



# THE SCHOOL OF PUBLIC POLICY

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## **MASTER OF PUBLIC POLICY**

### **CAPSTONE PROJECT**

Tax Compliance: How Trust in Government Can Increase Federal Tax Revenues

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## **Executive summary**

Canada is losing billions of dollars each year to individuals shirking on their taxes (Canada Revenue Agency 2016). The question of how to reduce this substantial amount is both pertinent and difficult. As a liberal democracy, the federal government is constrained by how much coercive force it can use. Voluntary compliance by citizens is essential. This paper will demonstrate how certain measures can be used to build trust in the federal government and its institutions – specifically in the Canada Revenue Agency (CRA), leading to a decrease in tax shirking and increasing tax revenue.

Canada, along with many other liberal democracies, have simultaneously experienced declining levels of trust (Dalton 2004). This change erodes the legitimacy of the government and its institutions. In addition, the problem is unlikely to correct itself. Values have changed among younger generations, altering expectations of governments (Inglehart 2008) and further straining trust. Action is needed to respond to the changing relationship between the Canadian government and its citizens.

There is a strong correlation between an individual's trust in government and their likelihood of paying taxes (Kucher and Götte 1998; Shulz and Lubell 1998). This relationship is integral to the paper's recommendations. If an individual's trust in government can be increased, more tax revenue will follow. Trust must first be built with the public.

Advanced liberal democracies primarily build trust through their institutions (Zucker 1986). Trust in government can be viewed as a collection of trust in its parts. Ideally all federal institutions would follow trust building measures. However, given the infancy of the research and the relative novelty of recommendations, this is unrealistic. This paper will give more pragmatic

recommendations focusing on the CRA. As a large institution that deals regularly with taxpayers, the CRA is a clear choice to first implement trust building measures.

In order to accurately quantify and analyze trust, the CRA must first conduct its own trust measurements. Perception surveys, the most common measurement type in use, will be used. Popular 3<sup>rd</sup> party trust measurements ask broad and ambiguous questions (Connolly 2016; Edelman 2021), limiting their efficacy. The CRA should ask clearer and more pointed questions that get to the heart of where Canadian distrust arises.

Corruption constitutes the strongest predictor of trust placed in remote political institutions directly (Blind 2006, 12). To address appearances of corruption, steps should be taken that prevent citizens from forming negative views of the CRA. Appearance standards remedy this issue by treating improper appearances as an offence, even if no offence has taken place. Trust is measured by perception, making preemptive action a necessary element. Once trust is lost, it is difficult to gain back.

Engagement is linked with increased trust in the government (Wesley 2018). The CRA should foster greater engagement by allowing for e-participation opportunities on its website. Not only will it capture new individuals, but greater levels of engagement will be made available to those already participating. An e-government model will be followed to detail the process.

## **Introduction**

Low levels of public trust in government and its institutions are severely limiting the amount of tax dollars collected in Canada. A 2013 report commissioned by the CRA and done by Statistics Canada, found that \$45.6 billion was lost due to cheating on taxes or 2.4 percent of GDP (Canada Revenue Agency 2016). Additionally, a 2019 study by the CRA found that 20 percent of

respondents believed “the benefits of tax cheating outweighed the risks (Wallace 2020).” A problem exists where the federal government relies on taxes to operate, while a large portion of taxpayers are not discouraged by penalties. Lost revenue is substantial and limits government activities. Various methods have been tried to close the tax gap, but it persists. Liberal democracies such as Canada, require trust for the effective management of the state. A low level of political trust is associated with less compliance with the law (Marien and Hooghe 2011, 282). An individual’s willingness to comply with paying taxes is correlated highly with their level of trust in government (Lord 2019). This relationship makes trust a tax policy problem for the federal government. Decreased tax revenue is one well documented effect of low levels of trust in government. Non-maximized levels represent a missed opportunity for the federal government.

Increasing the public’s trust in government will increase their likelihood of paying their taxes. If someone has a positive view of the government, they will be more likely to send their money. If there is apparent value to the programs in which tax dollars are going, people will be more motivated to pay their taxes. Additionally, a sense of social responsibility for society at large is a factor contributing to the likelihood of taxes. Low levels of trust call these benefits into question. Pessimistic people are more likely to evade their taxes despite the threat of fines or jail time.

Some argue that a low trust environment is nothing to be concerned about. In fact, high levels can be just as problematic for democracies as too little (Norris 1999, 27). A low level of trust is indicative of a critical public and is healthy for a democracy. The government’s authority and ability to levy penalties are enough to ensure compliance. However, there is a limit to how much coercive force can be used. High costs and courts unwilling or unable to enforce regulations, pose a serious concern. If rules can’t be enforced, legitimacy is further eroded. Trust is an efficient

means of lowering transaction costs in social and political relationships (Fukuyama 1995). There is also an important distinction between trust in a government and being critical of it. It is possible to have a high level of trust in government and still be critical. Trust should be viewed as its own category, albeit partially correlated with how critical the public is. Low trust environments, such as Canada is currently experiencing, leads individuals to prioritize short-term benefits. Shirking behavior becomes more attractive. The negative relationship between an individual's trust in government and likelihood of evading taxes is worth exploring further.

An advantage afforded to governments is their ability to implement structural reforms with a long-term scope. Often, there will be a degree of short-term sacrifice and adjustment. Public support and broad social consensus are necessary for this type of long-term planning to be sustainable. Without faith in government and its institutions, long-term policy outcomes are compromised. Authority is not sufficient to ensure compliance. The relationship between the public and the government should be transparent and ongoing. It is not enough that public officials are elected and serve for fixed periods, the public must be engaged as active stakeholder groups.

Large public programs create opportunities for free-riding and opportunistic behavior (OECD 2013, 22). The federal government administers many of these programs, tax collection being one. High levels of trust will be especially effective in such situations due to the size of the programs and amount of shirking, compared to smaller, more policed ones. Low levels will lead individuals to prioritize short-term benefits (Saki and Iorio 2020, 4). This means less support for long-term policies that contribute to common goods (OECD 2013, 22). Canadians should be mindful of the effects of low levels of government trust on their public programs and the long-term legitimacy of the institutions that carry out their policies.

Trust is necessary to increase the confidence of investors and consumers (OECD n.d.). Taxpayers represent investors, funding the activities of government. Although taxes are not voluntary like an investment, the large amount of shirking behavior and disregard for penalties shows that an individual's willingness to pay does significantly matter. Trust in the government is a key component of this willingness to pay. Engaging taxpayers as active investors in government will inform recommendations and help build trust. Continuing to use current enforcement measures and taking resulting tax compliance for granted, will do little to further increase tax revenue.

Negative effects of low trust are especially apparent in crisis situations. The core functions of public governance are tested in extreme circumstances such as natural disasters, economic crises, or other demanding events (OECD 2013, 22). Democratic institutions rely on the consent of the governed to effectively carry out their policy goals. Trust is a great indicator that reflects this relationship. For example, during COVID-19, public trust in government vaccination efforts and vaccines was just as important as the efficacy of the vaccines themselves (OECD 2021). A barrier for many people not following recommendations was a lack of trust in the source it was coming from. Crises should be seen as stress tests revealing deeper underlying issues. Many issues can arise as a result of low levels of public trust. Liberal democracies, by nature of their political system, perform better when citizens willingly adhere to rules and support policy goals of the government. Tax shirking is just one clear negative behavior that results from suboptimal levels of trust in government.

## **Lit Review**

### **Measuring trust in government**

Trust is more than an abstract concept; it is measurable and a valuable metric to consider when analyzing policy. Measures have been established by various studies and groups. With these data, trust can be quantified, tracked, and correlated. Insight into its effect on shirking behavior such as tax evasion can be obtained. As an infant area of research, standardization between groups and measurement techniques has not yet taken place. Even so, trust in government has proven to be a relevant metric. Future work in this area will no doubt build upon existing models to better understand precisely why trust in government is so important.

Trust in government, sometimes referred to as political trust, can be broadly defined as government performance minus expectations (Saki and Iorio 2020, 4). There is disagreement around the definition of trust and what it measures. Since trust is implicit in most transactions, it can be hard to measure directly (Thomas 1998). Norris believes that people concerned with low levels of political trust are basing their views on an erroneous interpretation of the data (Marien and Hooghe 2011, 270). This is because citizens still hold high levels of trust in the principles of democracy. A valuable point is raised – there is little consensus on the definition of trust and how to measure it. Falling levels of trust in government may not be based on anything tangible, but on changing expectations, because of external factors such as generational value changes, as mentioned by Dalton. There is a subjective element in what researchers are measuring and what respondents are answering.

According to World Gallop Poll, preliminary evidence suggests that citizens trust in government primarily reflects approval of their country's leadership with an  $R^2$  of 0.8125 among OECD countries (OECD 2015, 157). Additionally, trust in government is negatively correlated

with perceived levels of corruption in government with an  $R^2$  of 0.7032 (OECD 2015, 157). Leadership and the perception of corruption are two important factors contributing to citizens' trust in government. However, trust is a complex, multifaceted concept that includes many other variables.

Attempts have been made to use objective data but most analysis are conducted through perception surveys. There are three ways in which trust has been measured. Through objective data, behavioral games, and perception surveys (Saki and Iorio 2020, 7-9). Kucher and Götte (1998) have used government suggestions correlated with public voting behavior as a type of objective measurement. They hypothesize that the more correlated the two variables are, the greater the level of trust. Behavioral games place participants in mock scenarios that observe behavior, such as in a dictator game or an investment game. Unfortunately, these methods are contentious with debate surrounding their efficacy.

Perception surveys are currently the most common method of measurement. They ask direct questions about trust levels in government. Results are then analyzed, leading to various claims. Critics point to the subjective nature of these surveys. All surveys have a level of subjectivity, but trust in government deals with concepts that are more abstract than usual. Words such as "trust," "performance," and "legitimacy" have varying connotations with different people. Cultural factors make comparisons across countries difficult, and it is impossible to standardize meanings across respondents, even in the same country. Trust in government reflects short-term outcomes (Saki and Iorio 2020, 4). The evaluation of the delivery of services or certain leaders may change rapidly (Saki and Iorio 2020, 4). Additionally, surveys do not measure actual behavior, but rather intentions (Kucher and Götte 1998). There is no cost associated with responding, further distorting answers. The limitations of perception surveys, and especially objective data and

behavioral games, have led some to doubt claims that low trust levels pose a threat to advanced industrial democracies.

Despite measurement difficulties, trust in government provides a host of useful policy insights. It reveals distinct patterns across countries (OECD 2013, 25) and is highly correlated with an individual's willingness to pay taxes (Kucher and Götte 1998; Shulz and Lubell 1998). The fact that trust is trackable and is correlated with certain behaviors makes it worthwhile to track, despite clear limitations in quantifying it. The utility of tracking trust, in the face of imperfect measurements, shows that measurement techniques should be improved upon, instead of discarding trust as a variable of consideration as some suggest. It is true that Individual perceptions are subjective and trust in government is affected by different meanings that people hold regarding survey terminology and cultural factors. However, perception creates behavior – the outcome that solutions will ultimately seek to modify.

Currently different groups' measurements vary from one another regarding the questions they ask and their calculations. Moreover, their surveys are not specifically tailored to countries, ignoring their political systems and culture. Relying on external 3<sup>rd</sup> party groups presents a risk where they can make modifications or go out of business. Trust in government, in a general sense, is measured, instead of specific data on institutions or agencies. The correlation of broad perception survey data on tax compliance could be broken down further by measuring the government's institutions levels of trust – a key component of overall trust in government as suggested by Zucker (1986). For the time being, researchers will have to make do with 3<sup>rd</sup> party country-wide data.

## Overview

Discussions on trust in government can be divided into two groups. One group believes that low levels are an issue, challenging the legitimacy of government and leading to negative consequences. The other group sees trust differently. Instead of placing a strain on liberal democracies, low levels represent a new critical public that holds government to account, leading to beneficial outcomes.<sup>1</sup> Depending on how trust is viewed, a decrease could either represent a looming crisis or a positive transformation in the relationship between a government and its citizens. This section will explore both views, analyze existing trust data relating to tax collection, and place the information into an actionable Canadian context.

Around the world, advanced industrial democracies have concurrently experienced declining levels of trust (Dalton 2004). However, the likelihood of these advanced industrial democracies simultaneously experiencing the same effects is extremely unlikely. Dalton posited that these explanations may be unintentionally ignoring deeper sociological causes.

A different explanation for falling trust was put forth. Three factors, social status, social modernization, and generational change are affecting the public's image of government (Dalton 2005, 149). Social status could be a determinant, where increasing economic inequality is increasing distrust among those of lower social status. This divide is certainly apparent in the Edelman Trust Barometer's split between the informed and general public (Edelman 2021, 2). Social modernization is changing the relationship between citizens and the state. New social movements such as environmentalism and the feminist movement are challenging values and

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<sup>1</sup> It should be noted that the discussion is limited to industrialized liberal democracies and excludes other forms of government such as authoritarian dictatorships. Other forms of government can have extremely high levels of public trust, such as in China, but for reasons such as information control, which are not applicable to Canada

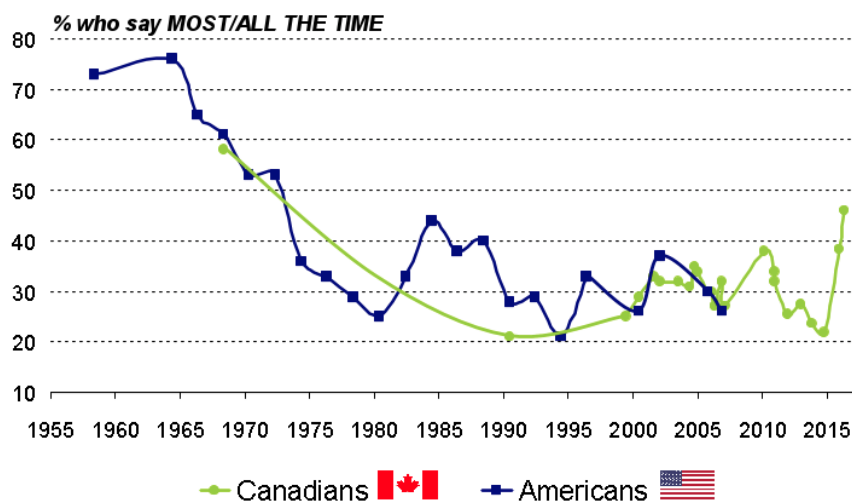
changing how modern politics are conducted (Dalton 2005, 140). For various reasons, broad generational changes have happened.

### Trust – eh?

Prior to COVID-19, 50 percent of Canadians trusted government in January 2020 according (Edelman 2021, 7). It is worth mentioning that trust in government is much more volatile than for business, NGOs and the media (Edelman 2021, 7). Following COVID-19, trust in government increased significantly by 20 points before falling by 11 points shortly thereafter (Edelman 2021, 7). However, the pandemic presents an anomaly worth analyzing separately. Trust in the long-run paints a more telling picture. According to EKOS research, the number of Canadians who trust Ottawa to do what is right has steadily declined since the 1960s reaching a low in 1990 (Connolly 2016).

## Tracking trust in government

Q How much do you trust the government in Ottawa/Washington to do what is right?



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BASE: Canadians; April 14-15, 2016, n=545, MOE +/- 4.2%, 19 times out of 20

Although it has since risen, the long-term downward trend coupled with recent volatility poses potential problems. A large portion of the population doesn't have faith in their national government to make proper decisions.

The Edelman Trust Barometer shows the volatility and persisting gap in trust levels for Government NGO's, business, and media. The general public holds lower levels of trust in government than their informed counterparts (Edelman 2021, 6). This is due to two views, in part. First, the perception that economic inequality is a bigger issue than economic growth by citizens living in developed markets (Edelman 2020) such as Canada. Second, the general public perceives institutions, the government more than any other, as serving the interests of a few over everyone (Edelman 2020). The reasons behind this discrepancy may lead to a future loss of trust if the general public is not addressed.

Although Canada fares relatively well compared to other countries facing severe trust crises, there is still much work to be done. As trust moves toward maximum values, the probability

of full compliance increases significantly, even reaching close to unanimous compliance (Shulz and Lubell 1998, 410). There is a great deal of value in increasing trust levels, even if they are not in crisis territory for the resulting compliance benefits. Canada's political system can be analyzed individually and improved by trust building measures.

### Low trust a concern

Low levels of political trust are seen by some as a symptom of eroding legitimacy, leading to less compliance. Conversely, high levels show that a government is legitimate and as a result, is followed by the public. Compliance is demonstrated through adherence to rules, even if enforcement is not common, as in the case of paying taxes. Pharr and Putnam posit that declining trust weakens institutional capacity, leading to poor government performance, further lowering trust (Pharr and Putnam 2000, 84). The dominant view in the scholarly debate is that low levels of political trust are a serious concern (Marien and Hooghe 2011, 267).

In their landmark book “The Civic Culture” Almond and Verba examined five industrial democracies, advancing the idea that political trust is an important element of civic culture and necessary for democracies (Almond and Verba 1963). They view society as a complex system whose parts work together to form the whole (Pavonne 2014). Social trust beyond the family is needed for countries such as Canada to function. Governments are increasingly involved in the lives of their citizens, making trust an important factor regarding the functioning of a country. Certain elements of society contribute to social stability and are functional, while others do not and are considered unfunctional (Mooney, Knox and Schacht 2007, 1). Political trust is functional and is seen as a necessary glue, holding democracies together.

Almond and Verba take a macro view of society within countries. Social institutions perform important functions for society. For example, family provides a context for reproduction and raising children (Mooney, Knox and Schacht 2007, 1). Politics provide a means of governing (Mooney, Knox and Schacht 2007, 1). Since democracies represent the will of the people, trust in government is linked to legitimacy. A government which is perceived as having low levels of legitimacy will also have low levels of stability. They will increasingly require coercive means to ensure compliance with rules. The reverse is also true, where higher levels of trust reduce compliance costs. Fukuyama (1995) believes that a culture of trust, beyond just the government and its citizens, can provide far reaching benefits for a country.

Dalton (2004), along with Pharr & Putnam (2000) and Stoelle & Hooge (2005) believe that “decreased trust is not limited to a critical attitude towards politicians but extends to a loss of trust in basic democratic institutions and procedures (cited in Marien and Hooghe 2011, 267).” This contrasts the opposing school of thought that believes decreasing levels of trust are due to a new collection of critical citizens, posing little harm. If bedrock institutions and norms are a source of distrust, liberal democracies should monitor it. Not doing so could risk the very foundation of their political systems.

Dalton makes an interesting observation – declining trust in government has spread across almost all advanced industrial democracies at the same time (Dalton 2004). He hypothesizes that it is not a coincidence and is probably due to societal forces. There is a tendency for countries to give proper name explanations. In Canada for example, the reason for this decline was thought to be tensions surrounding nationality and Quebec separatism (Dalton 2005, 138). Germans pointed to the strains of unification and Japan thought prominent scandals and a recession were the cause (Dalton 2005, 138). It is too convenient to attribute these changes to mere coincidence. Social

changes are transforming the relationship between citizens and the state (Dalton 2005, 139) leading to altered expectations of government. These new expectations are not being satisfied, leading to lowered levels of trust.<sup>2</sup>

Generational changes are important because they could lead to a lasting long-term erosion of trust. An interesting phenomenon has occurred. The relationship between age and trust has historically been negative, where younger generations were more supportive of the existing political order than their parents, as they experienced higher living standards and more freedom (Almond and Verba 1963). This trend has reversed to be positive, with younger generations being more cynical than older generations. This reversal has occurred in Canada, Australia, the United States, Germany, Finland and Sweden (Dalton 2005, 145). Previous generations had more material concerns, while young people in wealthy industrial democracies, largely unaccustomed to worrying about basic needs, have shifted their focus to post-materialist concerns such as climate change. A generational change has occurred and it is affecting trust in government. Klingeman (1999) and others have suggested that the number of these critical citizens will only increase in the future (cited in Dalton 2005, 149). Advanced industrial democracies such as Canada have entered a new period in the relationship between government and its citizens. The public is more skeptical and has shifting priorities and values.

### Low trust not a concern

Norris (1999), Inglehart (2008) and Rosanvallon (2008) believe that low or falling trust should not be a concern because it signals governments to respond to demands from the population (cited in Marien and Hooghe 2011, 282). Instead of building trust, governments will have to adapt

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<sup>2</sup> Remember, trust in government can loosely be defined as government performance minus expectations. Changing expectations that are not met will lower trust levels.

to changing conditions. A more intensive form of public scrutiny is an evolution in the relationship between a democratic government and its citizens (Marien and Hooghe 2011, 268). It is argued that the new generation of critical citizens are healthy for society. Without their scrutiny, governments would not be as motivated to respond to the wants of the population. In this way, critical citizens strengthen democracies. Inglehart notes how intergenerational value changes have taken place, creating new priorities for the public, along with different expectations of government (Inglehart 2008, 130). Many who believe that low trust is not a concern, also see a shifting public, but one who is still supportive of the foundations of government, albeit critical.

An underlying assumption of this perspective is that low levels of trust in government are not damaging to the governability of society. In fact, a system of checks and balances exist in advanced democracies that amount to an organized form of distrust, in a constitution for example (Marien and Hooghe 2011, 269). It is assumed that citizens still support democratic procedures and institutions, even if they distrust government for other reasons such as the current political leadership. This contrasts Pharr & Putnam (2000), Dalton (2004) and Stolle & Hooghe (2005) who believe the loss of trust extends to basic democratic institutions and procedures themselves (cited in Marien and Hooghe 2011, 267). Norris (1999) notes that some citizens are even critical of democracy, but still acknowledge that it is a better option than authoritarianism. If, as those who believe that low trust is not an issue, distrust represents more surface level and less systemic type issues, governments can more easily respond to concerns.

#### Correlation between trust and paying taxes

Disagreements surrounding theory on whether low trust should pose a concern to liberal democracies continue. Despite the limitations of trust measuring techniques, interpretations of data

and long-term projections, trust has been shown to be a valuable variable to track. Critics provide valuable feedback, especially given the lack of consensus with elements as basic as definitions, that can be used to improve upon existing models. Even in the face of difficulties, studies have shown that trust is an extremely important determining factor in citizens' adherence to laws and paying taxes. Two such studies by Kucher and Götte and Sholz and Lubell demonstrate this relationship.

Kucher and Götte conducted an empirical analysis of taxpayer honesty in Switzerland. Switzerland is a useful case to study because taxes are not directly deducted from income (Kucher and Götte 1998, 434). Instead, a voluntary declaration is sent, which is later checked by tax authorities (Kucher and Götte 1998, 434). This allows for an unimpeded observation of factors that affect voluntary tax compliance. Further, there is no economic incentive to fill out the voluntary declaration, or fully state income, since no penalties are levied and the tax authority completes the declaration if it is not finished (Kucher and Götte 1998, 435). From an economic and game theory perspective, there is no reason for an individual to complete their taxes. However, that is not what the analysis found.

For many issues in Switzerland, the city government publishes an information brochure that contains the authority's suggestion on how to vote (Kucher and Götte 1998, 436). Issues were wide ranging, resembling more of a direct democracy than in Canada. There is no obligation for individuals to follow these suggestions. Trust was measured as a ratio of concurrence between the city government's recommendation and the actual outcome at the ballot box (Kucher and Götte 1998, 436). When citizens voted with their government's recommendation, it was considered a sign of trust.

The study showed that trust in government reinforced voluntary compliance with laws (Kucher and Götte 1998, 442). Those who followed government recommendations were significantly more likely to submit tax declarations (Kucher and Götte 1998, 438). From 1964 to 1994, between 70 and 90 percent of declarations were submitted (Kucher and Götte 1998, 436). The results reveal that in the absence of enforcement mechanisms and economic incentives, people can still be motivated to comply with laws - especially by trust. According to Kramer and Tyler (1995), the largest motivator of voluntary obedience of laws is trust (cited in Kucher and Götte 1998, 432).

Frey (1997a) found that in a cross-sectional analysis of Swiss cantons that those with the most developed direct democratic instruments had significantly lower rates of tax evasion (cited in Kucher and Götte 1998, 434). This finding is consistent with Tyler and Lind (1992) who found that individuals who believe that their preferences are considered in the political process, are less likely to evade taxes (cited in Kucher and Götte 1998, 442). These studies show that citizens who perceived engagement by the government, are more likely to trust it. In Switzerland this took the form of direct democracy. However, other instruments can be used to increase the perception of engagement, leading to higher levels of trust and resulting compliance.

Kucher and Götte's analysis provides valuable insight into human behavior. Trust in government is a strong predictor of voluntary compliance with laws. This behavioral relationship allows trust to be isolated and used as a workable variable to increase efficiency in government. Kucher and Götte echo Fukuyama, noting how high levels of trust could be used to replace certain controlling tasks and costly enforcement mechanisms (Kucher and Götte 1998, 442). The implication of this relationship between citizens and their government are far-reaching, creating potential low-cost avenues for dramatic improvements.

Sholz and Lubell conducted a regression analysis of perception survey data in the US to measure the effect of trust on tax shirking behavior. To do so, Steenbergen, McGraw and Scholz (1992) conducted an empirical analysis on “survey and tax return data from a project assessing the impact of the 1986 Tax Return Act on taxpayer beliefs, attitudes, and behavior (quoted in Shulz and Lubell 1998, 401).” The mean reported income of the sample was \$7,610, far surpassing the national average of \$3,158 (Shulz and Lubell 1998, 402). The discrepancy meant there was a greater incentive and ability for respondents to cheat, compared to the average taxpayer. Two types of trust were measured, “trust in government” and “trust in citizens” (Shulz and Lubell 1998, 404). Trust in government was measured by the questions, “you can generally trust the government to do what is right” and “dishonesty in government is pretty rare (Shulz and Lubell 1998, 404).” This is similar to other perception surveys. The study also controlled for a sense of duty and fear motivating compliance, two common factors that contribute to paying taxes (Shulz and Lubell 1998, 405).

Results were convincing with higher scores on both trust measurements significantly decreasing noncompliance (Shulz and Lubell 1998, 410). Moreover, trust in government, specifically, had a remarkable effect on tax compliance. As trust moved from its minimum to maximum values, the probability of full compliance moved from 0.29 to 0.99, or close to unanimous compliance (Shulz and Lubell 1998, 410). Clearly trust in government, as measured by these perception surveys, was a significant indicator with practical applications. The potential for maximizing tax revenue is immense.

### **Building Trust in Government**

Trust in government and how to build it, is an emerging area of study and research. Much research has been conducted on employer-employee trust relating to productivity within organizations. However, trust in government presents a much more complex problem. The word “trust” does not even appear in the indexes of most public policy, administration, and management books (Thomas 1998, 168). Given the strong linkage between levels of trust in government and adherence to paying taxes, it is worth understanding what causes it, and how to build it. To better learn how to build trust in government, we must first understand what constitutes it, and then target potential areas of concern in the Canadian government.

#### Conceptions of trust in government

Thomas (1998) notes three conceptions of trust that contribute to trust in the government. First, fiduciary trust covers trust that an individual places in the government to act in their capacity (Thomas 1998, 170). A principal-agent problem exists where the government is trusted to carry out their duties without taking excessive personal advantage. Little can be done by citizens to monitor and control institutional performance. Perceptions of corruption are one of the most important political factors leading to the decline of trust in government in both developing and developed countries (Blind 2006, 11). How this fiduciary relationship is perceived, is vital to the formation of trust in government.

Second, mutual trust develops between individuals who repeatedly interact with each other (Thomas 1998, 170). Although trust in government is a macro issue, it is ultimately comprised of individual interactions. Street level bureaucrats are the primary point of contact between citizens and public organizations (Thomas 1998, 172). It follows that positive personal interactions will generate higher levels of trust in government itself and vice versa.

Third, social trust is a contributing factor because interactions and transactions occur within social systems (Thomas 1998, 175). Putnam (2000) believes organizations, norms and networks foster trustworthiness which helps societies function, creating “social capital” bolstering democracies (cited in Meyer 2001, 84). Increasing this social capital will contribute to trust in government. Although social trust cannot be clearly delineated from fiduciary or mutual trust, being aggregated and interwoven with each (Thomas 1998, 178), it is worth analyzing due to its notable role in affecting trust in government.

### Producing trust

Zucker (1986) has identified three modes of trust production. She created a typology, drawing on an analysis of the US between 1840 and 1920. This section will briefly cover each, focusing on institutional-based trust, the most relevant mode for modern day Canada. First, character-based trust is tied to personal characteristics such as race, sex, and family background (Zucker 1986, 63). An example of this could be a recent immigrant trusting a government representative who shares their country of origin and religion more than one who does not. Second, process-based trust is produced through repeated exchanges over time (Thomas 1998, 179). Like Thomas’ conception of mutual trust, process-based trust builds on the value of exchange. Exchanges vary in degree, do not need to be of any specific value, and can even be strictly symbolic – such as a handshake. Third, institutional trust is produced through institutions as the name suggests. These are tied to formal societal structures and can be specific to individuals or organizations, or intermediary mechanisms like laws and regulations (Zucker 1986).

Institutional-based trust is most important to advanced democracies concerned with raising levels of trust in their governments. Thomas notes how the typology evolves and institutional-

based trust has supplanted character and process-based trust over time (Thomas 1998, 178). Zucker argues that institutional-based trust has become increasingly important with immigration pulling apart insular communities and the transition to a more complex and interconnected economy (Zucker 1986). Governments and their institutions are performing more functions than ever before. Globalization has led to a change in the role of the state. The state must now be a strategic planner instead of a provider of goods and services (Blind 2006, 15). Character-based trust, for example, would be a predominant factor in less developed countries with tight tribal ties. Process-based trust is also replaced as exchanges are made at greater distances and firms emerge, merge, and fail with increasing frequency (Thomas 1998, 182).

#### Sources and remedies of low trust

Forming new institutions is relatively easier than increasing their functionality and legitimacy. Blind argues that the building of trust, therefore, "must become an implicit part of every project of constitution-making and institution-building from the very beginning (Blind 2006, 7)." An important factor contributing to trust in government is the perception of corruption by its citizens. Perception surveys show corruption constitutes the strongest predictor of trust placed in remote political institutions directly (Blind 2006, 12). Much like other trust measurements, appearances are vital. A politician or government employee may be honest and have noble intentions, but if they appear corrupt, trust is lost, nonetheless. The fiduciary relationship between government and its citizens, coupled with a lack of direct involvement, makes the perception of corruption easily created for national governments.

One remedy to perceived corruption is appearance standards. These treat appearances of impropriety itself as an offence, even if none has been committed. They directly address the

perception component so important in the formation of trust. In positions where citizens find themselves vulnerable to deceit, such as in the case of politics, appearance regulations define duties of representatives, leading to citizen inclusion (Warren 2006, 163). Additionally, appearance standards underwrite the capacity for citizens to hold officials accountable, acting as a mechanism, alongside others such as voting, transparency legislation, and media scrutiny (Warren 2006, 163). Appearances signal that the government and its institutions have nothing to hide, addressing the perception of corruption and resulting distrust.

Appearance standards are used to address perceived breaches of trust before they happen. Appearances are especially important in the matter of finances (Warren 2006, 161). Paying taxes is an unpleasant activity where negative perceptions are easily formed. As such, the value of preemptive action is immense. Public perceptions can appear of little value to institutions and their employees. However, as the body of research has shown, these perceptions, especially regarding trust, have dramatic effects on tax compliance. Appearance standards take these perceptions seriously by not allowing them to form. They can be seen as a small upfront cost to prevent future costly mishaps.

Increased citizen engagement is another way to build trust in government. It is well-known that citizens who are not involved in civic activities tend to view the government and its institutions in more negative terms (Blind 2006, 6). This relationship between citizen engagement and trust in government can be traced back to Alexis de Tocqueville who wrote that, “in order to align people with diverse interests toward a common good, they had to participate in democratic decision making (quoted in Saki and Iorio, 14).” Viewing the government and its institutions’ obligations to engage citizens as ending after elections, or seeing it as non-existent as with unelected officials, compromises trust. Treating citizens as active stakeholders builds it.

One method to increase citizen engagement is through computer-based interactions that reach citizens who would otherwise not engage or participate in government (Blind 2006, 17). Kalu (2006) notes how e-participation decreases information asymmetries between the governors and governed, and increases transparency (cited in Blind 2006, 17). Social media has also been shown to increase trust when citizens engage with social issues and plan civic events such as protests (Warren, Salaiman and Jaafar, 299). Further, online civic engagement spills over into fighting corruption through its effect on increasing transparency. Merely participating bolsters feelings of trust, irrespective of outcomes.

Data from a variety of sources suggests a link between engagement with the government and trust, especially relating to the opportunity to have input into decision making (Wesley 2018). Online civic engagement has shown to be a predictor for increasing citizen's trust (Warren et al.). Many individuals who use institutions do not engage with them. E-participation enables wider participation, and for information to become more widely accessible and understandable. Participants can become more involved, even debating if they desire.

## **Recommendations**

### **Federal institutions conducting their own trust measurements**

The CRA is the most important institution that deals with taxpayers. Although trust in government is comprised of trust in its many institutions, the CRA should be the first to implement perception surveys in an effort to monitor and increase trust in itself. Current perception surveys ask ambiguous questions such as, "how much do you trust the government in Ottawa to do what is right (Connolly 2016)?" Multiple questions should be asked, instead. The CRA's survey questions should be much more specific and seek to disambiguate the complex topic that is trust.

Questions must aim to find the sources of distrust so they can be remedied. For example, questions such as “do you believe the CRA is acting in your best interest?” and “in your dealings with the CRA did they ever act with impropriety?” will narrow the focus from a broad feeling of distrust to specific sources. A written component should also be included. Here respondents can write what their issues are specifically. This will help address the common criticism of respondents attributing different meanings to the definitions used. Written answers can later be categorized<sup>3</sup> by researchers to better standardize the process.

Taxpayers and non-taxpayers should also be separated. An advantage afforded to the CRA is that they have a great deal of information on file, and survey respondents can opt in to have their information used. Isolating taxpayers will allow a trust measurement for those comprising Canada’s tax revenue – ultimately what these recommendations are trying to increase. Their responses can be analyzed to see if their sources of distrust are different from non-taxpayers. If so, further work can be done to target these sources. Broad trust in government by its citizens has been shown to be highly correlated with adherence to paying taxes (Kucher and Götte 1998; Shulz and Lubell 1998). Attention paid to the sources of this taxpayer distrust could have an even greater effect on tax revenue collection.

### Appearance standards

The CRA has existing controls under the “Values and Ethics Code for the Public Sector,” and corporate policy instruments such as the “Code of Integrity and Professional Conduct” and the “Directive of Conflict of Interest (Canada Revenue Agency 2021).” Despite these measures, the CRA has major issues positively connecting with its users. The Chief Service Officer, introduced

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<sup>3</sup> For example, sorted by the Thomas (1998) model of fiduciary, mutual or social trust.

in 2018, conducted consultations in the following year and found that 83 percent of respondents had experiences that did not meet their needs (Golombek 2020). A common theme was that experiences went poorly due to rude or unhelpful behavior by employees (Golombek 2020). Many cited agents being aggressive, unfriendly and indifferent (Golombek 2020). These are major concerns, eroding trust for the largest taxpayer institution. The high number of negative experiences, coupled with issues concerning citizen's money and politics, creates an atmosphere ripe for distrust and the appearance of corruption.

To address issues of employee conduct and service, appearance standards should be added on top of existing measures. Standards that enforce the tone used by employees with the public should be used. Behavior and language that appears rude, such as aggression or sarcasm, must be removed. Enforcement is important as these standards have little value unless there is an incentive to follow them. An example of this could be call centre managers punishing agents for having a poor tone in a call, even if their interaction ultimately went positively. The purpose of this appearance standard is to address actions that could be perceived as breaching trust, instead of punishing improper behavior after it has already happened, at which point trust is lost.

### E-participation

In keeping with Zucker's (1986) emphasis on institution-based trust, the CRA should administer an e-participation program to increase user engagement. Given the CRA's extremely negative public perception (Golombek 2020), e-participation gives another avenue to reach citizens, especially taxpayers, leading to an increased perception of engagement, resulting in increased trust. Users will be able to engage via its website. A ten-dimension model will be used that was developed on behalf of the OECD e-government group (Macintosh 2004):

1. Level of participation – CRA users will be engaged via consultation and active participation. Consultation will have issues defined by the CRA, where respondents will share their views. Some issues of importance include employee conduct and slow response times. Active participation will allow participants to define content.
2. Stage in decision-making – Will work within the 1. agenda setting -> 2. analysis -> 3. policy creation -> 4. implementation -> 5. monitoring the policy model (Macintosh 2004, 3). Engagement will occur during 1. agenda setting, 2. analysis, and 5. monitoring phases. Creation of policies and their implementation will not be part of the e-participation process as they are best left to policy professionals.

Agenda setting will include active participation elements where issues that need a policy can be addressed, and existing policies can be critiqued.

The analysis stage will foster participation regarding evidence gathering, to highlight challenges and opportunities.

The monitoring stage will engage participants to review policies in action, that went through the first four steps.

3. Actors – The CRA and its representatives will engage citizens who interact with their website. This includes both taxpayers and non-taxpayers.

4. Technologies used – E-participation will occur on the CRA website. This may be a collaborative development but will be administered by the CRA itself. There is potential for other mediums such as apps to be used in the future. However, the efficacy of website engagement should be proven first.
5. Rules of engagement – Some personal information will need to be collected. The more information that is collected the better. These data can be analyzed and used to make future insights. A registration process will be used to identify users and potentially contact them with any follow up initiatives. If given consent, the CRA can also use existing information on file.
6. Duration & sustainability – Due to the complex nature of trust and the time needed to build it, e-participation should be conducted for a period well exceeding the UK Cabinet Offices’ recommendation of a standard 12-week minimum consultation (cited in Macintosh 2004, 5). One year should be the minimum amount of time for proper evaluation of the program. If participation is extremely low or intended results are proving unfruitful, changes can be made or the program can be abandoned. Conversely, if e-participation is proving effective, additional resources can be added.
7. Accessibility – The channels used to access e-participation tools should be monitored. For example, whether a participant used a home, university or public library computer. This

can be included in the registration process. Special measures to support access may be used, but only if participation rates are problematic.

8. Resources & promotion – E-participation initiatives are relatively new, making costs difficult to estimate. However, the upside from capturing part of the \$45.6 billion or 2.4 percent of GDP lost due to cheating on taxes (Canada Revenue Agency 2016) warrants a sizeable budget. Promotion is important so that greater participation can take place. Traditional promotion outlets should be used like the news and press releases. Advertising on the CRA website and with the federal government, including the proper steps to follow, should be done as well. This will be included as part of the e-participation budget.
9. Evaluation & outcomes – In order to evaluate the success of the program, several factors should be monitored. First, how many people participated – the larger the number the better. Second, whether greater engagement led to an increase in trust in the CRA. The latter can be monitored by the new trust measurements, via perception surveys, that the CRA will be conducting on itself.
10. Critical factors for success – Political, legal, cultural, economic, and technological factors (Macintosh 2004, 6) that contributed to the success or failure of the project. This part is conducted after the project has taken place for a minimum of one year.

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