



Tax evasion and emotions: An empirical test of re-integrative shaming theory



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ABSTRACT

Shaming can be either of two types, shaming that becomes stigmatization of the offender and favors his exclusion from the community, or shaming that is followed by forgiveness and reintegration of the deviant. Here we test experimentally these aspects of shaming theory with a repeated tax-payment game, in which the shaming “ritual” consisted of displaying the evader’s picture in addition to charging monetary sanctions. Results show that when cheating is made public and the contravener is not successively reintegrated, the total amount of cheating is significantly increased compared to when cheating is made public but publicity is immediately followed by reintegration. The former condition is associated with more intense negative emotions related to cheating. This suggests that the employment of a social shaming mechanism may be an effective, albeit very sensitive, tool in the hands of policy makers.

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‘Cultural commitments to shaming are the key to controlling all types of crime. However, for all types of crime, shaming runs the risk of counterproductivity when it shades into stigmatization’.

J. Braithwaite – *Crime, Shame and Reintegration* (1989)

1. Introduction

Shame is a self-conscious emotion that can act as a force for social conformity and social cohesion (Lewis, 1992). The anticipation of shame, or shame avoidance, is thought to motivate the individual to accept his/her responsibility for the welfare of the group (de Hooge, Breugelmans, & Zeelenberg, 2008; Lewis, 1971; Tomkins, 1962). In criminological literature, shaming refers to ‘all social means of expressing disapproval with the intention of invoking remorse in the person being shamed and/or condemnation by others who become aware of shaming’ (Braithwaite, 1989). Shaming can be either of two types: shaming that becomes stigmatization of the offender and his exclusion from the society of law-abiding

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citizens, and shaming that is followed by forgiveness and reintegration of the offender. According to Braithwaite (1989), the most effective form of shaming is not usually applied from the State but occurs in micro-groups of interdependent people. Re-integrative shaming would lead to lower crime rates, with disapproval dispensed without eliciting rejection by the disapprovers or dismantling potentialities for future disapproval. Stigmatization, instead, would make criminal sub-cultures, that reject the rejectors, more attractive. One powerful means of stigmatization, is labeling (Becker, 1963). When a negative label gets applied to an individual who has supposedly broken any socially accepted rule, it becomes part of the individual's identity, and from then on he/she is 'apt to employ his/her deviant behavior or a role based upon it as a means of defense, attack, or adjustment to the problem created by the societal reaction' (see Lemert, 2002). A label applied after 'primarily deviant' behavior may thus become a key aspect of the individual's identity, and prompt 'secondarily deviant' behavior.

In tax law enforcement, for example, it is well known that deterrence-based enforcement strategies, especially when perceived as unfair according to self-reports, can cause a paradoxical reaction or intention of future resistance to compliance and disrespect for the law (e.g. Murphy, 2008; Murphy & Harris, 2007). Here, we aimed to test the predictions of shaming theory in a controlled white-collar crime context with an experimental tax-payment game.

The importance of shame and more generally of emotions in tax compliance has been almost unexplored. The standard economics-of-crime model formulated by Allingham and Sandmo (1972) and Yitzhaki (1974) has inspired many empirical tests (see Alm, 1991; Cowell, 1990; Andreoni et al., 1998; Elffers, 1991; Slemrod, 2007 for surveys). If these tests confirm the basic mechanisms of the deterrence models, they however reveal much more compliance than predicted. Relaxing the hypothesis of risk neutrality and assuming risk aversion is not sufficient to explain the level of compliance observed in empirical settings (Bayer & Sutter, 2009). This has motivated the exploration of other dimensions of tax compliance, such as the heuristics and biases that lead individuals to overweight small audit probabilities (Alm, McClelland, & Schulze, 1992), or the importance of equity and the role of voting on the use of taxes (Pommerehne et al., 1994). The role of tax morale (Cummings, Martinez-Vazquez, McKee, & Torgler, 2009; Kirchler, 2007; Torgler, 2002), ethics, social norms and social interactions has been investigated more recently (Fortin, Lacroix, & Villeval, 2007; Lefebvre, Pestieau, Riedl, & Villeval, 2011; Myles & Naylor, 1996). Civic norms (Slemrod, 1998), moral appeals (Blumenthal, Christian, & Slemrod, 2001; Schwartz & Orleans, 1967), or expectation of collective blame (Bosco & Mittone, 1997) have been shown to exert contrasted influence on tax compliance without, however, fully explaining it. In this paper, we investigate a new hypothesis by considering that our understanding of tax compliance can be improved by analyzing the role of emotions in dynamic settings.

Our expectation is that both income reporting and audit, possibly followed by sanctions, elicit emotions in individuals. We assume that emotions do not simply proxy the psychic cost of evading taxes; they also constitute a driving force of behavior (Zeelenberg, 2007). In other words, the emotions associated with income reporting, audit, and sanctions can influence further compliance. Various emotions might be related with the act of evading taxes and its consequences. Indeed, moral emotions might signal violations of social norms (Thøgersen, 2006; Zeelenberg, Nelissen, Breugelmans, & Pieters, 2008; de Hooge et al., 2008). For instance, the evader might feel guilty (Fessler & Haley, 2003; Tangney, 1991) for not helping needy people in the community, or feel ashamed (Keltner & Buswell, 1996) if caught evading taxes and publicly denounced (Haidt, 2003; Tangney & Dearing, 2002). The experience of guilt is commonly associated to pro-social behavior motivated by reparatory acts (Roseman, Wiest, & Swartz, 1994; Tangney, Miller, Flicker, & Barlow, 1996). For its part, shame may motivate withdrawal and avoidance of social interactions (Tangney et al., 1996). Moreover, underreporting income may generate anticipatory and anticipated emotions (Lowenstein, Hsee, Weber, & Welch, 2001). Indeed, evaders may experience anticipatory emotions when taking the risk of reporting less than requested and these risk-related anticipatory emotions are likely to increase with the level of tax evasion. Moreover, evaders may experience anticipated emotions when thinking of how bad they will feel if audited and punished. We expect that the intensity of the emotions related to the detection of cheating differs according to the publicity of this information, due to shaming. Indeed, shaming could amplify moral emotions (Izard, 1977; Sabini & Silver, 1997) related to the violations of a norm (e.g., tax evasion), and affect social behavior (e.g. tax compliance) (Ahmed & Braithwaite, 2004; Amodio, Devine, & Harmon-Jones, 2007; Murphy & Harris, 2007).

Two recent studies investigated directly the role of emotions on tax compliance (Coricelli, Joffily, Montmarquette, & Villeval, 2010, and Maciejovsky, Schwarzenberger, & Kirchler, 2011). Coricelli et al. (2010) measured skin conductance responses (SCRs) and self reported emotional arousal and valence in a tax evasion experimental task. They found higher SCR when participants evaded, and higher arousal and negative affects associated with being audited. A treatment in which the pictures of evaders were publicly displayed few seconds at the end of the period favored compliance. The decision to evade and the proportion of evaded income were related to the anticipation and the experience of emotional responses. Maciejovsky et al. (2011) investigated how the interplay between cognition and emotion affects tax ethics. They found an interaction effect of cognitive and emotional priming to moral judgments related to tax evasion. This study also shows how the effectiveness of economic variables, such as audit probabilities and the amount of the fines, is influenced by affect.

The originality of our experimental protocol consists of manipulating the risk of being publicly exposed for underreporting. Our shaming "ritual" consists of showing the picture of the evader in addition to a monetary sanction (similarly to Coricelli et al. (2010)). In the so-called Pardon treatment, shaming was followed by reintegration: after having his picture displayed, the evader was fully reintegrated in the group (i.e. his picture disappeared from the screens, like in Coricelli

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