

Higher Education Loans and Tax Evasion: A Response to Perceived Unfairness

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Australian higher education funding policy has been a contentious and emotionally charged topic on the political agenda since the introduction of the Higher Education Contribution Scheme (HECS). Under HECS, students have options either to pay upfront or defer payment. This article examines the implications for the Australian Taxation Office, which has responsibility for debt collection among students who defer HECS payments. Results show that HECS debt undermines tax compliance directly, and indirectly through perceived injustice. The path model demonstrates how perceptions of government policy can shape cooperation with government in other spheres.

I. INTRODUCTION

This article addresses the issue of how a government policy that relies on user-pays principles to help fund government subsidized higher education in Australia can have the unexpected consequence of producing an increased likelihood of tax evasion among graduates who carry a higher education debt. Since the introduction of the Higher Education Contribution Scheme (HECS) in 1989,¹ Australian higher education funding policy has been surrounded in political controversy. HECS gives students the choice of not paying an upfront contribution to attend university, and instead deferring payment until their income reaches a threshold level. The Australian Taxation Office (ATO) has the legal responsibility for collecting the balance of the student's outstanding payment through the taxation system. Economically and administratively, this makes sense. The tax office has records of income, tracks when HECS repayments should be made, and where appropriate, requires employers to deduct payments from employees' income at source (employees are legally required to declare any outstanding HECS debt to their employer). In order for the process to work efficiently, however, it is

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important that there are no unexpected and costly consequences. Previous research suggests that this is not the case, with those who carry a HECS debt being more likely to cheat on their tax return through over-claiming deductions or not declaring all their income (Ahmed & Braithwaite 2004, 2005; ATO Integrated Compliance Study 2000).

This finding raises concerns over the operation of tax systems beyond Australia, indeed in any jurisdiction where tax collection relies on taxpayer cooperation. Internationally, tax administrations increasingly are showing interest in taking on the role of being a collection agency for superannuation, child support, traffic fines, and the like (Vehorn & Brondolo 1999). Analyses of the kind offered here are important so that we can better understand the risks to the legal authority of tax administrations taking up additional revenue-raising functions that have questionable legitimacy in the eyes of the public.

The purpose of this article, therefore, is to explore reasons why the relationship between carrying a HECS debt and tax evasion exists. Researchers have observed that tax-withholding methods appear efficient from an administrative point of view, but that their effectiveness can be undermined by individuals looking for and using other opportunities to sidestep system control and recoup their losses (Yaniv 1992). In the current context, when tax authorities force taxpayers to pay their HECS through insisting that employers withhold HECS payments from wages, taxpayers might seek to recover their lost income by taking advantage of the self-assessment tax system to conceal income or over-claim deductions. There appears to be evidence of such a direct economic relationship (Ahmed & Braithwaite 2004). The hypothesis proposed here, however, is that there are other factors operating, among them perceptions of fairness, which can mediate the relationship between carrying a HECS debt and evading tax. In particular, we propose that those who carry a HECS debt are more likely to question the fairness of the scheme, are less satisfied with their tertiary education, and feel less of an obligation to repay their debt than those who have paid their contribution up-front. A weakened sense of obligation in one area of law is hypothesized to lead to a weakened sense of obligation in other areas such as taxpaying.

This article is organized around the following issues. First, a more detailed background to HECS and its operation is provided. Subsequently, arguments why carrying a HECS debt might lead to tax evasion are reviewed and key hypotheses are presented. Next, an empirical analysis of data collected from new graduates is undertaken to test the key hypotheses. Lastly, the implications of these findings are discussed for policy, law, and governance.

A. BACKGROUND TO HECS

HECS is a higher education loan scheme² that enables many Australian students to defer paying their tuition fees until they reach the minimum HECS payment income threshold. The primary purpose of HECS is to provide

merit-based university access to all Australians regardless of their socio-economic background. Prior to HECS, Australians had enjoyed almost two decades of free tuition for those talented enough to win a place in Australia's largely publicly funded university system. As the government started considering a user-pays system for those attending university, great concern was expressed about how tuition fees would disadvantage talented students from a lower or more marginalized socio-economic background. HECS was the government's answer to these concerns.

Under HECS, students can choose to pay their contribution upfront or defer it. The Commonwealth provides a 25 percent discount to eligible students who pay upfront. Students who choose to defer payment acquire a loan from the Commonwealth Government and are required to repay that loan when their income exceeds the minimum threshold for compulsory payment.

Since the introduction of HECS, there has been controversy. Initially, there was widespread resentment over abandoning the so-called free tertiary education system and introducing a user-pays system. Student protests were held across the country and have re-ignited with the advent of changes that are thought to disadvantage students (*Australian Financial Review* 1990, 1992). Successive generations of students appear to carry resentment over the scheme, possibly as a result of a perennial lack of openness by government in discussing HECS. Its proponents steadfastly refused to call HECS a tuition fee, providing the space for HECS opponents, who believed that all higher education should be paid entirely by the taxpayer, to express outrage over a "stealth tuition fee." For many years, the battle over HECS may have had more to do with the rights and wrongs of public acknowledgment of policy intent, than with the rights and wrongs of publicly funded tertiary education.³

Recently, concern has become more grounded in the economic consequences of HECS, specifically about whether or not the scheme is imposing too heavy a financial burden on Australian graduates as well as being a drain on the Australian economy. For example, HECS debt has caused students to defer other investment decisions (such as family commitments, house purchase, and business investments) and to engage in increased paid outside work during semester (Larkins 2003). A recent report has revealed that 20 percent of HECS loans (estimated to amount to Aus\$2.8 billion in 2004) are unlikely to be repaid (*The Australian* 2004).

B. WHY SHOULD A HECS DEBT PRECIPITATE TAX EVASION?

Tax economists might explain the HECS debt-tax evasion relationship in terms of how individuals' risk-taking behavior increases when they focus on their monetary losses to the tax system. The general principle of prospect theory (Kahneman & Tversky 1979) is that individuals who cognitively adopt a loss frame rather than a gain frame in assessing a future economic transaction will be more likely to take risks to avoid that loss, including the risk of breaking the law. When the loss is incurred through a withholding system,

individuals' loss of freedom is likely to aggravate the loss frame, and boost risk taking even more (Yaniv 1992). A salient loss frame is particularly relevant to graduates who have completed their studies and deferred their HECS payment. They enter the workforce with a substantial debt that they will continue to carry into the foreseeable future. Yet, they are keen to consolidate their financial independence, and pursue their post-tertiary education goals, for example, establishing a career, buying a house, traveling, or starting a family. Carrying a HECS debt that they have to pay to the government, in addition to the income tax they now must pay like everyone else, is initially likely to induce a loss frame. Under such circumstances, a heightened willingness to take opportunities to recoup some of their lost wages would not be unexpected. While withholding systems present little opportunity to recover lost dollars, it is possible to offset the loss through engaging in evasion in another part of the tax-collection system, that which involves self-assessment.

Previous research suggests that retrieving lost dollars is part of the story of why carrying a HECS debt is related to tax evasion. In a survey of 2,040 Australians over the age of eighteen in 2000, Ahmed and Braithwaite (2004) found a direct relationship between making additional payments through the tax system (child support and HECS) and tax evasion. This relationship strengthened when respondents had little faith in the trustworthiness of the tax office and when personal income was low. In the present article, however, with data obtained from recent graduates, we wish to test another hypothesis. We propose that variables associated with fairness may explain why having a HECS debt is associated with tax evasion.

Nadler (2002) has argued that when individuals perceive or experience injustice in relation to one aspect of law, they are likely to flout other types of law. It is as if their sense of injustice delegitimizes law more generally, and the moral imperative to obey the law is put on hold. In the case of those carrying a HECS debt, there are a number of ways in which unfairness may be expressed. In a separate article, Braithwaite and Ahmed (2006) compared those with a HECS debt and those without. Those who carried a HECS debt were younger, had lower incomes, had been in the workforce for fewer years, were more likely to be women and full-time students, expressed lower satisfaction with their university courses, and perceived HECS as an unfair policy. From a policy perspective these findings were good news in that they showed that HECS was being used by the marginal social groups that many feared would be squeezed out of the higher education sector by a user-pays system. The bad news was that those with a HECS debt did not appear to be as appreciative of the opportunity as those who paid up-front. Even when the differences in demographic profile were statistically controlled, perceptions of HECS as an unfair policy remained a significant factor differentiating those with and without a HECS debt.

On the basis of these findings, two fairness variables were hypothesized as mediating between carrying a HECS debt and evading tax: (a) perceived

unfairness of HECS policy; and (b) satisfaction with the university course. If individuals are burdened by a HECS debt, they may be carrying resentments and negative views about the scheme, either because it is administratively unfair (e.g., a threshold for repayment that is too low or repayments that are too high) or because of the user-pays ideology on which it is based. A pilot study revealed that graduates were concerned by the prospect of accumulating a large HECS debt at the end of their degree (see Ahmed 2000). There was also sensitivity among this group as to whether or not they were getting value for money (Ahmed & Braithwaite 2005). Some students regarded their tuition as inadequate and were critical of the skill of staff, the time devoted to teaching, and the resources available to support students. Satisfaction with their university course was included, therefore, as a second measure to represent justice concerns over HECS. Lastly, a third mediating variable was introduced, a feeling of moral obligation to pay HECS. Moral obligation is a key factor in explaining why people pay taxes (Kaplan & Reckers 1985; McGraw & Scholz 1991). It is also likely to be a key factor in explaining why people pay their HECS. Obligation to pay HECS was expected to relate to both fairness variables. If Nadler's (2002) thesis is correct, as an obligation to pay HECS wanes, so too should an obligation to pay tax, with an increased likelihood of tax evasion.

In order to test for fairness as a mediator between HECS debt and tax evasion, three other variables were included to add explanatory power and rule out alternative explanations of some of the effects that might be observed. First, we included measures of security and harmony value orientations. These two social value orientations have been used to differentiate ideologies of the left and right (Braithwaite 1994, 1998). HECS was an issue that pitted advocates of free markets and small government against those who were committed to protecting the welfare state. Values could well confound the relationships we have hypothesized among our key variables. For example, those who pay an up front contribution may be more privileged economically, more conservative politically, prefer user-pays systems, and oppose paying tax. These confounding effects of political preferences were thought to be best controlled by including in the analysis value orientations that tapped into basic political ideological differences of the left and right.

The third variable that was introduced into the analysis was an attitudinal measure of defiance of tax authority. For this relatively inexperienced tax-paying age group, it may not have been easy to recoup losses through the tax system. They may not have earned money outside their salary and they may not have plausible work-related expenses and other deductions to claim. The attitudinal measure chosen to complement the behavioral measure of tax evasion was, therefore, dismissiveness of tax authority. It was hypothesized that having a HECS debt would lead to perceptions of injustice, which in turn would lead to greater dismissiveness toward the tax system, as well as evasion behavior.

II. HECS POLICY SPILLS OVER INTO TAX EVASION

A. DATABASE AND METHODOLOGY

1. *Graduates' Hopes, Visions and Actions (GHVA) Survey*

The data used in this article were collected from 447 Australian graduates who completed the Graduates' Hopes, Visions and Actions Survey (GHVA survey) (for a detailed description of the survey and its responses, see Ahmed 2004). Selection was confined to graduates whose degrees were conferred in either 1998 or 1999, since they were expected to have been employed 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 percent (after excluding undelivered questionnaires from the base). This response rate is comparable with rates reported for other tax-based surveys (Braithwaite 2001; Pope, Fayle & Chen 1993; Kirchler 1999; Webley, Adams & Elffers 2002).

At the outset, it should be acknowledged that the survey methodology that was used lends itself to a potential bias in recruiting a sample that was over-representative of compliant citizens. In order to encourage the less compliant to participate, a number of steps were initiated. First, care was taken to communicate openness to different views about HECS and the tax system. Sometimes people evade tax for reasons that they are very willing to explain (Braithwaite 2003), and this was encouraged. 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 taxpayers' individual survey responses. It was also pointed out that the survey was anonymous and that answers would remain confidential. Credible assurances of anonymity and confidentiality are essential to maximize participation and minimize socially desirable responses (that is, the tendency to present in a favorable way) in surveys of this kind.

The social-demographic background of those who responded to the survey suggested that a broad cross-section of graduates was represented. The average age of respondents was thirty-one years. [Forty-one percent of the respondents were male and 59% were female. When examining patterns of tertiary attendance, 71% had been full-time students whereas 29% were part-time. In terms of field of study, 41% were in "science, engineering, agriculture, architecture, business/economics," 35% were in "arts, education, nursing," 5% were in "law, medicine, veterinary science," and 18% were in combined degrees.

The average personal income of the graduates fell in the category of Aus\$30,000–\$50,000. Sixty percent were employed in non-profit organizations (e.g., university, government), 25% were employed in the private sector, 9% were in the business sector (including self-employed), and 5% indicated that they fell into the "other" category.

2. Measures

Below are the measures that were taken from the GHVA survey and used in the AMOS model to test whether fairness plays a mediating role between carrying a HECS debt and evasion.

(a) *Carrying a HECS Debt*

Graduates were asked: "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.

(b) *Tax Evasion*

Four questions were used to develop the behavioral index of tax evasion. These are:

- (1) "How much of your income in the 1999–2000 financial year did you get paid in untaxed cash?" (i.e., notes and coins rather than cheque or directly deposited into a bank account) (less than 5% = 1, 5–20% = 2, 20–50% = 3, more than 50% = 4, did not get paid any untaxed cash = 5);
- (2) "How much of your untaxed cash income did you declare on your 1999–2000 income tax return?" (none = 1 through all = 10);
- (3) "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); and
- (4) "As far as you know, did you report all the money you earned in your 1999–2000 income tax return?" (yes = 1, no = 2).

To form the index of tax evasion, respondents were grouped as evaders if they either: (1) received payment in untaxed cash (during 1999–2000 financial year) at about 5% or more of their income *and* did not declare all of that cash in their 1999–2000 income tax return; or (2) exaggerated any amount of deductions/rebates in their 1999–2000 income tax return; or (3) did not report all the money they earned in their 1999–2000 income tax return.

Respondents who indicated that they were totally compliant on all of the above three indicators were assigned to the non-evader group. Thus, tax evasion was scored as 1 if the evader was non-compliant on at least one indicator, and 0 if compliant on all three indicators. Following this strategy of classification, 30% of respondents from the total sample fell into the category of evaders.

(c) *Perceived Unfairness of HECS Policy*

The items measuring unfairness of HECS focused on both general and specific aspects of the scheme inquiring into the extent to which graduates regarded HECS as an undesirable and socially unjust way of funding higher education. A high score on this scale ($M = 3.40$; $SD = 1.21$; alpha reliability coefficient = 0.94) indicates perceptions of greater unfairness (for details on items, see Braithwaite & Ahmed 2005).

(d) *Satisfaction with University Courses*

The items measuring satisfaction with university courses captured the extent to which graduates felt positive about their higher education in relation to skill acquisition, professional development, quality teaching, and clear course-goals. A high score on this scale ($M = 4.07$; $SD = 0.71$; alpha reliability coefficient = 0.89) indicates a high level of satisfaction (for details on items, see Ahmed & Braithwaite 2005; Braithwaite & Ahmed 2005).

(e) *Moral Obligation to Pay HECS*

The items measuring moral obligation focused on the degree to which individuals espouse a commitment to honesty, a sense of responsibility to pay HECS, and an obligation to contribute to the system for the benefit of future students. A high score on this scale ($M = 4.28$; $SD = 1.07$; alpha reliability coefficient = 0.92) indicates high moral obligation to pay HECS (for details on items, see Braithwaite & Ahmed 2005).

(f) *Security and Harmony Value Scales*

These scales assessed the extent to which individuals' judgments and actions are guided by basic value orientations that shape their attitudes to policy and to the tax system (for details, see Braithwaite & Law 1985). A high score on the security value scale ($M = 5.16$; $SD = 0.94$; alpha reliability coefficient = 0.79) indicates support for values such as the rule of law, national security, and national greatness. A high score on the harmony value scale ($M = 5.89$; $SD = 0.76$; alpha reliability coefficient = 0.90) indicates a positive orientation toward values such as a good life for others, rule by the people, and human dignity that allow individuals to develop their potential to the full (for details on items, see Ahmed & Braithwaite 2005; Braithwaite & Ahmed 2005).

(g) *Dismissiveness Toward the Tax Authority*

The items measuring dismissiveness toward the tax authority reflected a readiness to dismiss the tax system and challenge its authority (for details, see Braithwaite 2003). A high score on this scale ($M = 2.47$, $SD = 0.74$; alpha reliability coefficient = 0.66) indicates a high willingness to side-step the tax system (for details on items, see Ahmed & Braithwaite 2005).

B. RESULTS

A series of preliminary analyses provided little evidence that the socio-demographic variables of age, sex, student status, field of study, or income were important to testing the fairness hypothesis. The data analysis proceeded using only the variables described in detail above. Data were analyzed in two steps.

First, correlational analyses were used to examine relationships among all variables: carrying a HECS debt, social values (harmony and security), perceived unfairness of HECS policy, satisfaction with university course, moral obligation to repay HECS, dismissiveness toward the tax authority, and tax evasion.

Second, a path analysis (a subset of Structural Equation Modelling (SEM)) was used to inquire more fully into the correlational structure among the variables. The specific aim of this analysis was to provide a parsimonious test of the proposed mediational linkages of *carrying a HECS debt to perceived unfairness of HECS policy* and *satisfaction with university course*, and then from *perceived unfairness* and *satisfaction with university course* to *tax evasion*.

1. Zero-Order Correlational Analyses

A correlational analysis showed that carrying a HECS debt was negatively related to both course satisfaction ($r = -0.12, p < 0.01$) and moral obligation ($r = -0.17, p < 0.001$), and positively related to tax evasion ($r = 0.17, p < 0.001$). Carrying a HECS debt did not show any significant link to perceived unfairness of HECS policy, however.

Consistent with the political debates surrounding HECS, security values were negatively related to perceived unfairness ($r = -0.15, p < 0.001$), while harmony values were positively related to perceived unfairness ($r = 0.24, p < 0.001$). As for HECS moral obligation, the relationship was positive with security values ($r = 0.29, p < 0.001$) but negative with harmony values ($r = -0.14, p < 0.001$). Interestingly, both security values and harmony values were negatively related to dismissiveness toward the tax authority ($r = -0.10, p < 0.05$ and $r = -0.18, p < 0.001$, respectively). Security values showed a positive relationship to the level of satisfaction with the university course ($r = 0.18, p < 0.001$).

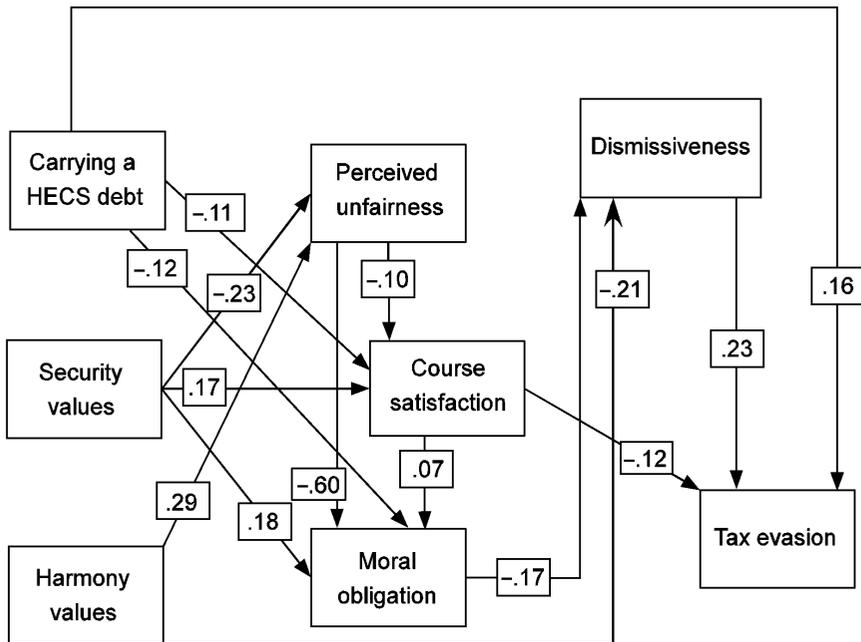
Also from correlational analyses, the proposed mediating variables of fairness were related to each other, and had links with the obligation and outcome variables. Perceived unfairness was negatively related to both course satisfaction ($r = -0.14, p < 0.001$) and HECS moral obligation ($r = -0.64, p < 0.001$). The other fairness variable, satisfaction with the university course, showed a positive relationship to HECS moral obligation ($r = 0.20, p < 0.001$), and negative relationships to both dismissiveness toward the tax authority ($r = -0.10, p < 0.05$) and tax evasion ($r = -0.16, p < 0.001$).

Lastly, moral obligation to repay HECS was negatively related to dismissiveness toward the tax authority ($r = -0.14, p < 0.001$). Dismissiveness was positively and significantly correlated with tax evasion ($r = 0.23, p < 0.001$).

The variables were intercorrelated to a remarkable degree with the predictors showing stronger links with dismissiveness as an outcome variable than tax evasion, although the two outcomes were significantly related. The indirect links suggested by the data reinforced the earlier intention to use a path analysis to test the key hypotheses.

2. Path Analysis

Figure 1 shows the diagrammatic representation of the results of the path analysis using AMOS version 4.0, with maximum likelihood estimation



Notes: [Chi-square (χ^2) = 11.45 (df = 12; p < 0.49); Chi-square/ df ratio = 0.95; GFI (Goodness of Fit Index) = 0.994; AGFI (Adjusted Goodness of Fit Index) = 0.981; CFI (Comparative Fit Index) = 1.00; TLI (Tucker Lewis Index) = 1.00; RMSEA (Root Mean Square Error of Approximation) = 0.000]

Low to moderate levels of variance are explained in perceived unfairness (R^2 = 0.10), course satisfaction (R^2 = 0.06), moral obligation (R^2 = 0.47), dismissiveness (R^2 = 0.06), and tax evasion (R^2 = 0.10).

Figure 1. Results of a Path Analysis Showing the Interrelationships Among all Variables in the Study.

(Arbuckle & Wothke 1999). To evaluate the model, seven indices of model fit were utilized: chi-square, ratio of chi-square and df , GFI, AGFI, CFI, TLI, and RMSEA.⁴ The final model provided an excellent fit to the empirical data as shown by seven different goodness-of-fit indices.⁵ The modification indices indicated no potential improvement in the model fit with either the elimination or addition of paths.

As can be seen from Figure 1, the fairness variables played an important role in explaining the relationship between carrying a HECS debt and tax evasion, one in the manner expected (dissatisfaction with course), the other in a less straightforward way (unfairness of HECS). The unfairness of HECS was an additive factor in explaining how HECS undermined willingness to repay the debt, whereas satisfaction with the course filled the role of the hypothesized mediating or intervening variable.

Carrying a HECS debt was related to lower course satisfaction (β = -0.11; p < 0.01) which in turn, was linked to tax evasion (β = -0.12; p < 0.01).

Carrying a HECS debt was also related to a lower moral obligation to pay HECS ($\beta = -0.12$; $p < 0.01$), which was linked with dismissiveness toward the tax authority ($\beta = -0.17$; $p < 0.001$). Dismissiveness was associated with tax evasion ($\beta = 0.23$; $p < 0.001$).

Strengthening both HECS pathways was perceived unfairness of HECS. Perceptions of HECS as an unfair scheme further lowered the moral obligation to pay HECS ($\beta = -0.60$; $p < 0.001$) both directly and indirectly through lowering course satisfaction. In other words, having a HECS debt plus the perceived unfairness of HECS served to undermine obligation to repay a HECS debt, which led to dismissiveness and tax evasion in the model.

The social values of security and harmony, which had been included because of their capacity to confound the relationships posited in key hypotheses, proved to be important variables insofar as they influenced both fairness variables (perceived unfairness of HECS and course satisfaction) and moral obligation. Those who subscribed to harmony values were more likely to perceive HECS as an unfair policy ($\beta = 0.29$; $p < 0.001$). At the same time, those who supported harmony values were less dismissive of the tax authority ($\beta = -0.21$; $p < 0.001$). Security values operated in quite a different way. Those who subscribed to security values were less likely to consider HECS as an unfair policy ($\beta = -0.23$; $p < 0.001$) and were more satisfied with their university course ($\beta = 0.17$; $p < 0.001$). They also were more likely to express a moral obligation to repay their HECS debt ($\beta = 0.18$; $p < 0.001$).

III. DISCUSSION

The obtained findings suggest that HECS has caused a political divide in Australian society that has not been healed with the passage of time. Political opposition extending over a decade is played out through a lower moral obligation to repay HECS. Once moral obligation to pay HECS is weakened, the model in Figure 1 shows an increase in dismissiveness of the tax system, which leads on to tax evasion. By the same token, it is interesting to see the psychological bind that supporters of harmony values face in the model depicted in Figure 1. On the one hand, their views of HECS as unfair undermine their obligation to pay HECS. On the other hand, their values make them supporters of the tax system. In Figure 1, harmony values guard against allowing a lower HECS obligation to flow into dismissiveness of the tax authority.

The unfairness of HECS, course satisfaction, and social values all play a role in understanding how a HECS debt adversely impacts on taxpaying. At the same time, the path diagram in Figure 1 confirms an earlier finding, and that is a direct link between carrying a HECS debt and tax evasion. Values and fairness do not explain away this previously observed relationship.

In the process of building this model, an alternative model was tested, which addressed the issue of whether unfairness might be a post hoc rationalization for tax evasion. The model tested was that carrying a HECS debt

would increase the likelihood of dismissiveness and tax evasion which, in turn, would ignite unfairness perceptions, course dissatisfaction, and reluctance to repay HECS.

When the alternative models were compared, the fit statistics for the path model represented in Figure 1 were best. The final path model provided support for psychological processes relating to fairness intervening between carrying a HECS debt and evasion. Fairness considerations associated with course dissatisfaction, the HECS, and weakened moral obligation can more plausibly be seen in a mediating role than as post hoc rationalizations for evasion.

IV. CONCLUSION

This article provides evidence about the circumstances under which citizens carrying a HECS loan do not comply with their tax obligations. First, the economic argument that individuals will be more risk taking in completing their tax returns and be more prepared to cheat when they adopt a loss frame remains intact after this study. The loss frame, while not measured directly, is presumed to come about when individuals see HECS repayments being extracted regularly from their pay check along with their normal income tax. For the minority who do not have their HECS payments extracted at source, payment comes at tax lodgment time. Their experience is one of having their tax refund (a popular boon received by around three quarters of Australian taxpayers annually) cut severely or eroded completely.

Support for the economic argument comes indirectly. This study sought to identify fairness variables as intervening between having a HECS debt and tax evasion. They only partially explained the relationship, however. HECS debt remained a direct predictor of tax evasion in the final model, as it has done in previous studies (Ahmed & Braithwaite 2004, 2005).

The findings of this study revealed that issues surrounding fairness added to the economic argument for why HECS debt might lead to tax evasion. Most important among the fairness indicators was satisfaction with the university course. Course dissatisfaction intervened between HECS debt and evasion in so far as those carrying a HECS debt were more likely to report course dissatisfaction, and course dissatisfaction predicted tax evasion. This pathway suggests a psychological sensibility of disappointment and regret over money spent on a tertiary qualification. Possibly a psychological contract has been breached with the university or with the government or both, creating the loss frame that precipitates tax evasion. If this interpretation is correct, course dissatisfaction adds to the compliance problem created by a HECS debt alone.

An alternative pathway has less to do with unfairness at the personal level, and more to do with the perceived unfairness of HECS policy, politically and socially. Here there are more steps between unfairness and tax evasion, and it is of note that carrying a HECS debt is not implicated in this chain at

all. The third pathway to evasion starts with social values that describe the kind of world that people want to live in. Those who subscribe to security values that promote a user-pays system and small government, were more likely to see HECS as fair, to express satisfaction with their university course, and to feel obligated to pay their HECS debt. Disquiet on all these fronts came about through values promoting social harmony, democratic participation, and equal opportunity. Graduates who placed importance on harmony values saw HECS as an unfair scheme. Perceptions of unfairness of this political kind were drivers of dissatisfaction with the university course and a low moral obligation to pay HECS, both of which have already featured as important contributors to tax evasion. The small ray of hope for those interested in political disquiet spilling over into flouting of tax law is that those who subscribe to harmony values are marginally more sympathetic to the tax system than those who do not. Sympathy may protect the tax authority to some extent from feeling the full force of the flouting response.

These findings of a cumulative pattern in how HECS debt connects with tax evasion are not commonly encountered in research connecting policy implementation with individual compliance. Research tends to focus on one path, leaving other paths for other researchers to uncover in the fullness of time. As important as such contributions are, there is also merit in documenting empirically the complexity of how policy implementation plays out to differentially affect willingness to cooperate and comply. Also of special importance in the present study is the demonstration of Nadler's (2002) principle of "flouting" across government domains. Problems with HECS policy do not remain those of the education bureaucrats for long. They affect the administration of the tax system, and lead to law-breaking in quite a different arena of public policy.

Abiding by the law for individuals is rarely considered to be only a matter of fear of being caught, publicly exposed, or punished. Law-abidingness is internalized in terms of having obligations to do the right thing, to meet the responsibilities of citizenship, and to be able to regulate oneself without the need for constant prodding and monitoring by authorities. This aspect of law-abidingness, however, does not thrive in a social vacuum. It rests on a base of beliefs about the legitimacy of authority, of law, and of public policy.

The HECS policy has disturbed this base for some Australian citizens, and the disturbance does not appear to have settled ten years after its introduction. The frame for entering into higher education in Australia has changed from being an entitlement system to a contractual, user-pays system. Associated with this new frame is a dynamic exchange of obligations and expectations in an ongoing relationship. This "psychological contract" is complex, changeable, individualistic, and therefore unpredictable. By demonstrating that a variety of factors including course dissatisfaction, carrying a HECS debt, and opposing HECS policy can weaken resolve to pay one's tax, this study has provided insight into the complex nature of bargaining between citizens and the state that might be expected in the future.

HECS policy has created problems for government and law enforcement agencies, because its designers have dissociated its economic credentials from the social fabric in which it is embedded. They have disregarded the importance of legitimating the scheme in the public psyche in order to win cooperation and compliance. Recently, it has been proposed that the tax system can also be used to collect fines for a wide variety of offenses, ranging from traffic infringements to more serious criminal offences (see Chapman et al. 2004). But extending the tax office's responsibilities through the proposed Fine Enforcement Collection Scheme (FECS) may only add to existing problems. The feasibility of such a scheme depends on recognizing the psychological factors at work in compliance, and the difficulties of reversing a process that slowly erodes law-abidingness through undermining tax system legitimacy.

It is in this context that responsive regulation provides a framework for reentering debate with the public about HECS policy, and initiating discussion about newly proposed policies, their purpose, and design. Sharing knowledge about how the HECS scheme is working, warts and all, may seem politically unwise to some at this stage. But the costs of not allowing such debate to take place are significant, as this article shows. The pathway to delegitimization of the tax system is not a simple or straightforward one. Such a pathway exists, however, and it is strengthened by perceptions of social injustice. Through regulating responsively, authorities have the capacity to test the full effects of their policy initiatives before setting in train a process which risks undermining the state's central revenue raising institution. Without legitimacy, trustworthiness, and the social conscience that this generates, tax authorities will be forced to become more coercive in order to implement and administer government policies. Such a development does not augur well for sustainable democratic governance.

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NOTES

1. The scheme is now called HELP. The acronym HECS is used because the data were collected when the scheme was known as HECS.

2. Although it is called a loan scheme, students do not actually receive income from the government either for tuition fees or for living expenses. The Australian Government provides grants to the public universities. This is a substantial part of their operating budget. Students contribute to this budget through their HECS payment.
3. We are indebted to an anonymous reviewer for this insight.
4. A non-significant value of Chi-square indicates good fit of a model. Chi-square/df ratio of less than 2 is considered to be acceptable. Values greater than 0.95 for GFI, AGFI, GFI, and TLI are considered to indicate good model fit. An RMSEA of 0.05 or less is suggested as an indicator of acceptable fit (for details on these indices and their relative merits, see Arbuckle & Wothke 1999; Byrne 2001; Loehlin 1998).
5. The importance of paths in the final model was confirmed through a series of regression analyses, which enabled a further check for violation of assumptions made in maximum likelihood estimation in a path analysis (for a similar empirical approach and justification for using SEM, see Ahmed & Braithwaite 2005; Kalimo, Taris & Schaufeli 2003). All significant and non-significant paths in Figure 1 were confirmed in the set of logistic and ordinary least squares regressions.

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