# Institutions, Experiments, and Tax Morale
# An Integrated Perspective on Tax Compliance

*Azzura Morreale & Luigi Mittone*

*This chapter outlines an institutional–behavioral account of tax compliance that extends beyond classic deterrence. Guided by Christoph Engel's institutional lens – and using enforcement-free laboratory experiments co-designed with him – we show that people pay taxes even without audits or sanctions evidencing rule-following. Compliance, however, declines when income heterogeneity was made salient and when high-income taxpayers were expected to evade. A second set of experiments isolates legitimacy effects: compliance rises when revenues fund broadly acceptable public purposes (output legitimacy) and when taxpayers can help decide allocations (input legitimacy), with participation valued intrinsically even when outcomes were not individually optimal. Taken together, these results identify the institutional foundations of tax morale and point to policy: enforcement is necessary but insufficient without fairness and legitimacy. The chapter concludes with a reflection on the insights gained through collaboration with Christoph Engel, whose interdisciplinary vision and commitment to experimental rigor were instrumental to the success of this work.*

## A. Introduction

Institutions shape tax behavior along two channels. The first is deterrence – the formal obligations, audits, and sanctions emphasized by classic deterrence models (Becker, 1968; Allingham & Sandmo, 1972). The second is legitimacy: citizens' judgments about whether the system is acceptable in what it funds (output legitimacy) and in how choices are made (input legitimacy) (Easton, 2017; Scharpf, 1999). Deterrence alone, however, has long struggled to explain the high levels of real-world compliance, pointing to the role of tax morale – intrinsic motivation, fairness norms, trust, and social expectations (Luttmer & Singhal, 2014; Torgler, 2007). Consistent with this view, extensive research shows that tax compliance emerges from the interaction of behavioral and institutional factors



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(see e.g., Alm, McClelland & Schulze, 1999; Kirchler, Hoelzl & Wahl, 2008, Cummings et al., 2009; Casal & Mittone, 2016; Bott et al. 2020).

This chapter advances an integrated institutional–behavioral perspective developed in close collaboration with Christoph Engel. Guided by Engel's institutional lens, we designed enforcement-free experiments that strip away audits and fines to isolate two mechanisms. Section 2 presents evidence that individuals comply with tax regulations even when there is no enforcement, although this compliance can decrease when differences in income are highlighted and when doubts about the honesty of others, particularly among higher-income groups, are introduced (Engel, Mittone & Morreale, 2020). Section 3 tests legitimacy more directly by varying both what taxes fund (outcomes) and how allocations are decided (procedures). We find that acceptable uses of revenue and opportunities for voice each raise compliance, even when outcomes are not individually optimal (Engel, Mittone & Morreale, 2024). Section 4 synthesizes these results to locate the institutional foundations of tax morale, and Section 5 draws implications for policy and research.

Christoph Engel's contribution has been foundational to this project. Throughout his career, he has bridged disciplines that often remain apart – law, economics, psychology, and political theory – and his role has been pivotal in translating normative concerns into testable designs, bridging law's structural reasoning with economics' experimental method. The upshot is simple but far-reaching: the same formal tax rule can elicit different behaviors depending on how it aligns with fairness norms and legitimacy beliefs.

## B. Rule-Following and Fairness

Why do individuals pay taxes when evasion is free? We run an experiment where participants had to pay taxes with no chance of enforcement: no audits, no fines, and no sanctions whatsoever (Engel, Mittone & Morreale, 2020). If the classical deterrence model were correct, compliance should have dropped to zero. Instead, participants paid significant amounts of taxes.

The result confirms that rule-following is a genuine motivation: people often comply simply because a rule exists. The result aligns with norm-based accounts (Guala & Mittone, 2010) and evidence from other areas showing that people follow norms even when there are no material incentives involved (Kimbrough & Vostroknutov, 2016). In the context of



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taxation, this insight suggests that deterrence is not the only reason people pay their taxes.

The same experiment also shed light on the interaction between rule-following and fairness concerns. After several periods of play, participants were told that incomes were heterogeneous: some had low endowments, others medium, and others high. Compliance immediately fell by about 16 percent, driven mainly by low-income participants. Importantly, this drop occurred under uniform, proportional, and progressive tax regimes alike. What mattered was not the specific regime but the salience of heterogeneity itself.

Beliefs about others' compliance further shaped behavior. Participants' willingness to pay was strongly correlated with their expectations about the honesty of high-income individuals. When the wealthy were perceived as likely to evade, tax morale weakened across all income groups. This finding mirrors field evidence showing that perceptions of elite noncompliance undermine tax morale in the broader population.

The methodological innovation of the study was its careful design: no enforcement, no redistribution, and no confounding incentives. This allowed us to isolate the psychological mechanisms at work. The findings indicate that rule-following does occur, yet it can be affected by fairness concerns and skepticism about others' behavior.

### C. Legitimacy: Outcomes and Participation

A second line of experiments examined legitimacy more directly, asking whether taxpayers comply more when they approve of the uses of tax revenues (outcome legitimacy) or when they can participate in deciding how revenues are used (procedural legitimacy) (Engel, Mittone & Morreale, 2024).

Participants completed a real-effort task to earn income, then faced an unenforced tax (no audits). Taxes were allocated to real-world public entities – such as hospitals, fire brigades, and the Red Cross – under four different regimes: Imposed (random recipient), Winner-Takes-All (the recipient with the most approvals gets all funds), Proportional (funds split in proportion to approvals), and Gold–Silver–Bronze (funds split 1/2, 1/3, 1/6 among the top three overall recipients).

The results were clear. *Outcome legitimacy* mattered: the more entities a participant found acceptable, the more tax they paid. But *procedural*



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*legitimacy* mattered as well: participants paid more taxes when they had a voice in the allocation process, and they were even willing to pay to avoid random allocation. Interestingly, participation was valued not only instrumentally – because it increased the chance of securing preferred outcomes – but also intrinsically: even when outcomes were not individually optimal, the act of participation itself legitimized the process.

Two implications follow. First, citizens care about what their taxes fund: compliance rises when revenues are channeled toward acceptable purposes. Second, they care about how decisions are made: giving people a voice increases compliance even when the outcome is not their preferred one. This aligns with evidence that direct-democratic institutions are associated with higher tax morale (Torgler, 2005) and with political-science distinctions between output and input legitimacy (Easton, 2017; Scharpf, 1999), here demonstrated with measurable behavior in the laboratory.

## D. The Institutional Foundations of Tax Morale

Taken together, the experiments on rule-following and on legitimacy illuminate the institutional foundations of tax morale. Compliance is not merely an individual choice; it emerges from the interaction of psychological motives with institutional design.

Rule-following supplies a baseline willingness to comply even without enforcement. Yet this motive is conditional: when inequality becomes salient or doubts arise about others' honesty – especially among the wealthy – morale declines. Fairness norms thus condition rule-following, and beliefs about others' compliance become pivotal.

Legitimacy then acts as an amplifier. Compliance rises when taxes finance acceptable outcomes and when taxpayers have a voice in allocating revenues. Crucially, outcomes and procedures each matter on their own: what taxes fund and how choices are made jointly strengthen morale.

Together, the studies by Engel, Mittone, and Morreale (2020; 2024) are pivotal in isolating these dynamics and in showing how carefully structured experiments can evaluate them with rigor.



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## E. Conclusion

The study of tax compliance has evolved far beyond the deterrence model. Evidence now shows that compliance is shaped by the interplay of rule-following, fairness, and legitimacy. These forces are not substitutes but complements: together they sustain the voluntary willingness of citizens to finance collective goods.

For policymakers, the message is clear. Enforcement remains necessary but cannot stand alone. Tax systems must also be perceived as fair, transparent, and legitimate. Citizens need to see that revenues are used for valuable purposes, that procedures are inclusive, and that others – especially those with high incomes – are also paying their share. Only then can compliance be durable and widespread.

For researchers, the lesson is equally clear. Experimental economics, when combined with institutional theory, offers powerful tools to uncover the subtle mechanisms that drive compliance. By stripping away confounds and carefully manipulating institutional variables, experiments make it possible to test theories that would otherwise remain abstract.

Throughout this journey, we have been privileged to collaborate with Christoph Engel. His vision, rigor, and intellectual generosity have shaped our thinking. We learned a great deal from him, especially how to connect different disciplines and ask meaningful questions. Collaborating with him has been an enriching and enjoyable experience, both academically and personally. We are deeply grateful and hope that this collaboration will continue in the years to come, as there is still much to explore together at the intersection of law, economics, and psychology.

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