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Peer Pressure: The Puzzle of Tax Compliance of Aristocrats in Early 19th-Century Moscow

In today's world, social and economic stability is thought to depend on the cooperation of the wealthy: the willingness of society's richest to pay income taxes will reduce inequality, thereby promoting economic growth. This idea first arose in the time of Adam Smith: 'the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their abilities.'[1] In fact, scholars like Thomas Piketty, Rutger Bregman, Emmanuel Saez, and Gabriel Zucman stress that the main problem of the contemporary historical period is tax avoidance by the rich who do not contribute a fair share of their wealth to provide public goods.[2] Almost all studies report that the rich are less tax compliant than the middle-class.[3] However, prior to World War I, governments could raise income tax only from the wealthiest citizens.[4] So how were states able to avoid widespread elite tax evasion? This paper addresses the question by investigating the tax compliance of Moscow nobles in the 1810s, emphasizing the importance of reputational concerns and peer monitoring.

Without tax compliance, a developed economy and a well-trained bureaucracy are not sufficient to ensure income tax collection. However, what it is less clear is whether tax compliance can be sufficient in the absence of a highly capable state. The Russian Empire was the first state after Britain to adopt a progressive income tax, which was introduced in 1812. However, what can we expect to result from such a decision? At the time of its introduction, Russia was a relatively poor developing country[5] with weak administrative resources,[6] and the income tax was imposed on the nobility, to whom Catherine the Great granted the privilege of exemption from any personal taxes.[7] Indeed, there has been a 'biased' unanimity among Soviet (then Russian) historians that this episode was of little significance and that Russian nobles did not pay this tax.[8] However, this opinion is based primarily on anecdotal evidence from memoirs rather than quantitative evidence.

[1] Smith, *The wealth of nations*. Ch. II. P. II.
[2] Piketty, *Capital in the twenty-first century*, Bregman, *Utopia for Realists*, Saez, & Zucman, *The triumph of injustice*.
[3] As an overview, see Gangl, and Torgler, *How to Achieve Tax Compliance by the Wealthy*.
[4] Hetland & Sabaté, *Income tax and war inflation: was the 'blood tax' compensated by taxing the rich?* ; Scheve and Stasavage, *Taxing the Rich*; Levi, *Of Rule and Revenue*.
[5] Hellie, 'Conclusion', p. 364–5.
[6] See Velychenko, 'The Size of the Imperial Russian Bureaucracy'.
[7] Charter to the Gentry. Part 36.
[8] Marnei, 'Guriev i fanansovaya politika', p. 124; Mironov, 'Sotsialnay istoria', vol. 1, p. 94; Volkova et al., 'Nalogovaya sistema', p. 25, Vasil'ev, 'Progressivnyi podokhodnyi nalog', Zakharov et al., 'Istoriaya nalogov', p. 149; Kotsonis, 'States of obligation', p. 9.

The aim of this paper is to understand the level of tax compliance of nobles following the introduction of the 1812 income tax in Russia. I use a new dataset compiled from archival hand-written sources: the individual tax returns of approximately 4,000 Russian nobles who lived and owned property in Moscow province in 1812. These data are validated using information from official bank registers, which allow me to assess the reliability of self-reported credit obligations. The dataset allows estimation of the level of tax compliance (or evasion) at the taxpayer level—a very difficult task even for contemporary cases.

The paper demonstrates that nobles were in fact ready to pay the tax. But more importantly, the implementation of a new tax raises a lot of interesting questions about the functioning of the Russian Empire at that time. In introducing the new tax, Russian authorities had no specific expectations about it, apart from a general desire to raise more money, and gave the Russian nobility an almost free hand in deciding whether or not to comply with the vague fiscal demands. I will show that the Russian government, via State Secretary Mikhail Speransky, organized quite an innovative system of income tax collection, based on elected local bodies rather than a well-trained state bureaucracy. The introduced mechanism of tax collection relied on peer pressure within the Russian aristocracy, which was bolstered by the threat of imminent hostilities with Napoleon.

The paper addresses questions in several fields. First, historical sociologists Edgar Kiser and Joachim Schneider argue that the absence of a well-trained bureaucracy could be an advantage in relation to accomplishing fiscal demands of the state under certain conditions.[9] Officials may have spent less time and money on extensive monitoring insofar as they knew the economic potential of taxpayers through personal connections. The collegial character of local organizations could reduce corruption inasmuch as it would have been very expensive to bribe all of the officials. Poorly educated clerks could easily manage the task if the process of tax collection were simple. But these structures could operate only if compliance with government fiscal demands was quite high, which, as I show, was the case with the Russian nobility. I argue that the relatively high level of tax acquiescence of Russian aristocrats was achieved through reputational mechanisms, bolstered by the fear of war. These channels have recently been investigated in relation to contemporary developed and developing countries;[10] this paper contributes to this literature, providing a new methodology for an earlier period.

Second, I touch on the economic literature discussing the notion of tax morale in an attempt to understand why 'most theoretical approaches greatly overpredict non-compliance'[11]. Tax

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[9] Kiser and Schneider, 'Bureaucracy and Efficiency'.
[10] Feldman and Slemrod, 'War and Taxation', Lieberman, 'The Politics of Demanding Sacrifice', Silvinski and Sussman, 'Tax administration and compliance'.
[11] Torgler, 'Does Culture Matter?', pp. 505-6, Andreoni, et all, 'Tax compliance', p. 855.

morale is 'the intrinsic motivation to pay taxes which arises from the moral obligation to pay taxes as a contribution to society'.[12] But if people behave rationally, they should avoid paying taxes, especially those based on income, which are very difficult to monitor. Paradoxically, research demonstrates the opposite. Tax morale is, however, still treated as a black box,[13] and social scientists focus on defining the factors that shape tax morale.[14] Recent interdisciplinary papers in experimental economics and political science show that at the group level, reputational mechanisms are incredibly important especially in relation to the probability of public disclosure.[15] The paper contributes to this literature in describing how reputational mechanisms impacts tax compliance in an early-modern state.

Third, the paper discusses the tax compliance of elites. I draw on recent papers in experimental economics which show that 'the goal of the tax administration and tax policy in general should not be to threaten [the] social position [of the wealthy] but rather to think of instruments that encourage intergroup cooperation, prosocial behavior…'[16] So, governments need to implement reputational risks for the elite.[17] The history of taxation shows the importance of several factors that enable tax revenue to be extracted from the wealthy: the ability of the state to identify taxable wealth; a professional tax administration; budgetary necessity, often related to war; and political, social, and intellectual trends. We will see that in Russia, the role of the first two factors were minuscule; the state instead appealed to the concept of honor, and managed to bolster tax collection from the honorable estate.

The article is organized as follows. Section 2 outlines the general structure of the Russian progressive income tax of 1812 and shows that the Russian government gave nobles a great deal of freedom in terms of paying the new tax. Sections 3-5 introduce the data and describe in detail the method of measuring the tax compliance of the Moscow nobility. Section 6 then explains exactly how the mechanism of peer pressure functioned, and Section 7 concludes.

II.

Russia was continuously involved in wars in the early 19th century, imposing a heavy burden on the state budget.[18] In response to persistent budget deficits, Tsar Alexander I asked the state secretary of the Russian Empire, Mikhail Speransky, to reorganize the national accounts.

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[12] Torgler, 'Does Culture Matter?', p. 507.
[13] Lars and Bruno, 'Trust Breeds Trust', p. 3.
[14] See the survey: Doerrenberg, and Peichl., 'Progressive Taxation and Tax Morale', pp. 295-7.
[15] Gangl and Torgler, 'How to Achieve Tax Compliance by the Wealthy', Abeler, et all, 'Preferences for Truth-Telling'.
[16] Gangl and Torgler, 'How to Achieve Tax Compliance by the Wealthy'.
[17] Abeler et all, 'Preferences for Truth-Telling', p. 1147.
[18] Hellie, 'Conclusion', p. 364–365

Speransky tried to simultaneously increase revenues and decrease expenditures. The latter task was difficult to accomplish under the threat of Napoleonic invasion, but Speransky did manage to significantly augment state revenue. One vital task was to find money to service Russia's international debt. In 1807 alone, the Russian government spent 4 million rubles to service external debt (3 per cent of the 1810 Russian budget).[19] To fulfill the task, Speransky acted in two ways: he increased the rate of old taxes (e.g., the poll tax) and introduced new ones.

Income tax was first introduced in Russia in 1812 and revoked in 1819.[20] The exact contribution of the tax to the budget is not clear, but for the entire Empire, the revenue raised was insignificant. According to the official data of the Ministry of Finance, in 1813, the tax was supposed to bring around 5 million rubles, and in 1818, 2.3 million rubles.[21] As the revenue of the entire state amounted to as much as 300 million rubles, the tax does not appear to have been a huge success. However, it may have met the narrow goal of servicing Russia's international debt via yearly interest payments. Another way to evaluate the magnitude of this tax is to compare the amount of tax paid by different estates in 1812 on a regional level in 1812. In Moscow nobles paid approximately the same amount of income tax as their serfs paid in poll tax: 1 million rubles vs. around 933 thousand rubles.[22] Thus, the contribution made by the tax to the Empire's total budget was limited, but it was relatively large compared to the contribution of other estates, despite the small number of nobles. But how did the tax collection function?

Prior to 1812, Russian nobles were exempted personal taxation; at this time, however, the state authorities emphasized that payment of the national debt should be the duty of every Russian estate.[23] According to the law, every nobleman or noblewoman had to submit a report of his/her 'annual net income' (*deistvitelnyi dokhod*) to the Noble Assemblies of deputies (*Dvoryanskoe deputatskoe sobranie*). The notion of 'annual net income' implied the consolidated income that a landowner obtained from all of his/her various economic activities,[24] excluding paid interest on loans.[25] Landowners with estates in more than one province were required to pay tax in only one province of their choice; however, they also had to inform authorities in the other provinces where

[19] Brzheskii, 'Gosudarstvennae dolgi Rossii', p. 172.
[20] Polnoe sobranie zakonov Rossiiskoi imperii (hereafter PSZ RI), I, no. 24992, no. 28028. Edwin Seligman wrongly labelled this tax as a property tax: "while in Russia the rate of the extraordinary property tax of 1812 varied from three to five per cent", in Seligman, 'Progressive Taxation in Theory and Practice', p. 39. His remark raises the question of whether it is possible to call this tax as an income tax in the modern sense. My answer is "yes". We based our conclusion on Scheve and Stasavage's statement: "A country is considered to have adopted a modern income tax system if an independent national government levies taxes annually on comprehensive and directly assessed forms of personal income", in Scheve and Stasavage, 'Taxing the Rich', p. 54.
[21] Ministerstvo Finansov. 1802-1902. Part. 1, p. 88.
[22] Perepisi naseleniya Rossii. Vyp. VIII. (in 1795 there were 311 thousand male serfs who should pay 3 rubles per serf in 1812).
[23] PSZ I, no. 24992 (part 27).
[24] from quitrent or corvee (*barschina*), forests, mills, lands, manufactories, excluding mining plants.
[25] PSZ I, no. 24992, § 6.

they held estates that they would be paying taxes elsewhere. Incomes below 500 rubles were exempt.[26] From 500 rubles to 18,000 rubles, there was a graduated increase in the tax rate, from 1 to 10 per cent.

Tax returns had no specific form they were required to take, and the information provided varied widely across individuals. A detailed tax return by the widow of the lieutenant Daria Alekseevna Kolycheva provides a representative example: 'On the basis of the Highest Manifesto on the 11th day of February of this year, I declare that according to the sixth census I own 739 male serfs in Tula province, 293 male serfs in Kostroma province, and 65 male serfs in Moscow province. I receive an annual income of 6,080 rubles, excluding paid interest on bank loans from The Moscow Orphanage [a bank] and from private individuals. So, I will pay taxes on this income in Moscow province. I will notify the assemblies in other provinces'.[27] She did not specify the amount of her debt, but according to data from the Moscow Orphanage, in 1812, she owed slightly more than 19 thousand rubles.[28] Not all returns were as informative—in around one quarter of returns, the nobles announced only their incomes and paid taxes without any further details.

The Russian income taxation system had several idiosyncrasies. No one in Russia was allowed to audit the authenticity of the information in the returns. In practice, taxation of Russian income was managed not by state bodies, but by the noble self-government bodies in the provinces—the Noble Assemblies of deputies. This was a self-government organization, consisting of 10–15 unpaid deputies. The assemblies held a wide range of responsibilities in relation to the new tax. First, they were in charge of registering tax returns, aggregating reports, sending the local treasury chambers a list of noble taxpayers, and identifying the amount of taxes paid. Second, they were required to identify tax evaders—those who had real estate and serfs in a province but did not send any declaration on their own—and to list them publicly. Then, the deputies and local aristocrats were supposed to inspect the incomes of tax evaders and send registers, along with their estimated incomes and the sum of their taxes, to the state treasury chamber. Thus, the Assemblies were responsible for the entire time-consuming rough work. Eventually, the local treasury chambers would have just "took" the money which nobles brought. The Russian government was very well aware of various constraints in its capacity to gather the information required to administer the new tax, so it just put the responsibility on noble self-governed bodies as usual.

The most striking feature of the Russian variation of income tax was the ambiguity of the law. Many of the nuances of both of submitting tax returns and collecting the new tax were

[26] What does 500 rubles of yearly income mean? Volkov estimated that 300–400 rubles was a sum large enough for a noble family to live according to the standards of noble consumption. Volkov, 'Rossiiskaya imperia'.
[27] Tsentral'nyi Gosudarstvennyi Archiv Moskvy (hereafter TSGA Moskvy), f. 4 op. 1 d. 3242. p. 2 – 2ob.
[28] Rossiskii Gosydarstvennyi Istoricheskii Archiv (hereafter RGIA), F. 758, op. 12 d. 65.

unregulated by legislation. For example, it was not clear in the law whether those nobles with incomes of less than 500 rubles per year should file tax returns or not, but if they did not submit returns, they were fined. Also, the law required nobles to declare income from any activity but if they did not, there were no penalties. All of the specific characteristics of Russian income taxation gave noble taxpayers an almost free hand; they could declare any income they wished in any province they wished. There was only one limitation: a noble was required to send a tax return and send it on time. Nobles who either sent nothing or missed deadlines had to pay double the tax based on the assessments of their provincial peers.[29]

All returns sent to an Assembly of Nobility deputies, were collected in books and received registration numbers. Every week or two, in the presence of all deputies, the Secretary of the Assembly read aloud the list of those who had, by that time, sent their tax returns, making known their income in rubles and the amount of tax paid. Once this was done, the deputies signed the protocol. Thus, although the tax returns were not public in the direct sense of the word, the local elected officials were informed about who declared what.

Consequently, the main features of the Russian income tax were as follows: shifting the management burden from state bodies to noble self-government organizations, leaving subjects a lot of space to manoeuvre, and making this tax unofficially public/known to noble peers.

III.

To assess the tax compliance of Moscow nobles, I construct a dataset from official financial documents: tax returns[30] and the general register[31] of noble taxpayers in Moscow province. The dataset includes two types of information: the first describes the personal characteristics of a landowner (his/her name, gender, rank, titles, marital status, etc.), the second describes the characteristics of the property (type of the property, incomes, number of serfs, associated debts).

The dataset includes all tax returns sent to the Moscow Noble Assembly of deputies in 1812. Some nobles declared their incomes to other provinces where they had lands, serfs, or houses; thus, they sent only notices without estimates of income to the Moscow Assembly. These 289 tax returns were excluded from the dataset, and as a result, the dataset is comprised of 3,282 tax returns. Tax returns could be submitted by three types of property owners: solo male, solo female, or joint-family property. In total, 3,940 nobles including individual proprietors of joint-family estates are in the dataset—approximately 2.5% of the entire noble population of Russia,[32]

[29] PSZ I, no. 24992 (§19)
[30] TSGA Moskvy, f. 4 op. 1 d. 3225, 3226, 3227, 3228, 3229, 3230, 3231, 3232, 3233, 3234, 3235, 3236, 3237, 3238, 3241, 3242, 3243, 3244, 3245, 3246, 3247, checking in Gosudarstvennyi Archiv Tambovskoi Oblasti (hereafter GATO), f. 161, op. d. 1429, 2432, 1423, 1439
[31] TSGA Moskvy, f. 4 op. 1 d. 3248.
[32] Calculation based on Kabuzan and Troitskii, ‘Izmeneniya v chislennosti’. Table 3.

with a total declared income of 15.8 million rubles[33]. This is the largest dataset of Russian nobles available, and reflects the diversity of Russian nobility in terms of gender, wealth, and type of property.

However, since there was no official audit of the income declared, it is possible that nobles lied about their incomes to reduce their tax burden. As such, I estimate their income by constructing a variable based on the number of male serfs on their estates. This is possible for around one third of observations which have detailed tax returns and so reported the number of serfs[34]. Descriptive statistics for these observations are summarized in Table 1.

The number of serfs provides a good measure of income because it was difficult and not profitable for Russian nobles to lie about the number of serfs. Even Soviet researchers—ever willing to dispute the honesty of nobles—had to admit the information about serfs was very reliable starting from the middle of the 18th century[35].

The main means of generating income was through agriculture and non-agricultural activities related to agriculture, for example, alcohol distillation, flour milling, sawing wood, breeding horses, and leasing pastures and land. All of these activities were carried out by serfs; thus, serfs were key contributors to landowners' incomes.[36]

[Table 1 is around here].

In addition to providing a measure of tax compliance, identifying the number of serfs via tax returns provides an improvement to the traditional approach of measuring wealth in Russia. Traditionally, the main source of assessing the number of serfs was the census, where the estates of one noble in different provinces were identified as belonging to different nobles. For instance, if a noble possessed one estate in Moscow province and a second in Tambov province, standard Russian statistics would regard him as two people. Consequently, inequality is artificially depressed: if we calculate the Gini coefficient among nobles based on the census, it is 0.72-0.75[37]; according to the new data, it is around 0.66. So, the constructed dataset allows me to estimate the wealth and incomes of Russian nobles more accurately.

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[33] My calculations are all made in Russian paper rubles. In early 19th-century Russia, there were two kinds of rubles: paper money (*assignats*) and silver rubles. In 1812, the ratio between them was 3.9 paper rubles to one silver ruble. Dubyanskii, 'Problema parallel'nyh deneg'.

[34] A failure to report the number of serfs could not be considered as cheating insofar nobles were not asked to report such information. But more importantly, a failure to declare the number of serfs does not indicate that nobles were seeking to hide information, given that the number of serfs was common knowledge among peers. As such, this feature of the data does not indicate that the sample is biased towards tax compliers

[35] Yatsunskiy, 'Izmeneniya v razmeshchenii naseleniya Yevropeyskoy Rossii'.

[36] Kahan, 'The Costs of "Westernisation"', p. 42.

[37] Mironov, 'Sotsial'naya istoriya Rossii perioda imperii', p. 93.

The final stage in estimating tax compliance is estimating tax deductions. According to the tax law of the day, Russian nobles had the right to deduct interest payments on state and private debts from their taxable income. How did they use this right? I investigate official bank documents from one of the biggest banks in Russia—the Guardian Funds of the St Petersburg and Moscow Orphanages (*Vospitatel'nyi dom*)—where the debts of the nobility amounted to more than 60 million rubles in 1811.[38] I match the nobles from the dataset of tax returns with the nobles from in full register of the Guardian Fund of the Moscow Orphanage and identify 577 nobles from the tax return dataset in this register. A comparison of the debt obligations they declared in their tax returns is conducted with real bank documents. So, the third dataset includes only 577 observations.

How representative is the dataset used in the analysis? The comparison of the sample with the entire noble population, as estimated with the number of serfs, shows that the nobles in the sample were slightly richer than Russian nobles in general (see Table 2). In the sample, 12 per cent of nobles owned more than 1000 male serfs, but only 1.5 per cent of Russian nobles had the same amount of wealth.

[Table 2 is around here].

Although table 2 shows that Moscow nobles were wealthier on average than Russian nobles, the constructed sample has one striking characteristic: extensive variation in the sample. First, we have a balanced sample in terms of gender. There are 659 male nobles, 738 female nobles, and 177 joint estates. Second, the estates of the nobles were spread over 32 provinces in the European region of Russia, although most of the estates were located in the non-black-soil region of European Russia.[39] Third, the dataset also includes poor nobles, those whose incomes did not exceed 500 rubles. We thus capture the behavior of a range of different noble types, allowing us hope that we can draw conclusions from the whole of Russia based on the behavior of Moscow nobles.

IV.

The standard way to measure tax compliance would involve comparing the demands of the Russian government before the imposition of the new tax with the actual amount of tax collected.[40] However, it is impossible in this case because the Russian government did not estimate the

[38] Morozan, 'State loan bank', p. 79.
[39] See Korchmina and Kochakov, 'The structure of noble property of the Moscow gentry'.
[40] Sabine, 'A history of income tax'.

expected revenue from the new tax.[41] I need to apply a more sophisticated methodology of measuring tax compliance at an individual level. Specifically, I estimate the income per labor—'ruble income per male serf'—which nobles would expect to receive across their estates. This value was similar across Moscow province (and the non-black-soil region more generally) because agricultural production was highly homogenous in terms of climactic conditions, soil type, and technology.[42] I then compare the declared income per unit of labor of estates to this benchmark and assume that any lower values reflect cheating in nobles' declaration of income.

The 'ruble income per male serf' refers to the amount money an individual serf earned for his landowner. Serfs could generate income in several ways. They could live on the estate of their owner and cultivate land (corvée labor), or hold a passport and travel elsewhere to be hired, or serve in the house as a household serf (*dvorovyi*). In the second case, serfs would pay a fixed yearly payment (quitrent) to their owners; if serfs remained on the estate, they would either pay a monetary rent (quitrent or *obrok*) or perform labor services (*barshchina*). We could respectively ignore this variation and only consider the labor performed or the payment by a serf as an annual fixed payment.[43] Regardless of their mode of income generation, we have no reason to think that income per serf differed across the three types.

How was the income per serf determined? Under serfdom, payments were only partly determined by market forces. To a great extent, nobles were constrained by social written and unwritten norms in terms of how much they could raise quitrents.[44] We know from narrative sources that any extra payments on serfs led to harsh conflicts between serfs and their masters, so there was some consensus between the landowners and their peasants as to what level of quitrent was appropriate although there was some variation. So, the income per serf varied only slightly within certain limits. Any deviations should be considered a signal of tax evasion by nobles.

Thus, 'ruble income per male serf' was not determined purely by economic conditions, but by consensus within the elite. Specifically, a norm emerged whereby an income of 10 rubles per male serf was sufficient.[45] A variety of evidence supports this claim.

First, documentary evidence suggests that nobles were actively using income per serf as a key, albeit crude, parameter to estimate the hypothetical revenues of an estate[46] before purchase

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[41] In the inventory of revenues of 1812, this tax was not even included. Kulomzin, 'Finansovye dokumenty', vol. 45. pp. 210 – 211.
[42] Milov, 'Velikorusskii pakhar'.
[43] Tikhonov, 'Dvoryanskaya usad'ba', p. 372.
[44] Dennison, 'The institutional Framework of Russian Serfdom', ch. 9.
[45] Elena Marasinova described it as a lack of rationality (*khozyiski-raschetlivoe otnoshenie*), which implied the image of a necessary and sufficient amount of wealth in Marasinova, 'Psikhologiya elity', p. 83.
[46] Sverbeev, 'Moi zapiski', vol. 1, p. 40.

or rent.[47] And around this time, the average quitrent was equal to 10 rubles per serf, based on private books of revenue and expenditure.[48]

Second, a norm of 10 rubles per serf is supported by the customary practice of assessing the incomes by nobles. According to the law, the deputies along with the local nobility societies, were required to estimate and assess the incomes of those who did not submit tax returns. After the financial deadline of the first year passed, the registers of these potential evaders were completed. To assess the income of 'honorable' tax dodgers, the local nobles multiplied the number of male serfs they owned by 10 rubles per serf. It is highly unlikely that those nobles *who had already declared their incomes and had to pay taxes were lenient with those who did not want to pay taxes*. So, 10 rubles per serf should more or less reflect the real potential of the agricultural estates in this region. I consider this the most important evidence, insofar as it reflects actual practice, which is consistent with other anecdotal evidence. Moreover, this assessment contradicts the idea that there could be a coordinated equilibrium among nobility against the state, as far as the social group itself 'punished' tax dodgers with the same level of income they declared themselves.

Further evidence for the argument is obtained from the correspondence of Real Chamberlain Prince Alexander Mikhailovich Golitsyn after the income tax was introduced. In a letter from March 5, 1812, he expressed his concerns about the new tax: "I hope that you will discover how other landowners in these provinces present their income so that we can also submit an announcement."[49] On April 21, he wrote, " … most of the local landowners … say that they intend to announce income based on their own special estimations, and it is *no more than 10 rubles per peasant* (my emphasis). If there are enough similar examples, then I don't know why we can't do as the others do; find out and write to me, and if necessary, we can send another tax return. … Count Orlov is said to have claimed even less; however, we shouldn't copy him. *I think it is better to act in concert with everyone*" (my emphasis).[50] Thus, he explicitly wrote that 10 rubles per serf reflected the internal consensus among the nobility and that he agreed with this estimate but had already sent in the tax return. Moreover, the behavior of Count Orlov, who wanted to declare less, was considered as inappropriate. Prince Alexander's argument was likely not simply his own opinion but can be seen as reflecting some degree of consensus among the upper reaches of the

[47] Dominic Lieven does not agree with this approach; he stresses that the profitability depends largely on efficient management, territory, etc. (Lieven, 'The Aristocracy', p. 39–40). I agree with him in general, but I do not multiply the average quitrent by the number of serfs. Rather, I move in the opposite direction, dividing the ruble income by the number of serfs, thus calculating the real income.
[48] I am grateful to M. Aksenova for pointing out this archival source. Rossiskii Gosudarstvennyi Archiv Drevnikh Aktov (hereafter RGADA), f. 1274, op. 1, d. 1159, l. 40–41 ob.
[49] Department of Manuscripts of State Historical Museum (Otdel pis'mennykh istochnikov Gosudarstvennogo Istoricheskogo Muzeya, hereafter, OPI GIM), f. 14, d. 53, l. 64–64 ob.
[50] OPI GIM. f. 14, d. 53, l. 110.

noble corporation since he was deeply connected with the noble society in Moscow and Russia in general.

The fourth piece of evidence is taken from the memoirs of a Russian historian and diplomat, Dmitrii Sverbeev. Describing the introduction of the new tax, he echoed the words of his father: "I suggest that an estate of 2,000 peasants could bring from 15,000 to 20,000 rubles if the harvest were good enough". [51] This estimation implies an income per serf of between 7.5 and 10 rubles.

The next section thus uses an income of 10 rubles per serf as a benchmark for identifying tax compliance. Nobles who declared income below this threshold were likely lying; but as we shall see, few did.

V.

Tax compliance can be divided into a behavioral and a motivational component.[52] Tax compliance behavior means 'compliance with specific tax laws'.[53] The motivational component is based on enforced, voluntary, and committed willingness to comply with the tax law.[54] There is a positive relationship between tax behaviors and tax motivations. In this section, I address both components. First, I estimate "tax discipline"—whether nobles met with formal requirements of the laws. Second, I check the declared incomes from their tax returns against their private financial books. Third, I estimate whether they underestimated their incomes and overestimated their tax obligations.

Moscow nobles were very disciplined taxpayers. They were accurate in complying with deadlines: 96% of tax returns were sent on time although there were time constraints. The manifesto was issued on the 11th of February, announcing the deadline for sending the tax returns by the 1st of May; the majority of tax returns were sent by the end of April. Further, based on crosschecking Moscow data with Smolensk and Tambov,[55] nearly all Moscow nobles sent necessary notifications to other provinces announcing they were going to pay the tax in Moscow. Out of 356 Moscow nobles with estates in Smolensk and Tambov, 353 aristocrats sent notifications to those provinces as promised. Thus, there was a high level of tax discipline.

It also appears that nobles truthfully declared their income. Crosschecking tax returns against the approximately 10 private books of revenue and expenditure at my disposal shows that the stated incomes of some aristocrats were correct. Notably, these families included the wealthiest

[51] Sverbeev, 'Moi zapiski', vol. 1, p. 40.
[52] Kirchler, 'The economic psychology of tax behavior'.
[53] Ibid.
[54] Gangl and Torgler, 'How to Achieve Tax Compliance by the Wealthy'.
[55] Due to the need for preservation of the files, I managed to check only those nobles who were registered in Moscow but had estates in Smolensk and Tambov.

aristocrats, who presumably had the greatest incentive to evade tax. For example, in 1812, Count Nikita Petrovich Panin, among the second or third dozens in the 'list Forbes' of the day, declared a net income of 45,000 rubles, paying 4,500 rubles in tax.[56] According to the 1810 book of revenue and expenditure, his revenue was approximately 145,000 rubles, but slightly more than 100,000 rubles was spent on payments to different state and private loans.[57] This was all stated in his tax return.

I can estimate tax compliance beyond this small sample by applying as a benchmark of 10 rubles per serf, as discussed in the previous section. The distribution of the noble income per serf shows that 34% of aristocrats declared less than 10 rubles per serf (538 people), and the majority, 66%, declared 10 rubles or more (1041 people). More detailed information is provided in Figure 1.

[Figure 1 is around here].

More than 60 per cent of nobles complied with the tax compliance benchmark. However, around one third of the nobility reported less than the norm of 10 rubles per serf, and some reported no income at all. Who were these people? Those aristocrats whose income per serf was less than 10 rubles had one feature in common. They were relatively wealthier in terms of the number of serfs. Figure 2 shows that the share of wealthy aristocrats among those who declared less than 10 rubles per serf was almost 55 per cent.

[Figure 2 is around here].

And this phenomenon is easy to explain: the richer the noble, the easier his or her access to credit.[58] Most of potential tax evaders had different types of credit obligations, meaning they could make tax deductions that decreased their taxable income, consequently decreasing income per serf. Over half (53%) of those reporting an income per serf of less than 10 rubles reported some debt obligation, compared to 22% of those reporting more than 10 rubles per serf.

If I have determined that they declared their loans accurately, then they could not be considered as evaders. Thus, as '10 rubles per serf' is considered a 'benchmark of tax compliance', the maximum level of evaders would be 34%. But it might be less if the aristocrats' declarations of their tax deductions were trustworthy.

Let us turn to the question of whether the Russian aristocrats overestimated tax deductions. In the British case, the right to apply tax deductions was considered a potential source of tax

[56] TsGA Moskvy, f. 4. D. 3248, l. 322 ob.
[57] RGADA, f. 1274, op. 1, d. 1159, l. 40–41 ob.
[58] I apply the standard division, which is established in the Russian historiography: poor nobles had fewer than 100 peasants, middle-class nobility had 101 to 500 peasants, and with more than 501 peasants are considered as rich. The division reflects the living standards of the time. For example, the nobles with less than 100 serfs could not support a 'decent way' of noble living.

abuse.[59] In Russia tax deductions included only interest paid on state and private debts. Among potential Russian noble 'evaders', the share of debtors was quite high. Thus, I estimate how trustworthy the information about deductions in tax returns was by comparing the amount of debt claimed in the tax returns with official bank documents.

First, I estimate the level of correctness in reporting the debt obligations for the entire sample, then I estimate the same level for those who declared less than 10 rubles per serf. My dataset includes 1,850 cases of debtors, of which 451 (24%) had the credit in Moscow Orphanage.[60] Only 214 nobles reported the exact loan amount (3.74 million rubles). The comparison of the loan amounts in the official register of the Moscow Orphanage and in the tax returns can help to determine whether the nobility overestimated their credit obligations and, as a result, reduced the tax base. As a rule, nobles declared either the amount of interest paid or the loan amount. At that time, the interest rate in any state credit organization was fixed at six per cent by law, so it is straightforward to calculate the loan amount.

There are three possibilities:

1. Nobles declared a greater loan amount than exists in the official registers. This implies that they were likely to have evaded taxes.
2. The figures in the bank documents and in the tax returns either coincided or differed by less than six per cent, the annual interest rate.[61] This means that the aristocrats complied with their fiscal obligations.
3. The taxpayers could have declared lower loan amounts than exist in the bank documents.

The answer to the question of why an aristocrat might choose the last option if they had the opportunity to pay less tax is quite difficult to answer. Moreover, there were 126 nobles in the dataset who had loans but did not declare them. I can provide only one plausible explanation: they did not want to publicize their debt for reputational reasons, as I discuss in section VI.

Comparing the loan amounts and interest paid in the tax returns and in the official bank registers shows that approximately 70% of the tax returns are correct. This means the level of this type of evasion in the entire sample could at most be approximately 25 per cent (Figure 3). This percentage is similar for those who declared less than 10 rubles per serf and the rest of the sample.

[Figure 3 is around here].

[59] Sabine, 'A history of income tax'.
[60] There are some cases in which aristocrats had loans in different credit organizations, but the exact amount of credit is only known for Moscow Orphanage.
[61] I assume that any difference of 6 per cent between self-reported loans and bank registers could be considered an accounting error. Six per cent was the annual interest on state credits. I compare the bank documents of 1812 after the financial year was closed, but the tax returns were submitted at the start of 1812, before the interest of 1812 was paid.

Thus, according to the analysis of noble incomes, 30 per cent of nobles could be considered potential evaders—those who declared an income per serf of less than 10 rubles. But more than 50 per cent of them had credit obligations and were hence eligible for tax deductions. Comparison with bank documents demonstrates that approximately 25 per cent of them did not comply with state fiscal demands insofar as they tried to cheat with respect of their credit obligations. Eventually, the level of tax evasion reached approximately 10 per cent. A figure of 90 per cent tax compliance is really a remarkable result that is primarily based on the assumption that 10 rubles per serf was fair and trustworthy report of income.

The high level of tax compliance raises doubts as to the anecdotal evidence in correspondence and memoirs relied on by earlier historians. In fact, statements about potential evasion in the correspondence and memoirs of the nobility were often quite far from actual practice. For example, Count Orlov, mentioned in Prince Golitsyn's correspondence as a person who did not want to declare his real income, turned out not to be an evader. The name Count Vladimir Grigorievich Orlov was mentioned in Dmitri Sverbeev's memoirs;[62] the Count was mentioned as the person who persuaded Sverbeev's father to report less money than he planned to. It is important to note that Sverbeev's father intended to declare his real income at the outset. And Sverbeev, relying on the conversation between his father and Count Orlov in which he seemed to be a witness, stated that tax evasion among the Russian nobility was huge. The real tax returns, which are now at my disposal, show that both Count Orlov and Sverbeev declared approximately 7-rubles of income per serf; however, both of them, particularly Count Orlov, were carrying extremely high debts, which again put their income above 10 rubles.

The fate of the creator of the new tax also sheds light on the tax compliance of the Russian aristocracy. Speransky's initiative to introduce an income tax was violently opposed by the aristocracy. He had to resign less than a month after the imposition of the new tax. " … when Speransky … proposed new ways achieve to tax-exempted wealth, those who were exempted made it a point to have him removed from office".[63] His exile could be considered a victory for the honorable Russian estate, and it would be plausible to suggest that those who acted against the former State Secretary would have had no intention to pay a new tax or file a tax return. But the tax returns of Moscow aristocrats who opposed Speransky testify the opposite. Famously, among his most bitter foes was a Russian historian and writer, Nikolai Karamzin, whose pamphlet was one of the reasons for Speransky's resignation. Karamzin himself had no property, but his wife and daughter filed their tax returns. Thus, his family was fully compliant with the Russian

[62] Sverbeev, 'Moi zapiski', vol. 1, p. 39
[63] Kotsonis, 'States of obligation', p. 9

government's new demands. Arch-Chamberlain Count Fedor Rostopchin, who wrote a highly notorious letter denouncing Speransky as a head of the Illuminati,[64] sent his declaration on time—on April 19. His income per serf was equal to 25 rubles,[65] more than double a 'fair' income. Speransky's enemies stayed within the bounds of the law, although they were high-ranking and could easily have circumvented the tax system.

Thus, our findings provide us with a fresh insight into the behaviour of Moscow nobles: Moscow nobles complied with the fiscal obligations of the Russian state. We will discuss why in section VI.

We can compare these figures with tentative assessments of tax compliance in the first year of the British income tax. The government was supposed to collect 10 million pounds and managed to collect only 6 million. This means the level of tax compliance was around 60 per cent; in the Moscow case, it was significantly higher.

But how would the results change if we shifted the threshold from 10 to 15 rubles per serf? In this case, the share of those who could be suspected tax evasion based on their reported incomes increases dramatically to almost 75 per cent. Nevertheless, the results concerning the level of reliability of their credit obligations are sustained; insofar as the nobles declared the correct information about their debts, they could simply be considered people who found themselves in sticky situations. Among the 75 per cent of potential evaders, only one fourth cheated with respect to their debts; thus, I suggest that the level of tax compliance was at least 80 per cent.

But let us imagine that the income aspect of measuring tax compliance is absolutely baseless and that every member of the nobility declared false information about their incomes and systematically reduced the tax base, either due to a lack of tax compliance or a lack of knowledge about their annual revenues. However, approximately 70 per cent of the nobles were trustworthy in reporting their credit obligations. Given that they did not cheat with respect to their debt burden, we should assume that they did not deceive the state about their income.

The level of group tax compliance behavior of the Moscow nobility was very high. Russian nobles submitted tax returns on time. They submitted the original tax returns and notifications about tax payment to other provinces as it required by the law. They followed the group consensus concerning declared incomes measured by a parameter like 'income per serf'. The tax morale of Moscow nobles was quite high. How did the Russian state manage to make the nobility pay? Or possibly, it may be better to ask why the Moscow elite was so ready to comply with the fiscal demands of the state.

[64] Lukovskaya et al, 'Mikhail Mikhailovich Speranskii', p. 44
[65] TsGA Moskvy, f. 4, op. 1, d. 3235, p. 232

VI.

The state had no power to compel nobles to pay the new tax and instead took the approach of appealing to the concept of aristocratic honor. There was no centralized tax authority structure; instead, for centuries the government used nobles to collect tax[66]. But this time, nobles were assigned not only to be unofficial tax collectors but also to be monitored by their peers. In raising the new tax, Speransky created potential reputational risks for nobles who did not want to declare their incomes and seasoned this threat with the idea of the impending clash with the antichrist Napoleon.

The reputational mechanism was effective due to a creative method of tax collection based on public disclosure. Tax collection and compliance were monitored by elected local bodies— the Noble Assemblies of deputies. The deputies were selected by the same nobles who sent their tax returns to them; they were relatives, friends, and acquaintances. This means they knew about each other's wealth status, which could and should be demonstrated in accordance with accepted cultural standards in noble society. The size of a noble's holdings—as well as their trustworthiness—was thus central to their reputation. The elected officials were landowners in the same province, meaning they could roughly estimate the possible incomes of their neighbors. So, tax collection was based on peer monitoring underpinned by unofficially circulated information among nobles—information not available to the government. This is very close to the system that was described by Kiser and Schneider,[67] who stress that officials selected from the peerage would spend less time and money on extensive monitoring insofar as they knew the economic potential of taxpayers through personal connections.

The tax returns were not public and were not supposed to be; they were audited officially, *but they were open for the elected members of the local noble corporation*, so the information declared in tax returns could potentially be shared and circulated in noble circles. The government and its low-level clerks,[68] who would have been in charge of all of the rough work, did not know the incomes of nobles with any level of precision, and it would have taken years for them to discover the incomes of the Russian nobles. In any case, auditing declared tax returns was not possible under the law. However, nobles still faced incentives to declare their incomes correctly in the face of peer pressure. As Count Alexander Samoilov wrote in his letter to the Marshal of Nobility: "I have not deceived anyone in the world, even less do I want to deceive the Crown" by announcing the wrong information about my income.[69]

[66] Veselovskii, 'Sem' sborov zaprosnykh'.
[67] Kiser and Schneider, 'Bureaucracy and Efficiency', pp. 187–204.
[68] It is important to mention that nobility was an essential part of officialdom, but the rough work involved in collecting tax returns and compiling the final registers would have been carried out by low-level clerks who could not have known this information.
[69] RGIA, f. 899, op. 1, d. 912, p. 30.

We can identify three specific ways in which the information reported on tax returns was an important feature of nobles' lives.

First, information about the number of serfs was crucial for matrimonial strategies. Families heavily relied on the knowledge about the real extent of serf holding to find a good match and a fine catch. Russian satire of the 18th—19th centuries was full of examples of genuine love losing the battle to wealth measured in terms of the number of serfs. We can find similar examples in memoirs, e.g., Mikhail Danilov decided to marry after determining the size of the holdings of a bride.[70] So if a noble or a noble family had plans to become engaged or marry, they had incentives to declare their true wealth.

Second, knowledge of wealth played a crucial role in the credit strategies of noblemen. Access to new loans would have been provided only as a result of the perceived ability to meet payments, which was based both on information about the number of serfs possessed and the amount of money borrowed. Further, reliance on debt was widespread—around a third of the nobles in my data were in debt. Further, their addiction to debt and desire to borrow more could explain the finding from the previous section that 126 aristocrats did not declare their loans in the Moscow Orphanage.

Third, the local officialdom who were partly recruited from the same noble corporation were interested in maintaining their positions. So, they were more likely to be interested in declaring reliable information in an attempt to project the image of a person who could be trusted. This argument is supported by the fact that tax compliance among Moscow officials was as high it was among the Moscow nobles as a whole (see Table 3), although they were poorer.

The fact that the officials declared the higher income per serf greatly contradict the established view of the Russian bureaucracy as being highly corrupt. Researchers emphasize the total spread of bribes and gifts in Russia, both historically and in the current day, when officials are actively asking for bribes. This common view is deeply rooted, even in Russian literature.[71] The local officials should have been the first to circumvent the tax system, but they did not. At least, they did not do so blatantly.

[Table 3 is around here].

The argument concerning the high level of tax compliance is supported by comparing the 1812 tax with the first attempt to introduce a flat income tax in 1810. In 1810, the nobles were obliged to pay 0.5 rubles per male serf.[72] Comparing this sum with the benchmark of 10 rubles per

[70] Danilov, 'Zapiski', p. 97.
[71] 'Bribery and Blat in Russia'.
[72] PSZ I № 24116, vol. 31, p. 59.

serf, we see that it was 5 per cent of their revenue. The average tax rate in 1812 was around 6 per cent.[73] So, the state was actually asking for the "same" financial commitment from the nobles as they had in the previous year. It is important to note that 1810 tax was monitored by local state clerks. In the same year, the new tax was abolished because, in practice, it was paid by peasants and not by the landlords themselves because landowners did not want to pay it. Table 4 shows that in 1810, the aristocrats should have paid less in taxes than in 1812, but they did not want to pay this small tax, and the state had to abolish it.[74] In contrast, by 1812, the nobility were ready to comply with the growing fiscal demands of the state.

[Table 4 is around here].

Table 4 also reveals an interesting nuance related to the question of what changed in 1812 in comparison with 1810. The essential tax burden of 1812 was placed on the shoulders of the richest representatives of the nobility. Therefore, it could reflect a preference for either progressivity or fairness. As Nancy Kollman claims, the Russian nobility was an estate that was connected to family and corporate group, and committed to social justice.[75] So, wealthy Russian aristocrats who were expected to avoid paying taxes were in fact ready to do so. Thus, it appears that the social sanctioning mechanism was at work in Russia.

The patriotic environment of 1812 likely further strengthened the effectiveness of the peer pressure mechanism. The Russian army had already experienced the humiliation of the Napoleonic forces; thus, the fear of invasion was combined with a desire for revenge. By 1812, intrusion by Napoleon appeared to be only a matter of time, and Russian nobles were ready to contribute to a future victory, both financially and physically.

Thus, a smart decision appears to have been made on the part of the Russian government—by State Secretary Mikhail Speransky—to appeal to the Assemblies to monitor the income tax rather than the state bureaucrats. One could argue that the Russian government in fact had no choice other than to rely on the self-governing bodies, but they could potentially have tried to reintroduce the scheme of 1810 in the hope that the impending Napoleonic invasion would force Russian nobles to comply. But even in 1812, when war appeared imminent, the government could not rely only on local bureaucrats to collect taxes, so some creativity was applied to "exploit" the self-organization of the nobles. As a result, the nobility was incentivized to truthfully declare their income, even in the absence of state enforcement.

[73] If we compare the amount of paid taxes with declared incomes.
[74] Marnei, 'Guriev i finansovaya politika Rossii', p. 124.
[75] Kollman, 'The Russian Empire', p. 446–7

VII

The Russian income tax of 1812 demonstrates the significance of the voluntary component of income tax payment. Even in an under-governed, late-industrializing country, the collection of income tax could be organized quite effectively by using peer-based institutions to pressure elites into paying. Despite the high level of freedom of elite taxpayers and the near-absence of coercion, the level of tax compliance behavior in Russia was very high. Tax morale was determined by a social sanctioning mechanism among a narrow group of peers, bolstered by the fear of a Napoleonic invasion.

It is also likely that the Russian nobles paid the new tax because the tax burden was not very high, and the elite could consider the fiscal demands of the Russian state as fair and equal to their financial capacities. The Moscow nobles paid approximately one million rubles in income tax and, in the same year, they collected approximately three million rubles via donations to support the Russian troops. This shows the importance of emerging patriotism for the consolidation of the honorable Russian estate. It also shows that they obviously had money and so raises the question of why the Russian state did not demand more. One answer would be that the government could get what it needed to service the international debt while minimizing the costs of collection—they were in fact able to raise the money at almost no cost. Further, this tax was not simply about money per se; it was a political decision to encourage nobles to pay a share the burden of state obligations.

The story of this tax turned out to be quite short; in 1819, the tax was abolished with no specific explanation. However, as Kotsonis shows, the Russian government returned to the idea of income tax several decades later, and the results don't seem to have been very successful, partly because the state tried to tax every subject.[76] The income tax of 1812 was not concerned with the intrusion of the state into private life, one alternate reason researchers give for lack of compliance. It was instead part of the story of a developing nation which lacked the necessary resources to collect tax on its own. The state thus stepped aside and allowed nobles to raise taxes from within their own peers. This tale of a seemingly successful tax collection mechanism in a developing country turns out to be a story about a weak state and a strong elite.

[76] Kotsonis, 'State obligations', p. 4.