# Tax evasion: The role of tricksters in folklore

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**Abstract**

The act of not paying the appropriate taxes due, known as tax evasion, is both unethical and illegal. Using an international firm-level survey sample, our study examines whether and how folklore, an ancient societal characteristic, is associated with tax evasion. Focusing on tricksters, a typical figure in oral traditions, we find a negative association between the frequency with which tricksters are punished for their antisocial behaviour in folktales around the world and corporate tax evasion. Our findings are robust to the use of various firm- and country-level control variables, different datasets, and the use of alternative estimation techniques, including instrumental variables regression. Finally, we find evidence of complementarity effects between formal and informal institutions, as our results show that the effect of folklore on tax evasion is amplified in the case of countries with better perceptions about the overall quality of governance and formal institutions. Our findings highlight the enduring influence of societal narratives on economic behaviour and the interaction between informal and formal institutional factors in shaping compliance outcomes.

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## 1. Introduction

Tax evasion, the deliberate avoidance of legally due taxes, is not only unethical but also illegal. Typically, it involves an individual or corporation misrepresenting their income to the tax authorities, an act that may be accomplished through various means like under-reporting income, inflating deductions or hiding money and interest in offshore accounts. [1] A recent report by the Internal Revenue Service (2024) shows that the tax gap – the amount of true tax liability that is not paid voluntarily and timely – was expected to be $696 billion in the U.S. for the tax year 2022. This represents about 15% of the $4,635 billion estimated total true tax liability. [2] Of course, tax evasion is not a U.S. phenomenon. Instead, it is widespread around the world. Vellutini et al. (2019) estimate that the EU revenue lost to international tax evasion, associated with offshore wealth held by individuals, was 46 billion euros in 2016 (0.32% of GDP). At the same time, the degree of tax evasion is quite heterogenous across countries. Beck et al. (2014) mention that tax evasion related to unreported firm sales, ranges from an average of less than 4% in Ireland to 68% in Gambia, with the mean across the 102 countries in their sample being 21%.

Addressing tax evasion is important for any government, not only because it provides an adequate tax base that will allow the Government to raise revenues for its economy policy, but also because it promotes fairness, trust and confidence in the integrity of the tax system (European Commission, 2013; Organisation for Economic Co-operation and Development, 2015). Therefore, it is not surprising that the driving factors of tax evasion have attracted the attention of academics

[1] Tax evasion is not to be confused with tax avoidance. While one may argue that both actions are unethical, tax avoidance that is usually performed through tax planning is - in general - not considered an illegal action (Stainer et al., 1997; Alstadsæter et al., 2022).

[2] The Internal Revenue Service (2024) report shows that $63 billion of the projections for the tax gap in 2022 were due to nonfiling, $539 billion were due to underreporting, and 94 billion were due to underpayment. As it concerns the type of tax, the largest component of the tax gap is individual income tax ($514 billion), followed by employment tax ($127 billion that includes self-employment), corporate tax ($50 billion) and estate tax ($5 billion).

and policy makers. However, while policy makers usually direct their efforts towards laws and toolboxes that allow the authorities to fight tax evasion (see e.g. European Commission, 2020), one should not overlook the role of societal characteristics. For example, tax evasion has been characterized as "national sport" in countries like Bulgaria, Greece, India and Israel (The Economist, 2012; Smatrakalev, 2012; Weinrib, 2019; Dhara and Thomas, 2011).[3] What is common in these cases, is that this behaviour is considered to be acceptable in the society, hence being some kind of a deep-rooted cultural issue.

In the present study we examine whether and how folklore, an ancient societal characteristic, is associated with tax evasion. While there is no single definition of folklore (Ben-Amos, 1971), we assume that it refers to "*the collection of traditional beliefs, customs, and stories of a community passed through the generations by word of mouth*" (Michalopoulos and Xue, 2021; p. 1993).[4] We direct our attention on how tricksters, a typical figure in oral traditions, is portrayed in folktales. Ramakrishnan and Pallavi (2023) describe the trickster as a multidimensional figure, who "*cannot be either confined to any conventional behaviour of obeying rules or treated as highly intelligent to hide secrets or play tricks or elevated as an ultimate form of protester or disrupter of authority*" (p. 467). Interestingly, sometimes the deceiving characters seem to get away with their behaviour, whereas in other tales, they are punished due to their actions, or they are simply

[3] This is not to be confused with countries that are considered tax-heavens, like for example Cayman Islands, British Virgin Islands, Jersey, Bermuda, etc.

[4] Others propose a more general definition. For example, according to Bascome (1953) folklore includes myths, legends, tales, proverbs, riddles, the texts of ballads and other songs, and other forms of lesser importance. The recommendation of the general conference of the United Nations Educational, Scientific and Cultural Organization (1989) defines folklore as "the totality of tradition-based creations of a cultural community, expressed by a group or individuals and recognized as reflecting the expectations of a community in so far as they reflect its cultural and social identity; its standards and values are transmitted orally, by imitation or by other means. Its forms are, among others, language, literature, music, dance, games, mythology, rituals, customs, handicrafts, architecture and other arts". Dundes (1965) provides a list of various types of folklore. This includes including the typical subjects of folktales, legends, myths, ballads, festivals, folk dance and song, but also other forms (e.g. children's counting out rhymes, food recipes, sounds traditionally used to call specific animals, etc). As we take our empirical measure from Michalopoulos and Xue, 2021) we adopt the definition that they use their work. Therefore, we basically refer to folktales, although we use the terms folktale and folklore interchangeably in the text.

unsuccessful. Hence, the concept of tricksters and whether they are punished or not appears to be particularly relevant to the concept of tax evasion. The hypothesis that we put forward is that individuals who grow up listening to stories where tricksters often succeed in deceiving their victims are more likely to engage in unethical actions like tax evasion.

To test empirically our hypothesis, we merge data from two main sources. The first is the World Bank Enterprise Surveys (WBES). We make use of a dataset of 48,277 firms from 78 countries over the period 2002-2010, that reveals the extent of corporate tax evasion through underreported sales for tax purposes. The second is the folklore dataset by Michalopoulos and Xue (2021). While trickster tales are found in almost every society (Ramakrishnan and Pallavi, 2023), until recently it was difficult to measure these aspects of folklore and examine empirically their impact on contemporary economic decisions (Han et al., 2024). However, recent work by Michalopoulos and Xue (2021) provides an opportunity to overcome this issue. They offer a novel measure to quantify how tricksters are depicted in the motifs of folktales, while distinguishing between cases where their deceiving behaviour is successful and those where it is punished.[5] Using this indicator, we find evidence consistent with our hypothesis. Firms from countries where the antisocial behaviour of tricksters are more frequently punished in folktales are associated with lower tax evasion. Our findings are robust to a battery of tests, including the inclusion of national culture and religious indicators in the regressions. Thus, the impact of folklore is independent of other societal characteristics. Further analysis shows that the effect of folklore on tax evasion is amplified in the case of firms operating in countries with better perceptions about the overall quality of country-level governance and formal institutions.

[5] Motifs refer to the "separate strands of which folktales are composed" (Briggs, 1972, p. 265). The work of Michalopoulos and Xue (2021) is based on earlier work by Berezkin (2015) who defines motifs as "any episodes or images retold or described in narratives that are registered in at least in two (although normally in many more) different traditions" (p. 37).

Our paper contributes to various strands of the literature. First, it extends the small but growing literature on the impact of folklore in economics, finance and accounting. These studies have so far examined the effect of folklore on entrepreneurial activity (Michalopoulos and Xue, 2021), corporate cash holdings (Horvath and Lahtinen, 2025), initial public offerings (Duang et al., 2024), access to credit (Marigo and Weill, 2024), corporate innovation (Han et al., 2024), financial success of movies (Michalopoulos and Rauh, 2024), stock price crash risk (Gaganis et al., 2025a), microeconomic behaviour in experimental games (dictator game, die-in-cup tasks) and macroeconomic performance (Asanov et al., 2020). Michalopoulos and Xue (2021) argue that images and episodes in folklore appear to endure and shape how individuals perceive the world today, and we aim to examine whether this has implications for decisions and perceptions related to tax cheating.

Second, in a broad way, it relates to theoretical, conceptual, simulation and experimental studies that relate tax evasion with social customs and conformity (Myles and Naylor, 1996), the psychology of the social contract (Vihanto, 2003), social interactions that consider both social conformity and fairness effects (Fortin et al., 2007), emotions and deception (Coricelli et al., 2010), psychic stress generated by the possibility of breaking social norms (Dulleck et al., 2016), reputation for social behaviour (Di Gioacchino and Fichera, 2020), and social comparison (Gamannossi degl'Innocenti and Rablen, 2020). However, theoretical models make certain assumptions, and simulation and experimental studies may not reflect what happens in a real-world environment.[6] Additionally, while these studies consider various aspects of the social environment, they do not consider the role ancient characteristics like the portrayal of tricksters in folklore.

[6] Gamannossi degl'Innocenti and Rablen (2020) argue for example that agent-based models employ representations of social networks that appear to differ markedly from real world cases. Similarly, participants may behave differently in a lab experiment compared to their natural environment. For example, Fonseca and Myles (2012) mention that "There

Third, it extends the empirical literature on the country-specific determinants of tax evasion. Possibly, these are the most closely related studies to our work. Earlier studies have examined the role of national culture (Bame-Aldred et al., 2013), credit information sharing and bank branch penetration (Beck et al., 2014), financial sector's inclusiveness (Ahamed et al., 2016), the quality of the business environment and the monitoring capacity of the tax agency (Kouamé and Goyette, 2018).[7] To the best of our knowledge, none of these studies on tax evasion examines the role of folklore and we aim to fill this gap in the literature.

One may argue that our work relates to earlier studies on tax evasion and tax cheating that consider dimensions of national cultural (Bame-Aldred et al., 2013; Bani-Mustafa et al., 2023). While this is true, our work is at the same time quite different, due to important differences between the previously employed indicators of national culture and folklore. First, folklore is the traditional, unofficial, non-institutional part of culture, that is transmitted by word of mouth or by customary examples (Brunvand, 1978). Second, folklore not only transmits culture across generations, but it also serves as a means to shape and foster social and cultural values and national identity (Jirata, 2018; Widuroyekti and Setyowati, 2018).[8] Therefore, as mentioned in Gaganis et

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is never any guarantee that an experiment draws out actual behaviour and this may be particularly acute for an issue as complex as compliance". (p. 47).

[7] Some other studies use country-level ratings of tax evasion or country-level estimates of shadow economy as a proxy of tax evasion to examine the role of country-specific attributes, like financial crime (Amara and Khlif, 2018), Hofstede's national culture dimensions (Tsakumis et al., 2007; Richardson, 2008; Allam et al., 2023), demographics (Richardson, 2006), religiosity (Nurunnabi, 2018). However, shadow economy and tax evasion are not synonyms (Balog, 2015; Georgakopoulos, 2016) or congruent (Schneider, 2012), and it is misleading to treat them as equivalent (Sam, 2010). As discussed in Tazni (2002), tax evasion can exist even in the absence of a shadow economy, for example, by overstating deductions in the payment of the income tax or by not declaring income earned. Thus, estimates of tax evasion can be different from estimates of the shadow economy linked to tax evasion (Tazni, 2002). There are also studies that examine the impact of social trust and Hofstede's cultural indicators on the tax avoidance of large and multinational corporations (Kanagaretnam et al., 2018; Yoo and Lee, 2019). As mentioned earlier, the issues of tax avoidance and profit-shifting are conceptually and legally different than the one of tax evasion. Furthermore, these studies typically examine large corporations while our samples consist mainly of SMEs (the average firm in our sample has 98 permanent full time staff members). Most importantly, these strands of the literature ignore the potential role of folklore. For a recent review of the literature on culture and tax morale see Corona (2024).

[8] As discussed in Gaganis et al. (2025a), this is because folktales reflect societal values, beliefs, and norms, illustrating the consequences of moral choices and influencing the development of cultural identity.

al., (2025a), one can argue that this is an ancient characteristic that is deep rooted and by extension it shapes indicators of contemporary national culture (e.g. Hofstede, Global Leadership and Organizational Behavior Effectiveness - GLOBE) used in earlier research. After all, the cultural indicators of Hofstede originate from a survey of IBM employees in the 1970s and have been widely criticized on several grounds (McSweeney, 2002; Fang, 2003; Baskerville, 2003). The ones of GLOBE, while collected from a wider base of respondents, have their own serious shortcomings (Smith, 2006; McCrae et al., 2008). In general, Fischer (2009) puts forward the question of whether one can measure cultural variables as collective constructions at the country level while using individual-level data (surveys) for their construction, an approach followed by both Hofstede and GLOBE. Furthermore, survey-based approaches may be susceptible to biases, such as hypothetical bias, social desirability bias and reverse causality, because respondents provide socially acceptable responses rather than their true beliefs and practices (Han et al., 2024). In contrast, being rooted in the oral traditions of our ancestors, folklore is less influenced by external forces. Thus, folklore reflects the underlying societal values and norms more accurately than the Hofstede and GLOBE indicators (Han et al., 2024; Horvath and Lahtinen, 2025). Michalopoulos and Xue (2021) characterize folklore as "*a vehicle for obtaining a unique (and perhaps our only) view of our ancestral cultural heritage*" (p. 2043). On top of the above, the most important issue is possibly that none of the existing national cultural dimensions (either in Hofstede or GLOBE) refers to tricksters and their punishment, that is the focus of our study.[9]

[9] The national culture dimension of the Hofstede framework are: power distance, individualism, masculinity, uncertainty avoidance, long term orientation, indulgence (Hofstede et al., 2010). The ones of GLOBE are: performance orientation, assertiveness, future orientation, humane orientation, institutional collectivism, in-group collectivism, gender egalitarianism, power distance, uncertainty avoidance (House et al., 2004).

The rest of the manuscript is structured as follows. Section 2 provides a background discussion. Section 3 outlines the data and methodology. Section 4 discusses the empirical results. Section 5 concludes.

## 2. Background discussion

Stories have been told and passed from one generation to another in almost every society from the earliest times to the present (Ebewo, 2004). For example, Madden (2006) mentions that folklore and myths have been around for approximately10,000 years of man's recollectable past, while the estimates of Silva and Tehrani (2006) reveal that well-known fairy tales originated between 2,500 and 6,000 years ago.

There seems to be a general agreement that these folktales are used to entertain but also to educate the young and provide a common line for action to all members of the society (Ogbalu, 2018; Sone, 2018, Jirata, 2018). Madden (2006) highlights that the reinforcement of norms, consistent with the wishes of society, has been one of the principal reasons for the use of myths and stories. Ebewo (2004) attributes this to the lack of laws and prisons in ancient times. Back in those days, folklore could be used to impose social sanctions. Those who committed crimes could be penalized in various ways, varying from execution and ostracism in the case of major crimes to becoming subject to satirical attacks in folklore in the case of minor offences (Ebewo, 2004). In general, folktales establish a code of conduct based on moral and social values that help shape a society by suggesting what is good and bad, sought after or best avoided, aiming to promote social and ethical values, eliminate anti-social behaviour and help in the construction of social identity (Sone, 2018).

This is achieved by telling stories about figures, who are representative of easily recognizable characters in society (Obgalu, 2018; Sone, 2018). The characters in the tales face

moral dilemmas and challenges and make choices that illustrate the consequences of their actions. In doing so, the folktales are used to comment on how the individual adheres to or deviates from the community's behavioural norms and emphasize the moral or ordinary lessons inherent in the outcome of the characters' actions (Sone, 2018; Obgalu, 2018).

A typical figure in these oral traditions, that can be found almost in every society, is the trickster (Ramakrishnan and Pallavi, 2023). The trickster can take many forms across different societies, like the Loki (a trickster god) in Norse mythology, the Kookaburra (small bird) in Australian folklore, the Azaban (raccoon-type animal) in Abenaki folklore, the Anansi (spider character) in Akan folklore, the Saci (a one-legged black man) in Brazilian folklore, the Br'er Rabbit in African-American folklore, the tortoise in Igbo folktales, and the coyote in Native American folklore, among several others (Cooper, 1987; Ogbalu, 2018; Ramakrishnan and Pallavi, 2023).

The trickster is known for bending or breaking rules and laws, disregarding authorities and disputing societal norms through unconventional behaviour (Oyibo, 2023; Ogbalu, 2018). In many folklore stories, the trickster is associated with attributes of greed and deception. Oyibo (2023) describes the trickster as a complex and often mischievous figure who uses trickery and intelligence by challenging and disrupting the stablished order of things, and is characterized by cunning practices, cleverness, and high propensity for playing tricks on his victims.

These attributes of the trickster, and the associated actions, serve as cautionary tales. They provide a warning against the negative consequences of unethical behaviour, remind the potential pitfalls of excessive greed, dishonesty, and manipulation, and highlight the need and ethical conduct in social interactions (Oyibo, 2023). Within this context, folktales may impose discipline and conformity with social norms in two ways. First, because of social inducement in the case of positive actions or else the fear of social stigma and social sanctions in the case of deviant behaviour

(Fischer, 1963; Piddocke, 1968).[10] Second, because folktales can be instrumental in the construction and internalization of social values from early childhood (Lee, 2011; Jirata, 2018).

Based on the above discussion, we would expect that individuals who grow up listening to stories where tricksters are usually punished for deceiving their victims or their attempts are unsuccessful, are less likely to engage in unethical actions like tax evasion. The postulation is that these individuals internalize key social norms about the consequences of dishonesty and respect for social rules. These narratives serve as moral instruction, shaping their ethical framework from an early age. This appears to be consistent with theoretical insights from the literature on tax evasion. Barile et al. (2025) refer to several studies which suggest that individuals suffer a private stigma cost when they tax evade (e.g. Gorton, 1989) and feel discomfort when they do not comply with the social norms (Cullis et al., 2012). Furthermore, Barile et al. (2025) argue that when moral considerations are relevant, individual choices are likely to deviate from a pure income-maximizing choice. As they explain, the decision to act dishonestly is driven by a utility function where the moral costs increase with the size of the deception, the strength of the (honesty) norm, and the extent of scrutiny/stigma costs.

Interestingly, sometimes the deceiving characters in folktales seem to get away with their behavior. For example, the tortoise defeats other characters by his deceptions and lies (Ogbalu, 2018), the coyote is greedy, unreliable, cunning, and disruptive (Cooper, 1987), and the hare is wily and cunning (Boya and Ramagoshi, 2022). However, these trickster characters are not always punished for their actions, and sometimes they are even treated as heroes. The story of *Tortoise and*

[10] Two possible methods to achieve the replication and reinforcement of societal expectations, as outlined in Piddocke's (1968) discussion of social sanctions are to: (i) repeat the norms constantly in stories, poems, plays, movies, myths, rituals, or whatever message-forms exist in society, in order that societal members may always have the norms in the forefront of their minds, and (ii) attach to the expectations rewards for adherence to them and punishments for deviance.

*Antelope* and the story of the *Hare, the Jackal and the Bear*, are such examples. [11,12] What is common in these stories is that the trickster figure is a small animal (e.g. hare or tortoise) who often cheats and outsmarts bigger and more powerful animals. Possibly, all these stories denote that the strong (e.g. in our case the Government imposing taxes or the wealthy taxpayers that can avoid paying taxes) cannot always have things their own way. However, the question that obviously arises is whether the ends justify the means. Some other stories distinguish between tricksters' actions, depending on their motivation. In the story of *Gizo and Goat,* both characters violate the social norms by stealing from a farm. However, the story implies that the Goat steals out of necessity, while the actions of the Gizo are driven by greed. Hence, at the end of the story the Goat escapes punishment while Gizo is sanctioned severely (Sone, 2018).

Again, these folktales where the trickster is not punished because of some kind of justification, seem to align well with theoretical arguments in the literature on tax evasion. People may find it easier to engage in tax evasion when they can somehow justify their unethical acts. For example, they may blame the government, they may argue that the government is illegitimate and unworthy of receiving tax payments, they may disagree with the way the government is spending their money, or they may feel that the government is overtaxing them (Snavely, 1990; McGee, 2006; Huff, 2022). Additionally, they could engage in tax evasion if they were to believe that their

[11] For the story of the "Tortoise and Antelope" see the discussion in Sone (2018). In brief, the story goes like this. The Tortoise explains to his family that he has provoked the Antelope into a race , being aware of the fact that the Antelope is able to run fast. He then outlines to them his plan to outmaneuver his opponent, and the family endorses the plan and promises to help. On the day of the race, Tortoise assigns his family members to certain spots on the racetrack and instructs them to appear wherever they see the Antelope coming and to return to their position as soon as the Antelope overtakes them. Seeing the Tortoise being ahead of him all the time, the Antelope redoubles his efforts and runs as he has never run before. At the end he collapses out of sheer exhaustion and dies, while the Tortoise is carried shoulder high and declared the winner.

[12] For the story of the "The Hare, Jackal and the Bear" see the discussion in Boya and Ramagoshi (2022). In brief, the story goes like this. The Hare is hungry and invades the Jackal's farm and steal fruits. When the Jackal realizes it, he sets a trap for the Hare. When the Hare enters the farm to steal again, he gets stuck in the trap and is unable to move. He then manages to manipulate the Bear to get him out of the trap. Throughout the story the Bear is tricked in a couple of occasions until he ends up dying by the kicks of a horse.

act of defiance is correcting some wrongdoing in society or that others are also cheating (Fortin et al., 2007; Thomas, 2015; Martinangeli and Windsteiger, 2024). All these arguments would be consistent with the theory of moral disengagement, which asserts that we all want to think we are doing the right thing while we are acting unethically (Bandura et al., 1996; Bandura, 1999; Huff, 2022). In such cases the moral costs would be lower. Boya and Ramagoshi (2022) discuss how hare folktales that preserve and justify actions such as tricks, murder and violence are associated with moral degeneration in the society and contemporary actions related to scams and fraudulent syndicates in South Africa (e.g. child-begging networks, money-for-employment scams). Along the same lines, Ebewo (2004) argues that folktales about tricksters and their immoral activities shape selfish characters that are prone to becoming con artists, contributing to contemporary corruption in society. Based on this discussion, we hypothesize that people living in an environment with tricksters in folktales are not punished, are more likely to engage in tax evasion.

## 3. Data and methodology

### 3.1. Data

We collect data from various sources. As mentioned already, the folklore data are from the Michalopoulos and Xue (2021) dataset. We provide further information for their approach and the variable that we use in our study in section 3.3.

The sample for corporate tax evasion is obtained from the World Bank Enterprise Survey. We source the data from the so-called "Standardized Old 2002-2005" and "Standardized New 2006-2024" datasets of the WBES.[13] However, as it concerns the second dataset, the primary

[13] Firm-level surveys have been conducted since 1998 by different units within the World Bank. Since 2005-2006, the surveys have been conducted on a centralized basis within the Enterprise Analysis Unit. Prior to that the surveys were conducted by different units within the World Bank. Therefore, our initial aim was to utilize information from the post-2006 new standardized version, which use a uniform sampling methodology to minimize measurement error and to generate data that are comparable across the world's economies (World Bank, 2022). However, the WBES makes available and the so-called "Standardized Old 2002-2005" dataset that utilizes a common set of questions across

question of interest was included only in surveys conducted during the period 2006-2010. Therefore, we restrict our analysis to the period 2002-2010.[14] Merging these data with the folklore data and other control variables, results in a baseline sample of 48,277 firm-level observations from 78 countries.[15]

### 3.2. Dependent variable: tax evasion

Finding information about tax evasion is a challenging task, not only because the associated actions do not leave a paper trail, but also because few respondents are likely to admit their illegal behaviour directly. Following earlier studies (Beck et al., 2014; Ahamed, 2016; Kouamé and Goyette, 2018) we use the answer to the following question from the WBES: *Recognizing the difficulties many enterprises face in fully complying with taxes and regulations, what percentage of total sales would you estimate the typical establishment in your area of activity reports for tax purposes*? Our measure of tax evasion is the *Tax Evasion Ratio*, calculated as: one minus the share of sales reported for tax purposes (Beck et al., 2014; Ahamed, 2016).

countries. Following earlier studies in the field of tax evasion we merge these two datasets (e.g. Beck et al., 2014; Ahamed, 2016).

[14] Usually, the survey is circulated approximately every 3 to 4 years. For most countries in the case of the first dataset we have information from either 2002 and 2005 (e.g. Albania, Armenia) or from 2003 and 2006 (e.g. Ecuador, El Salvador). There are also many cases where we have information from one year only (e.g. Germany, 2005; Greece, 2005; Syria, 2003; Zambia, 2002) and a few cases for which we have information from three years (e.g. 2002, 2004, 2005 for Bulgaria and Turkey). For most countries in the second dataset sample the answers are from 2006, although for a few of them the data are from 2007 (Ghana, Kenya) or 2009 (Congo, Gabon, Liberia, Sierra Leone), and in the case of the following four countries we have data from two points in time: Angola (2006 and 2010), Botswana (2006 and 2010), Democratic Republic of Congo 2006 and 2010). A few firms that had information for 2006 in both datasets, were removed from the 2002-2005 dataset.

[15] In counting the 78 countries, we consider Serbia and the pre-2006 country of Serbia and Montenegro, as a single country. While we also had 48 observations with data for tax evasion and folktales from Montenegro, this was excluded from the baseline regressions due to missing values for the indicator of the overall quality of corporate governance and formal institutions. As it concerns the pre-2006 country of Serbia and Montenegro, we match it with the country-level data of folklore for Serbia. We do so because at the time of the dissolution of Serbia and Montenegro in 2006, around 94% of its total population was from Serbia. The main results do not change when we re-estimate our baseline regression while excluding: (i) the 447 observations from Serbia and Montenegro, and (ii) the 783 observations from both Serbia and Serbia and Montenegro.

The WBES question on tax evasion is phrased in this indirect way to extract more honest answers, without blaming the respondents. Birhanu et al. (2016) and Wellalage et al. (2020) refer to various studies and discuss that while such indirect wording of the questions might seem less precise, it is a common approach for socially sensitive items that reduces self-censorship biases and allows respondents to project their unconscious biases into ambiguous response situations as well as to reveal their own attitudes. Along the same lines, Beck et al. (2014) discuss various reasons for which the indirect wording should not bias the results. For example: (i) managers are most likely going to respond based on their own experience, and hence with some caution one could assume that the responses reflect the experience of the firm (Johnson et al., 2000). Furthermore, the large within-country-industry variation also alleviates the concern that the firm responds to the question based on industry average rather than own behaviour, (ii) tax evasion ratios are relatively stable over time within a country, (iii) there is a high correlation between this measure of tax evasion and other indices, like the one developed by the World Competitiveness Yearbook, (iv) the World Bank follows certain procedures to respect the sensitive nature of the data and ensure anonymity[16], (v) questions on business-government relations do not appear at the beginning of the questionnaire, allowing the enumerator to earn the trust and confidence of the surveyed.

[16] For example: (i) The survey is assigned to independent contractors, (ii) to elicit accurate and consistent responses, enumerators and their supervisors are thoroughly trained under the supervision of a World Bank expert, (iii) the survey is ideally carried out in partnership with the organized private sector, such as a local chamber of commerce or business association that are trusted by the local firms, (iv) The respondents are assured for the confidentiality of their information.

### 3.3. Key independent variable: tricksters in folklore

The indicator of tricksters' punishment in folklore is sourced from Michalopoulos and Xue (2021), who created a dataset for quantitative analysis. Their work is based on the 2019 version of the database of Berezkin (2015), that categorizes 2,564 motifs across 958 world societies. [17] Each motif in Berezkin's catalogue is accompanied by a title and a short description of an image or an episode in the group's oral tradition.

To construct the indicator related to tricksters Michalopoulos and Xue (2021) work as follows. First, using ConceptNet, they identify 281 motifs that mention at least one word related to the concepts of: *cheat*, *deceive*, and *trick*.[18] Second, to categorize the complex narratives related to tricksters, they ask workers from Amazon Mechanical Turk (MTurk) to read and classify each motif into four mutually exclusive categories. These categories are: (i) not antisocial, (ii) antisocial and successful, (iii) antisocial and unsuccessful / punished, (iv) antisocial. In cases when the sentiment is mixed, the MTurks can use their judgment to choose the stronger sentiment. Hence, this categorization reflects whether the character portrayed in the motif engages in antisocial (absurd, obscene, or deceiving) behaviour, and whether they are successful.

At the final stage, Michalopoulos and Xue (2021) aggregate the intensity of motifs at the country level to construct an indicator that shows how often tricksters *fail* (i.e. punished) compared

[17] To encode motifs, Berezkin consulted a list of 6,239 references (4,180 books and 2,059 journal articles) from 4,041 authors, edited by 4,932 publishing houses in 32 different languages. Most of these publications of oral traditions appeared from the mid-19th to the mid-20$^{th}$ century with the earliest and usually the key publication for the median society dating back to 1904 (Michalopoulos and Xue, 2021). The database was introduced in Berezkin (2015) and is available online. It is updated once a year in collaboration with Evgeny Duvakin. While the original textual part of the database is in Russian, an English version is also available online. Michalopoulos and Xue (2021) mention that in personal correspondence with Berezkin, he indicated that updating oral traditions for groups in the Americas and Europe is complete, while for groups in Africa, Asia, and Oceania, the coverage is higher than 85%. Therefore, the post-2019 updates mostly affect small, isolated groups (Michalopoulos and Xue, 2021).

[18] ConceptNet is a natural-language-processing toolkit that breaks down the text into words and connects word counts to the attributes of interest. The words tagged in the motifs in the case of Michalopoulos and Xue (2021) are: betray, cheat, deceive, deception, trick, cheater, deceiver, deceit, deceitful, dupe, falsify, hack, hoodwink, unfaithful, cajole, confuse, fool, hoax, stratagem, ruse, and wile.

to instances where the character engaging in antisocial behaviour is either successful or not explicitly punished. In a sense, their indicator is calculated as: share of motifs where antisocial behaviour is unsuccessful (punished) minus the share of motifs where antisocial behaviour is successful (not punished) minus the share of motifs where antisocial behavior is described but its outcome is unclear. Thus, it takes positive values where antisocial behaviour is more likely to be punished, and negative ones when it is more likely to go unpunished.[19,20]

### 3.4. Control variables

In this section we discuss the firm-level and country-level control variables that we use in the baseline specification. We discuss additional control variables when we include them in the model in further analysis.

Following earlier studies we control for various firm-level characteristics, like firm age, size, foreign ownership, whether the company's financial statements are being audited, and whether the company is exporting (Beck et al., 2014; Ahamed, 2016; Alm et al., 2019). To control for firm age, we take the natural logarithm of years since establishment. Beck et al. (2014) and Ahamed (2016) find size to be negatively related to tax evasion; however, in both cases this is not statistically significant in all their regressions. To measure size, we use the natural logarithm of the

[19] To arrive at a catalogue of folklore across countries, Michalopoulos and Xue (2021) match the oral traditions listed in Berezkin to the ethnic groups in the 1964 Atlas Narodov Mira (ANM) and use a group's fraction in the country's population as a weight in the aggregation of motifs at the country level. In general, they use the fraction in the country's population in 2000, combining the ANM polygons with information on cell-level population density from the Gridded Population of the World in country borders as of 2000. As they explain, this procedure is accurate for countries where the indigenous population in 1500 represents a significant fraction of the population at the time the ANM data set was built in 1960. In the case of countries for which the ANM lists groups that appeared after 1500 AD (e.g. Brazilians, Australians, and U.S. Americans), they use the population percentages from the countries of origin as reflected in the Putterman and Weil (2010) global migration matrix.

[20] We use this readily available indicator from Michalopoulos and Xue (2021) throughout our analysis. However, in untabulated results we calculate and use a slightly revised indicator that ignores the share of motifs where antisocial behavior is described but its outcome is unclear. Re-estimating the baseline specification with this revised indicator results in qualitatively similar results.

number of employees and expect this to be negatively associated with tax evasion as in Beck et al. (2014) and Ahamed (2016).[21] The literature also suggests that foreign ownership is negatively associated with tax evasion (Beck et al., 2014; Ahamed, 2016). Therefore, we control for the percentage of ownership by foreigners. Furthermore, we include a dummy variable indicating whether the corporate financial statements have been reviewed by an external auditor or not. Past studies that examine either the strength of auditing standards at the country-level (Benkraiem et al., 2021) or the existence of firm-level auditing (Beck et al., 2014; Ahamed, 2016), show that auditing can mitigate tax evasion. Finally, we include a dummy variable that takes the value of one the firm is an exporter and the value of zero otherwise. The relationship between exports and tax evasion is ambiguous. On the one hand, Beck et al. (2014) and Ahamed (2016) report a negative relationship between exporting and tax evasion; however, this is not statistically significant in all their regressions. On the other hand, Bussy (2023) finds evidence that firms under-report exports (sales) and imports (costs) simultaneously to decrease reported taxable profit.

Turning to the country-level variables, we control for the corporate tax rate, economic growth and perceptions about the overall quality of governance and formal institutions. Based on earlier studies we expect a positive relationship between corporate tax rates and tax evasion, since higher tax rate increases the benefits of evasion (Beck et al., 2014; Ahamed, 2016). Economic growth is captured through GDP growth. However, it should be noted that the relationship between GDP growth and tax evasion is ambiguous. On the one hand, higher economic growth reflects better economic conditions and a lower need to evade taxes. Therefore, one could expect a negative

[21] It should be noted that the information in the 2002-2005 dataset refers to "Average number of permanent workers 1 year ago", while the one in the 2006-2010 dataset refers to "Number of permanent workers at the end of last fiscal year". We believe that this has no significant impact on our main results when we use the combined sample. The fact that our main results remain robust when we estimate separate regressions for the two time periods provides further reassurance.

relationship between GDP growth and tax evasion (Ya'u et al., 2024). However, Murshed and Saadat (2018) suggest that there exists a U-shaped non-linear relationship between tax evasion and GDP growth rate, and others conclude in favor of a positive association between economic growth and tax avoidance (Salehi et al., 2024). Beck et al. (2014) find that better rule of law, tighter control of corruption, and more effective government, reduce corporate tax evasion, though not always significantly. Furthermore, Richardson (2008) finds that the rule of law has an impact on country survey rating about the under-reporting of income and the shadow economy, and Yamen et al. show (2018) that various aspects of institutional quality are associated with the country-level size of the shadow economy. As in Beck et al. (2014) and Yamen et al. (2018) we rely on the following indicators from the World Bank: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Given that these six indicators tend to be correlated we follow earlier studies which take the average score, that serves as an indicator of perceptions about the overall quality of governance and formal institutional (Ding et al., 2016; Makrychoriti and Pasiouras, 2021; Gaganis et al., 2025b).

### 3.5 Methodology

To assess the relationship between folklore on tax evasion, we run regressions of the following form:

$$TE_{ij} = a + \beta TP_j + \boldsymbol{\gamma F}_i + \boldsymbol{\delta C}_j + \varepsilon_{ij},$$

where TE is our measure of tax evasion described in Section 3.2, TP is our measure of folklore (tricksters' punishment) described in Section 3.3, and $F$ and $B$ are vectors of covariates corresponding to firm and country controls respectively and discussed in Section 3.4. $\varepsilon$ is the error term and $i$,$j$ are the indexes for firm and countries in our sample accordingly. The equation is

estimated via Tobit with robust standard errors for all specifications, but alternative estimation approaches such as OLS and fractional logit are attempted in additional analysis for robustness.

## 4. Empirical results

### 4.1. Main results

Table 1 presents the descriptive statistics and Table 2 presents the correlation coefficients. The tax evasion ratio for the average firm in the sample is 20.7%. This figure ranges from an average of 2.8% (Chile, 2004) to an average of 79,6% (Angola, 2010). The average of -2.8% in the case of the tricksters' punishment is consistent with the figure of -2.5% reported in Michalopoulos and Xue (2021). It shows that tricksters are, on average, more likely to be unpunished than punished in folktales. This figure ranges from -9% in Angola (i.e. tricksters go unpunished much more often than not) to 1.3% in Sri Lanka (i.e. antisocial behavior is disproportionately punished).

Column 1 in Table 3 presents the estimates of the baseline specification with the use of the Tobit model. Consistent with our expectations we find that companies from countries where tricksters are more frequently punished in folktales engage in less tax evasion. For a one unit increase in tricksters' punishment, there is a 2.220-point decrease in the predicted value of tax evasion. In other words, a standard deviation increase in tricksters' punishment (0.018) is associated with a 4% lower tax evasion (0.018 x 2.22), which is economically significant given the average tax evasion in sample being 20.7%. To account for potential methodological differences between the two WBES datasets that we use, columns 2 and 3 present the results when we split the sample and re-estimate the baseline specification. In both cases, the folklore indicator of tricksters' punishment enters the regression with a negative and statistically significant coefficient.

Turning to the control variables we find that both firm-level and country-level characteristics are associated with tax evasion. Firm size, foreign ownership and external auditing

enter the regression with a negative and statistically significant coefficient. At the country-level, GDP growth and higher corporate tax rates are positively associated with tax evasion, whereas the indicator of the perceptions about overall quality of governance and formal institutions carries a negative and statistically significant coefficient.

[Insert Table 3 Around Here]

### 4.2. Further analysis: additional controls

As mentioned earlier, we believe that folklore is a deep-rooted societal characteristic that goes back more years in time than other indicators used in past studies, such as contemporary indicators of national culture, religion, and trust. To lessen remaining concerns, to the extent possible, in Table 4 we present additional estimates while controlling for such societal characteristics. In Column 1 we include the scores from a principal component analysis conducted with the use of the four main indicators of national culture from Hofstede.[22] In Column 2, we include the percentage of the population in the country that identify themselves as religious in the World Value Survey. In column 3 we control for interpersonal trust.[23] In all the cases, we continue to find that our indicator of tricksters' punishment in folklore enters with a negative and statistically significant coefficient. Thus, the impact of folklore is independent of other societal characteristics considered in past studies.

[22] Data are from Hofstede Insights. These are the indicators of power distance, uncertainty avoidance, individualism, and masculinity. In unreported estimations, available upon request, we confirm that the main findings do not change when we include the national culture indicators one by one in the regressions. Additionally, the results remain the same if we extend this analysis to include the additional two indicators of Hofstede (long term orientation and indulgence) either individually or as part of the principal component analysis.

[23] Information about the level of generalized trust in different countries is from the Michalopoulos and Xue (2021) dataset. It is based on the average response to the following commonly used question in the World Value Survey and European Value Survey: "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?"

[Insert Table 4 Around Here]

In the regressions presented so far, we control for the average corporate tax rate at the country level. In Table 5 we extend the baseline specification to control for additional characteristics of the tax system and the related perceptions of the respondents. In more detail, we use data from the World Bank to control for the following two country-level characteristics: (i) the number of tax payments (Column 1), (ii) hours needed to prepare and pay taxes per year (Column 2). Additionally, we control for the following firm-specific responses: (i) the extent to which the respondents consider tax rates as an obstacle to the current operations of their establishment (Column 3), (ii) the extent to which the respondents consider tax rates as an obstacle to the current operations of their establishment (Column 4), (iii) a dummy variable indicating whether the establishment was visited and/or inspected by tax officials over the last 12 months (Column 5).[24] In all the cases, the indicator of tricksters' punishment enters the regression with a negative and statistically significant coefficient.

[Insert Table 5 Around Here]

In Table 6 we present some further tests, controlling for additional firm-level and country-level characteristics. First, we control for the proportion of informal financing in total financing of

[24] Questions (i) and (ii) are based on the answers to the general questions about obstacles. The general question reads as follows: "As I list some of many factors that can affect the current operations of a business, please look at this card and tell me if you think that each factor is No Obstacle, a Minor Obstacle, a Major Obstacle, or a Very Severe Obstacle to the current operations of this establishment". We consider the answers related to: (i) tax rates, and (ii) tax administration. Following WBES, we assign the following values to their answers: 0 (no obstacle), 1 (minor obstacle), 2 (moderate obstacle), 3 (major obstacle) and 4 (Very severe obstacle). Question (iii) is available only in the 2006 standardized dataset; hence, the analysis in Column 5 is restricted to the period 2006-2010.

working capital and investment finance. As discussed in Allam et al. (2024), when applying for bank loans, prospective borrowers decide how much information they are willing to disclosure to the banks in return for credit. Financial institutions request such information to assess the creditworthiness of the individual; however, this information can also form the basis for tax obligations. Thus, higher reported revenue could enhance the chances of having the credit application approved, but they could also come with a higher tax bill. Additionally, from the perspective of the lender, the tax evasion practices of the borrower signal low quality of disclosed company information and other aspects of the firm's operations and raise concerns about the firm's prospects and default risk (Beck et al., 2014). Therefore, firms that evade taxes may rely more on informal financing, rather than bank financing, allowing them to keep a higher proportion of their activity (in our case sales) off the books. Along these lines, Beck et al. (2014) find that the proportion of informal financing is positively related to corporate tax evasion, and Allam et al. (2024) conclude that the development of financial institutions reduces the size of the shadow economy. The results in Column 1 are consistent with the ones of Beck et al. (2014). However, the inclusion of this indicator in our regressions has no impact on the main results.

Tax evasion practices and associated decisions may differ between large and small firms. In the latter case, the owner and the manager can be the same person, and the organizational structure can be absent or less formal. Additionally, large firms may shift profits to other locations (i.e. tax avoidance) without having to engage in illegal practices of tax evasion. While we have controlled for size in all the regressions, we perform one additional robustness test. To ensure that our results are not driven by the above-mentioned differences, we focus on small firms (i.e., firms with less than 20 employees). The results in Column 2 show that our main findings hold.

In Column 3, we use a firm-specific indicator that reflects the view of the respondents concerning the impact of macroeconomic instability on their corporation. The underlying idea is

that tax evasion may allow firms to save money and help them deal with constraints imposed by an unstable macroeconomic environment. This indicator is based on the answer to the following question in the WBES survey: *Please tell us if any of the following issues are a problem for the operation and growth of your business: Macroeconomic instability (inflation, exchange rates)*. Following WEBS, we assign the following values to their answers: 0 (no obstacle), 1 (minor obstacle), 2 (moderate obstacle), 3 (major obstacle) and 4 (Very severe obstacle). The results in Column 3 show that higher macroeconomic instability, as reflected in the perceptions of the respondents, is associated with higher tax evasion. However, this has no impact on the effect of tricksters' punishment.

Finally, in Column 4, we use an additional test to control for: (i) possible differences in sampling methodologies across regions, and (ii) for similar societal and other characteristics within geographical regions that were not captured by the control variables. Therefore, we add dummy variables for the following geographical regions that are available in the WBES: (1) East Asia and the Pacific, (2) Europe and Central Asia, (3) Latin America and the Caribbean, (4) the Middle East and North Africa, (5) South Asia, and (6) sub-Saharan Africa. As countries within the same geographical region are more likely to share similar folktales, this is also a strong test for our key variable of interest. The main results hold.

[Insert Table 6 Around Here]

### 4.3. Endogeneity and alternative estimation techniques

In this section we re-estimate our baseline specification with alternative estimation techniques. The results are presented in Table 7. In Column 1 we use OLS regression. In column 2 we use a

fractional logit model that is well-suited for outcomes such as proportions that are greater than or equal to 0 and less than or equal to 1. In both cases, the main results hold.

In Column 3 we use a 2SLS IV approach, to tackle endogeneity concerns. As mentioned in the introduction, reverse causality should not be a concern in our case. The punishment of tricksters in folktales has its roots in the stories of our ancestors and it would be difficult to claim that it is being influenced by contemporary tax evasion. However, there may be concerns about omitted variables and measurement errors in our specification. In the robustness tests presented so far, we controlled for various firm- and country-specific characteristics and we have also included dummies for geographical regions. Still, to address this issue in a more formal way we instrument tricksters' punishment by: (i) the country-level genetic diversity, and (ii) agricultural potential. In the case of (i), we use the human leukocyte antigen (HLA) heterozygosity indicator by Cook (2015) which reflects the genetically determined resistance to infectious diseases. In the case of (ii), we use the caloric suitability index of Galor and Özak (2016) that reflects the average potential caloric yield attainable given the set of crops that were suitable for cultivation in the post-1500 CE era.

We believe that these two instruments are unlikely to: (a) have a direct influence on corporate tax avoidance, hence satisfying the exogeneity criterion; (b) be correlated with the country-level occurrence and punishment of anti-social behavior, therefore satisfying the relevance criterion. Our approach to use HLA heterozygosity, is consistent with earlier studies who use country-level genetic diversity (Papadimitri et al., 2021) and historical prevalence of infectious diseases (Pasiouras and Samet, 2025) as an instrument of perceptions about corporate ethical behaviour. Furthermore, land suitability and agricultural potential have been used in the literature as instruments of social capital (Pasiouras and Samet, 2022) and perceptions about corporate ethical

behaviour (Papadimitri et al., 2021; Pasiouras and Samet, 2025). [25] The results in Column 3 are consistent with the ones shown in earlier estimates.

[Insert Table 7 Around Here]

### 4.4. The moderating role of formal institutions

The analysis presented in the earlier sections provides strong evidence that the portrayal of tricksters in folktales is associated with contemporary corporate tax evasion. In this section, we explore whether this relationship is conditional on the quality of formal institutions. As discussed earlier, many studies suggest that strong formal institutions can mitigate unethical and opportunistic behaviour. The negative and statistically significant coefficient of our indicator about the governance and formal institutional quality confirms this view.

Since both formal and informal institutions impose constrains on unethical behaviour, a question that naturally emerges is whether and how folktales interact with governance and formal institutional quality in shaping tax evasion. Earlier studies have shown for example, that formal institutions (e.g. rule of law, regulatory quality) and informal institutions (e.g. social capital and social trust) interact in determining other types of unethical behaviour, like corruption (Bjørnskov, 2011; Tu, 2023) and earnings management (Chen et al., 2019). In general, however, the literature is inconclusive as to how exactly these two types of institutions interact and there are two views, namely the substitutional view and the complementarity view.

The substitutional view asserts that informal institutions and formal laws are substitutes since they both aim to address the same problems of opportunism, moral hazard and collective

[25] For a more detailed discussion on the relevance of the two variables as instruments see section II of the Appendix. We also present standard statistics at the bottom of Table 7.

actions (Méon and Sekkat, 2015). For example, past studies suggest that: (i) trust and rule of law are substitutes in the case of trade (Yu et al., 2015), (ii) the existence of regulatory bodies that assure the effective enforcement of contracts and laws reduces the need of trust-based relationships (Fuentelsaz et al., 2020), (iii) high levels of trust reduce the need for extensive contracts and the probability of a litigation, since handshakes are enough to seal a deal (Dearmon and Grier, 2011), (iv) the negative effect of social trust on earnings management is stronger for firms with weak legal environment (Chen et al., 2019).

The complementarity view puts forward the hypothesis that the joint use of formal and informal institutions results in more efficient outcomes than the isolated existence of either type of institutions (Lazzarini et al., 2004). Along these lines, Fafchamps (2020) asserts that formal institutions enable informal institutions to perform better, and Méon and Sekkat (2015) discuss reasons for which the role of trust can be amplified in the presence of strong formal regulations. Consistent with this view, Bjørnskov (2011) concludes that formal institutions are more effective in combating corruption in countries with high levels of social trust.

[Insert Table 8 Around Here]

Table 8 presents the results with the interaction terms. Column 1 presents the specification with the interaction term of tricksters' punishment and the indicator of the overall quality of governance and formal institutions. In the next two columns, we replace the overall indicator by two of its sub-components, namely the rule of law (column 2) and regulatory quality (column 3).

In the presence of the interaction terms, the coefficient of tricksters' punishment captures the effect of folktales on corporate tax evasion only in the special case where the indicator of formal

institutions is equal to zero (Braumoeller, 2004; Brambor et al., 2006).[26] Therefore, we turn our attention to the interaction term. In columns 1 and 2, the interaction enters the regression with a negative and statistically significant coefficient, which is consistent with the coefficient of the main effects.[27] Hence, consistent with the complementary view, the formal and informal institutions in question amplify one another in tackling tax evasion. This leads us to the conclusion that tricksters' punishment is not only significantly associated with tax evasion, but it makes the overall governance and the rule of law more efficient in combating tax evasion.

As it concerns the quality of regulations, the negative and statistically coefficient of the main effect indicates that regulatory quality lowers tax evasion; however, in the presence of the interaction term, this result is conditional to the special case where there is no difference in the frequency of tricksters' punishment versus no punishment (i.e. tricksters' punishment equals zero). In an unreported regression we confirm that regulatory quality retains its sign and statistical significance when we remove the interaction term from the equation. However, the insignificant interaction terms shows that the effect of tricksters' punishment on tax evasion does not change across different values of regulatory quality.

It should be noted here that while they are closely related as concepts, the rule of law and regulatory quality do not capture the exact same aspects. In more detail, the rule of law relates to legal enforcement and reflects the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, and the likelihood of crime and violence. Thus, the rule of law has been characterized as an important foundation for the prevention of deviant forms of behavior (e.g. tax evasion) that

[26] Likewise, the coefficient of the indicator of formal institutions shows the effect of formal institutions on tax evasion only in the special case where tricksters' punishment is equal to zero.
[27] In an unreported regression, confirm that the rule of law retains its sign and statistical significance when we remove the interaction term from the equation.

provides assurance that the major institutions of the legal system (e.g., the courts, prosecutors, and police) enforce the law effectively and fairly (Richardson, 2008). On the other hand, the regulatory quality perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Hence, it may be less related as a concept to enforcement of the law. This could explain why tricksters' punishment (referring to social sanctions and punishments) and regulatory quality appear to work independent one of another in reducing tax evasion.

## 5. Conclusions

We examine the role of tricksters in folktales in explaining corporate tax evasion. Based on an international firm-level sample, our results show that corporate tax evasion is lower in countries in which tricksters are punished in folktales for their antisocial behavior. These results hold when controlling for country-level characteristics of the tax system, firms' perceptions about the tax system, and other societal characteristics like culture, generalized trust and religiosity. We also show that the results are robust to the use of alternative samples and model specifications, including the use of instrumental variables regressions. Additionally, we show that the negative relationship between tricksters' punishment in folktales and tax evasion is amplified in countries with good governance and formal institutions. Therefore, our finding provides support to the complementarity view on the interactions between formal and informal institutions.

Our results might be of interest to policy makers. Folktales are being used in several countries around the world to pass societal values from one generation to another, and in several cases, they are being used as an education tool. It is possible that the discussion of folktales where tricksters are punished for antisocial behaviour as part of the curriculum in primary and secondary schools could instill societal values from a very young age and become a useful tool that would

complement the efforts of policy makers to fight tax evasion through legal frameworks. Countries that do not currently follow such an approach may find it interesting.

Our study contributes to the small but emerging literature on the importance of narratives for economic decisions and extends earlier work on the determinants of corporate tax evasion. Despite its contribution, our study is not without limitations. Finding data about a sensitive and illegal issue like corporate tax evasion is a challenging task. Following past cross-country studies on the field, we relied on the Enterprise Survey of the World Bank. The indirect questioning used in these surveys represents a common and valuable way to obtain responses about socially undesirable issues; however, there can be no guarantee that firms respond honestly. While we discuss several techniques used by the World Bank to lessen concerns, the reader could interpret the results with these caveats in mind. However, given that tax evasion is an illegal activity, there do not appear to exist other databases recording such actions with better accuracy. While acknowledging the potential drawbacks, consistent with other studies, we believe that this dataset allows us to examine this phenomenon in the best possible way. We hope that future research will improve upon this.

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**Table 1 – Descriptive Statistics: variables used in baseline regression**

This table presents descriptive statistics for the variables used in the baseline specification. All variables are defined in Appendix I. In the case of Firm Size and Firm Age we report the actual numbers, despite using the natural logarithm in the regressions.

| Variable | Obs. | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| Tax Evasion | 48,277 | 0.207 | 0.301 | 0.000 | 1.000 |
| Tricksters' Punishment | 48,277 | -0.028 | 0.018 | -0.091 | 0.014 |
| Firm Size | 48,277 | 97.625 | 228.105 | 1.000 | 1,397 |
| Firm Age | 48,277 | 17.124 | 15.714 | 1.000 | 84.000 |
| Foreign ownership | 48,277 | 0.091 | 0.269 | 0.000 | 1.000 |
| Audited statements | 48,277 | 0.51 | 0.500 | 0.000 | 1.000 |
| Exporter | 48,277 | 0.188 | 0.390 | 0.000 | 1.000 |
| Corporate tax rate | 48,277 | 27.928 | 7.121 | 0.000 | 42.000 |
| GDP growth | 48,277 | 5.909 | 3.280 | 0.13 | 27.962 |
| Governance and Formal Institutions | 48,277 | -0.13 | 0.708 | -1.660 | 1.552 |

**Table 2 – Correlation Matrix**

This table presents Pearson's correlation coefficients for the variables used in the baseline specification. All variables are defined in Appendix I.

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| (1) Tax Evasion | 1.000 | | | | | | | | | |
| (2) Tricksters' Punishment | -0.171 | 1.000 | | | | | | | | |
| (3) Firm Size | -0.063 | 0.093 | 1.000 | | | | | | | |
| (4) Firm Age | -0.071 | 0.082 | 0.250 | 1.000 | | | | | | |
| (5) Foreign ownership | -0.035 | -0.073 | 0.168 | -0.027 | 1.000 | | | | | |
| (6) Audited statements | -0.103 | 0.104 | 0.207 | 0.160 | 0.164 | 1.000 | | | | |
| (7) Exporter | -0.053 | 0.072 | 0.310 | 0.131 | 0.200 | 0.186 | 1.000 | | | |
| (8) Corporate tax rate | 0.140 | -0.008 | 0.004 | -0.035 | -0.023 | 0.033 | -0.042 | 1.000 | | |
| (9) GDP growth | 0.066 | -0.011 | -0.005 | -0.106 | 0.006 | 0.002 | -0.026 | -0.086 | 1.000 | |
| (10) Governance and formal institutions | -0.212 | 0.168 | -0.008 | 0.108 | 0.012 | 0.125 | 0.049 | -0.209 | -0.285 | 1.000 |

**Table 3 – Tricksters' Punishment in Folktale: main results**

This table presents the Tobit regression results. The dependent variable is tax evasion. In column 1 we use the full sample that makes use of the two WBES standardized datasets. In column 2 we use only the 2002-2006 dataset and in column 3 we use only the 2006-2010 dataset. All variables are defined in Appendix I. Beneath each coefficient are the robust standard errors in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1)<br>Baseline Regression<br>Full Sample | (2)<br>2002-2005<br>ES dataset | (3)<br>2006-2010<br>ES dataset |
|---|---|---|---|
| Tricksters' Punishment | -2.220*** | -2.072*** | -1.652*** |
| | (0.087) | (0.133) | (0.155) |
| Firm age | -0.004** | -0.005** | -0.011*** |
| | (0.002) | (0.002) | (0.004) |
| Firm size | -0.012*** | -0.009*** | -0.025*** |
| | (0.001) | (0.001) | (0.003) |
| Foreign ownership | -0.025*** | -0.051*** | 0.017 |
| | (0.005) | (0.005) | (0.011) |
| Audited statements | -0.030*** | -0.031*** | -0.024*** |
| | (0.003) | (0.003) | (0.006) |
| Exporter | 0.008** | 0.019*** | -0.012 |
| | (0.004) | (0.004) | (0.009) |
| Corporate tax rate | 0.005*** | 0.005*** | 0.003*** |
| | (0.000) | (0.000) | (0.000) |
| GDP growth | 0.003*** | 0.002*** | 0.005*** |
| | (0.000) | (0.000) | (0.001) |
| Governance and formal institutions | -0.065*** | -0.067*** | -0.039*** |
| | (0.002) | (0.002) | (0.005) |
| Constant | 0.056*** | 0.031*** | 0.186*** |
| | (0.008) | (0.010) | (0.016) |
| Observations | 48,277 | 33,437 | 14,840 |

## Table 4 - Tricksters' punishment and Tax Evasion: controlling for other societal characteristics

This table presents the Tobit regression results. The dependent variable is tax evasion. In column 1 we control for national culture. In column 2 we control for the percentage of the population in the country that is self-identified as religious and in column 3 we control for interpersonal trust. All variables are defined in Appendix I. Beneath each coefficient are the robust standard errors in parentheses. ∗, ∗∗, and ∗∗∗ indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1) | (2) | (3) |
|---|---|---|---|
| Tricksters' Punishment | -1.870*** | -1.588*** | -0.540*** |
| | (0.101) | (0.139) | (0.125) |
| Firm age | -0.005*** | -0.004** | -0.006*** |
| | (0.002) | (0.002) | (0.002) |
| Firm size | -0.009*** | -0.005*** | -0.006*** |
| | (0.001) | (0.001) | (0.001) |
| Foreign ownership | -0.037*** | -0.052*** | -0.042*** |
| | (0.005) | (0.006) | (0.005) |
| Audited statements | -0.029*** | -0.033*** | -0.030*** |
| | (0.003) | (0.003) | (0.003) |
| Exporter | 0.011*** | 0.007* | 0.008** |
| | (0.004) | (0.004) | (0.004) |
| Corporate tax rate | 0.004*** | 0.005*** | 0.004*** |
| | (0.000) | (0.000) | (0.000) |
| GDP growth | 0.001*** | 0.003*** | 0.002*** |
| | (0.000) | (0.001) | (0.000) |
| Governance and formal institutions | -0.049*** | -0.053*** | -0.061*** |
| | (0.003) | (0.003) | (0.002) |
| Culture pc 1 | -0.004*** | | |
| | (0.001) | | |
| Culture pc 2 | 0.010*** | | |
| | (0.002) | | |
| Religious | | 0.000 | |
| | | (0.000) | |
| Trust | | | -0.217*** |
| | | | (0.015) |
| Constant | 0.070*** | 0.039*** | 0.371*** |
| | (0.009) | (0.013) | (0.021) |
| Observations | 44,931 | 33,505 | 40,221 |

**Table 5 – Tricksters' punishment and Tax Evasion: Controlling for tax characteristics**

This table presents the results of Tobit regression. The dependent variable is tax evasion. In columns 1 and 2 we control for the country level indicators of number of taxes and time to prepare taxes. In column 3 to 6 we control for firm-specific responses related to taxation. All the variables are defined in Appendix I. Beneath each coefficient are the robust standard errors in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| Tricksters' punishment | -2.612*** | -1.979*** | -2.235*** | -2.251*** | -1.674*** |
| | (0.115) | (0.120) | (0.087) | (0.087) | (0.159) |
| Firm age | 0.001 | -0.001 | -0.005*** | -0.005*** | -0.011*** |
| | (0.002) | (0.002) | (0.002) | (0.002) | (0.004) |
| Firm size | -0.017*** | -0.013*** | -0.012*** | -0.012*** | -0.025*** |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.003) |
| Foreign ownership | -0.021*** | -0.024*** | -0.022*** | -0.024*** | 0.018* |
| | (0.007) | (0.007) | (0.005) | (0.005) | (0.011) |
| Audited Statements | -0.013*** | -0.020*** | -0.029*** | -0.029*** | -0.024*** |
| | (0.004) | (0.004) | (0.003) | (0.003) | (0.006) |
| Exporter | 0.016*** | 0.015*** | 0.007* | 0.006 | -0.011 |
| | (0.005) | (0.005) | (0.004) | (0.004) | (0.009) |
| Corporate tax rate | 0.004*** | 0.004*** | 0.004*** | 0.004*** | 0.003*** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| GDP growth | 0.002*** | 0.003*** | 0.003*** | 0.003*** | 0.005*** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) |
| Governance and formal institutions | -0.086*** | -0.094*** | -0.064*** | -0.063*** | -0.040*** |
| | (0.003) | (0.003) | (0.002) | (0.002) | (0.005) |
| Number of Tax Payments | -0.024*** | | | | |
| | (0.003) | | | | |
| Time To Prepare Taxes | | -0.066*** | | | |
| | | (0.003) | | | |
| Tax Rates Obstacle | | | 0.013*** | | |
| | | | (0.001) | | |
| Tax Admin Obstacle | | | | 0.014*** | |
| | | | | (0.001) | |
| Official Tax Inspection | | | | | -0.001 |
| | | | | | (0.006) |
| Constant | 0.143*** | 0.455*** | 0.037*** | 0.041*** | 0.186*** |
| | (0.015) | (0.021) | (0.008) | (0.008) | (0.017) |
| Observations | 27,058 | 27,058 | 47,772 | 47,555 | 14,788 |

**Table 6 – Tricksters' punishment and Tax Evasion: controlling for additional firm-level and country-level characteristics**

This table presents the results of Tobit regression. The dependent variable is tax evasion. In column 1 we control for informal financing. In column 2 we restrict the sample to small firms. In column 3 we control for macroeconomic instability. In column 4 we add geographical dummies. All the variables are defined in Appendix I. Beneath each coefficient are the robust standard errors in parentheses. ∗, ∗∗, and ∗∗∗ indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Tricksters' punishment | -2.366*** | -2.653*** | -2.880*** | -1.648*** |
| | (0.093) | (0.119) | (0.107) | (0.120) |
| Firm age | -0.004** | -0.002 | -0.005*** | -0.008*** |
| | (0.002) | (0.003) | (0.002) | (0.002) |
| Firm size | -0.016*** | -0.017*** | -0.012*** | -0.012*** |
| | (0.001) | (0.003) | (0.001) | (0.001) |
| Foreign ownership | -0.018*** | 0.001 | -0.029*** | -0.026*** |
| | (0.005) | (0.010) | (0.005) | (0.005) |
| Audited statements | -0.025*** | -0.023*** | -0.024*** | -0.030*** |
| | (0.003) | (0.004) | (0.003) | (0.003) |
| Exporter | 0.013*** | 0.004 | 0.007* | 0.011*** |
| | (0.004) | (0.007) | (0.004) | (0.004) |
| Corporate tax rate | 0.004*** | 0.005*** | 0.005*** | 0.004*** |
| | (0.000) | (0.000) | (0.000) | (0.000) |
| GDP growth | 0.002*** | 0.002*** | 0.004*** | 0.004*** |
| | (0.000) | (0.001) | (0.000) | (0.000) |
| Governance and formal institutions | -0.058*** | -0.077*** | -0.063*** | -0.054*** |
| | (0.002) | (0.003) | (0.002) | (0.002) |
| Informal Financing | 0.152*** | | | |
| | (0.024) | | | |
| Macroeconomic Instability | | | 0.012*** | |
| | | | (0.001) | |
| Constant | 0.079*** | 0.043*** | 0.010 | 0.133*** |
| Observations | 44,863 | 23,991 | 42,034 | 48,277 |

## Table 7 – Endogeneity and Alternative Estimation Techniques

This table presents the results with the use of alternative estimation techniques. Column 1 shows the results of OLS regression, and column 2 shows the results of a Fractional Logit model, with tax evasion being the dependent variable. Column 3 presents the second stage results of a 2SLS IV regression, where tricksters' punishment is instrumented by agricultural potential and genetic heterogeneity. In the first stage regression (not shown) the dependent variable is tricksters' punishment, while the independent variables include all the control variables of the second stage regression and the two instruments. In the second stage regression, the dependent variable is tax evasion and key independent variable is the instrumented tricksters' punishment. All the variables are defined in Appendix I. Beneath each coefficient are the robust standard errors in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1)<br>OLS | (2)<br>Fractional Logit | (3)<br>2SLS IV |
|---|---|---|---|
| Tricksters' punishment | -2.220*** | -10.779*** | -2.375*** |
| | (0.087) | (0.462) | (0.404) |
| Firm age | -0.004** | -0.027** | -0.003 |
| | (0.002) | (0.011) | (0.002) |
| Firm size | -0.012*** | -0.083*** | -0.012*** |
| | (0.001) | (0.007) | (0.001) |
| Foreign ownership | -0.025*** | -0.170*** | -0.022*** |
| | (0.005) | (0.037) | (0.006) |
| Audited statements | -0.030*** | -0.183*** | -0.025*** |
| | (0.003) | (0.018) | (0.003) |
| Exporter | 0.008** | 0.058** | 0.011*** |
| | (0.004) | (0.026) | (0.004) |
| Corporate tax rate | 0.005*** | 0.031*** | 0.004*** |
| | (0.000) | (0.001) | (0.000) |
| GDP growth | 0.003*** | 0.013*** | 0.002*** |
| | (0.000) | (0.002) | (0.000) |
| Governance and formal institutions | -0.065*** | -0.440*** | -0.070*** |
| | (0.002) | (0.013) | (0.002) |
| Constant | 0.056*** | -2.286*** | 0.060*** |
| | (0.008) | (0.052) | (0.017) |
| Genetic diversity | | | -0,07*** |
| Agricultural potential | | | -0,000*** |
| Kleibergen-Paap rk LM Statistic | | | 2333.370 |
| Cragg-Donald Wald F Statistic | | | 1061.361 |
| Kleibergen-Paap rk Wald F Statistic | | | 1051.233 |
| Observations | 48,277 | 48,277 | 45,771 |
| R-squared | 0.085 | | 0.079 |

**Table 8 – Interaction effects of tricksters' punishment and formal institutions**

This table presents the results of Tobit regression, while exploring interaction effects between tricksters' punishments and alternative indicators of formal institutions. The dependent variable is tax evasion. In column 1 we use the overall indicator of governance and formal institutions. In column 2 we use the indicator of the rule of law, and in column 3 we use the indicator of regulatory quality. All the variables are defined in Appendix I. Beneath each coefficient are the robust standard errors in parentheses. ∗, ∗∗, and ∗∗∗ indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1) | (2) | (3) |
|---|---|---|---|
| Tricksters' punishment | -2.604*** | -2.349*** | -2.230*** |
| | (0.106) | (0.105) | (0.097) |
| Governance and formal institutions | -0.089*** | | |
| | (0.004) | | |
| Tricksters' punishment X Governance and formal institutions | -0.790*** | | |
| | (0.136) | | |
| Rule Of Law | | -0.070*** | |
| | | (0.004) | |
| Tricksters' punishment X Rule of Law | | -0.477*** | |
| | | (0.128) | |
| Regulatory Quality | | | -0.057*** |
| | | | (0.004) |
| Tricksters' punishment X Regulatory Quality | | | 0.065 |
| | | | (0.136) |
| Firm age | -0.004** | -0.004*** | -0.004** |
| | (0.002) | (0.002) | (0.002) |
| Firm size | -0.012*** | -0.013*** | -0.011*** |
| | (0.001) | (0.001) | (0.001) |
| Foreign ownership | -0.027*** | -0.028*** | -0.027*** |
| | (0.005) | (0.005) | (0.005) |
| Audited statements | -0.032*** | -0.030*** | -0.032*** |
| | (0.003) | (0.003) | (0.003) |
| Exporter | 0.008** | 0.008** | 0.008** |
| | (0.004) | (0.004) | (0.004) |
| Corporate tax rate | 0.005*** | 0.006*** | 0.005*** |
| | (0.000) | (0.000) | (0.000) |
| GDP growth | 0.003*** | 0.004*** | 0.003*** |
| | (0.000) | (0.000) | (0.000) |
| Rule Of Law | | -0.070*** | |
| | | (0.004) | |
| Tricksters' punishment X Rule of Law | | -0.477*** | |
| | | (0.128) | |
| Regulatory Quality | | | -0.057*** |
| | | | (0.004) |
| Tricksters' punishment X Regulatory Quality | | | 0.065 |
| | | | (0.136) |

| | | | |
|---|---|---|---|
| Constant | 0.043*** | 0.016** | 0.058*** |
| | (0.008) | (0.008) | (0.008) |
| Observations | 48,277 | 48,277 | 48,277 |

**Appendix I – Variables' definition**

| | |
|---|---|
| Tax Evasion | Firm-specific indicator of tax evasion, based on the answer to the following WBES question: "*Recognizing the difficulties many enterprises face in fully complying with taxes and regulations, what percentage of total sales would you estimate the typical establishment in your area of activity reports for tax purposes?"* The indicator is estimated as 1 minus the above-mentioned percentage in decimal points. Therefore, higher figures denote higher corporate tax evasion. |
| Tricksters' punishment | Country-level frequency of motifs where antisocial behaviour is punished versus not (explicitly) punished. Calculated as: share of motifs where antisocial behaviour is unsuccessful (punished) minus the share of motifs where antisocial behaviour is successful (not punished) minus the share of motifs where antisocial behavior is described but its outcome is unclear. Higher figures show that antisocial behavior is more frequently punished than not punished. Source: Michalopoulos and Xue (2021). |
| Firm age | Natural logarithm of years since establishment. Source: authors' elaboration on WBES data |
| Firm size | Natural logarithm of permanent, full-time employees. Source: authors' elaboration on WBES data |
| Foreign ownership | Share of foreign ownership. Source: WBES |
| Audited statements | Dummy variable that takes the value of 1 in the case of firms that have their financial statements reviewed by an external auditor and the value of 0 otherwise. Source: WBES |
| Exporter | Dummy variable that takes the value of 1 in the case of firms that export and the value of 0 otherwise. Source: WBES |
| Corporate tax rate | Country-level statutory corporate tax rate. Source: Tax Foundation |
| GDP growth | The annual percentage change in GDP. Source: World Development Indicators, World Bank. |
| Governance and formal institutions | Country level indicator of governance and formal institutions, estimated as the average of the following six indicators: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Source: Worldwide Governance Indicators, World Bank. |
| Culture pc 1 | Score for first component from the application of principal components analysis on the following national culture indicators of Hofstede: Power distance, Individualism, Uncertainty Avoidance, Masculinity. |

| | |
|---|---|
| Culture pc 2 | Score for second component from the application of principal components analysis on the following national culture indicators of Hofstede: Power distance, Individualism, Uncertainty Avoidance, Masculinity. |
| Religious | Percentage of population in each country that self-identified as a religious person, in response to the following question in the World Value Survey: "*Independently of whether you go to church or not, would you say you are: A religious person, Not a religious person, A convinced atheist*". We take the average percentage from the following WVS waves: 1995-1999, 2000-2004, 2005-2009. When we have values from one survey only, we use those values. |
| Trust | Country-specific indicator of generalized trust, based on the percentage that responded "Most people can be trusted" in the following World Value Survey and European Value Survey question: "*Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?".* Data are taken from the dataset of Michalopoulos and Xue (2021). |
| Number of Tax Payments | Country-level indicator, based on the natural logarithm of the number of payments (per year) necessary for a local medium-size company to pay all taxes. Source: Doing Business, World Bank. |
| Time To Prepare Taxes | Country-level indicator, based on the natural logarithm of the hours (per year) taken to prepare, file and pay three major types of taxes and contributions: the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions. Source: Doing Business, World Bank. |
| Tax Rates Obstacle | Firm-specific indicator, based on the response to the following WBES question: "Please tell us if any of the following issues are a problem for the operation and growth of your business: Tax rates. If an issue poses a problem, please judge its severity as an obstacle on a four-point scale where: 0 = No obstacle, 1 = Minor obstacle, 2 = Moderate obstacle, 3 = Major obstacle, 4 = Very Severe Obstacle". |
| Tax Admin Obstacle | Firm-specific indicator, based on the response to the following WBES question: "Please tell us if any of the following issues are a problem for the operation and growth of your business: Tax administration. If an issue poses a problem, please judge its severity as an obstacle on a four-point scale where: 0 = No obstacle, 1 = Minor obstacle, 2 = Moderate obstacle, 3 = Major obstacle, 4 = Very Severe Obstacle". |

| | |
|---|---|
| Official tax inspection | Firm-specific dummy variable, that takes the value of 1 in the case of a positive response to the following WBES question "Over the last 12 months**,** was this establishment visited and or inspected by tax officials?", and the value of 0 otherwise. |
| Informal financing | Firm-specific indicator, reflecting the proportion of working capital financed by informal sources. Source: WBES |
| Rule of Law | Country-level indicator that captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Source: Worldwide Governance Indicators, World Bank. |
| Regulatory Quality | Country-level indicator that captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Source: Worldwide Governance Indicators, World Bank. |
| Genetic diversity | Country-level measure of genetic diversity for the diversity (heterogeneity) within the HLA system of genes that is associated with the recognition and disposal of foreign pathogens. Expected heterozygosity is roughly defined as "the probability that two randomly selected individuals differ with respect to the gene in question". Source: Cook (2015). |
| Agricultural potential | Country-level caloric suitability index that captures the potential agricultural output (measured in calories) based on the average potential yields within each cell (size 5′× 5), attainable given the set of crops that are suitable for cultivation in the post-1500 CE era. Source: Galor and Özak (2016). |

## Appendix II – Discussion of Selected Instruments

The rational for the use of HLA heterozygosity as an instrument for the punishment of antisocial behaviour lies on several strands of the literature. For example, Baker et al. (2006) summarize studies from various fields (e.g. behavioural genetic studies, psychiatric outcomes) which show that genetics plays a role in antisocial behaviour, including various forms of aggression and criminality, impulsivity, callous-unemotional traits, personality disorder. Others show that measures of behaviour, depression, anxiety and personality are typically 30–50% heritable (Bouchard and Loehlin 2001; Polderman et al. 2015). Additionally, genetic diversity in the population has been related to interpersonal trust (Arbatli et al. 2019) and corruption (Kunieda et al. 2016). The first could have implications for social behaviour, and the second is a form of anti-social behaviour itself. Furthermore, according to Cook (2015), genetic diversity within the HLA system has been shown to reduce the virulence and prevalence of infectious disease. At the same time, Murray and Schaller (2014) refer to numerous studies showing that geographical variation in behavior, personality, and values, can be associated at least partially to regional variation in the prevalence of infectious diseases, and Van Leeuwen et al. (2012) document that pathogen prevalence may predict endorsement of the binding moral foundation.

The transition to agriculture came with profound changes for social organization. For example, farmers had to collaborate, live in harmony and in much greater numbers than hunters (Hofstede et al., 2010; Ashkanasy et al., 2004). Hofstede et al. (2010) mention that the possession of storable food that could pass from one person to another in agricultural societies led to unethical behaviour in the form of large-scale theft. This became an important concern, that could be addressed by trust within the groups and heavy sanctions against offenders (Hofstede et al. 2010). Powers and Lehmann (2013) also mention that to successfully resolve social dilemmas originating

from the transition of small groups of hunter-gatherers to large groups of agriculturalists, human groups had to create institutions that support large-scale cooperative behaviour. The aim of these institutions was to set the rules for social cooperation and as well as the sanctions for not following these rules. The establishment of states (Borcan et al., 2021) and the introduction of formal laws (Powers et al., 2021) was a step towards this direction. However, as discussed in Powers et al. (2021), constraints on social interactions may also be informal ones, like customs, taboos or norms. Therefore, folktales that pass customs and traditions from one generation to another may play a role in this respect. For example, various folktales refer to cases where tricksters steal food. Callahan (1991) refers to a story told by the Yoruba of Nigeria and the Cherokee about the Rabbit stealing water from other animals, and the Anansi, spider Trickster of the Ashanti, being caught and humiliated after stealing nuts from the king's orchard. Boya and Ramagoshi (2022) refer to the story of The Hare, Jackal and the Bear, where The Hare steals fruits from the Jackal’s farm. In the story of Gizo and Goat, they violate the social norms by stealing from a farm (Sone, 2018).