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The conditions of socioeconomic development exploring the legitimacy of social norms, trust, and corruption in Chile and Argentina

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MPIfG Discussion Paper 18/9

The Conditions of Socioeconomic Development
Exploring the Legitimacy of Social Norms, Trust, and Corruption in Chile and Argentina

Daniel Míguez and Matías Dewey

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Abstract

A growing body of research, based on large-scale international comparisons, has associated socioeconomic development with several intervening factors, such as levels of respect for social norms, interpersonal trust, degrees of confidence in public institutions, or incidence of corruption in governmental bodies. The paper contributes to this body of scholarship by comparing the differing socioeconomic development experienced by Chile and Argentina between 1983 and 2013. Specifically, the paper inquires whether the greater socioeconomic development experienced by Chile was actually related to greater legitimacy of the law, higher levels of trust in public institutions, lower perceived levels of corruption, and greater interpersonal trust. The results of our exploration do not completely confirm or disprove this thesis. Instead, they reveal not only the need for a nuanced approach to how these factors relate to socioeconomic progress but also for their forms of association to be considered in the context of politically, socially, and economically fluctuating conditions.

Keywords: Argentina, Chile, corruption, development, fiscal policy, norms, trust

Zusammenfassung

Eine zunehmende Anzahl von Forschungsarbeiten basierend auf großen internationalen Vergleichsstudien weist einen Zusammenhang zwischen sozioökonomischer Entwicklung und verschiedenen Einflussfaktoren auf. Beispielsweise spielen das Ausmaß von Respekt für soziale Normen, interpersonelles Vertrauen, der Grad des Vertrauens in behördliche Einrichtungen oder die Auswirkungen von Korruption in staatlichen Institutionen eine Rolle. Als Beitrag zu dieser Forschung vergleicht das Papier die unterschiedlichen sozioökonomischen Entwicklungen in Chile und Argentinien zwischen 1983 und 2013. Im Vordergrund steht die Frage, ob die größere sozioökonomische Entwicklung, die in Chile stattgefunden hat, tatsächlich mit einer höheren Legitimität der Gesetzgebung, größerem Vertrauen in öffentliche Institutionen, niedrigerem wahrgenommenen Korruptionsgrad und größerem interpersonellen Vertrauen in Zusammenhang zu setzen ist. Diese These wird von den Ergebnissen der vorliegenden Studie weder eindeutig bestätigt noch widerlegt. Stattdessen legen sie die Notwendigkeit nahe, mit einem differenzierten Ansatz zu untersuchen, wie diese Faktoren sich auf sozioökonomischen Fortschritt auswirken und wie ihre Assoziierungen im Kontext politisch, sozial und ökonomisch fluktuierender Rahmenbedingungen zu berücksichtigen sind.

Schlagwörter: Argentinien, Chile, Entwicklung, Korruption, Normen, Steuerpolitik, Vertrauen

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The Conditions of Socioeconomic Development: Exploring the Legitimacy of Social Norms, Trust, and Corruption in Chile and Argentina

1 Introduction

In his comparative study of various regions of Italy, Robert Putnam (1993) concluded that the greater socioeconomic development of the northern region was associated with a system of reciprocal influences between several intervening factors. Among the more relevant were the level of respect for social norms and confidence in public institutions, as well as higher levels of interpersonal trust and a low incidence of corruption among government officials. A different landscape, however, characterized the southern region. In this latter case, social transactions were dominated by corporate interests. In this social atmosphere, cooperation and trust only occurred among small groups of people united by primary relationships, who tended to act for their own benefit and to the detriment of the general welfare of the population. This made extensive cooperation difficult, increased transaction costs, and generated social inequality between those groups that managed to impose their interests and those that were marginalized.

Taking advantage of the increasing availability of statistical data, several large-scale comparative studies test Putnam's observations about Italy (e.g., Ingelhart 2000; Rothstein 2011; Uslaner 2009). These studies examine whether the greater socioeconomic development (i.e., higher per capita GDP and lower income inequality) exhibited by some countries correlates with a greater legitimacy of laws, greater trust in public institutions, lower perceived levels of corruption, and more confidence among citizens. Although the results show nuances, most of these studies tend to confirm Putnam's thesis.

Our paper contributes to this body of scholarship by showing the complex interrelations between the aforementioned factors. More specifically, we inquire as to whether the greater socioeconomic development experienced by Chile as compared to Argentina is related to greater legitimacy of the law, higher levels of trust in public institutions, lower perceived levels of corruption, and greater interpersonal trust. From this exploration we conclude that the differing socioeconomic development experienced by Argentina and Chile after the restoration of democracy led to circumstances in which Putnam's thesis needs not only to be nuanced but also contextualized in a politically, socially, and economically fluctuating landscape.

We would like to thank Jorge Atria and Marcelo Bergman for their very helpful comments on previous versions of this paper.

We base our analysis on data provided by the Latinobarómetro surveys of 1998 and 2013. Although it would be preferable to base the comparison on a continuous time series, we have restricted our study to these specific years because the databases include comparable variables that are not available for other years. As we will discuss later, these data allow for only a limited inquiry into the perception of the law, since they only consider fiscal norms. However, this limitation is acceptable insofar as it has been argued that compliance with tax norms is one of the most influential factors in the economic development of Latin American countries (Fairfield 2010, 37; Fishlow 1990; Rothstein and Uslaner 2005, 56). In addition, several studies (summarized later) indicate that the legitimacy of tax norms is directly related to the quality of public institutions, the levels of trust that citizens have in them, and how fair and equitable they perceive them to be. Therefore, according to this research, the legitimacy of tax norms is associated with variables similar to those included in Putnam's studies and confirmed in subsequent research. Although the aforementioned limitations do not allow us to reach definitive conclusions, the available data still allow for an exploratory study that will provide fruitful and founded hypotheses on how institutional conditions are associated with the contrasting socioeconomic development of these two countries.

It is important to point out that in this paper we do not consider the relationships between institutional trust, corruption, the perception of the law, and socioeconomic development as unidirectional causal relationships. We do not assume that one factor strictly determines the others. Instead, we consider these factors as pertaining to a system of mutual influences where they reciprocally condition each other.

We investigate these relationships both through aggregate comparisons at the country level and through disaggregated data at the individual level. In the latter case, using an ordinal regression model, we look at the extent to which perceptions of greater economic development are associated with the degree of legitimacy of norms and, in turn, how this relates to levels of institutional and interpersonal trust and the perceived corruption of government officials.[1] Furthermore, we also compare, at least partially, whether these relationships are consistent in the same country at different times. Observing the way in which these factors and their associations vary over time reveals nuances that were not visible in broader international comparisons, which were mainly conducted from a synchronic perspective.

In the next section, we discuss in more detail those theses proposing that socioeconomic development is associated with the legitimacy of the law, levels of trust in public institutions, perceived corruption among public officials, and levels of trust among citizens. We then describe the methodology and the variables used in this study. Next, we examine the cases of Chile and Argentina and present the results of the Latinobarómetro surveys of 1998 and 2013. We then discuss the implications of these findings in relation to our initial theses. In the concluding section, we summarize the main findings of this explor-

1 The level of consensus of norms among the population.

atory study and propose several hypotheses concerning the conditions that underlie the differing development of Chile and Argentina.

2 Legitimacy of social norms, trust, and socioeconomic development

Inquiries and theories concerned with the conditions for economic and social development and their relation to the legitimacy of the law and the perceived reliability of public institutions have a long history. Lipset's (1959)[2] classic study on the conditions of democratic development in Latin America alone reveals a 50-year-long tradition of research conducted in this area. In this tradition, as already stated, studies focusing on the role of institutional and cultural factors allowing for socioeconomic development tend to associate socioeconomic development with the legitimacy of the law, the perceived reliability of public institutions, levels of interpersonal trust, and perceived levels of corruption among public officials. Although the variations and nuances in this field of research are numerous, in this paper we intend to analyze three related theses which have become preeminent in the field.

The first thesis postulates that levels of economic development and social equality are associated with the legitimacy of legal norms. A good deal of research in this field indicates that countries with higher levels of economic development and social equality exhibit greater legitimacy of norms. This is expressed in a "civic morality" (Letki 2006) that predisposes the population to postpone particular and immediate interests in pursuit of long-term benefits (Rothstein and Uslaner 2005; Uslaner 2002). On the other hand, in societies where ethnic, class, or status differences prevail, there is less willingness to postpone particular and immediate interests for collective interests and long-term benefits (Uslaner 2009). This results from significant and persistent inequalities restricting group members' experience of sharing a common destiny, and therefore limiting the perception that collective progress also implies individual improvement. In turn, this results in a lack of willingness to accept rules – such as paying taxes – that generate individual short-term liabilities (the reduction of personal resources as an effect of payment) in exchange for long-term collective benefits (good public services funded by tax revenues).

The thesis further asserts that the tendency to transgress norms that favor collective benefits over particular interests has a negative effect on economic development and reproduces social inequality. Several studies show that the possibility of trusting other members of society facilitates cooperation, leading to higher levels of productivity and economic development (Fukuyama 1995; La Porta et al. 1997). Conversely, the inability

2 For more recent developments, see Lipset, Seong, and Torres (1993) or Lipset and Salman (2000).

to rely on other members of society to comply with general rules results in a tendency for cooperation to occur only between small groups, which are typically linked by primary social ties and serve only their specific interests. This tends to hinder economic development and reproduce inequality, since it creates increasing differences between those groups that are able to impose their interests and those that are marginalized (Mauro 1995).

The second thesis is associated with the previous one and postulates that the legitimacy of legal norms results from levels of trust in public institutions. A variety of studies show that members of a social group develop more accepting attitudes towards laws not out of fear of punishment, but as a result of their perception that social norms are applied evenly by the public institutions in charge of their management (Murphy 2004; Tyler 1990). In societies where public institutions are not perceived as fair and equitable, a "culture of corruption" develops, which erodes the legitimacy of the law and favors the tolerance of – or participation in – illegal practices aimed at producing exceptional economic benefits (Uslaner 2002, 8).

In the specific field of tax behavior, this general principle is known as the vertical control thesis. That is, citizens tend to fulfil their tax obligations if they perceive that control agencies sanction those who evade them (Bergman 2009, 159). Otherwise, the impunity of transgressors suggests that tax evasion does not generate liabilities and is, therefore, the most convenient alternative. In addition, because the possibility of others not paying their taxes also means the unavailability of resources used to benefit public services, perceived evasion further aggravates the predisposition not to pay taxes. Thus, while effective vertical control reinforces the naturalization of tax payments, ineffective vertical control predisposes citizens to non-compliance.

The third thesis proposes that the predisposition to comply with the law is influenced by the levels of trust that citizens develop among themselves (Bohnet, Frey, and Huck 2001; Letki 2006). Here, interpersonal trust is understood as the assumption of every member of a social group that other members will act according to legal norms, without taking the advantages that noncompliance would immediately bring them (Bohnet, Frey, and Huck 2001; Orviska and Hudson 2001; Scholz 1998). These forms of trust allow for generalized cooperation between members of a society or social group, generating added benefits for the whole. Thus, individuals with high levels of trust in others will not seek to take advantage of them or the public institutions that regulate collective norms, because they have a practical and moral interest in maintaining the social and political order that facilitates personal and collective achievement. Interpersonal trust is therefore a factor associated with the legitimacy of norms favoring cooperation and socioeconomic development.

Studies on tax behavior confirm that this type of intra-group dynamic also influences fiscal behavior because it fosters "horizontal fiscal control." This type of control is based on the personal experience of taxpayers and on their perceptions of their more proxi-

mate social networks, composed mainly of family and those who share the workplace. To a large extent, a person's fiscal behavior will be guided by perceived consequences of the fiscal behavior of socially proximate others (Bergman 2009, 157). Therefore, where tax noncompliance is the predominant behavior and does not generate negative consequences, there will be a tendency to naturalize evasion. Conversely, when there is widespread compliance and evasion produces negative consequences, there will be a tendency to naturalize the observance of tax laws.

These three theses are also interrelated. For instance, available research indicates a reciprocal relationship between the development of trust in public institutions and interpersonal trust (i.e., the second and third theses mentioned here are related). On the one hand, trust generated by public institutions, such as justice or government agencies, also affects levels of trust among citizens (Letki 2006, 306; Murphy 2004; Tyler 1998). This occurs due to the existence of equitable public organizations that operate as guarantors of compliance by third parties. The existence of organizations capable of intervening should someone fail to comply with legal norms reinforces people's confidence in others. For this reason, where public institutions are perceived as trustworthy, there is greater interpersonal trust and, consequently, a lower tendency to generate systems of social relations that predispose people to transgress legal norms (Anderson and Tverdova 2003, 2).

On the other hand, there is also an inverse influence that makes interpersonal trust reinforce the likelihood that public organizations will behave fairly. As Putnam (1993, 167) shows, in contexts where social networks promote strong interpersonal trust, there is also a greater probability that state agents will apply legal norms evenly. In such social contexts, public officials tend to exercise their functions according to the patterns of interpersonal trust dominant in society, which increases the probability that they will act in a fair and equitable manner.

Overall, these studies suggest that there is a cycle of reciprocal influences in which interpersonal trust and public institutions mutually reinforce each other. Together, they generate a more solid civic morality and legitimacy of the law, and promote attitudes that predispose individuals to postpone individual short-term interests in favor of more far-reaching collective benefits. In other words, the vertical and horizontal controls complement one another. Confidence that public institutions act as support for legal norms reinforces reliability between members of society, since those who fulfill their obligations can trust others to do the same, and act accordingly. At the same time, the willingness of the group to fulfill their obligations simplifies the task of control for state agencies, so that it will be easier for them to be perceived as effective and reliable.

In the next section, we test these theses using the data available in the Latinobarómetro surveys of 1998 and 2013, comparing the cases of Chile and Argentina. As discussed below, the available variables in the Latinobarómetro databases only partially represent some of the conditions proposed by the previous theses. That is, they are proxy variables that imperfectly measure intervening factors such as the levels of trust in institutions or

perceptions of the law. Furthermore, these data only allow for cross-sectional comparisons, through which strict causal relationships cannot be established. However, even with these limitations, the analysis of these variables suggests some relevant nuances in relation to the three theses outlined above, which justifies their examination.

3 Variables

In order to show the differing socioeconomic development of Chile and Argentina, we employed three main variables. First, we considered the evolution of *per capita GDP* in each country between 1983 and 2013. We chose this period because the mid-1980s mark a turning point in the social and economic development of both countries. As of that time, the two nations took different and even contradictory trajectories. Second, we considered the evolution of *poverty by income* as a way to compare the effect of economic growth on the social situations of both countries. Third, due to its possible influence on levels of interpersonal trust and the legitimacy of social norms, we employed the *Gini coefficient* to measure equity in the distribution of income.

In addition to the aforementioned variables, we employed data from the Latinobarómetro surveys for 1998 and 2013 to estimate levels of trust in public institutions, people's predisposition to comply with fiscal norms, levels of corruption perceived by the population, and degrees of interpersonal trust in each of the two countries. In this way, we established whether the different socioeconomic development of Chile and Argentina was associated with these institutional and cultural factors. Since the questions regarding levels of confidence in public institutions, interpersonal trust, and perception of the economic situation were the same in both databases, we initially present these common variables. Afterwards, we will deal with those differences between surveys that pose comparability problems for our study.[3]

To measure the levels of trust inspired by public institutions, we considered the following question in both databases (1998 and 2013): "Please look at this card and tell me, for each of the groups, institutions, or people on the list, how much confidence you have in them: (1) a lot, (2) some, (3) little, or (4) none." The institutions considered were the president, the government, the parliament, the public administration and political parties, the police, and the armed forces. Since Cronbach's alpha showed that measurements concerning the levels of trust in each of these institutions were strongly correlated,[4] in order to avoid multicollinearity problems we constructed a common categorical variable named "trust in public institutions."[5] Categories for this variable were: "a lot of trust," "some or a

3 Descriptive statistics for these variables are included in Tables 1 and 2 in the appendix.
4 Cronbach's alpha for these variables was .850 in the 1998 database and .833 for the 2013 survey.
5 High correlation among predictor variables can cause unstable estimates and inaccurate vari-

little trust," and "no trust." This variable presents a limitation, since it does not measure confidence in the institutions directly dedicated to controlling for tax compliance. However, the exploratory analysis carried out here shows an important level of association between this variable and the levels of tolerance for tax evasion, suggesting that trust or distrust in public institutions in general influences fiscal behavior.

In order to estimate levels of interpersonal trust, we employed the following question: "Generally speaking, would you say that you can trust most people or that you can never be too careful in dealing with others?" The question permitted two types of response: 1) most people can be trusted; and 2) one can never be too careful in dealing with others. Although this question does not measure trust as specifically related to tax behavior (e.g., "Do you trust that other people will pay their taxes?"), as in the case of the previous variable, we found a degree of association with fiscal behavior that suggests that generalized interpersonal trust or distrust influences tax compliance.

Finally, we included a common variable that expressed people's perception of the economic situation in both databases. The question for the 1998 and 2013 surveys was: "In general, how would you describe the present economic situation of the country? Would you say that it is very good, good, about average, bad, or very bad?" In order to increase the robustness of the logistic regression correlates we transformed this five-category Likert scale into a three-category range (good or very good, average, and bad or very bad). Since this variable assesses people's personal opinions or experiences of the economic situation, it does not provide apt grounds to estimate the association between objective measures of socioeconomic development (e.g., the per capita GDP or the Gini coefficient) and levels of trust in institutions or between individuals. However, it does indicate the effect of economic growth on the subjectivity of the inhabitants of each country. This allows us to assess the degree to which positive or negative perceptions of economic development are associated with the legitimacy of norms, degrees of trust in public institutions, and perceived levels of corruption and interpersonal trust.

As stated, although several variables were common to both databases, others presented differences. As far as our study is concerned, the more important questions were those regarding corruption and fiscal behavior. In the first case, the 1998 database included a simple question: "Thinking about the problem of corruption in [your country] today, would you say that the problem is very serious, serious, not very serious, or not at all serious?" By contrast, the 2013 database included two questions specifically related to levels of corruption among government officials. These were: "How widespread do you think corruption and bribes are in local/municipal government?" And "How widespread do you think corruption and bribes are in the national government?" The possible answers for the two questions were: 1) hardly anyone is involved; 2) not many

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ances, which affect confidence intervals and hypothesis tests. Constructing a common measure adding highly correlated variables is one of the ways to reduce multicollinearity problems (see Leech et al. 2008 for further discussion).

officials are involved; 3) most officials are corrupt; and 4) almost all are corrupt. For the same reasons, we constructed a common variable in the case of "trust in public institutions"; in this latter case, we combined both questions into a new variable named "corruption in government."[6]

Clearly, the former questions on corruption present important differences. The 1998 variable refers to corruption as a general issue that could involve both the private and public sectors, while the 2013 questions refer specifically to government, which implies circumscribing the problem to a specific area. Undoubtedly, these differences create unavoidable difficulties with regard to the comparability of the variables. However, the studies on which we have founded our hypothesis suggest that both – the perception that other citizens are corrupt and the perception that corruption exists in public bodies – affect people's relationship with the law. In this way, it is possible to consider a certain degree of commensurability of these variables, at least on this last plane. That is to say, these variables would be comparable insofar as both express conditions that could influence the predisposition of the population to comply with the fiscal norm.

With regard to those variables specifically related to fiscal behavior, the 1998 questionnaire asked: "Based on what you know or have heard, on a scale of 1 to 100, where 1 is 'none' and 100 is 'all': How many (Argentineans/Chileans) who are required to pay taxes pay them properly?" In turn, the 2013 survey included the question: "On a scale of 1 to 10, where 1 is 'not at all justifiable' and 10 is 'fully justifiable,' how justifiable do you think it is to evade taxes?" As in previous cases, we created a three-point Likert scale for both variables in order to reduce the levels of dispersion and to fit a more robust logistic regression model. Therefore, the 1998 variable differentiates between respondents who estimated that between that 1 to 33 percent evaded taxes, those who estimated that between 34 and 66 percent did so, and those who estimated that between 67 and 100 percent did so. In the case of the 2013 variable, the Likert scale we constructed ranged from those who thought that evading taxes was "not at all justifiable," to those who thought it was "more or less justifiable" or "totally justifiable."

As in the case of corruption, the differences between the questions measuring the perception of tax norms pose comparability problems for our study. Essentially, these stem from the fact that while the question included in the 1998 survey tends to measure – although somewhat indirectly – the "efficacy" of the norm, the 2013 question more clearly captures the "legitimacy" of the norm. As in the former case, although differences between these variables are unavoidable, what makes them comparable is that on a more

6 The Cronbach's alpha estimate (.811) showed a significant correlation between these latter variables. Therefore, as in the case of "trust in public institutions," treating them separately would result in significant levels of collinearity and the consequent variance problems. Thus, we integrated them into a common variable. In addition to creating a common variable, we converted the four-point Likert scales in both variables to three-point scales (see Tables 1 and 2 for a more detailed description of the scales) in order to reduce the levels of dispersion and increase the robustness of regression coefficients.

general level, both capture factors that may influence the predisposition of the population to comply with the fiscal rule. As we pointed out in the theoretical section, previous studies show that both – the perception that others comply with the tax norm and the acceptance or legitimacy that this norm has – affect people's willingness to comply with tax obligations. Hence, while the problem persists, in the following sections we will try to show that even this limited comparability between variables allows for some fruitful and plausible hypotheses relating to institutional conditions, the predisposition of the population to comply with the law, and levels of economic and social development.

4 Socioeconomic development and fiscal norms in Chile and Argentina

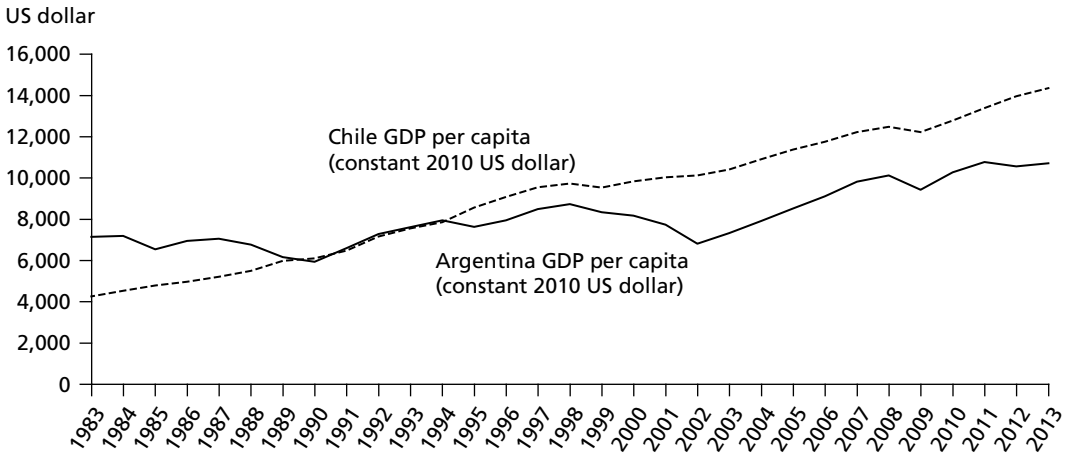
The cases of Argentina and Chile present similarities and homologies that justify comparison. Both countries are in the Southern Cone, had dictatorial military regimes in the 1970s, and re-established their democratic political systems during the 1980s and 1990s in what is known as the "Third Wave" of democratization processes (Huntington 1991). Both countries have also maintained their democratic political systems ever since. Despite these common trends, there are also divergences in their levels of socioeconomic development and their degrees of institutional stability. Even if these similitudes and contrasts suggest these two countries as a fruitful pair for comparison, they have seldom been contrasted. Important exceptions are the studies on tax policies by Bergman (2003, 2009; Bergman and Nevarez, 2006), Fairfield (2010), and Sanchez (2011). These studies compare differences in the levels of compliance with fiscal norms in Chile and Argentina, investigating their legitimacy and the equanimity of the institutions responsible for their enforcement. The main findings in this body of research are compatible with the basic precept that institutional factors such as a stable and reliable political system, the legitimacy of the law, and levels of trust among citizens are related to socioeconomic development. However, part of this research also reveals nuances and changes over time, suggesting the need to add certain qualifications to these initial theses.

Interestingly, in addition to the complexities found in the aforementioned research on tax behavior, further nuances can also be identified in the differing results between the Latinobarómetro databases for 1998 and 2013. As shown below, the evolution of poverty or per capita GDP rates, combined with the results of the 1998 Latinobarómetro survey, are compatible with the theses that the greater socioeconomic development in Chile is related to greater trust in public institutions, lower perceived levels of corruption, and a greater predisposition to comply with tax rules. However, data for 2013 reveal changing patterns in how these variables are associated. This suggests that while, in general terms, the differing socioeconomic development of Chile and Argentina may be related to differences in the quality of their institutions and in the levels of trust people have in them, the incidence of these factors and their forms of association may vary over time.

Chile's advantages

A starting point from which to delve into these complex relations is to look at the variables showing the two countries' contrasting socioeconomic development. Figure 1 shows that as of 1983, Chile experienced a process of continuous economic growth. According to data from the World Bank, between that year and 2013, Chilean per capita GDP, measured at a constant value in 2010 US dollar, increased 367 percent (from 4,266 to 14,364 dollars[7]). Unlike Chile, Argentina underwent an oscillating and significantly lower economic development, experiencing only 49 percent growth in its per capita GDP (from 7,154 to 10,711 dollars). In addition, this was not a sustained increase. Instead, there were significant contractions during the fiscal and financial crises of 1988–1992 and 2001–2002, when the per capita GDP fell below that of 1983. Therefore, although Argentina began the cycle with a higher GDP than Chile, it ended with a significantly lower one.

Figure 1 Per capita GDP in Chile and Argentina



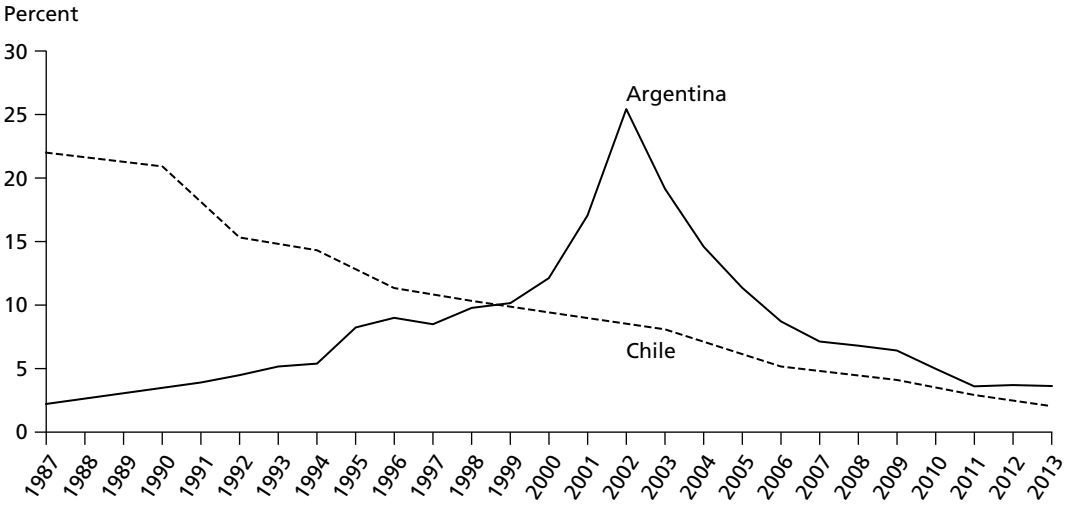
Source: World Bank: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD.

Figure 2 indicates that along with the increase in per capita GDP, Chile experienced a significant reduction in poverty rates. Poverty, measured by the percentage of the population that did not reach an income equivalent to 3.10 dollars per day, decreased from 22 percent in 1987 to 2.05 percent in 2013. Contrary to the trend found in Chile, Argentina's lower economic growth was associated with a notable increase in poverty rates: from 2.2 percent in 1987 to 4.28 percent in 2013, including a peak at 25.4 percent in 2002.

In sum, Figures 1 and 2 indicate important contrasts in the levels of socioeconomic development that Chile and Argentina experienced from the 1980s onwards. Although the data from the 1998 Latinobarómetro survey do not allow for strict calculations of

7 All dollar amounts referred to in the paper are in US dollar.

Figure 2 Percentage of population living on less than 3.10 dollars a day (2011 PPP)



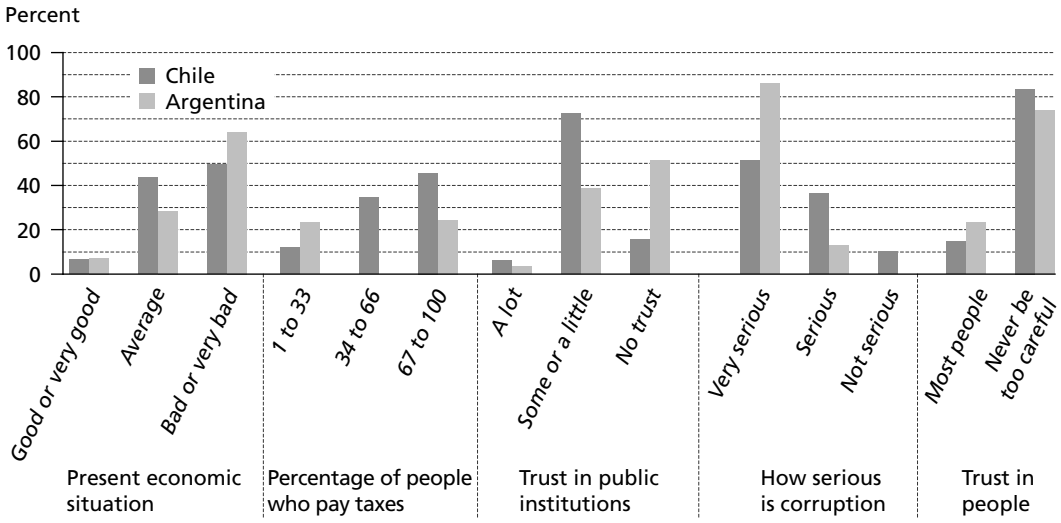
Source: World Bank: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD.

the association between institutional conditions and levels of socioeconomic development in both countries, they do suggest the plausibility of the theses that relate them to institutional factors, as shown in Figure 3.

Data for 1998 confirm that Chileans tend to have a more positive perception of their public institutions and perceive themselves as more law-abiding than Argentineans do. The rate of Chileans who perceived that between 67 and 100 percent of their compatriots complied with tax rules is practically double that of Argentineans ("Percentage of people who pay taxes" in Figure 3). In addition, Chileans also showed a somewhat more optimistic view of their economic situation, had much more confidence in their public institutions, and perceived less corruption as compared to Argentineans. Therefore, the data in the 1998 poll are compatible with the theses proposing that economic development is associated with the legitimacy of norms, trust in institutions, and low perceived levels of corruption. The only exception would be interpersonal trust, since it was greater in Argentina than in Chile in 1998 (we will come back to this later).

As we have mentioned, the existing comparative research on tax behavior also tends to confirm the relationship between economic development and institutional conditions. Specifically, Sanchez's (2011) research shows that the differing fiscal performance and the greater stability and Chile's economic growth are due to the fact that, unlike Argentina, it has had a more stable political system resulting from parties that represent programmatic alternatives, which have allowed them to agree on a consistent fiscal policy. In addition, Chile has had a professionalized public administration, which has allowed for good quality management. This resulted in institutions that have fostered fiscal discipline and macroeconomic equilibrium. Finally, this was complemented by civil society organizations that allowed sectorial interests to be expressed organically. This

Figure 3 Economic situation, trust, and fiscal behavior (1998)



Source: Latinobarómetro 1998.

has led to mutual compromises that favored long-term policies (Sanchez 2011, 163). In contrast to Chile's greater stability, Argentina has been characterized by greater institutional fragility (Levitsky and Murillo 2005; Spiller and Tomassi 2007). In Sanchez's vision, it is this very fragility that has foreclosed stable agreements such as those that facilitated a consistent tax policy and persistent macroeconomic stability in Chile. This has hindered development, leading to frequent fiscal crises with sharp falls in the national GDP and significant increases in poverty rates, as can be seen in Figures 1 and 2.

Consistent with the institutional differences pointed out by Sanchez, Bergman's studies show important contrasts in how Chileans and Argentineans perceive fiscal norms. According to one of his surveys, 82 percent of Argentineans were willing to evade taxes, assuming that the risk of being discovered was very low. In contrast, 75 percent of Chileans were reluctant to evade because they perceived that there was a high chance of being discovered (Bergman 2003, 601). The higher predisposition to evade taxes in Argentina resulted from more people perceiving that their acquaintances evaded taxes without any negative consequences and believing that public funds were misused, because of either inefficiency or corruption on the part of public officials and political leaders (Bergman 2009, 185; Grimson and Roig 2011).

These differing perceptions of tax evasion in the two countries seem to correlate with the differences in the levels of noncompliance. At least until 2007, the levels of evasion in Chile were significantly lower than those found in Argentina. For example, estimates on the value-added tax until that year indicate that tax evasion in Chile fluctuated between 14 and 18 percent, while in Argentina evasion varied between 19 and 34 percent (Gómez Sabaini and Morán 2016, 41).

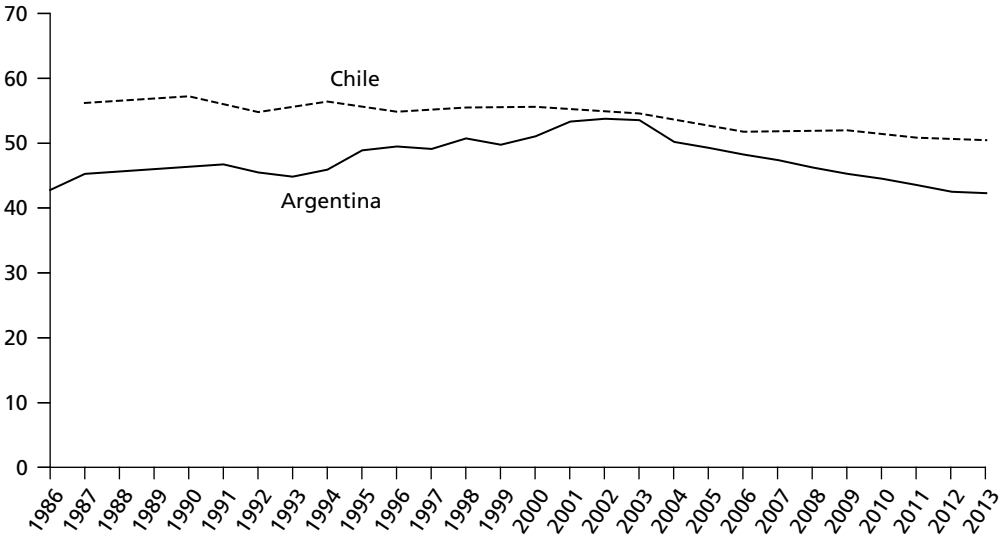
As we will show below, although the data presented up to this point tend to confirm our initial hypotheses, there are nuances. First, while economic growth and poverty reduction were greater in Chile, this did not imply a reduction in income inequality. Second, the low levels of tax evasion were not equivalent for all types of taxes. Moreover, the levels of evasion and the legitimacy of public institutions varied over time. Third, the difference between the two countries was not as significant for all types of tax and, in addition, fiscal control capabilities – alongside levels of evasion – underwent important changes beginning in 2011.

Nuances and fluctuations

Figure 4 shows that despite its more favorable economic performance and the reduction of poverty, Chile never enjoyed higher levels of income equality than Argentina. Between 1983 and 2013, the Gini coefficient in Chile was never below 50 points, while in Argentina it only surpassed that figure during the 2001–2002 crisis. These results require a qualification of our original theses, since the evolution of the Gini coefficient exhibited in Figure 4 is not compatible with the premise that greater economic and social development is associated with higher levels of social equality.

One factor that may be associated with the levels of income inequality is that although the evasion of value-added tax has been comparatively low in Chile, the same is not true for income taxes. While in the early years of the twenty-first century income tax evasion in Chile oscillated around 48 percent (Jorrat 2009, 52), in Argentina the level of tax eva-

Figure 4 Gini coefficient for Chile and Argentina



Source: World Bank: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD.

sion was approximately 49 percent (Gómez Sabaini, Gimenez, and Podestá 2010, 59). According to a study by Fairfield (2010), this inability of the Chilean tax system to combat income tax evasion and increase the tax burden on large incomes is due to the ability of economic elites to influence the political system. This has prevented tax reforms that would have been detrimental to high-income sectors (Fairfield 2010, 64). This capacity of economic elites to influence fiscal policy would not have equivalencies in Argentina, particularly as of the 2001–2002 crisis, which undermined the social status of the business sector. On the other hand, the prestige of public institutions declined in Chile, particularly from 2011 onwards, which may also have contributed to the weakening of fiscal control agencies (Micco 2013).[8]

In accordance with these tendencies, as of 2007, even the evasion of value-added tax seems to have increased in Chile, while in Argentina tax control seems to have increased during that period (although in the latter case the available data do not allow for definitive conclusions). Several studies show that while evasion of value-added tax in Argentina fell from 32.3 to 19.8 percent between 2003 and 2007, in Chile – although there was a decrease from 18 to 14.8 percent during the same period – evasion then increased to 22.2 percent between 2007 and 2014 (Cetrángolo, Gómez Sabaini, and Morán 2017, 346).

The lack of available data prevents us from confirming if, as in the case of Chile, the decreasing levels of evasion in Argentina after the 2001–2002 financial crisis were also followed by a new cycle of increase after 2007. However, Fairfield's (2010) study suggests that this may not be the case, since a series of legal reforms seem to have strengthened fiscal control agencies in Argentina (for example, by limiting bank secrecy). On the other hand, the possibility that the loss of prestige of public institutions in Chile has affected their tax collection capacity is compatible with the data from the 2013 Latinobarómetro survey presented in Figure 4, which confirms the decline in levels of trust in public institutions that we mentioned earlier.

In contrast with what the 1998 data indicated, data for 2013 show that while Chileans still evaluated their economic situation more positively than Argentineans did theirs, this was not concurrent with the differences in the other variables. For example, Argentineans tended to be less tolerant of tax evasion and had more trust in their public institutions and in their fellow citizens than Chileans. Therefore, while the prevailing theses in the field suggest that countries with greater socioeconomic development should be characterized by greater confidence in public institutions, interpersonal trust, and adhesion to fiscal norms, data for 2013 suggest the reverse. In Argentina, where economic and social development was more precarious, the fiscal norm seems to have become

8 The Latinobarómetro report for 2016 shows a sharp drop in the image of public institutions as of 2011. Government approval went from 55 percent in 2010 to 28 percent in that year, remaining at that level thereafter. Also, confidence in the judiciary fell from 37.5 to 21.6 percent, and in the National Congress from 41.5 to 19.5 percent.

more legitimate by 2013; there were greater levels of interpersonal trust and more confidence in public institutions than in Chile. However, the data on the perceived corruption in government bodies reveals an intriguing tension.

A logical supposition would be that greater confidence in public institutions would be associated with lower perceived levels of corruption in government. However, although Chileans show less confidence in public institutions than Argentineans, they perceive them to be less corrupt. Conversely, Argentineans, who tend to trust their public institutions more, perceive them as more corrupt. Therefore, although the assumption that greater trust in public institutions is associated with economic development is not verified in relation to interpersonal trust, it does seem to be compatible with measurements of perceived corruption.

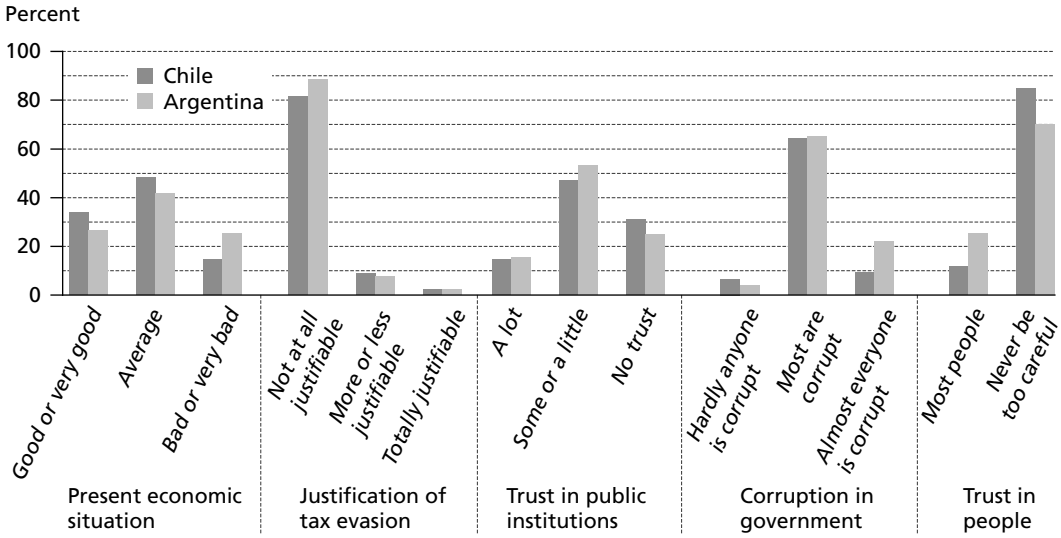
This tension poses the question of why Argentineans have more confidence than Chileans in their public institutions while also perceiving them as more corrupt. This ambiguity may conceal a greater tolerance for corruption and biased functioning of institutions in Argentina than in Chile. If true, this contrast would be compatible with the thesis that countries with lower socioeconomic development show greater tolerance towards illegal behavior.

Although we are not able to discuss this issue thoroughly here, it already suggests nuances in the ways that different societies construct their perceptions of public institutions. Namely, this result brings to the fore the possibility that there may be different forms of trust in public institutions that may exert varying levels of influence on socioeconomic development. Therefore, it may well be that generalized trust in public institutions does not influence economic development, but greater aversion to the corruption of public officials does.

Finally, our initial theses included the assumption that socioeconomic development was associated with interpersonal trust. Figure 5 indicates that interpersonal trust is significantly higher in Argentina than in Chile. These results suggest a further nuance, since interpersonal trust does not appear to be related to economic development. Hence, it may be that in certain circumstances generalized interpersonal trust is a factor that lubricates economic growth, but in other contexts this form of trust becomes superfluous given other favorable conditions.

Overall, the comparison between Chile and Argentina undertaken so far does not provide results that are clearly compatible with the prevailing theses in the literature; but nor do they disprove them completely. Instead, they tend to show nuances that call for a balanced assessment of their pertinence for these two cases. However, before engaging in a final balance of these complex tendencies, it is worth undertaking a further exploration of how these variables relate at the individual level. That is, when taking people instead of countries as units of analysis.

Figure 5 Economic situation, trust, and fiscal behavior (2013)



Source: Latinobarómetro 2013.

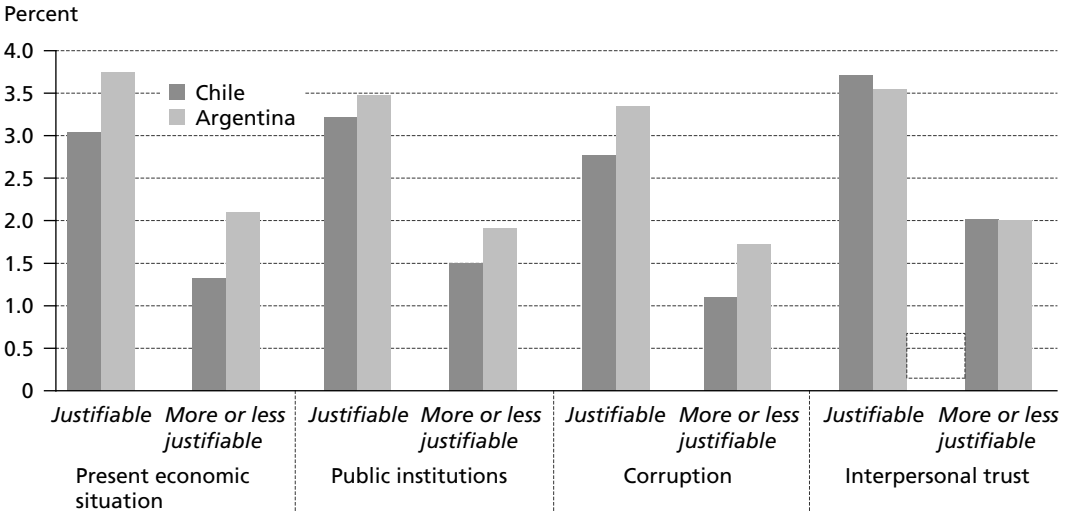
Individual-level analysis

The shift from countries to individuals as units of analysis implies a certain change of perspective in our approach. As stated, the Latinobarómetro data do not allow an estimate of how the evolution of the GDP or poverty by income indicators in each country is associated with the legitimacy of the law. However, they do allow an estimate of how the legitimacy of the fiscal law is associated with the perceptions that inhabitants of Chile and Argentina have of their economic situation.

We will show this through the Latinobarómetro 2013 database, which allows us to estimate the degree to which Argentineans' and Chileans' perceptions of their economic situation, the levels of trust they have in their public institutions, their degrees of interpersonal trust, or their perception of corruption in government are associated with the legitimacy of the fiscal law. We have selected the 2013 database because it shows the behavior of these variables when, as can be seen in Figure 5, it was less compatible with our initial theses. We have not included estimates for the 1998 variables, since they basically confirm what we have found for 2013 at the individual level.

In Figure 6 we present an estimate of these forms of association through an ordinal logistic regression model, taking the "justification of tax evasion" as a dependent variable and Rank 1 (unjustifiable) as a reference value. Thus, the model estimates how different factors influence the probability of respondents considering it "justifiable" or "more or less justifiable" to evade taxes as compared to considering it "unjustifiable." Since, in this case, we were not concerned with how personal characteristics such as age or gender influenced perceptions of the fiscal norm, we have not elaborated a hierarchical model

Figure 6 Individual perceptions of trust and economic development (2013)



Source: Latinobarómetro 2013 (p<.0001 in all cases).

controlling by these factors. As can be seen in Table 3 in the appendix, we have elaborated a simple model looking only at how individual perceptions of the economic situation, levels of confidence in public institutions, perceived corruption in government, or degrees of trust in fellow citizens influenced the perceived legitimacy of the fiscal norm.

Estimations show that the probability of someone justifying tax evasion varies according to the aforementioned factors. As previously stated, we do not seek to establish strict causal relationships through this model. Rather, we aim at revealing the way in which expectations of economic growth or levels of trust in institutions and between individuals are associated (operate as concomitant conditions) with the legitimacy of tax rules.

Results in Figure 6 show that the justification of tax evasion is more common among those who perceive a less favorable economic situation, have less confidence in public institutions, perceive more corruption in government, or have less confidence in others. Thus, unlike what happens when we take countries as the units of analysis for the 2013 database, results at the individual level are compatible with our initial theses. These results match what we found when comparing countries with the 1998 database but contrast with our findings in this respect for 2013. As we show below, this condition suggests that rather than thinking about the confirmation or disproval of our original theses, it is necessary to formulate a more nuanced perspective considering the conditional character of the incidence of these factors on socioeconomic development and the varying forms of their interplay.

5 Discussion

The evidence of differing socioeconomic development between Argentina and Chile and its relationship with the perception of fiscal norms, interpersonal trust, levels of confidence in public institutions, and perceived corruption presented so far shows complex and changing patterns. On the one hand, the data for 1998 and the comparative research on fiscal policies in both countries tend to confirm our initial theses. The individual level analysis for 2013 also provides results that are consistent with them. On the other hand, comparisons between the two countries for 2013 and research on income taxes show important nuances in this relationship. Regrettably, the available data do not allow for definitive explanations of these complex and changing patterns of association. However, they do provide enough substance to raise productive hypotheses about their complex forms of interplay.

Initially, the differences between the data at the individual and country levels for 2013 clearly raise an important question. Estimates that take individuals as units of analysis show forms of association between expectations of economic growth and the legitimacy of the fiscal norm, levels of interpersonal trust, and degrees of confidence in public institutions that are consistent with our initial hypotheses. However, when changing to countries as units of analysis, the results are not compatible with them. This may have a simple explanation: the differences found between individuals or groups within each country do not have a correlate when comparing average rates between the two countries. Or, put in a slightly different way, differences between countries are not significant, regardless of whether there were groups of people within each country whose perceptions of the fiscal norms differed in ways that were consistent with our original hypotheses.

In contrast with 2013, in 1998, differences between countries matched the internal differences between individuals or groups. Thus, for 1998, contrasts between individual attitudes matched the variance at the country level and their differing levels of socioeconomic development. These changes suggest that between 1998 and 2013, there were fluctuations in people's perceptions of the legitimacy of legal norms, perceived levels of corruption, and degrees of confidence in public institutions, which reduced the differences between Chile and Argentina. According to the Latinobarómetro study mentioned earlier, this loss of confidence occurred essentially as of 2011. Since then, Chileans seem to have especially lost trust in their national government and in the judiciary. In addition, they also seem to have changed their perception of the levels of corruption among government officials and of the legitimacy and need to comply with tax norms.[9]

9 As already discussed, the variables measuring the perception of corruption and the legal norm are not entirely comparable in the 1998 and 2013 databases. However, they may still capture common underlying attitudes. Hence, while the 1998 variable constituted a general measure of corruption and the 2013 variable only measured the perceived level of corruption in government bodies, both variables measured perceptions that could influence the predisposition to comply with the fiscal norm. Similarly, while the 1998 variable was a proxy measure for the

By contrast, Argentineans seem not to have changed their perceptions or to have even slightly increased their levels of reliance on some of these institutions, thereby reducing the average differences between countries.

This process suggests, then, that perceptions of public institutions actually change over time, modifying the way in which they are associated with economic and social development. In this sense, it should be noted that Chile's increasing socioeconomic development has persisted regardless of the decline that seems to have taken place in levels of trust in public institutions and people's attitude toward the fiscal norm. This persistence suggests that these institutional conditions and socioeconomic progress may be associated in several ways – or even that they may not be associated at all.

As for the latter case, one possibility is that the association found in 1998 is simply contingent and that, therefore, there are no determinant relationships between these factors or conditions. However, another possibility, given that these relationships are not constant, is that institutional conditions and development may be associated at certain moments and become independent at others, following divergent trajectories. Hence, it may well be the case that at a certain juncture, socioeconomic development in Chile was related to the legitimacy and compliance with legal norms and levels of trust in public institutions but that this form of development progressively became independent of them. Thereafter, the further evolution of these factors did not significantly influence socioeconomic progress. Unlike in Chile, institutional conditions did not undergo significant changes in Argentina, and there was no sustained socioeconomic development.

Therefore, while contrasts between these two countries in 1998 tend to support our initial theses, the evolution of the Argentine case (its lack of change) does not provide further evidence to estimate how these factors relate. It may well be that the poor institutional conditions explain the lack of socioeconomic progress in Argentina. However, since these factors have not changed over time, we cannot assume that changes in institutional conditions would necessarily promote development. Thus, although we cannot reach a definitive conclusion, the richest hypothesis suggested by these data is that the role of institutional and cultural conditions in socioeconomic development can be crucial in some instances – at certain times and in certain countries – but superfluous in others. This also poses the question of which circumstances or conjunctures make them important and which make them somewhat irrelevant.

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efficacy of the fiscal norm and the 2013 variable estimated its legitimacy, both tended to capture attitudes that could influence people's predisposition to comply with tax norms. In this respect, the contrast between the 1998 and 2013 variables suggests a decline in people's predisposition to comply with the tax norm that is compatible with the increasing evasion of value-added tax reported by the aforementioned study by Cetrángolo, Gómez Sabaini, and Morán (2017, 346) for a similar period.

6 Conclusions

In this paper we inquired about the relationship between economic development and the legitimacy of the fiscal norm, also examining how these factors were associated with levels of trust in public institutions, perceived levels of corruption, and interpersonal trust. By comparing the cases of Chile and Argentina, we found some nuances regarding the theses that suggest significant relationships between these factors.

A first nuance refers to how these relationships vary by considering either individuals or countries as the unit of analysis. When taking individuals as units of analysis, we found that those who perceive more favorable economic development in their country also believe more in the legitimacy of norms, have more trust in public institutions, perceive less corruption in them, and have more trust in their fellow citizens. Inversely, those who perceive a more negative economic situation tend to justify more tax evasion, have less trust in their fellow citizens and in public institutions, and perceive more corruption in them. While these results were compatible with our initial theses, they were not confirmed by the cross-country comparison in 2013.

Despite its greater economic and social development, Chile did not, in 2013, have higher levels of income equality, greater legitimacy of its fiscal norm, greater confidence in public institutions, or higher levels of interpersonal trust. Hence, except in the case of perceived corruption, in 2013 the greater economic and social development of Chile was not associated with any of the factors proposed by our initial theses. In sum, if at the level of individuals the expectation of economic development seems to be associated with this set of factors, individual differences cannot be extrapolated to international differences. However, the picture is quite different when observing the 1998 data.

In this latter case, the Latinobarómetro data showed strong contrasts between Chile and Argentina regarding the legitimacy of the fiscal norm, levels of trust in public institutions, and the corruption perceived in them. In this way, the 1998 data are compatible with some, but not all, of our initial theses. Specifically, these data suggest that greater economic and social development is associated with greater perceived efficacy of the fiscal norm, greater confidence in public institutions, and a lesser degree of perceived corruption. However, it does not indicate an association between economic development and interpersonal trust or equal income levels. While the available data do not allow us to arrive at definitive conclusions, these results suggest hypotheses that add nuances to the dominant theses in the field.

The first hypothesis is that while it is possible that, at the individual level, those with more favorable perceptions of economic development also experience greater confidence in public institutions, lower levels of perceived corruption, and greater interpersonal trust, these individual perceptions do not necessarily explain differences between countries. Therefore, differences between groups of individuals cannot easily be extrapolated to differences between countries, even if their economic and social development differ significantly.

A second hypothesis is that the conditions associated with economic and social development may vary substantively over time. The comparison between 1998 and 2013 suggests that even though the differences in economic and social development between Chile and Argentina remained, the differences in levels of confidence in public institutions, perception of the fiscal norm (either its efficacy or legitimacy), and perceived levels of corruption changed substantially. As stated, this evolution can result from several alternatives. One of them is that these factors simply happened to coexist at random in 1998 and that they were never related to the differences in the economic and social development between Chile and Argentina. A second alternative is that these factors have a contingent and partial relationship with economic and social development. That is, they can be crucial at some moments and less relevant at others.

In this sense, the evolution of the Chilean case provides evidence to complement this argument. While levels of trust in public institutions and the legitimacy of legal norms are relevant conditions to promote socioeconomic development at a certain time, once the structural conditions of development have been established, occasional fluctuations in these factors may become insignificant. In the same way, it is also possible that certain combinations of some factors may be sufficient for socioeconomic development, while combinations of others may not. In the Chilean case, for example, interpersonal trust was never higher than in Argentina and inequality was never lower. Yet Chile experienced substantial socioeconomic progress in spite of the levels of these factors. Furthermore, the levels of trust and inequality in Argentina did not seem to be associated with development. Hence, what these contrasts suggest is that not all the conditions that are usually associated with development are equally important, or at least that they are not equally important in all social contexts. In sum, rather than all the factors being universally relevant, as it is suggested in several studies, it may be that certain factors are more relevant than others (e.g., confidence in public institutions or the corruption of public functionaries may be more important than interpersonal trust or income equality) – or, more probably, that a combination of these factors in certain circumstances makes them more influential.

Finally, although our exploratory study does not allow for definite conclusions, it does provide more general suggestions in relation to dominant theses in the field. While extensive and synchronic comparisons between countries can show general trends in factors that are associated with development, these results cannot be extrapolated easily to specific cases and conjunctures. Possible variations in how these factors are associated with each other in different countries and at different moments can significantly influence their association with development. This may make them determining factors in certain contexts but insignificant in others.

Statistical appendix

Table 1 Economic situation, trust, and fiscal behavior (1998)

		Chile		Argentina	
		Frequency	Percentage	Frequency	Percentage
Trust in public institutions	*A lot*	72	6.0	44	3.5
	Some or a little	869	72.4	486	38.5
	No trust	191	15.9	646	51.1
	Lost cases	68	7.8	88	6.9
Interpersonal trust	*Trust*	177	14.8	293	23.2
	No trust	1,003	83.5	933	73.8
	Lost cases	20	1.7	37	3.0
How serious is corruption	*Very serious*	616	51.3	1,086	85.9
	Serious	438	36.5	163	12.9
	Not serious	123	10.3	11	0.9
	Lost cases	22	1.9	4	0.3
Present economic situation	*Good/very good*	77	6.5	89	7.2
	Average	526	43.8	358	28.4
	Bad/very bad	596	49.6	810	64.1
	Lost cases	1	0.1	5	0.4
Percentage of people who pay taxes	*1 to 33%*	142	11.9	293	23.2
	34 to 66%	416	34.7	485	38.4
	67 to 100%	548	45.6	309	24.4
	Lost cases	93	7.8	177	14.0

Table 2 Economic situation, trust, and fiscal behavior (2013)

		Chile		Argentina	
		Frequency	Percentage	Frequency	Percentage
Trust in public institutions	*A lot*	177	14.7	182	15.2
	Some or a little	563	46.9	637	53.1
	No trust	374	31.2	300	25.0
	Lost cases	86	7.1	81	6.7
Interpersonal trust	*Trust*	142	11.8	205	25.4
	No trust	1,016	84.6	841	70.0
	Lost cases	42	3.5	54	5.5
Corruption in government	*Hardly anyone is corrupt*	79	6.6	48	4.0
	Most are corrupt	770	64.1	780	65.0
	Almost everyone is corrupt	111	9.2	262	21.8
	Lost cases	240	20	110	9.2
Present economic situation	*Good/very good*	409	34.1	317	26.4
	Average	580	48.3	498	41.5
	Bad/very bad	186	15.5	305	25.4
	Lost cases	25	2.1	80	6.7
Justification of tax evasion	*Not at all justifiable*	976	81.3	1,060	88.4
	More or less justifiable	106	8.8	92	7.7
	Totally justifiable	27	2.3	28	2.3
	Lost cases	91	7.6	19	1.6

Table 3 Individual perceptions of trust, fiscal behavior, and economic development (2013)

						95 percent confidence interval	
			Estimate	Std. error.	Sig.	Lower bound	Upper bound
Argentina	Present economic situation	*More or less justifiable*	2.096	.185	.000	1.733	2.459
		Justifiable	3.739	.263	.000	3.224	4.254
	Trust in public institutions	*More or less justifiable*	1.908	.174	.000	1.567	2.249
		Justifiable	3.476	.245	.000	2.996	3.955
	Trust in people	*More or less justifiable*	2.009	.108	.000	1.798	2.220
		Justifiable	3.542	.196	.000	3.158	3.927
	Corruption in public institutions	*More or less justifiable*	1.729	.174	.000	1.388	2.069
		Justifiable	3.340	.244	.000	2.861	3.819
Chile	Present economic situation	*More or less justifiable*	1.385	.195	.000	1.002	1.769
		Justifiable	3.041	.257	.000	2.536	3.545
	Trust in public institutions	*More or less justifiable*	1.503	.138	.000	1.232	1.774
		Justifiable	3.214	.223	.000	2.778	3.651
	Trust in people	*More or less justifiable*	2.014	.101	.000	1.816	2.213
		Justifiable	3.713	.205	.000	3.312	4.114
	Corruption in public institutions	*More or less justifiable*	1.095	.220	.000	.664	1.527
		Justifiable	2.771	.284	.000	2.215	3.327

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