

# Limits of Legitimacy

## Policy acceptance and tax compliance

INDRIDI H. INDRIDASON\*  
University of California, Riverside

GUNNAR HELGI KRISTINSSON†  
University of Iceland

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### Abstract

Legitimacy is generally considered important to democratic governance. While legitimacy is often seen as representing general attitudes towards and acceptance of authority, its importance rests to some extent on its behavioral consequences. That is, legitimacy must cause individuals to behave differently when they consider, e.g., a policy legitimate than when they think it lacks legitimacy. Here we focus on a much-studied question, tax compliance, and ask how decisions regarding tax policy can be rendered legitimate in the eyes of citizens, and whether their views of the decision's legitimacy affect their willingness to engage in tax evasion. To do so, we employ survey data to consider whether perceptions of participatory processes of decision-making, impartial implementation, outcome favorability, and citizens' general compliance with the policy affect respondents' willingness to engage in tax evasion. We find that whereas legitimization is likely to influence legitimacy, the effect on actual compliance is non-existent. Instead, compliance is conditional and is dependent on the perceived compliance of others. This finding is easier to square with explanations of policy compliance rooted in traditional ways of enforcement than with accounts focused on the role of legitimacy.

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\*Professor, University of California, Riverside, Department of Political Science, 900 University Avenue, CA 92521, USA. e-mail: [indridi.indridason@ucr.edu](mailto:indridi.indridason@ucr.edu).

†Professor, University of Iceland, Department of Political Science, Reykjavik, Iceland. e-mail: ([ghk@hi.is](mailto:ghk@hi.is)). We thank Viktor Orri Valgardsson, Gissur Erlingsson, Peter Esaiasson, Carl Dahlström, Monika Bauhr, Guðbjörg Andrea Jónsdóttir, and Eva Heiða Önnudóttir for useful comments and suggestions.

Recent decades have witnessed growing concerns over declining public trust in politicians and political institutions as well as the erosion of system support (e.g., Dalton 2004; Norris 2011). Declining legitimacy is sometimes considered a potential threat to political stability and democratic forms of government. “Legitimacy theory,” according to Norris (2011, 226), expects those who consider governments to have a legitimate claim to authority to be “significantly more likely to comply voluntarily with the law, believing that it is wrong either to cheat on taxes or to claim government benefits fraudulently.” Reasoning along similar lines, Dalton (2004) finds that greater trust in parliament may create citizens considerably more willing to pay taxes. He adds: “Multiply this by millions of tax returns, and the financial costs of declining trust in government becomes very real” (166).

While the extent and nature of the crisis of legitimacy can be debated, even those who are skeptical of the empirical evidence of a decline in the legitimacy that liberal democracy enjoys, seem to accept that losing legitimacy would have dire consequences. This includes Thomassen and van Ham (2017, 3-4) who argue that there are two reasons why loss of legitimacy would be “serious trouble indeed.” First, a loss of legitimacy would lead to a loss of citizen compliance and the ability to solve collective action problems efficiently. Second, loss of legitimacy would erode the basis of the democratic order, a *sine qua non* for which is citizen consent.

The importance of legitimacy is rarely questioned (although see O’Kane 1993). Yet, there is limited empirical research to substantiate the claims made on behalf of its significance. This is especially surprising as there is no dearth of literature on how legitimacy can be created or lost. We aim to extend the research agenda associated with legitimacy theory beyond the issues of how legitimacy is created or maintained to its effects on behavior. Our focus here is on *compliance* and how it is affected by the acceptance of legitimacy. If accepting justifications of legitimate authority does in fact affect compliance, this would be consistent with claims made about the importance of legitimacy in the literature. If, on the other hand, such a link cannot be established, this may call for reconsideration of some of the tenets of legitimacy theory.

If it can be shown that legitimacy improves compliance and, thus, has a positive effect on the administration and politics of democratic regimes, this would enhance our understanding of how legitimacy contributes to good governance practices and help explain differences in government quality. To do so, however, a clearer understanding of the empirical mechanisms connecting legitimacy and compliance is needed. To put the claims of legitimacy theory to the test we need to consider contexts where the legitimacy of authority conflicts with personal self-interest. That is, if compliance is inconsequential or aligns with individuals’ self-interests, they have little reason not to comply. In such circumstances, the individual’s choices when compliance is justified in terms of legitimacy and when it is not are observationally equivalent.

Thus, the behavioral implications of legitimacy can only be observed where compliance means foregoing some benefits.

We focus here on taxation as it represents a clear instance where acceptance of legitimacy clashes with individuals' self-interests. When it comes to taxes, citizens have clear individual incentives not to comply with authority if they can do so without harmful consequences. Empirically, resistance to paying taxes, through tax evasion or similar means, varies a great deal cross-nationally. According to one estimate, the average tax loss arising from non-payment of taxes in the European Union is 16.4%, ranging from 8.0% in Luxembourg to 29.5% in Romania (Murphy 2019). From the viewpoint of legitimacy theory, legitimacy is an important variable contributing to the efficiency of tax regimes. Here, legitimacy establishes a duty to comply, irrespective of the potential benefits or risks involved. Legitimacy may be established in any number of ways, e.g., through beliefs in democratic procedures, the fairness of the system, or its beneficial outcomes.

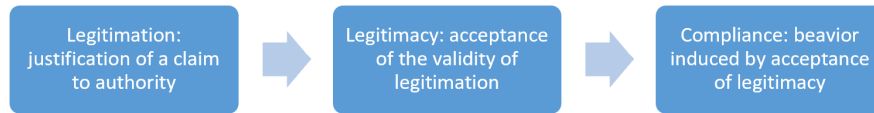
We start by presenting an overview of legitimacy theory, highlighting its strengths as well as some of its problematic features. The literature on legitimacy is vast and our overview is, thus, necessarily incomplete. Instead, we seek to highlight the features we see as being most relevant to issues related to the effects of legitimacy on compliance. We then discuss our research design and the data we will use to evaluate the claims of legitimacy theory. We ask two questions; i) are assessments of the qualities of decision-making processes correlated with individuals' perceptions of the legitimacy of the policy outcome, and ii) do those perceptions of legitimacy affect compliance with tax policy?

To preview our findings, we find that assessments of the decision-making process are correlated with individuals' perceptions of legitimacy, but we find limited evidence for the commonly accepted assumption that legitimacy affects compliance with the policy. Instead, we find that compliance is more closely related to expectations about whether others will comply. It is tempting to interpret this finding as legitimacy generating positive expectations about other citizens complying. However, we show that this is unlikely to be the case as expectations about the compliance of others are not correlated with perceptions of legitimacy.

## Legitimacy theory

Legitimacy has been used to embrace different concepts, ranging from legality to political support and trust in politics or institutions. Some treatments of legitimacy are so broad as to preclude any meaningful testing of the relationship between the major components of legitimacy theory. For example, Gilley (2006) suggests that legality, justifications, and consent constitute three sub-types of legitimacy, and subsequently develops indicators of legitimacy which include various measures, including acts of consent such as tax compliance. However,

**Figure 1: LEGITIMACY THEORY**  
—RELATIONSHIP BETWEEN LEGITIMATION, LEGITIMACY, & COMPLIANCE—



by considering measures of legitimacy that include both justifications and compliance, he foregoes the possibility of testing the core features of legitimacy theory.

For the sake of conceptual clarity, it is useful to distinguish between legitimation, legitimacy, and compliance. *Legitimation* refers to justifications for claims to authority, which may or may not be accepted by those they are directed at. *Legitimacy*, on the other hand, refers to acceptance of such claims, irrespective of on which grounds they are accepted. *Compliance* refers to the behavioral consequences of accepting legitimacy, although there clearly are other means of inducing compliance. However, taking a cue from Weber (1968) and others, we argue that for legitimacy to matter it must result in voluntary compliance, i.e., legitimacy without some behavioral consequences is little more than a nice idea.<sup>1</sup> Mainstream legitimacy theory, as we perceive it, is the theory that legitimation, legitimacy, and compliance are related in a particular way as shown in Figure 1.

We aim to explore the links represented by the two arrows in Figure 1, using tax policy as our testing ground. We focus on tax policy, as it provides a context in which individuals have a clear incentive not to comply with the policy. Legitimacy theory implies *legitimation* should influence *compliance*, but to conclude that is the case, evidence consistent with both of the relationships represented by the arrows in figure 1 must be present.<sup>2</sup>

## Legitimation & Legitimacy

We have defined legitimacy as acceptance of claims to authority as valid. Clearly, however, not every kind of deference to authority can be seen as a genuine instance of a belief in legitimacy. In some cases, such deference may be purely instrumental, e.g., based on narrow self-interest such as obtaining financial gain or avoiding sanctions rather than being based on genuine acceptance of authority. In Weber’s (1968) treatment of the subject, he emphasized the importance of “appropriate attitudes”:

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<sup>1</sup>It is, of course, possible that legitimacy has more subtle, but nonetheless important, effects through affecting attitudes or support for institutions or political actors. However, at the end of the day, it is difficult to envision those to matter much, if they never require individuals to act, or be willing to act, because of their acceptance of legitimacy.

<sup>2</sup>A more narrow interpretation of legitimacy theory might focus on only the relationship between legitimacy and compliance, but its practical implications would seem rather limited without an understanding of the sources of political authority.

It is by no means true that every case of submissiveness to persons in positions of power is primarily (or even at all) oriented to this belief. Loyalty may be hypocritically simulated by individuals or by whole groups on purely opportunistic grounds, or carried out in practice for reasons of material self-interest. Or people may submit from individual weakness and helplessness because there is no acceptable alternative (214).

In most real-life situations it is difficult to identify whether individuals defer to authority because they consider the authority legitimate or because they do so because of material interests (whether positive or negative). Under controlled conditions, however, it is more manageable (Dickson et al. 2022).

Different reasons may be given to substantiate claims to legitimacy. Authority claims may rest on divine rights, the power of tradition, or the qualities of a charismatic leader, to name but a few (e.g., Weber 1968, see further Gilley 2009, ch. 2). Whatever the nature of the claim, Patty and Penn (2014) suggest political decisions earn legitimacy through a process of *legitimation*, i.e., the comparison of decisions or decision-making mechanisms in terms of whether they respect given principles. Patty and Penn (2014) do not focus on particular principles, but they might, e.g., include equality of influence, access to decision-making, etc. — legitimation involves the systematic application of the principle to different decision-making methods. Their approach has the advantage of broadening the potential scope of legitimacy theory to different branches of government, including the bureaucracy and judiciary. Similarly, it allows different forms of legitimation, i.e., the legitimating principles may concern input, procedures, and output.

Recent theorizing tends to distinguish between input, procedural, and output legitimation (Rothstein 2011; Tyler 2006; Scharpf 1999; Strebel et al. 2018). In each case, important features of the decision-making process or its effects are believed to provide justifications for accepting claims to authority as valid.

Input justifications of legitimacy suggest that decision-making processes that provide opportunities for participation and judicious weighing of preferences establish solid grounds for valid authority claims. Authors working in the contractarian traditions seek rules for making decisions that fulfill minimum conditions of rationality and fairness so that individuals are likely to accept them as binding without knowing specific outcomes or how they might affect each of them. Such theorizing may rest on different theoretical foundations. From a rational choice perspective, Buchanan and Tullock's (1962) 'constitutional economics' considers the conditions under which individuals might be willing to accept collective decisions based on the methods by which the decisions are made. This, they conclude, calls for restrictive collective decision-making procedures such as unanimity or supermajority. More commonly, however, scholars claim that the institutions of electoral democracy create legitimacy, based on the idea that the majority should have its way (O'Donnell, 2007). Moreover, growing

interest in a wide range of democratic innovations in recent decades seems, to a large degree, to be motivated by a concern with enhancing legitimacy (e.g., Smith 2020). Werner and Marien (2020), e.g., suggest that participatory processes perform better than representative ones in generating legitimacy.

Procedural justifications of legitimacy emphasize the application of authority in a fair and impartial manner as inducements for acceptance. Rothstein (2011, 313) argues that electoral democracy is, for example, “highly overrated when it comes to creating legitimacy.” Instead “[i]t is the absence of corruption, discrimination, and similar violations of the principle of impartiality in exercising political power that serves to create political legitimacy” (Rothstein 2011, 325). Claims to legitimacy, in this view, are based less on the outcome of a vote, participation, or the decision reflecting the ‘general will’ than on the rule of law and procedural fairness, and, especially, whether citizens are dealt with in an impartial manner. Research in social psychology can be invoked to support Rothstein’s claims (e.g., Tyler 2006) and considerable research on taxation has emphasized the importance of procedural justice and fairness for the evaluation of tax arrangements (Kirchler 2007; Tyler 2001; Wenzel 2003). Key elements of procedural justifications of legitimacy include impartiality, respectful treatment of citizens, and transparency (including providing justifications for the decisions reached) (e.g., De Fine Licht et al. 2014; Dickson et al. 2015; Marien and Werner 2019; McGraw 1998). Fairness-seeking action by authorities, according to Dickson et al. (2022), may also strengthen intrinsic motivations to comply.

Finally, output justifications refer to the extent to which decisions are thought to provide favorable results. Theories of ‘stealth democracy’ suggest that most people do not care much for participation and that a participatory democracy will not necessarily lead to better decision-making or a more robust democracy. On the contrary, what people care about is the substance of decisions in terms of their effects, rather than the procedure used to make them (Hibbing & Theiss-Morse 2002). This lays the foundations of legitimacy squarely on the output side of the political process as opposed to inputs and procedures. For example, regarding police legitimacy, Hough et al. (2013) suggest that important drivers include effective policing and perceived distributive fairness. When it comes to taxation, output justifications may emphasize the beneficial consequences of taxation, either individually or collectively. Thus, Alm et al. (1992) and Bergman (2002), e.g., find that although a number of factors induce tax compliance, one reason is that individuals value the public goods that are financed through taxation.

Thus, in line with the literature, we think of legitimating arguments as taking the form of input, procedural, and output justifications. While thinking about legitimation in terms of arguments or justifications suggesting the case being made for a process or a decision being legitimate, in our analysis below we focus on individuals’ evaluations of the process

in terms of input, procedure, and output and ask whether, and which, of the legitimating principles are correlated with individuals' perceptions of legitimacy.<sup>3</sup>

While a substantial body of research has examined the relative impact of input, procedural, and output legitimation, simple answers are hard to come by. Some authors argue in favor of participatory solutions to problems of legitimacy; others suggest that impartiality or the favorability of outcomes provide the key (Bengtson & Mattila 2009; Grimes 2005; Skitka et al. 2003; Tyler 2006). Survey experiments conducted by Arnesen (2017) suggest that “decision-making influence generally did not serve as a legitimating factor” while respondents who saw decisions going in their favor found them “much more acceptable” (Arnesen 2017, 146). Strebelt et al. (2018) suggest, however, that while output evaluations are the most influential factor affecting citizens' choice of governance arrangements, their wishes for input and influence are not conditioned by the quality of output.

Crucial to all versions of legitimacy theory, however, is the contention that legitimation matters. That is, authority acquires legitimacy through arguments about why the authority ought to be considered legitimate, i.e., through a process of legitimation. This is true of input, procedural, and output variants of the theory. For example, a legitimating argument might emphasize that citizens participated in making the decision. Whether, or how well, legitimating arguments work is, however, an empirical question. We present three hypotheses to address the different types of legitimation (focused on input, procedural, and output). We do not claim that these provide a comprehensive measure of all possible variants of legitimation. Rather, we try to capture essential elements of each type, leaving alternative specifications for future research. Thus, reflecting popular preferences is considered an important feature of input legitimation while impartial implementation is a key feature of procedural legitimation. Perceptions of the favorability of the outcome are, similarly, thought to constitute an important feature of output legitimation.

**H1:** The perceived legitimacy of tax policy is influenced by respondents' evaluation of it in terms of legitimating principles, which include input, procedural, and output justifications.

**H1a:** [*Input Legitimation*] Respondents who consider the policy change to reflect popular preferences attribute greater legitimacy to the policy.

**H1b:** [*Procedural Legitimation*] Respondents who expect impartiality in the implementation of the policy attribute greater legitimacy to the policy.

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<sup>3</sup>One might ask why, instead, we do not take the argument literally and present respondents with legitimating arguments. The reason is that perceptions of legitimacy are likely fairly stable, meaning they are difficult to influence in an experimental setting — perceptions of legitimacy are the result of prior experiences and interactions with the state and a single treatment in an experiment is unlikely to do much to change that perception. Elsewhere, we test legitimacy theory in an experimental setting where the context is less familiar, and respondents are less likely to have strong priors about the legitimacy of the process.

**H1c:** [*Output Legitimation*] Respondents who consider the policy more favorable to themselves attribute greater legitimacy to the policy.

## Legitimacy & Compliance

Most versions of legitimacy theory assume a teleological relationship between the acceptance of legitimacy and compliance. It is, however, not given that acceptance of the legitimacy of a policy decision compels individuals to comply with the policy. An individual can consider a decision legitimate and yet not act in accordance with the decision. For example, an individual may consider speed limits legitimate but still choose to exceed the speed limit when they feel safe to do so. This is true regardless of the legitimating arguments underpinning legitimacy, e.g., public input in the determination of the speed limit, whether the individual agrees with the choice of a speed limit, or whether the speed limits are fairly enforced. The importance of legitimacy, however, rests on legitimacy having an effect, i.e., that the behavior of individuals is different when they consider a policy legitimate as opposed to when they do not accept its legitimacy. Much of the work on legitimacy takes the connection between legitimacy and compliance as given — perhaps understandably as the importance of legitimacy rests, at least partly, on it affecting compliance.<sup>4</sup> However, whether legitimacy affects compliance is an empirical question that has until recently received limited attention (e.g., Reisig and Bain 2016; Sommerer and Agné 2018; Tankebe 2019).

One reason legitimacy may fail to induce compliance is that concerns about legitimate authority almost necessarily involve political, or social, choices. That is, acceptance of legitimacy relies on assessments of the principles guiding collective decision-making. In contrast, compliance rests on individual assessments of the costs and benefits of compliance — and as we know from the extensive literature on collective action problems, individual choices often do not align with the social good. Even in contexts where individuals are fully cognizant of the benefits of collective action, they also know that their own behavior is unlikely to be consequential. Thus, there are reasons to think that legitimacy does not automatically lead to compliance — at least where individuals' self-interests make compliance costly.

In this manuscript, we examine whether the perceived legitimacy of tax policies influences compliance with the policy and reduces tax evasion. There is some evidence that legitimacy may play a role in increasing the efficiency of tax collection. Norris (2011, 226) reports that those with strong democratic values are more likely to believe it is wrong to cheat on taxes. This does not imply that they would not take advantage if offered the opportunity. Norris' analysis focuses on attitudes toward cheating on taxes rather than behavior or behavioral intentions. Thus, while her findings appear consistent with H1 they say little

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<sup>4</sup>Of course, legitimacy may have additional benefits, beyond the scope of the present paper, e.g., by contributing to regime support.



about the relationship between legitimacy and compliance. Gilley (2009, ch. 5) argues in favor of the importance of legitimacy for a wide variety of political phenomena, including state effectiveness, stability, and democratic breakdown, to name a few. The broadness of his legitimacy measure, however, makes his claims difficult to evaluate empirically, since it includes both factors of legitimation, legitimacy, and compliance. State performance, according to him “depends critically on legitimacy and is also its major source”. Hence, he prefers to speak of “various equilibrium points of state performance and citizen response” rather than “one way causal relationships” (153).

However, even if we accept Gilley’s (2009) characterization at the macro level, legitimacy theory still suggests that we should see a relationship between acceptance of legitimacy and compliance at the individual level. Hence, to evaluate the theory we hypothesize that individuals are more likely to comply with a policy when they accept its legitimacy.

**H2:** Respondents who consider a tax policy legitimate are more likely to comply with the policy.

Several factors, however, may intervene in this relationship and prevent it from materializing, including the strength of the economic incentives at play (e.g., Alm et al. 1992). Braithwaite (2003) notes the importance of differentiating between attitudinal or motivational postures about taxation and actual behavior. While economists typically invoke external variables to account for tax compliance (tax rates, income, audit, fines), psychologists typically reference internal ones (knowledge of tax law, attitudes to government and taxation, norms, fairness, motivational tendencies) (Hofmann et al. 2008). According to Hofmann et al. (2008, 209) “economic determinants are moderated by psychological variables”.

But how strong are the economic determinants compared to the psychological ones? An important body of research suggests that expectations about how others behave have an important effect on behavior (Cialdini and Goldstein 2004). In the well-established case of college drinking, students who overestimate the amount of alcohol consumed by others are likely to drink more (Borsari and Carey 2003). Norms play a key role, according to this, in providing standards against which behavioral choices can be measured. While it may be tempting to interpret this as support for psychological mechanisms, there are different types of norms. Some are prescriptive, as in the case of injunctive norms, which refer to beliefs about how people should behave, while others are descriptive, referring to beliefs about what people actually do (Eriksson et al. 2015). In some cases, adherence to descriptive norms may serve individuals well, irrespective of the extent to which they are internalized, as a heuristic or informational shortcut (Lapinski and Rimal 2005). Thus, Bicchieri and Xiao (2008) find that expectations about what others do has a significant impact on people’s decisions while the same is not true about expectations about what others think ought to be done.

Perhaps the most ambitious attempt to develop a rational notion of tax compliance is that of Levi (1988). Levi claims rulers can reduce the cost of obtaining compliance in three ways: through coercion, ideology, and quasi-voluntary compliance. Coercion, however, can be costly, and ideology relies a lot on “extrarational” motivations, which makes it difficult to model in rational choice terms. This leaves quasi-voluntary compliance as Levi’s main contribution to the tax compliance literature. Such compliance, in the case of taxes, is “voluntary because taxpayers choose to pay”, while it is “quasi-voluntary because the non-compliant are subject to coercion — if they are caught” (52). Levi considers confidence in rulers using taxpayers’ contributions to produce desired goods and in other taxpayers keeping their end of the bargain as necessary conditions for conditional compliance.

There is an ambiguity in Levi’s formulation in that it is not entirely clear if it is primarily the normative obligation constituted by legitimacy that creates conditional compliance (i.e., compliance when others are believed to comply) or if it is the belief in credible enforcement (evidenced, e.g., through widespread compliance by others) which creates this result. The former explanation is very much in line with legitimacy theory. Recognition of legitimacy, according to this, is sufficient to establish a belief in norms as appropriate standards for behavior, but insufficient to produce actual compliance when it involves costs or loss of opportunities for individual improvement unless it is accompanied by the belief that others will comply as well. If it is believed that others will not comply with tax decisions (even ones that the individual taxpayer approves of) then abstaining from cheating will simply be perceived as losing out on an opportunity and be costly to the taxpayer.

The latter explanation, which moves beyond legitimacy theory, suggests that compliance does not only depend on legitimacy but may, instead, reflect beliefs among taxpayers concerning the effectiveness of tax enforcement. Levi suggests that the effectiveness of sanctions is conditional on general compliance, i.e., resources devoted to inducing compliance are used more effectively when they can be targeted at a relatively small population of non-compliers. While Levi’s argument emphasizes the link between quasi-voluntary compliance, in which the state and taxpayers honor the bargain, and the effectiveness of sanctions, this second explanation does not rely on intrinsic legitimacy in the same manner. That is, while legitimacy is integral to generating quasi-voluntary compliance, the argument about the role of sanctions is more of an economic argument about the costs and benefits of tax evasion where the expected costs decline when noncompliance is more common.

Empirically we can discriminate between the Levi’s two mechanisms by noting that the former argument implies an interaction between perceptions of legitimacy and the expectation that others will comply, while the latter implies that the expectations that others will comply does not depend on whether the respondent considers the policy legitimate or not.

**H3a:** [*Legitimacy-Conditional Compliance*] Respondents who expect others to comply with the tax policy and consider the policy legitimate are more likely to comply.

**H3b:** [*Conditional Compliance*] Respondents who expect others to comply with the tax policy are more likely to comply regardless of whether they consider the policy legitimate or not.

To summarize, we will examine the two links in the causal chain connecting legitimation, legitimacy, and compliance suggested by legitimacy theory. First, whether the perceived legitimacy of political decisions is influenced by respondents' perceptions of the qualities of the decision-making process in terms of input, procedural, and output legitimation and, second, whether perceptions of legitimacy affect their stated intentions to comply with the policy. We examine the above hypotheses in two steps. In the first part of our analysis, we consider whether different legitimating factors affect evaluations of the legitimacy of a hypothetical tax policy reform. In the second part, we consider whether the respondents' evaluations of the legitimacy of the policy affect their propensity for tax avoidance.

## Methods and Data

To test the hypotheses, data was collected using an online survey conducted in Iceland, an established North European democracy whose government enjoys a high level of legitimacy and tax compliance, but — as our data shows — sufficient variations in both variables to make testing meaningful. The Icelandic state is generally viewed as legitimate, whose citizens tend to be considered law-abiding, and tax evasion and fraud would be considered low or average from a comparative perspective.<sup>5</sup> While the focus on a single country limits the generalizability of our findings, Iceland is a good case to consider as one would, a priori, expect legitimacy theory to have some purchase there. Thus, if we find that legitimacy affects compliance in Iceland, it leaves open the question of whether legitimacy matters in the same way in countries that face greater challenges regarding legitimacy. On the other hand, if legitimacy fails to impact compliance, it suggests that the hurdles that legitimacy needs to overcome to affect compliance might be larger where the political systems enjoy less legitimacy.

The online survey was carried out by the Social Science Research Institute (SSRI) of the University of Iceland and consisted of a panel of 6,400 respondents. The survey was part of a larger project on legitimacy that consisted of a four-wave survey panel. The data was collected between 14 March and 7 July 2019 based on a representative random sample from the SSRI's Online Panel. The Online Panel is drawn randomly from the National Population Register, stratified by gender, age, and residence, reflecting population parameters among

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<sup>5</sup>See, e.g., Erlingsson (2016).

persons aged 18 and above. The response rate of individuals completing at least one round of the survey was 71.3% while a total of 2688 (42%) completed the questions related to the tax vignette. Drop-off is most likely related to the length and complexity of the survey. The sample is fairly representative in terms of gender and whether respondents live in rural areas but skews older and more educated than the population as a whole.

The survey has three components. We present the respondents with a vignette consisting of a hypothetical policy. We focus on taxation as decisions regarding taxation are fundamental questions that any state must tackle and because there are clear individual incentives not to comply. As in the other Nordic countries, tax rates in Iceland are high, providing significant incentives to evade taxes. The text of the vignette was as follows:

*Many people believe that tax avoidance and tax evasion need to be dealt with more effectively to secure revenue for the treasury and distribute the tax burden fairly. Imagine that to deal with this problem the government proposed a major initiative to improve tax collection. According to this, tax rates would be lowered to a certain extent, but surveillance strengthened. In your case, the effects would be negative, despite a lower tax rate, because of increased auditing and greater effort in preparing tax returns.*

We opted not to offer much detail about the proposed tax reform — doing so would risk some respondents not seeing the reform as affecting them. Framing the tax reform in terms of a general principle — taxes are lower if everyone complies (or is made to comply) — allows respondents to think that those policies might affect them in some manner. Note that what our analysis demands from the vignette is that there is some variation in the respondents' evaluations, i.e., our interest is not in the policy as such but simply whether their perceptions of the decision-making process affect policy legitimacy and, eventually, whether that perception of legitimacy translates into compliance.<sup>6</sup> The vignette was successful in that regard, i.e., we find significant variation in the responses across our questions related to the vignette, including the question of compliance where respondents appear quite willing to confess willingness to avoid taxation.<sup>7</sup>

Following the vignette, respondents were given additional information on consultation and support during the decision process (input legitimacy) and impartiality (procedural legitimacy). They were then asked to evaluate the process regarding the following independent variables:

*(a) Input Legitimation (Popular preferences): How well or poorly do you think the decision to increase tax surveillance and reduce taxes, reflected the wishes of the people?*

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<sup>6</sup>On a related note, while the question is essentially double-barreled that is not a concern here as we are not interested in whether lower taxes or greater auditing has a bigger effect on legitimacy.

<sup>7</sup>Summary statistics are provided in the appendix.

- (b) *Procedural Legitimation (Impartiality): Bearing in mind the information above, how likely or unlikely do you think all taxpayers are being treated equally by the tax authorities?*
- (c) *Output Legitimation (Personal benefit): How favorable or unfavorable do you think it would be for you personally according to the information above if taxes were lowered while surveillance increased?<sup>8</sup>*

Each variable was measured on a 0-10 scale. While the questions cannot be considered to capture input, procedural, and output legitimacy fully — and there are good reasons to think that other considerations feed into the different types of legitimacy — it is reasonable to think, e.g., that individuals that think the decision reflects the wishes of the majority would see the decision as enjoying greater (input) legitimacy.

Output legitimation can come in two forms as the individual may form opinions about whether the policy is good from a societal point of view and about how the policy will impact themselves. If individuals engage in output legitimation in terms of how the policy affects their own purse, then there is possibly tension between input and procedural legitimacy on the one hand and output legitimacy on the other. To account for this possibility, we also consider an interaction between input and procedural legitimation in our analysis.<sup>9</sup>

The second component focused on perceptions of legitimacy. As the concept of legitimacy is not necessarily clearly understood by respondents, we tested different formulations (decision acceptance, fairness). However, the different measures did not result in substantively different assessments. The question was:

*How legitimate or illegitimate do you consider the decision to change the tax policy?*

Finally, respondents were asked to evaluate how likely it was that they would comply with the policy as well as their expectation that others would comply.

- (a) *Compliance: Imagine you were offered an opportunity to improve your lot considerably in a business transaction with a local contractor, at nearly no risk of being detected. You might save quite a lot of expenses by your standards by paying in cash, without a receipt. How likely or unlikely would you be to take advantage of such an opportunity?*
- (b) *Expected compliance: How likely or unlikely do you think, based on the information above, that other taxpayers are taking advantage of opportunities to evade taxes?*

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<sup>8</sup>While the vignette suggests that the policy will affect the respondent negatively, respondents may vary in terms of how negatively the policy affects them.

<sup>9</sup>There is, of course, nothing that says that assessments of input and procedural legitimacy cannot be in conflict. For the sake of parsimony — and conflict between personal benefit and the other types of legitimacy appear more likely — we do not consider the full set of interactions but present models including interactions between our proxies for input and procedural legitimacy in the appendix.

Our analysis below also controls for various variables that may affect perceptions of legitimacy and compliance. *Trust in Parliament* reflects trust in the political system and, of course, the actor in charge of adopting the tax reform. Variables measuring trust are often used as indicators for legitimacy so one might argue that controlling for trust in parliament was inappropriate. Trust in parliament, however, may be a function of observing parliament’s decisions and actions over a longer period of time, while our focus is on whether a particular legislation is considered legitimate. We present the model with and without the control variables (and, as it turns out, trust in parliament does not have much effect on the estimated effects of our main explanatory variables. *Risk-seeking* is a measure of the respondent’s willingness to take risks as an answer to the question “How willing are you to take risks, in general?”<sup>10</sup> Both variables are measured on a 0-10 scale. We also include agreement with two statements intended to assess general attitudes towards taxation. The first statement was “[p]aying someone cash with no receipt in order to avoid paying taxes is wrong” and the second was “[s]anctions against income tax evasions should be severe.” Agreement with both statements was on a 1-5 point scale and the two variables, *No receipt OK* and *Sanctions should be weak*, were recoded so that high values reflect lax attitudes towards tax evasion.<sup>11</sup>

Finally, we include a series of socio-economic variables that are self-explanatory: *Age*, *Female*, *Rural*, *University*, and a four-category *Occupation* variable where salaried employees are the baseline category and the other categories consist of i) employers and those self-employed, ii) students, and iii), under other, those not working for a variety of reasons, e.g., retirees, the disabled, the unemployed, people on parental leave, etc.

## Legitimacy

We begin by examining how perceptions of legitimating characteristics affect the respondents’ assessment of the policy’s legitimacy. The perceived legitimating characteristics are the respondents’ assessments of whether the policy reflected the preferences of the majority of citizens, whether the policy’s implementation is expected to be impartial, and how much the policy would benefit them. These correspond to principles related to, respectively, input, procedural, and output legitimation.

Table 1 presents the results of the analysis of respondents’ perception of the legitimacy of the legislature’s decision. The results are consistent with the three hypotheses regarding input, procedural, and output legitimacy. Those who considered reducing taxes while strengthening enforcement reflected the preferences of the majority were more likely to see the decision as legitimate. The effect of an increase in *Popular Preferences* by two standard

<sup>10</sup>Dohmen et al. (2010) demonstrate that this seemingly general question performs well in capturing risk attitudes.

<sup>11</sup>Summary statistics are provided in the appendix.

deviations is estimated to increase perceptions of decision legitimacy by about 2.15.<sup>12</sup> The effect of the same change in *Personal Benefit* is substantially smaller or about 1.10. While also statistically significant, the effect of whether the respondents consider the procedure to be impartial is smaller still. A two standard deviation change in *Impartiality* is predicted to increase decision legitimacy by only .54.

There are some indications that the effects of input and procedural legitimation are conditioned by output legitimation, or whether the respondents see the policy benefiting them personally, although the interaction terms in columns 2-4 are not consistently statistically significant. While the statistical significance depends on which control variables are included, the overall pattern is consistent. As Figure 1 suggests, respondents who perceive the policy to benefit them more are less influenced by concerns about majority support or impartiality. This relationship must, however, be interpreted with care as our dependent variable is bounded and a large share of the respondents are clustered at high values of *Personal Benefit* (and are, thus, also likely to have high decision legitimacy). Indeed, when accounting for censoring by estimating a Tobit model (instead of an OLS model), the conditional relationship disappears. In sum, we find clear evidence that input, procedural, and output legitimacy matter but little, if any, suggesting that the different types of legitimacy interact in more complicated ways to affect decision legitimacy.

For the most part, the control variables have little or no effect on decision legitimacy. *Trust in Parliament* has a substantively small, but statistically robust, effect on legitimacy. There is a slight indication that more risk-averse respondents are more likely to consider the decision acceptable — the effect is both small and only statistically significant in the model without the full set of controls. Students appear to be substantially more accepting of the decision than others — perhaps because they tend to pay less taxes and, thus, have fewer opportunities to avoid taxes. The two variables that measure attitudes towards tax evasion and enforcement, predictably, affect decision legitimacy but, importantly, the inclusion of these variables has little impact on the estimated effect of our key independent variables.

## Compliance

We now turn to examining whether the respondent's intention to comply is influenced by: i) their perception of the policy's legitimacy and ii) their expectations about the compliance of others. Our dependent variable, *Compliance*, is the respondent's response to a question about how unlikely they are to take advantage of an opportunity to save a significant amount by engaging in a business transaction in cash, without a receipt. Admittedly this is not a direct measure of tax compliance, and the answers may be affected by social desirability bias. However, the large number of respondents who indicate that they might take advantage of

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<sup>12</sup>The calculations are based on the full specification in column (4).

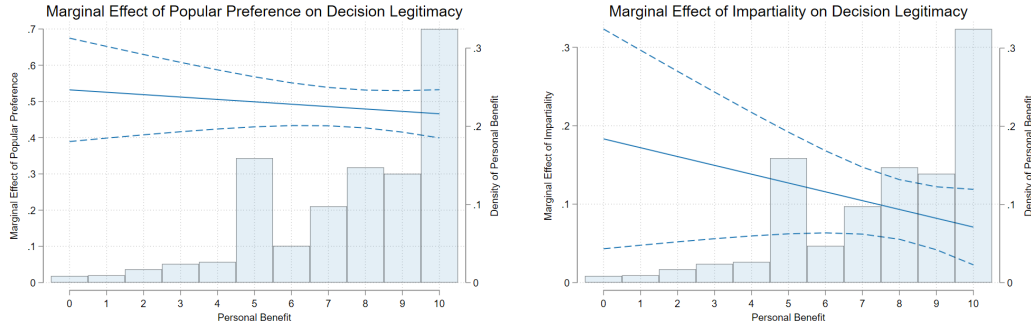
**Table 1: THE EFFECT OF LEGITIMATING PRINCIPLES ON POLICY LEGITIMACY**

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.462*** (0.019)	0.565*** (0.052)	0.535*** (0.063)	0.532*** (0.073)
IMPARTIALITY	0.123*** (0.014)	0.259*** (0.048)	0.245*** (0.062)	0.196*** (0.072)
PERSONAL BENEFIT	0.271*** (0.017)	0.427*** (0.040)	0.339*** (0.048)	0.330*** (0.057)
POP. PREF.×PERSONAL BENEF.		-0.015** (0.006)	-0.006 (0.008)	-0.007 (0.009)
IMPARTIALITY×PERSONAL BENEF.		-0.017*** (0.006)	-0.018** (0.007)	-0.012 (0.008)
TRUST IN PARLIAMENT			0.088*** (0.018)	0.080*** (0.020)
RISK-SEEKING			-0.026 (0.019)	-0.023 (0.022)
AGE				0.001 (0.005)
FEMALE				0.128 (0.107)
RURAL				-0.129 (0.105)
UNIVERSITY				0.236** (0.107)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				0.023 (0.175)
– STUDENT				0.831** (0.418)
– OTHER				-0.120 (0.138)
SANCTIONS SHOULD BE WEAK				-0.251*** (0.059)
CONSTANT	1.265*** (0.140)	0.187 (0.287)	0.463 (0.361)	1.002* (0.542)
OBSERVATIONS	2648	2648	1820	1377
$R^2$	0.42	0.42	0.43	0.46

Standard errors in parentheses. \* p &lt; 0.10, \*\* p &lt; 0.05, \*\*\* p &lt; 0.01



**Figure 2: MARGINAL EFFECTS OF POPULAR PREFERENCES AND IMPARTIALITY**  
—CONDITIONAL ON PERSONAL BENEFIT—



the opportunity suggests a relatively high level of candidness. It is measured on a 0-10 scale with 0 signifying non-compliance and 10 compliance.

Our main independent variables are *Legitimacy* and *Expected Compliance*. *Legitimacy* is the respondent’s evaluation of the legitimacy of the policy, i.e., the same variable that served as the dependent variable in the analysis above.<sup>13</sup> *Expected Compliance* operationalizes conditional compliance as the response to a question about whether the respondent thinks other citizens will take advantage of similar opportunities. It is measured on a 0-10 scale with 0 denoting that no one is expected to comply and 10 that everyone complies.<sup>14</sup>

We also include *Personal Benefit* as the perceived benefit of the policy can be expected to have a direct impact on compliance with the policy (in addition to the indirect effect through legitimacy). It is reasonable to think that the effect of the expected compliance of others might depend on potential gains from non-compliance, we also include an interaction between *Expected Compliance* and *Personal Benefit*. The models include the same control variables as in the analysis above.

The results are intriguing. As shown in Table 2, perceptions of legitimacy appear to correlate positively with the respondents’ intent to comply with the policy as legitimacy theory maintains, with the effect being statistically significant in the first three models. However, the estimated effect is fairly weak — the average level of compliance for individuals who accept the policy’s legitimacy without reservations is only one point higher than that of individuals who consider the policy completely illegitimate. Another way to think about

<sup>13</sup>Here we are primarily interested in the effects of legitimacy on compliance and not in the type of legitimation that gives rise to that legitimacy. That is, in terms of the legitimacy of the decision, *Popular Preferences*, *Impartiality*, and *Personal Benefit* are causally prior to *Decision Legitimacy* and, except for *Personal Benefit*, it seems unlikely that the variables influence *Compliance* through other causal paths. We do, however, present models that include the variables in question in the appendix. The substantive conclusions remain the same.

<sup>14</sup>Note that *Expected Compliance* was not included in the models of *Decision Legitimacy*. We present and discuss those results in the appendix (Table A6) but, in short, we find no evidence that *Expected Compliance* affects *Decision Legitimacy*.

**Table 2:** THE EFFECT OF ACCEPTANCE OF LEGITIMACY ON COMPLIANCE

	(1)	(2)	(3)	(4)
PERCEIVED LEGITIMACY	0.107*** (0.024)	0.113*** (0.035)	0.106** (0.042)	0.068 (0.048)
PERSONAL BENEFIT	0.096*** (0.025)	0.096*** (0.025)	0.080*** (0.029)	0.039 (0.034)
EXPECTED COMPLIANCE	0.674*** (0.025)	0.688*** (0.065)	0.641*** (0.077)	0.638*** (0.091)
PERC. LEGITIM.×EXP. COMPL.		-0.002 (0.009)	0.003 (0.011)	0.002 (0.012)
TRUST IN PARLIAMENT			-0.014 (0.025)	-0.024 (0.028)
RISK-SEEKING			-0.092*** (0.026)	-0.046 (0.031)
AGE				0.013* (0.007)
FEMALE				0.518*** (0.150)
RURAL				0.099 (0.148)
UNIVERSITY				0.384** (0.150)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				0.190 (0.244)
– STUDENT				-0.309 (0.583)
– OTHER				-0.031 (0.194)
SANCTIONS SHOULD BE WEAK				-0.615*** (0.084)
CONSTANT	2.074*** (0.209)	2.032*** (0.275)	2.683*** (0.363)	3.063*** (0.614)
OBSERVATIONS	2596	2596	1794	1359
$R^2$	0.23	0.23	0.23	0.28

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

the magnitude of the effect is to note that if we think of a counterfactual where perceived legitimacy increases by one for everyone then we would expect one in ten individuals to increase their intent to comply by one point — the other nine would not indicate a greater likelihood to comply.

In contrast, *Expected Compliance* has both a statistically significant and a substantively large effect. An increase in *Expected Compliance* by two standard deviations (about four points on the eleven-point scale) is estimated to increase respondents' compliance by 2.62. Thus, what is particularly striking about these results is that the effect of *Perceived Legitimacy* is much smaller than the effect of conditional compliance — its coefficient is only about one-sixth of the coefficient for *Expected Compliance*.

We also suggested that one reason *Expected Compliance* might matter was that it influences perceptions of legitimacy. If one observes others complying, one might infer that the others think the policy is legitimate. If one is not completely certain about the policy's legitimacy then one might want to update one's perception of the policy's legitimacy. To put it slightly differently, if everyone else behaves as if the policy is legitimate then it probably is. If *Expected Compliance* impacts perceptions of legitimacy, then we should find an interaction effect between *Perceived Legitimacy* and *Expected Compliance*. As Figure 3 shows, this does not appear to be the case — the marginal effect of *Perceived Legitimacy* is estimated to be slightly larger when *Expected Compliance* is higher but the difference is not statistically significant.<sup>15</sup>

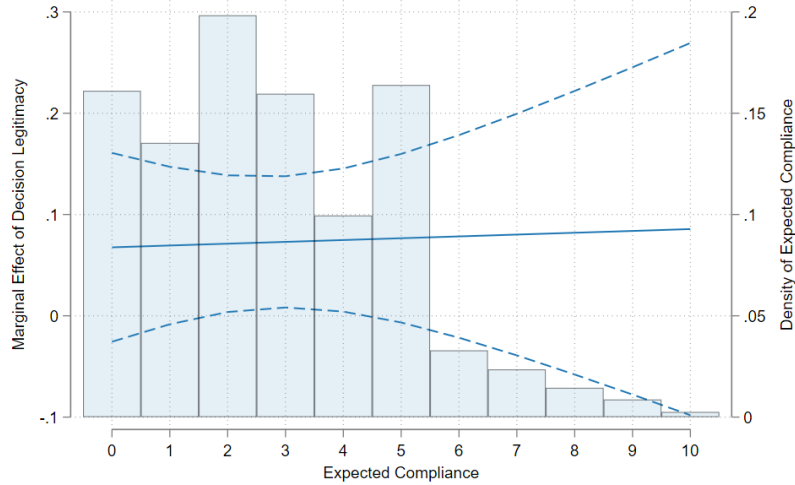
Unsurprisingly, risk-seekers are less likely to comply as are those that have more lax attitudes about the need for a receipt when engaging in transactions and those that believe sanctions should be weak. Women and those with a university education are significantly more likely to turn down an opportunity to save money by engaging in tax evasion (in the form of engaging in receipt-free transactions).

Overall, these findings are quite interesting as they suggest that respondents' assessment of the legitimacy of the decision essentially has no effect on their stated intentions to comply with the tax policy. That is, perceptions of legitimacy appear to have no effect, or next to none, on tax compliance. Perceptions of legitimacy may, however, still matter as they might affect the respondent's perception of whether others comply. That is, if the respondent perceives the decision to be legitimate, they may expect others to share that perception and, therefore, to be more likely to comply with the policy. This does, however, not appear to

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<sup>15</sup>There is an important caveat as the test effectively rests on priming. That is, the questions about legitimacy precede the questions about the compliance of others in the survey. Thus, the assumption is that the latter questions prime the respondents to think about whether others will comply and what that implies about legitimacy. If that is the case, then the marginal effect of *Expected Compliance* should decline when the respondent's (pre-priming) perception of legitimacy is high. Of course, the lack of significance of the interaction coefficient could also be due to the priming effect not being strong enough. However, we obtain the same result in an analogous setting focused on public goods provision where we experimentally manipulate information about the contributions of others (citation omitted).

**Figure 3:** MARGINAL EFFECTS OF PERCEIVED LEGITIMACY ON TAX POLICY COMPLIANCE  
 — CONDITIONAL ON EXPECTED COMPLIANCE—



be the case — those considering the decision legitimate are no more likely to expect others to comply.<sup>16</sup> Thus, we fail to find any evidence to suggest that legitimacy has a significant effect on compliance.

There may, of course, be other explanations for why legitimacy does not appear to influence compliance. Our analysis asks respondents to consider the legitimacy of a hypothetical tax reform and to indicate whether they would take the opportunity to avoid taxes in another hypothetical situation. It is possible that the respondents fail to make a connection between the two hypotheticals. However, given the proximity of the two hypotheticals in the survey, and the battery of questions related to legitimacy, that strikes us as being very unlikely. Another concern is that these are, after all, hypotheticals and that they may, therefore, fail to elicit the responses from the respondents that we hope for. Again, we cannot rule that possibility out, but one might also argue that the deck is stacked in favor of the legitimacy thesis — facing a question that has no real-world consequences one might expect respondents to cave into social desirability bias and decline the opportunity to engage in hypothetical tax fraud. But, more importantly, there are indications that the respondents engage with the hypotheticals as shown by the somewhat unexpected willingness to pay under the table and that perceptions of the compliance of others affect the respondent’s own decision to comply.<sup>17</sup>

<sup>16</sup>The correlation between decision legitimacy and expected compliance is, e.g., -.02 among the respondents included in the regression in the fourth column of Table 2.

<sup>17</sup>One possible approach that we considered was to examine the hypotheses in an incentivized lab experiment. While recently there has been some interesting work using such approaches, we tend to see legitimacy as the result of repeated exposure to legitimation arguments, rather than reactions to short-term stimuli, which raises questions about external validity. Thus, we see incentivized experiments as complementing rather

## Discussion

Our work here speaks to theories of political legitimacy and offers interesting insights that warrant attention. We find that evaluations of the legitimating qualities of a political decision influence perceptions of its legitimacy. This applies most strongly to input and output legitimation, but procedural legitimation has a significant impact as well. This is largely in line with the arguments found in legitimacy theory. While getting citizens to accept legitimating arguments may not be an easy task, this is generally good news. It suggests that citizens who have a more favorable view of the decision-making and implementation process are likely to accept the legitimacy of the outcome. It is, however, not all good news as, counter to the assumptions of most theories of legitimacy, where legitimacy is thought to induce compliant behavior, we find that the perceived legitimacy of the political decision has very little impact on compliance — even for individuals who consider the decision favorable to them.

Thus, while respondents with more favorable views of the decision-making process (and outcome) tend to consider the decision legitimate, that has little effect on their decision to comply with the policy. The results, therefore, pose a significant challenge to legitimacy theory, the importance of which rests in part on the idea that legitimacy matters and that it influences citizens' behavior and substitutes for more coercive methods of ensuring compliance. While our findings fall short of demonstrating that legitimacy does not matter, they do suggest that the scope of legitimacy theory may be more circumscribed than scholars typically maintain.

Another interesting finding is that the perceived compliance of others has a large impact on compliance. The more people expect others to comply with authority, the more likely they are to comply themselves, irrespective of whether they perceive the decision as legitimate or not. Such conditional compliance could be seen as being explained by legitimacy, i.e., that citizens will be compelled to comply if they observe others comply and consider the policy legitimate. Alternatively, it could be explained by rational calculations about the cost and benefits of complying in the face of imperfect enforcement. Our findings provide little support for the idea that legitimacy plays a role when it comes to conditional compliance, i.e., the effect of expectations about the compliance of others is independent of the citizen's perception of the policy's legitimacy. Thus, while our evidence cannot be considered conclusive, this suggests that conditional compliance is more likely to be driven by the credibility of enforcement. When the authorities are perceived as successful in achieving general compliance individuals are likely to adopt cue-taking behavior favoring compliance instead of risk-taking or engaging in demanding calculations of costs and benefits.

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than substituting our approach here and, in our view, it makes sense to start with observational data before designing a lab experiment.

The result may also be consistent with other causal mechanisms. For example, one might conceive of citizens as playing a repeated game where the behavior of others is not a model for behavior in the sense of a heuristic but an indication that the citizens have coordinated on a particular equilibrium. Underlying such an explanation is the notion that citizens understand the social desirability of an effective taxation regime and that defecting from it may undermine it. It is, however, a challenge to consider this a rational behavior as the citizens face strong incentives to freeride as in other public goods situations. That said, the finding that the expectations that others will comply matter is an interesting one — and one that deserves further exploration.

Our findings have some practical implications as they suggest that while more participatory decision-making or great procedural fairness in the implementation of policies may help alter perceptions of legitimacy, greater legitimacy may have limited impact in the sense that it does not appear to make citizens more likely to comply with rules, regulations, or administrative decisions. That is not to say that greater legitimacy will not have other important benefits, e.g., in the form of less contentious politics, regime stability, etc. That may well be the case. Our findings here, however, suggest that perceiving policies as being legitimate does not automatically lead citizens to comply. This suggests, at minimum, that ensuring compliance with administrative rules and decisions cannot rely on legitimacy alone but must instead rely on the more traditional means of shaping citizens' incentives to comply using sticks and carrots.

The findings also raise interesting questions about the conditions under which compliance fails or succeeds. That is, the results suggest that we should generally find two types of equilibria; one where most comply and another when most do not. That further suggests that there should be a tipping point in terms of expectations about compliance, i.e., once a certain level of compliance is reached, it can be expected to increase. Fall below it and one ought to witness further decline. This raises interesting, and potentially important, questions about the factors that determine that tipping point or threshold. Again, this remains the subject of future research.

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# Appendix

## Survey questions

The survey was conducted in Icelandic. Below are direct translations of the main questions used in the analysis. Note that such direct translations can give the impression of greater or lesser validity than the original version. For example, as noted in the text, the direct translation of the question about legitimacy works better than the Icelandic version as the Icelandic term for legitimacy can be understood in different ways (hence, the robustness checks in this appendix). Others, such as the question about impartiality work better in its original Icelandic version.

The vignette presented to the survey respondents was as follows: “Many people believe that tax avoidance and tax evasion need to be dealt with more effectively to secure revenue for the treasury and distribute the tax burden fairly. Imagine that in order to deal with this problem the government proposed a major initiative to improve tax collection. According to this, tax rates would be lowered to a certain extent, but surveillance strengthened. In your case, the effects would be negative, despite a lower tax rate, because of increased auditing and greater effort in preparing tax returns.”

### Main dependent and independent variables and corresponding survey questions:

*Decision Legitimacy:* “How legitimate or illegitimate do you consider the decision to change the tax policy?” [*Hversu réttmæta eða óréttmæta telur þú ákvörðunina um skattkerfisbreytinguna hafa verið?*]

*Impartiality:* “Bearing in mind the information above, how likely or unlikely do you think all taxpayers are being treated equally by the tax authorities?” [*Miðað við það sem fram kom í textanum að ofan, hversu líklegt eða ólíklegt telur þú að allir skattgreiðendur sitji við sama borð gagnvart skattayfirvöldum?*]

*Popular Preferences:* “How well or poorly do you think the decision to increase tax surveillance, and to reduce taxes, reflected the wishes of the people?” [*Hversu vel eða illa telur þú að ákvörðunin um að herða skattaeftirlit og samfara því lækka skatta hafi endurspeglad vilja almennings?*]

*Personal Benefit:* “How favourable or unfavourable do you think it would be for you personally, according to the information above, if taxes were lowered while surveillance increased?” [*Hversu hagstætt eða óhagstætt telur þú að það sé fyrir þig persónulega, miðað við frásögnina að ofan, að skattar lækki en eftirlit aukist?*]

*Compliance:* “Imagine that you were offered an opportunity to improve your lot considerably in a business transaction with a local contractor, at nearly no risk of being detected. You might stand to save quite a lot of expenses by your standards by paying in cash, without a receipt. How likely or unlikely would you be to take advantage of such an opportunity?” [*Hugsum okkur að þér byðist tækifæri til að bæta þinn hag verulega í viðskiptum við verktaka í þinni heimabyggð, án þess að þú tækir með því neina raunverulega áhættu. Þú gætir sparað þér útgjöld sem þig munaði verulega um með því að borga nótulaust, í reiðufé. Hversu líklegt eða ólíklegt er að þú myndir nýta þér slíkt tækifæri?*]

*Expected Compliance:* “How likely or unlikely do you think, according to the information above, that other taxpayers are taking advantage of opportunities to evade taxes?” [*Hversu líklegt eða ólíklegt telur þú, miðað við frásögnina að ofan, að aðrir skattgreiðendur hafi nýtt sér tækifæri til að skjóta undan skatti?*]

*No receipt ok:* “Do you agree or disagree with the following statement? Paying someone cash with no receipt in order to avoid paying VAT or other taxes is wrong.” (5-point scale) [*Hversu sammála eða ósammála ert þú eftirfarandi staðhæfingu? Það er rangt að eiga nótulaus viðskipti til að komast hjá því að borga virðisaukaskatt eða aðra skatta.*]

*Sanctions should be weak:* “Do you agree or disagree with the following statement? Sanctions against income tax evasions should be severe.” (5-point scale) [*Hversu sammála eða ósammála ert þú eftirfarandi staðhæfingu? Það eiga að vera þung viðurlög við að skjóta tekjum undan skatti.*]

*Decision Acceptance:* “How satisfied or dissatisfied are you with the decision to lower tax rates while increasing surveillance?” [*Óháð því hvað þú hefðir helst viljað, ert þú sátt/ur eða ósátt/ur við þá niðurstöðu?*]

*Decision Fairness:* “How fair or unfair do you consider the decision to lower tax rates while increasing surveillance to be?” [*Hversu sanngjarna eða ósanngjarna telur þú ákvörðunina um skattkerfisbreytinguna hafa verið?*]

**Table A.1:** DESCRIPTIVE STATISTICS

Variable	Observations	Mean	Std. Dev.	Min	Max	Pop.*
Decision Legitimacy	2,648	6.96	2.47	0	10	–
Decision Compliance	2,587	5.48	3.03	0	10	–
Popular Preferences	2,648	6.7	2.25	0	10	–
Impartiality	2,648	4.25	2.79	0	10	–
Expected Compliance	2,590	2.82	2.08	0	10	–
Personal Benefit	2,648	7.64	2.39	0	10	–
Decision Legitimacy	2,626	7.16	2.46	0	10	–
Decision Fairness	2,626	6.89	2.48	0	10	–
Trust in Parliament	2,592	3.84	2.56	0	10	–
Risk-seeking	1,846	4.69	2.36	0	10	–
No receipt ok	1,782	1.54	0.81	1	5	–
Sanctions should be weak	1,756	1.82	0.88	1	5	–
Age	2,648	55.28	14.01	18	91	46.4
Female	2,648	0.47	0.5	0	1	.49
Rural	2,640	0.39	0.49	0	1	.37
University	2,011	0.42	0.49	0	1	.36

\* Population statistics obtained from Statistics Iceland.

## Alternative Model Specification

### Missing observation

The panel format of the survey leads to a large loss in the number of observations when the full set of covariates is included as a fairly large number of respondents did not complete all the survey panels. It is naturally a concern that those who fail to complete all the surveys differ in some way from those who do. In the body of the paper, we used all available observations for each model specification. A simple way to assess whether including or excluding respondents affects the result is to compare the results in the body of the paper with the same model specification where the sample is restricted to the observations included in the full model specification. The results are shown in table A.2. The differences from Table 1 in the body of the manuscript are trivial indicating that sample selection is not an issue here.

**Table A.2: TAX POLICY LEGITIMACY**  
— RESTRICTED TO SAMPLE USED IN FULL MODEL SPECIFICATION —

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.510*** (0.026)	0.555*** (0.074)	0.538*** (0.073)	0.532*** (0.073)
IMPARTIALITY	0.119*** (0.019)	0.218*** (0.073)	0.201*** (0.072)	0.196*** (0.072)
PERSONAL BENEFIT	0.254*** (0.024)	0.340*** (0.057)	0.332*** (0.057)	0.330*** (0.057)
POP. PREF. × PERSONAL BENEF.		−0.007 (0.009)	−0.006 (0.009)	−0.007 (0.009)
IMPARTIALITY × PERSONAL BENEF.		−0.012 (0.009)	−0.013 (0.009)	−0.012 (0.008)
TRUST IN PARLIAMENT			0.092*** (0.020)	0.080*** (0.020)
RISK-SEEKING			−0.032 (0.021)	−0.023 (0.022)
AGE				0.001 (0.005)
FEMALE				0.128 (0.107)
RURAL				−0.129 (0.105)
UNIVERSITY				0.236** (0.107)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				0.023 (0.175)
– STUDENT				0.831** (0.418)
– OTHER				−0.120 (0.138)
SANCTIONS SHOULD BE WEAK				−0.251*** (0.059)
CONSTANT	1.131*** (0.197)	0.530 (0.413)	0.526 (0.427)	1.002* (0.542)
OBSERVATIONS	1377	1377	1377	1377
$R^2$	0.43	0.43	0.44	0.46

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## Sources of Legitimacy & Compliance

The models of tax compliance in the body of the text focused on the effects of the voters' assessment of *Decision Legitimacy*. It is also interesting to examine whether the factors contributing to legitimacy have a direct impact on tax policy compliance. In Table A.3, we include our measures of the different types or sources of legitimacy, i.e., *Popular Preferences*, *Impartiality*, and *Personal Benefit*, in the models in place of *Decision Legitimacy*. Overall, the results are substantively similar with *Expected Compliance* having a positive, substantive, and statistically significant effect on expected compliance. Furthermore, there is no indication that the effect of expected compliance of others on tax policy compliance is conditional on the factors hypothesized to affect how legitimate the policy is considered.

As our survey respondents may not have spent a lot of time thinking about the legitimacy of policy decisions, we also included a question asking the survey respondents to rate their acceptance of the tax policy on an eleven-point scale in our survey. Table A.4 presents the results of regression analogous to those in Table 2 in the paper, replacing *Decision Legitimacy* with the respondents' responses to the question of whether they considered the policy change acceptable. The results are substantively similar.



**Table A.3:** THE EFFECT OF LEGITIMATING PRINCIPLES ON POLICY COMPLIANCE

	(1)	(2)	(3)	(4)
POPULAR PREFERENCES	0.002 (0.027)	-0.001 (0.040)	-0.011 (0.049)	-0.059 (0.055)
IMPARTIALITY	0.019 (0.020)	0.024 (0.031)	0.016 (0.039)	-0.010 (0.043)
COMPLIANCE	0.665*** (0.025)	0.712*** (0.083)	0.658*** (0.099)	0.570*** (0.122)
PERS. BENEF.	0.144*** (0.025)	0.161*** (0.038)	0.134*** (0.047)	0.079 (0.054)
POP. PREF.×EXP. COMPL.		0.001 (0.012)	-0.000 (0.015)	0.009 (0.017)
IMPARTIALITY×EXP. COMPL.		-0.002 (0.009)	0.007 (0.011)	0.007 (0.012)
PERS. BENEFIT×EXP. COMPL.		-0.006 (0.011)	-0.004 (0.014)	-0.002 (0.016)
TRUST IN PARLIAMENT			-0.000 (0.025)	-0.009 (0.029)
RISK-SEEKING			-0.096*** (0.027)	-0.051* (0.031)
AGE				0.015** (0.007)
FEMALE				0.528*** (0.150)
RURAL				0.109 (0.147)
UNIVERSITY				0.354** (0.150)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				0.259 (0.246)
– STUDENT				-0.396 (0.599)
– OTHER				-0.078 (0.193)
SANCTIONS SHOULD BE WEAK				-0.654*** (0.083)
CONSTANT	2.388*** (0.216)	2.254*** (0.312)	3.004*** (0.405)	3.634*** (0.647)
OBSERVATIONS	2616	2616	1805	1372
$R^2$	0.22	0.22	0.23	0.28

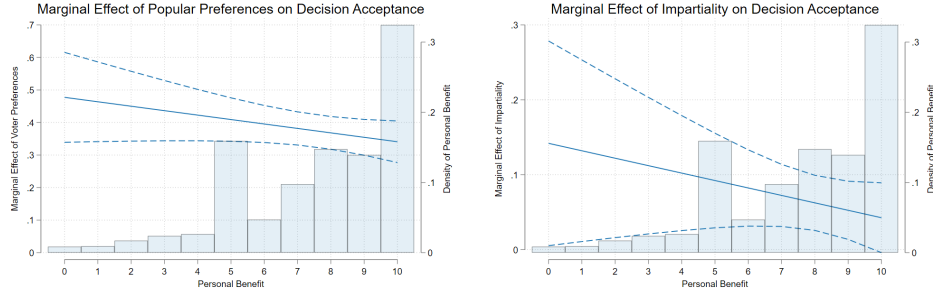
Standard errors in parentheses. \* p &lt; 0.10, \*\* p &lt; 0.05, \*\*\* p &lt; 0.01

**Table A.4:** EFFECT OF DECISION ACCEPTANCE ON TAX POLICY COMPLIANCE

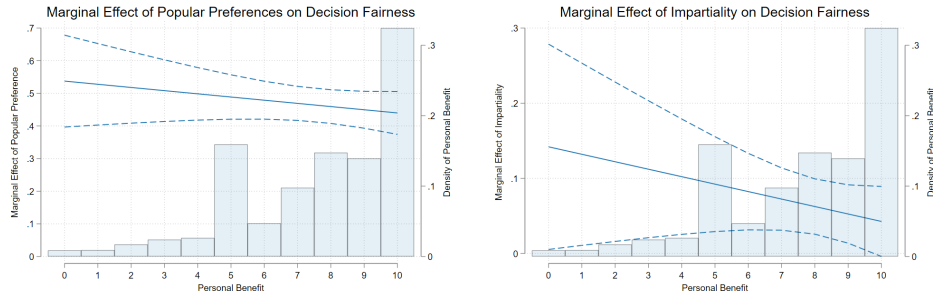
	(1)	(2)	(3)	(4)
DECISION ACCEPTANCE	0.147*** (0.026)	0.193*** (0.037)	0.148*** (0.044)	0.065 (0.051)
PERSONAL BENEFIT	0.060** (0.027)	0.059** (0.027)	0.060* (0.031)	0.031 (0.036)
EXPECTED COMPLIANCE	0.677*** (0.025)	0.791*** (0.070)	0.725*** (0.083)	0.646*** (0.100)
DECISION ACCEPT. $\times$ EXP. COMPL.		-0.016* (0.009)	-0.008 (0.011)	0.001 (0.013)
TRUST IN PARLIAMENT			-0.006 (0.024)	-0.020 (0.028)
RISK-SEEKING			-0.085*** (0.026)	-0.042 (0.030)
AGE				0.014* (0.007)
FEMALE				0.517*** (0.149)
RURAL				0.059 (0.147)
UNIVERSITY				0.385** (0.149)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				0.236 (0.244)
– STUDENT				-0.280 (0.583)
– OTHER				-0.059 (0.193)
SANCTIONS SHOULD BE WEAK				-0.631*** (0.084)
CONSTANT	2.038*** (0.205)	1.712*** (0.277)	2.426*** (0.369)	3.089*** (0.619)
OBSERVATIONS	2642	2642	1819	1375
$R^2$	0.23	0.23	0.24	0.28

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Figure A.1:** MARGINAL EFFECTS OF POPULAR PREFERENCES & IMPARTIALITY ON  
DECISION ACCEPTANCE  
—CONDITIONAL ON PERSONAL BENEFIT—



**Figure A.2:** MARGINAL EFFECTS OF POPULAR PREFERENCES & IMPARTIALITY ON  
DECISION FAIRNESS  
—CONDITIONAL ON PERSONAL BENEFIT—



## Decision Legitimacy, Acceptability, and Fairness

In our analysis of the sources of legitimacy, we used *Decision Legitimacy* as our dependent variable. The word in Icelandic that we used for legitimacy was réttmæti. The word lögmæti is also often used to refer to legitimacy, but it is often understood to refer to legality. To better ascertain whether our question is tapping into notions of legitimacy (as opposed to legality), we also asked the respondents the degree to which they considered the decision i) acceptable and ii) fair. While neither captures the idea of legitimacy perfectly, both introduce an element of a subjective or a normative assessment. The responses were provided on the same eleven-point scale. Our concern appears largely unfounded as running models analogous to those in Table 1 in the body of the paper while using Tax Policy Acceptability and Tax Policy Fairness as our dependent variables produce highly similar results. The results are shown in tables A.5 and A.6 and the marginal effects of *Popular Preferences* and *Impartiality* are shown in figures A2 and A3.

**Table A.5:** EFFECT OF LEGITIMATING PRINCIPLES ON POLICY ACCEPTANCE

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.449*** (0.019)	0.554*** (0.052)	0.543*** (0.062)	0.537*** (0.072)
IMPARTIALITY	0.144*** (0.014)	0.268*** (0.049)	0.211*** (0.061)	0.194*** (0.071)
PERSONAL BENEFIT	0.281*** (0.017)	0.432*** (0.041)	0.355*** (0.048)	0.353*** (0.056)
POPULAR PREF.×PERSONAL BENEF.		-0.015** (0.006)	-0.009 (0.008)	-0.010 (0.009)
IMPARTIALITY×PERSONAL BENEF.		-0.016*** (0.006)	-0.011 (0.007)	-0.010 (0.008)
TRUST IN PARLIAMENT			0.082*** (0.017)	0.068*** (0.020)
RISK-SEEKING			-0.013 (0.018)	-0.005 (0.022)
AGE				0.004 (0.005)
FEMALE				0.143 (0.106)
RURAL				-0.163 (0.103)
UNIVERSITY				0.191* (0.105)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				-0.187 (0.173)
– STUDENT				0.648 (0.412)
– OTHER				-0.133 (0.136)
SANCTIONS SHOULD BE WEAK				-0.301*** (0.058)
CONSTANT	1.113*** (0.140)	0.060 (0.292)	0.262 (0.356)	0.768 (0.534)
OBSERVATIONS	2641	2641	1817	1376
$R^2$	0.42	0.43	0.45	0.47

Standard errors in parentheses. \* p &lt; 0.10, \*\* p &lt; 0.05, \*\*\* p &lt; 0.01

**Table A.6:** EFFECT OF LEGITIMATING PRINCIPLES ON POLICY FAIRNESS

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.449*** (0.019)	0.554*** (0.052)	0.543*** (0.062)	0.537*** (0.072)
IMPARTIALITY	0.144*** (0.014)	0.268*** (0.049)	0.211*** (0.061)	0.194*** (0.071)
PERS. BENEF.	0.281*** (0.017)	0.432*** (0.041)	0.355*** (0.048)	0.353*** (0.056)
POP. PREFERENCES×PERSONAL BENEF.		−0.015** (0.006)	−0.009 (0.008)	−0.010 (0.009)
IMPARTIALITY × PERS. BENEF.		−0.016*** (0.006)	−0.011 (0.007)	−0.010 (0.008)
TRUST IN PARLIAMENT			0.082*** (0.017)	0.068*** (0.020)
RISK-SEEKING			−0.013 (0.018)	−0.005 (0.022)
AGE				0.004 (0.005)
FEMALE				0.143 (0.106)
RURAL				−0.163 (0.103)
UNIVERSITY				0.191* (0.105)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				−0.187 (0.173)
– STUDENT				0.648 (0.412)
– OTHER				−0.133 (0.136)
SANCTIONS SHOULD BE WEAK				−0.301*** (0.058)
CONSTANT	1.113*** (0.140)	0.060 (0.292)	0.262 (0.356)	0.768 (0.534)
OBSERVATIONS	2641	2641	1817	1376
$R^2$	0.42	0.43	0.45	0.47

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## Decision Legitimacy & Expected Compliance of Others

Our analysis of decision legitimacy did not include the *Expected Compliance* variable we included in the analysis of tax policy compliance. The reason we do not include Expected Compliance in the decision legitimacy models is simply that in contrast to the variables identified in the first two sets of hypotheses, we are unaware of research emphasizing the importance of the expected compliance of others on whether voters consider a decision legitimate or not. There are reasons to think that the willingness of others to comply with the decision might influence evaluations of the policy's legitimacy. That is, citizens may infer something about the policy's 'true' legitimacy from the behavior of others, e.g., if others comply one may infer that one possible reason they comply is that they consider the policy legitimate.

To consider this possibility, we re-estimate the models in Table 1 of the paper while including *Expected Compliance* (and its interaction with *Personal Benefit*) in our models. The results are shown in table A.7. Interestingly, we find that expectations of compliance of others are negatively correlated with the respondents' perception of the policy's legitimacy. We lack the imagination to come up with a plausible explanation for why that would be the case but take some comfort in the fact that the estimated effect is very small in substantive terms and that we do not find a similar effect when examining whether expectations about the compliance of others are correlated with *Decision Acceptance* (Table A.8) or *Decision Fairness* (Table A.9).

**Table A.7:** DOES EXPECTED COMPLIANCE OF OTHERS AFFECT POLICY LEGITIMACY?

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.463*** (0.019)	0.554*** (0.053)	0.512*** (0.064)	0.521*** (0.073)
IMPARTIALITY	0.129*** (0.014)	0.301*** (0.049)	0.267*** (0.063)	0.228*** (0.073)
EXPECTED COMPLIANCE	-0.051*** (0.018)	-0.114** (0.055)	-0.126* (0.066)	-0.191** (0.082)
PERS. BENEF.	0.264*** (0.017)	0.405*** (0.047)	0.308*** (0.055)	0.292*** (0.062)
POP. PREF.×PERSONAL BENEF.		-0.013** (0.007)	-0.004 (0.008)	-0.006 (0.009)
IMPARTIALITY×PERSONAL BENEF.		-0.022*** (0.006)	-0.020*** (0.007)	-0.015* (0.009)
EXP. COMPL.×PERSONAL BENEF.		0.009 (0.007)	0.008 (0.008)	0.016 (0.010)
TRUST IN PARLIAMENT			0.089*** (0.018)	0.080*** (0.020)
RISK-SEEKING			-0.030 (0.019)	-0.026 (0.022)
AGE				0.003 (0.005)
FEMALE				0.156 (0.108)
RURAL				-0.119 (0.105)
UNIVERSITY				0.244** (0.107)
– SELF-EMPLOYED/EMPLOYER				0.014 (0.175)
– STUDENT				0.821** (0.418)
– OTHER				-0.147 (0.139)
SANCTIONS SHOULD BE WEAK				-0.248*** (0.059)
CONSTANT	1.435*** (0.153)	0.468 (0.347)	0.920** (0.422)	1.349** (0.571)
OBSERVATIONS	2590	2590	1797	1364
$R^2$	0.42	0.43	0.43	0.46

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Table A.8:** DOES EXPECTED COMPLIANCE OF OTHERS AFFECT POLICY ACCEPTENCE?

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.358*** (0.018)	0.422*** (0.052)	0.504*** (0.062)	0.474*** (0.071)
IMPARTIALITY	0.085*** (0.014)	0.261*** (0.048)	0.130** (0.061)	0.145** (0.071)
EXPECTED COMPLIANCE	-0.025 (0.017)	-0.011 (0.053)	0.012 (0.065)	-0.035 (0.080)
PERS. BENEF.	0.418*** (0.017)	0.564*** (0.045)	0.508*** (0.054)	0.483*** (0.060)
POP. PREF.×PERSONAL BENEF.		-0.010 (0.006)	-0.016** (0.008)	-0.014 (0.009)
IMPARTIALITY×PERSONAL BENEF.		-0.022*** (0.006)	-0.006 (0.007)	-0.010 (0.008)
EXP. COMPL.×PERSONAL BENEF.		-0.002 (0.007)	-0.004 (0.008)	-0.001 (0.010)
TRUST IN PARLIAMENT			0.027 (0.017)	0.028 (0.020)
RISK-SEEKING			-0.033* (0.018)	-0.023 (0.021)
AGE				0.006 (0.005)
FEMALE				0.095 (0.104)
RURAL				-0.039 (0.101)
UNIVERSITY				-0.040 (0.104)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				-0.076 (0.169)
– STUDENT				0.831** (0.405)
– OTHER				-0.167 (0.133)
NO RECEIPT OK				-0.231*** (0.068)
SANCTIONS SHOULD BE WEAK				-0.284*** (0.064)
CONSTANT	1.273*** (0.148)	0.241 (0.337)	0.516 (0.414)	1.484*** (0.558)
OBSERVATIONS	2626	2626	1816	1376
$R^2$	0.44	0.44	0.43	0.46

Standard errors in parentheses. \* p &lt; 0.10, \*\* p &lt; 0.05, \*\*\* p &lt; 0.01



**Table A.9: DOES EXPECTED COMPLIANCE OF OTHERS AFFECT POLICY FAIRNESS?**

	(1)	(2)	(3)	(4)
POPULAR PREFERENCE	0.448*** (0.019)	0.526*** (0.053)	0.523*** (0.063)	0.523*** (0.072)
IMPARTIALITY	0.144*** (0.014)	0.283*** (0.050)	0.228*** (0.062)	0.230*** (0.072)
EXPECTED COMPLIANCE	-0.016 (0.018)	-0.130** (0.055)	-0.114* (0.065)	-0.218*** (0.081)
PERS. BENEF.	0.280*** (0.017)	0.376*** (0.047)	0.322*** (0.054)	0.299*** (0.061)
POP. PREF.×PERSONAL BENEF.		-0.012* (0.007)	-0.007 (0.008)	-0.009 (0.009)
IMPARTIALITY×PERSONAL BENEF.		-0.018*** (0.006)	-0.013* (0.007)	-0.014 (0.009)
EXP. COMPL.×PERSONAL BENEF.		0.015** (0.007)	0.010 (0.008)	0.023** (0.010)
TRUST IN PARLIAMENT			0.084*** (0.017)	0.069*** (0.020)
RISK-SEEKING			-0.017 (0.019)	-0.008 (0.022)
AGE				0.006 (0.005)
FEMALE				0.169 (0.106)
RURAL				-0.156 (0.104)
UNIVERSITY				0.197* (0.106)
OCCUPATION (REF. SALARIED):				
– SELF-EMPLOYED/EMPLOYER				-0.191 (0.173)
– STUDENT				0.647 (0.412)
– OTHER				-0.158 (0.136)
SANCTIONS SHOULD BE WEAK				-0.296*** (0.059)
CONSTANT	1.170*** (0.153)	0.537 (0.349)	0.676 (0.416)	1.202** (0.562)
OBSERVATIONS	2589	2589	1795	1363
$R^2$	0.42	0.43	0.45	0.47

Standard errors in parentheses. \* p &lt; 0.10, \*\* p &lt; 0.05, \*\*\* p &lt; 0.01