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978-0-521-13061-5 - Tax Evasion: An Experimental Approach

Paul Webley, Henry Robben, Henk Elffers and Dick Hessing

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Tax evasion is an old but growing problem. It raises issues relevant to a broad range of social sciences – accounting, economics, psychology, political science, and sociology – and is of enormous importance in policy design.

But research into tax evasion has been beset with measurement problems; the hidden economy is well named.

This book seeks to demonstrate that experimental methods provide a potentially powerful approach which can complement existing methods such as the use of surveys and official records. The key is to design experimental situations that engage the same psychological processes as their real-world counterparts. The authors, drawn from backgrounds in law as well as social and economic psychology, describe and evaluate this distinctive approach to tax evasion through consideration of work carried out in both the Netherlands and the UK over the last four years.

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*European Monographs in Social Psychology*

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# Tax evasion

## An experimental approach

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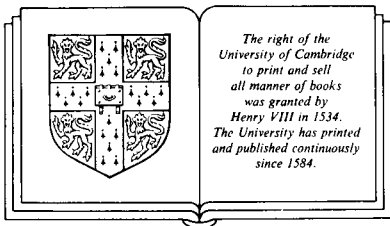
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To our parents and the memory of our parents

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## Preface

This book is the record of a collective intellectual journey. We began research in tax evasion for very different reasons. PW wanted an excuse to teach himself how to program; the original experimental studies of tax evasion appeared well suited to implementation on a micro-computer and so after a Christmas vacation largely spent staring at a VDU a primitive simulation came into being. HR came to Exeter on a research placement and, offered the choice between working on gift-giving or tax evasion, opted, for some unaccountable reason, for evasion. HE and DH's motivation was purer; having developed a theoretical model to account for organ donation, they were looking for fresh empirical fields for their model to conquer.

But it is a psychological commonplace that we need different analyses to account for why people start indulging in a behaviour (be it smoking, gambling, or researching into tax evasion) and why they continue. The addictive properties of research may be less well known than those of nicotine but they are equally powerful. In this case the glazed eyes and shaking hands were the result of long hours at the keyboard as we became obsessive about devising experiments that were realistic and involving and convinced that such experiments were good for you.

It has to be said that this was a minority view. When we tell people that we do research into tax evasion they usually laugh and say something like 'well, you must tell me how to evade mine'. Our colleagues in psychology treat us even less seriously: tax evasion is seen as a minor problem of peripheral interest to psychologists, and our chosen approach, an experimental one, as inappropriate. One aim of this book, then, is to persuade them otherwise. More generally, we want to show how the kinds of studies we describe here can make a contribution to both social psychology and economics and play a part in the further development of economic psychology.

There have been some secondary gains from working on the book. PW can now hold a halting conversation in Dutch (of the 'two lagers please' kind) and has memorised certain key phrases (the one to remember is 'Dick betaalt'). HR has extended his already considerable grasp of English with some equally useful phrases ('I'm just off to point Percy at the porcelain'). HE claims he has learned that it is possible to simulate co-authorship without doing any real

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work. More convincingly, DH argues he has found some unexplored ways to evade taxes.

It is unusual for authors to ask their readers to be patient with them at the outset (although perhaps more should) but with two audiences in mind, social psychologists and economists, we feel we should. Economists will no doubt consider our descriptions of economic theory oversimplified; social psychologists will probably regard much of what we say about method as fairly routine. But we hope that there is something here for everyone and that, as a result, economists and psychologists will be seen more often in each other's offices, conferences and journals.

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## Acknowledgements

This project is like many others in at least one important respect. The 'without-whom' department is generously filled with nice people, without whom this book would have been much more difficult to write. We also think the quality would have suffered 'without whom'. Perhaps most significantly, they all contributed to the pleasure we experienced when working on the book.

Many people have helped in a variety of ways. Several have assisted in collecting the experimental data, for which we are greatly indebted. Marion van Engelen and Lucette Klein Tank helped us in the Netherlands; Gary Calderwood, Peter Jensen, Anne Mattock, and Ira Morris provided excellent service in Exeter. Gary Calderwood also read drafts of the first two chapters. In Exeter, Rachel Kirby has sorted out our BASIC computer programs for a number of years and Andy Black wrote the BASIC translation of the program used in chapter 4. The interviews reported in chapter 5 were transcribed by Julie Dawick. The secretarial staff of the Exeter psychology department dealt with our demands with unfailing patience and courtesy. Our colleagues, both in our departments and in the wider academic community, have also been very helpful, in particular Dick Eiser, Stephen Lea, and Alan Lewis. Most of all we must thank the people who took part.

The whole process was made possible through the financial and technical support of the Department of Psychology of the University of Exeter, the British Academy, the British Council, the Nuffield Foundation, and the Faculty of Law of Erasmus University. They provided us with the necessary infrastructure to carry out the reported research in relative peace and independence.

We would like to thank Elsevier-North Holland for permission to reprint Tables 2.1, 2.2, and 2.3, and some associated text which first appeared in P. Webley, Audit probabilities and tax evasion in a business simulation, *Economics Letters*, 25 (1987), 267–70.

Some of our studies were carried out as part of a large international collaboration. During two workshops on our subject, organised at Erasmus University, we were lucky to receive insightful comments and ideas, probably many of which we did not use as their originators intended. We express our

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The manuscript has benefited profoundly from the comments we received from Frank A. Cowell, Susan B. Long, and Judyth A. Swingen. They have read the manuscript with meticulous care, and indicated how experimental research into tax evasion can gain in strength and improve in precision. Their ideas are represented in two separate chapters in this text. We are very happy that they responded affirmatively to our request to comment on the book, and, moreover, for a job well done.

The book was conceived while Paul Webley was on sabbatical leave at Erasmus University, Rotterdam. He is grateful for its hospitality and financial support.