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Norms and Tax Evasion

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Abstract: Norms about tax evasion may influence the individual's decision whether to evade taxes or not in two ways: First, most people feel the need to justify their actions to themselves. The individual's own norms about tax evasion will therefore affect his decisions whether to evade taxes or not. Second, most people are also influenced by what they perceive to be socially acceptable behavior, at least among people who are important to them. The individual's perception of other people's norms can therefore also be of importance when we want to understand his decision of whether to evade taxes or not.

This paper uses survey data from 2003. The results confirm the hypothesis that norms affect peoples' propensity to evade taxes. First, the analysis shows that peoples' beliefs about other people's attitudes towards tax evasion are important for their own willingness to accept unregistered work. Second, we find that peoples' own norms are important determinants of their willingness to evade taxes. Finally, we argue that the role of norms is not simply to rationalize behavior that is essentially determined by other factors

Keywords: Tax Evasion, Norms

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1. Introduction

Norms affect people's propensity to evade taxes, and there is some evidence that their importance have increased over time (see Goldstein et al (2002)). Norms about tax evasion may influence the individual's decision whether to evade taxes or not in two ways: First, most people feel the need to justify their actions to themselves. The individual's own norms about tax evasion will therefore affect his decisions whether to evade taxes or not. Second, most people are also influenced by what they perceive to be socially acceptable behavior, at least among people who are important to them. The individual's perception of other people's norms can therefore also be of importance when we want to understand his decision of whether to evade taxes or not.

To reduce tax evasion effectively, it is therefore crucial to know what norms different groups have regarding tax evasion, what factors affect peoples' norms and how norms affect people's behavior. The purpose of this paper is to investigate to what extent norms, both people's own norms and their beliefs about other people's norms, can explain why some people evade taxes and others do not.

The approaches that tax evasion may be affected by what the taxpayers perceive to be unfair taxation is not original. For example, Bordignon (1993) presents a theoretical framework in which taxpayers are more inclined to evade taxes if they have to pay a higher tax rate than what they think is a fair price for the public goods they receive. A fair price is what a person would be willing to pay (on the margin) if she received the average income. In this framework, the level and composition of public expenditures may be important for norms and for tax evasion. Incomes are exogenous in the model, however, such that there is no role for fairness considerations related to how income is earned. For example, if two individuals are equal in their income and preferences for public and private goods, it should not matter for their tax norms that one of them works long hours for his income while the other one earns the same income by working a few hours. Our claim is that the individual with the lowest hourly wage will feel it more justifiable to evade taxes, and will evade more taxes, even if their gains and costs of the public goods are the same.

The paper has six parts. In section two, we report the main findings on people's attitudes towards tax evasion and their propensity to evade taxes. We also compare these results with the results from earlier studies. In section three, we analyze the relation between the individual's perception/beliefs of other people's attitude towards tax evasion and his propensity to evade taxes. In section four we study the relation between the individual's own attitude towards tax evasion and his propensity to evade taxes. A crucial question is if norms are only used to justify actions that are determined by other factors, such as expected net economic gain from evasion, or if norms also affect the actions that are chosen. Are people actually motivated by a belief that the tax system that treats them unfairly or are they simply rationalizing their behavior? One obvious problem facing us when we want to distinguish between the two cases is to determine who is treated unfairly by the tax system. In section five we argue that certain groups of taxpayers are actually treated unfairly by the tax system, given some simple and reasonable fairness principles. We also show that these fairness principles are accepted by a large majority of the respondents in our surveys. In particular, we argue that individuals that work long hours with a low hourly wage are unfairly treated by the tax system. In section six we test to what extent the groups that are unfairly treated by the tax system have a higher propensity to evade taxes, for given values of other factors. The final section summarizes the main results.

2. Main findings

In our empirical analysis we use Norwegian survey data from 2003.¹ The participants in the surveys were drawn randomly from the Norwegian population. First, the respondents were asked about some relevant personal characteristics and economic variables, such as gender, age, education, employment, hours of work and wage rates, income and taxes paid. Next, they were asked several different questions about their attitudes towards tax evasion (norms) and their beliefs about other people's attitudes. Finally, they were asked about their own participation in the black labour market. Similar surveys were conducted in 1980 and 2001. Most questions were the same in all three surveys, but the 2003 survey have some additional questions about attitudes towards tax evasion (norms) which are crucial for the problem we analyse. We therefore use only the 2003 data in our empirical analysis. However, some results from the 1980 and 2001 surveys are reported in Table 1 below to show some trends in tax evasion and in the attitudes towards tax evasion over the last twenty years. (A more thorough report from the surveys in 1980 and 2001 is found in Goldstein et al (2002).)

One of the main results from the three surveys is that both the fraction of the workforce that does unregistered work and the fraction that is willing to do such work is reduced from 1980 to 2003. The fraction that has done unregistered work during the last 12 months has gone down from 30 to 10 percent, a large decrease. The fraction that is willing to do unregistered work has also gone down. The reduction is not as dramatic as the yes-percentages in Table 1 indicate, since the answer "don't know" was not an alternative in 1980. One indication that the willing-fraction is reduced, however, is that the fraction that is not willing has increased even though "don't know" has become an alternative. It is therefore a paradox that in 2001 there were still as many as 45 percent who believed unregistered work was becoming more and more accepted, and 41 percent that believed the amount of such work would increase.

The fraction that believes tax evasion is socially accepted cannot be directly compared between 1980 and the two other surveys, because the alternative "accepted with some

¹ The survey was conducted by MMI. The respondents were guaranteed full anonymity. The response rate was 58 percent.

reservations” was not an alternative in 1980. However, an indication that people’s beliefs have not changed much is that the fraction that believes that tax evasion is not accepted has been almost constant over the years.

Table 1

Norms towards tax evasion

Average values from the 1980, 2001 and 2003 surveys

		1980	2001	2003
What do you believe is people’s general attitude towards accepting extra work and receiving money that is not reported to the tax authorities? Generally accepted, accepted with reservations, or not accepted?	Generally accepted	77,9	52,3	48,3
	Accepted with reservations	.	32,4	33,05
	Not accepted	5,8	5,3	5,9
	Don’t know	16,3	10,1	11,3
Do you believe that such type of work is increasingly accepted or do you think it viewed with increasing scepticism?	Increasingly accepted	68,4	45,1	
	Increasing scepticism	13,8	15,7	
	No change		25,1	
	Don’t know	17,9	14,2	
What about the volume? Do you think this type of work will increase or decrease in the years to come?	Increase	66,6	41,8	
	Decrease	7	7,6	
	No change		31,2	
	Don’t know	26,5	19,5	
If you have the opportunity to receive income without reporting it to the tax authorities, would you be willing to receive such income?	Yes	78,1	47,6	34,8
	No	21,9	26	29,4
	Don’t know		26,4	34,8
Have you received income that you have not reported, and will not report, to the tax authorities during the last 12 months?	Yes	30,5	14,5	10,3
	No	66,7	85,5	89,7
	Don’t know	2,8		
Can tax evasion be justified?	Yes			15,5
	No			69,1
	Don’t know			15,4
Which of the following conditions would make it more acceptable to evade taxes?	Other’s norms			11,7
	Unfair system			74,5
	Wrong use of public funds			45,7

The question of whether tax evasion can be justified was new to the 2003 survey. Only 15.5 percent find tax evasion justifiable. In contrast, more than 80 percent believe that unregistered work is generally accepted or accepted with some reservation.

2.1. Norms, beliefs and behavior

Below, we report how people’s norms for tax evasion and their participation in tax evasion vary with gender and age. Throughout the paper we use the answers to the following two questions as indicators of people’s norms:

- “*Is tax evasion justifiable?*” (Question 24)
- “*If you have the opportunity to receive income without reporting it to the tax authorities, would you receive such unreported incomes?*” (Question 28)

To simplify the exposition, we refer to these questions as “justifiable?” and “will, if possible?”

Table 2 below shows the result for the question of whether tax evasion can be justified. On average, only 16 percent answer yes to this question. The fraction is much lower for women than for men, and it is decreasing with age, at least from 25 years.

Table 2
Is tax evasion justifiable?
%

	All	Men	Women	15-24	25-39	40-59	60+
Yes	16	21	10	18	21	15	7
No	67	64	69	48	61	72	79
Don’t know	16	13	19	32	18	12	11
Unanswered	2	1	3	2	2	8	8

Table 3 shows that the willingness to evade taxes is also higher for men than women and decreasing with age. On average, 35 percent say they would be willing to evade taxes if they had the opportunity. However, there is a large number of people, 35 percent, who do not know whether or not they would be willing to evade taxes. If we

assume that distribution between yes and no within this “don’t know” group would be no different from the rest if they had to make up their minds, this implies that a large majority of the population are still willing to evade taxes if they get the opportunity.

Table 3

“If you have the opportunity to receive income without reporting them to the tax authorities, would you receive such unreported income?” (Question 28)

%

	All	Men	Women	15-24	25-39	40-59	60+
Yes	35	44	27	45	40	35	22
No	29	23	34	17	23	34	35
Don’t know	35	33	37	37	37	30	39
Unanswered	1	1	1	1	-	1	3

Participation in unregistered work is measured by the answer to the following question: *Have you, during the last 12 months, done some work where the income where not, and will not be, reported to the tax authorities?*” (Question 32)

Table 4

% Unregistered work last 12 months?

	All	Men	Women	15-24	25-39	40-59	60+
Yes	11	14	8	20	13	9	4
No	89	86	92	80	87	91	96
Unanswered	-	-	-	-	-	-	-

The fraction that has done unregistered work the last 12 months is higher for men than for women. As shown in table 4, while 14 percent of the men answered yes, only 8 percent of the women did. Not surprisingly, the fraction is also decreasing with age, from 20 percent in the age group 15-24 to 4 percent among those above 60 years of age.

Whether tax evasion is justifiable or not is a question about the individuals’ genuine norm for tax evasion. Whether he is willing to evade taxes or not does not only involve his norms, but also his willingness to take the risk of being detected and penalized. In addition, people may be willing to evade taxes even though they do not find it justifiable, just as people may do other things that go against their ideals (give too little to charity, be unfaithful, pollute). Whether an individual actually evades taxes or not also depends on his opportunities to do such work. Barth and Ognedal

(2004) find that the fraction that actually does unregistered work is restricted by the limited demand for such work in firms.

2.2. Justification of tax evasion

In the 2003 survey, people were also asked what circumstances, if true, would make tax evasion more acceptable (Question 25). There were six possible answers:

1. *That many others evade taxes*
2. *That those who work hard are too heavily taxed*
3. *That the tax system has loopholes that only rich people can utilize*
4. *That tax evasion is accepted in your social environment*
5. *That tax revenues is not used sensibly by the politicians*
6. *That the tax revenue is transferred to people who do not deserve them*

Each respondent could choose more than one answer. Hence, the percentages (fractions) add up to more than 100 (one). The answers can be grouped into three types of arguments:

In Table 5 below we show the average values for the answers for men and women and for four different age groups. It is easy to see a pattern in the score on answer 1-6 if we divide them into three categories : The answers 1 and 4 are related to *social accept for tax evasion*. Answers 5 and 6 are both related to *wrong use of tax revenues*. Finally, answers 2 and 3 are related to *unfairness of the tax system*. Using these three categories gives us a result that is important for our analysis: “Unfairness tax system” (2 and 3) gets the highest score; with “wrong use of tax revenue” (5 and 6) as a close number two. “Socially accepted” clearly gets the lowest score among the three categories. There is no significant difference between the sexes, and no systematic change with age on the ranking of the categories.

Table 5*Which of the following conditions would make it more acceptable to evade taxes?*

% Who agrees

	Average	Men	Women	15-24	25-39	40-59	60+
1. That many other people evaded taxes	9	9	8	4	10	10	6
2. That those who work hard are too heavily taxed	42	45	41	47	48	40	38
3. That there exist loopholes in the tax system that only the rich can utilize	50	51	49	41	41	54	63
4. That tax evasion is accepted in your social environment	4	5	4	3	6	4	3
5. That tax revenues are not used sensibly by the politicians	37	36	39	43	34	32	48
6. That tax revenue is transferred to people who do not deserve it.	23	24	22	28	27	17	25

The fraction of people that admit that what other people do or think matters for their own norm is small. Only 4 percent say that “many others evade taxes” matters and only 9 percent say that social accept for tax evasion matters. In section 3 below, we show that these answers are not consistent with the respondents’ answers to other questions of norms and actions. We find that peoples’ beliefs about the social accept for tax evasion has a significant effect on what they claim is their own norms and attitudes towards tax evasion.

Conditions related to unfairness of the tax system seem to be the most common justification for tax evasion. This is in line with our hypothesis. The differences between the sexes are small, although heavy taxation of those who work hard seems to be a somewhat more important reason for men than for women. It is interesting to note that while “those who work hard are taxed too hard” gets higher scores the younger the respondents, the opposite is the case for “loopholes for rich people”.

3. The effect of other peoples norms

Individual choices are often affected by what is perceived as acceptable behavior in society or in the group one identify oneself with. In particular, most people want to avoid actions that are condemned by the group they identify with, such as family, friends and fellow workers. It is therefore interesting to investigate people’s perception of other people’s norms towards tax evasion, and to analyze whether there is a correlation between people’s beliefs about other peoples norms and their own propensity to evade taxes. In the survey, we therefore ask people what they believe is the general attitude towards tax evasion (Question 22)

“What do you believe is peoples general attitude towards doing some extra work unregistered and not reporting the incomes to the tax authorities? Do you think it is accepted, accepted with some reservations or not accepted?”

The results are reported in Table 6 below.

Table 6

% Accepted?

	All	Men	Women	15-24	25-39	40-59	60+
Accepted	48	50	46	43	57	49	36
Accepted with reservations	33	33	34	38	32	35	30
Not accepted	6	6	6	2	5	6	8
Do not know	12	10	13	14	5	10	22
Unanswered	2	1	2	3	1	0	4

Almost half of the respondents (48 percent) believe that tax evasion is accepted. 81 percent believe that it is accepted or accepted with some reservations. Only 6 percent believe that it is not accepted. There is no large difference between men and women, and no systematic change with age. To sum up, it is a widely held belief that unregistered work is accepted in the population. In contrast, only 16 percent has the opinion that tax evasion can be justified (see Table 1). Hence, there is a striking contrast between people’s own norms and their beliefs about other people’s attitudes. Either people have less faith in other people’s moral standard than they should, or they lie about their own moral standard in the survey.

In question 25 people are indirectly asked if other people's attitudes towards tax evasion matters for their own attitudes. The respondents are asked what conditions, if true would make tax evasion more acceptable. "Many others do it" and "Tax evasion is accepted in your social environment" are among the alternative conditions. As discussed in relation to Table 5 in section 2.2, the answers seem to give little support for the hypothesis that an individual's attitudes are affected by other people's attitudes or actions. Only 4 percent say that tax evasion becomes more acceptable when it is accepted in one's social environment. Only 8 percent agree that tax evasion becomes more justifiable when many others evade taxes.² It is possible, however, that people's behavior is affected by other peoples attitudes and behavior, even if they do not admit it. Below, we therefore investigate the dependence between people's beliefs about the social norms for tax evasion and their own propensity to (i) justify tax evasion, (ii) be willing to evade taxes and (iii) to actually evade taxes.

Table 7

Table Tax evasion and others' acceptance. Probit equations

Dep. Var	Tax evasion may be justified		Willing to Receive unreg. income		Actually performed unreg. Work last 12 months	
	Marginal eff.	P-value	Marginal eff.	P-value	Marginal eff.	P-value
Woman	-0,0611*	0,0490	-0,0365	0,4170	-0,1128*	0,0090
High School	0,0570	0,2070	0,0595	0,3300	0,0363	0,5160
College	0,0831z	0,0640	-0,0453	0,4690	-0,0212	0,7250
Age	-0,0017	0,2130	-0,0021	0,2860	-0,0010	0,6080
P(detected)	-0,0033*	0,0000	-0,0037*	0,0000	-0,0017	0,1160
Others accept unreg. work	0,1143*	0,0000	0,2121*	0,0000	0,0508	0,2410
Industry & firm size	Yes		Yes		Yes	
Sample Condition					Willing=1	
N	652		652		383	

In Table 7 we study how the individual's (I) norms, (II) willingness to evade and (III) actual evasion varies with his beliefs about other people's norms, with his beliefs

² Some experimental studies, like Spicer and Hero (1985) and Porcano (1988), find that the participant's tax evasion is affected by their beliefs about the tax evasion of others.

about the probability of detection and with different personal characteristics (gender, age and education). We have controlled for industry and firm size.

The results clearly show that the beliefs about other people's attitudes towards tax evasion matters for the individual's own attitudes: The probability that an average person finds tax evasion justifiable increases (significant at 5%) with about 11 percentage points if the respondent believes that tax evasion is socially accepted. The willingness to evade taxes (if there is an opportunity) increases with 21 percentage points if the respondent believes that tax evasion is socially accepted. This contradicts people's answers to the question of what conditions that would make tax evasion more acceptable; where very few admit that other people's attitudes affect their own attitudes (see table 6 above). Our analysis shows if their answers to the questions "willing?" and "justifiable?" are true, they are in fact affected by other people's attitudes.

Gender has a significant effect on the propensity to evade taxes and to find tax evasion justifiable. If we look at female respondents instead of male respondents, other things equal, the probability of finding tax evasion justifiable decreases with 6 percentage points and the propensity to evade decreases with 11 percentage points. Education and age have no significant effect on either willingness, propensity to evade or to find tax evasion justifiable.

4. The effect of the individual's own norms

Most people who evade taxes will try to justify their behaviour. This has two important implications. First, it is interesting to investigate to what extent norms actually have an impact on people's behaviour. Do norms affect our behaviour, or is it rather our behaviour that affects our norms? To what extent can differences in norms explain differences in behaviour? For example, are people who say that tax evasion can never be justified less inclined to evade taxes than those who say it can be justified? If norms have a significant effect on behaviour, it is important to investigate what type of norms people have. What is considered fair income redistribution, i.e. what is a legitimate tax policy? More specifically, what factors will make tax evasion less acceptable?

In section 2, we discussed justifications for tax evasion. In this section we aggregate the questions presented in table 3 to three categories. Table 8 shows the fraction that has chosen each of the three categories, i.e the average values of the aggregate variables.

Table 8.

Which of the following conditions would make it more acceptable to evade taxes if they were correct? Percent.

		Aggregate (Yes on one of the alternatives)
That many other people evade taxes	9	
That tax evasion is accepted in your environment	4	11,7
That those who work hard are taxed hard	42	
That there exists loopholes for the rich	50	74,5
The revenues are not used sensibly by politicians	37	
That tax revenues are transferred to undeserving	23	45,7

Note: See also table 5 section 2.

We note that an unfair tax system is what would make most people accept tax evasion, while less than 50 percent agree that wrong usage of tax revenues makes tax evasion more acceptable. Only 12 percent admit that other people's norms or actions affect their own attitudes towards tax evasion. The more general norms that we use in

this chapter are presented in table 9. These are norms towards law abidance (Question 23.1) and towards income distribution (Question 23.2 – 23.6).

Table 9
Which of the following statements to you agree with?
% who agrees

	Average	Men	Women	15-24	25-39	40-59	60+
23.1 It is never acceptable to violate the law	62	57	66	44	57	64	74
23.2 Income differences in society should be as small as possible	44	41	48	43	36	45	41
23.3 Income differences that are a results of factors outside individual control, such as social background and intelligence, should be eliminated	48	45	51	59	46	46	47
23.4 Income differences that are a result of factors under individual control, such as choice of education, profession or work time, should be accepted	87	89	84	87	91	88	77
23.5 People deserve equal income for equal labor effort	88	86	90	88	89	87	88
23.6 Income should be distributed according to needs	12	12	12	18	8	11	17

On the statements 23.2-23.6 about income distribution, there is little difference between men and women and no systematic change with age in the fraction that agree. The statement that people deserve equal income for equal labor effort (23.5) receives very high support, 88 percent on average. At the same time, however, only 48 percent agree with the statement that differences caused by factors outside people's control should be eliminated (23.3)

4.1. The impact of norms on tax evasion behaviour

From section 3, we have three indicators of behaviour related to tax evasion; (i) The opinion that tax evasion may be justified, (ii) the willingness to take home unregistered pay if possible, and (iii) actual performance of unregistered work over the last 12 months. In Table 11 we analyse how our three indicators of tax evasion behaviour (“justifiable”, “willing ” and “unregistered last 12 months? “) are affected by people’s norms regarding what makes tax evasion justifiable and general norms of law abidance and redistribution. Since actual performance of unregistered work is also constrained by the demand side (see Barth and Ognedal, 2007), we expect to find significant effects of norms on the first two indicators, “justifiable” and “willing”, but not necessarily on the propensity to actually do unregistered work.

Consider first the individual characteristics gender, age and education. All three characteristics have significant effects on both “justified” and “willing”, when analysed without norms and industry affiliation (not reported in the table). Only gender and education remain on “justified”, and only a gender effect remains on “performed”, as reported in table 10. It appears that the distribution of norms is correlated with gender, age and education, and that part of the effect of these variables on behaviour may be “explained” by differences in norms. As before, an increase in the perceived probability of being detected reduces the propensity to justify tax evasion and to be willing to evade taxes significantly. Also, the effect of the beliefs of other people’s norms, discussed in section 3, remains significant and strong on “justified” and “willing”, even when including the two sets of individual norms in the analysis.

Consider next the effects of norms related to conditions that would make tax evasion more acceptable. Those who state that an unfair tax system would make tax evasion more acceptable, are also more likely to answer that tax evasion may be justified and that they would be willing to receive unregistered income. Those who answer that tax evasion becomes more acceptable if many other evade, or if tax evasion is accepted in their social environment, are not more likely to find tax evasion justifiable. However, they are significantly more likely to be willing to receive unregistered income and to actually perform unregistered work. Those who feel that bad use of public money is a justification for tax evasion is more likely to be willing.

Of the general norms, the only one that has a strong effect is the view that it is never acceptable to violate the law. Individuals subscribing to this norm are less likely find tax evasion justifiable, less willing to receive unregistered incomes and they actually do less unregistered work. People who agree to the statement that income differences should be as small as possible are more willing to receive unregistered incomes.

Table 10
Tax evasion and individual norms. Probit equations

Dep. Var	Tax evasion may be justified		Willing to take home unregist. income		Actually performed unreg. work last 12 months	
	Marginal eff.	P-value	Marginal eff.	P-value	Marginal eff.	P-value
Woman	-0,0494z	0,0610	-0,0303	0,5150	-0,1091*	0,0110
High School	0,0276	0,4500	0,0379	0,5450	0,0357	0,5140
College	0,0674z	0,0690	-0,0307	0,6340	-0,0252	0,6680
Age	-0,0006	0,5950	-0,0021	0,3130	-0,0005	0,7850
P(Exposed)	-0,0026*	0,0000	-0,0034*	0,0000	-0,0013	0,2230
Others accept	0,0709*	0,0040	0,1842*	0,0000	0,0568	0,1780
Ok tax syst	0,1178*	0,0000	0,1049*	0,0280	-0,0101	0,8280
Ok others	-0,0050	0,8830	0,1826*	0,0030	0,0994*	0,0690
Ok publ.use	0,0208	0,3860	0,1014*	0,0190	-0,0117	0,7630
Law abiding	-0,1776*	0,0000	-0,1439*	0,0010	-0,1111*	0,0060
Equality	-0,0210	0,3920	0,1448*	0,0010	0,0504	0,2270
Ability	0,0256	0,2890	0,0004	0,9920	0,0546	0,1570
Choice	0,0397	0,3150	0,0976	0,1890	-0,0091	0,9020
Effort	0,0264	0,4360	0,0426	0,5170	-0,0638	0,3500
Needs	0,0642	0,1580	0,0216	0,7760	-0,0623	0,2760
Industry & firm size	Yes		Yes		Yes	
Sample Condition					Willing=1	
N	652		652		383	

4.2. Does justification affect action?

Consider next the relationship between the statement that tax evasion may be justified and the actual willingness to receive unregistered income and having performed unregistered work. In table 11 we first present the average fractions that have reported yes to the three questions, split by their answers to the “justifiable”- question.

Table 11*The relationship between norms, justification and action*

	Share of individuals that have answered YES to questions on		
	Law abidance	Willingness to receive unreg. income	Performed Unregistered work - last 12 m.
Is tax evasion justifiable?			
YES	26.9	79.3	27.6
NO	68.5	29.5	7.7
It is never right to break the law			
AGREE	100	29.1	7.4
DISAGREE	0	51,5	16,7

Hence, table 11 gives the relationship between the statement that tax evasion is justifiable and three other indicators (averages). This gives us two interesting observations: First, 68.5 percent of the people who do not find tax evasion justifiable, also answers YES to the question that the law should never be violated. This is a reflection of our previous observation that law abidance reduces the probability of justifying tax evasion. The relationship is not one-to-one, however. Some respondents say that law violation is never acceptable even among those who find that tax evasion may be justifiable (26.9 percent).

Second, we find that among those who do not find tax evasion justifiable, 29.5 percent are willing to receive unregistered income and 7.7 percent have performed unregistered work over the last 12 months. This indicates that quite a few people do things or are willing to do things that they do not consider justifiable.

In the lower panel of the table, we do the same exercise with law abidance. We find that among those who agree that it is never right to break the law, 29.1 percent are willing to receive unregistered income and 7.4 percent have actually performed

unregistered work within the last 12 months. Either these individuals do not consider tax evasion as a law violation, or their actions are not in line with their norms.

Table 12

Conditional partial correlations between justification and willingness and performance, conditional on individual characteristics, job characteristics and norms.

	Willing =1	Performed last 12 months =1
Tax evasion is justifiable	0.346 (0.000)	0.237 (0.066)

Note: Based on simultaneous multivariate probit models. R.h.s. variables are those listed in table y. p-values in parenthesis.

Table 12 reports the conditional partial correlation between the norm that tax evasion is justifiable and being willing or having actually performed tax evasion. The correlation being conditional means that we first remove the part of the correlation that is due to common factors like gender, education, age, industry, norms etc. (see table 10 for the full set of variables, and then calculate the correlation of the remaining (residual) part³. Even when we remove the effect of all these variables, there is a strong positive effect of finding tax evasion justifiable on the willingness to receive unregistered income. There is also a rather strong, but somewhat smaller and less significant, correlation between finding tax evasion justifiable and actual performance of unregistered work.

³ We use this measure of the relationship between these variables since they are considered endogenous in this paper.

5. Unfair taxation and tax evasion

One common way to justify tax evasion is to claim that one is treated unfairly by the tax system. For example, an individual can argue that he or she pays too much in taxes compared to other individuals who are similar with respect to all morally relevant characteristics. It is natural to meet such claims with a certain scepticism and suspect that it is just a way to rationalize behavior that is determined by other types of considerations, such as the expected net economic gain from tax evasion. It is therefore important to distinguish between *rationalization* and *justification*. A person is able to justify her behavior if she can argue that her behavior is in line with her norms, and these norms are formed independent of her behavior. The individual's ability to justify certain behavior will depend on the situation she is in, i.e. she will only be able to justify tax evasion if she is treated unfairly according to her own norms. People's ability to rationalize their behavior is not limited in the same way. A creative person may always be able to find some rationale for tax evasion.

An important part of our project is to determine whether people feel a need to genuinely justify their behavior or if they simply rationalize. The best way to analyse this question is to analyse whether people who are actually treated unfairly by the tax system are more willing to accept unregistered work and more likely to mean that tax evasion can be justified.

The obvious problem with this approach is the inherent difficulty in determining who is actually treated unfairly by the tax system. However, we shall argue that it is possible to identify certain groups of individuals who most people would agree are treated unfairly by the tax system. In the rest of this section we shall defend the view that it follows from widely held moral principles that people who work many hours per week and who have low wage rates are treated unfairly by a tax system that taxes total income progressively.

5.1 Liberal egalitarian theory and norms

Two principles are crucial for politics in modern, western societies: (i) Equal opportunities for all individuals and (ii) personal freedom and responsibility for one's own choices. An important contribution from modern, normative theory has been to discuss how these two ideas can be made compatible: How is it possible to ensure equality while at the same time hold people responsible for their own choices? The so-called liberal egalitarian theories have tried to answer this question (see for example Arneson (1983), Cohen (1989), Dworkin (1981) and Roemer (1998)). The theory may be summed up in two principles: First, the redistribution principle implies that we should eliminate differences that are caused by factors not controlled by the individual (Cappelen and Tungodden 2003). Typical factors are gender, race and class, but also natural talents. Second, the responsibility principle implies that the individual is responsible for differences that are under the control of the individual, for example differences in income due to different choices of hours worked or work effort.

The 2003 survey shows that these two principles also have wide popular support. From table 9 in section 4, we see that 87 percent of the respondents supported the statement that one should accept inequality caused by personal choices such as education, profession and hours worked. Equally interesting, 88 percent agree that individuals should receive the same income if their labor effort is the same. Almost half of the respondents think that inequality caused by factors not controlled by the individual, such as social background or intelligence, should be eliminated. It is interesting to observe that the two liberal egalitarian principles have a broader support than any of the other statements, e.g., the claim that it is never acceptable to break the law (62%) or the claim that income differences in society should be as small as possible (44%).

People's concern with individual responsibility is also reported by Bowles og Gintis (2000, s. 47) in a survey about people's attitudes towards welfare policies. The authors conclude that "...egalitarian policies that reward people independent of whether and how much they contribute to society are considered unfair and are not supported, even if the intended recipient are otherwise worthy of support."

Unreasonable or unfair distribution of the tax burden is also an important reason why people find tax evasion justifiable. 50 percent agree that tax evasion is more justifiable if the tax system have loopholes that only rich people can utilize. 43 percent find tax evasion more justifiable if those who work hard are too heavily taxed. Both results indicate that the perceived unfairness of the tax system may make people more inclined to evade taxes since it makes them find tax evasion more legitimate.

5.1 Two types of inequality

From the 2003 survey, we conclude that both the equalization principle and the responsibility principle have broad support in the population. When both principles are accepted, it becomes important to distinguish between two sources of income inequality: Inequality caused by factors outside the individual's control, and inequality caused by factors that the individual can control. While we want to reduce the first type of inequality, we accept the second type of inequality.⁴

For illustration, we assume that natural talents only determine the hourly wage, i.e., by some inherent productivity that the individuals are born with. We also assume that the individuals can choose how many hours they want to work. An individual's total income is then determined by the market value of his talent, and by how many hours he chooses to work. Both assumptions are obviously unreasonable. Not everybody can choose how many hours they work, and talents can be wasted or developed. However, the simplification is useful in order to obtain a clear focus on the difference between factors that we can and cannot control.

Figure 1 illustrates the case in which all income inequalities are caused by factors beyond the individuals' control. A is more talented than B, and has an hourly wage that is twice the hourly wage of B. Consequently, A's income is twice the income of

⁴ Even if people agree to this as a general principle, they may not agree when it comes to the distributional consequences. People will typically agree that individuals should be held responsible for inequalities caused by factors they can control, but disagree on what the individuals can control. The fundamental political debate over distribution policy is related to this question. While the political left will typically explain most inequalities by factors outside the individuals' control, the political right will explain more of the inequalities by factors the individuals can control.

B, even when they both work the same number of hours. In this case, a fair tax system is easily described: Since the difference between A and B are caused by differences in talents only, which are outside the individuals' control, we would like to equalize the income between them. In practice, this may not be costless since redistribution policies may lead to an inefficient allocation of resources. The ideal, however, would be full equalization of incomes.

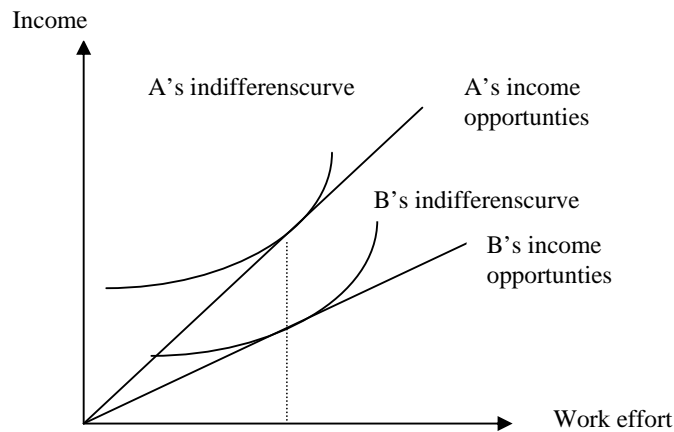


Figure 1

Figure 2 below illustrates the opposite case: All inequalities in incomes are caused by different choices made by the individuals, i.e. by factors they can control. Both A and B have the same hourly wage, and therefore the same opportunities for income. Since A has stronger preferences for consumption than B, however, A work more hours and have a higher income than B. Since the difference in income is a result of different preferences only, there is no need for redistribution of income, according to the responsibility principle.

In the debate on income redistribution, the political lefts tend to emphasize situations like the one illustrated in figure 1, while the political right emphasis situations like the one illustrated in Figure 2.

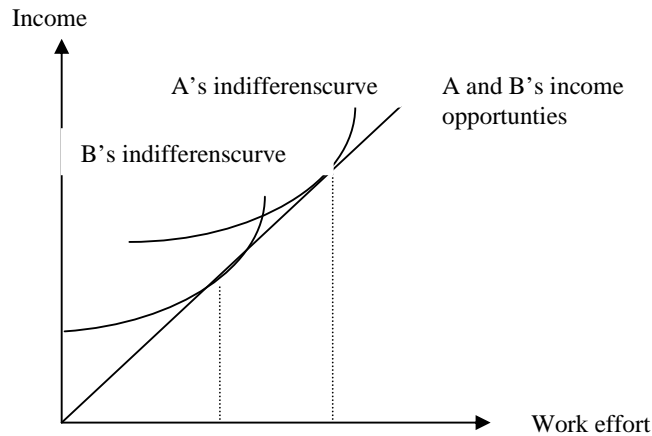


Figure 2

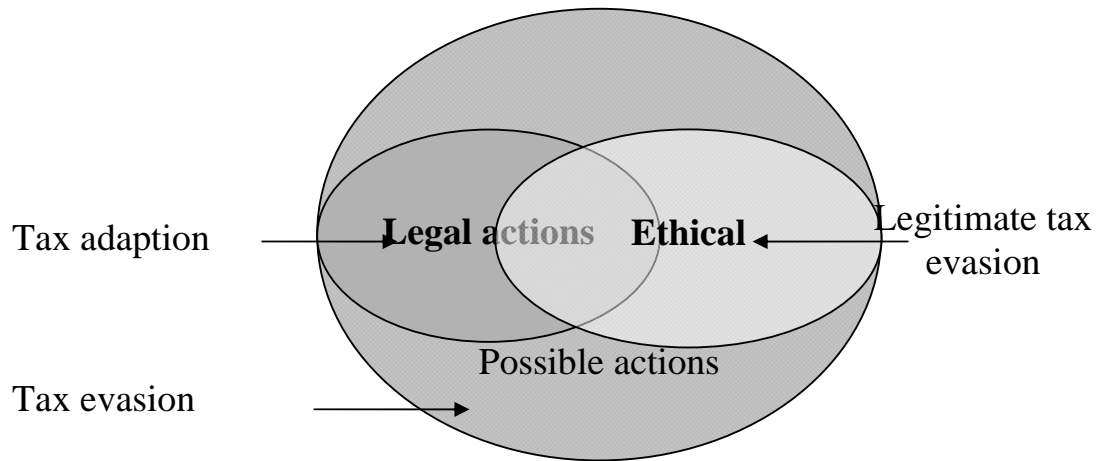
If all income differences were caused either only by differences in talents or only by differences in choices (for example of work effort) it would be easy to construct an ideal tax system. Normally, however, both factors will be present: Differences in incomes will partly be explained by differences in talents and other factors outside the individual's control, and partly by different choices made by the individuals. In practice, it is difficult to distinguish between the two factors, since the authorities do not have precise information about differences in effort and talents. This makes it difficult to construct a tax system that equalizes income differences caused by differences in talents but respects differences caused by different choices of work effort. The hourly wage may be a good measure of the individual's income opportunities. One might therefore try to let the tax be based on hourly wage instead of total income, to equalize income opportunities. However, it would be too easy to manipulate the tax by pretending to work more hours to lower the tax base. Consequently, most tax systems are based on total income. As a result, an individual with low income opportunities (low hourly wage) but high work effort (many hours worked) may be taxed harder than an individual with high income opportunities (hourly wage) but low work effort. The tax system redistributes from the high talented to the low talented, but also from those who work hard to those who do not. For example, the tax system based on income will redistribute from the high talented consultant to the low talented one, but also from the hard working taxi driver to the one who has more leisure time.

5.2. An unfair tax system

The discussion above implies that there is a trade off between the equalization principle and the responsibility principle in the tax system: If we want to make the tax system more equalizing, we also reduce the individuals' responsibility for his or her choices. Hence, by trying to reduce one type of unfairness, we may actually create another type of unfairness. This does not imply that we should give up trying to redistribute income, but it implies that we are unable to create a perfectly just tax system even if we agree on what constitutes a just distribution of income. This insight is important for understanding people's attitudes toward the tax system, and thereby their attitudes towards tax evasion

The idea that the tax system might be unjust is of course no new idea. Protests against unreasonable and unfair taxation have a long tradition, and historically they have had important political consequences. Both the French revolution and the American independence war were partly triggered by tax systems that were considered unfair. In France, an increasing fraction of the population was exempt from paying taxes, and people of the American colonies were enraged by the perceived injustice of taxation without representation.

The idea that there are some types of tax adaptation that are legal, but illegitimate, is widespread. For example, most tax systems have "loopholes" that can only be utilized by certain groups. Similarly, tax evasion may in some situations be considered legitimate, although it is illegal. If the tax system obviously treats one group unfairly, tax evasion may be considered legitimate in this group. In other words, legal and legitimate actions may not be the same.



It is possible that the tax system's inevitable unfair treatment of those who work hard (many hours) but have a low hourly wage may affect their propensity to evade taxes. They may argue that they have a right to correct the admittedly unfair treatment by paying less than the imposed "unfair" taxes. Our hypothesis is therefore that the propensity to evade taxes cannot only be explained by economic net gain from evasion or the individual's norms about tax evasion. It is also important whether or not the individual is actually treated unfairly by the tax system.

6. Empirical analysis: Justification or rationalization

In this part we test the hypothesis developed in section 5 above. In order to do this we focus on individuals who have full time jobs (i.e., those who work more than 30 hours a week). We have eliminated those who work part time because we want to focus on a the particular type of injustice discussed in section 5, i.e., the fact that individuals with the same wage rate pay different marginal tax rates because they make different choices. The progression in the Norwegian tax system implies that individuals with relatively low wage rates might pay relatively high marginal tax rates (toppskatt) if they work more than a normal workweek. If our hypothesis is correct, people who work more than a normal workweek will find this unfair and this perceived unfairness should result in a higher probability to respond yes to the question of whether tax evasion can be justified and to the questions about willingness to avoid taxes and actual tax evasion.

In table 13 we have used a Probit analysis in order to study the effect of working hours on our three dependent variables.

Table 13

Tax evasion and working hours. Probit equations

Dep. Var	Tax evasion may be justified		Willing to take home unregistered income		Actually performed unregistered work last 12 months	
	Marginal eff.	P-value	Marginal eff.	P-value	Marginal eff.	P-value
Woman	-0,0702*	0,0620	-0,0489	0,3670	-0,1342*	0,0090
High School	0,0543	0,2950	0,0753	0,2830	0,0088	0,8880
College	0,0730	0,1940	-0,0210	0,7890	-0,0340	0,6350
Age	-0,0038*	0,0280	-0,0032	0,2000	-0,0018	0,4440
P(Exposed)	-0,0036*	0,0000	-0,0039*	0,0000	-0,0028*	0,0330
Others accept	0,1024*	0,0020	0,2261*	0,0000	0,0154	0,7620
log hourly w	-0,0468	0,3990	-0,0447	0,5730	-0,1359z	0,0890
log working Hours	0,2168*	0,0500	0,3797*	0,0340	0,0635	0,6710
Industry & firm size	Yes		Yes		Yes	
Sample Condition	30 hours or more		30 hours or more		Willing=1 & 30 hours or more	
N	514		514		302	

The results reported in figure 13 provides a strong support for the view that individuals who work longer hours, for a given wage-rate, will be more inclined to

find tax evasion justifiable and to be willing to accept unregistered work. The marginal effect of the log of working hours is significant at the five percent level for both these dependent variables.

The coefficients in table 13 have no immediate economic interpretation, since these are the coefficients of the probit model. The marginal effect of log working time on justification, calculated at the average probability, is around 0.22. This indicates that for instance, a 50 percent increase in working time from 30 hours to 45 hours a week, increases the probability of finding tax evasion justifiable by 11 percentage points. Given that the average percentage for the population as a whole is 16 percent, this number is approximately two-thirds of the average level of individuals finding tax evasion justifiable. This shows that our effect is of economic significance as well.

The marginal effect of log working time on willingness is around 0,38. This indicates that for instance, a 50 percent increase in working time, increases the probability of being willing to accept unregistered work by 19 percentage points. Given that the average percentage for the population as a whole is 35 percent, this number is more than half the average level of individuals who are willing to accept unregistered work. This suggests that an unfair treatment by the tax system affect their willingness to evade taxes.

We do not, however, find any significant effect among those who are willing, of working time on whether the individual actually has evaded taxes the last twelve months. This may be a result of two mechanisms: first a person may work less hours registered because of time spent on unregistered work. Furthermore, people who work long hours may have fewer opportunities to accept unregistered work than those who work less.

The model includes a host of controls, such as individual characteristics, workplace characteristics and individual norms. Since norms are likely to be highly endogenous in this model, and workplace characteristics have no significant effect, we also show results from specifications involving only one or none of these blocks of variables. The conclusion is that the relationship between justifiability and working hours,

conditional on wages, remain robust. The statistical significance remains within 10 percent.

The probit analysis also gives us other interesting results. From Table 14 we see that women are less likely to hold the view that tax evasion is justifiable. However, we do not find a significant effect of gender on willingness to accept. The level of education does not have a significant effect on any of the dependent variables.

We would expect that beliefs about the probability of being exposed affect both willingness to accept unregistered income and actual tax avoidance and this is what we find. However, it is more surprising that the probability of justifying tax evasion is significantly higher for those who believe that the probability of being detected is low. One interesting interpretation of this result is that people believe that it can be justified to violate a law if the government does not properly enforce it.

Finally, we find no significant effect of workplace characteristics such as industry or firm size. However, that these variables strongly affect the probability of actually having undertaken unregistered work last 12 months (see Barth and Ognedal 2007). This observation, jointly with the observation of no effects in table 13, strongly indicates that actual black market behavior is constrained by the demand side, rather than the supply side.

7. Summary

The results in this paper confirm the hypothesis that norms affect peoples' propensity to evade taxes. Three results are of particular interest. First, the analysis shows that peoples' beliefs about other people's attitudes towards tax evasion are important for their own willingness to accept unregistered work. This result is particularly interesting in light of the fact that very few people, when asked in the survey, admit that they find tax evasion more acceptable if they believe it is accepted in their social environment. Other people's norms and attitudes do therefore seem to be more important than people themselves believe.

Second, we find that peoples' own norms are important determinants of their willingness to evade taxes. In the survey we asked people what conditions, if true, that would make it more acceptable to evade taxes, and find that these views are important determinants of peoples willingness to evade taxes. Those who state that an unfair tax system would make tax evasion more acceptable, are also more likely to state both that tax evasion may be justified and that they would be willing to receive unregistered income. Those who feel that bad use of public money is a justification for tax evasion is also more likely to be willing to evade taxes. The only general norm that is important for tax evasion is people's attitude towards breaking the law. Those who believe it is never acceptable to violate the law are, not surprisingly, also less willing to evade taxes. It is, however, interesting to observe that people do not always follow their own norms. A significant fraction of those who believe that tax evasion cannot be justified are still willing to accept unregistered work. Similarly, we find that many of those who believe that the law should never be violated actually are willing to evade taxes. Equally important, there is a significant fraction of people who believe that tax evasion can be justified, that are not themselves willing to accept unregistered work. This suggests that people accept that it might be justifiable for some people to evade taxes, even if it cannot be justified for them.

Finally, we show that the role of norms is not simply to rationalize behavior that is essentially determined by other factors. It turns out that people who are, in some meaningful way, unfairly treated by the tax system are more likely to evade taxes than those who are treated fairly. In order to show this, we argued that given the views

about income distribution expressed by the respondents in the survey, there is one group that most people would agree is treated unfairly by the tax system. This is the group people who work many hours, in particular those who work long hours with a low hourly wage. Since taxes are based on total income, these people will have to pay the same taxes as a person who earns the same total income working fewer hours. Under a progressive tax system this means that people with the same wage rate will have different tax rates (i.e., the tax rate is increasing when you increase your effort). This is an unfairness that results from an inherent limitations in the tax system (i.e., that we cannot tax hourly wages). If people's willingness to accept unregistered work partly depend on their ability to genuinely justify their actions, we would expect that people who worked long hours would have a higher willingness other things equal. The study finds strong support for this thesis. This suggests that norms are not merely a way to rationalize our behavior, but that they have an independent role.

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