Emotionally intelligent tax policy: the case of higher education funding

Eliza Ahmed and Valerie Braithwaite

Research School of Social Sciences

Australian National University, Australia

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Correspondence concerning this article should be addressed to Dr Eliza Ahmed, Research School of Social Sciences, Australian National University, ACT - 0200, Australia. E-mail: Eliza.Ahmed@anu.edu.au.

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Purpose. The current study addresses the issue of discontent at a personal and policy level with higher education and its funding, and its relation to tax compliance among a graduate population. It examines the thesis that discontent with the provision and funding of higher education plays a significant role in lowering tax compliance through the mediational role of shame management and dissociation from authority.

Method. Data are taken from the Graduates' Hopes, Visions and Actions Survey based on a sample of 447 Australian graduates who recently received their tertiary degrees.

Results. Path analysis provides support for the central thesis but also shows additional direct links between (1) dissatisfaction (with university studies) and tax evasion, and (2) having an income contingent university debt to repay and tax evasion.

Conclusions. This study demonstrates the ways in which the legitimacy of the tax system and the legitimacy of higher education policy are inter-connected. Criticisms of government departments acting in tunnel-visioned ways with regard to the consequences of their actions are magnified in light of the findings of this paper: People take out their frustrations with one part of the government system (higher education funding and service provision) on other parts of the government system (taxation). Communication between these different parts is imperative for effective policy development and implementation.

Emotionally intelligent tax policy: the case of higher education funding

Personal bankruptcies among citizens liable for additional payments for their higher education have increased dramatically in the United Kingdom (Financial Times, 4 February 2003). The possibility that some AU$1.5 billion in Australian university fees may be considered as "doubtful debt"[1] represents an alarming prospect for Australia, and poses a challenge for authorities. New Zealand Inland Revenue also reports substantial losses in unpaid student loans (Annual Report: Student Loan Scheme, 2003). Despite reports of the problem occurring internationally, the idea of giving students' loans that are repayable through the tax system remains popular in policy circles (Johnstone, 2003), with little attention paid to understanding why this group of taxpayers resists repayment. The purpose of the present study is to expand our understanding of how carrying a government debt for higher education affects the taxpaying behavior of individuals. Previous work has shown that those who are required to make extra payments (e.g., student loans, child support) are more likely to engage in tax evasion (Ahmed & Braithwaite, 2004; Williams, 2001). This study focuses on student loans and seeks to explain why repayment of a loan is associated with self-confessed evasion. The key explanatory variables for this analysis are discontent, shame and dissociation. The context is the Australian Higher Education Contribution Scheme (HECS) – a government sponsored higher education loan scheme whereby students repay their debt when their income exceeds a threshold level, usually after graduation.

Early studies on tax compliance primarily focused on economic self-interest (Allingham & Sandmo, 1972; Fischer, Wartick, & Mark, 1992) arguing that taxpayers are rational actors who calculate the costs and benefit of their actions to maximize their individual outcomes. But narrowly defined self-interest is inadequate as an explanation for taxpaying behavior (see Cowell, 1992; Scholz, 1998). Taxpayers not only have a desire to maximize their monetary benefit, but also to do the right thing (McGraw & Scholz, 1991; Richardson & Sawyer, 2001; Schwartz & Orleans, 1967)

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[1] This means debt that is unlikely to be collected by the Australian Taxation Office through current collection processes (see The Sydney Morning Herald, April 1 2003).

and to receive justice at the hands of tax administrators (see Kinsey, Grasmick, & Smith, 1991).

In the psychology of justice literature, Tyler (1990) has demonstrated that perceived justice promotes the perceived legitimacy of the administrative system and enhances compliance. Recent work (Wenzel, 2003) has argued, however, that justice, at least in the tax arena, needs to be considered on a number of different levels if the effects on compliance are to be fully understood. For example, justice which offers legitimacy to a regulatory system at a personal level may impact on taxpayers differently from justice that offers legitimacy at a societal level. Injustice that is personal may provoke a desire to get even in one's dealings with the system. Injustice that is impersonal may evoke criticism and disillusionment, but not necessarily individual retaliation.

Related theorizing can be seen in the work of Boulding (1962). Boulding argues that social discontent may give rise to citizens' voice to change an ineffective social framework so that it can be more just for all. Distinct from social discontent is personal discontent, resulting from the recognition of an unjust discrepancy between one's own situation and that of others. The current study addresses both social discontent and personal discontent as different kinds of perceptions of injustice, and examines their effects on tax evasion among a graduate population.

In this paper, the focus is on those taxpayers who have made or are making payments for their higher education through the HECS (see Chapman & Harding (1993) for a full discussion of the scheme and its rationale). The HECS was introduced by the Australian federal government in 1989. Prior to the introduction of this scheme, Australians had enjoyed publicly funded tertiary education, with entrance based on academic merit without any tuition fees. The aim of the HECS was to assist Australian students[2] who were pursuing higher education and could not afford to pay newly introduced upfront fees (http://www.hecs.gov.au). HECS allows students to accumulate a debt, repayable through the tax system once the student enters the workforce and earns more than a certain amount per year. At the time of this research, the threshold was $21,985.

Previous work has shown that tax evasion is higher among those who are making payments to the government for their higher education (Ahmed & Braithwaite, 2004;

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[2] Only those students who are Australian citizens are eligible to receive the full benefit of the scheme (http://www.hecs.gov.au/permres_nz_cit.htm).

Williams, 2001). Tax evasion among these taxpayers does not take place within a vacuum; rather certain socio-political contexts predispose individuals to the psychological processes which lead them to think, rationalize and act in ways that distance them from government and their taxpaying obligations (Ahmed, 2000a).

HECS is a policy that is politically controversial. It is supported by conservatives and opposed by those who desire social policies that reduce the social and economic inequalities in society (Johnstone, 2003; Marginson, 1997). In the current study, *policy discontent*, that is discontent with the HECS program, is operationalized as the extent to which citizens view HECS (a) as imposing a burden on students; (b) as a scheme they would like to see abolished; (c) as one that favors the rich over the poor; and (d) as one that is generally unfair.

If HECS is perceived as a socially unjust scheme, citizens are likely to question their obligations to cooperate with the scheme. This creates psychological conflict and tension in individuals; a state that attitude theorists refer to as cognitive dissonance (Festinger, 1957). Nevertheless, individuals are known to be adept at finding a logic to restore balance to their belief system. On the one hand, they may use neutralization techniques (Sykes & Matza, 1957) to distance themselves from the scheme, the government, tax administration, and any obligation to repay HECS or pay tax. On the other hand, they may draw on other beliefs to rationalize their cooperation: thinking that they do not want trouble with the authorities for instance, or that as an individual they can not do anything to change the system anyway. Thus, policy discontent may or may not provoke outrage that affects behavior.

Personal discontent is envisaged as a different phenomenon from policy discontent. It is understood as the degree to which citizens feel contentment about their higher education investment. A pilot study (Ahmed, 2000a) uncovered strong feelings of resentment about carrying a HECS debt when students did not feel they were getting value for money out of their university course. Personal discontent in this study is, therefore, operationalized as graduates' dissatisfaction with what they received, specifically (a) the quality of teaching; (b) skill acquisition; and (c) professional development.

When students view the costs of university degrees as an investment in a better career and a better life, they expect an economic or a personal return to their investment. Fee

for service appears to capture the basis for the exchange between the student and Australia's publicly funded university. If individuals do not receive the quality of education they are expecting, they are likely to feel disappointed in their investment, and believe there has been a breach of contract (Ahmed, 2000a). Having failed to satisfy the expectations they had of themselves and of the university, they may also harbor a sense of humiliation and shame (Lewis, 1971; Scheff & Retzinger, 1997). Shame that is not managed well through a process of acknowledgment and reparation can lead to alienation and hostility (Scheff, 1990).

When people deflect/avoid shame over HECS, they reject those who challenge them about their desire to cheat the system, that is, the tax authority (Ahmed, manuscript under review). The tax authority has the responsibility for collecting the HECS debt from students. They have the data that calculates the size of the debt, how and when it is repaid and the levels of compliance. Students declare that they are carrying a HECS debt to their employer, and the tax authority requires that a specified amount be extracted at source along with personal income[3]. It is the contention of this paper that being the regulator of HECS debts makes the tax authority the prime target for retaliation by those who feel let down by the system. Pilot research suggested that criticisms of funding policy and of university teaching was focusing less on the university, but more on the government that is responsible for the provision of higher education in Australia (Ahmed, 2000a).

In this study, retaliation or withdrawal of cooperation from the tax authority is measured in two ways. Braithwaite's motivational postures (Braithwaite, 2003) provide one measure. According to Braithwaite, individuals control the social distance they place between themselves and the authority. Disengagement and game-playing are socially distant postures that enable individuals to cut themselves off from the demands of the authority and successfully challenge the authority. Disengagement and game-playing define a dimension of social distance from an authority called *dissociation* (Braithwaite, 2004). Dissociation has been associated with greater tax evasion in earlier work (Braithwaite, 2003). Thus, the additional measure of withdrawal of cooperation or retaliation used in this study is self-reports of *tax evasion* defined in terms of undeclared income and over-claiming deductions.

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[3] For those who are self-employed, there is direct communication between the Australian Taxation Office and the self-employed graduate.

The present study

Six sets of variables are identified in the current conceptual framework: (1) having a HECS liability; (2) policy discontent; (3) personal discontent represented by course (dis)satisfaction; (4) shame management (shame acknowledgment, shame displacement and shame avoidance); (5) dissociation from the tax system; and (6) tax evasion.

INSERT FIGURE 1 ABOUT HERE

Figure 1 summarizes the direct and indirect links in our conceptual model. First of all, we have hypothesized that citizens who have a HECS liability will engage in tax evasion (*Hypothesis 1*). This is based on earlier studies (e.g., Ahmed & Braithwaite, 2004; Williams, 2001).

Next in Figure 1, the dotted lines from policy discontent indicate that these perceptions may or may not heighten dissociation and tax evasion depending on the political context. The circumstances that favor a direct link involve organized resistance. There is evidence that when individuals do not find legitimacy in what leaders of their groups do, they withdraw and are more likely to become alienated and uncooperative (Tyler & Lind, 1992). In the current context, the relevant group is the Australian government, in particular the government's collection agency, the tax authority. Under politically conducive circumstances, those who are discontented with HECS as a policy may dissociate from the authority of the tax office, and evade tax (*tentative Hypothesis 2*).

More convincing are the arguments in favor of personal discontent having an adverse effect on levels of cooperation. We anticipate that course dissatisfaction will trigger both dissociation and tax evasion but we see these effects operating through an additional variable – shame management. This is a *mediational hypothesis* that will be tested using a path analysis.

Poor shame management has been linked theoretically and empirically to non-compliance. According to shame management theory (Ahmed, Harris, Braithwaite, & Braithwaite, 2001), an important aspect of being able to self-regulate for compliance involves, first, being able to control a desire to blame others or to trivialize the offence, and second, accept responsibility for the mistakes one has made, with the intention of setting things right. This combination of shame management skills might

be expected to block any desire to hit out at the HECS policy as a result of dissatisfaction with the quality of tertiary education. On the other hand, those who are dissatisfied with their university experiences may be goaded into adopting poor shame management skills when faced with the prospect of not repaying a HECS debt (high shame displacement through blaming others or high shame avoidance through trivializing the event combined with low shame acknowledgment through denying wrongdoing). Therefore, we expect that individuals who are dissatisfied with their university experiences will manage shame poorly, that is, less shame acknowledgment but more shame displacement and shame avoidance (*Hypothesis 3*).

Shame management practices of this kind are likely to pose a threat to cooperative relationships with the tax authority more generally, and generate social distance from the authority. For this reason, we predict that high shame displacement and avoidance, and low shame acknowledgment will heighten dissociation (*Hypothesis 4*), which in turn, will increase tax evasion (*Hypothesis 5*).

Method

Participants

The data used in this paper are collected from 447 Australian graduates who completed the Graduates' Hopes, Visions and Actions Survey (GHVA Survey; Ahmed, 2000b). New graduates whose degree was conferred in either 1998 or 1999 were selected for this study as they were expected to have commenced employment by the time the survey was mailed out. The sample was stratified in terms of students graduating from each discipline in two universities in the Australian Capital Territory.

Of the 1500 questionnaires distributed, 447 were returned after several reminders, giving a response rate of 33% (after allowing for undelivered questionnaires and ineligible respondents). This response rate, while low in absolute terms, is comparable with rates reported for other tax-based surveys (Braithwaite, 2000; Pope, Fayle, & Chen, 1993; Kirchler, 1999; Wallschutzky, 1996; Webley, Adams, & Elffers, 2002). Wallschutzky (1996) has argued that tax surveys of the general population cannot be expected to yield higher than a 30 to 40 percent response rate.

Procedure

The participants were initially sent an introductory letter explaining the intent of the survey and guaranteeing strict confidentiality of responses. The introductory letter

explained that the purpose of the survey was to understand how graduates viewed the HECS, how they felt about their tertiary education experiences, and how they would describe their taxpaying behavior.

After one week, the survey questionnaire was sent along with an accompanying letter and a postage-paid return envelope. The accompanying letter re-emphasized the research purpose, re-iterated the guarantee of respondent anonymity, and encouraged respondents to return the completed questionnaire in a sealed envelope. A two-week return date was requested. An identification number appeared in the questionnaire to allow follow-up reminders of non-respondents asking them to complete and mail the survey if they had not already done so. As recommended by Dillman (1991), a reminder postcard was sent out one week after the initial mailing. Three weeks later, an identical packet was sent out to those participants who had not returned the questionnaire.

Measures

The GHVA Survey was based largely on the Community, Hopes, Fears, and Actions Survey (Braithwaite, 2000) with some additional items included to assess perception of the desirability and practicability of HECS, and an evaluation of university courses.

<u>Having a HECS liability</u>

This was assessed using a single item: "Do you have a HECS debt?" (yes = 1, no = 2; reverse coded for analyses). Of the total sample, 65% had a HECS debt and 35% had paid their tuition fees upfront. This survey seems to over-represent those who had paid upfront fees (compared to the 26% in Kim's study (1997)). Among those who claimed to pay upfront, 67% made the full payment whereas 33% chose the partial upfront payment option. Of those who had paid upfront, 65% reported that they were self-funding, 25% that their parents paid for them, and 10% that employers paid for them. Readers should be cautious in interpreting these figures because the categories are not mutually exclusive. For example, in theory, a respondent's upfront payment can be made by parents at first, then by the student, and finally by the employer.

<u>Policy discontent</u>

This scale was developed for the present purpose and comprised 9 items measuring the extent to which graduates are dissatisfied and resentful about HECS as a social policy. The scale included items such as: "the HECS favors the rich over the poor".

There were six response categories: 1 = strongly disagree, 2 = disagree, 3 = slightly disagree, 4 = slightly agree, 5 = agree, 6 = strongly agree (M = 3.40; SD = 1.21; *alpha* = .94) (see Appendix for full listing of items).

Discontent with HECS as a policy is interpreted as a perception of social injustice. To test the scale's validity, it was correlated with three questions clearly tapping some unfair aspects of the HECS. The items are: (a) "Students who pay up front are eligible to have a 25 percent discount rate" – this is unfair (r = .47); (b) "Differential rates of HECS apply to commencing students depending upon the type of course (e.g., medicine, science) undertaken" - this is unfair (r = .32); and (c) "Recently, the threshold level for compulsory payment of a HECS debt was lowered" – this is unfair (r = .53). All correlation coefficients were significant at .001 level, supporting the assertion that the *HECS policy discontent* scale represents perceptions of social injustice.

Course satisfaction

The majority of items used in this scale were adapted from the Graduate Experience Questionnaire (Long & Hillman, 2003). There were six response categories for all items in this measure: 1 = strongly disagree, 2 = disagree, 3 = slightly disagree, 4 = slightly agree, 5 = agree, 6 = strongly agree.

Seventeen items comprising the measure covered four aspects of the university experience: (a) skill acquisition (4 items; a sample item: "The course helped me develop the ability to plan my own work"; M = 4.62; SD = .79; *alpha* = .81); (b) professional development[4] (7 items; a sample item: "The course helped me to grow professionally"; M = 4.17; SD = .92; *alpha* = .86); (c) quality teaching (4 items; a sample item: "My lecturers were extremely good at explaining things"; M = 3.62; SD = 1.06; *alpha* = .89); and (d) clear course-goals (2 items; a sample item: "It was often hard to discover what was expected of me in this course" (reverse coded); M = 3.73; SD = 1.09; *alpha* = .68).

Because these four scales were significantly and positively interrelated (the correlation coefficients ranged from .26 to .51, p < .001), they were combined into one scale to measure respondents' *satisfaction with higher education* (see Appendix for full listing of items).

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[4] This aspect was developed for the present study.

Shame management

A scenario-based self-report questionnaire, Management Of Shame State – Shame Acknowledgment and Shame Displacement (MOSS-SASD (Adult-Version)) (Ahmed, Braithwaite, & Braithwaite, 1996), was used to measure shame management. Respondents are asked to imagine that they have been caught for not repaying their HECS debt: "Imagine that you chose to defer payment of your HECS debt and you are now required to repay the debt through the taxation system. You DO NOT repay the debt. Assume that you now have to pay a substantial fine or penalty. How likely is it that the following would occur?"

Respondents are then presented with a list of shame related reactions which they rate in terms of their relevance to them using four categories: 1 = not likely, 2 = may happen, 3 = likely, 4 = almost certain. Following a rigorous validation procedure (Ahmed, manuscript under review), 3 scales were formed: shame acknowledgment, shame displacement and shame avoidance.

The *shame acknowledgment* scale represents adaptive shame management whereby a person acknowledges wrongdoing, feels guilt and seeks to make amends (11 items; a sample item: "feel ashamed of myself"; $M = 2.54$, $SD = .89$, *alpha* = .95).

The *shame displacement* scale measures an inability to manage shame without blaming and hitting out at others and making excuses for what has gone wrong (5 items; a sample item: "feel angry with the Tax Office"; $M = 1.77$, $SD = .71$, *alpha* = .82).

The *shame avoidance* scale measures dismissiveness of the legal breach and the authority. In contrast to shame displacement (projecting blame onto an authority), the shame avoidance scale expresses lack of acceptance of the decision and/or of the importance of the issue (3 items; a sample item: "pretend that nothing was happening"; $M = 1.47$, $SD = .58$, *alpha* = .66) (see Appendix for full listing of items comprising the shame management scales).

Dissociation

Dissociation represents a readiness to dismiss the tax system and challenge its authority. It was measured using three items taken from Braithwaite's (2003) motivational posture scales: (a) "I like the game of finding the grey area of tax law"; (b) "I don't care if I am doing the right thing by the tax office"; and (c) "I enjoy the

challenge of minimizing the tax I have to pay". There were six response categories: 1 = strongly disagree, 2 = disagree, 3 = slightly disagree, 4 = slightly agree, 5 = agree, 6 = strongly disagree ($M = 2.47$; $SD = .74$; *alpha* = .66).

Tax evasion

The *tax evasion* index measures the extent to which respondents admitted to having engaged in real act(s) of tax non-compliance. This measure of tax evasion aimed to capture transgressions that had already occurred rather than proneness or openness to tax evasion.

Three measures were used to develop the behavioral index of tax evasion. To form the index of tax evasion, respondents were grouped as evaders if they had evaded tax in any one of the following ways:

(1) "how much of your income in the 1999-2000 financial year did you get paid in untaxed cash?" (i.e. notes and coins rather than cheque or directly deposited into a bank account) (less than 5% = 1, between 5 and 20% = 2, between 20 and 50% = 3, more than 50% = 4, did not get paid any untaxed cash = 5)

and

"how much of your untaxed cash income did you declare on your 1999-2000 income tax return?" (none = 1 through all = 10); or

(2) "As far as you know, did you exaggerate the amount of deductions or rebates in your 1999-2000 income tax return?" (a lot = 1, quite a lot = 2, somewhat = 3, a little = 4, not at all = 5); or

(3) "As far as you know, did you report all the money you earned in your 1999-2000 income tax return?" (yes = 1, no = 2).

If a respondent indicated that they were totally compliant on all of these 3 indicators, they were assigned to the non-evader group. Thus, tax evasion was scored as 1 if non-compliant on at least 1 indicator and 0 if compliant on all 3 indicators.

Results

Data were analyzed in two steps. In the first step, the inter-correlations among all variables are analyzed (see *Table 1*). The variables are: having a HECS liability,

policy discontent, course satisfaction, shame management in relation to the non-repayment of HECS, dissociation from the tax authority, and tax evasion.

In the second step, a path analysis was performed in which the mediational hypothesis was tested (see *Table 2* and *Figure 1*).

INSERT TABLE 1 ABOUT HERE

Intercorrelations among all variables in the study

As expected (Hypothesis 1), having a HECS liability was positively and significantly related to tax evasion ($r = .16$, $p < .01$). Hypothesis 2 tentatively predicted that under certain political conditions, policy discontent could be positively related to both dissociation and tax evasion. This was not the case. Policy discontent was uncorrelated with both variables, suggesting that the political conditions were not conducive for converting attitudes of resistance into behavioral defiance.

In accord with Hypothesis 3, two of the three shame management variables showed significant relationships with course satisfaction. Shame acknowledgment was positively related ($r = .11$, $p < .05$) whereas shame displacement was negatively related ($r = -.13$, $p < .01$) to course satisfaction. Although the coefficient of shame avoidance did not reach significance, it was in the predicted direction ($r = -.09$, $p < .08$).

Hypothesis 4 proposed that adaptive shame management (high shame acknowledgment but low shame displacement and shame avoidance) would be negatively related to dissociation. Findings provide support for this hypothesis. As evident in *Table 1*, shame acknowledgment was negatively related ($r = -.33$, $p < .001$) whereas both shame displacement and shame avoidance were positively related to dissociation ($r = .17$, $p < .001$; $r = .30$, $p < .001$, respectively).

Finally, dissociation was significantly and positively correlated to tax evasion ($r = .22$, $p < .001$) which was, again, in accord with what we expected (Hypothesis 5).

While the correlational findings provide support for many of our hypotheses, they do not provide information about which effects will continue to hold up after controlling for other effects. Moreover, the correlations do not address the fit of the conceptual model implicated by the hypotheses, in particular the role of shame management in mediating the relationship between course discontent and how one disengages from

the tax system. Therefore, we decided to perform a path analysis to explicate the inter-relationships among the variables.

Path analysis

Path analysis belongs to the family of statistical techniques referred to as Structural Equation Modeling (SEM). Using such an analytical technique in this study, we take account of the inter-relationships among all the variables to ascertain the relative strength of predictor variables on the outcomes of tax evasion. Moreover, we wanted to explore the mediational effects of shame management variables in linking course (dis)satisfaction and tax evasion. *Figure 2* shows the diagrammatic representation of the results of the path analysis using AMOS version 4.0 with maximum likelihood estimation (Arbuckle & Wothke, 1999).

Table 2 presents the significant paths in the final model with their standardized beta coefficients including the overall fit indices for the model. In accord with the posited model, having a HECS liability directly influenced tax evasion. However, the influences of discontent (policy discontent and course (dis)satisfaction) on tax evasion through the shame variables are more complex than originally believed. Findings obtained from the path analysis capture the rich complexity of the interplay among the variables which, in retrospect, seems a plausible account of real-life social situations. Several observations in the path analysis are noteworthy.

First, both policy discontent and course (dis)satisfaction had an effect on tax evasion through shame acknowledgment and shame displacement. These two shame variables, in turn, affected tax evasion through dissociation. This result underscores the proposition that perceived discontent, either policy directed or personal, leads to tax evasion through channels that are both emotional and cognitive. It is emotional because shame management plays a major mediational role in affecting tax evasion. It is cognitive because of the mediational role of dissociation which, in turn, leads to tax evasion.

INSERT TABLE 2 ABOUT HERE

Second, policy discontent directly affected dissociation but not the actual behavior of tax evasion. Importantly, we were surprised by the fact that policy discontent actually decreased dissociation which makes it harder to evade tax. The most plausible explanation lies at the heart of the motivational posture approach. Dissociation is the

posture of those who are highly individualistic, who do not believe in the redistribution of resources through a tax system, and who are willing and able to side-step the tax system. Being concerned about the social injustice of HECS is not part of the dissociated's discourse (Braithwaite & Ahmed, in preparation). By way of contrast, those who have not dissociated are more likely to be unhappy about a system which they believe should and could be changed.

Third, the significant direct path between course (dis)satisfaction and tax evasion was against that which was theorized in the conceptual model. Those who did not see value in their education appeared to be recouping their losses on their higher education by cheating the tax system. The direct relationship seems to reflect an implicit contractual arrangement between citizens and government without the emotional trigger of shame. It seems that graduates will pay a fair price for the goods they receive and are willing to initiate adjustments through "fiddling" their tax returns.

INSERT FIGURE 2 ABOUT HERE

In spite of some unexpected linkages, this analysis supports the basic proposition advanced in this paper: Discontent with HECS policy and higher education experience contributes to tax evasion through a set of mediating variables that represent emotions as well as cognitions. However, this does not provide an exhaustive account of how carrying a HECS debt can lead to tax evasion. There are other paths, demanding other explanations.

The final model provided an excellent fit to the empirical data as shown by seven different goodness-of-fit indices[5]. All fit statistics are presented in *Table 2*. As can be

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[5] The traditional goodness-of-fit index is the chi-square which is smaller and non-significant for better-fitting models. Because chi-square is likely to increase with the degrees of freedom and the sample size even when the model fit is imperfect, we have utilized 6 additional indices of model fit to evaluate the model (for discussion of their relative merits, see Byrne, 1994; Loehlin, 1998). These are chi-square/df ratio, Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), Comparative Fit Index (CFI), a Tucker Lewis Index (TLI), and Root Mean Square Error of Approximation (RMSEA). A chi-square/df ratio of less than 2 is considered as acceptable. Values greater than .95 for GFI, AGFI, GFI, and TLI are considered to indicate good model fit (Byrne, 1994; Hu & Bentler, 1999; Loehlin, 1998). An RMSEA of .05 or less is suggested as an indicator of acceptable fit (Arbuckle & Wothke, 1995; Bollen, 1989).

seen, these tests provided a non-significant chi-square [χ^2 (13, $N = 437$) = 12.54, $p <$ .48], a chi-square/df ratio of 1.29, a Goodness of Fit Index (GFI) of .993, an Adjusted Goodness of Fit Index (AGFI) of .981, a Comparative Fit Index (CFI) of 1.00, a Tucker Lewis Index (TLI) is 1.00, and a Root Mean Square Error of Approximation (RMSEA) of .000. The modification indices indicated no potential improvement in the model fit with either the elimination or addition of paths.

The importance of paths in the final model was confirmed through a series of regression analyses which enabled a further check for violation of assumptions made in maximum likelihood estimation in a path analysis. According to Byrne (2001), if the observed variables in a SEM do not have a multivariate normal distribution or are not continuous variables, the chi-square may be inflated (see also Drasgow & Kanfer, 1985). The analysis reported in this paper can be criticized for deviating from both conditions.

First and foremost, we have used a dichotomous dependent variable (tax evasion). Checks for assumption violation were carried out through a logistic regression predicting the dichotomous dependent variable (tax evasion) from all other variables, and through four separate ordinary least squares regressions, predicting dissociation, shame avoidance, shame displacement, and shame acknowledgment from those variables that were possible causal antecedents in Figure 2[6]. In addition, a hierarchical regression analysis was used to gain more insight into which variables were directly linked to the dependent variable. No substantive distortion seems to have occurred in the results because of the use of the dichotomous dependent variable, tax evasion, in the path analysis. All significant and non-significant paths in Figure 2 were confirmed in the set of logistic and ordinary least squares regressions. The advantage of reporting the results of the SEM analysis over the five ordinary least squares regressions and one logistic regression lies in its parsimony. In the path analysis, all variables are simultaneously considered.

Qualitative observations and discussion

The present study demonstrates that when citizens feel dissatisfied and discontented with the service provided by one sector of government, they are willing to withdraw

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[6] A similar empirical approach and justification for using SEM with a dichotomous outcome variable can be seen in Kalimo, Taris, & Schaufeli (2003).

cooperation at other levels. Most importantly, there is not one path by which this occurs, but a number of paths which have emerged in the course of this study.

The most unexpected outcome of the current study is that dissatisfaction with university course experience plays a key role in directly triggering tax evasion. When graduates do not feel that their investment in their degrees has delivered the expected outcomes, this discontent is expressed through cheating the government. The following comment, provided by a participant in our study, illustrates this point:

> "I think that HECS should only be repaid if the education received has been of value in gaining employment".

This line of reasoning demonstrates how dissatisfaction with university studies has a direct link to evasion, and that the evasion encompasses the domain of income tax lodgment. Importantly, this link operates above and beyond the direct link between having a HECS debt and cheating on tax which we have observed in earlier work (e.g., Ahmed & Braithwaite, 2004; Williams, 2001). In other words, cheating on tax can occur because of course dissatisfaction or because one holds a HECS debt.

Further pathways to tax evasion are more complex, but nevertheless important from the coefficient weighs assigned to the pathways in Figure 2. Dissatisfaction with the higher education system (financed primarily by government) opens pathways to evading the mechanism the government has for funding the service, that is, taxation, through mediating variables that represent emotional reactivity. Both discontent variables (policy and course) impact on tax evasion through the shame emotions, namely shame acknowledgment (shame/guilt), shame displacement (anger/blame), and shame avoidance.

Personal narratives provide insight into how dissatisfaction with university studies increases shame displacement and reduces shame acknowledgment over the hypothetical HECS cheating scenario. Poor shame management in this scenario flows on into increased dissociation from the tax authority which, in turn, increases tax evasion. We have evidence in the quantitative and qualitative findings of how emotional reactivity finds its way into bridging the concepts of course dissatisfaction and tax evasion. In the quote below, anger felt toward the universities for poor teaching was redirected into a more far reaching kind of resentment:

> " ... The one thing that I did find annoying was paying HECS for one or two units where the tutors were hopeless and basically didn't teach us much at all. I realize it is more the responsibility of the universities to ensure that their tutors are competent, but it is in cases like this that people resent having to pay HECS, ie. When they didn't learn anything new!"

The implication here is that blame for being deceived and hood-winked into wasting one's time and money on a university degree is directed, reluctantly it seems, at HECS.

Perceptions that HECS was an unfair social policy brought together the political and personal sensibilities of some, illustrating how the link that we had not hypothesized between policy discontent and shame management had come about. The pathways from unfair social policy to shame to evasion are important because these linkages are among the strongest in Figure 2. Those who judge HECS to be socially unjust, deflect shame through displacement and avoidance when caught in a hypothetical scenario for not paying their HECS debt. Moreover, they fail to acknowledge wrongdoing and this heightens their interest in shame avoidance ("it's a trivial offence, so what?" response). This pattern of shame management then flows through to affect responsiveness to the tax authority on tax matters – dissociation (treating the authority as an irrelevancy) increases, along with tax evasion. This pathway, in its very complexity, explains why policy makers do not always see behavioral resistance to their more controversial initiatives. The response of the public is not direct or "front-on", it is far more oblique, and for this reason takes time to be recognized by government.

Two participants revealed their political attitudes of protest over HECS policy accompanied by their personal attitudes of unjust treatment:

> "The deferred payment option is the only choice for people who cannot afford to pay up-front, this puts these people behind from the beginning. When you start working (often on a low wage) there are a number of debts you face, adding HECS makes it all the more difficult. I was repaying HECS as a sales assistant because the rate was lowered to $21,000, the rate should be at least $30,000".

> "The government should realize that investing in tertiary education is investing in the country's future. By raising fees, introducing up-front fees, ..., they are encouraging people not to study and not to help educate the country. Education should be free, after all people in the army get paid to be educated!"

When citizens' aspirations (either collective or own) are not met by a social policy, their ethical identity seems to be threatened. Their sense of who they are and how they would like to build their career seems to be jeopardized. Harris (2001) described this process as an assault on ethical identity. Here, the ethical identity that is under assault is of being an educated citizen who has something valuable to offer the community. These graduates do not feel valued, rather they feel exploited and thereby humiliated. Thus, disappointment and shame are displaced onto another party, the tax authority.

In spite of some unexpected complications in the results, we believe they illustrate the value of our theoretical approach for understanding how dissociation and tax evasion occur among those who are paying a HECS debt to the government. Perhaps even more importantly, however, we have in this study a demonstration of the very different paths by which a government's income contingent university payment scheme can have unexpected and negative repercussions for a voluntary tax system.

Admittedly, these findings represent only a small part of the story of tax evasion, and should therefore be kept in perspective. Furthermore, at this stage we are limited in the assurances we can give about the causality of the relationships among the key variables. The use of a cross-sectional design places constraints on our capacity to test a multi-stage model of tax evasion which is implied in these data (e.g., perceptions of injustice foster emotional disquiet which undermines self-regulatory systems for doing the right thing).

Also tempering our conclusions are questions of generalizability. Findings reported here are based on data from graduates in a particular community in the Australian Capital Territory in Australia. Although the recruited graduates were from heterogeneous disciplines and different universities, some commonality by virtue of the shared broader social environment may be framing our findings. Replication in other regions is to be encouraged – in other parts of Australia as well as in countries like U.K. and New Zealand where government is facing problems with the collection of student loans (Annual Report: Student Loan Scheme, 2003; Financial Times, 4 February 2003; One News, 2003).

Conclusion

Among the important contributions of this paper are (a) evidence of alternative, albeit complementary, pathways whereby government policy can weaken a voluntary tax

system, and (b) demonstration of how emotional reactivity to government policy can be one of the conduits that erodes voluntary compliance. Yet these conclusions fall short of communicating the overall meaning of these findings. What this study has demonstrated is the way in which the legitimacy of the tax system and the legitimacy of higher education institutions are inter-connected. If universities are unable to provide quality tuition at affordable prices for all those who wish to pursue tertiary education, a new generation of taxpayers will be entering the labor force with a negative attitude not only to their university experiences, but also to the government and the tax system. Renegotiating the expectations that citizens have of the state and the state has of citizens is no small task (Rawlings, 2003). But against the backdrop of this big agenda may be some small steps that can be taken that focus on more immediate problems. Most importantly, universities and government need to work cooperatively in working out their differences and responsibilities. Through blaming each other, and allowing perceived injustice to fester and spread, they are damaging the system that supports them both.

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Table 1: Intercorrelations among all variables in the study

Variables	1	2	3	4	5	6	7	8
Having a HECS liability	-							
Policy discontent	.06	-						
Course satisfaction	-.12*	-.12**	-					
Shame acknowledgment	-.10*	-.22***	.11*	-				
Shame displacement	.07	.36***	-.13**	-.09	-			
Shame avoidance	.03	.17***	-.09	-.36***	.18***	-		
Dissociation	-.01	.01	-.10*	-.33***	.17***	.30***	-	
Tax evasion	.16**	-.06	-.15**	-.06	.06	.09	.22***	-

*p<.05, ** p <.01, *** p < .001

Table 2: Paths in the final model with their standardized beta coefficients including the overall fit indices for the model

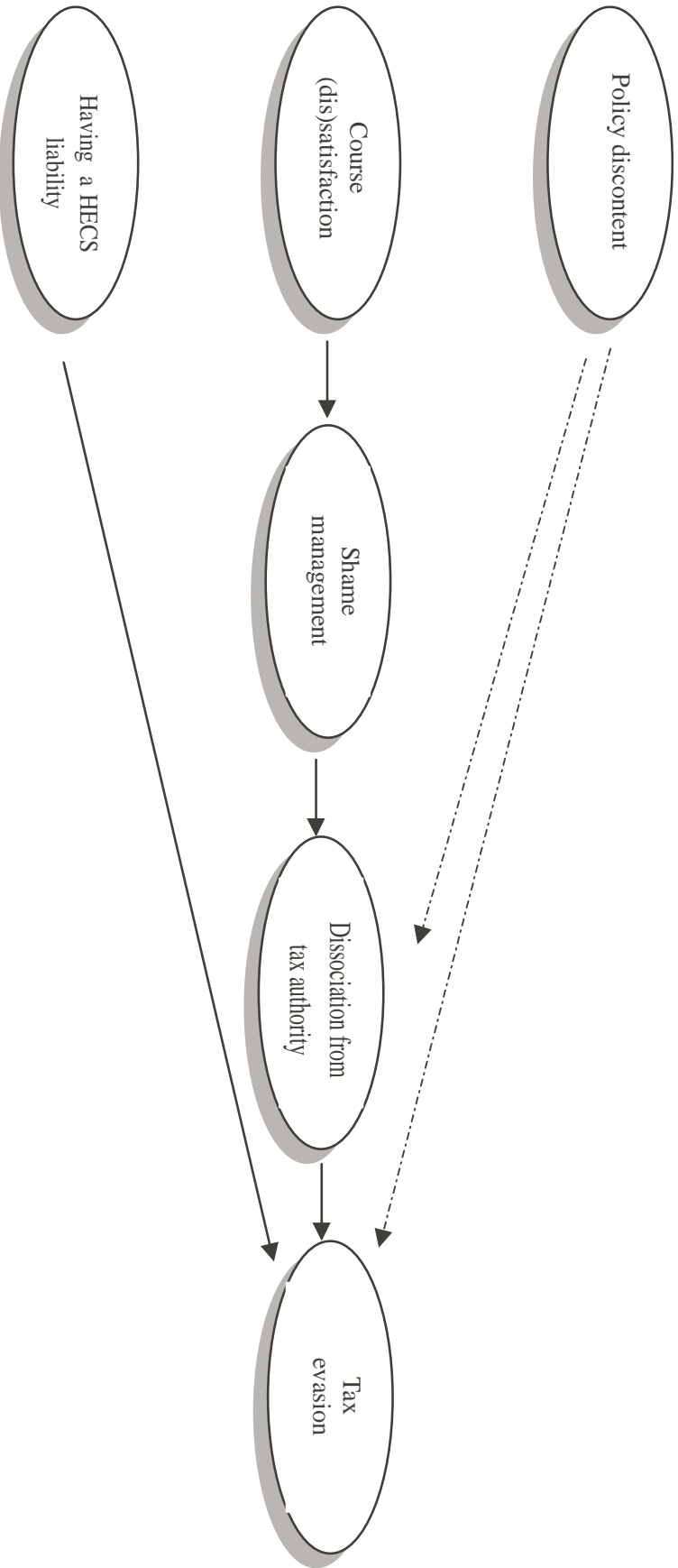| Paths in the final model	Standardized beta coefficients
Having a HECS liability → Tax evasion	.15***
Course satisfaction → Tax evasion	-.13**
Dissociation → Tax evasion	.21***
Policy discontent → Dissociation	-.13**
Shame acknowledgment → Dissociation	-.28***
Shame displacement → Dissociation	.16***
Shame avoidance → Dissociation	.19***
Policy discontent → Shame acknowledgment	-.21***
Course satisfaction → Shame acknowledgment	.09*
Policy discontent → Shame displacement	.36***
Course satisfaction → Shame displacement	-.09*
Shame acknowledgment → Shame avoidance	-.34***
Shame displacement → Shame avoidance	.15***
Chi-square (χ^2)	12.54 (df = 13; p < .48)
Chi-square/df ratio	.965
GFI (Goodness of Fit Index)	.993
AGFI (Adjusted Goodness of Fit Index)	.981
CFI (Comparative Fit Index)	1.00
TLI (Tucker Lewis Index)	1.00
RMSEA (Root Mean Square Error of Approximation)	.000

*p < .05, ** p <.01, *** p < .001

Figure 1. Proposed model of influence in the exercise of tax evasion

Having a HECS liability

Course (dis)satisfaction

Policy discontent

Shame management

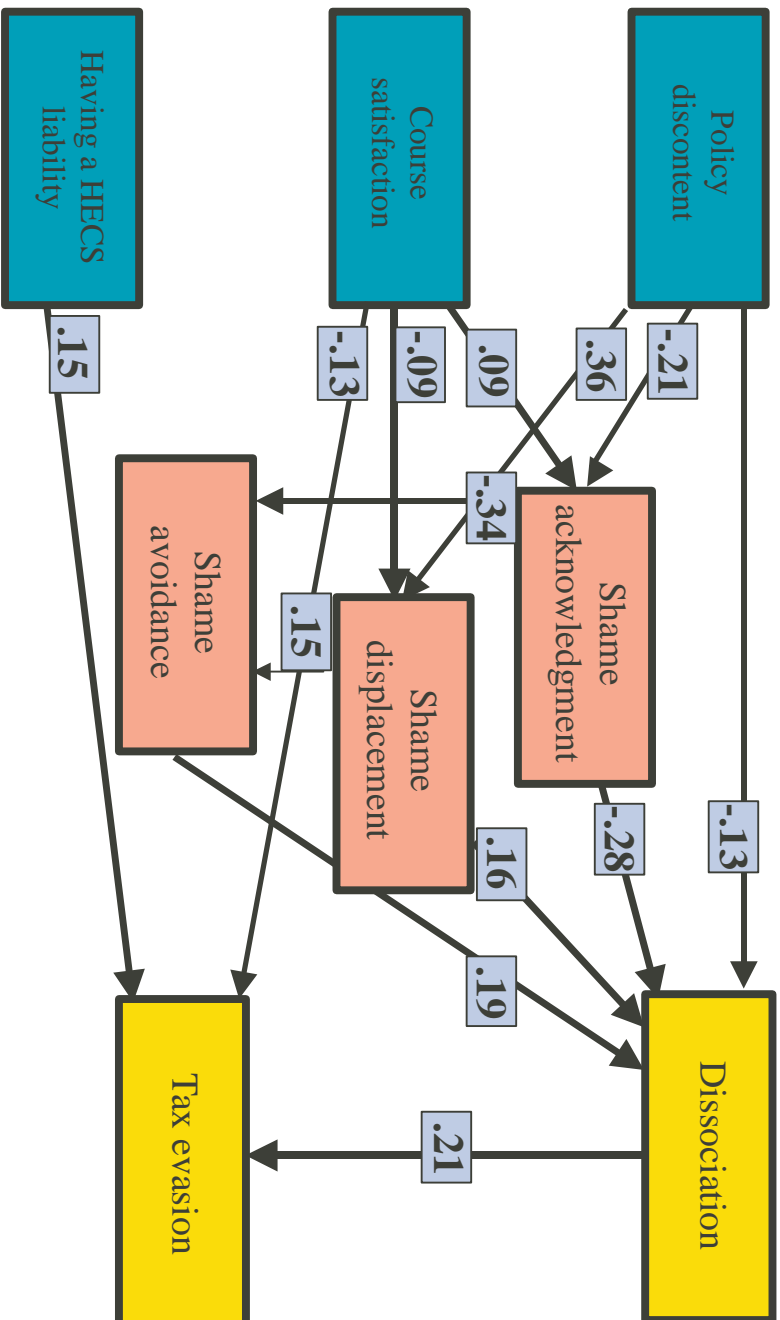Dissociation from tax authority

Tax evasion

Figure 2. Results of a path analysis showing the interrelationships among all variables in the study

Appendix

Policy discontent

The *policy discontent* (in relation to HECS) scale items:

(1) The HECS should be abolished; (2) People are not satisfied with the HECS; (3) The HECS favors the rich over the poor; (4) The HECS is functioning very well as it is (reverse coded); (5) In general, the HECS is a fair system (reverse coded); (6) People are very resentful about repaying a HECS debt; (7) There are more negatives than positives in the HECS; (8) When I think about repaying a HECS debt, I feel as if I am losing out; (9) In general, I don't think of the benefits – I just see the HECS as taking money from my pocket.

Course satisfaction

<u>Skill acquisition</u>

The *skill acquisition* scale items:

(1) The course developed my problem-solving skills; (2) The course sharpened my analytic skills; (3) The course improved my skills in written communication; and (4) The course develop the ability to plan my own work.

<u>Professional development</u>

The *professional development* scale items:

(1) The course helped me to develop a well-defined career goal; (2) The course brought a sense of achievement; (3) The skills I achieved during my course are now useless (reverse coded); (4) The course helped me to grow professionally; (5) the course helped me to get the best kind of job easily; (6) The course facilitated my employment level; and (7) The course helped me to relate knowledge with practice.

<u>Quality teaching</u>

The *quality teaching* scale items:

 (1) My lecturers were extremely good at explaining things; (2) The teaching staff of this course motivated me to do my best work; (3) The staff put a lot of time into commenting on my work; and (4) The teaching staff normally gave me helpful feedback on how I was going.

<u>Clear course-goals</u>

The *clear course-goals* scale items:

(1) It was often hard to discover what was expected of me in this course (reverse coded); and (2) It was always easy to know the standard of work expected.

Shame management

The *shame acknowledgment* scale items:

(1) Feel that I had let down my family; (2) Feel ashamed of myself; (3) Feel angry with myself for what I did; (4) Feel concerned to put matters right and put it behind me; (5) Feel that what I had done was wrong; (6) Feel bad about the trouble I'd

caused; (7) Feel humiliated; (8) Feel embarrassed; (9) Feel that I have harmed my reputation; (10) Feel guilty; and (11) Regret the mistakes I have made.

The *shame displacement* scale items:

(1) Feel angry with the Tax Office; (2) Feel bothered by thoughts that I was being unfairly treated by being given a penalty; (3) Feel that I wanted to get even with the Tax Office; (4) Feel like blaming the Tax Office as it failed to make me aware of my responsibilities; and (5) Feel like I am the victim here as I was not made aware of my responsibilities.

The *shame avoidance* scale items:

(1) Pretend that nothing was happening; (2) Make a joke of it; and (3) Feel like "So what? I am asked to pay a fine and I don't care".