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The Concept of Tax Culture⁺

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Abstract

In the paper in hand the concept of a national “tax culture” is developed and introduced. I suggest not to limit tax-cultural considerations to the side of taxpayers, but to widen its understanding by using an embeddedness approach considering the history of taxation and by that means explicating national tax-cultural diversity.

In the course of continuing globalization two different kinds of disturbances to tax culture may be identified: tax culture shocks and tax culture lags. Both are due to ignorant and/or ethnocentric policy measures. While lags are caused almost inevitably during any transformation or reform process, shocks should be prevented by implementing tax political measures on an international (and national!) level in a tax-cultural conform way.

Key Words: tax reform, tax culture shock, tax culture lag, evolutionary economics, design and reform of institutions

JEL classifications: H2, K34, P35, Z13

+ Parts of this paper draw heavily from Nerré (2000, 2001c, 2001d, 2001e).

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1 Introductory Remarks

In view of today's progressive globalization, international coordination and the clash of different cultures and divergent tax systems caused thereby, one would think national "tax culture" to be a very fashionable topic of economics and public finance (particularly of taxation). Contrary to all expectations, this is (still) not the case at all¹. While business administration makes extensive use of the latest findings from e.g. sociology and psychology, it has not been easy for the "time-honored" economics to follow suit in this trend. The topic of tax culture introduced in the paper in hand appears precisely at the intersection of the disciplines economics, sociology and history. So, as one might expect, the term "tax culture" is rarely found in economic literature and appears to be an emotive word². To fill this research gap, a brief overview of selected nuances occurring in public discussion worldwide is given in section two. A synthesis of its different interpretations then leads to our working definition of "tax culture" (section 3). Subsequently, chapter 4 deals with possible disturbances of tax culture. Finally, some concluding remarks sum up the main ideas of the paper (part 5).

2 Nuances of Tax Culture in (Economic) Literature

Several groups of economists writing about tax culture can be distinguished. On the one hand, there is a small group of economists which I have coined "classics" (2.1). On the other hand there are some transformation economists (presented in section 2.2) broaching this topic. Section 2.3 deals with some writing which could not be classified according to the above-mentioned classes.

2.1 THE "CLASSICS" OF TAX CULTURE

It was more than 70 years ago that Schumpeter used the term "tax culture" in his celebrated article "Economics and Sociology of the Income Tax"³, where already its evolutionary character was emphasized: "Like any social institution every tax outlives the era of its economic and psychological appropriateness. But as with all other social institutions anything noncon-

¹ Just recently, on the occasion of the Annual Meeting of the German Association for the History of Economics in Hamburg, Germany, May 10-11, 2001, Mark Perlman (Pittsburgh, PA) remarked that tax culture is a very interesting and important topic, especially in America – but nobody writes about it!

² Pausch (1992: 8). This character is based mainly on the fact that the average tax payer would have difficulty in thinking of the exploitation instrument "taxation" as an artistic creation of the human mind.

³ Schumpeter (1929, translation BN): "Ökonomie und Soziologie der Einkommensteuer".

formist in the tax system does not live eternally. Slowly the tide of evolution wears it away”⁴. Schumpeter uses the term of “tax culture” in connection with “cultivated” tax systems. These “Schumpeterian” systems appear unlike primitive – probably barbaric – systems of taxation, although it is not explained what might be meant by them. Furthermore, the income tax might be seen as the “sweetest blossom of ‘tax culture’, the ‘highest achievement’ of the technique of taxation and of tax equity”⁵. From this it becomes clear that Schumpeter assigns the term “tax culture” only to the degree of progressiveness or modernity and to the smartness of tax design. He regards taxation as an “art”⁶, which suggests an understanding of “tax culture” by means of the definition “art = creation of cultural goods” (such as sculpture, painting, theatre etc.) and distinguishes it from taxation as a mere “craft”⁷. Consequently, the Schumpeterian understanding of “tax culture” focuses on its creators, the tax economists and tax politicians, who create an artificial (artificial?) thing, a national system of taxation. This meaning seems a little too narrow for the purposes of this work, however, the emphasis of the evolutionary character should enter into the working definition in chapter 3.

A similar position concerning “tax culture” can be found with Armin Spitaler (1954), about whom Alfons Pausch notes that “Spitaler knew that the combination of taxes and culture would seem fairly ambitious and highly pathological”⁸, and to whom Pausch attributes the invention of the term “tax culture”⁹. Furthermore, Spitaler postulated the convergence of the tax systems of the “civilized nations” (rationalized by Wagner’s Law) and thus followed the Schumpeterian line of thought, however, modified by the above-mentioned postulate. On account of the contrary empirical experiences (e.g. the European tax systems are still very different in many ways) this postulate is not included in our subsequent working definition. Spitaler distinguishes between “cultivated” and “non-cultivated” tax systems, roughly assigning

⁴ Schumpeter (1929: 385, translation BN): “Wie jede soziale Institution, so überlebt auch jede Steuer die Epoche ihrer ökonomischen und psychologischen Zweckmäßigkeit. Aber wie bei allen anderen sozialen Institutionen lebt auch im Steuersystem unangepaßtes [sic] nicht ewig. Langsam unterwäscht es der Strom der Entwicklung”.

⁵ Schumpeter (1929: 282, translation BN): “[Die Einkommensteuer kann bezeichnet werden als] schönste Blüte der ‚Steuerkultur‘, als ‚höchste Errungenschaft‘ der Steuertechnik und der Steuergerechtigkeit”.

⁶ Already in 1868, the German Hugo Eisenhart titled one of his books “The Art of Taxation” (Eisenhart 1868: “Die Kunst der Besteuerung”, translation BN).

⁷ The distinction between “economics as an art” and “economics as a science” can already be attributed to Jeremy Bentham (1804[1954]), also John Stuart Mill (1848) made this differentiation.

⁸ Pausch (1992: 145, translation BN): “Spitaler wußte, daß die Verbindung von Steuer und Kultur manchen »reichlich hochgegriffen« und von »hohem Pathos« erscheinen mochte“.

⁹ Pausch (1992: 9).

As mentioned above, the term “tax culture” can be found already in Schumpeter (1929).

Even four years earlier, in 1925, the German Franz Meisel used the term of “tax culture”; compare Meisel (1925, 1926).

those attributes to creditor and debtor countries of the Fifties, respectively. Important for a comprehensive definition of tax culture, though, appears Spitaler's insight that taxation is influenced by economic, social, cultural, historical, geographical, psychological and further differences prevailing in the individual countries and their societies¹⁰.

Alfons Pausch (1992) understands the "tax culture" of a country as being closely connected with the personalities determining the evolution of the tax system. His understanding also resembles the Schumpeterian viewpoint: "Tax culture is an expression of human spirituality and creativity"¹¹. Thus, the evolution is being emphasized against its historical background, however, limited to the side of the tax legislation and the tax system design.

2.2 TAX CULTURE IN THE TRANSFORMATION CONTEXT

For the better evaluation of the comments on tax culture in the transformation context, different "origins" of those dealing with tax culture can be identified. First, there is some work coming from the sphere of economics. Then, there are some aspects coming from politicians and state officials¹². Finally, there is some writing which could not be classified according to the above-mentioned classes. The paper at hand focuses on the transformation process in Eastern Europe, especially in Russia. Thus, e.g. the Latin American context is not taken into account¹³.

The "economists"

Already in 1997 Michael Camdessus, Managing Director of the IMF, proclaimed in a speech at the Moscow Institute of International Affairs the formation of a "tax-paying culture"¹⁴ to be

¹⁰ Compare Spitaler (1954: 13).

This argument resembles Granovetter's (1985) embeddedness, compare section 2.2 of this paper and Nerré (2001a: 107 ff.).

¹¹ Pausch (1992: 9, translation BN): "Auch die Steuerkultur ist Ausdruck menschlicher Geistigkeit und Kreativität".

¹² Sometimes the individual allocation to one of the above-mentioned groups was rather complicated, especially in cases where economists hold a political position.

¹³ In any case, it should be emphasized that in Latin America the "*cultura tributaria*", i.e. "tax culture", is part of academic discussion. Its understanding focuses on voluntary compliance and on public methods to increase the propensity to be honest in the taxation process; compare e.g. Cortázar Velarde (2000).

¹⁴ Compare Camdessus (1997).

His interpretation – as well as that of most transformation economists – seems to aim at Schmölders' "tax mentality" (compare e.g. Beichelt et al. 1969, Strümpel 1969, or Schmölders 1970).

the medium-term goal for transformation politics in Russia¹⁵. It should be based on voluntary compliance with transparent tax laws, which should be applied consistently. Thus, Camdessus expresses the current opinion among transformation economists, which limits the understanding of tax culture exclusively to the taxpayers' side¹⁶.

IMF economists led by the recently retired Vito Tanzi¹⁷ understand a country's "tax culture" as a certain "tax consciousness" on the part of the taxpayers. In most transformation economies, taxpayers lack this specific consciousness because of the long-time prevailing planned economy. Central planners tried to avoid any contact of taxpayers with direct taxes and relied on indirect means of (hidden) taxation, which were not made noticeable to the taxpayers, but rather disguised by the authorities in charge¹⁸. The introduction of explicit tax systems was met by "hostility"¹⁹ of the tax subjects. Further, the understanding *why* one has to pay taxes constitutes a facet of tax culture.²⁰

The scientists around Jorge Martinez-Vazquez hold a similar view²¹. They state that a tax reform can only be carried out successfully when taking into account the "taxpayer culture" and the given capacities of the tax authorities. In retrospect they have to emphasize, though, that this has not been the case with most transformation economies²².

Russian politicians and officials

Georgi Boos²³ (1999) remarked that "[t]here isn't any country where people are happy to pay taxes but they do pay taxes [...] because of their tax culture". The alarmingly low compliance

¹⁵ The possibility to develop a tax mentality by intention is expressed already with Strümpel (1969: 28) who expected „substantial discretion for shaping tax mentality“ in the long run.

¹⁶ Nevertheless, the formation of the „tax-paying culture“ should be accompanied by substantial improvements on behalf of the tax authorities, even though their part is not seen in connection with the prevailing tax culture.

¹⁷ Comp. Tanzi (1999), Tanzi & Tsibouris (2000), and IMF Survey (2000).

¹⁸ This behavior contradicts the postulate of transparency of taxation.

¹⁹ Tanzi (1999).

²⁰ Comp. IMF Survey (2000).

²¹ Compare Martinez-Vazquez & McNab (1997: 29), Martinez-Vazquez & McNab (2000: 293), Martinez-Vazquez & Wallace (2000: 11) und Alm & Martinez-Vazquez (2001: 34).

²² Thus, tax culture shocks or tax culture lags, respectively, were caused unintentionally.

²³ Minister for Taxes and Duties of the Russian Federation in 1999.

rates in the Russian Federation²⁴ suggest that a “tax culture” in that sense has not emerged yet in the RF: “We need to develop a tax culture which nobody wants to recognize”²⁵.

Mikhail Mishustin, the Russian Federation deputy minister for taxes, stated on February 11, 2000,²⁶ that the strategies adopted by the Ministry of Taxes with technical assistance from the US Treasury and funding from the World Bank were improving tax administration efficiency, public tax culture, and staff professionalism. Furthermore, a reasonable decrease of the tax burden and a fair attitude towards taxpayers has been achieved. Obviously this understanding of tax culture is limited to the ideal of voluntary compliance, too.

Economic Strategy minister German Gref stated in an interview in July, 2000, that he “understand[s] that a tax culture cannot be inculcated in one year”²⁷. Taxpayers felt suspicious about the sincerity of the government concerning the personal income tax of a flat rate of 13%. A rise in the tax rate was anticipated. Gref admitted that it was planned to turn to a progressive type of income tax in the medium run (he mentioned a time horizon of about 20 years to achieve that goal properly). His promise that the government was “not going to deceive anyone” was linked to the above mentioned quote concerning tax culture. Thus, Gref interestingly links tax culture to the income tax as already the “classics” had done some 70 years before. Of course, like all others mentioned in the transformation context, he has the compliance side in mind, as well.

In a recent internet declaration the Ministry of Taxation of the Russian Federation described some of its method to develop a “tax culture” in Russia. As a part of the tax modernization project a pilot office has been established in the city of Volzhsky [sic].²⁸ By heavy regional advertising through mass media²⁹ the Ministry aims at the removal of the general public’s “tax illiteracy”. Accordingly, “tax culture began to be taught in schools”. Furthermore, a project to develop “tax culture among pre-school age children” is in the pipeline. By the questions of the children who are educated in taxation issues by specific stage plays like “New

²⁴ Vyacheslav Soltaganov, the then head of the Federal Tax Police Service, stated on July 16, 1999, that only one percent of Russians pay taxes honestly; comp. Itar-Tass (7/17/1999).

²⁵ Solaganov in Itar-Tass (7/17/1999).

²⁶ Comp. AmCham (2000).

²⁷ Vedomosti (07/31/2000).

²⁸ Compare MinTaxRF (2000).

²⁹ E.g. the newspaper “*Gorod i Nalogi*” (“Town and Taxes”), news bulletins, brochures, the TV programs “*Nalogovosti*” (“Tax News”) and “*Pravoporyadok*” (“Law and Order”), radio spots, and a local painter contest in 1999; compare MinTaxRF (2000).

Adventures of Pinocchio”³⁰ the parents shall be forced to discuss taxation issues at home. There is still no empirical evidence of the results of these somehow strange methods, yet. In any case, the view of the MinTax seems to be that “tax culture” is the opposite of “tax illiteracy”.

In an interview in February, 2001, the Russian Federation’s Tax Minister Gennady Bukayev was asked, if the Russian tax culture was to blame for the fact that citizens still concealed their income from the tax bodies. Bukayev answered that “as soon as people understand that they’ll be in trouble, the culture emerges and they come running to us at night to submit declarations”³¹. Moreover, he explained the existence of a “tax culture” in Western states, esp. in America, by the fear of being blacklisted and being made an outcast in case of getting caught in evading taxes. Thus, his understanding of “tax culture” might be summarized by “compliance by fear”.

Others

With regard to the transformation problems in Russia, Roman Berger³² (1998) understands the term “tax culture” as the realization that “the state can only collect taxes up to the amount which the citizens are willing to give”³³. Thus, the tax authority’s ability to estimate this willingness to comply better and better over time (possibly through a “trial-and-error” approach) can be seen as an element of “tax culture”. Furthermore, its development might be a process “of generations and centuries”, as could be observed in other European countries.

2.3 MISCELLANEOUS WRITINGS

Just recently, the term “tax culture” appeared in Switzerland in connection with the public discussion concerning a new law on direct taxes enacted on January 1, 1999³⁴. The Federal Court (“Bundesgericht”) refused to confirm the restriction or abolishment of the public nature of the tax registers that had been planned in many cantons³⁵. The on-demand delivery of tax

³⁰ Cf. MinTaxRF (2000).

³¹ Kochetov (2001).

³² Roman Berger works as a Russia correspondent for the Swiss “Tages-Anzeiger” in Moscow.

³³ Berger (1998, translation BN): “[Die Erkenntnis, daß] der Staat nur so viel Steuern einsammeln könne, wie die Bevölkerung bereit sei, ihm zu geben“.

³⁴ For a detailed description and all further discussion compare: Regierungsrat des Kantons Zürich (1998), ISR (1998) and Swiss Law Net (1998).

³⁵ Zurich attorney Ludwig A. Minelli had filed a constitutional complaint aiming at having his tax data blocked.

data to third parties³⁶ might appertain to the Swiss “tax culture”. It is argued that there might indeed exist sufficient public interest in transparency – also to fight tax evasion³⁷. Interestingly, the transparency approach used by the Alliance Court does not appear in the sense of the basic Neumark taxation principles (where it is interpreted as a “claim for common intelligibility, unambiguity and firmness of taxation rules to avoid [taxation] arbitrariness”³⁸) but in the sense of everybody’s tax data being open to the public³⁹. Yet from naming one single constitutive element of a particular Swiss “tax culture”, a globally valid term as such cannot be defined⁴⁰. However, an interaction is not only postulated between the tax authorities and the taxpayers (see below) but also – disregarded by other authors – among the taxpayers themselves. This interesting aspect will also be a part of our working definition later on.

In the United States, “tax culture” is – as far as I was able to find out – used more often by politicians than by economists⁴¹, though it is not clearly understood or expressed what they are talking/writing about. Let’s take the example of U.S. Representative Larry E. Combest⁴². In 1997, he commented on the discussion about giving more rights to taxpayers in order to protect them from IRS arbitrariness⁴³. Those taxpayer protections would cause a change in the culture of the IRS. Most probably this could be due to changing routines and thus, “culture” is used in the sense of “organizational culture”. This is a well-known fact extracted from the literature of organization management: changing routines changes the organizational culture. Combest’s conclusion is not that straightforward to my eyes: “[a]fter changing the tax culture, we can change the tax code”. As I see it, changing a culture – be it a national one, a tax culture, or an organizational culture (the latter is most probably what Combest is talking about) –

³⁶ In most Swiss cantons one can demand certain information about third parties at the local tax offices. According to the cantons’ tax law, one can receive – for a charge – detailed information on others’ earnings and property. The data that can be obtained are based on the most recent legally binding appraisal or the latest tax return.

³⁷ The Swiss Alliance Court held firm in this regard that financial information is not assigned the same protection as particular personal data. Freedom of information should have precedence over data protection in this case.

³⁸ Reding & Müller (1999: 237, translation BN): Transparency as “Forderung nach Gemeinverständlichkeit, Eindeutigkeit und Bestimmtheit steuerlicher Vorschriften zur Vermeidung von [Besteuerungs-] Willkür”.

³⁹ Interestingly enough, a similar phenomenon can be observed in Japan (and in Sweden), where the citizens with the highest amounts of taxes paid are publicly listed in a kind of ranking list at the local tax offices. Private publishing companies then start to collect all locally available data and publish a national tax payers’ dictionary.

Compare Rädler (1987: 1708).

⁴⁰ In the 1998 discussion about the “new” 1999 tax law in the jurisdiction of the canton Aargau another element of Swiss tax culture was identified: the principle to tax according to the taxpayers’ financial ability to pay; compare Hiestand (1998).

⁴¹ This would underline the argument made by Mark Perlman, compare note 1.

⁴² Larry Ed Combest has been U.S. Representative of the 19th district of Texas since November 4, 1984.

⁴³ Compare Combest (1997).

takes a lot of time and effort, and I suggest that one doesn't have the time to wait for a culture change before changing the tax code. On the contrary, it is common political practice all over the world to change the tax laws first, than the other parts of the tax culture have to adapt (see section 4). Anyway, the nuance we can extract from Combest (1997) is that the organizational culture of the tax revenue service makes up a part of tax culture, as well.

In the cause of the South African Revenue Service's [SARS] successful institutional transformation, the "incipient change in South Africa's tax culture"⁴⁴ has been in the public discussion. The aim of the reform process is "to create a new mindset among people" – as well among taxpayers as among taxmen – to achieve an improvement of tax compliance. Therefore, SARS tries to cut the compliance costs for every taxpayer, e.g. by reducing the number of tax forms to be filed. Furthermore, emphasis is laid on tax education, i.e. explaining to the taxpayers that "they have obligations alongside their rights". In the case of tax evasion or tax fraud, though, SARS will "show its teeth" and punish tax sinners immediately. The organizational culture of SARS has undergone significant changes. Career path have been mapped out for the majority of taxmen, incentives have been set to enhance performance. Thus, "tax culture" consists of a mindset of voluntary compliance, enforcement of the tax laws, and an incentive compatible organizational culture of the revenue office.

Last but not least, Hartmann and Hübner (1997) investigate "tax culture" at the interface between tax payer and revenue office. In their call for making claims for compensation in connection with a "violation of office duty"⁴⁵ of a tax official and "to make a contribution to tax culture via the tax quarrel", these interface problems are clearly expressed. Accordingly, "tax culture" in this sense is marked by the relationship between tax officials and taxpayers and the resulting behavioral patterns⁴⁶.

⁴⁴ Compare Mail & Guardian (09/03/1999), as well for all following quotations in this paragraph.

⁴⁵ German "Amtspflichtverletzung".

⁴⁶ At this point one might mention e.g. the very "impolite" means of the Russian tax authorities that currently influence and emboss the Russian tax culture.

3 Working Definition of Tax Culture

Summarizingly one can say that the “classical” understandings of a country’s “tax culture” (e.g. Meisel, Schumpeter) is almost entirely restricted to the creators of the tax system. The taxpayers are not considered to be part of the “tax culture”. This opinion is not shared in the subsequent working definition. The more recent interpretations of the term “tax culture”, though, place controversially either exclusively the taxpayers (s.a., 2.2) or the communication between the latter and the tax authorities (s.a., 2.3) at the center of their argumentation. However, the exclusive and limited look at the interface of the two (groups of) actors also seems to be far too restricted, because the evolutionary process of the tax system as well as the national culture remain unconsidered. Taking all these facts into consideration, an attempt to give a more comprehensive working definition of “tax culture” is undertaken on the following pages.

The concept of tax culture presented here can be explained from its conceptual dismantling in the individual terms “tax” and “culture”, and apparently deviates from the variants described in chapter two since it is far more extensive.

From the viewpoint of the “taxes” not only the tax system and the actual tax practice form part of a country’s “tax culture”, but also the relationship between the tax authorities and the taxpayers⁴⁷ accounts for the unique “tax culture” of a country⁴⁸.

As regards the tax authorities, the structure of the individual levels’ competencies must be taken into account – how are the tax revenues to be distributed between local and central bodies? How explicit and precise is the tax law on that account and how consequently are violations sanctioned? Which (rival) interest groups do exist? This (incomplete) list of questions is a particular important part of national tax culture, especially in transformation economies⁴⁹.

However, the component of “culture” is far more important: Although there is, according to Geert Hofstede⁵⁰, no scientific language to define “culture”⁵¹, in the course of this work reference is made exclusively to the national culture⁵² as such. In style of the “Shared Mental

⁴⁷ For a (partially game theoretical) overview concerning the interaction of tax authority and taxpayer see e.g. Frey & Holler (1998).

⁴⁸ This component of “tax culture” can be derived from Hartmann & Hübner (1997).

Moreover, the relations between taxpayers must be considered a very important part of “tax culture”, as can be seen from the Swiss case made for transparency.

⁴⁹ Compare Bell (1998), Berkowitz & Li (1999), Blanchard & Shleifer (2000), Shleifer & Treisman (2000) und Treisman (2000a,b) for the Russian context of these questions.

⁵⁰ Compare Hofstede (1983: 77).

⁵¹ Herrmann-Pillath (1999a) wrote a critical essay on this question.

⁵² A more detailed explication of the “national” culture might possibly implicate a closer look at the different local subcultures and their inclusion into the analysis, cf. Herrmann-Pillath (1999b: 99) and Nerré (2001a, chapter 4). For the idea of “tax culture”, this would be of importance if local differences in taxation were supposed to be explained and/or analyzed e.g. in a federal state, such as the USA. Concerning these problems

Models” à la Denzau & North (1994)⁵³ “culture” should be understood as “the collective programming of the mind” (Hofstede 1983, 1991). Similarly, Panther calls culture “a learned system of meanings/interpretations (including values) shared by a group of actors”⁵⁴. It becomes clear that the understanding of “culture” aims at its evolutionary character: The cultural factors are continuously in an ongoing modification process stimulated by external and internal inputs⁵⁵. Consequently, culture itself is “a dynamic phenomenon of interaction, not a fixed equipment of the actors”⁵⁶.

The synthesis of the two terms “tax” and “culture” succeeds via the just mentioned evolutionary process: history is the linking or embedding variable. Namely, both subject areas are embedded in the national historical events (in the sense of Granovetter's “historical embeddedness”⁵⁷). In this regard, already Schumpeter found that “every tax ideal has got its historical, economic and sociological boundaries”⁵⁸. In this way, the existence or creation of a universal and “objectively good” system of taxation becomes implicitly impossible⁵⁹. Thus, a “tax culture” specific to a particular country emerges – coined by the tradition of taxation (e.g. an

Cnossen (1990: 475) remarks: „Actual tax practices [...] show that subnational tax systems can differ widely one from another. [...] A substantial degree of economic integration seems perfectly compatible with a high degree of tax diversity“.

⁵³ “Mental models are the internal presentations that individual cognitive systems create to interpret the environment“ [Denzau & North (1994)].

In the field of psycho-linguistics “mental models” can be described as follows (comp. Zimmer [1986/1994: 129 ff.]): The human mind is capable of categorizing its perceptions. A psychological **category** is thus a class, formed by the perceiving mind (e.g. the class of all tables). Further, a **representation** is the visualization of the environment formed by human mind (consisting of smells, sounds, visual stimuli, feelings etc.). The representation of a category is called a psychological **concept**, and resembles the definition of “mental models” by Denzau & North (1994).

⁵⁴ Panther (1999a: 24; 1999b: 165; 2000: 1; translation BN): “[Kultur ist] ein gelerntes, von einer Gruppe von Akteuren geteiltes System von Bedeutungen/Sinngebungen (einschließlich Bewertungen)“.

⁵⁵ At this point reference should be made to evolutionary game theory. For an introductory overview see e.g. Holler & Illing (2000, chapter 8). Jones (1995: 274 – 275) points out that “cultures [...] may persist in their current form only while there is no challenge. [...] Gradual modifications take place even in Western societies“.

⁵⁶ Herrmann-Pillath (1999b: 90; translation BN): “[Kultur ist] ein dynamisches Phänomen der Interaktion, keine fixierte Ausstattung der Akteure“.

Similarly Granovetter (1985: 486) notes that “culture is not a once-for-all influence but an ongoing process“.

⁵⁷ Cf. e.g. Granovetter (1985: 486).

The general idea of embeddedness can already be found with Schumpeter (1950).

Other forms of embeddedness are e.g. structural, cognitive, cultural, political (compare Zukin & DiMaggio 1990: 14 ff. and Smelser & Swedberg 1994), and regional embeddedness (cf. Nerré 2001a: 107 ff.).

⁵⁸ Schumpeter (1929: 383, translation BN): “Jedes Steuerideal [hat] seine historischen, ökonomischen und soziologischen Grenzen“.

In the context of taxation guidelines, Scheer (1996: 156, translation BN) points out unmistakably: “One surely cannot expect that the guidelines for a ‘right’ taxation are independent of time and location. [Dabei kann sicherlich nicht erwartet werden, daß die Leitbilder ‘richtiger’ Besteuerung unabhängig von Zeit und Ort sind]”.

⁵⁹ An opposing position is taken by e.g. Manfred Rose, who scientifically supervised the introduction of a consumption-oriented income tax in Croatia and holds the opinion that solely economic factors are to be considered for the design of any tax system; cf. e.g. Rose (1998a,b). This is a contradiction to the proclamation of the existence of a gap within economics “between pure fiction and cultural reality” (Groß 1999, translation BN), and as well to the above mentioned “embeddedness” argument.

accentuation of [in-]direct taxes) on the one hand, and by the interaction of the actors and the cultural values⁶⁰ like “honesty”, ”justice” or also “sense of duty” on the other hand.

The latter resembles the – by definition taken more narrowly – tax *mentality* that consists of the two components of tax *moral* and tax *discipline* and solely aims at the relationship of the taxpayer to the tax state. Above all, the German Cologne school around Guenter Schmölders and his students treated this subject during the fifties and the sixties comprehensively. A passable overview in this regard is given by Tretter (1974), who gives the following definition: “Tax mentality includes all attitudes and also all patterns of behavior which the tax-paying citizens hold against (or with?) the tax and the state”⁶¹. In general tax *moral* is used as a term connected with a certain “willingness-to-pay taxes”, a feeling of obligation to the state (according to the benefit principle) or the obligation to the general public or community (with tax moral according to the ability-to-pay principle), respectively. Tax *discipline* then reflects the attitudes of the taxpayer in his or her actions.

Definition: Tax Culture

A country-specific tax culture is the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country’s culture, including the dependencies and ties caused by their ongoing interaction.

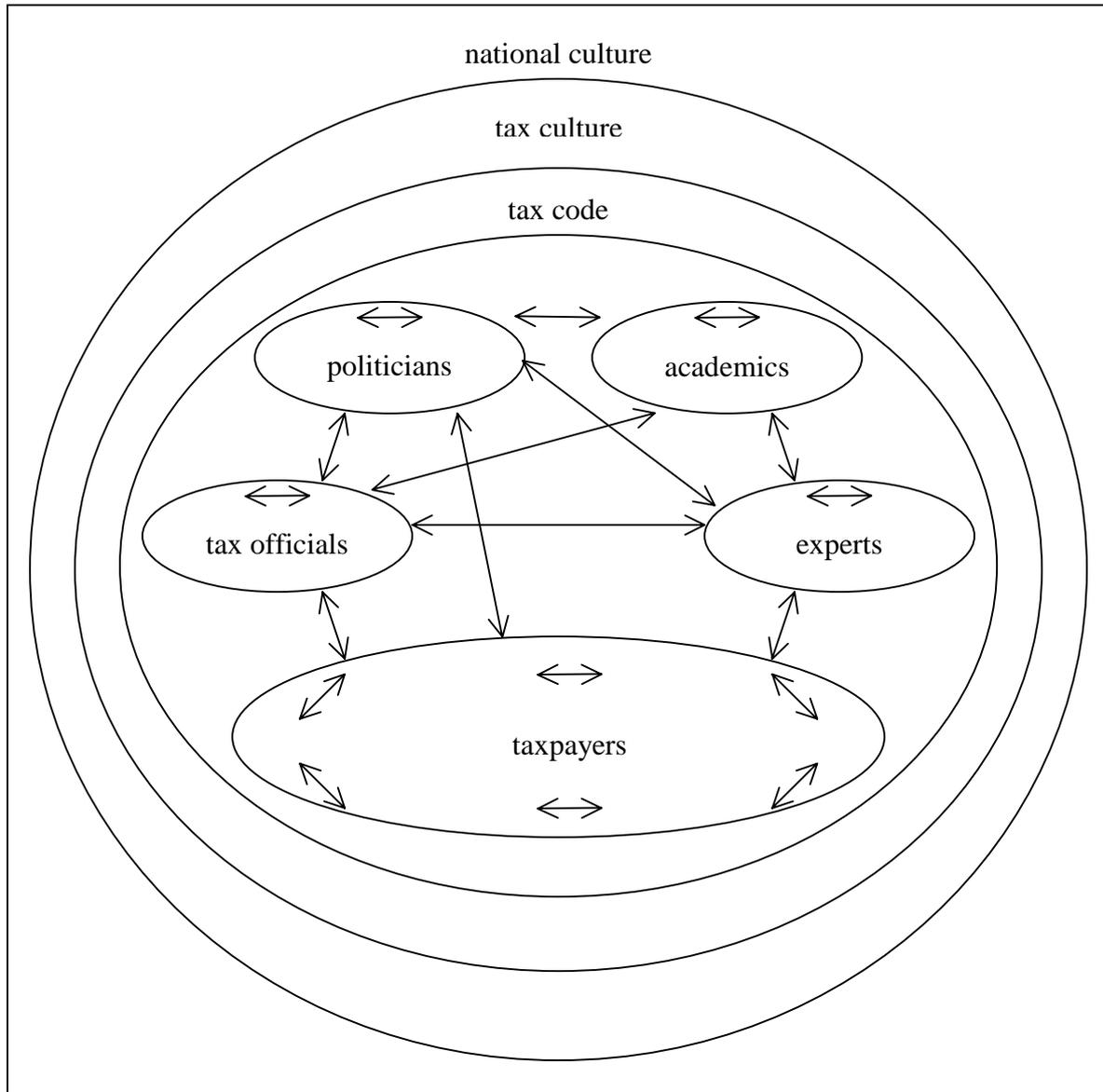
Accordingly, tax culture contains even more than „culture of taxation“ and „tax-paying culture“. A simplified overview – which could easily be enhanced by more details – is presented in figure one. It shows the embeddedness of the actors into the national culture with its subset of tax culture. Cultural norms and historically developed institutions both determine the tax code. The latter sets the environment and the constraints, i.e. the rules for the tax game. Players include (among others) taxpayers, politicians, tax officials, expert (e.g. tax advisors), and academics. The arrows indicate interaction between the different groups of players as well as between the members of one and the same group (e.g. academics meet at academic conferences). By the ongoing interaction, social ties and dependencies are developed over time. I have left out an interaction arrow between academics and taxpayers, because I am not sure about the relationship between both groups (academics tend to model taxpayers far differently

⁶⁰ Buchanan (1995: 195) states appropriately: “Differences in cultural history must exert behavioral consequences“.

⁶¹ Tretter (1974: 39, translation BN): “Unter Steuermentalität sind alle Einstellungen und auch Verhaltensweisen zu verstehen, die der Bürger gegenüber der Steuer und dem steuerheischenden Staat einnimmt“.

than they act in reality, taxpayers seem to know that and thus do not care about the propositions academics make).

Figure 1: The Embeddedness of Tax Culture



4 Disturbances of Tax Culture

From sections two and three one might hopefully be able to imagine what a nation's tax culture is about. The question remains, however, what is the use of this knowledge. From a tax-cultural perspective, the answer lies in occurring abnormalities or disturbances. What tax culture is about is often only realized when changes to the tax system cause more or less serious problems. During transformation processes, e.g., any country's *political* culture is subject to

more or less dramatic changes. Being a part of political culture⁶², the tax culture suffers from certain problems, as well. The most crucial part is often played by foreign advisers who might not be tax-culturally conditioned in the same way as the advised country's society. Therefore, institutional conflicts are inevitable during the attempted transfer of a particular tax system into a different "tax culture" following a "big-bang" approach. In such cases so-called "tax culture shocks"⁶³ are unavoidably caused (section 4.1). With smoother "gradualist approaches" or with any attempt of gradual tax reform in general, serious shocks might be avoided. Nevertheless, phenomena might be observed due to adaptation processes which I have named "tax culture lags" (section 4.2).

4.1 TAX CULTURE SHOCKS

The term "culture shock" was coined about 40 years ago by the anthropologist Kalervo Oberg, who published the results of his personal observations of American expatriates in 1960 (Oberg 1960). Following Oberg, other authors placed their emphasis on "*language shock*" (Smalley 1963) or "*role shock*" (Byrnes 1966), but in principle described only facets of the same phenomenon.

In contemporary literature on international management, cross-cultural management or human resource management there can be found a chapter on the theory of culture shocks in almost any textbook⁶⁴. There, the negative reactions of individuals to (unexpected) patterns of behavior in a foreign culture are described, resulting in a feeling of insecurity, lack of understanding or uneasiness.

Shocks in the field of *tax culture* can emerge during an encounter with an unknown or foreign tax culture. A distinction should be made, though: shocks may be observed on the individual or micro level, or on the collective or macro level.

Above all, individual tax culture shocks have become more and more common in the course of today's globalization: They are part of the overall "culture shock" (which is well-known from management literature, s.a.) if taxes are to be paid in another country (host country). In the case of a certain "strangeness" of the prevailing local tax culture, where the values reflected possibly differ from those of one's own inherent tax culture, this may well lead to a feeling of unfair processing⁶⁵, helplessness in view of the prevailing tax practice, insecurity

⁶² Compare Strümpel (1969: 28).

⁶³ Compare Nerré (2000, 2001b).

⁶⁴ Compare Chaney & Martin (1995), Harris & Moran (1996), Lewis (1996) und Deresky (2000).

⁶⁵ One could theoretically think of a positive surprise as well if the individual got the feeling of paying less taxes in the host country and getting a fairer treatment than would have been the case at home.

etc. In the case of a shock on the micro level, there are two possibilities to solve it: The individual either returns to his home country (Hirschmann's "costs of exit"⁶⁶ in that case must be lower than the costs of remaining in the foreign tax culture), or undergoes a process of adaptation⁶⁷, which (hopefully) leads to a better understanding of the host country's (tax) culture.

Collective tax culture shocks are to be observed by far more rarely. They are characterized by the fact that both the taxpayers (in their entirety) and the tax administration suffer considerably from them. While the first aspect might be quite obvious (in the sense of massively occurring individual shocks), the second aspect perhaps needs a further explanation. For this purpose, three possible scenarios will be presented: (1) A certain tax system being forced onto a nation by an external power⁶⁸ in the course of a state of emergency, (2) the introduction of a new tax system dictated by donor nations or donor organizations (e.g. the IMF or the World Bank) during transformation processes, and (3) the enforcement of a tax system by the central power of a federation.

The effects caused by the situation described in the third case crucially depend on the approach chosen by the authorities. In the case of a so-called "big-leap approach", which consists of sudden and unexpected changes in the existing system of taxation, an event similar to a shock could possibly occur. In this case, tax administration would be confronted with a great number of new and unknown rules (i.e. tax laws), which can possibly lead to enforcement and implementation problems. With a "gradualist approach", though, all changes are implemented in small steps over a longer period of time. Thus, it is to be expected that the tax administration and the taxpayers would get accustomed to the new rules little by little. Therefore, a shock on the macro level cannot occur with the latter approach⁶⁹.

Such a situation would be conceivable for example on the EU level. The "central power" (e.g. the European Parliament) would also need a parliamentary and constitutional legitimization in order to be able to enact a "tax reform". If that were given, there would not be any argument against a reorganization of the national systems of taxation on the constitutional level. Nevertheless, it would seem to be a violation of the *national objectives*⁷⁰ if no veto right had been provided in the constitution of the *federation*. Thus, even though there could not arise any conflict because of the democratic line of legitimization, indeed a collective tax culture shock

⁶⁶ Cf. Hirschmann (1970).

⁶⁷ The duration and the inconveniences of this process depend on different factors, e.g. on the degree of difference between the tax culture of the host country and the individual's home country, on the individual's cultural adaptability etc.

⁶⁸ One could think of a situation where internal powers enforce a new tax system on a country, e.g. in the course of a malevolent dictator's military putsch.

⁶⁹ However, tax culture lags have to be expected, compare section 4.2.

⁷⁰ Concerning constitutional economic issues compare e.g. Kirsch (1997: chapter 4).

in the broadest sense (so-called secondary tax culture shock) might be caused if an affected country could not influence the new tax design significantly (on the EU level, however, a veto right is provided⁷¹). In that case, taxpayers and national tax authorities see themselves confronted with unknown taxes and tax laws possibly contradicting their own national/cultural values.

The second scenario mentioned above takes account of the fact that the most crucial part in transformation processes is often played by foreign advisers who are not tax-culturally conditioned in the same way as the advised country's society. Western industrialized countries often offer foreign aid to so-called developing countries only on the condition that the prevailing financial systems (including the tax system) be reformed according to the aiding countries' ideals⁷². Therefore, institutional conflicts are inevitable during the attempted transfer of a particular tax system (or only of a particular tax!) into a different "tax culture", especially when following a "big-bang" approach. The results of such ethnocentric measures are even lower compliance rates and lower working moral of tax officials than before.

A perfect example for a shock on the macro level is the first case described above: changes in the national tax system are made against the will of the voters and without democratic legitimation. The tax administration sees itself confronted with new, obscure and above all unwanted changes in the system of taxation and taxation practice. Moreover, the administration is possibly put under pressure by the controlling forces that would like to observe the intended "success" as soon as possible. In connection with this one scenarios might be imagined: the violent occupation of one country by another one in the course of belligerent activities⁷³.

A tax culture shock on the macro level – as well as one on the micro level – causes a feeling of insecurity concerning the new rules of taxation, of dissatisfaction, of being insulted and similar feelings, equally found with the mass of the taxpayers as well as the tax administration. Furthermore, the tax moral and the tax discipline in the country is to be expected to decline, the tax resistance on behalf of the taxpayers, on the contrary, to rise. Also, from the part

⁷¹ Compare Keen (1993: 16). In that case, problems could for example arise due to logrolling activities as well.

⁷² Russia might serve as an example (for a so-called "tax developing country") in this case, compare Nerré (2001d, e). E.g. in 1996, 1997, and 1998, the IMF was only willing to provide further funds if tax revenues would increase significantly in the nearest future (thus, in this example there is no direct patronage concerning the tax *system*); comp. Franklin (1997: 137) and Shleifer & Treisman (2000: 148, 176). The IMF demand led to very brutal methods of tax collection in Russia (by elite soldiers), which did not seem very stimulating for Russia's emerging tax culture, cf. Berger (1998).

⁷³ See Nerré (2000) for a case study of the events in Japan in the aftermaths auf WW II.

of the tax administration a decline in *working* moral will occur because the tax officials see themselves confronted with new tax laws and an external pressure for success. The course of the shock and its long-term effects depend on the methods chosen⁷⁴ as well as on the duration and the degree of strictness of the (enforced) patronage. Should the latter be of continuous nature and of a high degree, a laborious and painful adaptation process will be triggered, which can probably lead to a slow modification of the prevailing tax culture of the patronized country. In the case of a short-termed patronage of relatively lax character, soon re-reforms and/or adaptations to the well-known tax culture might be expected⁷⁵ (as could be observed e.g. in Japan after World War II).

4.2 TAX CULTURE LAGS

Even if – by using a gradualist approach to tax reform – tax culture shocks may (and should!) be avoided, troubles in the sphere of taxation are inevitable in the majority of tax reform projects. One has to keep in mind that a tax reform means to change one part of a nation's tax culture first: namely, the tax code, i.e. the formal institution of law. The remaining parts of the tax culture stay unchanged for the time being, they lag behind in the tax culture's evolution. Thus, a phenomenon might occur which I have named "tax culture lag"⁷⁶. It has been borrowed from the concept of culture lag which was developed by the economist Thorstein Veblen (1899) and the American sociologist William F. Ogburn (1922)⁷⁷. While Veblen analyzed the process of economic evolution in the framework of cultural evolution, Ogburn looked at social evolution in the context of cultural evolution.

Just like the concept of culture *shock* can be found in almost any textbook of international management (s.a.), the phenomenon of "culture *lag*" is part of most contemporary textbooks of sociology⁷⁸: "The cultural lag approach has been one of the master concepts of modern social analysis. [...] The concept of culture lag, which Veblen used to analyse social proc-

⁷⁴ In the case of a hostile occupation a big-leap approach has to be expected.

⁷⁵ This resembles the situation in evolutionary game theory, where a mutant (here: the occupier) enters a (foreign) population and plays a formerly unknown strategy. If the mutant leaves the population again after a certain time (either exit or death), the continued existence of his strategy (here: the "strange" tax system) depends on the question, whether its fitness outperforms that of the old-established players' strategies or not.

⁷⁶ Sociologists use the expressions "culture lag" and "cultural lag" synonymously. In earlier contributions I have used the term "tax-cultural lag", but to relate the lag phenomena more closely and more obviously to the concept of tax culture shocks I have decided to use the expression "tax culture lag" from now on.

⁷⁷ While Veblen published his "Theory of the Leisure Class" already in 1899, Ogburn coined the expression of "cultural lag" only in 1914, when holding a chair in economics and sociology at Reed College. In 1915 the theory was improved until in 1922 his "Social Change" was published. The accusation of stealing the theory from Veblen is strictly rejected by Ogburn: "I have been accused of taking the theory from Thorstein Veblen [...but] I am quite sure [...] I had never read him on this point"; comp. Ogburn (1957: 168, 1964: 87).

⁷⁸ Cf. Brinkman & Brinkman (1997: 609).

esses, has been widely used by American sociologists to account for both social change and social processes⁷⁹.

Ogburn offers the following definition for culture lag phenomena: “A cultural lag occurs when one of two parts of culture which are correlated changes before or in greater degree than the other part does, thereby causing less adjustment between the two parts than existed previously⁸⁰. The 1922 definition in his “Social Change“ is even more comprehensive – especially for the transfer of the concept to the field of tax culture: “[T]he various parts of modern culture are not changing at the same rate, some parts are changing much more rapidly than others; and that since there is a correlation and interdependence of parts, a rapid change in one part of our culture requires readjustments through other changes in the various correlated parts of culture [...] Where one part of culture changes first, through some discovery or invention [...] there frequently is a delay in the changes occasioned in the dependent part of culture. The extent of this lag will vary according to the nature of the cultural material, but may exist for a considerable number of years, during which time there may be said to be a maladjustment⁸¹. The time of maladjustment or imbalance within a culture is marked by social unrest and adjustment problems in society. This is exactly what can be observed in the sphere of tax culture during transformation or reform processes⁸².

In section three of this paper the different elements of a national tax culture – like the tax code, the tax authorities, tax experts, or the taxpayers – have already been identified. Tax culture lags may occur – similar to cultural lag effects – when the different elements of a nation’s tax culture develop at different speeds, i.e. if for some reason the relationship between some parts is no longer in cultural/evolutionary equilibrium.

This might be due to, e.g., a democratically legitimized tax reform. First, tax authorities will have to cope with the new guide lines and tax laws. Then, it is taxpayers who have to adjust their behavior to the latest changes in the tax law. During this period of multi-level adjustment tax-cultural distortions are inevitable – especially in the case of a prevailing (tax) cultural

⁷⁹ Davis (1968: 304 f.).

⁸⁰ Ogburn (1957: 167, 1964: 86).

⁸¹ Ogburn (1922: 200).

He explains culture lag with the maladjustment between the development of the automobile and the highways in America. While in 1910 both parts were functioning properly together (cars were slow, highways were narrow) the development of stronger motors enabled speeds of 60, 70 and even 80 mph – but only in theory. *In praxi*, the narrow and curvy streets just did not allow to go at that speed – they lagged behind and slowed down traffic’s development (in the truest sense of the word!). It took the government some time to adjust the highways’ quality to the new innovations in the automobile sector and thus to enable car owners to extract a maximum of utility from their cars (in terms of speed); see Ogburn (1957/1964).

⁸² Compare Martinez-Vazquez & Wallace (2000: 12): “Reforming a tax code is a difficult and complex procedure, and it requires support and compatibility with other laws and institutions in the system”.

conservatism or inertia. On the hand of the tax officials a decrease in *working* moral might be expected, followed by a decrease in *tax* moral on the part of the taxpayers.

In Western societies most tax reforms consist of marginal changes to the tax system only, e.g. broadening some tax base, changing some tax rate by a percentage point, and so forth. In those cases, tax culture lags are neither very obvious nor serious, even though they appear, however. E.g., the introduction of the possibility to deduct some sort of expenses from personal income tax liability will change taxpayers' behaviour in the medium term. Getting used to it takes some time of adjustment, as well with taxpayers as with taxmen.

More serious are tax culture lags in the case of far reaching tax reform measures as can be observed in many transformation economies. There, grave tax culture lags occurred⁸³: Sometimes people had to get accustomed to the reality of democracy, i.e. that having democratic rights means to have obligations, too. The most important one is – especially in the case of scarcity in public funds – paying taxes to finance the democratic institutions and keep the state in a position to fulfil its task of supplying certain (public) goods to its citizens appropriately. Thus, the gains from democratization and transformation can only be achieved in the long run if people obey and comply to the tax law. But, in fact, the majority of the people were of the opinion that they had never paid taxes before (due to hidden methods of taxation e.g. in socialist countries). Changing the “programming of the mind” in transformation economies will take strong educational efforts⁸⁴ and – above all – a long time. During the time of adjustment to the new (tax) reality the tax systems in these countries will generally not yield the necessary amount of revenue.

Thus, changing a tax code without taking into consideration its embeddedness in the national tax culture might cause serious revenue problems and frustration of the actors, which might initiate a vicious cycle of non-compliance: on the one hand, the economic and political situation may not put the governments of transition countries into a position to fulfill their tasks satisfactorily. On the other hand, taxpayers do therefore not feel the moral obligation to fulfill their part of the institutional contract between the state and its citizens. Accordingly, as taxpayers receive public assistance only on an insignificant level, they think it legitimate to delay payments or entirely evade taxes.

⁸³ See Nerré (2001d, e).

Far reaching tax reforms take place in Western societies as well, but are by far rarer than gradual reforms.

⁸⁴ Comp. Cortázar Velarde (2000) and MinTaxRF (2000).

It has to be emphasized that it might be hard to distinguish the negative effects of a tax culture lag from those caused by a tax culture shock. It is of importance to note, though, that lags can hardly be avoided, even if a gradualist approach has been chosen as method of reform.

5 Concluding Remarks

The concept of a country-specific national tax culture has been disregarded by both economic scientists and politicians for a long time. When using the expression in public discussion, a useful and understandable definition has not been strived for. For further research I propose that a national tax culture should comprehensively be defined as the entirety of all interacting formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country's culture, including the dependencies and ties caused by their ongoing interaction. From this working definition it becomes evident that to understand a specific country's tax culture requires a lot of research effort, because a lot of actors and institutions have to be studied as well as the procedures and processes when they interact.

Good policy advice should not disregard the national tax-cultural constraints. Thus, the prevention of collective tax culture shocks should become a *normative* criterion for a "good" international and national tax policy. Furthermore, one should be aware that during transformation processes the appearance of tax culture lags is almost inevitable. But still, the degree of the negative effects caused by the lag effects will vary with the extent of tax-cultural conformity of the new and reformed tax measures.

Hopefully, the theory of tax culture will be able to belittle the above-mentioned gap between pure theoretical economic fiction and cultural reality, particularly in the sphere of taxation. Furthermore, tax political recommendations can be derived from it, especially in the context of transformation processes.

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