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Local Enforcement Externalities and Persistence of Tax Evasion in Italy

Abstract

We study the long run persistence of fiscal compliance behavior at the local level in Italy. Starting from what we document to be one of the main permanent institutional traits of the enforcement system in this country after its unification in 1861, i.e. the decentralization of tax collection and fiscal jurisdiction, we build up a model of tax evasion dynamics in the presence of an enforcement externality and social learning by tax-payers. We show that, in the presence of decentralized enforcement, the emergence of long run

historical persistence of initial perceptions and compliance behavior crucially depends on the nationwide level of the tax rate compared to a measure of efficiency in the local enforcement. Historical data provide evidence of the long run persistence of non compliance among provinces in Italy. Historical evidence regarding tax evasion in Italy is consistent with such prediction. This evidence turns out to be robust after controlling for proxies of local level of development and political participation in the 1870s and to other local characteristics.

Thursday 17th January
from 1pm to 2pm
Campus Luigi Einaudi

Seminar room n. 36
Building D1 - 3rd Floor
Lungo Dora Siena 100/A, Turin