual social capital – intended as the ensemble of resources that are embedded in someone’s network of social relations and that are used for purposive instrumental action by the actor himself – developed in the last years are based upon research set in the United States of America. Even if it is logical to presume the existence of deep cultural and institutional differences between different countries, very often the hypotheses founded on American researches and data are accepted “as they are” even in relation to very different social contexts. In this paper, I will consider how the cultural differences between the original setting of an important theory
of social capital and another social context with a different dominant social and ethical norms may deeply alter the theory's contents themselves. (...) 

FRIDRICH HEINEMANN (ZEW, MANNHEIM):
ECONOMIC CRISIS AND BENEFIT MORALE

This contribution deals with the impact of economic crises on those social norms which are essential for the functioning of the welfare state. A deep crisis may have an immediate and severe impact on benefit morale because of its potentially profound impact on individual incentives, perceptions and experience. Therefore, this contribution puts a theoretical and empirical light on the impact of economic crisis on benefit morale. The theoretical considerations reflect on the different potential impact channels including changing opportunity costs of respecting social norms in a situation of a severe economic downturn. The empirical part is based on a descriptive and econometric analysis of data from the World Value Survey over two decades. The micro-econometric approach relates the individual morale to both individual characteristics and a macroeconomic crisis indicator. The crisis indicator is based on exceptional hikes in the unemployment rate. Among the specifications included are interactions between crisis indicators and proxies for the generosity of the welfare state. It turns out that a short-run detrimental effect of crises on benefit morale and other social norms can be detected. Furthermore, there is evidence that a generous welfare state increases the size of the effect.
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