Tax compliance in Latin America: a cross country analysis.

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ABSTRACT

This paper examines the role that culture plays in the tax compliance process. Public finance is dependent upon taxpayers complying with tax laws. Cultures differ in many respects but do those differences result in materially different rates of tax compliance as well? In other words, are some cultures more law abiding than others – at least with respect to tax law? This paper will address that question. Its objective is to test the hypothesis that certain aspects of a nation's culture impact the level of tax evasion within that country. More specifically, do countries with lower levels of compliance with laws in general also experience lower levels of tax compliance or, in other words greater rates of tax evasion? Tests conducted utilizing ordinary least squares regression indicate that countries with lower levels of complying with laws in general do indeed experience lower levels of tax compliance.

Keywords: Taxation, tax compliance, tax evasion, culture, Latin America.

INTRODUCTION

Tax compliance is important; most of the major types of taxes imposed by governments around the world rely upon voluntary compliance of those who must pay the tax. If taxpayers do not comply with the tax laws and do not remit their taxes, then the taxing authority collects insufficient tax revenue and the system breaks down. Tax systems only function because individuals and firms voluntarily comply with the tax laws and remit taxes to the government. If aspects of a country's culture inhibit the normal collection of tax revenue then the government must find and develop alternative sources of revenue or means of taxation.

Countries discussed in this paper consist of those nations in Central America, South America and the Caribbean; collectively they will be referred to as Latin America throughout the remainder of the paper.

This paper is organized as follows; following the Introduction, Section Two consists of a review of the related literature. Section Three, is a discussion of various aspects of Latin America's culture, economics, and taxation. Section Four describes the theories relied upon in this analysis. Section Five describes the data, variables and hypothesis utilized in this analysis. Section Six reports the statistical methods used and results of the analysis. Finally, Section Seven is a brief Conclusion.

RELATED LITERATURE

This paper draws on the resources of two different bodies of literature: the first body of literature relates to Latin America and its culture. This body of literature also discusses the interaction of Latin America's culture with its economics. The second body of literature relates to public finance in Latin America and more broadly in the developing world. Tax policy and tax compliance in Latin America is addressed in this section.

Latin American Culture and Economics

In many respects contemporary Latin America defies easy explanation. It is poor, yet not as poor as Africa or parts of Asia. It is growing, yet growing only very slowly. It is democratic yet has strong undercurrents of populism. It is stable yet significant regions appear on the verge of chaos. It is capitalistic yet practices a variant of capitalism that Carlos Alberto Montaner (2000) contends approaches mercantilism. It is a part of the West, yet different in fundamental respects from the West. According to Samuel Huntington (1996), experts are divided on whether or not Latin America is a part of Western civilization or a separate civilization in its own right. Reid (2007) views the region as being the forgotten continent. He goes on to describe and document that Latin America is static and is being left behind by advances in the rest of the world.

Sachs (2000) contends that economic development is facilitated by a culture being receptive of social mobility. Cultures which are receptive of social mobility are much more likely to develop than are cultures with rigid hierarchal structures. In paternalistic change resistant cultures such as those throughout much of Latin America, barriers to social change are put in place in order to resist change and restrict change. Change disturbs the social equilibrium. Sachs goes on to note that "elite actors try to frustrate or limit the institutionalization of the rule of law, the norms of social mobility, and the introduction of market institutions" (Sachs, 2000). James Mahon Jr. (2000) when analyzing the drastically different results of economic reform in East Asia compared to Latin American, contends much the same thing when he concludes the Asian countries had more allies for reform and fewer enemies than did Latin America. Latin American countries score, along with Sub-Saharan Africa as having the strongest traditional values and the weakest secular-rational values according to the Inglehart-Wetzel Cultural Map of the World Values Survey (Inglehart and Welzel, 2005).

Cultural values whether modern or traditional are also important to economic development (Inglehart and Welzel, 2005), a view shared by Gereffi (1989). Bergman (2002) contends that voluntarily paying taxes is dependent upon social and cultural values. Religious values also play a part in cultures' affect on economics. Economists Robert Barro and Rachel McCleary (2003) after conducting a cross country statistical analysis concluded that religious beliefs have a positive effect on income. Gereffi (1989) concurs, as do Lobkowski (1991) and You and Khagram (2005). Gereffi (1989) concluded that certain Confusion cultural values (hard work, loyalty and punctuality) at least partially explain East Asia's economically outperforming Latin America in recent years.

Public Finance in Latin America

Public finance is important, it matters to the governments, the economies' and the people of Latin America. It matters because it has a significant effect on the region's economic growth and development. It also matters because governments of developing countries need to raise sufficient revenue. They need to raise sufficient revenue in order to not only pay for ongoing governmental services but also to invest in greatly needed infrastructure (de Mello, 2006). Culturally public finance and taxation matter because paying taxes is a shared experience, a shared burden which ties a nations people together (Bergman, 2002). Sah and Stiglitz (2002) contend that public finance, also known as tax policy is critical to the economic success of developing countries.

There are a plethora of different types of taxes which are imposed by governments around the world. All of them to varying degrees require that taxpayers and others voluntarily comply with tax laws and remit taxes to the government. Such voluntary compliance is of vital importance. It is widely acknowledged, even by opponents of big government that governments require sufficient revenues in order to function. It is also widely acknowledged that governments of developing countries especially those in Latin America have great difficulty collecting taxes.

Marcelo Bergman (2002) contends that historically, Monarchs and governments have risen and fallen based on their ability to collect sufficient revenues from their subjects. Paying taxes is however, according to Bergman (2002) contingent upon taxpayers having the appropriate social values. Unfortunately those values appear to be lacking in much of Latin America (Bergman 2002, 2003) and (Lagos, 2008). The result of such a situation is that taxpayers are as Bird and Wallace (2003) so eloquently put it: inclined to "avoid the full impact of the tax system." The net effect is that Latin America suffers from extraordinarily low rates of tax compliance. For example, Argentina's non-compliance rate for its Value Added Tax (VAT) has been estimated to be 55 percent (Bergman, 2002). This in spite of the fact that VAT's are considered to be among the easiest forms of taxes to administer and collect (Slemrod, 1990). Argentina does not appear to be atypical, Easterly (1995) in reply to another Slemrod (1995) paper, compares the VAT noncompliance rates of Peru and Sweden. He finds a non-compliance rate in Peru of 68 percent in sharp contrast to Sweden's rate of 5 percent. Likewise, Bahl and Wallace (2007) estimate that only about 17 % of business income in Jamaica is properly reported to the taxing authorities. Additionally, they estimate that with respect to the relatively easy to collect tariffs on imports, less than half of the appropriate revenue actually makes it to the Jamaican treasury (Bahl and Wallace, 2007).

CULTURE, ECONOMICS, AND TAXATION IN LATIN AMERICA

Culture matters – at least according to some scholars (Harrison and Huntington, 2000). Others take a different view such as Diamond (1999) who argues that more than anything else geography matters and Franz Boas (1928) the father of American anthropology who viewed all cultures as being fundamentally equal. It seems reasonable to say that although all cultures may be equal in certain fundamental respects, some cultures, however, possess certain attributes which make them more amenable to economic growth and development. While other cultures possess attributes which may even hinder economic growth and development. In other words, to paraphrase George Orwell (1946) 'all cultures are created equal, but some cultures are more equal than others' – at least with respect to economics.

Thomas Sowell is an outspoken member of the culture matters club. Sowell (2008) acknowledges that there are many factors which influence economic development such as respect for property and other legal rights as well as geography and climate. However, the principle factor in his view seems to be cultural values. Sowell provides numerous examples of people from one culture immigrating to another country with a different culture and prospering where the native population struggled. Sowell's examples not only span the entire world but they span the entire written history of the world. For example, Argentina became so productive growing wheat that it became a significant wheat exporter, but only after the arrival of immigrant German farmers. Prior to the arrival of the Germans, Argentina's farmers were so unproductive that they were actually wheat importers. The geography did not change, the climate did not change, neither the farming technology employed nor the wheat itself changed – what changed was the culture of the people working the land and growing the wheat (Sowell, 2008). Sowell (1996) also credits immigrant German farmers with similar successes in such places as Russia, Brazil, Australia as well as Canada and the United States.

Todaro and Smith (2006) provide a more detailed and sobering description of the unproductive nature of Latin American's agriculture. Contrary to economies of scale, in Latin America there appears to be an inverse relationship between farm size and farm production. The authors describe a land survey taken in Brazil in the 1990's which showed the average value of agricultural production of small farms (less than 10 hectares) averaged $ 85 per hectare while the comparable number for Latifundios (over 500 hectares in size) was only $ 2 per hectare (Todaro and Smith, 2006). Studies in other Latin American countries yielded similar although somewhat less extreme results. The authors speculate that among the Latifundios or very large land holders, which own the vast majority of farm land in most Latin American countries, it is more prestigious to own large tracts of unproductive land than it is to own land which is actually put to productive use. Culture matters, apparently even to wheat.

Change, for the most part, is viewed as progress in North America. In Latin America, on the other hand, change is viewed negatively or at least suspiciously and is typically resisted – at least by significant segments of society. Sachs (2000) contends that throughout much of Latin America, there exists a change resistant paternalistic culture which remains resistant to social change. In addition, he also argues that reforms are resisted most fiercely by those whose political, economic or social standing is lacking of legitimacy (Sachs, 2000).

In order to bolster his argument, Sachs relies upon the thinking of renowned sociologist and political economist Max Weber. Weber, although somewhat controversial today, is widely regarded as the father of modern sociology. Weber (2003) dealt at length with the contrast between capitalistic societies and what he called pre-capitalistic societies. Pre-capitalistic societies were those societies which had not yet fully embraced modern capitalistic principles. Latin American societies today would represent good examples of Weber's pre-capitalistic societies. In pre-capitalistic societies, according to Weber, "political authority is traditional and arbitrary [and] … social norms support hierarchical distinctions." Weber goes on to say that in such societies "markets are constrained by social or legal barriers" (Sachs, 2000).

Weber (2003) contends that what we now know as capitalism had its roots in the religious revolution of the sixteenth century. Profit seeking rational capitalism was the social counterpart, according to Weber (2003) of Protestantism, or more specifically its Calvinist branch. Sloth or laziness was considered a menace under Calvinist doctrine.

Weber is not the only theorist to see a connection between religion and development. Post develop-mentalist Gilbert Rist, as described by Peet and Hartwick (1999) considers development to be the core or foundation belief of Western culture. Rist contends that development and modernization are a culmination of Greek philosophy and Christian theology and have reached the level of religion in the West (Peet and Hartwick, 1999). In addition to valuing development and modernization, the West also values education.

Culturally, Latin Americans do not seem to place much value on education. The region does especially poorly when it comes to education. According to Edwards (2007) a number of studies have found Latin America to be the worst region of the world in terms of education. Education simply does not seem to be a priority for Latin American governments. Politically, education's low priority status is probably not surprising given that education does not seem to be that important to the Latin American people themselves. Banerjee and Duflo (2007) found that poor households in South and Central America spend significantly less on education than do poor households in Africa. Edwards (2007) goes on to note that China and India, although poorer than Latin America on a per capita income basis have a number of world class universities – especially in the sciences and mathematics while Latin America has none. Even such areas of the world as Southeast Asia and the Middle East – much poorer than Latin America, have superior universities (Edwards, 2007). Latin America's failure to invest in the education of its children and young people does not bode well for its future economic development or performance. Indeed, Edwards (2007) concludes, after an econometric analysis of the data, that Latin America has poor growth prospects going forward and that it will continue to fall farther and farther behind the rest of the world.

Latin American governments almost without exception collect insufficient amounts of tax revenue. They are chronically underfunded and suffer from a phenomenon known as low tax effort. Tax effort is defined as total tax revenue collected divided by GDP. As a region, Latin America collects as a percentage of GDP the lowest percentage of corporate income tax, the lowest percentage of personal income tax and the lowest percentage of total tax of any region in the world (Tanzi and Lee, 2000). Guatemala's tax revenue collections, for example are less than 10 percent of its GDP while the tax efforts of several other regional governments are only marginally better (DataGov, 2010). The region as a whole collects, as a percentage of GDP well under half what OECD countries collect (DataGov, 2010) and (OECD, 2010). Latin American low tax effort has persisted for decades (Todaro and Smith, 2006).

Low tax effort in Latin America is not simply a matter of developmental status since the region collects less as a percentage of GDP than less developed sub-Saharan Africa (Solano, 2003) or comparably developed Eastern and Central Europe (DataGov, 2010). Neither does Latin American's low tax effort appear to be dependent upon the types of taxes imposed. The region's governments impose many different types of taxes with little effect on tax revenue.

Further, in recent years Latin American governments have made many attempts at tax reform yet tax effort has remained consistent and has even declined somewhat from already low levels (Bird, Martinez-Vazquez, and Torgler, 2004).

This is not to say that more taxation is always better and that countries ought to maximize tax revenue collection. Indeed, according to optimal tax theory, taxation should impose as minimal a burden as possible (Slemrod, 1990). However, governments do need to collect sufficient revenue to pay for basic governmental services and functions. Additionally, Latin American governments need tax revenue to help close what the OECD calls "a large infrastructure gap which weighs on its growth potential" (de Mello, 2006).

Latin America's inability to collect sufficient tax revenue results in significant budget deficits which add to national debts. Greater amounts of debt in turn lead to greater interest obligations which further strain government finances (Offerdal, 2004). Additionally, in an attempt to increase revenue collections, Latin American governments have imposed some of the most economically distorting types of taxes. According to Hubbard (2002) Latin American "governments are tempted to turn to schemes that secure revenue despite their inefficiency and broad cost to the economy" Latin American governments have imposed such distortive taxes as taxes on corporate assets, taxes on equity, taxes on minimum or deemed income, and bank transaction taxes (Muniz, 2006). Although they have been reduced by considerable margins throughout much of the rest of the world, trade inhibiting tariffs and export duties have remained high in the region. Indeed, international trade taxes in Latin America as a percentage of total tax revenue are nearly six times as high as they are in Eastern and Central Europe and over 40 times higher than in the industrialized nations of the world (DataGov, 2010). Distortive taxes as well as high taxation of international trade inhibit economic activity and accordingly reduce growth.

A major cause of Latin America's low tax effort is undoubtedly widespread tax evasion. Vito Tanzi (2000) contends the region is "allergic to income taxes." Unfortunately income taxes are vital to the public finances of most countries. In the United States for example, income taxes represented nearly 60 percent of total tax collections in 2007 (Pope, Anderson and Kramer, 2008). Latin America's inability to collect income taxes puts it at a significant disadvantage. Poor tax administration may also play a part, as inability to properly assess and collect taxes may all by itself promote noncompliance. As Martin and Prince (2009) note, individuals may not even perceive ethical misconduct when the misconduct itself is unobserved. Shome (1999) questions the applicability of self assessed taxation in Latin America where there is no tradition of compliance with tax laws. In other words, if Latin Americans will not voluntarily pay taxes than relying on a system which requires them to do so is an exercise in futility. Unfortunately such voluntary compliance on the part of the citizenry is necessary in order to collect sufficient tax revenue.

THEORY DESCRIPTION

This paper draws on the resources of Institutional theory. Institutional theory focuses on the role institutions play in economics.

The term "institution" has been defined by North (1991) as "humanly devised constraints that structure political, economic, and social interaction." Institutions are the formal and informal rules which govern a society. The importance of institutions is probably best illustrated by the chaos which results when stable institutions are lacking (Campbell, 2004). Fukuyama (2004) is of the view that many of the world's worst problems are the result of poorly functioning institutions. Others (Feldman and Perala, 2004) contend that in Latin America there is a strong correlation between weak institutions and violence.

Many scholars link institutions with economic growth and development. Establishing and maintaining institutions which ensure public order is the central obligation of the state (North, Summerhill and Weingast, 2000). Order does not automatically exist; it must be created and maintained. Order, the authors argue is a necessary precondition for economic, political, and social development. No less an authority than Max Weber (2003) believed that functional capitalism requires not only the technical means of production but also the rational structures of law and of administration, in other words properly functioning institutions. Fukuyama and Marwah (2000) contend that institutions are as vital as the proper economic policies when it comes to economic development while Kaufmann and Kraay (2002) point to a strong correlation between good institutions and growth.

Once they are established, institutions develop in a path dependent manner (Campbell, 2004). In other words, once an institution comes into being its evolution is, at least to some extent predetermined. This attribute of institutions could help explain institutional weaknesses in Latin America today. Institutional and administrative shortcomings in Latin America have even been traced all the way back to the Aztec, Maya, and Inca empires (Garcia-Zamor, 2003).

North (1991) as well as North, Summerhill and Weingast (2000) attribute institutional weaknesses in modern day Latin America to the legacy of Spanish colonialism. In contrast to England, whose colonies were established when Parliament was increasing in power, Spain's new world colonies were established while Spain was ruled by an absolute Monarch (North, 1991). This according to North (1991) led to the establishment of a powerful centralized bureaucracy which sought to control all aspects of religion, politics and economics in Latin America. Such stifling bureaucracy resulted in the widespread view that laws were something to be avoided, a view which has persisted in Latin America to this day (North, Summerhill and Weingast, 2000).

Institutions convey to individuals the boundaries of acceptable behavior. Accordingly, if the rules or institutions of a society view the non-payment of one's tax liability as socially acceptable behavior then widespread tax evasion will result. This could explain the staggering rates of non-compliance estimated in many Latin American countries. For example, Easterly (1995) estimates a 68 percent non-compliance rate in Peru while Bahl and Wallace (2007) find an 83 percent underreporting of business taxable income in Jamaica. Others estimate the sizes of the underground economies in the countries of Latin America as ranging from roughly one fifth to two thirds of all economic activity (Friedman, Johnson, Kaufmann, and Zoido-Lobaton, 2000). Needless to say economic activity in the underground economy largely escapes the reach of taxing authorities. In Latin America it is generally understood that the rich do not pay taxes (Reid, 2007). Unfortunately for the treasuries of the region's governments, few others pay taxes either.

DATA, VARIABLES AND HYPOTHESIS

A number of sources provided data utilized in this analysis. Those sources are described in detail below. Data was obtained regarding most of the major countries of Latin America. Those countries consisted of: Argentina, Bahamas, Belize, Barbados, Bolivia, Brazil, Chile, Columbia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Vincent, Trinidad and Tobago, Uruguay and Venezuela. Excluded from this analysis because of a lack of data are Cuba and Haiti, as well as a number of smaller Caribbean islands.

The dependent variable used in this analysis, Tax Evasion, is an estimate of the size of a countries informal or underground economy. The size and extent of an underground economy is by its very nature difficult to measure. The dependent variable was obtained from the Inter-American Development Bank's DataGov (2010) database. DataGov obtained the data from the World Economic Forum's Executive Opinion Survey which was carried out as part of the Global Competitiveness Report. The informal sector was used as the dependent variable in this analysis as a proxy for the extent of tax evasion within a country. The activities and the income of unregistered businesses as well as individuals employed in the informal sector are beyond the reach of the taxing authorities. Likewise unreported activities of registered businesses and unreported income of individuals are also untaxed. In developing countries the informal sector constitutes the vast majority of tax evasion (Friedman, Johnson, Kaufmann and Zoido-Lobaton, 2000). Higher values indicate larger informal economies and therefore a greater degree of tax evasion.

The main independent variable, Public Institutions was obtained from the Inter-American Development Bank's DataGov (2010) database. DataGov obtained the data from the World Economic Forum's Executive Opinion Survey which was carried out as part of the Global Competitiveness Report. The Public Institutions index is a combination of the Corruption sub-index and the contracts and law sub-index equally weighted. The corruption sub-index measures the extent of corruption within a country while the contracts and law sub-index is a measure of compliance of various aspects of the law. The Public Institutions measure was used as the main independent variable because of it is thought to be a good measure of various aspects of a country's cultural values. The extent to which there is corruption within a society, as well as that society's willingness to comply with laws are to a large extent culture related (Fukuyama, 2002). Higher values for the Public Institutions index indicate less corruption and better legal compliance.

Another of the independent variables**,** Law Compliance measures the extent to which laws are respected and complied with. While the Contracts and Law sub-index, described above measures institutions (the judiciary, the government etc.) compliance with laws, this indicator measures common everyday citizens respect for and willingness to comply with laws. The Law Compliance variable was obtained from the most recent Latinobarometer survey (Lagos, 2008). The Latinobarometer is an annual cross public opinion survey carried out in the major countries of Latin America. The Latinobarometer is more properly known as The Democracy Barometer: Latin America's Diversity of Views, it surveys an average of 1,000 individuals from each country on at least an annual basis. Citizens respect for and willingness to comply with laws is thought to be largely culturally related (Fukuyama, 2002). Higher values for Law Compliance indicate a greater willingness to comply with the law.

The level of crime within a society is another of the independent variables. The Crime variable is a measure of losses sustained by businesses within a country as a result of theft, robbery, vandalism, arson or other crimes. It is essentially a measure of what is commonly known as street crime. The measure was obtained from the Inter-American Development Bank's DataGov (2010) database. DataGov obtained the data from the World Bank's Enterprise Surveys. The surveys were conducted annually beginning in 2002 and have sample sizes ranging from 250 to 1500 businesses. Common street crime is thought to be another reflection of a countries culture (Reid, 2007). Higher scores for this measure indicate that crime is more prevalent.

The cost to open a business is the next independent variable, it was obtained from the World (World Bank, 2008b). This variable represents the total cost of opening an average sized small business within each country. The cost to open a business represents the total cost as a percentage of GDP per capita in the country. This variable is a control variable as it is thought to have an independent effect on the size of the informal economy. If the cost of opening a business in the formal economy is too high then there is an incentive to operate in the informal economy.

The final variable is Total Tax. It represents total tax payments required of the average business within a country. The Total Tax variable is expressed as a percentage of total commercial profits. This measure was obtained from the World Bank's publication: Paying Taxes 2008: The Global Picture (World Bank, 2008a). This variable is also a control variable as it is thought to have an independent effect on the size of the informal economy. If the tax burden imposed is too high then businesses are more likely to operate in the informal sector. As Neil (2010) has observed, high marginal tax rates discourage honesty.

The objective of this paper is to test the hypothesis that certain aspects of a nation's culture impact the level of tax evasion within that country. More specifically, do states with lower levels of compliance with laws in general also experience greater rates of tax evasion? I expect that states with higher levels of disregard for laws in general will in fact experience greater rates of tax evasion. Such a finding will be in support of institutional theory, as outlined in this paper.

Hypothesis - Statement of Null and Research (Alternative) Hypotheses

H_o: There is not a relationship (no correlation) in Latin America between the level of compliance with laws in general and the level of tax evasion.
H_1: There is a relationship (positive correlation) in Latin America between the level of compliance with laws in general and the level of tax evasion.

Dependent variable: Level of Tax Evasion
Main Independent variable: Quality of Public Institutions
Other Independent variables: Citizens' compliance with the law,
Cost to open a business, Street crime and Total Tax burden

METHODOLOGY AND RESULTS

A Bivariate regression was run to determine the correlation between public institutions, the main independent variable and tax evasion, the dependent variable. Bivariate regressions were also run comparing all of the other independent variables to the dependent variable, the extent of tax evasion. Table 1 shows the results of the regressions.

A statistically significant correlation was found between the main independent variable and the dependent variable. In other words, the extent of tax evasion within a country is dependent upon the quality of public institutions within that country. The better quality of public institutions in a country results in less tax evasion. This result is not only statistically significant at the .01 level, but meaningful as well. Indeed the main independent variable has at .783 the largest correlation of any of the independent variables. The obtained result is also in accordance with the prediction of the theories utilized in the paper. Several of the other independent variables were meaningful and achieved the level of statistical significance when compared with the dependent variable as well. Indeed, of the five independent variables tested only the total tax variable was not statistically significant at the .10 level.

Additionally, an ordinary least squares (OLS) regression analysis was performed in order to test the hypothesis that there is a relationship between the level of compliance with laws in general and the level of tax evasion. The results of the OLS regression analysis are displayed in Table 2. Overall the independent variables explain seventy-eight (78) percent of the variation in the level of tax evasion. Table 2 shows the mean, b score, standard error and t value for each of the independent variables. As the results clearly indicate there is a strong correlation between the various measures of a nation's general level of compliance with laws and the level of tax evasion within that nation. The result is consistent with and supports the theories as outlined in the paper. Considering the robust statistical significance as well as the meaningfulness of the results, the Null Hypotheses must be rejected and the alternative or research Hypotheses accepted.

CONCLUSION

The results of this analysis indicate that there is a strong correlation in Latin America between various aspects of a country's culture and the extent of tax evasion within that country. Societies which have greater respect for the law and are more law abiding appear to have less tax evasion and are therefore able to generate more tax revenue than are those societies which are less law abiding.

It appears as if culture does matter; at least with respect to public finance in Latin America. Societies will little regard for the rule of law also have widespread tax evasion. The news is not all bad however, since cultures and institutions can and do change. North, Summerhill and Weingast (2000) point to Spain as an example of a country that overcame institutional weaknesses and centuries of economic underdevelopment to become a thriving member of the prosperous West. Spain, as the former colonial master of most of Latin America, undoubtedly had many of the same cultural problems and weakness currently plaguing Latin America today. If Spain can change for the better, it logically follows that Latin America can as well.

APPENDIX

Table 1

Bivariate Regressions of the Impact of the Independent Variables on the level of Tax Evasion

Independent Variable	Pearson Correlation	sig. (2 - tailed)
Public Institutions	-0.783	0.000
Law Compliance	-0.588	0.000
Street Crime	0.695	0.000
Cost to Open Business	0.478	0.052
Total Tax	0.221	0.348

Table 2

Multivariate Analysis of Various Cultural Attributes
And the level of Tax Evasion.

Independent Variable	mean	b	se
Public Institutions	4.160	-0.400 *	0.217
		- (2.301)	
Law Compliance	19.9339	-0.156	0.012
		- (1.124)	
Street Crime	4.0524	0.419 *	0.167
		(2.717)	
Cost to Open a Business	39.6471	0.275 **	0.003
		(1.945)	
Total Tax	50.9217	0.064	0.005
		(0.491)	
Constant		7.318	0.921
N		21	
Adjusted R Square		0.782	

Note: T - Values are in parentheses.
*Significant at the .05 level.
** Significant at the .10 level.

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