
Taxing Wealth and only Wealth in an Advanced Economy with an Oversized Informal Economy and Vast Tax Evasion: The Case of Greece

GREGORY T. PAPANIKOS

Gregory T. Papanikos, Athens Institute for Education and Research (ATINER) and University of Stirling, Scotland, e-mail:president@atiner.gr

Summary: Greece has the largest underground economy in the eurozone and one of the largest in Europe and the OECD countries. On the other hand, Greece is notoriously known for its sizable and widespread tax evasion primarily because of the large number of self employed and its wide geographical distribution. As documented by many studies, the two depend on a corrupted, inefficient and ineffective public administration. The emphasis is here on the restructuring of the Greek tax system taking into consideration these three structural characteristics of the Greek economy: a large informal sector, a pervasive tax evasion and a corrupt public sector (including the tax authorities). Many attempts to change these structural characteristics have failed primarily because they underestimate the costs and overestimate the benefits of any reform. And this because they assume that people's attitudes (tax morale) and the role institutions can change by a government decree. This paper takes these as given and proposes a tax system that is based exclusively on wealth (property, bank deposits, shares etc) and the abolishment of VAT and all kinds of income taxes. It is argued that this system is more efficient, more effective, more democratic and promotes competitiveness and economic growth.

→ JEL Classification: H21, H26, E62

→ Keywords: Wealth tax, Greece, tax evasion

I Introduction

This paper proposes a comprehensive lump sum tax on Greek private wealth as the only source of sovereign revenue. The aim is to simplify the Greek tax system, taking into consideration its chronic pathogenesis of tax evasion, corruption and incompetent tax administration. The existing tax system is based on different Value Added Tax (VAT) rates, other sales (excise) taxes, various income taxes (wages, profits, rents, interests, etc), social security contributions, and emergency poll taxes. This system is considered inefficient and ineffective. It is also undemocratic, impedes competitiveness and drives away foreign investment. All these taxes should be abolished and replaced with a flat tax on wealth. Other taxes may exist, but only to correct market failures and externalities, not to be a source of government revenue.

This paper shows that a thorough analysis of the present Greek economic, political, social and technological conditions, supports the argument that a flat tax on wealth is more efficient, more effective, more democratic, and more competitive. As is the case with all taxes, a flat tax on wealth is not a panacea, but under the current Greek state of affairs, it should be considered to be the best of all possible worlds. For example, the economics literature documents (Boadway and Sato 2009) that while VAT promotes production efficiency, it only does so in the formal sector of the economy. The existence of a large informal Greek economy renders this tax inefficient.

The approach followed in this paper is mostly demonstrative. It argues that a flat tax on wealth should be the only source of government revenue and demonstrates it with an example. This is the first time, to my knowledge, that a wealth tax designed to be the only source of government revenue has been proposed. In this study, a wealth tax is proposed for positive and normative reasons. A flat tax on wealth is optimal because it distorts neither producer nor consumer choice. On the other hand, a flat tax on wealth decreases the unfair treatment of rich Greeks. While some of them pay soaring taxes, others, with similar actual high income, pay no tax at all. The latter have accumulated considerable wealth through tax evasion. A wealth tax will correct this unequal treatment of wealthy Greeks. Thus, this paper's proposal has more to do with horizontal equity than with vertical equity. The emphasis is on equality among wealthy Greeks and not between rich and poor households.

The proposal here to introduce a wealth tax is not related to the topical issue of wealth inequality. Piketty (2014, 2015) and many others have discussed this issue, proposing a global wealth tax. They focus on the richest of the rich, i.e. the top 1 percent (Alvaredo et al. 2013). Yunker (2014), using a theoretical framework, concludes that a 3 percent tax on capital wealth is associated with higher output, lower inequality and a considerable improvement in social welfare. Auerbach and Hassett (2015) provide a critical discussion of the idea of a global wealth tax. However, these issues are not related to this paper's proposal for a flat tax on wealth in Greece.

This paper also does not deal with the efficiency of government spending. It proposes neither a smaller nor a larger government. Instead, it assumes that current government spending remains the same. Nevertheless, in the long-term, the proposed tax on wealth will impact governmental size. It will reduce the size of Greek tax authorities and, therefore, the absolute size of public services. It will also reduce the relative size of government spending as a percentage of GDP substantially because implementing a wealth tax while simultaneously eliminating all other taxes will spearhead a process of substantial economic growth. In addition, the reported (official) GDP will increase because the income for tax purposes will not be hidden. The debt to GDP ratio will

decrease and the Greek government will be able to borrow at a much lower cost. These important positive side effects of a wealth tax are not further considered in this paper.

This paper is organized in six sections, including this introduction. Section 2 discusses some stylized facts of tax evasion, especially in relation to the self-employed. Section 3 provides a numerical example of how a wealth tax can be designed along with other descriptive examples of unequal treatment of wealthy Greeks. Section 4 presents the four criteria of an optimal tax system: efficiency, effectiveness, democracy (includes transparency, fairness, and equity), and competitiveness; these are discussed in the light of the flat tax on wealth as the only source of government revenue. Section 5 describes some of the difficulties in implementing a wealth tax. The final section, Section 6, concludes.

2 Some stylized facts on the Greek informal economy

The most important reason why a wealth tax would be the best solution has to do with Greece's widespread informal economy, which includes both non-registered companies as well as non-registered employees by otherwise legal, registered, companies. The informal economy is a global phenomenon.¹ There is no country in the world that does not face the challenge of reducing the size of its informal economy. Two reasons can explain the existence of an informal economy.² First, people decide to produce in the informal sector because they do not want to pay taxes. The higher the tax rate, the higher the incentive to produce in the informal economy. However, more important than the tax rate, is the tax enforcement, which depends on the administrative cost³ of tax auditing and tax collection.⁴ The latter is critical in countries with slow and corrupt judicial (court) procedures. Second, people produce in the informal sector because some business activities, such as drug and human trafficking, are illegal. Regardless, producing in the informal economy results in the accumulation of personal wealth without paying taxes.

The unreported portion of GDP results in tax evasion. According to Schneider (2015), the shadow economy's share of official GDP in 36 OECD countries ranged from a minimum of 6.5 percent to a maximum of 30.6 percent. The average rate was 18 percent. In Greece, the shadow economy accounted for 22.4 percent of the official GDP. Other studies report higher rates: Berger et al. (2014) claim that the Greek informal economy's contribution to GDP is substantially underestimated. Their evidence shows that the Greek shadow economy exceeds 60 percent of GDP and has been increasing since Greece's 2002 entry to the eurozone.

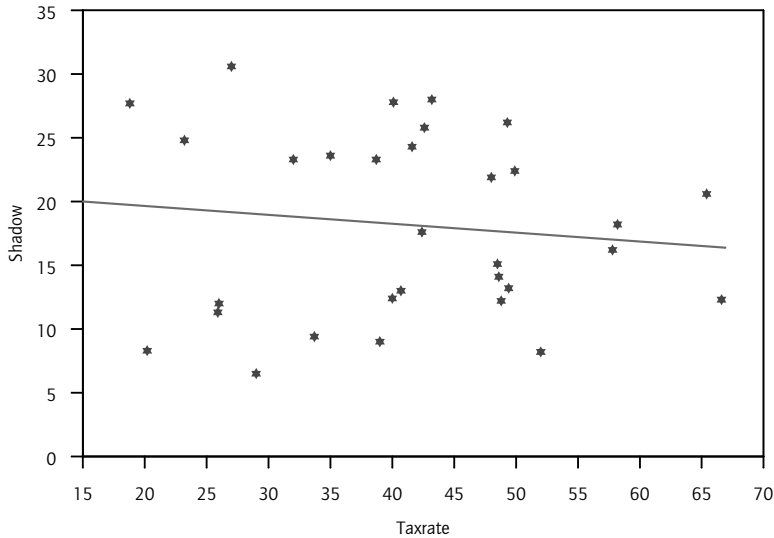
1 See Charmes (2012) for definitions, characteristics and trends of the informal economy.

2 I am aware of the literature that attempts to explain tax evasion as the result of national culture but lacks serious theoretical underpinnings, with weak empirical evidence assuming that one can measure culture and cultural differences. For an example of such a study see Bame-Aldred et al. (2013). I note this aspect here because it is very popular in the international media to portray Greeks as having a culture of tax evasion.

3 All taxes are coercive. The administration cost of implementing a tax system is large and differs between tax systems and tax authorities (countries). Thus, the design of an optimal tax policy is system and country specific. Of course, as Slemrod (1990) points out, the technology of tax collection should be a determinant of an optimal tax policy and this is independent of tax authorities.

4 Tax auditing and tax collection do not coincide. In Greece, a tax audit by tax authorities may result in a tax evasion case, but the tax collection may come later or not at all for many reasons, including the right of the tax evader to appeal the decision in the courts.

Figure 1

Shadow economy and tax rates in 31 OECD countries in 2015

Note: The shadow economy measures are taken from Schneider (2015) and the tax rate variable is a combination of profit tax (percent of profits), labor tax and contribution (percent of profits), and other taxes (percent of profits) retrieved from World Competitiveness Report (<http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/>).

The empirical evidence on tax evasion and tax rates is controversial. Levaggi and Menoncin (2012) use a theoretical model where the optimal evasion can be negatively or positively related to the tax rate. Figure 1 is a scatter diagram showing the shadow economy measured by the informal economy's share of official GDP and the tax rate on profits in 31 OECD countries.⁵ It appears that the level of the shadow economy is unrelated to the business tax rates. If there is any relationship, it is negative: higher tax rates reduce the shadow economy.

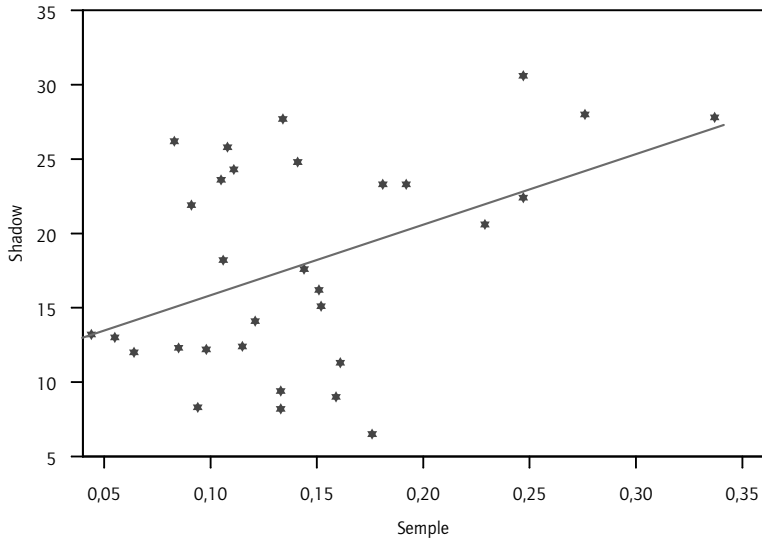
As argued in the literature, the enforcement of the tax law and the deterrence of tax evasion are more important than the level of the tax rate itself.⁶ This might explain Figure 1. In an early model developed by Allingham and Sandmo (1972), tax evasion is the result of expected utility maximization taking into consideration the probability of an audit, the size of the fine if caught, the tax rates, and, naturally, income.

5 These include Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, and the United Kingdom.

6 For an empirical study on the role of tax enforcement and deterrence, see Pomeranz (2015). A review of field experiments used to increase tax compliance is provided by Hallsforth (2014).

Figure 2

Self-employed and the shadow economy of 31 OECD countries in 2015



Note: The percentage of self-employed (Semple) is the share of the total number of self-employed in the labor force. Both series are taken from the AMECO database of the Eurostat. The Shadow rates are from Schneider (2015).

In Greece, the large number of self-employed makes the cost of monitoring them by tax authorities extremely high.⁷ This is true for countries similar to Greece, such as Spain and Italy; but in Greece it is even higher because of the unique geographical distribution of the self-employed.⁸ It is almost impossible for the taxes collected to cover the administrative cost of tax audits, enforcement, and collection.

The number of self-employed as a percentage of the total labor force might explain the extent of the shadow economy better than the level and regular increases in tax rates.⁹ Figure 2 shows the relationship between the number of self-employed as a share of the labor force and the shadow economy, measured as a percentage of the official GDP in the OECD countries. Even though there is a high dispersion, the graph shows that there is a strong positive relation between the

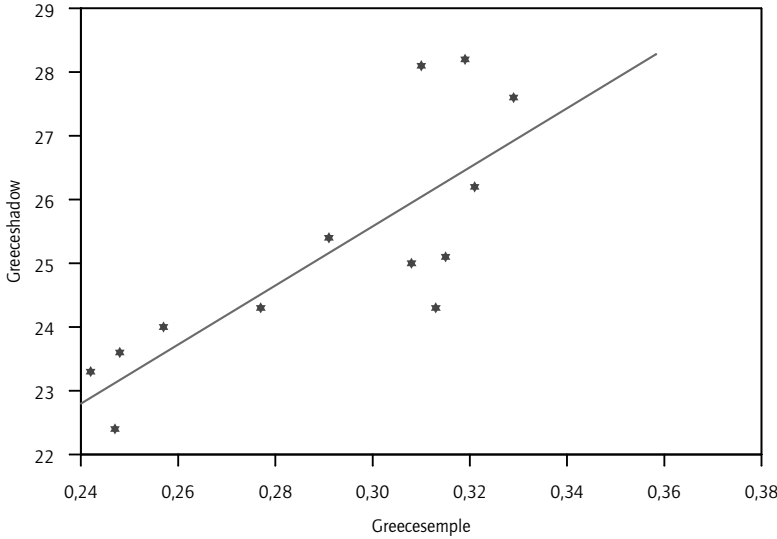
7 The self-employed have more opportunities to hide their income and a tax enforcement (deterrence), such as the threat of a tax audit, results in increased compliance by the self-employed relative to the non-self-employed, as documented by Slemrod et al. (2001), Kleven et al. (2011) and Hallsworth et al. (2014).

8 For example, there are more than a hundred small islands, each attracting numerous tourists. Tax enforcement is almost impossible because there are not tax offices on each island. As such tax auditors must travel from Athens and by the time they arrive, everybody is aware of their presence, taking precautions to ensure a favorable outcome of an audit: i.e. they issue the necessary receipts and pay the required VAT.

9 The correlation between the shadow economy and self-employment does not imply causation. Torrini (2005), using data from OECD countries, shows that in countries with tax evasion opportunities, the number of self-employed opportunities increases. But it can be the other way: the existence of self-employment and small businesses may be the cause of tax evasion. This relates to the unique geographical morphology of Greece: On hundreds of small islands, only small business can be profitable.

Figure 3

The Greek shadow economy and the percentage of self-employed, 2003–2015



Note: The percentage of Greek self-employed (Greeceesemple) is the share of the total number of self-employed in the labor force. Both series are taken from the AMECO database of the Eurostat. The Greek shadow rates (Greeceeshadow) are from Schneider (2015).

share of the self-employed and the share of the shadow economy. A one percentage point increase in the self-employment rate increases the shadow economy by 3.1 percent.

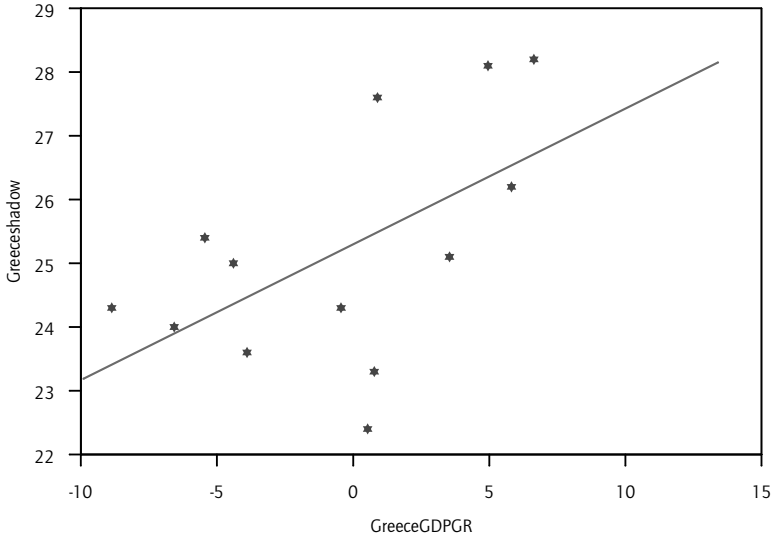
Figure 3 shows the same relation using annual Greek data from 2003 to 2015. The impact of the self-employed on the shadow economy is higher than in other OECD countries. The slope of the curve is steeper. Thus, there is a strong positive association between the number of people who are self-employed and the extent of the Greek shadow economy.

According to the European Commission (2013), macroeconomic conditions play an important role in determining how many people decide to work in the shadow economy. The reason is that when the economy is booming more people can find better paid jobs in the formal economy. Thus, the level of the shadow economy is negatively related to GDP growth and positively related to the unemployment rate. This is not the Greek case. Figure 4 shows that GDP growth and the shadow economy are positively related. Figure 5 shows that the unemployment rate is negatively related to the Greek shadow economy.

These observations might be explained by the dynamics of the Greek economy. Tourism is the flagship of Greek economic growth. Tourism is also an area with a very high percentage of shadow economy because of the high cost of tax enforcement. Thus, when tourism flourishes, so does the shadow economy.

Figure 4

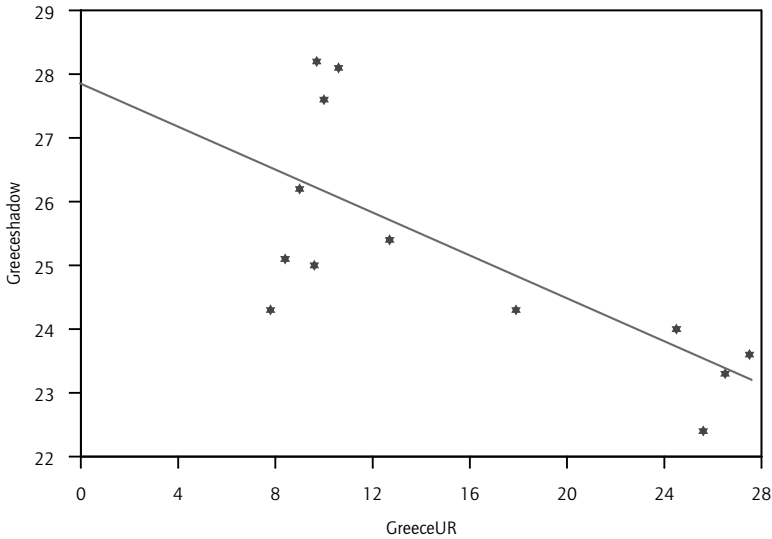
The Greek shadow economy and GDP growth, 2003–2015



Note: GreeceGDPGR is the real Greek growth of GDP as reported by AMECO database of the Eurostat. The Greek shadow rates (GreeceShadow) are from Schneider (2015).

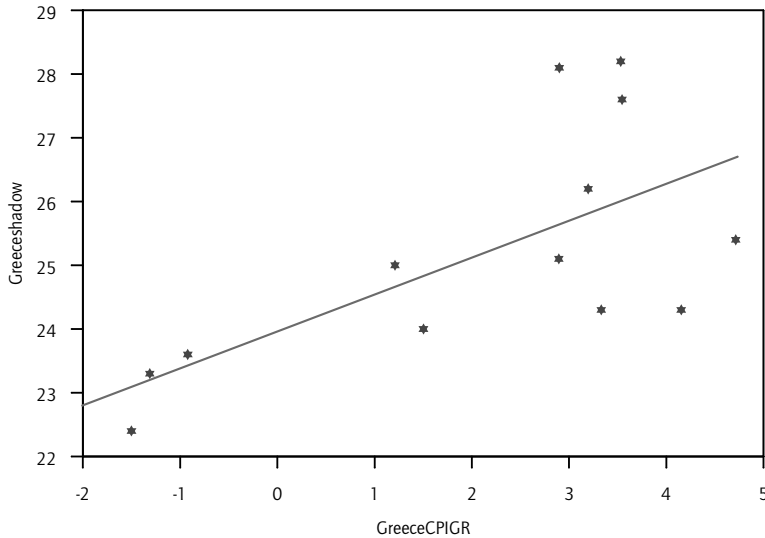
Figure 5

The Greek shadow economy and the unemployment rate, 2003–2015



Note: GreeceUR is the Greek unemployment rate as reported by AMECO database of the Eurostat. The Greek shadow rates (GreeceShadow) are from Schneider (2015).

Figure 6

The Greek shadow economy and the inflation rate, 2003–2015

Note: GreeceCPIGR is the Greek inflation rate as reported by AMECO database of the Eurostat. The Greek shadow rates (GreeceShadow) are from Schneider (2015).

Gupta and Ziramba (2010) and Bittencourt et al. (2014) show that a higher level of inflation is associated with a larger shadow economy. Figure 6 shows that there appears to be a strong positive relationship between the inflation rate and the Greek shadow economy.

The above stylized facts show that the Greek shadow economy is positively related to the number of self-employed, GDP growth, and the inflation rate, but negatively related to the unemployment rate. The self-employed evidence is the most important. It is difficult to audit their income, but not difficult to find their wealth and, therefore, tax them. However, this should be accomplished in a very simple and straightforward way as explained in the next section of this paper.

3 Taxing only wealth: A suggestion to simplify the Greek tax system

Wealth is the sum of real estate property, bank deposits, stocks and government bonds held by Greek nationals in Greece and abroad. It may also include other durable consumption goods, such as cars, boats, jewelry and other valuables. It also includes the wealth held by non-Greeks in Greece. As explained in the next section, a tax on such possessions, as the only source of Greece's public revenues, is the most efficient, the most effective, the most democratic, and the most competitive way of coercing citizens to pay their dues. This paper proposes a flat tax on wealth possession. Wealth transfers, including bestowed wealth, should not be taxed. Further, wealth earnings should not be taxed. For example, rents earned from leasing a property should not be taxed. Similarly, dividends from stocks should not be taxed.

The flat tax idea is not new and was proposed by Hall and Rabushka 25 years ago in the USA in an article published in the Wall Street Journal on December 10, 1981, which was then developed into a book; with an updated edition released in 2007. However, their proposal was a flat tax on income and not on wealth. The difference is important in countries with a long history of tax evasion, like Greece. Income taxes are more easily evaded than wealth taxes.

As previously mentioned, a wealth tax is optimal because (a) tax evasion in Greece is not only pervasive but excessively expensive (economically, politically, socially, etc) to reduce; and (b) the Greek tax authorities are corrupt and incompetent. The cost of building a non-corrupt and competent tax administration is too high and would involve a very long term process. Unlike private income, private wealth cannot be hidden. A Greek proverb says: “Cough and wealth cannot be hidden.” Technically, someone should be indifferent between taxing his wealth and taxing his income that flows from this wealth. The policy difference is that income can be concealed from tax authorities while wealth is more difficult, if not impossible, to conceal. In addition, those who can hide their income, also have the political power to influence the design of the tax system. This is the reason a wealth tax (property) is met with such fierce political resistance.

As noted earlier, the critical problem in Greece is not so much wealth inequality but the unfair tax treatment of wealthy Greek households. Not all wealthy Greeks pay their due tax. In my book (see Papanikos 2014a), I give an illustrative example of the unfair treatment of two wealthy households headed by physicians. Both medical doctors with similar careers, they started practicing 20 years ago when they were 38 years old. On average, they made an annual income of 500,000 euro in today’s money. Doctor A was able to hide all his income. Doctor B was taxed for her total earned income. Assuming a 20 percent income tax rate and annual consumption expenditures of 300,000 euro, today, Doctor A has accumulated wealth (houses, stocks, bank deposits and government bonds) worth 4 million and Doctor B 2 million euro. Doctor B paid 100,000 euro tax per year over the previous 20 years, while Doctor A paid no tax. We assume that both paid the same VAT, excise taxes and any other tax. If income tax was replaced with a wealth tax of 5 percent, Doctor B would pay, as before, 100,000 euro, but Doctor A will pay 200,000 euro per year. This will make up for Doctor B’s unfair treatment of the previous years. The total tax revenue increases from 100,000 to 300,000 euro, but it can be designed to give the same revenue as before. Doctor B, the honest doctor, will pay one-third of what she paid annually over the previous 20 years; Doctor A will pay an annual tax of 67,000 euro instead of the zero that he paid in each of the previous 20 years. Both doctors will pay the same total amount of 100,000 per year as they did in all previous 20 years. The tax burden will be different. This example can be extended to any other profession in Greece such as pharmacists, engineers, lawyers, plumbers, electricians, farmers etc.

The proposal for tax wealth here is very similar in design to the one proposed by Bach et al. (2011) for Germany and Lavoie (2014) for the USA. The tax rates are similar to theirs. The only difference is that the wealth tax proposed here is the only tax and is levied on all wealth, not just on the wealthy at the top of the distribution. The proposal here is to tax wealth and not the wealthy. All other taxes are abolished. Many other studies¹⁰ proposed or examine wealth taxes, but these are different from what is proposed here: the wealth tax is the only tax.

10 Eichengreen (1989) provides an argument to tax wealth for lifting the burden of sovereign debt. McDonnell (2013) discusses the implementation of a wealth tax in Ireland designed to improve horizontal and vertical equity; not implemented to be a source of

Table 1 is an example of how a tax on wealth can be designed. Even though the numbers are not based on real data, they should not be very far from today's Greek reality. The starting point is the total amount of revenue required to finance public expenditures. This amount today is around 50 billion euro. The measure of wealth is also critical. As explained in note (5) of the table, wealth is equal to 1,320 billion euro. Thus, a wealth tax rate of 0.3788 is required to generate revenue of 50 billion euro. Mathä et al. (2014) using data from the Eurosystem Household Finance and Consumption Survey estimate the average Greek wealth to be 200,000 euro per household. There are a total of 4,114,150 Greek households reported. Thus, total wealth is equal to 823 billion euro.¹¹ However, this does not include the non-registered households and the informal economy. Table 1 takes these into consideration.

Table 1 classifies the Greek households into four classes. A more detailed proposal will classify all Greek households according to their wealth. In Papanikos (2014b) I describe in detail the characteristics of the first three classes. Each group belongs to a certain segment of the labor force with various opportunities of tax evasion. Group 1 includes legal and illegal immigrants along with very low skilled native (Greek) workers. Group 2 comprises employees in the government and state controlled enterprises. Group 3 consists of professionals, self-employed, skilled workers, farmers and hetero-employed workers. Members of all groups evade taxes; the opportunities and the levels are different.

A tax on wealth will correct the unfair treatment of the same members in each group and not across groups. For example, two civil engineers who have worked in town planning ("*poleodomia*") for 20 years (belonging to Group 2) have accumulated different wealth because one accepted bribes to issue building permits and the other did not. This extra income, despite how it was "earned," was never taxed. One may argue that the accumulated wealth is due to different saving rates. However, the savings rate required to account for such wealth accumulations is more than 100 percent of the accumulated official earned income.

Table 1 shows that, on average, each group member does not pay a much higher tax than they pay now, with the exception of the poorest households. The latter pay no tax. Contrariwise, the very rich pay 25 percent more tax. Group 2 pays 4 percent more tax (333 euro) and Group 3 pays 3.7 percent more (697 euro). This, however, does not reveal the real difficulty in implementing such a tax. The real resistance will come from all group members that currently pay no tax at all or pay a very small amount because they are able to hide their income. The difference is paid by the other group members who cannot hide their income and, of course, the poorest households, which pay VAT and other expenditure taxes. This explains why voices against a wealth tax come from all segments of society. In each segment, tax evaders exist, exerting a very strong political and social resistance.

A tax on wealth as the only source of Greek government revenue is optimal given the extent of tax evasion, tax compliance and costs of tax auditing. The next section discusses the optimality of this

sovereign revenue. The European Commission (2014) also discusses wealth taxes across the European Union along the lines of Piketty's analysis, i. e. to correct for the increasing wealth inequality. This is not the reason a wealth tax is proposed here.

11 According to Eurostat data (AMECO), the net capital stock (OKND) accounted for only 944 billion euro in 2010. If private bank deposits are included, estimated to be more than 250 billion euro in 2010, the total wealth of these two categories exceeds 1,200 billion euro.

Table 1

An example of a flat wealth tax in Greece by household type

Household type ¹	Number of households ²	Average income ³ (euro)	Total income (bn of euro)	Average tax paid today ⁴ (euro)	Total tax paid today (bn of euro)	Wealth ⁵ (bn of euro)	Wealth tax Rate ⁶	Total wealth tax (bn of euro)	Wealth tax per household (euro)	Tax difference (euro)
1	2,000,000	10,000	20	1,500	3	0	0.03788	0	0	-1,500
2	1,250,000	40,000	50	8,000	10	275	0.03788	10	8,333	333
3	1,500,000	80,000	120	19,000	29	780	0.03788	30	19,697	697
4	100,000	300,000	30	80,000	8	265	0.03788	10	100,455	20,455
Total	4,850,000		220		50	1,320		50		

Notes:

- 1 The first three types correspond to Segments C, B and A as explained in more detail in Papanikos (2014b). Type 4 includes business people and other rich households who do not work and earn income from other sources, i.e. by renting their property.
- 2 Author's estimations based on the hypothesis that the total number of households should be equal to the one found by the national census (about 4 millions) plus the illegal migrants who are not registered as part of the national census process. I assume them about 650,000 households.
- 3 Author's assessment based on the hypothesis that the total income should equal to 2014 GDP of 179.1 billion as reported by Eurostat plus an estimate of 23.3 percent of the shadow economy as reported by Schneider (2015). Total GDP is equal to 220 billion euro. The essence of the suggestion does not change if different incomes are assumed per household type.
- 4 It includes all taxes: direct, indirect and social security contributions. The total tax is 50 billion or 22.7 percent of total GDP (official and unofficial). It is assumed that Type 1 pays 15 percent of tax (includes VAT), Type 2, 3 and 4 pays 20 percent, 23.75 percent and 26.7 percent respectively. Different rates do not change the nature of the proposal.
- 5 According to Piketty & Zucman (2013), the relation of wealth to income is between 6 and 7. Here, it is assumed that wealth is 6 times higher than total income or 1,320 billion euro. However, since wealth is accumulated from past incomes plus inheritances minus consumption, poor households (Type 1 of the table) were not able to accumulate any wealth. They can be considered as the propertyless (wealthless) class. The other household types accumulated wealth proportional to their income. We assume a constant weighted average ratio of wealth to income of 6.6 because total wealth must add up to 1,320 billion euro. Per household type the ratios are 5.5, 6.5 and 8.84 respectively.
- 6 Lavoie (2014) proposed a wealth tax of 5 percent in the USA which progressively increases to 10 percent for the top 20,000 richest households, without exemptions from other direct and indirect taxes. Bach et al (2011) suggested a similar wealth tax in Germany that ranged from 3.4 percent to 5.3 percent only for the rich. The proposal here for a 3.8 percent wealth tax applies to wealth as a flat rate for all Greek households who possess wealth.

tax using the four criteria mentioned in the introduction of the paper: efficiency, effectiveness, democracy and competitiveness. These four criteria are discussed in many textbooks on public finance. For example, in their classical textbook, Musgrave and Musgrave (1989) discuss these criteria on page 216–217. In this study, these criteria are very similar to the ones suggested in Stiglitz’s textbook on the *Economics of Public Sector*, now (2015) in its fourth edition. He proposes five criteria: efficiency, administrative simplicity, flexibility, political responsibility and fairness.

4 **An optimal tax system for Greece: How the proposal meets the criteria of an optimal tax system**

Ramsey (1927) and Mirrlees (1971) laid the foundations of optimal tax policies. Since then, numerous studies have debated the theory and practice of an optimal tax system (Diamond and Saez 2011, Mankiw et al. 2009, Slemrod 1990). There is now an enormous theoretical and empirical literature on optimal tax systems. Most of this work aims at designing a tax system that, one way or another, balances the positive (efficiency) and normative (fairness) aspects of public finance.

Mirrlees himself led a scientific group that reviewed and made recommendations to reform the UK tax system; see Mirrlees et al. (2011) for a summary of his report. As he put it on page 332, “The challenge for the review was to design a tax system that can raise the revenue that the government needs to achieve its spending and distributional ambitions whilst minimising economic and administrative inefficiency, keeping the system as simple and transparent as possible, and avoiding arbitrary tax differentiation across people and forms of economic activity.” A critical appraisal of Mirrlees proposals is provided by Feldstein (2012).

For the purposes of this study, an optimal tax system must meet four criteria: efficiency, effectiveness, democracy, and competitiveness. In the remainder of this section, these four criteria are discussed within the context of the current Greek tax system and the paper’s proposal of a flat tax on wealth as the only source of sovereign revenue.

The efficiency criterion

The efficiency criterion has two aspects. First, a tax is efficient if it does not distort producers’ or consumers’ choices. Under this criterion, a lump sum tax on ability is optimal. Mankiw et al. (2009: 149–150) note that, “Actual governments, however, cannot directly observe ability, so the model still fails to deliver useful and realistic prescriptions.” But this is not a problem, if ability is directly related to accumulated wealth. Ability *per se* is useless for tax purposes if it does not lead to the production and accumulation of private wealth. Individuals differ in their abilities as long as they differ in their accumulated wealth. Even inherited wealth requires an ability to maintain it. However, ability becomes wealth through effort and the latter might be affected by a wealth tax.

Simons (2015), from the Harvard Business School, develops a descriptive model where individual effort, with entrepreneurship and innovation, produces wealth along with inequality. If entrepreneurship and innovation is a manifestation of wealth generating abilities, then under the appropriate business environment of self interest and freedom, individuals can accumulate personal wealth. A flat tax on wealth should not affect this accumulation process, necessary to

promote economic growth. Thus, this paper's proposal to tax only wealth, is efficient and will promote Greek economic growth.

Second, a tax is efficient if it minimizes the administration cost per euro of collected tax. No Greek data exists on the administration cost¹² but it should be very large due to the large number of self employed and independent professionals who are geographically dispersed. A tax on wealth is efficient because it does not require any tax auditing. The tax on real estate property, which was imposed in 2012, was collected through electricity bills. Those who did not pay the tax faced the threat of having their electricity supply cut off. The cost of collecting and enforcing a wealth tax was zero. The electricity bill is also used to collect local taxes and a fixed tax to finance public television and radio broadcasting.

Tax authorities should choose a system that maximizes overall efficiency: production efficiency, consumption efficiency and tax collection efficiency. The current Greek tax system distorts production and consumption efficiency. Efficient producers are driven out of the market because inefficient producers can survive by not paying their taxes: not VAT, not income (profit) tax, and not social security contributions.¹³ At the margin, these tax evading cost reductions can be as high as 80 percent of the total production cost.¹⁴ A flat tax on wealth does not create such production inefficiencies.

The effectiveness criterion

The effectiveness of a tax system requires that all citizens pay their due tax. It relates to tax compliance and tax enforcement (deterrence). A tax system can be efficient but not effective. Actually, an ineffective system might be more efficient than an effective tax system. For example, in Greece most of the self-employed and small (family) business people who are geographically dispersed, do not pay any tax or pay very little (the system is ineffective). Large companies and third party tax reporting, pay taxes at a very low administration cost. Tax auditing of the self-employed and small business is too costly and most tax authorities do not bother monitoring them. Therefore, the administration cost is zero. The Greek system is efficient, minimizes the cost per tax collected but not effective, i.e. not all citizens pay their due tax. This is well understood by Greek tax authorities. Whenever there is a demand on tax administration from political authorities to collect more tax revenues, the local tax offices audit their biggest customers. They do not bother to audit the numerous small companies and the self-employed because of the high cost per tax to be collected. They maximize efficiency at the cost of effectiveness.

12 European Commission (2014: 107) reports that the average cost of collecting taxes in the European Union was 1.1 euro per 100 euro. Data for Greece is not reported.

13 In the 1980s I asked a civil engineer, who was selfemployed building private houses, why he was evading taxes. In Greece they are called "free professionals." He told me that the real choice is not between evading and not evading taxes but between being a civil engineer in Greece or not. If he did not evade taxes, he could not practice his profession. He would be driven out of the market. As with many other civil engineers of his generation, he accumulated considerable wealth without paying the taxes due.

14 This is true in the service sector where the sunk and fixed costs are negligible. A tax evader producer does not pay the 23 percent VAT, the 40 percent social security contributions, or the 25 percent income (profit) tax. For example, a family cleaning company employs illegal migrants and pays them much lower than the minimum wage and without any social security contributions. It pays no VAT and reports no income from profits. Its costs will be reduced by more than 80 percent if it pays half the official minimum wage, i.e. 300 euro per month instead of over 600 euro.

A tax on wealth is an optimal solution to the effectiveness problem. As shown in the previous section, a tax on wealth is effective because all the members of the various social groups pay their due tax, irrespective of whether they are able to hide their income or not. Modern technology allows tax authorities to tax audit all wealth in the form of property, bank deposits and stocks; even the filing of tax returns becomes redundant.

The democracy criterion

In a democratic society, all people should pay taxes according to their ability. The Greek constitution (article 4) states that all Greek citizens contribute according to their ability (power). The thorny issue is how ability is defined and measured. As mentioned above, accumulated private wealth is as close as one can get to a true manifestation of ability.

The democracy criterion relates to vertical and horizontal equity but is more than that. Vertical equity requires that the tax rate should increase with one's ability to pay taxes (i.e. income or wealth). But the most important democratic challenge in Greece is the unfair (horizontal equity) treatment of households with the same wealth (income). Two households may have the same wealth but not pay the same tax because of tax avoidance and tax evasion. This is a true democratic deficit: the unequal treatment of equals. A flat tax on wealth corrects the unfair treatment of two individuals with the same wealth but with different opportunities to hide their income. This aspect of the democracy criterion relates to fairness of the tax system and is one of the five desirable characteristics in Stiglitz's list.

The democracy criterion also relates to the process of tax reforms. Any change of the tax structure is met with strong resistance from political elites. This should be taken into account when an optimal tax policy is designed. Fairfield (2013) examines tax reforms in Latin American countries. The quality of democracy is undermined when economic elites (minorities) are able to impose favorable tax policies either directly (influence politicians and political parties) or indirectly (influence public opinion by controlling or owning the mass media). This is the Greek experience with the 2012 property tax; a tax that favors the poor (propertyless) households has met with fierce resistance from all Greek political parties and the Greek mass media. The allegedly left parties were the fiercest opponents to such a wealth tax implementation and even Greek communists oppose a tax on private property. These are the ones who claim that if they ever come to power, private property will be abolished. The current Greek public opinion is affected by political elites who sturdily oppose any tax on wealth (private property).¹⁵ This aspect of the democracy criterion relates to what Stiglitz calls flexibility, one of the five characteristics of a desirable tax system.

The democratic criterion is very important in reforming the Greek tax system. A tax on wealth (especially a tax on private property) will meet strong opposition because it is the only tax that cannot be evaded. In addition, the corrupted and inept tax authorities are completely sidestepped. They will exert a strong opposition because they will forego income from bribes. The experience

15 In a June 2015 interview with Spiegel Online International (www.spiegel.de/international/europe/eu-commission-president-juncker-on-greece-and-tsipras-a-1039738.html), the President of the European Commission, Jean-Claude Juncker stated, "On the other hand, there are people in Greece who are filthy rich. I have called upon Mr. Tsipras to raise taxes on wealth in his country. Shockingly, his response to my request was not as enthusiastic as I had expected." Most of these rich vote for Mr Tsipras' party, an allegedly left wing party. Mr Tsipras' position is not contradictory. He knows that he gets more votes from social segments that systematically evade taxes and accumulate huge personal wealth. Mr Tsipras, along with many other members of his government, come from these classes. A Greek proverb says "if you blame your 'house,' it will fall on you." In this paper's case, blame equals tax.

with the property tax implemented in 2012 shows that the tax was effective and efficient, even though it met with strong political and social resistance. Democracy is undoubtedly the best of all implemented (practiced) political systems but it does not always lead to optimal policies.¹⁶ This is far from being unique to Greece; Eichengreen (1989) states in the abstract of his paper that, “Property owners are sure to resist its adoption. In a democratic society, their objections are guaranteed to cause delay.” I would add, delay until it is scrapped altogether.

Democracy requires transparency. All citizens should know and understand the rules of the tax game. They should feel that they are fairly treated. In Greece, most people feel that the tax system treats them unfairly and for this reason they do not want to pay any tax. If the opportunity arises, they will avoid and evade any tax. In Greece there are mostly two types of tax payers: those who can avoid paying taxes and those who cannot. They will help others to avoid and evade taxes even though there is no direct benefit to them. On the contrary, in many cases they are indirectly harmed because they pay higher taxes than they should. This is an additional reason why a tax system should be as simple as possible. A tax on wealth meets this criterion. Taxing wealth with one tax rate is ideal for Greece’s parliamentary democracy. This aspect of the democracy criterion relates to what Stiglitz calls political responsibility.

To overcome the role of political elites, the suggestion to tax wealth and only wealth as the only source of government revenue should be an issue debated and decided through a referendum. This approach will inherently increase tax morale. Toggler (2005) finds that tax morale, i.e. citizen’s intrinsic motivation to pay taxes, increases with direct democracy. Similarly, Hug and Spörri (2011) find that referendums cement the relationship between trust and tax morale. Persson and Tabellini (1994) develop a theoretical model to compare direct to representative democracy on the issue of capital taxation.

The competitiveness criterion

The optimal tax system should promote national and international competitiveness. This is the only way to promote economic growth. And as mentioned above, Musgrave & Musgrave (1989) consider economic growth to be one of the characteristics of a “good” tax system. The current Greek tax system is not a “good” system. For example, unequal tax evasion among firms inhibits competition. Inefficient firms can survive only because they pay no taxes: VAT, profit taxes and social security contributions. On the other hand, a higher VAT and tax on profits relative to competitive countries reduce exports and the inflow of foreign direct investments. A simple tax on wealth will increase national and international competitiveness, something desperately needed to revitalize the struggling Greek economy.

Summarizing the above discussion, the Greek tax system is inefficient, ineffective, undemocratic, and inhibits competitiveness. A single tax on wealth is optimal in dealing with the Greek informal economy and the resulting vast tax evasion. After all if income is not taxed, there is no incentive not to report it unless it is earned by illegal activities.

¹⁶ Plato, in 4th century BC, was the first to recognize this deficiency of democracy. He came up with the, elegant, utopian ideal of a benevolent dictator. A philosopher king should rule on eudemonic society. Much later, in the 20th century, Nobel Prize winner Kenneth Arrow persuasively, but not as elegantly, showed that a democracy (a voting system to express social preferences) may not lead to optimal decisions. One of Arrow’s assumptions is no dictator.

Apart from the tax evasion issue, taxing wealth has some additional positive implications. For example, Meade (1978) argues in favor of a wealth tax as opposed to an income tax because wealth provides additional utility. In other words, two individuals with the same stream of income should not be taxed the same if one's income comes from wealth and the other's from daily toiling. Income from wealth should be taxed more.

Wealth offers additional utility¹⁷ through the security, the prestige, and the political and social power it provides to its possessor. Wealthy people have the money to bribe (in USA, it is called lobbying) corrupt politicians and media in all developed and less developed countries, to enact laws which provide economic benefits to them. In Greece, wealthy households have the political power to shape public opinion against a wealth tax. Currently, there is not even one Greek mass medium that supports the taxing of real estate. Not a single social group supports it. All oppose the tax, even those who have no real estate property, and regardless of where they lie on the political spectrum, from the far left to the far right.

Wealth possession provides additional economic benefits especially bank financing with favorable terms. In Greece, bank financing of small business and the self-employed is almost impossible unless the borrower possesses wealth, especially real estate property, which is used as collateral. Thus, without wealth it is either impossible to draw a loan from a bank or if it is possible, a higher interest rate must be paid.

The most notable international unsuccessful attempt to implement a tax on wealth was in 1974 when the British Labor party came to power. It was its pre-election promise to implement a wealth tax but it left office without delivering. Glennerster (2012) provides an account of the political bickering using the newly released national archives of that period. He concludes by identifying a number of lessons drawn from this unsuccessful attempt to implement a wealth tax in the UK.

A tax on wealth has been implemented in a number of other countries, including Spain, France, and Italy; but these taxes are in addition to existing taxes, such as VAT, income (profit) tax and social security contributions.¹⁸ They are implemented temporarily to restore fiscal imbalances or to decrease wealth inequality, an argument not made here. A tax on Greek wealth should be levied on a permanent basis because it is efficient, effective, and democratic, while also promoting national and international competitiveness. All other taxes should be abolished.

However, taxing wealth is not an easy ride, especially in Greece. The next section of the paper discusses some of the difficulties in implementing a wealth tax.

17 Chorvat (2006) argues that the only true non-distortionary tax is a tax on utility. Taxing wealth can be a proxy for taxing utility. In other words, it is an indirect utility function based on wealth.

18 See European Commission (2014) for a discussion of various wealth taxes implemented across the European Union.

5 Difficulties in implementing a wealth tax

A careful political, economic, social and technology analysis of the current Greek case will show that a tax on wealth is the only tax that can address corruption and tax evasion. In addition, it will promote economic growth and create more well-paid jobs. However, it is not easy to implement and there is an ongoing debate within the European Union on the merits of a wealth tax (see European Commission 2014: Box 4.2). I summarize below the most important difficulties in implementing a wealth tax.

Political and social resistance

As mentioned above, the economics literature considers a flat tax on wealth (or a tax on ability to pay a tax) as optimal. However, it is recognized that this tax will meet strong political and social resistance. The political aspect of implementing a wealth tax is noted by many studies. Rudnick and Gordon (1996: 10) argue that, “the decision whether to enact a tax or taxes on net wealth or wealth transfer must take into account the country’s political, social, and administrative circumstances.” Similarly, Boadway et al. (2010: 742) argue that, “to be effective there must be some political consensus on how wealth is taxed.”

This is definitely the Greek case: The wealth tax can only become politically and socially acceptable if it is combined with the immediate elimination of all other taxes, particularly VAT and all types of income taxes. By doing so, a wealth tax can get the necessary political support in a parliamentary democracy. This is the only way to battle tax evasion because, as Rudnick and Gordon (1996: 4) state, “A wealth tax base separate from an income tax base can help ensure that taxes not collected on the latter, because of avoidance or evasion, might be collected on the former.”

Assessing the true price (value) of wealth

It is claimed that a wealth tax is difficult to implement because the assessment of the real price (value) of wealth, especially real estate property, is cumbersome. In Greece, a small tax on real estate property is based on “objective” (imputed) prices set by the government. Prior to the current economic crisis, the “objective” prices were much lower than the market prices. Since 2010 market prices of real estate property have declined. In some areas (most probably the very rich areas of Athens) the “objective” prices may be higher than the market prices but this might be the result of very low “objective” prices in the first place.

Despite the current criticism in Greece, this is a dilemma only if relative prices of real estate properties have changed, i.e. some properties were hit harder than others. Most probably, house prices have proportionally declined. Reducing “objective” prices to market prices will not affect the amount of tax on each property if the total tax to be collected remains the same. Currently this is close to 3 billion euro. To raise this fixed amount of revenue, if “objective” prices are reduced, the tax rate must accordingly increase.

However, this important problem can be easily sorted out. “Objective” prices can be determined by the sale price of a property and can be adjusted every year. The notary, before preparing the sale contract, publicizes the price and calls everyone who wants to bid for a higher price (say at least 10 percent higher) to do so within 15 days. There is an incentive to reveal the true price of selling. In addition, there will be no incentive to hide the true price since property transfers will

not be taxed and all legal fees can be a fixed amount per contract and not proportional to the value of the transferred property.

Wealthy without income

People with wealth may not have the income (liquidity) to pay a wealth tax. A distinction should be made between those who evade taxes by hiding their income and those who pay the full amount of the due tax. Those, who under the current system pay their taxes in full, will, under the new wealth flat tax system, pay less. For them, there will be no liquidity problem any worse than they face under the existing system.

For those who pay no income tax now (presumably they pay part of the current VAT), and who have wealth but no income (assuming that they do not have liquid assets, such as bank deposits), their wealth tax can be paid in installments, which is already common practice in the Greek tax system. Even today, a Greek taxpayer can go to tax authorities and claim liquidity constraints, thus making arrangements to pay in small installments, with up to 100 monthly installments.

Bach et al. (2011) make a similar wealth tax suggestion for Germany. From an economic point of view, taxing the possession of wealth is equivalent to taxing lifetime income and an honest tax payer should be indifferent between the two types of taxes.

A wealth tax will reduce investment and growth

Taxing wealth may reduce savings and investment, and increase consumption. This is only true if a wealth tax is in addition to taxing income and sales. Taxing only wealth with a lump sum tax will have positive economic effects. Investment will increase because profits will not be taxed, although capital stocks as part of wealth will be taxed. Also, the accumulation of wealth will be promoted because wealth inheritance will not be taxed. The proposal here is a revenue-neutral reform of the Greek tax system. Tax revenues will be the same; their source will be different. All revenue will come from a flat tax on private wealth.

A wealth tax affects its distribution

The proposal to tax wealth and only wealth is overall neutral from a distributional point of view, but some people will be affected more than others. This proposal hits hard all those who, throughout their entire economic life, paid no taxes. These segments (particularly the self-employed) of the Greek population possess considerable wealth. Unfortunately for them, they must pay taxes. As Mirrlees et al. (2011: 356) puts it,

“Intellectually, the right thing to do is to consider which is the better equilibrium – one in which we are benefiting the self-employed at the expense of everyone else, or one with neutrality between those in different forms of work. Practically, the transition is a challenge.”

This was said for the UK tax system and is even more valid for the Greek tax system with its much higher proportion of self employed.

Despite the above difficulties, the simplification of the Greek tax system is possible and a wealth tax is a way of doing this. The political resistance to a wealth tax will be intense but as the real

estate property tax shows, this resistance was not strong enough to abolish it. The tax still exists even though the current coalition government pledged in the pre-election period that they would scrap it. The reason is very simple: this tax is efficient, effective, democratic and, if it becomes the only tax, will promote competitiveness and economic growth.

In 1981, the newly elected socialist government attempted a similar tax but the Minister of National Economy, who suggested the tax, was “decapitated” and the tax was withdrawn because the vested interests of wealthy people in Greece exerted a very strong political resistance.

Today, the technology to implement a wealth tax makes it much easier because all wealth can be electronically audited. This tax will be collected, like the real estate property tax, through electricity bills. This will make the use of Greek tax authorities redundant, which is an additional benefit from a wealth tax implementation.

6 Conclusions

The economic cost of fighting tax evasion is too high in Greece. If the political and social costs are added, then tax compliance is a herculean task. Under these conditions, it is really a puzzle why some Greeks pay taxes. Tax evasion is pervasive among those segments of the population who can hide their income. The self-employed and small businesses systematically conceal their income and employ non-registered workers. They “save” on income tax, VAT and social security contributions.

All these taxes should be abolished not only because they have a high cost of compliance but because they create conditions of unfair competition and production inefficiencies. The lost tax revenue from these sources can be efficiently and effectively replaced by a flat tax on wealth. In Greece, a wealth tax as the only source of government revenue will be democratic. It will also promote the competitiveness necessary to advance economic growth and create well-paid jobs.

References

- Allingham, M. G., and A. Sandmo (1972): Income tax evasion: A theoretical analysis. *Journal of Public Economics*, 1 (3–4), 323–338.
- Alvaredo, F., A. B. Atkinson, T. Piketty, and E. Saez (2013): The Top 1 Percent in International and Historical Perspective. *Journal of Economic Perspectives*, 27 (3), 3–20.
- Auerbach, A. J., and K. Hassett (2015): Capital taxation in the twenty-first century. *American Economic Review: Papers & Proceedings*, 105 (5), 38–42.
- Bach, S., M. Beznoska, and V. Steiner (2011): A wealth tax on the rich to bring down public debt? Revenue and distributional effects of a capital levy. Discussion paper No. 1137. German Institute for Economic Research. Berlin.
- Bame-Aldred, C. W., J. B. Cullen, K. D. Martin, and K. P. Parboteeah (2013): National culture and firm-level tax evasion. *Journal of Business Research*, 66 (3), 390–396.
- Berger, W., M. Pickhardt, A. Pitsoulis, A. Prinz, and J. Sardà (2014): The hard shadow of the Greek economy: New estimates of the size of the underground economy and its fiscal impact. *Applied Economics*, 46 (8), 2190–2204.

- Bittencourt, M., R. Gupta, and L. Stander (2014): Tax evasion, financial development and inflation: Theory and empirical evidence. *Journal of Banking & Finance*, 41 (April), 194–208.
- Boadway, R., E. Chamberlain, and C. Emmerson (2010): Taxation of Wealth and Wealth Transfers in Dimensions of Tax Design. *The Mirrlees Review*, Institute for Fiscal Studies, Oxford University Press, pp. 737–814. www.ifs.org.uk/uploads/mirrleesreview/dimensions/ch8.pdf
- Boadway, R., and M. Sato (2009): Optimal tax design and enforcement with an informal sector. *American Economic Journal: Economic Policy*, 1 (1), 1–27.
- Charmes, J. (2012): The informal economy worldwide: Trends and characteristics. *The Journal of Applied Economic Research*, 6 (2), 103–132.
- Chorvat, T. (2006): Taxing utility. *The Journal of Socio-Economics*, 35 (1), 1–16.
- Diamond, P., and E. Saez (2011): The case for a progressive tax: From basic research to policy recommendations. *Journal of Economic Perspectives*, 25 (4), 165–190.
- Eichengreen, B. (1989): The capital levy in theory and practice NBER Working Paper No. 3096.
- European Commission (2013): Europe 2020: Shadow economy and undeclared work. European Commission, Brussels.
- European Commission (2014): Tax Reforms in EU Member States Tax policy challenges for economic growth and fiscal sustainability. European Commission, Brussels.
- Fairfield, T. (2013): Going where the money is: Strategies for taxing economic elites in unequal democracies. *World Development*, 47 (July), 42–57.
- Feldstein, M. (2012): The Mirrlees Review. *Journal of Economic Literature*, 50 (3), 781–790.
- Glennerster, H. (2012): Why was a wealth tax for the UK abandoned?: lessons for the policy process and tackling wealth inequality *Journal of Social Policy*, 41 (2), 233–249.
- Gupta, R., and E. Ziramba (2010): Misalignment in the growth-maximizing policies under alternative assumptions of tax evasion. *The Journal of Applied Business Research*, 26 (3), 69–80.
- Hall, R. E., and A. Rabushka (2007): *The Flat Tax*. Hoover Institution.
- Hallsworth, M. (2014): The use of field experiments to increase tax compliance. *Oxford Review of Economic Policy*, 30 (4), 658–679.
- Hallsworth, M., J. List, R. Metcalfe, and I. Vlaev (2014): The behavioralist as tax collector: using natural field experiments to enhance tax compliance. National Bureau of Economic Research Working Paper 20007.
- Hassett, K. A., and A. Mathur (2012): A New Measure of Consumption Inequality. American Enterprise Institute. www.aei.org/wp-content/uploads/2012/06/a-new-measure-of-consumption-inequality_142931647663.pdf.
- Hug, S., and F. Spörri (2011): Referendums, trust, and tax evasion. *European Journal of Political Economy*, 27 (1), 120–131.
- Kleven, H. J., M. B. Knudsen, C. T. Kreiner, S. Pedersen, and E. Saez (2011): Unwilling or unable to cheat? evidence from a tax audit experiment in Denmark. *Econometrica*, 79 (3), 651–92.
- Lavoie, R. (2014): Dreaming the impossible dream: is a wealth tax now possible in america? Mimeo. Akron Research Paper No. 14-01.
- Levaggi, R., and F. Menoncin (2012): Tax audits, fines and optimal tax evasion in a dynamic context. *Economics Letters*, 117 (1), 318–321.

- Mankiw, N. G., M. Weinzierl, and D. Yagan (2009): Optimal taxation in theory and practice *Journal of Economic Perspectives*, 23 (4), 147–174.
- Mathä, T. Y., A. Porgiglia, and M. Ziegelmeier (2014): Household wealth in the euro area: The importance of intergenerational transfers, homeownership and house price dynamics. Working Paper Series, No 1690. European Central Bank.
- McDonnell, T. A. (2013): Wealth tax: Options for its implementation in the Republic of Ireland. Nevin Economic Research Institute, NERI WP 2013/No 6. www.nerinstitute.net/download/pdf/neri_wp_no_6_2013_mcdonnell_wealth_tax.pdf
- Meade, J. (1978): The Structure and Reform of Direct Taxation: Report of a Committee chaired by Professor J. E. Meade for the Institute for Fiscal Studies. London, George Allen & Unwin. www.ifs.org.uk/publications/3433.
- Mirrlees, J. A. (1971): An exploration in the theory of optimum income taxation. *The Review of Economic Studies*, 38 (2), 175–208.
- Mirrlees, J. A., S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles, and J. Poterba (2011): The Mirrlees review: Conclusions and recommendations for reform. *Fiscal Studies*, 32 (3), 331–359.
- Musgrave, R. A., and P. B. Musgrave (1989): *Public Finance in Theory and Practice*. Fifth Edition. New York, McGraw Hill.
- Papanikos, G. T. (2014a): The Greek economic crisis: a class analysis in support of austerity measures. Athens Institute for Education and Research, Athens (in Greek). www.atiner.gr/gtp/2014papbook.pdf
- Papanikos, G. T. (2014b): The Greek labor market, the euro and the current crisis. *Singapore Economic Review*, 59 (4), S1–S27.
- Persson, T., and G. Tabellini (1994): Representative democracy and capital taxation. *Journal of Public Economics*, 55 (1), 53–70.
- Piketty, T. (2014): *Capital in the twenty-first century*. Cambridge, Harvard University Press.
- Piketty, T. (2015): About capital in the twenty-first century. *American Economic Review: Papers & Proceedings*, 105 (5), 48–53.
- Piketty, T., and G. Zucman (2013): Capital is Back: Wealth-Income Ratios in Rich Countries 1700–010. www.parisschoolofeconomics.com/zucmangabriel/capitalisback/PikettyZucman2013WP.pdf
- Pomeranz, D. (2015): No taxation without information: deterrence and self-enforcement in the value added tax. *American Economic Review*, 105 (8), 2539–2569.
- Ramsey, F. P. (1927): A contribution to the theory of taxation. *Economic Journal*, 145 (March), 47–61.
- Rudnick, R. S., and R. K. Gordon (1996): Taxation of wealth. In: Victor Thuronyi (ed.): *Tax Law Design and Drafting*. Volume 1, Chapter 10. International Monetary Fund. www.imf.org/external/pubs/nft/1998/tlaw/eng/ch10.pdf
- Schneider, F. (2015): Size and development of the shadow economy of 31 European and other OECD countries from 2003 to 2015: Different developments. www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf
- Simons, R. (2015): Self-interest: The economist’s straightjacket. Harvard Business School, Working Paper 16-045.
- Slemrod, J. (1990): Optimal taxation and optimal tax systems. *Journal of Economic Perspectives*, 4 (1), 157–178.

- Slemrod, J., M. Blumenthal, and C. Christian (2001): Taxpayer response to an increased probability of audit: Evidence from a controlled experiment in Minnesota. *Journal of Public Economic*, 79 (3): 455–83.
- Stiglitz, J. E. (2000): *Economics of the Public Sector*. Third Edition. New York, W. W. Norton & Company, Inc.
- Torgler, B. (2005): Tax Morale and Direct Democracy. *European Journal of Political Economy*, 21 (2), 525–531.
- Torrini, R. (2005): Cross-country differences in self-employment rates: the role of institutions. *Labour Economics*, 12 (5), 661–683.
- Yunker, J. (2014): Capital wealth taxation: theory and application. *Review of Political Economy*, 26 (1), 85–110.