



## A need for emotionally intelligent policy: Linking tax evasion with higher education funding

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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 interconnected. 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.

Personal bankruptcies among citizens liable for additional payments for their higher education have increased dramatically in the United Kingdom ("Bankruptcy loophole," 2003). The possibility that some AU\$1.5 billion in Australian university fees may be considered as 'doubtful debt' (that is unlikely to be collected by the Australian Taxation Office through current collection processes; see "Treasury," 2003) represents an alarming prospect for Australia, and poses a challenge for authorities. New Zealand Inland Revenue also reports substantial losses in unpaid student loans (Inland Revenue, 2003). Despite reports of the problem occurring internationally, the idea of giving

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students' loans that are repayable through the tax system remains popular in policy circles (Johnstone, 2004), 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 behaviour 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 behaviour (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), 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. However, Wenzel (2003) has argued that, at least in the tax arena, justice needs to be considered on a number of different levels if the effects on compliance are to be fully understood. For example, justice that 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. The aim of the HECS was to assist Australian students (for details, see [http://www.hecs.gov.au/permres\\_nz\\_cit.htm](http://www.hecs.gov.au/permres_nz_cit.htm)) 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; Williams, 2001). Tax evasion among these taxpayers does not take place within a vacuum;

rather certain sociopolitical contexts predispose individuals to the psychological processes that lead them to think, rationalize, and act in ways that distance them from government and their taxpaying obligations (Ahmed, 2000a).

HECS is a politically controversial policy. It is supported by conservatives and opposed by those who desire social policies that reduce the social and economic inequalities in society (Johnstone, 2004; Marginson, 1997). In the current study, policy discontent (that is, discontent with the HECS programme) 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 favours 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 cannot do anything to change the system anyway. Thus, policy discontent may or may not provoke outrage that affects behaviour.

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, 2000b) 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 graduates 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 graduates and Australia's publicly funded universities. Graduates who had not received the quality of education they are expecting were open in expressing their disappointment, and believed there had been a breach of contract (Ahmed, 2000b). Personal discontent with their fields of study undermines their moral obligation to repay the loan (Braithwaite & Ahmed, in press). Such graduates are likely to have a ready-made rationalization for not cooperating with the government on other matters such as tax.

The link between resentment about repaying the loan and negativity about paying tax is made more salient for Australian graduates by the institutional arrangements for HECS repayments. 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. Graduates 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. For those who are self-employed, there is direct communication between the Australian Taxation Office and the self-employed graduate. 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 they have not gained the returns they expected for the loan they took out for their university education.

Pilot research also suggested that criticisms of funding policy and of university teaching focused less on the university, and more on the government that is responsible for the provision of higher education in Australia (Ahmed, 2000b).

In this study, retaliation or withdrawal of cooperation from government is measured as a process beginning with rationalizing negative feelings about 'doing the wrong thing' by not repaying the HECS loan and culminating in tax evasion. The key process variable for dealing with negative feelings is the management of shame. Shame is defined as the feeling that accompanies an assault on the individual's ethical identity (Harris, 2001). This is commonly the case when individuals socialized into a particular society contemplate or act in ways that conflict with the laws and norms of that society. In the current research context, it is postulated that graduates who felt burdened by a HECS debt would have considered the possibility of not repaying it, or at the very least, delay the paying of it. The possibility of not repaying a HECS debt involves graduates in a process of shame management. We postulate that this is a pivotal point in the process of withdrawing from committing to a cooperative relationship with government.

According to shame management theory (Ahmed, Harris, Braithwaite, & Braithwaite, 2001), people can handle shame and shame-related feelings constructively if they are able to acknowledge them and work out a way of 'making their peace' with those who have harmed them. Shame can also be managed in a less adaptive way. People may deflect and/or avoid those feelings to escape their negative consequences, thus generating more conflict. In the current context, when graduates deflect/avoid shame over not repaying the loan, they are also likely to reject those whose job is to challenge them about their desire to cheat the system, that is, the tax authority.

Withdrawal of cooperation from the tax office is measured in two ways. Braithwaite's (2003) motivational postures 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.

### **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 acknowledgement, shame displacement, and shame avoidance); (5) dissociation from the tax system; and (6) tax evasion.

Figure 1 summarizes the direct and indirect links in our conceptual model. First, 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 Fig. 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 favour a direct link involve organized

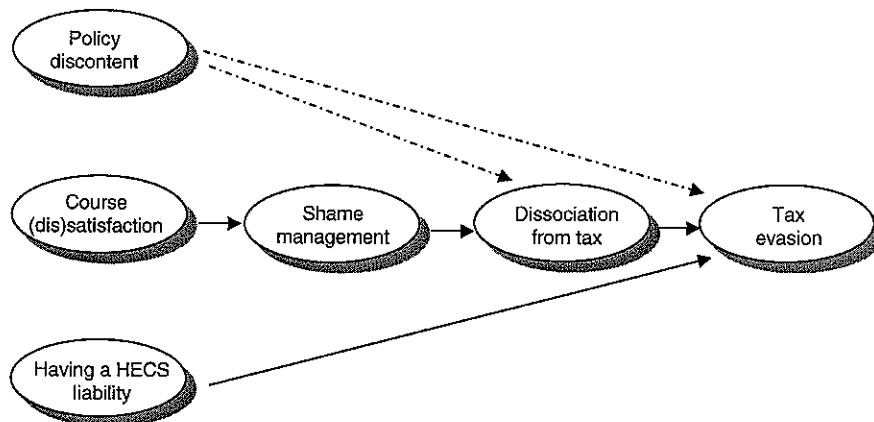


Figure 1. Proposed model of influence in the exercise of tax evasion.

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 favour 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 *et al.*, 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, accepting responsibility for the mistakes one has made, with the intention of setting things right. This particular combination of shame management skills might be expected to serve as conscience for those wishing they could get out of repaying their HECS. In other words, constructive shame management skills block any desire to hit out at those responsible for the administration of HECS policy (the tax office). 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 acknowledgement through denying wrongdoing). Therefore, we expect that individuals who are dissatisfied with their university experiences will manage shame poorly, that is, less shame acknowledgement 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 because the tax authority is the regulator of HECS repayments. For this

reason, we predict that high shame displacement and avoidance, and low shame acknowledgement over HECS repayments will heighten dissociation from the tax authority (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, 2000a; for a detailed description of the survey and its responses, see Ahmed, 2004). 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 1,500 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, 2001; Kirchler, 1999; Pope, Fayle, & Chen, 1993; Wallschutzky, 1996; Webley, Adams, & Elffers, 2002). Wallschutzky has argued that tax surveys of the general population cannot be expected to yield higher than a 30%-40% response rate.

In surveys such as this, there is always risk of recruiting a biased sample that is overrepresentative of compliant citizens. In order to encourage the less compliant to participate, a number of steps were taken. First, care was taken to be open to different views about HECS and the tax system. Sometimes people evade tax for reasons that they are very willing to explain (Braithwaite, 2003). Second, it was emphasized that the research was conducted by the Centre for Tax System Integrity at the Australian National University, and that the Australian Taxation Office would not have access to any individual taxpayers' survey responses. It was also mentioned that the survey was anonymous and that answers would remain confidential. Credible assurances of anonymity and confidentiality are essential to minimizing the socially desirable responding (the tendency to present in a favourable way) in surveys of this kind.

### **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 behaviour.

After 1 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 2-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 1 week after the initial mailing. An identical packet was sent out to those participants who had not returned the questionnaire 3 weeks later.

### **Measures**

The GHVA Survey was based largely on the community, hopes, fears, and actions survey (see Braithwaite, 2001) with some additional items included to assess perception of the desirability and practicability of HECS, and an evaluation of university courses.

#### *Having a HECS liability*

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 overrepresent those who had paid upfront fees (compared with the 26% in Kim's, 1997 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.

#### *Policy discontent*

This scale was developed for the present purpose and comprised nine 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 favours 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% 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, 2000). 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';  $M = 4.62$ ;  $SD = 0.79$ ;  $\alpha = .81$ ); (b) professional development (7 items were developed for the present purpose; a sample item: 'The course helped me to grow professionally';  $M = 4.17$ ;  $SD = 0.92$ ;  $\alpha = .86$ ); (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-.51,  $p < .001$ ), they were combined into one scale to measure respondents' satisfaction with higher education (see Appendix for full listing of items).

#### *Shame management*

A scenario-based self-report questionnaire was developed for the HECS context using the Management of Shame State - Shame Acknowledgement and Shame Displacement Questionnaire (MOSS-SASD; Ahmed, 2001) as a base. The MOSS-SASD was developed and validated in the context of school bullying (see Ahmed, 2001). In the validation process, the MOSS-SASD items for an imagined scenario and a real-life experience were significantly and positively correlated, thereby providing support for the validity of using hypothetical situations for the measurement of shame management.

When MOSS-SASD was adapted to the taxation context, additional items were included (Harris, 2001), and some items were modified (see Braithwaite, 2001). For the HECS loan payment context, respondents were asked to imagine that they had 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 were then presented with the revised list of shame related reactions, which they rated in terms of their relevance to them using four categories: 1 = not likely, 2 = may happen, 3 = likely, 4 = almost certain. On the basis of a factor analysis of those responses (see Ahmed, 2005), three scales were formed: shame acknowledgement, shame displacement, and shame avoidance.

The Shame acknowledgement 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';  $M = 2.54$ ,  $SD = 0.89$ ,  $\alpha = .95$ ).

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';  $M = 1.77$ ,  $SD = 0.71$ ,  $\alpha = .82$ ).

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';  $M = 1.47$ ,  $SD = 0.58$ ,  $\alpha = .66$ ; 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 agree ( $M = 2.47$ ;  $SD = 0.74$ ;  $\alpha = .66$ ).



*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 behavioural 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 to 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 three indicators, then 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 were calculated among all variables. 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 (see Table 1).

**Table 1.** Intercorrelations among all variables in the study ( $N = 440$ )

Variables	1	2	3	4	5	6	7	8
1. HECS liability	—							
2. Policy discontent	0.07	—						
3. Course satisfaction	-0.11*	-0.14**	—					
4. Shame acknowledgement	-0.09*	-0.24***	0.13**	—				
5. Shame displacement	0.07	0.37***	-0.13**	-0.08	—			
6. Shame avoidance	0.03	0.18***	-0.07	-0.36***	0.18***	—		
7. Dissociation	-0.01	0.03	-0.11*	-0.35***	0.17***	0.31***	—	
8. Tax evasion	0.18***	-0.03	-0.17***	-0.04	0.08	0.12*	0.24***	—

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

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

**Table 2.** Paths in the final model with their standardized beta coefficients including the overall fit indices for the model ( $N = 440$ )

Paths in the final model	Standardized $\beta$ coefficients
Having a HECS liability $\rightarrow$ tax evasion	0.17***
Course satisfaction $\rightarrow$ tax evasion	-0.13**
Dissociation $\rightarrow$ tax evasion	0.23***
Policy discontent $\rightarrow$ dissociation	-0.13**
Shame acknowledgement $\rightarrow$ dissociation	-0.30***
Shame displacement $\rightarrow$ dissociation	0.16***
Shame avoidance $\rightarrow$ dissociation	0.20***
Policy discontent $\rightarrow$ shame acknowledgement	-0.22***
Course satisfaction $\rightarrow$ shame acknowledgement	0.10*
Policy discontent $\rightarrow$ shame displacement	0.36***
Course satisfaction $\rightarrow$ shame displacement	-0.09*
Shame acknowledgement $\rightarrow$ shame avoidance	-0.35***
Shame displacement $\rightarrow$ shame avoidance	0.16***
Chi-square ( $\chi^2$ )	16.50 ( $df = 13$ ; $p < .22$ )
Chi-square/ $df$ ratio	1.27
GFI (goodness of fit index)	0.991
AGFI (adjusted goodness of fit index)	0.975
CFI (comparative fit index)	0.989
TLI (Tucker Lewis index)	0.976
RMSEA (root mean square error of approximation)	0.025

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

#### **Intercorrelations among all variables in the study**

As expected (Hypothesis 1), having a HECS liability was positively and significantly related to tax evasion ( $r = .18$ ,  $p < .001$ ). 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 behavioural defiance.

In accord with Hypothesis 3, two of the three shame management variables showed significant relationships with course satisfaction. Shame acknowledgement was positively related ( $r = .13$ ,  $p < .01$ ) 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 ( $r = -.07$ ).

Hypothesis 4 proposed that adaptive shame management (high shame acknowledgement 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 acknowledgement was negatively related ( $r = -.35$ ,  $p < .001$ ), whereas both shame displacement and shame avoidance were positively related to dissociation ( $r = .17$ ,  $p < .001$ ;  $r = .31$ ,  $p < .001$ , respectively).

Finally, dissociation was significantly and positively correlated to tax evasion ( $r = .24$ ,  $p < .001$ ) which was, again, in accord with what we expected (Hypothesis 5).

While the correlational findings provided 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 interrelationships among the variables.

### **Path analysis**

Path analysis belongs to the family of statistical techniques referred to as structural equation modelling (SEM). Using such an analytical technique in this study, we take account of the interrelationships 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).

In order to assess goodness-of-fit of the path model, seven different indices were used: chi-square ( $\chi^2$ ), chi-squared/*df* ratio, goodness-of-fit index (GFI), adjusted goodness-of-fit index (AGFI), comparative fit index (CFI), Tucker-Lewis index (TLI), and root mean square error of approximation (RMSEA). Note that 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 six additional indices of model fit to evaluate the model (for discussion of their relative merits, see Byrne, 1994; Loehlin, 1998). A chi-squared/*df* ratio of less than 2 is considered as acceptable. Values greater than 0.95 for GFI, AGFI, GFI, and TLI are considered to indicate good model fit (Byrne, 1994; Hu & Bentler, 1999; Loehlin, 1998). An RMSEA of 0.05 or less is suggested as an indicator of acceptable fit (Arbuckle & Wothke, 1999; Bollen, 1989).

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 were more complex than originally believed. Findings obtained from the path analysis captured 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 acknowledgement 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.

Second, policy discontent directly affected dissociation but not the actual behaviour 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 press). By way of contrast, those who are unhappy about a system which they believe should and could be changed may move toward a less dissociated posture with the intention of playing their part in the change process.

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.

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.

From Fig. 2, it can be seen that low to moderate levels of variance are explained in shame acknowledgment ( $R^2 = .07$ ), shame displacement ( $R^2 = .15$ ), shame avoidance ( $R^2 = .16$ ), dissociation ( $R^2 = .19$ ), and tax evasion ( $R^2 = .10$ ). The final model provided an excellent fit to the empirical data as shown by seven different goodness-of-fit indices. All fit statistics are presented in Table 2. 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 that enabled a further check for violation of assumptions made in maximum likelihood estimation in a path analysis (for a similar empirical approach and justification for using SEM with a dichotomous outcome variable, see Kalimo, Taris, & Schaufeli, 2003). 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

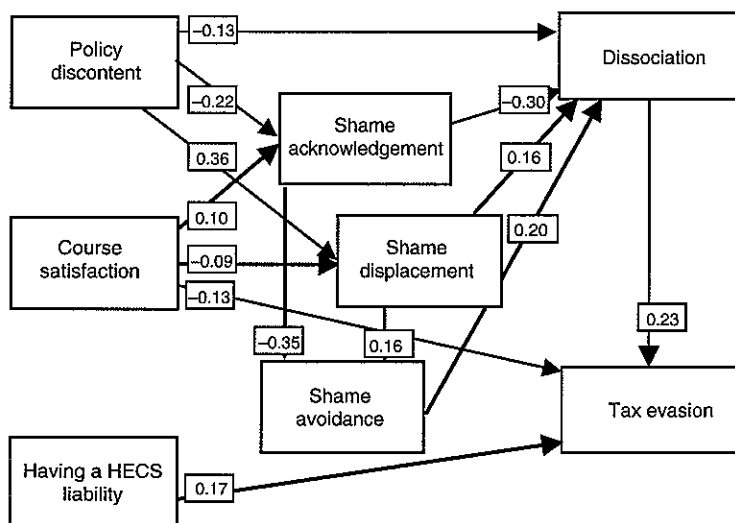


Figure 2. Results of a path analysis showing the interrelationships among all variables in the study.

may be inflated (see also Drasgow & Kanfer, 1985). The analysis reported in this paper used a dichotomous dependent variable (tax evasion), and therefore, can be criticized for deviating from both conditions.

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 acknowledgement from those variables that were possible causal antecedents in Fig. 2. 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 seemed 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 Fig. 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 were considered simultaneously.

#### ***Qualitative observations and data reflections***

The present study demonstrates that when citizens felt dissatisfied and discontented with the service provided by one sector of government, they were willing to withdraw cooperation at other levels. Most importantly, there was not one path by which this occurred, but a number of paths which emerged in the course of the study.

The most unexpected outcome of the current study was that dissatisfaction with the university course studied played a key role in directly triggering tax evasion. When graduates did not feel that they had received quality training for their investment, this discontent was expressed through shamelessness about not paying HECS and willingness to evade tax. The following comment, provided by a participant in our study, illustrated 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 demonstrated how graduates saw HECS as a kind of guarantee of quality and employment success. The government 'owed' them this, and if it was not delivered, graduates should not have to pay.

Further pathways to tax evasion are more complex, but nevertheless important, than the coefficient weights assigned to the pathways in Fig. 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 acknowledgement (shame/guilt), shame displacement (anger/blame), and shame avoidance.

Personal narratives provide insight into how dissatisfaction with university courses increased shame displacement and reduced shame acknowledgement over the hypothetical HECS evasion scenario. Poor shame management in this scenario flowed on into increased dissociation from the tax authority which, in turn, increased 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:

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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, that is, when they didn't learn anything new!

The implication here is that blame for being deceived and tricked into wasting one's time and money on a university course 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 Fig. 2. Those who judged HECS to be socially unjust, deflected shame through displacement and avoidance when caught in a hypothetical scenario for not paying their HECS debt. Moreover, their failure to acknowledge wrongdoing heightened their interest in shame avoidance ('it's a trivial offence, so what?' response). This pattern of shame management then flowed through to affect responsiveness to the tax authority on tax matters – dissociation (treating the authority as an irrelevancy) increased, along with tax evasion. This pathway, through its very complexity, explained why policy makers do not always see behavioural resistance to their more controversial initiatives. The response of the public is not direct; 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) were not met by a social policy, their ethical identity seemed to be threatened. Their sense of who they are and how they would like to build their career seemed to be jeopardized. Here, the ethical identity that is under assault is of being an educated citizen who has something valuable to offer the community. These graduates did not feel valued. Rather, they felt exploited and thereby humiliated. Further work is required to address this source of shame so we can have quantitative data for documenting any links between these disappointments, shame and tax evasion.

### Discussion

In spite of some unexpected complications in the data and questions for future research, we believe the obtained findings 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, this study demonstrates 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 UK and New Zealand where government is facing problems with the collection of student loans (Inland Revenue, 2003; "Bankruptcy loophole," 2003; One News, 2003).

## Conclusion

This study has provided evidence of alternative, albeit complementary, pathways whereby government policy can weaken a voluntary tax system, and it has demonstrated 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 interconnected. If universities are unable to provide quality tuition at affordable prices for all those who wish to pursue tertiary education, then a new generation of taxpayers will be entering the labour 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). However, against the backdrop of this larger 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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### 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 favours 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**

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.

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.

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.

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 acknowledgement 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'.