Political cycle and declared labour incomes in Italy: a quasi-experimental evidence on tax evasion

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Abstract  
Tax evasion (latent redistributive variable) is a complex phenomenon that arises from the interaction of behaviours of different actors: the central government and the citizens (voters). Different claims about the acceptability of tax evasion between centre-right and centre-left coalitions clearly emerged in Italy. The different attitudes towards tax evasion of the two coalitions could have led to a relative increase of self-employed declared incomes when the centre-left coalitions governed and vice versa.

We test this assumption (on the period 1996-2005) by using a new panel dataset called AD-SILC. Following a difference-in-difference approach, where the employees are the control group and craftsmen and dealers (self-employed) are the treatment group we focus on the estimate whether self-employed declared incomes significantly modified when the coalition in charge of Government changed. We find that self-employed earnings significantly reduced during the centre-right wing government; significant decrease emerges in all deciles, even if it is a bit larger in bottom deciles.