What Explains the North-South Gap in Italian Tax Compliance? An experimental analysis

Abstract

I undertake a comparative study assessing the North-South divide in Italian tax compliance, employing the largest behavioral tax compliance experiment to date. Contrary to a large body of literature, I argue that willingness to pay taxes is constructed within a specific institutional environment and reflects the country's quality of institutions. To test this hypothesis, I use controlled tax compliance experiments from four laboratories in Capua, Rome, Bologna, and Milan. By employing the experimental method, I am able to hold institutions constant allowing me to isolate cultural variation. Contrary to cultural explanations for tax compliance, when controlling the institutional environment there is no difference in tax compliance. Furthermore, using *Social Value Orientation* to compare prosociality, I also find no differences between the two regions. I therefore conclude that individuals' relationship to their states shapes these behavioral differences in tax compliance.

Keywords

tax morale, taxation, tax compliance, experimental research, comparative politics

1. Introduction

All modern societies face a common problem: How do states encourage individuals to contribute to the public good through taxation when the incentive to free ride is so great? Individuals in some countries free-ride so often that observers perceive it as a cultural phenomenon. Northern Europeans often blame their fiscal situation on the cultural defects of their Southern European neighbors.These explanations have been common in academic and policy circles for explaining lagging economic and social development. Almond & Verba (1963), for example, compared European and American's "civic culture", concluding that some cultures are less civic than others. In another seminal work, Banfield (1967) claimed that Southern Italians display "amoral familism". Simply put, Southern Italians are only concerned about those closest to them. This was later followed by Putnam et al. (1994), who also suggested that Southern Italians lacked *civicness*.

In their influential study *Making Democracy Work*, Putnam and colleagues suggest that while present Northern Italian institutions reflect a history of civic virtue and social capital, the Southern regions slow economic development and strong familial, inward facing ties mirror their autocratic history. The flaw in this argument is that norms, values, and ultimately, culture, derive from institutions. Therefore, individuals' relationship to their state and fellow citizens produces variations in behavior.

Because of the sizable level of evasion in the country and the large North-South cleavage, Italy presents a crucial case for studying tax compliance. For example, while Italy collects approximately 350 billion euros per year in tax revenue, it loses an estimated 250 billion euros due to tax evasion and underground economy (Santoro, 2010; wor, 2014). Italy fails to collect around 26% of the income tax its citizens owe due to evasion. Furthermore, studying tax compliance allows us to examine why individuals follow rules and norms and how societies address the free rider problem.

Researchers utilize two basic tools for studying tax morale and compliance: surveys and behavioral experiments. First, cross-national social surveys often account for one's intrinsic motivation to pay taxes (Alm & Torgler, 2006), or their tax morale, across countries and cultures. These surveys are typically utilized to examine cultural variation in preferences for taxation (Barone & Mocetti, 2011; Kornhauser, 2006; Cummings et al., 2009; Feld & Frey, 2007; Torgler, 2003b; Frey & Torgler, 2007; Torgler, 2005, 2003a, 2005; Ferrer-i Carbonell & Gërxhani, 2016). Unsurprisingly, these studies have uncovered differences between countries, regions, religions, genders, incomes, and age cohorts. Somewhat problematic, however, is that the institutional and political context varies greatly between the societies being compared. Therefore, researchers have difficulty pinpointing whether cultural differences are driving tax behavior or there is something institutional influencing these differences.

Experiments, on the other hand, can isolate certain effects and pinpoint what is driving behavior. For this study, we have designed an experiment so that individuals from Northern and Southern Italy are asked to make decisions based on the exact same institutions (incentives and disincentives). If cultural differences are driving different tax behaviors, we would expect to find differences between the regions, given that the incentives were exactly the same. But if we do not uncover differences in tax compliance between the North and South then this would support the institutional argument. In the following sections, I examine the North-South gap in tax compliance. First, I review the literature. I proceed by providing my hypotheses and a discussion of my methods. Finally, I'll discuss my results and provide my conclusions.

To briefly summarize my results: Contrary to my prediction, I do not uncover any differences in tax compliance between Northern and Southern Italians. Furthermore, Northerners are not more prosocial than Southerners. Therefore, I argue Southerners aren't less willing to contribute to the public good than Northerners, but rather, they are less willing to pay taxes to the state.

2. Literature Review

There is a host of literature that suggests economic and social differences are influenced by the quality and quantity of social capital and different political cultures (Banfield, 1967; Putnam et al., 1994; Almond &

Verba, 1963). These studies have influenced a number of studies which use modern statistical techniques to examine the North-South divide in Italian economic development.

For example, exploiting a set of surveys from the Italian National Bureau of Statistics (ISTAT), Sabatini performs Principle Component Analyses to build measures of bonding social capital, bridging social capital, and linking social capital. Bridging refers to weak ties between groups which link individuals from diverse backgrounds, while bonding is associated with strong ties often found between family members. Sabatini reveals that Northern Italy is endowed with high levels of bridging social capital, whereas the South has high levels of bonding. The higher bridging in the North of Italy was positively correlated with several indicators of economic development (Sabatini, 2006, 2005b,a). Guido De Blasio & Nuzzo (2006), using the Bank of Italy Survey of Household Wealth and Income and Putnam et. al's regional data for the period following the 1870 unification, provide empirical evidence to further support Putnam et. al's findings.

Using a public goods experiment, a dictator game, and a trust game, Maria Bigoni et al. (2015) uncover similar results, demonstrating that Northerners are more willing to contribute to the public good than Southerners and demonstrating higher levels of trust. Bordandini & Cartocci (2014) have also confirmed the divergence in social capital between Northern and Southern Italy using a variety of indicators, including electoral participation, newspaper readership, volunteering, and blood donations. Most recently, Barceló (2014) uses a novel approach to confirm Putnam et. al's hypotheses. If we apply this logic to taxpayer behavior, a more civic oriented individual would gain utility by paying taxes because the increased wellbeing of their fellow citizens, as well as the state would also increase their utility. A person who is less civic and has strong inward facing ties would actually lose utility by paying taxes by decreasing the income of the family unit, while benefiting others, including a state which is far removed from the familial unit.

However, these explanations have been met by criticism. Many scholars take issue with their selection of data. Salvatore Lupo (1993), for example, claims that Putnam et. al only select data points that confirm their theory while purposefully disregarding contradictory evidence. Others have suggested that the authors ignore the political and institutional foundations of civic and political consciousness (Sabetti, 2000; Levi, 1996). Sidney (Tarrow, 1996) suggests that Southern civic associations were growing while the North was flush with corruption scandals in the 1980s and 1990s.

Critics of the cultural argument often put forth institutional explanations. Institutions structure and shape politics and individual behavior (Steinmo & Longstreth, 1992). There is a litany of literature demonstrating that the quality of instiutions matter, and taxpayers will be more willing to pay their taxes if they perceive their institutions to be efficient and effective (Frey & Torgler, 2007; Frey & Feld, 2002; Levi, 1989; Levi et al., 2009; Filippin et al., 2013). According to Ross (2004, 234), "Both the size of the tax burden, and the quality and quantity of government spending matter; citizens ultimately care about the "price" they pay for the government services they receive."

Individuals thus make decisions based on their institutional circumstances. Examining Table 1, Northern taxpayers confront a much different experience with the state than Southerners. This fundamental difference in institutional quality then shapes the taxpayer environment. For example, in an environment in which public goods and services are provided efficiently and effectively, and with clear and enforceable rules, individuals will be more likely to comply. This then creates a norm of compliance and a high-compliance environment.

Contrarily, in an environment in which goods and services are inefficient, and the rules are unclear and unenforceable, a norm of non-compliance can ripple through society, generating a low-compliance environment (Bergman, 2009). Because according to (Levi, 1989, 53), "no one prefers to be a sucker."

Table 1: Quality of Government: Italian Regions

Region	Quality	Region Score	Rank
Trento	1.043	1.981	41
Valle d'Acosta	0.653	1.603	82
Friuli-Venezia	0.373	1.331	109
Veneto	-0.186	0.788	146
Emilia-Romagna	0.217	0.757	149
Umbria	-0.495	0.488	168
Toscana	-0.495	0.450	170
Marche	-0.535	0.448	172
Lombardia	-0.542	0.442	174
Piemonte	-0.652	0.335	182
Ligura	-0.848	0.144	190
Italy	**-0.930**		**193**
Abruzzo	-1.097	-0.097	200
Sardegna	-1.307	-0.302	204
Basilicata	-1.423	-0.414	208
Lazio	-1.512	-0.500	211
Sicilia	-1.588	-0.575	213
Puglia	-1.604	-0.590	216
Molise	-1.6609	-0.645	220
Calabria	-1.687	-0.671	222
Campania	-2.242	-1.210	232

Data are drawn from nationally-representative public opinion surveys conducted by the Quality of Government Institute about perceptions of local education, health and law enforcement institutions. Participants were asked to rate each of the three institutions on quality, impartiality, and corruption (Teorell et al., 2011).

Using the largest tax compliance experiment to date, I undertake a comparative study assessing the North-South cleavage in Italian tax compliance. Based on the previous literature, I put forth the following hypotheses:

Table 2: Statement of Hypotheses

$\mathbf{H_1}$	Participants in Northern Italy will be more compliant than participants in Southern Italy.
$\mathbf{H_2}$	Participants in Northern Italy will be more prosocial than participants in Southern Italy.

3. Experimental Overview

Our experiments were conducted in four universities in Milan, Bologna, Roma, and Capua during the 2013-2014, 2014-2015, and 2015-2016 academic years.[1] These universities use an electronic database to which

the students or past students voluntarily submit their information for participation in experiments. The participants were then randomly selected and invited by email to partake in the experiment.[2] Once the participants arrived at the laboratory they were given an anonymized identification number and assigned to a partitioned computer to limit the interaction between themselves and other participants. We linked participant pay to id number thus ensuring complete anonymity.

We began the session by reading a short script introducing the participants to the experiment. They were told that they would be asked to perform a series of simple clerical tasks and make a series of decisions for which they would receive Experimental Currency Units (ECUs) which would be converted into real money once the experiment was completed. Participants could also choose to leave the experiment receiving a small show up payment of 5 euros. Once all tax compliance and SVO tasks were completed, respondents were asked to complete a short survey.

This study is part of a larger cross-national project for which we conduct experiments in Italy, the United Kingdom, Sweden, the US, and Romania. Since we are only concerned here with Italy, we have dropped a large portion of our observations. Our Italian participants were specifically asked to state in which region they were born. For our study, there were 364 Italian subjects: Milan (116), Bologna (103), Rome (87), and Capua (58). 61% of our participants were born in the South. The participants in the North are demographically very similar to those in the South. In our pool the average age was 24, 52% were male, just under a quarter were employed, and about 49% were economics majors. The vast majority, 71%, of our subjects had participated in experiments before. Northerners, however, are significantly more likely to be employed and economics majors (see Table 3).

Table 3: Covariate Balance: North and South

	Obs	Mean	Standard Dev.	Min	Max	North	South	Diff
Male	2904.000	0.529	0.499	0.00	1.000	0.524	0.545	-0.022
								(-1.009)
Employed	2896.000	0.213	0.409	0.00	1.000	0.223	0.182	0.041
								(2.302)*
Past-participation	2888.000	0.715	0.452	0.00	1.000	0.700	0.761	-0.062
								(-3.154)*
Economics major	2904.000	0.419	0.493	0.00	1.000	0.480	0.227	0.253
								(11.830)
Age	2904.000	23.499	3.352	18	50	23.469	23.591	-0.122
								(-0.841)
Risk	2808.000	5.219	2.366	1.000	1	5.209	5.250	-0.041
								(-0.412)
SVO Angle	2912.000	16.083	15.287	-16.260	61.390	16.046	16.200	-0.154
								(-0.253)

Standard errors in parentheses; Appropriate z-statistics (for dummy variables) and t-statistics (for continuous variables) are reported in parentheses. * indicates whether differences between countries are statistically significant at the 5% level.

To earn money, our subjects were asked to copy rows of fictitious names from a sheet of paper to a computer. They received 10 Currency Units for each row copied correctly, which then was converted into euros at the end of the experiment at the rate of .01. We then displayed their earnings on the screen and asked them to report their earnings for tax purposes. In the reporting round, participants were asked to declare their income

under three different scenarios, mimicking actual tax regimes. Individuals were told that they could declare anywhere from 0% - 100% of their income with a 5% probability of being audited. If audited, they would have to pay a fine equal to twice the amount of taxes owed. There were a total of three clerical tasks, each followed by three reporting rounds. With each reporting round the rules and redistribution varied slightly.

In rounds 1-3 we maintained a 30% flat tax rate, but varied how the tax revenue was redistributed, reflecting behaviors under different levels of efficiency. In round one, there was no redistribution. Essentially, in this round there was little incentive to contribute, except for the small risk of being caught. For round two, all revenue was placed into a general fund and redistributed equally regardless of how much one contributed. Round three was identical to round one except we doubled the general fund. We held redistribution constant in rounds 4-6 (double general fund), but we introduced new tax rates. In round four, the tax rate was 10%. In round five, it was 30%, and in round six, it was 50%. Lastly, in rounds 7 and 8 we varied the tax structure, so that in round seven, the top 10% of incomes paid a 50% tax rate, the bottom 10% paid a 10% tax rate, and everyone else paid a 30% tax rate. Round eight was similar to a marginal tax system in that all incomes over 100 ECUs were taxed at 50%, incomes between 50-100 were taxed at 30%, and any income under 50 was taxed at 10%. In the ninth and final round, we donated all revenue to a real world charity (see Table 4).[3]

Table 4: Summary of Tax Reporting Rounds

Task	**Description**
Clerical 1	Earn income that is reported in Rounds 1 through 3
Round 1: No Redistribution	Flat tax rate of 30% on all reported income Tax revenues are not redistributed
Round 2: Redistribution	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, which is redistributed on an equal per capita basis to all participants
Round 3: Redistribution x 2	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Clerical 2	Earn income that is reported in Rounds 4 through 6
Round 4: 10% Tax Rate	Flat tax rate of 10% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 5: 30% Tax Rate	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 6: 50% Tax Rate	Flat tax rate of 50% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Clerical 3	Earn income that is reported in Rounds 7 through 9
Round 7: Progressive 1	Top 10% of earners in Clerical 3 pay 50% tax on reported income Bottom 10% of earners in Clerical 3 pay 10% tax on reported income Everyone else pays 30% tax on reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 8: Progressive 2	participants pay tax of 10% on all reported income under 50 ECU participants pay tax of 30% on all reported income between 50 and 100 ECU

Continued on next page

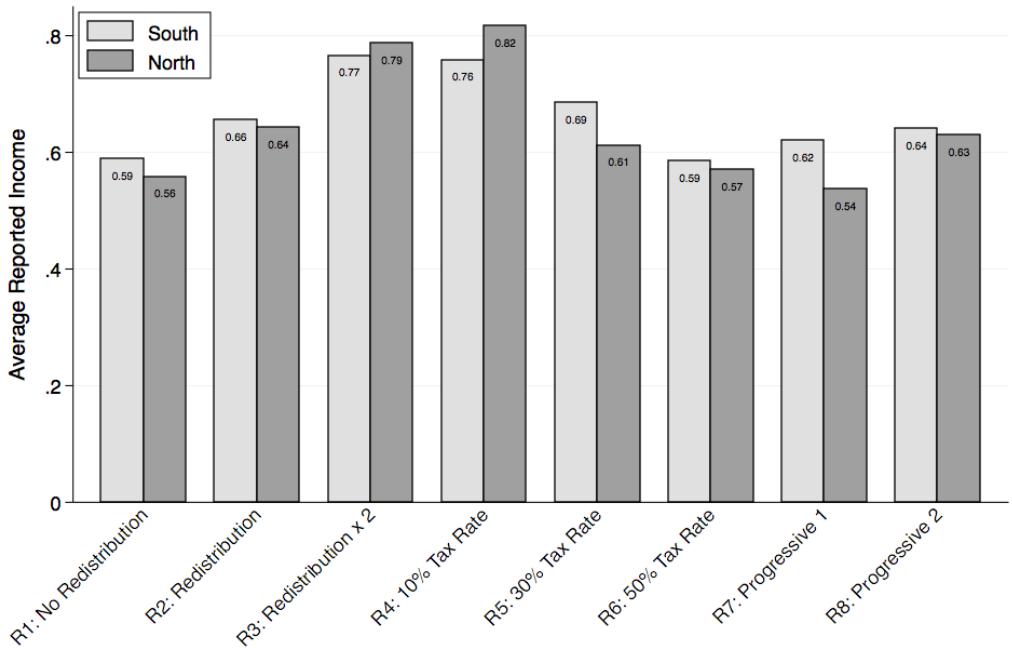
Table 4 – *Continued from previous page*

Task	**Description**
	participants pay tax of 50% on all reported income over 100 ECU Tax revenues are collected into a common fund, the amount in the fund is doubled, and then redistributed on an equal per capita basis to all participants
Round 9: Charity	Flat tax rate of 30% on all reported income Tax revenues are collected into a common fund, the amount in the fund is doubled, and then donated to charity

4. Methods

First, examining Figure 1, there is *prima facie* evidence suggesting that I should reject hypothesis one. From the figure it is clear that there are no differences on average between countries and between experimental decision.

Fig. 1: Average Compliance by Region and Round



To examine the effects of being born in the North compared to the South, I carryout two Ordinary Least Squares models represented by the following equation:

$$Y_{ij} = \alpha + \beta_1 North_i + \Theta X_i + \epsilon_i \tag{1}$$

where:

Yij = the fraction of reported income income by each individual i in each decision round j .
$North$ = a dummy variable where 1 equals participants who were born in the North.
X = a vector of individual characteristics
ϵ = an individual-specific error term clustered by individual

Table 5: OLS Regressions: Average Compliance Rate for Each Individual in Each Decision Round

Variables	(1)	(2)
North	-0.0672	-0.0424
	(0.0431)	(0.0375)
SVO Angle (STD)		0.0434*
		(0.0228)
Age		0.00328
		(0.00494)
Male		-0.135***
		(0.0373)
Employed		-0.0320
		(0.0537)
Economics Major		-0.0984**
		(0.0439)
Past-participation		-0.138***
		(0.0414)
Risk Acceptance		-0.0270***
		(0.00819)
Constant	0.645***	0.892***
	(0.0315)	(0.133)
Observations	2,912	2,784
R-squared	0.030	0.158

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

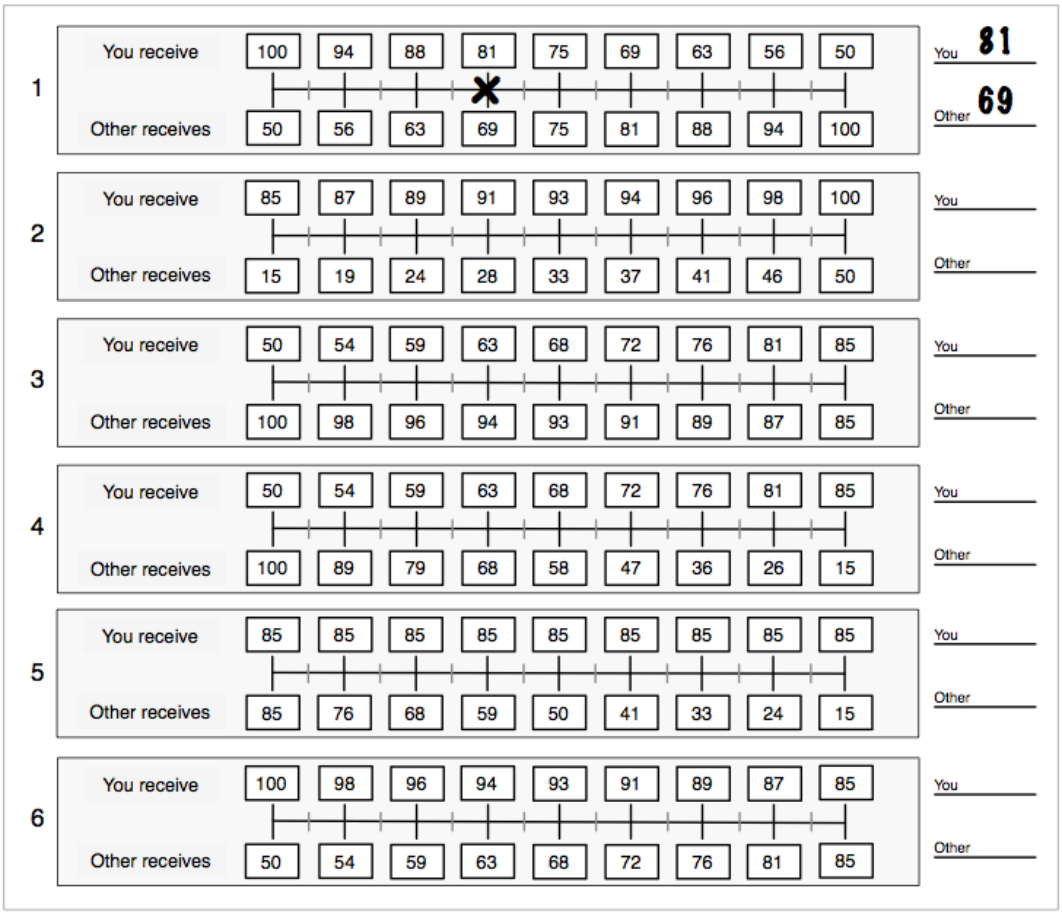
In the first column of Table 5, I present the results of a bivariate model with fixed effects for each experimental period. Contrary to hypothesis 1, I do not uncover any significant differences between the North and South and their willingness to pay taxes. In Column two, I examine several individual level characteristics which have been shown to affect tax compliance in previous studies. Since I did not uncover any differences in tax compliance between the North and South in the bivariate model, I do not expect the coefficient on the region variable to change in a significant way. Confirming the vast majority of tax compliance studies (Bruner et al., 2017; D'Attoma et al., 2017; Gërxhani, 2007), females are significantly more compliant than males, all else being equal. As expected, individuals who are more risk averse are more tax compliant, and prosocials are also more willing to pay their taxes. On the other hand, individuals who have participated in previous experiments and economics majors are less tax compliant.

In sum, I reject hypothesis one and conclude that cultural differences between the North and the South are not driving actual tax behavior in the real world. Southerners do not seem to be less tax compliant than Northerners when given the exact same choices. However, maybe there is another aspect of the "amoaral famililism" that a tax compliance experiment is not appropriate to measure. There are many convoluted factors when assessing one's willingness to pay taxes. In the following section, I, therefore, use a much more straight forward task for prosociality.

5. Social Value Orietation

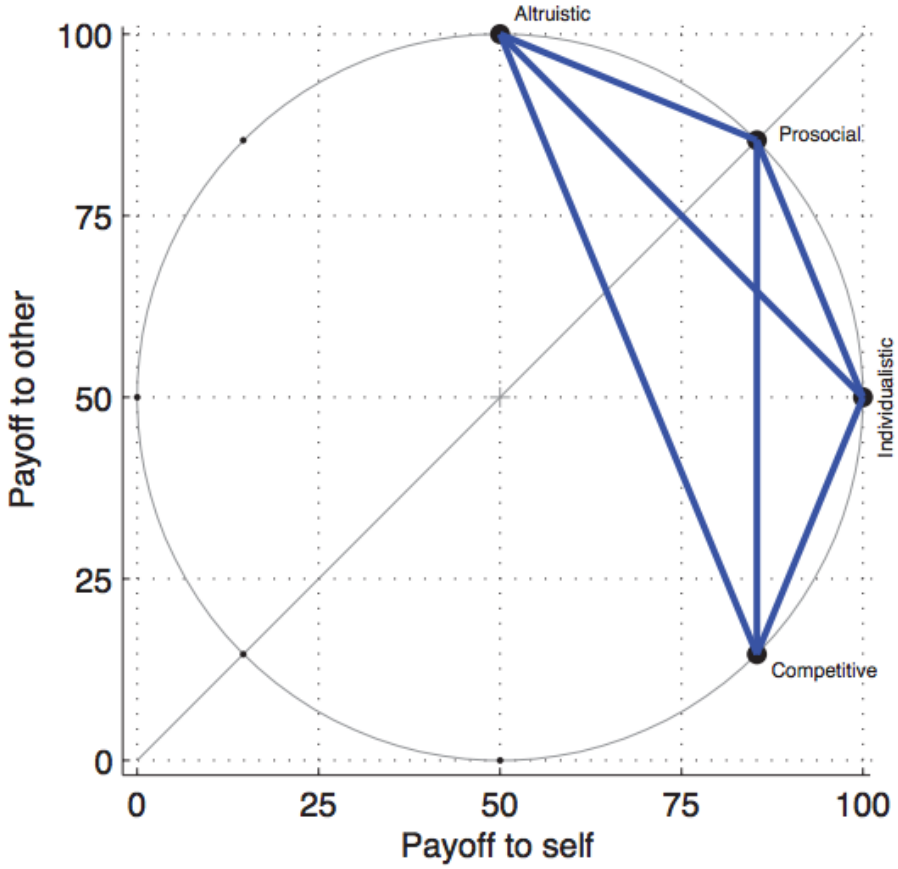
To measure SVO (For more information on the SVO see Murphy et al. (2011).), our participants performed a series of dictator games in which they allocate decisions between themselves and a randomly selected partner. The decisions are then assembled on coordinated plane with the x-axis displaying allocation to self and the y-axis revealing allocation to other. The six allocations can then be averaged into a single angle with a range from -16.26 to 61.40. If we were to arrange these numbers on a scale, -16.26 would represent a participant who is highly competitive, even willing to sacrifice their own income to lessen the welfare of their partner, whereas 61.40 would represent a complete altruist willing to sacrifice their own income to increase the wellbeing of their partner. Most people lie somewhere in the middle as either an individualist to the left side of the scale or prosocial to the right. Figure 3 and Figure 2 represents how we constructed our angle.

Fig. 2: SVO Mini-Dictator Games



From Murphy et al. (2011), Figure 1, p.772.

Fig. 3: Constructing the SVO Angle



From Murphy et al. (2011), Figure 2, p.773.

First, examining the histogram in Figure 4, there is no evidence at first glance to suggest that values vary from the North to the South. If anything, the South is slightly more prosocial. To look at the effects of region on social value orientation, I utilize an Ordinary Least Square model represented by the following equation:

$$Y_i = \alpha + \beta_1 North_i + \Theta X_i + \epsilon_i \tag{2}$$

where:

Yi = the social value orientation of each individual i.
$North$ = a dummy variable where 1 equals participants who were born in the North.
X = a vector of individual characteristics
ϵ = an individual-specific error term clustered by individual

Fig. 4: Histogram of SVO Angle by Region

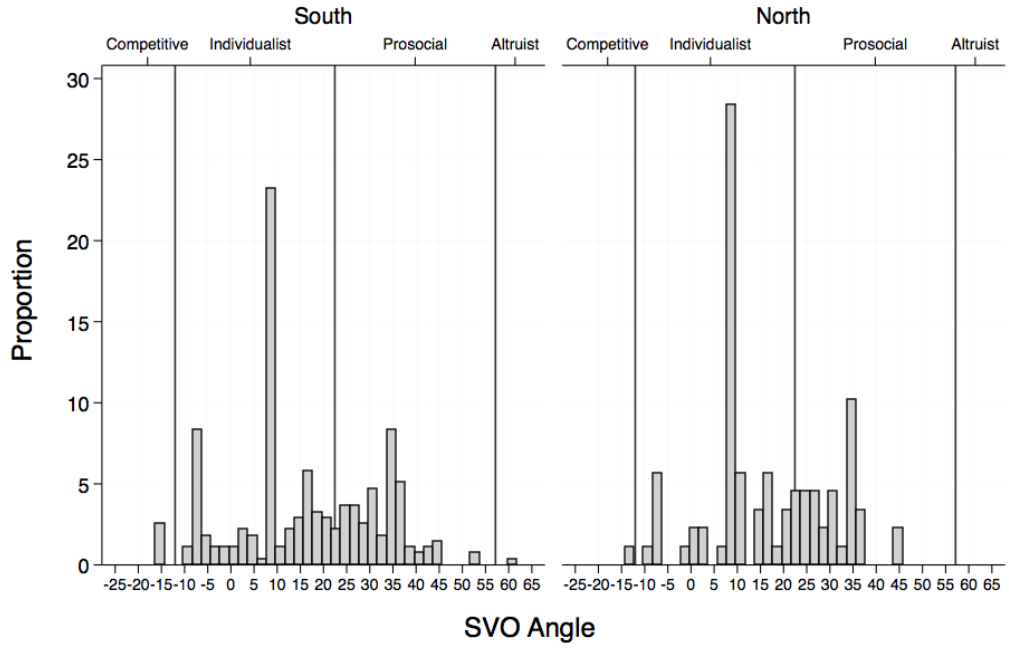


Table 6: OLS Regressions: SVO Angle

Variables	(1)	(2)
North	-0.0884	-0.0365
	(0.130)	(0.127)
Age		-0.0137
		(0.0217)
Male		-0.187
		(0.129)
Employed		-0.151
		(0.180)
Economics major		-0.322**
		(0.141)
Past-participation		-0.389***
		(0.138)
Risk Acceptance		-0.0703***
		(0.0251)
Constant	0.0961	1.234**
	(0.0900)	(0.536)
Observations	2,912	2,784
R-squared	0.000	0.102

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In column 1 of Table 6, I do not uncover any significant differences between the North and South with regard to their levels of prosociality. In column two, we control for a host of variables, but since the bivariate model did not reveal any significant differences, controlling for any individual characteristics is unlikely to affect the coefficients. I can, thus, reject hypothesis two, and determine that amongst our participants, the North is not more prosocial when given the exact same incentives as participants in the South. There are differences between economic majors, experience participants, and those who are less risk averse.

To sum up our findings, when controlling for the institutional environment we find no significant difference in tax compliance and prosociality between the North and South challenging the often employed *moralist* argument. Because we did not demonstrate evidence suggesting that Northern Italian students are more tax compliant and more prosocial than Southern students, when given the exact same incentives and disincentives, we can propose that it is not culture that is driving the real world differences in tax behavior. Instead, I argue that the political economy and institutional environment in which tax decisions are actually made drive real world behavioral differences in tax compliance.

6. Discussion and Conclusion

If it it is not culture, what does it mean that the political economy and institutional environment shape behavioral differences? First, the political economy in Italy, and Southern Italy, more specifically, is quite unique in the percent of the economy made up of self-employed individuals and small businesses. In fact, anywhere we observe a high percentage of self-employed individuals and small businesses, tax evasion tends to be much higher. Much of the tax gap in Italy, as well Greece, Portugal, and Spain, can be explained by their large self-employed and small business sectors (see Table 7).

Table 7: Percentage of Self-Employed in Total Employment: 16 Western European Countries

	Year				3-year
Country	2000	2010	2011	2012	Average
Norway	7.4	7.7	7.0	6.9	7.2
Denmark	9.1	9.1	9.1	9.1	9.1
France	9.3	9.3	9.5	-	9.4
Sweden	10.3	11.0	10.4	10.5	10.6
Switzerland	13.2	10.6	10.7	10.7	10.6
Germany	11.0	11.6	11.7	11.6	11.7
Finland	13.7	13.5	13.4	13.6	13.5
Austria	13.1	13.8	13.8	13.3	13.6
United Kingdom	12.8	13.9	14.0	14.6	14.1
Belgium	15.8	14.4	14.3	14.3	14.3
Netherlands	11.2	15.0	15.0	15.3	15.1
Ireland	18.8	17.1	16.6	16.7	16.8
Spain	20.2	16.9	16.6	17.6	17.0
Portugal	26.0	22.9	21.3	21.9	22.0
Italy	**28.5**	**25.5**	**25.2**	**25.1**	**25.3**
Greece	42.0	35.5	36.3	36.8	36.2

Source: OECD Factbook 2014

However, this is not to say that self-employed individuals and small businesses are more dishonest, but rather the opportunity to evade is much greater for small business. In most countries, employees of medium and large firms are subjected to third-party reporting, meaning that employers report employees earnings directly to the government for tax purposes. This greatly decreases the opportunity to evade taxes. Even in Denmark, a country known for its civility, self-employed individuals evade more. Moreover, individuals who earn money on both third-party reported income and self-reported income, such as rental income, evade more on the self-reported income (Kleven et al., 2011).Therefore, individuals who are not subjected to third-party reporting, and who are asked to self-report are more likely to cheat. In the case of Southern Italy, a larger percent of individuals are required to self-report than in the North. This makes a significant difference. Self-employed individuals can also trade in cash more easily, which is considerably more difficult to track than a credit card payment.

A further explanation for these differences lies in a particular administrative feature called *Studi di Settore* (Sector Studies). The Italian administration is particularly unusual in the way it requires small-business to report their income. While most countries collect various data on individuals and companies, then place them into homogenous populations based on those characteristics with minimum expected incomes, Italy is rare in that it actually makes this data available to the taxpayer before they file their taxes.

It is easy to predict the outcome of a policy that informs taxpayers of their expected minimum income level. As Bergman (2009, 10) elegantly argued, "People maximize utilities inasmuch as they pay as little taxes as they can. But the environment in which people operate fundamentally shapes how they frame the maximization benefits." Hence, those who make above the expected minimum will reduce their income to match the mandatory minimum, while those who earn below the minimum will either risk being audited, which is very likely, and bare those costs, or they will increase their income to avoid the legal costs of an audit. The societal effect of this is also significant. If it is known that small-business and the self-employed can easily avoid taxes, the ripple effects will weigh heavily on the Italian tax system.

There are also historic institutional differences that have profoundly affected the willingness to pay taxes between the North and South. There is not enough room in this short discussion to go into much detail about from what institutions and from where these differences derive, but it suffices to say that differences in institutional effectiveness and efficiency shaped two different perceptions of the state. In the North, where they received efficient and effective public services compared to the South, the willingness to pay taxes is higher.[4] Most importantly, the compliance environment that forms within any particular region tends to be sticky and self-reinforcing. So that where there are ineffective and inefficient public institutions and administrative capacity, informal rules and norms can form, shaping the non-compliant behavior and spreading through society. This then reinforces the ineffective and inefficient institutions.

7. Conclusion

There is an old Neapolitan tradition known as *caffè sospeso* (suspended coffee). The customer instead of purchasing one coffee pays for two – one for herself and another *suspended coffee* for an unknown patron. The suspended coffee is not exactly a tradition that we would expect from a culture that has been deemed

amoral. Yet, this article, demonstrates that indeed Southern Italians are generous or at least as generous as their Northern neighbors.

In the first section, I demonstrated evidence revealing that when giving the exact same institutions Southerns are just as tax compliant as subjects born in the North. We then tested the levels of prosociality using a Social Value Orientation task. Once again, I did not uncover any significant differences between the two regions with regard to prosociality. Therefore, on two measurements of civility – tax compliance and prosociality – I did not reveal any significant differences between individuals in the two regions. This led me to the conclude that that one's willingness to pay taxes and share with others is a function of their institutional environment. Therefore certain institutions – be it formal or informal – shape an institutional environment which legitimizes or delegitimizes tax evasion, that can then fuel a norm of non-compliance.

This article has demonstrated that Southern Italians aren't less generous than their Northern counterparts, but rather that southern generosity does not extend to the state.

Notes

[1]The research leading to these results has received funding from [anonymized grant]. All data can be downloaded from [website anonymized]

[2]For more details on the online recruitment system (ORSEE), see Greiner (2004).

[3]Because round nine is a donation round, we have left it out of the analysis.

[4]For a deep analysis of the institutional foundations of this differences see (D'Attoma, 2017)

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