The influence of fiscal freedom, government effectiveness and human development index on tax evasion in the European Union

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Abstract. *The fiscal behavior of taxpayers in a state that wants economic development is a subject of major importance. The tax system is one of the main tools by which a state exercises sovereignty through the collection, allocation and redistribution of revenues, in a given territory. This paper aims to highlight how the tax systems' characteristics, the human development and the effectiveness of the governmental actions affect the economic environment and hence taxpayers' behavior in the Member States of the European Union. To achieve this goal, indicators from the 28 Member States of the European Union and for the period 1999-2010 were used in the study. Starting with an analysis of panel data models, developed using a range of independent variables (fiscal freedom, government effectiveness, human development index) and tax evasion as a dependent variable, the study has 3 econometric models that analyze the influences implicated.*

Keywords: fiscal behavior, tax evasion, fiscal freedom, government effectiveness, human development.

JEL Classification: H30, H71.

Introduction

Human behavior can be defined as the sum of mental, emotional, physical and social actions that a person has throughout life. This approach includes actions determined by culture, society, genetic and moral or religious values. Without a good understanding of human behavior, it is difficult to create and manage an organization, a company and ultimately a state, as all these entities are composed of individuals or citizens, personalities, attitudes, values, perceptions, motivations, aspirations and different skills. From this perspective, we can say that no two humans are identical, and consequently, theories and policies dealing with the population as a mass acting on the same principles and motivations have a reduced chance to achieve its objectives. By contrast, policies and economic theories that address the differences between people rather than similarities, and how these differences may affect the company, various organizations and, ultimately, individuals may have a greater chance of success.

Individual behavior, seen as a social being, but from an economic perspective, it is difficult to quantify and analyzed statistically. Empirical analyzes are in turn, difficult to achieve, given the complexity of the human being and that, unlike the sciences, the economy does not use or rarely use experiments that can be carried inside a laboratory. However, understanding the psychological factors that influence the behavior of economic agents is a very important scientific approach, both for those studying this field in terms of theory and those who are more interested in the application in real life of the eventual results of the research.

Decisions of individuals are influenced by factors such as social, psychological and emotional that sometimes prove to be more important than the rational ones. Thus, similar to decisions that have an immediate monetary component, decisions are taken similarly to emotional, general, everyday ones. Thus, exclusive analysis of economic factors does not help develop deeper understanding of decision-making, because psychological factors are at least as important as economic factors. An important consideration given the economic rationale is the desire of some of them to maximize their available income, calling for evading tax obligations.

Creating and developing the EU tax system is not only an economic process of great importance, but is equally a political process in which the sovereignty of the state, exercised by the Member States, plays a decisive role. In general, the tax system is based on institutions and instruments necessary for the implementation of fiscal policy in a given territory. The creation of a supranational fiscal infrastructure of the European Union is a complex process, favored by globalization trends manifested in the fiscal area, but also some reforms are hampered by existing differences between Member States, which are used to take independent decisions in this area.

The public financial system has always been on the borderline between political and economic aspects in the regional integration process. The tax system, in the European Union, is a reflection of the level of separation between economic integration emphasized by the existence of the single market and creation of a stronger political union. The coordination of tax systems has a very important role in ensuring the finality of the

integration process and it is absolutely necessary for the development of the Member States and society. In addition to the rules mentioned above, the tax system aims to create similar conditions in terms of tax competition between Member States and to redistribute budgetary funds to reduce interstate disparities (Talpoş and Enache, 2008).

There are significant differences between national tax systems and the tax system of the European Union. However, there are significant differences in terms of a domestic fiscal policy of the different Member States, which appeal to both local factors, and the willingness of states to take advantage of each other, including in this area. Based on these issues, fiscal harmonization within the European Union, still remains a goal, although in recent times there are significant advances.

Evaluation of different factors that contribute to economic growth has been and continues to be one of the most important concerns of economists everywhere. The role of fiscal policy in providing frameworks for economic development is also highly debated and the states are trying to find a balance between generating public revenues and stimulating growth, whereas the increase of tax rates has a negative effect on the profitability of investments.

With the beginning of the financial crisis, that became then an economic crisis, the role of the state in the economy, both in terms of regulating markets as in terms of its position as an active economic agent, was revived. EU Member States have established clear objectives for the policies, that would be applied in order to stimulate economic recovery and increase competitiveness. To achieve these objectives, management institutions at European level as well as national authorities, have undertaken to promote sustainable economic growth through fiscal policies and strategies on short and long term, quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies, level of education.

1. Econometric models

The economic field studies processes and phenomena, based on the idea that they are not carried out randomly, but based on their own laws, relatively stable and relatively repeatable, seeking to identify and, where possible, to influence. Starting from the basic idea that economic phenomena are most often measured (although there are situations where a quantitative analysis of a qualitative phenomenon can affect the results), the economy resorts to mathematics, statistics and econometrics, to show how certain factors influence the economic situation of a company, a region, a country or group of countries.

Econometric models are based on the regression method that establishes a statistical connection between the endogenous and exogenous variables (or influencing factors). The econometric modeling nowadays are increasingly using panel data, which have the advantage that they place equally temporal dimension and transverse dimension in the analysis variables. Form econometric models using panel data are of type:

$$Y_{it} = a + bX_{it} + \varepsilon_{it}, \tag{1}$$

where:
i = 1, 2, 3, ..., N, N representing the number of elements of the panel (countries);
t = 1, 2, 3, ..., T, T representing the number of periods.

A fixed effects model presupposes that the endogenous variable is influenced by the exogenous variable that changes over time. Therefore, analyzing the relationship between predictor variables and the variables within an entity (state, company, region, etc.), taking into account that some individual characteristics of the endogenous variables can have an impact on predictors.

Equation model with fixed effects is as follows:

$Y_{it} = \beta X_{it} + \alpha_i + \varepsilon_{it}$,   (2)
where:
Y_{it} = dependent variable (i = entity, t = time);
β = coefficient independent variable;
X_{it} = independent variable;
 α_i = constant;
μ_{it} = residual variable.

One of the main advantages of using random effects models is that they use for estimation variables that do not vary over time (varies only between different entities), variables which include models with fixed effects in the model constant. It is also important to note that random effect models presume that the standard error is not correlated with the regressors, and this allows to use even constant values as explanatory variables.

The general equation models with random effects is as follows:

$Y_{it} = \beta X_{it} + \alpha_i + (\mu_{it} + \varepsilon_{it})$,   (3)
Where:
μ_{it} = error between variables;
ε_{it} = error within the same variables.

With use of the Stata program, version 14, for the data analysis, the error $u_{it} = \alpha_i + \varepsilon_{it}$, consider α_i as a component of the error specific for the variable, corresponding to the element i and ε_{it} as random component of the error.

The introduction of time gaps (lags) considers that there is a possibility that qualitative factors exist between the explanatory variables of type X_i, whose modification is difficult to quantify. Therefore, we introduce a time delay, which aims to precisely consider the fact that the variation of X may influence the variation of Y over several time periods, subsequent to the moment when this variation occurred.

For reaching an optimum model it is necessary to perform a *Hausman-test* or a m-statistical to verify the hypothesis in terms of bias or inconsistency for some estimators. The test proposed by Jerry Hausman in 1978 aims to examine the hypotheses, that involve the use of estimators, specific for the models with fixed effects or with variable effects (if the value of p is less than 0.05, then it is not recommended to use a model with variable effects, but one

with fixed effects; if the value of p is greater than 0.05, it is recommended to use estimators for variable effects). Thus, according to the test, the specific estimator of the model with fixed effects, can be used also for the model with random effects, but it is effective only in the first one. Instead, the estimator specifically for the model with random effects cannot be used in the model with fixed effects (Kunst, 2013).

The main hypotheses for simple regression models are based on general assumptions of regression models, and are expressed as follows:
1) Defining (enunciation) the correct model.
2) Examining the accuracy of the data (data series are not affected by measurement errors).
3) Certifying that the residuals are zero mean random variables: for every i, the property shows that other unregistered factors, except the exogenous feature, have not a systematic influence on the average of the endogenous feature.
4) The variance of the residual variables is invariant in time or constant while defining property of homoscedasticity. The homoscedasticity assumption is restrictive in the deve-loped model because the statistical panel data are obtained for a group of countries.
5) No autocorrelation of the residuals: $\text{cov}(\varepsilon_i, \varepsilon_j)\ 0, i\ j$.

2. Selection of variables

The econometric model proposed analyses the data in the 28 European Union Member States, in the period 1999-2010. The dependent variable is the amount of tax evasion as a percentage of GDP. The independent variables are: fiscal freedom, government effectiveness and the human development index. These variables are defined as follows:

Tax evasion (txe) is the illegal evasion of taxes by individuals, corporations, and trusts. Tax evasion, often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions.

The fiscal freedom (fiscf) component is a composite measure of the burden of taxes that reflects both marginal tax rates and the overall level of taxation, including direct and indirect taxes imposed by all levels of government, as a percentage of gross domestic product (GDP). The component score is derived from three quantitative sub-factors:
▪ The top marginal tax rate on individual income.
▪ The top marginal tax rate on corporate income.
▪ The total tax burden as a percentage of GDP.

Fiscal Freedom$_{ii}$ = 100 – α (Factor$_{ii}$)^2
where:
Fiscal Freedom$_{ij}$ represents the fiscal freedom in country i for factor j;
Factor$_{ij}$ represents the value (a percentage expressed on a scale of 0 to 100) in country i for factor j;
and α is a coefficient set equal to 0.03. The minimum score for each sub-factor is zero, which is not represented in the printed equation but was utilized because it means that no single high tax burden will make the other two sub-factors irrelevant.

Government Effectiveness (guvef) captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

The Human Development Index (hdi) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. HDI has values between 0 and 1. The Human Development Index is greater as the indicator approaches 1.

The variables used were chosen based on empirical studies conducted by Schneider (2012), Schneider and Buehn (2012), Schneider and Lars (2010), Schneider and Williams (2013). Thus, they were selected as independent variables: fiscal freedom, government effectiveness and human development index to check the reverse influence on the dependent variable represented by tax evasion. The study aims to demonstrate that a high level of fiscal freedom, government effectiveness and a high human development index is associated with a low level of tax evasion in Member States of the European Union.

3. Data processing and results

In econometric research, we built three linear regression models to test the influence of the independent variables on the dependent variable.

Model 1: The influence of fiscal freedom on tax evasion.

Equation model:

$$txe = \alpha + \beta * fiscf + \varepsilon \tag{4}$$

Model 2: The influence of fiscal freedom and government effectiveness on tax evasion.

Equation model:

$$txe = \alpha + \beta * fiscf + \gamma * guvef + \varepsilon \tag{5}$$

Model 3: The influence of fiscal freedom, government effectiveness and the human development index on tax evasion.

Equation model:

$$txe = \alpha + \beta * fiscf + \gamma * guvef + \delta hdi + \varepsilon \tag{6}$$

Next we have done three econometric models:
- a model based on least squares (OLS);
- a model with fixed effects;
- a model with random effects.

3.1. Analysis of the research results in all the Member States of the European Union

The Table 1 exposes the results of running the 3 models above for all European Union countries (28 European Union member states generating 336 observations).

Table 1. *The influence of the fiscal freedom, government effectiveness and the human development index on tax evasion in the Member States of the European Union*

	M1			M2			M3			
	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	The expected sign
Fiscf	-0.21***	-0.22***	-0.2***	-0.007***	-0.021***	-0.019***	-0.01***	-0,004*	-0,007***	-
Guvef				-0.562***	-0.176**	-0.281***	-0.541***	-0.084	-0.174***	-
hdi							-0.78***	-1,256***	-1.018***	-
R^2	0.15	0.32	0.32	0.34	0.34	0.33	0.36	0.58	0.57	
F	60.99	130.09		88.86	99.81		62.74	162.70		
N observations	336	336	336	336	336	336	336	336	336	
T. Hausman		P=0.000			P=0.000			P=0.000		

Source: Own processing in Stata 14.

In Table 1 we can observe a very good general relevance of the model in terms of elevated levels of the F-statistic and R^2, which indicates that the model can be explained by the chosen variables.

As a result of the implementation of the Hausman test it was observed that in all the three models the fixed effects method has to be chosen at the expense of the random effects, because the probability obtained is below the level of significance of 0.05%.

The three models were run sequentially, by adding a new variable besides the existing ones in order to verify the correctness of the proposed model. As it can be seen the sign of coefficients does not change during the 3 models, checking their accuracy in their choosing.

The M1 model presents the influence on tax evasion of the fiscal freedom. The analysis results identify a negative correlation between the level of fiscal freedom and the percentage of tax evasion, increasing the fiscal freedom will reduce the tax evasion. The phenomenon could be explained by the fact that a higher degree of fiscal freedom reduces the taxpayers' perception in relation to the taxation level, alternatively, determines a higher level of compliance vis-à-vis the tax obligations to the state.

Enhancing the government effectiveness, quantified by providing quality public services, investments in strategic areas and transparency in public spending leads to reducing the levels of tax evasion. In this sense, we can say that taxpayers' perception of the quality of services provided by state influences attitudes about tax compliance.

A positive influence is observed in the model which examines the human development index on the independent variable. Thus a high degree of literacy increased life expectancy and a high quality of life are associated with improving tax collection. Schneider's empirical studies show higher levels of tax revenues in the developed countries in comparison with the countries that are ongoing development.

The results obtained should be interpreted with caution. The limits of the model are due to the size of the panel, thus it cannot be generalized in all the situations, the subjective data used in the model as the government effectiveness is measured subjectively as a perceptual feeling that the citizens have about certain aspects in the country.

3.2. Analysis of the research results in the Southern European Member States of the European Union

The Table 2 exposes the results of running the 3 models above for the Southern European countries Member States of the European Union (Italy, Spain, Portugal, Cyprus, Greece and Malta).

Table 1. *The influence of the fiscal freedom, government effectiveness and the human development index on tax evasion in the Southern European Member States of the European Union*

	M1			M2			M3			The expec-ted sign
	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	
Fiscf	-0.057***	-0.025***	-0.018**	-0.057***	-0.03***	-0.022***	-0.511***	-0,005	-0,008	-
Guvef				-0.064	-0.212	-0.128	-0.229	-0.2**	-0.183**	-
hdi							-1.354***	-1,147***	-1.561***	-
R²	0.43	0.67	0.67	0.43	0.59	0.61	0.72	0.53	0.53	
F	53.73	86.58		26.57	88.76		60.94	162.70		
N observations	72	72	72	72	72	72	72	72	72	
T. Hausman		P=0.0034			P=0.001			P=0.3199		

Source: Own processing in Stata 14.

In Table 2 we can observe a very good general relevance of the model in terms of elevated levels of the F-statistic and R^2, which indicates that the model can be explained by the chosen variables.

As a result of the implementation of the Hausman test there was observed that the first two models have the probability level of significance was below 0.05%, so the method chosen should be with fixed effects. For the M3 model the random effects should be chosen because the level of significance is 0.3199%.

The three models were run sequentially, by adding a new variable besides the existing ones in order to verify the correctness of the proposed model. As can be seen the sign of coefficients does not change during the 3 models, checking their accuracy in their choosing.

One model shows the effect of fiscal freedom on tax evasion in the Southern European states, namely Italy, Spain, Portugal, Cyprus, Greece and Malta. After analyzing the results of the model, we can see a negative correlation between tax evasion and fiscal freedom, the fiscal freedom increased by one leading to a decrease tax evasion with 0.025% in those states. This phenomenon can be explained by the fact that high tax burden and reduced tax rates on the taxpayer generate the raising of the level of tax compliance. This creates prerequisites for establishing a framework to enable an optimal level of taxes, so as to ensure growth in the tax base rather than increasing the percentage value of taxes.

The government effectiveness has a key role in the level of tax compliance. Quality of public services provided by the state, the policies formulated and implemented with precision and quality, and the credibility of the contributors to these policies has a strong impact on the behavior of the citizens. Thus, an increase in the governance effectiveness determines the rising of the tax collection that cause a decrease in tax evasion.

The independent variable is positively influenced by the human development index. A high degree of literacy and a high standard of living, occurred mainly in Spain, Italy and Portugal, causes a decrease in tax evasion explained by the superior utility of public spending (i.e. spending in health and education) perceived by citizens.

3.3. Analysis of the research results in the Northern European Member States of the European Union

The Table 3 exposed the results of running the 3 models above for the Northern European countries Member States of the European Union (Sweden, Denmark and Finland).

Table 3. The *influence of the fiscal freedom, government effectiveness and the human development index on tax evasion in the Northern European Member States of the European Union*

	M1			M2			M3			
	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	The expected sign
Fiscf	-0.037	-0.005	-0.003	-0.003	-0.002	-0.003	-0.005	-0,006*	-0,005	-
Guvef				-0.089*	-0.42	-0.538*	-0.623**	-0.108	-0.623**	-
hdi							-0.792**	-1,468***	-0.792**	-
R^2	0.19	0.05	0.53	0.10	0.83	0.58	0.24	0.69	0.97	
F	0.67	3.58		1.89	2.65		3.44	30.4		
N observations	36	36	36	36	36	36	36	36	36	
T. Hausman		P=0.65			P=0.1537			P=0.000		

Source: Own processing in Stata 14.

In Table 3 we can observe a very good general relevance of the model in terms of elevated levels of R^2, which indicates that the model can be explained by the chosen variables.

As a result of the implementation of the Hausman test there was observed that the first two models have the probability level of significance was above 0.05%, so the method chosen should be with random effects. For the M3 model the fixed effects should be chosen because the level of significance is 0.000%.

The three models were run sequentially, by adding a new variable besides the existing ones in order to verify the correctness of the proposed model. As can be seen the sign of coefficients does not change during the 3 models, checking their accuracy in their choosing.

The model analyzes the impact of the independent variables on tax evasion in the Nordic EU member states. The Northern States (Sweden, Denmark and Finland) have the most developed economies in Europe and the European Union, in terms of value of gross domestic product per capita. Northern Europe's economic structure is complex and

varied, being influenced by the current political developments, historical antecedents and socio-economic characteristics of the countries that compose it.

From the econometric modeling performed in the three states mentioned above, it appears that a reduction in tax rates and tax burdens on the taxpayers causes a reduction in tax evasion. One of the possible explanations is that, although the tax rates are high, the Nordic countries have a balanced economic system that determines a positive perception of the level of taxes and efficiency of public spending.

A high effectiveness of the governance process in the Nordic Member States of the European Union reduces tax evasion. Thus, improvements in public services, increasing transparency and credibility of government authorities can determine the efficiency of tax collection.

A positive influence is observed including the model, which examines the human development index on the independent variable. Thus, a high degree of literacy, increased life expectancy and a high quality of life are associated with improving tax revenue collection.

3.4. Analysis of the research results in the Central-Eastern European Member States of the European Union

The Table 4 exposes the results of running the 3 models above for the Central-Eastern countries Member States of the European Union (Bulgaria, Croatia, Hungary, Romania, Latvia, Lithuania, Estonia, Czech Republic, Slovakia, Slovenia and Poland).

Table 4. *The influence of the fiscal freedom, government effectiveness and the human development index on tax evasion in the Central-Eastern Member States of the European Union.*

	M1			M2			M3			
	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	The expected sign
Fiscf	-0.011**	-0.027***	-0.027***	-0.013**	-0.025***	-0.024***	-0.009*	-0,004	-0,004	-
Guvef				-0.651***	-0.29**	-0.329**	-0.131*	-0.33**	-0.325**	-
hdi							-1.045***	-1,66***	-1.608**	-
R²	0.30	0.47	0.47	0.20	0.49	0.49	0.34	0.72	0.72	
F	5.36	86.1		16.99	71.94		22.07	116.14		
N observations	132	132	132	132	132	132	132	132	132	
T. Hausman		P=0.092			P=0.5316			P=0.994		

Source: Own processing in Stata 14.

In Table 4 we can observe a very good general relevance of the model in terms of elevated levels of the F-statistic and R^2, which indicates that the model can be explained by the chosen variables.

As a result of the implementation of the Hausman test it was observed that all the three models have the probability level of significance was above 0.05%, so the method chosen should be with random effects.

The three models were run sequentially, by adding a new variable besides the existing ones in order to verify the correctness of the proposed model. As can be seen the sign of coefficients does not change during the 3 models, checking their accuracy in their choosing.

The models show the effect of fiscal freedom, human development index and government effectiveness on the level of tax evasion in the Central-Eastern state members of the European Union. Included in this area are Bulgaria, Croatia, Hungary, Romania, Latvia, Lithuania, Estonia, Czech Republic, Slovakia, Slovenia and Poland. 27 years since the transition to democracy and market economy, and 11 years after the biggest enlargement of the European Union, the countries of Central and Eastern Europe still faces problems of functioning institutions and they have to recover an important gap in comparison to the Western and Northern European countries. In this context, the Central-Eastern European Union Member States have faced a series of austerity measures (increases value added tax, cuts in public sector wages, etc.) which generated a wave of discontent among taxpayers.

The study shows that a reduction in tax rates and tax burdens levied by taxpayers result in a reduction of tax evasion, meaning that lowering the amount of taxes reduces the propensity of the tax payers to not fulfill tax obligations.

In developing countries in the Central-Eastern Europe the focus on streamlining the governance process, which involves increasing the quantity and especially the quality of public services and the credibility of the government system. Implementation of these actions results in a reduction of tax evasion recorded.

A positive influence is observed in the model which examines the human development index on the independent variable, high literacy, increased life expectancy and a high standard of living is associated with improving tax collection.

3.5. Analysis of the research results in the Western European Member States of the European Union

The Table 5 exposes the results of running the 3 models above for the Western European countries Member States of the European Union (France, Germany, Great Britain, Ireland, Luxembourg, Belgium, Netherlands, Austria).

Table 5. *The influence of the fiscal freedom, government effectiveness and the human development index on tax evasion in the Western European Member States of the European Union*

	M1			M2			M3			
	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	OLS	Fixed effects	Random effects	The expected sign
Fiscf	-0.004	-0.013***	-0.012***	-0.005**	-0.007***	-0.006***	-0.001	-0,004*	-0,006***	-
Guvef				0.562***	0.345***	0.359***	0.706***	0.3***	0.355***	-
hdi							-0.965***	-1,769***	-0.276	-
R^2	0.20	0.35	0.47	0.15	0.47	0.47	0.43	0.52	0.48	
F	2.59	93.81		8.72	100.19		23.87	69.03		
N observations	96	96	96	96	96	96	96	96	96	
T. Hausman		P=0.000			P=0.36			P=0.025		

Source: Own processing in Stata 14.

In Table 5 we can observe a very good general relevance of the model in terms of elevated levels of the F-statistic and R^2, which indicates that the model can be explained by the chosen variables.

As a result of the implementation of the Hausman test there was observed that the M1 and M3 models have the probability level of significance under 0.05%, so the method chosen should be with fixed effects. For the M2 model the variable effects should be chosen because the level of significance is 0.36%.

The three models were run sequentially, by adding a new variable besides the existing ones in order to verify the correctness of the proposed model. As can be seen the sign of coefficients does not change during the 3 models, checking their accuracy in their choosing.

Taxes on income from labor and social security contributions occupies the largest share in the total tax rate in the European Union, namely in the states of Western Europe (France, Germany, Great Britain, Ireland, Luxembourg, Belgium, Netherlands, Austria). Also, to pay these types of taxes and contributions, taxpayers allocate most of the time for tax compliance.

Increasing fiscal freedom is determined by reducing tax rates and tax burdens, which subsequently influences the likelihood of achieving the reduction of tax evasion recorded.

Unlike other groups of countries in Western Europe, enhancing the government effectiveness (providing quality public services, investments in strategic areas and transparency in public spending) increases the level of tax evasion. Thus, we can say that taxpayers' perception on the quality of services provided by the state, but also the socio-cultural influences of Western Europe tax payers attitude vis-a-vis the tax compliance in a manner that goes beyond the act of governmental effectiveness. The negative correlation identified in the econometric model can be explained by inclination pronounced by residents of Western states to the values of capitalism and toward free enterprise, involving a limited role of the state in the economy, namely the reduction of taxes. Hence, it can be concluded that an increased level of efficiency, which involves a high level of taxes an incentive to circumvent the tax legislation.

A positive influence is observed including predicting which examines the human development index on the independent variable. Thus, a high degree of literacy, increased life expectancy and a high quality of life is associated with improving tax collection.

The results obtained should be interpreted with caution. The limits of the model are due to the size of the panel that is reduced, thus cannot be generalized to the whole sample, the subjective data used in the model as the government effectiveness, which is measured as a subjective perception of the taxpayers.

Conclusions

From reviewing the literature, it shows that the fiscal policies and the budget policies of a state have an important role in defining the characteristics of the economic environment and thus ensuring the citizens' behavior.

After analyzing the 3 econometric models we can say that there is a reverse connection between tax evasion and the 3 independent variables: fiscal freedom, government effectiveness and human development index.

Increasing fiscal freedom, which involves reducing the level of tax burden determine the reduction of tax evasion done by the taxpayers in the state by changing their behavior in a positive sense. Increasing government effectiveness perceived in a positive way by the taxpayer reduces the tax evasion by determining tax compliance. The human development index represents the increasing of the living standard registered in a State, which automatically influences the reduction of tax evasion made by taxpayers.

Changing the current course of the economy will not be easy to achieve, given the contemporary economic situation, but we can choose to reformulate the rules of structure and functioning of the economic system so that it satisfies the requirements and challenges of contemporary society. By doing this, we can restore the balance between the state, business, employees or taxpayers, to have an economy that works with the best results for everyone involved.

Tax systems must be reformed and the state should ensure the perspectives and priorities of various stakeholders are understood and taken into account when developing and implementing policies. Updating and harmonization of tax systems in Europe (and the world) is not an action easy to achieve, but continued use of mechanisms and tools whose effectiveness is lacking is not a viable long-term option.

However, our society today, in all its aspects, therefore, including economically or in terms of taxpayer behavior can not be limited to the statistical universe, no matter how well founded and complex it may be. Therefore, studies of the behavior of the taxpayer should be continued, with various approaches and methods in an attempt to achieve a description and, later, a standardization and / or a forecast closer to the reality.

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