CAN JUSTICE AND SHAME DETER AN ESCALATION IN TAX EVASION?

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Abstract

This study examines the roles that justice and shame management play in deterring escalation in tax evasion. Data were taken from the Graduates’ Hopes, Visions and Actions Survey based on a sample of 447 Australian graduates who recently received their tertiary degrees. Path analysis reveals that both justice variables (societal and personal) indirectly affect tax non-compliance through shame (or lack thereof). Injustice brings about a significant increase in unacknowledged shame which, in turn, leads to increased tax evasion. The path to tax evasion is also mediated by an attitude condoning non-compliance, and dissociation. Of considerable interest is the finding that personal injustice, in contrast to societal injustice, has a direct link to tax evasion. The results of the study demonstrate that felt injustice triggers both emotional and cognitive responsiveness, and works to undermine moral obligation in tax compliance.

Introduction

Personal bankruptcies among citizens liable for additional payments for their 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” represents an alarming prospect for Australia, and poses a challenge for the Tax Office. Despite this, little attention has been paid to the needs of this group of taxpayers who make additional payments through the tax office for their tertiary education. The purpose of the present study is to expand our understanding of the taxpaying behavior of this as yet largely

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unnoticed population by focusing on justice and shame in the specific context of the Higher Education Contribution Scheme (HECS).

Earlier studies on tax compliance primarily focus on economic self-interest (Allingham & Sandmo 1972; Fischer, Wartick, & Mark 1992), demonstrating that taxpayers are rational actors who calculate the costs and benefit of their actions to maximize their individual outcomes. But pure 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 receive justice at the hands of tax administrators whose job is to regulate their taxpaying decisions (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 the justice issue, 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 evoke a tit-for-tat response against the system. Injustice that is impersonal may evoke criticism and disillusionment but not necessarily individual defiance.

In this paper, the focus is on taxpayers who have made or are making payments for their higher education through HECS. Previous work has shown that tax evasion is higher among those who are making payments to the government for their tertiary education (Ahmed & Braithwaite 2003). We argue that tax evasion among these taxpayers does not take place within a vacuum, rather certain socio-political contexts predispose them to the psychological processes which lead them to think, rationalize and act in a non-compliant fashion.

In the current study, perceived justice at the societal level is understood as an evaluation of HECS in terms of social goals and values. Citizens make judgments about the structural properties of HECS across a range of areas (e.g., the discipline studied, discount issues, repayment issues) and evaluate whether this is a fair and reasonable way to fund university education in Australia. If HECS is perceived as an unjust scheme, the question raised is whether or not a citizen should cooperate with the Scheme. Such a dilemma creates psychological conflict and tension in citizens, and cognitive dissonance (Festinger 1957) is experienced. But at this level, citizens are likely to be adept at finding the logic that would restore balance to their belief.
system. They might rationalize their cooperation by thinking that they do not want trouble with the authorities, or that as an individual they can not do anything to change the system anyway. Or, alternatively, they may decide to cooperate and stay out of trouble, but dismiss HECS as a nonsense scheme, and undermine the system in every possible legal way.

When injustice is experienced at the personal level, the response is hypothesized as being different. Citizens view the costs of tertiary degrees as an investment in a better career and a better life. If citizens subsequently fail to succeed in the employment market, or can not sell their expertise so as to gain a positive net return on their investment in their education, the perceived injustice is personal. Feeling denied his/her entitlements in exchange for the cost of education is likely to elicit what Harris (2001) calls a sense of shame about one’s personal ethical identity. In such circumstances, individuals want to make the bargain right and rid themselves of shame feelings. One way of restoring balance to the bargain involves cheating the tax office. But whether individuals will deal with their shame in this way or not will depend on their shame management skills.

Shame feelings are handled in different ways by different people in different contexts. Citizens may hit out and blame others (shame displacement) for their difficult situation, or they may accept personal responsibility (shame acknowledgment) for their circumstances, or they may shrug off these feelings, pushing them into the background as irrelevant as they set out to restore a sense of well-being to themselves (shame avoidance). According to shame management theory (Ahmed, Harris, Braithwaite & Braithwaite 2001), those who go down the track of cooperation with HECS will acknowledge personal wrongdoing and will not blame others (displace) or will not avoid feeling shame. Those who go down the track of resistance to the system will dismiss shame feelings through trivializing the HECS arrangement, denying responsibility for wrongdoing, or blaming the system.

**The present study**

Four groups of variables are identified in the current conceptual framework: (1) justice variables (societal and personal); (2) shame management variables (shame acknowledgment, shame displacement and shame avoidance); (3) having a HECS liability; and (4) tax non-compliance variables (condoning non-compliance, dissociation, and tax evasion).

On the basis of the discussion so far, five main hypotheses are set out below for empirical examination.
**Hypotheses**

Hypothesis 1: Having a HECS liability would be positively related to tax non-compliance;

Hypothesis 2: Both justice variables (societal and personal) would be positively related to tax non-compliance;

Hypothesis 3: Shame management variables (shame acknowledgment, shame displacement and shame avoidance) would mediate the relationship between personal injustice, but not societal injustice, and tax non-compliance;

Hypothesis 4: Shame acknowledgment would be negatively related to tax non-compliance; and

Hypothesis 5: Shame displacement and shame avoidance would be positively related to tax non-compliance.

Finally, we search for the inter-relationships among the above sets of variables through a path analysis in which we explore the relative strength of relationships among them. In particular, we explore the extent to which our correlational data are consistent with the specified path model.

**Figure 1: A hypothesized theoretical model of justice, shame and tax non-compliance**
Figure 1 summarizes the direct and indirect links in our conceptual model. Societal injustice directly affects tax non-compliance. Personal injustice indirectly affects non-compliance through the effects of the shame management variables. Citizens who exhibit more shame acknowledgment refrain from non-compliance. In contrast, those who report more shame displacement and shame avoidance show greater non-compliance. Finally, citizens having a HECS liability are more likely to report non-compliance than those who do not.

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 2000). 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 per cent (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 (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 per cent response rate.

Procedure

The participants were initially sent an introductory letter explaining the intent of the survey and guaranteeing strict confidentiality of responses. After one week, the survey questionnaire was sent along with an accompanying letter and a postage-paid return envelope. The accompanying letter 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 GHV A Survey was based largely on the Community, Hopes, Fears, and Actions Survey (Braithwaite 2000) with some additional items included to assess felt justice and injustice in relation to HECS and an evaluation of the course they had studied.

**Having a HECS liability**

This was assessed using a single item: Do you have a HECS debt? (yes = 1, no = 2; reverse coded) (65% replied yes).

**Justice variables**

**The injustice of HECS (societal injustice):** This scale was developed for the present study and comprised 14 items measuring the extent to which citizens perceived HECS as a fair and reasonable social policy. The scale tapped into the general feelings of (dis)satisfaction with HECS as well as beliefs that thresholds, discounts, and differential HECS rates were (un)fair. The scale included items such as: ‘the HECScheme 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 = 3.53; SD = 1.08; alpha = .93) (See Appendix for full listing of items).

**The injustice of the exchange (personal injustice):** This measure focused on the exchange between government and the citizen. Did the quality of tertiary education received by the citizen warrant the money charged by the government through HECS? While most items used in this scale were adapted from the Graduate Experience Questionnaire (Graduate Careers Council of Australia), some newly developed items were added. 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.

Injustice of the exchange was measured through 13 items covering three aspects of the educational experience: (a) developing skills and professionalism (7 items; a sample item: The course helped me to grow professionally; M = 4.44; SD = .80; alpha = .82); (b) good teaching (4 items; a sample item: My lecturers were extremely good at explaining things; M = 3.62; SD = 1.06; alpha = .89); and (c) clear 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 three scales were significantly and positively interrelated (the correlation coefficients ranged from .28 to .50, p < .001), they were combined to measure *injustice of the*
exchange (*personal injustice*) \((M = 4.05; \ SD = .73; \ \text{alpha} = .86)\) (See Appendix for full listing of items).

**Shame management variables**

A scenario-based questionnaire was used to measure shame reactions following Ahmed’s Management Of Shame State — Shame Acknowledgment and Shame Displacement (MOSS-SASD; for details see Ahmed, 2001). 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. The shame reactions formed three scales, shame acknowledgment, shame displacement and shame avoidance (Ahmed 2003).

The *Shame acknowledgment* scale represented adaptive shame management whereby a person acknowledges wrongdoing, feels guilt and seeks to make amends (13 items; a sample item: feel ashamed of myself; \(M = 2.40, \ SD = .85, \ \text{alpha} = .95\)).

The *Shame displacement* scale measured 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; \(M = 1.77, \ SD = .71, \ \text{alpha} = .82\)).

The *Shame avoidance* scale measured a reaction of dismissiveness to the legal breach and to the authority. In contrast to shame displacement (projecting blame onto an authority), the shame avoidance scale expresses lack of acceptance of the decision or of the importance of the issue (4 items; a sample item: pretend that nothing was happening; \(M = 1.47, \ SD = .58, \ \text{alpha} = .63\)) (see Appendix for full listing of items comprising the shame management scales).

**Tax non-compliance variables**

Tax non-compliance was measured both as an attitude of cooperation / non-cooperation and as a behavioral outcome. Braithwaite (2003a) has argued that both should be measured if the intent is to understand readiness to cooperate with a tax system.
**Attitude of condoning non-compliance:** The condoning non-compliance scale measures support for non-compliance as a socially acceptable action at a group level. Condoning non-compliance was measured through 2 items: (1) It is okay if people don’t repay their HECS debt; and (2) It is okay not declaring to your employer that you have a HECS debt. There were six response categories: 1 = strongly disagree, 2 = disagree, 3 = slightly disagree, 4 = slightly agree, 5 = agree, 6 = strongly agree (M = 2.28; SD = 1.19; alpha = .57).

**Attitude of dissociation:** Dissociation represents the response of stepping outside the system, regarding the system as inappropriate and a nuisance that one should ignore as best one can (Braithwaite, 2001, 2003b). Dissociation was measured through 5 items based on Braithwaite’s (2003a) scales of resistance, disengagement and game playing: (1) I don’t care if I am not doing the right thing by the Tax Office; (2) I enjoy the challenge of minimizing the tax I have to pay; (3) The Tax Office is more interested in catching you for doing the wrong thing than helping you do the right thing; (4) It’s impossible to satisfy the requirements of the Tax Office completely; and (5) I like the game of finding the grey area of tax law.

There were six response categories: 1 = strongly disagree, 2 = disagree, 3 = slightly disagree, 4 = slightly agree, 5 = agree, 6 = strongly agree (M = 2.59; SD = .65; alpha = .66).

**Behavior of tax evasion:** The tax evasion index measures the extent to which citizens admit 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.

Six items were used to measure 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. did you lodge an income tax return for the 1999–2000 financial year? (yes = 1, no = 2);
2. have you any income tax returns not yet completed from previous years? (yes = 1, no = 2);
3. 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).
(4) How much of your untaxed cash income did you declare on your 1999–2000 income tax return? (none = 1 through all = 10).

(5) 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).

(6) 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 6 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 6 indicators.

Results

Table 1 presents the correlation coefficients between the non-compliance variables and variables relating to having a HECS liability, perceived injustice, and shame management.

**Table 1: Correlation coefficients between independent variables and tax non-compliance variables**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Condoning non-compliance</th>
<th>Dissociation</th>
<th>Tax evasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Societal injustice</td>
<td>.47***</td>
<td>.17***</td>
<td>.02</td>
</tr>
<tr>
<td>Personal injustice</td>
<td>.09</td>
<td>.19***</td>
<td>.13**</td>
</tr>
<tr>
<td>Having a HECS liability</td>
<td>.09</td>
<td>.01</td>
<td>.09</td>
</tr>
<tr>
<td>Shame acknowledgment</td>
<td>-.34***</td>
<td>-.31***</td>
<td>-.09</td>
</tr>
<tr>
<td>Shame displacement</td>
<td>.28***</td>
<td>.29***</td>
<td>.04</td>
</tr>
<tr>
<td>Shame avoidance</td>
<td>.24***</td>
<td>.29***</td>
<td>.13**</td>
</tr>
<tr>
<td>Condoning non-compliance</td>
<td>-</td>
<td>.25***</td>
<td>.13**</td>
</tr>
<tr>
<td>Dissociation</td>
<td>-</td>
<td>-</td>
<td>.18***</td>
</tr>
</tbody>
</table>

** p < .01, *** p < .001
The two justice variables in the present study (societal and personal) were related differently to the non-compliance variables. Perceived injustice at a societal level is positively related to condoning non-compliance \((r = .47, p < .001)\) and dissociation \((r = .17, p < .001)\), but not to the behavioral form of non-compliance, tax evasion. Interestingly, injustice at a personal level is positively related to dissociation \((r = .19, p < .001)\) and tax evasion \((r = .13, p < .01)\), but not to condoning non-compliance in relation to not repaying a HECS debt. The two justice variables appear to be eliciting different reactions in citizens.

As expected, shame acknowledgment was negatively related to two non-compliance variables: condoning non-compliance \((r = -.34, p < .001)\) and dissociation \((r = -.31, p < .001)\). However, the correlation involving shame acknowledgment and tax evasion did not reach the .05 significance level \((r = -.09, p < .06)\). We had anticipated to find a significant negative correlation between them.

The other two shame variables, shame displacement and shame avoidance, were positively related to condoning non-compliance \((r = .28, p < .001; r = .24, p < .001,\) respectively) and dissociation \((r = .29, p < .001; r = .29, p < .001,\) respectively). These two shame variables were also hypothesized as being linked with tax evasion. Only shame avoidance was positively related to tax evasion \((r = .13, p < .01)\). Shame displacement showed no significant relationship.

No significant relationships were found between having a HECS liability and opposition to paying HECS or dissociation from the tax system or tax evasion. This was contrary to our prediction and contrary to previous findings. With this sample, however, some had not yet started repaying their HECS debt because they were not earning enough income. When we controlled for personal income, the expected partial correlation appeared between having a HECS liability and tax evasion \((r = .14; p < .01)\).

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 mediational hypothesis. The next section describes results from our path analysis.

**Paths of influence**

A path analysis was conducted to further explicate the relationships among all sets of variables, in particular to examine the mediational effect of the shame variables.
on the link between the justice variables and tax non-compliance. In addition to the non-compliance variables (condoning non-compliance, dissociation, and tax evasion), the six explanatory variables in this analysis are as follows: societal injustice, personal injustice, shame acknowledgment, shame displacement, shame avoidance, and having a HECS liability. All the covariances between the three exogenous variables (societal injustice, personal injustice, and having a HECS liability) were included in the analysis. Table 2 presents the significant paths in the final model with their standardized beta coefficients including the overall fit indices for the model.

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

<table>
<thead>
<tr>
<th>Paths in the final model</th>
<th>Standardized beta coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Personal injustice → Tax evasion</td>
<td>.10*</td>
</tr>
<tr>
<td>- Condoning non-compliance → Tax evasion</td>
<td>.12**</td>
</tr>
<tr>
<td>- Dissociation → Tax evasion</td>
<td>.15***</td>
</tr>
<tr>
<td>- Shame acknowledgment → Dissociation</td>
<td>-.23***</td>
</tr>
<tr>
<td>- Shame displacement → Dissociation</td>
<td>.19***</td>
</tr>
<tr>
<td>- Shame avoidance → Dissociation</td>
<td>.14**</td>
</tr>
<tr>
<td>- Societal injustice → Condoning non-compliance</td>
<td>.21***</td>
</tr>
<tr>
<td>- Shame acknowledgment → Condoning non-compliance</td>
<td>-.31***</td>
</tr>
<tr>
<td>- Shame displacement → Condoning non-compliance</td>
<td>.18***</td>
</tr>
<tr>
<td>- Shame acknowledgment → Shame avoidance</td>
<td>-.35***</td>
</tr>
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<td>- Shame displacement → Shame avoidance</td>
<td>.18**</td>
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<tr>
<td>- Societal injustice → Shame acknowledgment</td>
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<td>- Personal injustice → Shame acknowledgment</td>
<td>-.16***</td>
</tr>
<tr>
<td>- Personal injustice → Shame displacement</td>
<td>.14**</td>
</tr>
<tr>
<td>Chi-square ($x^2$)</td>
<td>13.44 (df = 20; p &lt; .86)</td>
</tr>
<tr>
<td>CFI (Comparative Fit Index)</td>
<td>1.00</td>
</tr>
<tr>
<td>GFI (Goodness of Fit Index)</td>
<td>.992</td>
</tr>
<tr>
<td>RMSEA (Root Mean Square Error of Approximation)</td>
<td>.00</td>
</tr>
</tbody>
</table>

*p < .05, ** p < .01, *** p < .001
Figure 2 presents the results of the path analysis using AMOS version 4.0 (Arbuckle and Wothke, 1999). Path analysis belongs to the family of statistical techniques referred to as Structural Equation Modeling (SEM). 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 assumption of multivariate normal distributions is required for maximum likelihood estimation used for deriving path coefficients. The path analysis in this paper uses a dichotomous dependent variable (tax evasion) which violates the above assumption. The effects of this violation were examined through an additional logistic regression predicting the dichotomous dependent variable (tax evasion) from all other variables, and five separate ordinary least squares regressions, predicting dissociation, condoning non-compliance, shame avoidance, shame displacement, and shame acknowledgment from those variables that were possible causal antecedents in Figure 2 (a similar empirical approach and justification for using SEM with a dichotomous outcome variable can be seen in Kalimo, Taris, and Schaufeli, 2003). In addition, 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.

As evident from Figure 2, the influence of perceived injustice on the non-compliance variables through the shame variables is 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.

Both justice variables, societal injustice and personal injustice, had an effect on tax non-compliance through shame acknowledgment and shame displacement. These two shame variables, in turn, impacted on tax evasion through condoning non-compliance and dissociation, which seem to set the “stage for tax evasion”. This result underscores the proposition that perceived injustice leading to tax non-compliance is both emotional and cognitive. It is also of interest in suggesting that breaching compliance norms (condoning non-compliance) and drifting away from the system (dissociation) are precursors to active engagement in tax evasion.
Figure 2 demonstrates both shame acknowledgment and shame displacement having direct effects on shame avoidance. The absence of shame acknowledgement and the presence of shame displacement seem to bring about or allow for shame avoidance, which leads to non-compliance, specifically dissociation from the tax system.

The final relationships of importance are (a) the direct relationship between societal injustice and condoning non-compliance (but not dissociation and tax evasion), and (b) personal injustice and tax evasion (but not condoning non-compliance and dissociation). These relationships were surprising. Societal injustice was expected to be related directly to the indicators of failure to cooperate with the tax authority (condoning non-compliance, dissociation, and tax evasion) on the grounds that citizens would feel pressured to bring their beliefs, attitudes and behaviors into
consistent relationships with each other. Personal injustice was expected to be linked with the three non-compliance indicators through the shame management variables.

The likely explanation for the direct link between personal injustice and tax evasion is a rational actor tit-for-tat reaction. HECS payers decide to recoup their losses on their tertiary education by cheating the tax system and this is a purely rational economic decision. Shame is irrelevant to this decision making process.

The explanation for why societal injustice affects non-compliance directly in the case of condoning non-compliance, and indirectly in the case of dissociation and tax evasion through the shame management variables is less easily understood. The link between societal injustice and condoning non-compliance is consistent with a political activism account of responses to HECS. Condoning non-compliance is a protest response to unjust social policy. The other non-compliance variables, dissociation and tax evasion, are private in their enactment and are not public displays of protest. In order for societal injustice to have an impact on private forms of non-compliance, societal injustice may have to adversely impact on a person’s ethical identity. This brings the shame management variables into play, and ultimately all forms of non-compliance.

The findings of the present study lend support to the notion that perceived injustice contributes to tax evasion through a set of mediating variables that represent emotions and cognitions. In addition, this study reveals a direct link between perception of personal injustice and tax evasion. These data, however, represent only a small part of the story of tax non-compliance. Figure 2 shows that low to moderate levels of variance are explained in shame acknowledgment ($R^2 = .04$), shame displacement ($R^2 = .10$), shame avoidance ($R^2 = .16$), condoning non-compliance ($R^2 = .21$), dissociation ($R^2 = .15$), and tax evasion ($R^2 = .06$).

The final model provided an excellent fit to the empirical data as shown by all the different goodness-of-fit indices. All fit statistics are presented in Table 2. As can be seen, these tests provided a non-significant chi-square [$\chi^2 (15, N = 368) = 12.10$, $p < .67$], a comparative fit index (CFI) of 1.00, a goodness of fit index (GFI) of .99, and a root-mean-square error of approximation (RMSEA) of .00. The modification indices indicated no potential improvement in the model fit with either the elimination or addition of paths.
Discussion and conclusion

The present study demonstrates that when citizens perceive an injustice and feel betrayed by one sector of government, they are likely to withdraw cooperation at other levels. Findings obtained from this study alert us to the way in which experiences of dissatisfaction with the educational system open a pathway to tax evasion.

The most important outcome of the current study is that injustice that is perpetrated at a personal level plays a key role in directly triggering tax evasion. When citizens feel dissatisfied with their educational investment, they respond by reducing the amount of tax they have to pay and they do so through illegal means.

Perceptions of injustice at both the personal and societal levels had indirect effects on compliance through the shame emotions, namely shame acknowledgment (shame/guilt), shame displacement (anger/blame), and shame avoidance (hopelessness). Personal narratives provided further support for the presence of such emotions. In the quote below, anger was directed toward the universities:

“... 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!”

Perceptions that HECS was unfair brought together the political and personal sensibilities of some, illustrating how the link that we had not hypothesized between societal injustice and shame management had come about:

“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!”

Both these participants took personal offense at the social injustice of the HECS. Although negative attitudes toward HECS were pronounced in our survey responses, our analysis indicates that it is not the HECS liability itself that instigates tax evasion, rather the fact of not getting good value for these educational payments, or of suffering other disadvantages that are perceived to be unfair along the way. 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”.

It is important to note that, in the path analysis, there appear to be a number of stages between injustice and tax evasion. As well as the shame management variables, there are intentions to withdraw cooperation from the tax office either through advocating not repaying the HECS alone or through becoming dissociated from the tax system. The use of a cross-sectional design has limited our capacity to test a multi-stage model of tax evasion. Further work will examine the stages along the road to tax evasion and the effectiveness of interventions at various points to restore commitment to the tax system.

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 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, as has been discussed elsewhere in this issue (see Braithwaite, Rawlings for example). But against the backdrop of this big agenda may be some small steps that can be taken that focus on more immediate problems. One way of easing the tensions revealed in this paper is to address job prospects for new graduates. More widely available and more widely publicized schemes offering internships and placements for tertiary students with a HECS debt would relieve some of the resentment that a proportion of students feel on completion of their degrees when they have not received a set of skills that will stand them in good stead in the job market. Efforts of this kind, particularly if they involve university — government cooperation, may provide some space for and hope of solving the bigger problems of government — taxpayer cooperation in the future.
References


Appendix

**Justice variables**

The *injustice of HECS (societal injustice)* scale items: (1) The HECScheme should be abolished; (2) People are not satisfied with the HECScheme; (3) The HECScheme favors the rich over the poor; (4) The HECScheme is functioning very well as it is (reverse coded); (5) In general, the HECScheme is a fair system (reverse coded); (6) “Students who pay up front are eligible to have a 25 percent discount rate” — this is unfair; (7) “Differential rates of HECS apply to commencing students depending upon the type of course (e.g., medicine, science) undertaken” — this is unfair; (8) Recently, the threshold level for compulsory payment of a HECS debt was lowered. This is unfair; (9) People are very resentful about repaying a HECS debt; (10) There are more negatives than positives in the HECScheme; (11) When I think about repaying a HECS debt, I feel as if I am losing out; (12) Repaying a HECS debt prevents me from spending money on things that are important to me; (13) Deferring HECS makes people feel like they are losing money because the debt is indexed for inflation each year; and (14) In general, I don’t think of the benefits — I just see the HECScheme as taking money from my pocket.

The *injustice of the exchange (personal injustice)* scale items: (1) The course developed my problem-solving skills; (2) The course sharpened my analytic skills; (3) The course develop the ability to plan my own work; (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; (7) The course helped me to relate knowledge with practice; (8) My lecturers were extremely good at explaining things; (9) The teaching staff of this course motivated me to do my best work; (10) The staff put a lot of time into commenting on my work; (11) The teaching staff normally gave me helpful feedback on how I was going; (12) It was often hard to discover what was expected of me in this course (reverse coded); and (13) It was always easy to know the standard of work expected.

**Shame management variables**

The *shame acknowledgment* scale items (GREG, PLEASE CHECK THIS MATTER OF CAPITAL LETTER WITH LUKE): (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 that I am being
noticed by everyone in a negative way; (11) Feel guilty; (12) Regret the mistakes I have made; and (13) Feel insecure about what others are thinking about me.

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; (3) Feel like “So what? I am asked to pay a fine and I don’t care”; and (4) Rise above it.

(Footnotes)

1. The Sydney Morning Herald April 1 2003.

2. The HECS was introduced by the Australian Government in 1989 to assist students who were pursuing tertiary education and could not afford upfront fees. The students only begin to repay their HECS loans when their income exceeds AU$24,365 (this figure is valid for 2002–2003 financial year).

3. 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 3 additional indices of model fit to evaluate the model (for discussion of their relative merits, see Byrne 1994; Loehlin 1998). These are Goodness of Fit Index (GFI), Comparative Fit Index (CFI), and Root Mean Square Error of Approximation (RMSEA). The CFI and RMSEA are generally the preferred indices for assessing adequacy of model fit (Byrne 1994; Loehlin 1998). Values greater than .95 for both the CFI and GFI 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).