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Citation

Sigala, Maria (2000). Social Norms, Occupational Groups and Income Tax Evasion: A Survey In The UK Construction Industry. Open Discussion Papers in Economics 26; Economics Department, The Open University.

URL

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**Social Norms, Occupational Groups and Income Tax
Evasion: A Survey In The UK Construction Industry**

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November 2000

NUMBER 26

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This series is registered under

ISSN 1753-2590 (Print)

ISSN 1753-2604 (Online)

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Social Norms, Occupational Groups And Income Tax Evasion: A Survey In The UK Construction Industry

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Abstract

The traditional economic model argues that risk of detection and severity of penalty are the most important constraints of income tax evasion. However, it is difficult for the tax authorities to trace unreported 'cash in hand' payments. Almost all sole traders have opportunities for such payments. However, not all of them evade by means of 'cash in hand' transactions. The present study investigates the reasons for this. A hundred and thirty-nine sole traders in the UK construction industry completed a brief questionnaire regarding their views on 'cash in hand'. Hierarchical regression analysis showed that the constraints proposed by the traditional economic model do not significantly add to the prediction of sole traders' reluctance to deal with cash earnings beyond that afforded by a 'social norm' factor. The latter included taxpayers' perceptions about: the number of opportunities for cash income, the morality of evading tax by unreported cash earnings, frequency of 'cash in hand' among colleagues, clients' suspicion towards those asking for such payments, the risk to one's professional reputation, the acceptability of cash payments, and the value of asking for cash. Findings are discussed in terms of social norms and salient social groups in the context of tax evasion.

Keywords: income tax evasion, hidden economy, social norms, deterrence .

This study is part of my PhD thesis in the University of Exeter. I would like to thank my supervisors, Paul Webley and Carole Burgoyne, for their valuable comments and suggestions. Financial support from the State Scholarships Foundation in Greece is much appreciated. All errors remain my own.

1 Introduction

‘Cash in hand’ transactions are part of the hidden economy and offer a large scope for tax evasion. Income tax evasion has significant fiscal, economic and social consequences: it affects the ability of any government to fulfil revenue needs, generates collection and audit costs to detect and retrieve income tax evaded, and creates social inequity as the taxation burden is redistributed more heavily on those who comply.

Policy measures to combat tax evasion at the level of the individual taxpayer include threats that tax evaders will be caught and severely punished (deterrence approach) and also attempts to inform, educate and persuade everyone to comply (positive approach). The deterrence approach is consistent with the traditional economic model in which every individual taxpayer is assumed to be a tax evader by nature, who given the opportunity, will attempt to maximize utility by evading and saving tax for future consumption. According to this model (Allingham and Sandmo, 1972), the expected utility of tax evasion decreases with increasing probabilities of detection and/or increasing severity of punishment. Recently, however, economists acknowledge that the predictions of the model are not realistic and wonder why so many taxpayers comply since neither the probability of audit is constant nor are penalties large enough to deter people from evading (Andreoni et al., 1998; Cowell, 1992; Skinner and Slemrod, 1985). So, some modern economic models have adopted a more ‘social’ approach by extending the assumptions of the traditional model to include taxpayers’ moral values and the role of their social environment. In addition to pecuniary costs, tax evaders may risk feeling guilty and ashamed. These non-pecuniary costs are the products of social influence: guilt comes from the violation of an internalised social norm whilst shame arises from social disapproval (Falkiner, 1995; Erard and Feinstein, 1994).

The positive approach to tax enforcement implies that people want to pay their income tax and they should be helped to do so (see Hite, 1989). In most modern countries, tax authorities have attempted to improve their public image by presenting a more helpful and friendly face to taxpayers. For example, in the United Kingdom the Inland Revenue encourages taxpayers to seek assistance from their bank-style enquiry centres in many major towns all over Britain, mobile enquiry offices travelling between smaller communities and the Self Assessment Helpline in the evenings and the weekends. It publicises tax leaflets addressed to taxpayers and written in a simple and comprehensible style. Similarly, tax forms have been simplified to make tax reporting a less daunting task. Special workshops for taxpayers with complex reporting requirements have also been organised (e.g., the Employer Education programme). A cartoon character, Hector (the human face of the British taxman) is used in the media and press adverts of the Inland Revenue to communicate relevant information to income taxpayers. Modern tax authorities want to persuade rather than frighten the individual taxpayer to comply and pay all income tax due. Persuading taxpayers and particularly tax evaders to comply may require, however, more than a user-friendly tax mechanism.

Fiscal psychology focuses on the role of moral and social norms on taxpaying decisions and argues that ‘the decision to evade is also affected by the attitudes, perceptions and moral judgements of individuals through their association with family, friends, reference groups’ (Lewis, 1982; p.127–8). Fiscal psychologists and sociologists also argue in favour of a social norm effect on taxpayers’ behaviour (Stalans et al., 1991; Weigel et al., 1987).

They further postulate that these norms relate to the way we were brought up to behave as law-abiding citizens and have certain moral beliefs about crime (known as the socialization approach). We can also acquire taxpaying norms through a social learning process, that is by observing and copying the behaviour of taxpayers in our immediate, close environment (social learning approach; see Antonides and Robben, 1995). There are two problems with this definition of taxpaying norms. The socialization approach assumes that social norms acquired through education and upbringing have been crystallised into personal moral values that are resistant to change. The predictions of this approach are pessimistic for those who are brought up to think and behave as tax evaders: it will be hard to persuade them to change. The social learning approach assumes that taxpayers passively copy the behaviour of others, which is not a realistic prediction: taxpayers may not identify with others if they do not regard their own tax circumstances as relevant to theirs. According to both approaches, people comply with norms through mechanisms such as guilt (socialization) and/or shame (social learning). Neither of these sanctions, however, has received strong empirical support. For example, Hasseldine and Kaplan's (1992) findings suggest that feelings of shame influenced hypothetical tax evasion decisions but feelings of guilt did not. Grasmick and Bursik's (1990) findings suggest the opposite: feelings of guilt matter, social disapproval does not because of the private nature of taxpaying. Thus, more research is needed to shed some light on the relationship between norms, sanctions and tax evasion.

Thus far, we have seen that tax enforcement in the UK aims to threaten and persuade taxpayers at the same time. These policies derive from the traditional economic model (in the case of deterrence) or from more social-oriented models (as in the case of positive enforcement). More and more social scientists, however, tend to focus on the role of social norms to make their models more realistic. Still, we know little about these social norms in the context of taxation.

Policy makers are also keen into using taxpaying norms for public campaigns to promote tax compliance. Lord Grabiner, QC ¹(2000) reported to the Chancellor of the Exchequer that 'more broadly, there is a *culture of tolerance* towards the hidden economy' (p.40). In the same report he writes on deterrence and publicity:

'In order to provide a realistic basis for deterrence wrongdoing, the seriousness of being in or supporting the informal economy should be given a higher profile. I recommend: publicising both the incentives available for people to join the legitimate economy and the risks of staying in the informal economy; and testing the use of advertising as a tool for changing public attitudes, insofar as they currently regard the hidden economy as socially acceptable'. (p.39)

To use, however, normative appeals, one may need to know more about what taxpayers consider to be socially acceptable. For example, in 1967, Schwartz and Orleans ran an experiment to test differences in tax compliance levels between two groups of taxpayers who received different messages. It was found that the group faced with normative appeals of paying tax reported more income than the 'control' group (those who received

¹ www.hm-treasury.gov.uk/pdf/2000/grabiner.pdf

no information on either normative issues or legal sanctions). Also the 'normative appeals' group paid more taxes than the 'legal sanctions and 'control' groups. However, when McGraw and Scholtz (1991) replicated the same experiment they found that normative appeals had no significant effect on taxpayers' behaviour. One of the main differences between the two experiments was that in the 1967 experiment, participants were led to 'reflect on their own tax-relevant values and to consider the ways in which these values were inconsistent with illegal taxpaying behaviour' (McGraw and Scholz, 1991; p.494) whereas in the 1991 experiment, the researchers assumed that participants' feelings of patriotism would relate to their taxpaying behaviour. So, to introduce social norms in the study of income tax evasion the first step is to find the context within which such norms become salient.

Some researchers have stressed the importance of occupational groups as origins of tax related norms. For example, Roth et al. (1989) argued that 'occupational groupings may be among the most influential on taxpayer compliance' (p.164). Some believe that this is because colleagues are likely to share information and beliefs on income tax (Stalans et al., 1991) whereas others regard the prevalence of income tax evasion in certain occupational groups as the result of similar opportunities to evade (Hasseldine and Bebbington, 1991). If, however, taxpaying norms are products of certain social groups then one might expect that these norms to reflect all aspects of reality within these groups: economic, social or psychological. Looking closer at the history of occupational groups regarding the taxpaying behaviour of their members might be useful.

The present study will focus on the groups of sole traders in the UK construction industry and will research into their reasons for their reluctance to deal with cash in hand. The UK construction industry is 'an industry with a long history of tax enforcement problems' (Smith, 1986; p. 45). The industry employs 22 percent of all self-employed in the UK. 86 percent of these people are sole traders (see Moralee, 1998). Despite the efforts of the Inland Revenue to reduce self-employment in this industry, from 1981 to 1991, the rate of self-employment has increased from 27 percent to 40 percent (Campbell and Daly, 1992). According to Smith (1986) this 'has substantially increased the number of people in a position to evade tax' (p.44). At present, subcontractors in the building industry may be paid gross only if they hold a certificate issued by the Inland Revenue; those who are not entitled to such a certificate should hold a Revenue registration card, that will enable them to be paid after deduction of tax. It is difficult to assess the exact amount of income tax evaded by sole traders in this industry. Taking into consideration the need for a special tax collection scheme for this industry, as well as newspaper and TV features on 'cowboy' builders, and anecdotal evidence from their clients, sole traders in the building industry seem to be notorious for dealing with cash in hand. More and more clients who have paid builders in cash without getting a receipt or any other record of the transaction have experienced difficulties in dealing with unsatisfactory work. In the UK, such complaints are increasing at a rate of 5 per cent a year. To combat this problem, the Environment Minister has announced a series of measures which include publishing lists of 'rogue' builders to shame them and lists of reputable ones, whom the public can trust (Kelly, 1998).

In an interview study, British taxpayers argued that 'cash in hand' is the norm among tradesmen in the UK construction industry (Sigala et al., 1999). In the same study, tradesmen in the construction industry explained this norm in terms of the following

factors: opportunities for cash payments, low risk of detection, not being well paid, clients' consensus, and frequency of such transactions among colleagues. Sole traders in professional jobs reported avoiding asking for cash payments because they believed that such payments put their professional reputation at risk and it was not worth asking for them. In addition to these variables, moral views on tax evasion and the severity of a penalty if caught evading have been also found to affect decisions to evade income tax (Reckers et al., 1994; Porcano, 1988).

Among these variables, perceptions about detection and severity of penalty may not be significant constraints of income tax evasion. Hessing et al. (1992) reviewed various studies to assess the importance of perceived certainty and severity of anticipated punishments if detected evading tax on taxpayers' reported and actual tax behaviour. They concluded that the group of so-called habitual evaders are not influenced by legal sanctions and detection because they 'either are not impressed by the effect of deterrence, or they intend to recover the losses resulting from deterrence' (p.304). In the case of unreported cash payments, legal sanctions are even harder to administer because 'while auditors do appear to be able to spot some unreported income by checking for consistency with other reported items and non-tax data, income from moonlighting and cash-only businesses is very difficult even for trained auditors to identify' (Clotfelter, 1983; p.366–7). Also, Smith (1986) argued that tax evaders may organise their affairs in such a way as to eliminate suspicion, by, say, declaring a plausible income. Regarding the size of the penalty, Klepper and Nagin (1989) state these type of sanctions often remain civil and administrative and rarely result in imprisonment.

Putting together the above findings and theoretical arguments, tax evasion by unreported cash earnings in the construction industry may be the result of conforming to the social norm of one's occupational group in which there are situational opportunities for 'cash in hand', there is a belief that such payments are widespread – equally shared by one's colleagues and clients, and this norm is internalised to the point of becoming a personal moral belief justifying the behaviour in question. Similarly, when taxpayers believe that the social norm in their occupational group is against 'cash in hand' they might avoid dealing with this sort of payments. The main hypothesis of the present study is that a social norm against 'cash in hand' will predict a significantly larger amount of sole traders' reluctance to deal with cash payments beyond that afforded by the classic deterrence variable. The term 'sole traders' refers to those taxpayers who are trading as self-employed without employees.

The most challenging task for researchers investigating self-reported evasion is to persuade evaders to admit to their taxpaying behaviour. Thomas (1992) advises that the researchers should either conceal the real purpose of the research or they should project a 'neutral or more understanding attitude' towards evasion on methods of measuring it (p.196). Wahlund (1992) also introduced questions about evasion at the end of the questionnaire after questions on saving and consumption habits. In an attempt to overcome this problem, the present study will assure people of confidentiality and anonymity, will focus on 'cash payments' and the participants' reluctance to deal with such payments rather than actual evasion as the main issue of interest, and will include items measuring causes for asking for 'cash in hand' prior to measuring the degree of their reluctance to deal with such payments.

Participants will be asked to form their judgments in relation to their line of work. Encouraging people to state their beliefs as the beliefs of someone who is in a particular line of work, may enhance the salience of their membership in the referent occupational group. It also entails the notion of making judgments as a member of a particular occupational group rather than as a distinct individual taxpayer. So, by emphasising their occupational identity rather than their personal one, people may be encouraged to disclose accurate and honest information and the researcher may have access to the relevant occupational norm.

2 Method

2a Sampling Procedure

The target population consisted of professionals and tradesmen within the UK construction industry. The target group of professionals included architects and quantity surveyors, that of tradesmen included plumbers and painters and decorators. Their mailing details were found in a telephone and Internet directory and sole traders were selected among those whose practices were listed under a name and surname as opposed to two surnames (partnership) or a logo (limited company). Following this process, a total of 1,033 people all over England, Wales and Scotland were selected.

2b Research Material

The target population was sent an envelope which contained a one page colour printed sheet of paper and a FREEPOST reply envelope. The paper sheet was printed in colours distinct for each occupational group: green for architects, pink for surveyors, blue for plumbers and vanilla for painters and decorators. On one side of the paper an introductory letter was printed while on the other side there was the questionnaire. The introductory letter explained who the researcher was, informed them that the purpose of the survey was to find reasons for or against 'cash in hand' payments, stated that the views of the tax authorities are already known to be against 'cash in hand' payments and that it was their anonymous views as sole traders regarding this issue which were of importance to the research. Also they were told that, acknowledging their busy schedule as sole traders, the questionnaire was short and it would take them only two minutes to complete.

2c Questionnaire

The questionnaire on the reverse page of the introductory letter asked participants to state how much they agreed or disagreed with eleven statements. The statements that follow all started with the phrase *In my line of work...*

- *There are opportunities for 'cash in hand'*
- *Tax authorities generally detect those who get 'cash in hand'*
- *Evading tax by unreported 'cash in hand' leads to severe penalties*
- *Evading tax by not reporting 'cash in hand' is morally wrong*
- *Colleagues get 'cash in hand' often there*
- *'Cash in hand' puts one's professional reputation at risk*
- *We are generally well paid*
- *Clients are suspicious of those who ask for 'cash in hand'*

-
- *'Cash in hand' is acceptable*
 - *It is not worth asking for cash payments*
 - *I would not deal with 'cash in hand' under any circumstances*

Participants were asked to tick their response on a scale with the following options from left to right: *strongly disagree*, *disagree*, *slightly disagree*, *neither disagree nor agree*, *slightly agree*, *agree*, and *strongly agree*. Responses were coded from 1 to 7, from left to right. The first ten statements strating 'In my line of work ...' were the independent variables and the eleventh was the dependent one.

The next section included questions measuring demographic characteristics such as age, income, gender, marital status, highest educational qualification, main job and trading status. The latter two items were included to ensure that the participants were architects, surveyors, plumbers, and painters and decorators who were working as sole traders. Finally, the participants were thanked for their cooperation and were reminded to send the questionnaire back using the enclosed FREEPOST reply envelope.

3 Results

Table 1 shows the size of the target sample, the research sample, the number of professionals and tradesmen, the number of sole traders, and the response rates.

Table 1. **Target and research sample**

	PROFESSIONALS (architects and surveyors)	TRADESMEN (plumbers and painters)	TOTAL
Number of Qs sent	514	519	1033
Number of Qs that failed to reach recipients	34	17	51
Hypothetical number of Qs that reached target population	480	502	982
Number of completed and returned Qs	135 (73%)	51 (27%)	186 (100%)
Response rate (adjusted)	28%	10%	19%
Sole traders	88	49	137
Non sole traders	45	2	47

A total of 1,033 questionnaires were sent, but 51 were returned uncompleted because the recipient had either ceased to trade or had changed his trading address.

3a Sole Traders, Partnerships and Limited Companies

Although during the selection process attention had been paid to excluding those who did not seem to be sole traders, in the final sample there were nine people who were trading as a limited company and 38 as a partnership.

Before excluding the non sole traders, however, independent t-tests were carried out to find significant differences in views and preferences regarding 'cash in hand' between sole traders and others (those working in limited companies and partnerships). All but two of the non sole traders were professionals; these two cases were deleted. So only the group of professionals were selected for this comparison between sole traders and non sole traders. Table 2 presents the relevant means for each group and the levels of significant differences.

Table 2. Mean responses of professional sole traders and professional non sole traders²

	Sole traders	Others
There are opportunities for 'cash in hand'	4.22	3.96
Tax authorities generally detect those who get 'cash in hand'	3.92	3.64
Evading tax by unreported 'cash in hand' leads to severe penalties	5.18	5.40
Evading tax by not reporting 'cash in hand' is morally wrong	5.90	5.49
Colleagues get 'cash in hand' often	3.07	2.27** ³
'Cash in hand' puts one's professional reputation at risk	5.54	5.78
We are generally well paid	3.62	3.80
Clients are suspicious of those who ask for 'cash in hand'	5.49	5.64
'cash in hand' is acceptable	3.09	3.14
It is not worth asking for cash payments	5.76	5.49
I would not deal with 'cash in hand' under any circumstances	4.61	4.71

Sole traders tended to agree more with the statement that colleagues get 'cash in hand' often compared with partnerships and limited companies.

² Response scale ranging from 1 = strongly disagree to 7 = strongly agree, 4 = neither disagree nor agree

³ Using independent t- tests: *** $p \leq 0.001$, ** $p \leq 0.01$.

For the time being, those who are not sole traders, along with two respondents who did not give any information about their trading status, will be excluded from further analysis because my target sample was sole traders and my hypotheses were formulated having in mind the particular characteristics of this group.

3b Sole Traders: Description of this Sample

The vast majority of sole traders were men (98 percent) and married (88 percent), most of them were in their forties, fifties, and sixties, and half of the sample had an annual pre-tax income between £20,000 and £39,999. Most of the self-employed in the UK are also men (74 percent) and married (80 percent); only 3 percent aged between 16–24 whereas 36 percent aged 65 or more (Moralee, 1998). Therefore, the present sample of sole traders in the construction industry matches quite closely with the profile of the total population of self-employed in UK.

Not surprisingly, professionals had higher educational qualifications compared to tradesmen ($\chi^2 = 56.76$, $p \leq 0.001$). Also professionals tended to earn more ($\chi^2 = 16.34$, $p \leq 0.001$). There were no age difference between professionals and tradesmen.

3c Differences Between Professionals and Tradesmen On Their Views of ‘Cash In Hand’

To discover whether there were any significant differences between professionals and tradesmen regarding their responses on the eleven statements in the questionnaire, independent t-tests were carried out. Table 3 shows the means for each occupational category regarding their responses on the eleven statements. There were no significant differences between professionals and tradesmen regarding their estimations for the risk of getting detected by the tax authorities for getting ‘cash in hand’. Tradesmen reported significantly more opportunities for ‘cash in hand’ than professionals. They were also more likely to argue that their colleagues get ‘cash in hand’ often and that ‘cash in hand’ is acceptable in their line of work.

Table 3. Mean responses for each occupational category of sole traders⁴

	Professionals	Tradesmen
There are opportunities for ‘cash in hand’	4.22	5.84*** ⁵
Tax authorities generally detect those who get ‘cash in hand’	3.92	4.18
Evading tax by unreported ‘cash in hand’ leads to severe penalties	5.18	5.59
Evading tax by not reporting ‘cash in hand’ is morally wrong	5.90	5.29**
Colleagues get ‘cash in hand’ often	3.07	4.63***

⁴ Response scale ranging from 1 = strongly disagree to 7 = strongly agree, 4 = neither disagree nor agree

⁵ Using independent t-tests: *** $p \leq 0.001$, ** $p \leq 0.01$, * $p \leq 0.05$

'Cash in hand' puts one's professional reputation at risk	5.54	4.08***
We are generally well paid	3.62	4.22*
Clients are suspicious of those who ask for 'cash in hand'	5.49	4.96
'Cash in hand' is acceptable	3.09	4.53***
It is not worth asking for cash payments	5.76	4.80***
I would not deal with 'cash in hand' under any circumstances	4.61	3.49***

Professionals believed more that evading by unreported 'cash in hand' is morally wrong. They were also more likely to agree that in their line of work 'cash in hand' puts one's professional reputation at risk. Professionals, more than tradesmen, believed that it is not worth asking for 'cash payments' in their line of work. Regarding their reluctance to deal with 'cash in hand', they were more likely to express an aversion towards that behaviour. There was one surprising finding, however: tradesmen believed more than professionals did that they were well paid.

3d Differences In People's Views Towards 'Cash In Hand' Among Age, Income and Educational Qualifications Categories.

Younger participants tended to perceive more opportunities for 'cash in hand' (mean = 5.33) than older ones (mean = 4.75; $t = 2.19$, $p \leq 0.05$). Those with higher annual earnings (£20,000 or more) believed more that 'cash in hand' put their professional reputation at risk (mean = 5.42) compared to those with lower annual earnings (mean = 4.45; $t = -2.67$, $p \leq 0.01$). Also the higher income group tended to perceive 'cash in hand' as a less acceptable behaviour (mean = 3.22) compared to the lower income group (mean = 4.17; $t = 2.71$, $p \leq 0.01$). Compared with the other demographic characteristics, sole traders' educational qualifications had the most significant effect on their views about 'cash in hand' (see Table 4).

Table 4. Means for each educational category of sole traders ⁶

	Holders of university degree	Non holders
There are opportunities for 'cash in hand'	4.17	5.29*** ⁷
Tax authorities generally detect those who get 'cash in hand'	3.85	4.13
Evading tax by unreported 'cash in hand' leads to severe penalties	5.43	5.20
Evading tax by not reporting 'cash in hand' is morally wrong	5.72	5.63

⁶ Response scale ranging from 1 = strongly disagree to 7 = strongly agree, 4 = neither disagree nor agree

⁷ Using independent t-tests: *** $p \leq 0.001$, ** $p \leq 0.01$, * $p \leq 0.05$

Colleagues get 'cash in hand' often	3.05	4.11***
'cash in hand' puts one's professional reputation at risk	5.52	4.59**
We are generally well paid	3.66	3.99
Clients are suspicious of those who ask for 'cash in hand'	5.41	5.18
'cash in hand' is acceptable	3.88	3.30
It is not worth asking for cash payments	5.18	5.72*
I would not deal with 'cash in hand' under any circumstances	4.03	4.41

In particular, those with a university degree perceived less opportunities for 'cash in hand', tended to believe more that 'cash in hand' puts their professional reputation at risk and that it is not worth asking for such payments. They were also less likely to report that their colleagues get 'cash in hand' often. Finally, there was a significant relationship between income and education suggesting that respondents with a university degree earned more than respondents who just completed basic educational requirements, GCEs, A' levels, or a vocational qualification ($\chi^2 = 18.38$, $p \leq 0.001$). As expected younger respondents earned less than older ones ($\chi^2 = 5.32$, $p \leq 0.05$).

3e Views On 'Cash In Hand'

Table 5 shows the correlation coefficients between the items measuring views on 'cash in hand' dealings in one's line of work. There are two conclusions to be drawn from this table. First, there are many correlations between variables that deserve further investigation. Second, taxpayers' perceptions of being well paid were not significantly correlated with any of their views on 'cash in hand' apart from their estimations of getting caught; this item will be excluded from any further analysis since it does not seem to measure the same dimensions with the other items.

Table 5. Relationships between items on 'cash in hand' (Pearson r).

	1	2	3	4	5	6	7	8	9	10
1. There are opportunities for 'cash in hand'	1									
2. Tax authorities detect those who get 'cash in hand'	-0.03	1								
3. Evading by unreported 'cash in hand' leads to severe penalties	0.07	0.42**	1							
4. Evading by unreported 'cash in hand' is morally wrong	-0.14	0.19*	0.28**	1						
5. Colleagues get 'cash in hand' often	0.42** ⁸	-0.07	0.06	-0.27*	1					
6. 'Cash in hand' puts one's professional reputation at risk	-0.18*	0.17*	0.16	0.33**	-0.27**	1				
7. We are generally well paid	-0.05	0.20*	0.10	-0.04	0.12	-0.05	1			
8. Clients are suspicious of those who ask for 'cash in hand'	-0.21*	0.15	0.15	0.34**	-0.28**	0.27**	0.02	1		
9. 'Cash in hand' is acceptable	0.31**	-0.09	0.08	-0.31**	0.40**	-0.54**	0.08	-0.33**	1	
10. It is not worth asking for cash payments	-0.26**	0.08	0.07	0.31**	-0.37**	0.24**	-0.08	0.45**	-0.34**	1
11. I would not deal with 'cash in hand' under any circumstances.	-0.19*	0.15	0.07	0.36**	-0.27**	0.60**	0.03	0.32**	-0.62**	0.42**

⁸ ** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

3f Investigating the Underlying Dimensions of the Scale Measuring Perceptions About ‘Cash In Hand’

A factor analysis was performed to investigate further the correlations found between variables, to find the underlying dimensions of the questionnaire measuring sole traders’ views about cash payments, and to produce a simple solution against which the hypothesis could be tested. So, the nine items measuring sole traders’ views on cash payments were analysed using FACTOR in SPSS with principal axis factoring and oblique rotation; missing cases were excluded listwise. Two factors were found with eigenvalues greater than 1.00. The first factor included all but two variables, that is perceived probability of detection and severity of penalty, which comprised the second factor (see Table 6). Factors were reliable since variables that loaded highly within one factor were highly correlated with each other but relatively uncorrelated with variables of the other factor. The solution was stable across different methods and rotation techniques. Also, three and four factor solutions were tested but due to significantly high correlations between factors, the two factor solution was retained. A screeplot also illustrated two factor with eigenvalues greater than 1.00.

Table 6. Two-factor solution on sole traders’ perceptions about cash payments⁹

ITEMS:	Factors		h^2
	1	2	
<i>In my line of work...</i>			
<i>... ‘cash in hand’ is acceptable.</i>	-0.73		0.51
<i>... colleagues get ‘cash in hand’ often.</i>	-0.62		0.37
<i>...it is not worth asking for ‘cash in hand’.</i>	0.60		0.37
<i>...clients are suspicious of those who ask for ‘cash in hand’.</i>	0.53		0.33
<i>... ‘cash in hand’ puts one’s professional reputation at risk.</i>	0.52		0.35
<i>...there are opportunities for ‘cash in hand’.</i>	-0.51		0.25
<i>...evading tax by not reporting ‘cash in hand’ is morally wrong.</i>	0.44		0.33
<i>...evading by unreported ‘cash in hand’ leads to severe penalties.</i>		0.95	0.87
<i>...tax authorities detect those who get ‘cash in hand’.</i>		0.45	0.22
Eigenvalue	2.42	1.18	
Variance explained (%)	26.92	13.07	39.99

⁹ Factor loadings smaller than 0.30 have been excluded for the sake of clarity

Since the marker variable in the first factor was perceived acceptability of ‘cash in hand’ in one’s line of work, the factor describes a *social norm against ‘cash in hand’* whilst the second factor refers to *deterrence*.

3g Predicting Reluctance To Work In The Black Economy

A hierarchical regression was executed in SPSS to test whether addition of the *social norm against ‘cash in hand’* variable (factor 1) would improve prediction of reluctance to work in the black economy beyond that afforded by the *deterrence* variable (factor 2). The dependent variable was sole traders’ responses on the item ‘I would not deal with cash in hand under any circumstances’ (see Table 7). The variables included in the regression analysis met the normality and linearity assumptions; neither multicollinearity problems nor outliers were present.

Table 7. Predicting reluctance to deal with ‘cash in hand’ in sole traders.

		SOLE TRADERS
STEP 1	Deterrence (Factor 2)	<i>Beta</i>
		0.21*10
		$R^2_{adj} = 0.05$; $F(1,127) = 8.45^{**}$
STEP 2	Deterrence (Factor 2) Social Norm Against ‘Cash in Hand’ (Factor 1)	<i>Beta</i>
		0.08 0.64***
		$R^2_{adj} = 0.43$; $F(2,126) = 49.22^{***}$ $RsqCh = 0.36^{***}$; $F_{change}(1,126)=88.21^{***}$

So, the hypothesis was confirmed and the addition of a *social norm against ‘cash in hand’* factor significantly improved the prediction of sole traders’ reluctance to deal with ‘cash in hand’ beyond that afforded by the *deterrence* factor. The relationship between the two independent variables was marginally significant. In the general sample of sole traders, the higher people scored on the *social norm against ‘cash in hand’* factor, the higher they scored on the *deterrence* factor ($r = 0.21$, $p \leq 0.5$). Separate hierarchical regressions for each occupational group also confirmed the hypothesis and further showed that the *deterrence* factor was significant for professionals but not for tradesmen (see Table 8).

¹⁰ * $p \leq 0.05$, ** $p \leq 0.01$, *** $p \leq 0.001$.

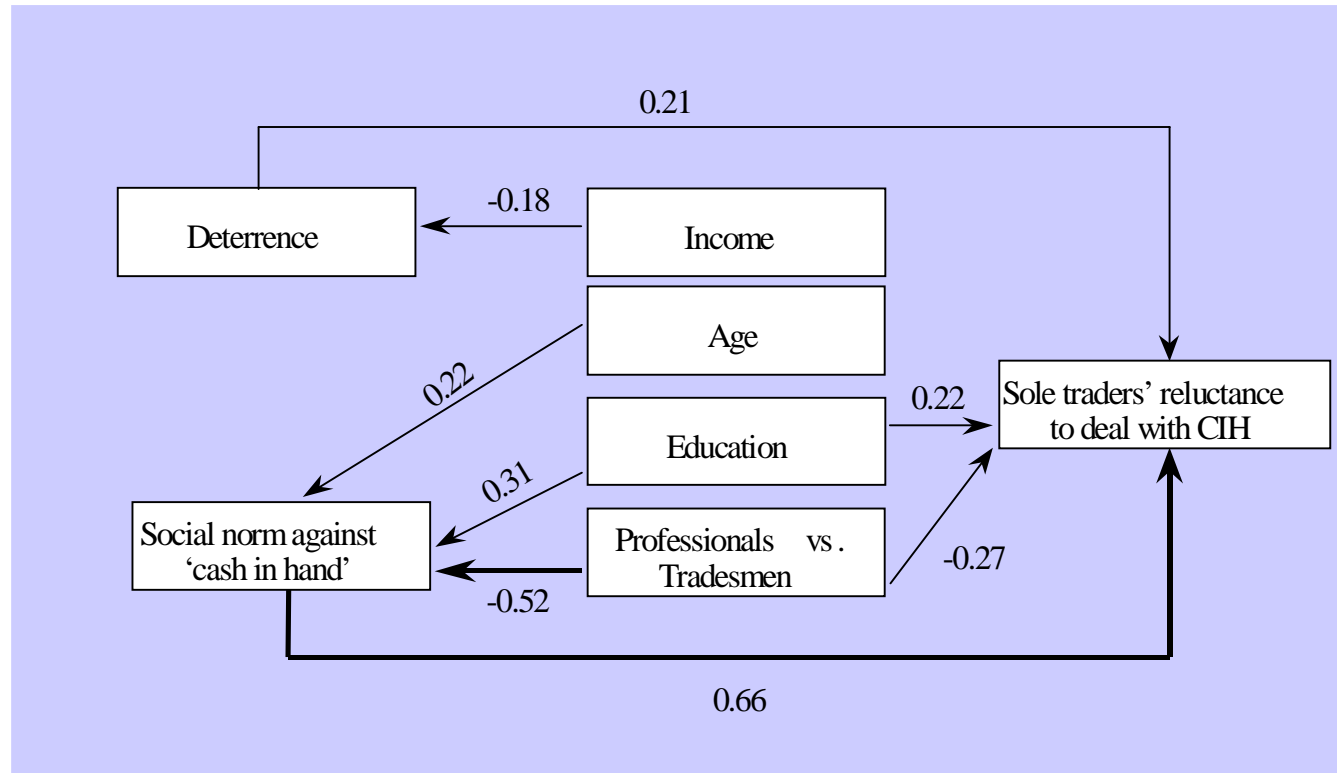
Table 8. Predicting reluctance to deal with ‘cash in hand’ in professional and tradesmen sole traders

	Professionals	Tradesmen
STEP 1	<i>Beta</i>	<i>Beta</i>
Deterrence (Factor 2)	0.35*** ¹¹	0.12
	$R^2_{adj} = 0.13$; $F(1,79) = 12.83***$	$R^2_{adj} = 0.00$; $F(1,46) = 0.70$
STEP 2	<i>Beta</i>	<i>Beta</i>
Deterrence (Factor 2)	0.25***	-0.20
Social Norm Against ‘Cash in Hand’ (Factor 1)	0.49***	0.80***
	$R^2_{adj} = 0.34$; $F(2,78) = 21.5***$ $RsqCh = 0.23***$	$R^2_{adj} = 0.53$; $F(2,45) = 27.63***$ $RsqCh = 0.54***$

A path analysis was further executed to investigate whether the effects of deterrence and social norms on reluctance to deal with ‘cash in hand’ could be due to demographic factors (e.g., income, education, age and occupation). Figure 1 shows the relationships found between the variables. Among all demographic variables included in the present analyses, only sole traders’ income significantly predicted their beliefs about deterrence, suggesting that the more they earned the less significant deterrence was for them. On the other hand, age, education and occupation significantly predicted the ‘social norm’ factor. In particular, older sole traders, those with higher educational qualifications and professionals were more likely to believe that in their line of work cash in hand is not acceptable. Education and occupational group also had significant direct effects on their reluctance to deal with cash payments: better educated sole traders and those in professional occupations tended to be more reluctant.

¹¹ * $p \leq 0.05$, ** $p \leq 0.01$, *** $p \leq 0.001$.

Figure 1. Relationships between factors affecting sole traders' reluctance for 'cash in hand'



4 Discussion

The results of the present study showed that when focusing on perceptions about 'cash in hand' in the UK construction industry, sole traders' reluctance to deal with such payments was more significantly predicted by a perceived occupational norm against such payments than by their perceptions about deterrence. There are two explanations for this finding. Deterrence might not affect taxpayers' decisions at this stage of decision making, that is when they choose particular types of earnings. Also it might be that for those who tend to think that 'cash in hand' is acceptable, getting caught and being penalised might not be a severe threat. The latter explanation is further supported by the finding that the more people tended to think that 'cash in hand' is not acceptable in their line of work the more they believed in the probability of getting caught and the severity of penalty. So, in terms of policy measures, the present findings suggest that legal enforcement with frequent audits and severe penalties are not enough to restrain taxpayers from self-reported dealing with 'cash in hand'.

To develop policy measures that draw from existing social norms, however, requires closer inspection in the history and nature of specific groups. In certain groups tax evasion may be considered the norm whereas in others this may not be the case. Taxpayers may belong to more than one social groups where norms about tax evasion may be conflicting. Recent social psychological theories postulate that identification with a group depends on which context of categorization between oneself and others becomes salient. Once people categorize themselves as members of one group they tend to comply with this group's norm (Turner, 1991). The group norm can change once the definition of one's group changes. The theories suggest that this can be achieved by changing either the comparison dimensions on which an individual compares his or her grouping and others, or by changing the groups against which an individual compares his or her group. For example, focus groups with tradesmen in the construction industry found that the group did not approve of income tax evasion, nor did they see it as the norm within their group once they compared their group with itinerant workers (e.g. gypsies, travellers) that are likely to work in the construction industry, do everything in cash and constantly evade income tax (Sigala, 1999). Findings from an experiment with self-employed taxpayers and governmental officials illustrates how easily norms can change once people are led to identify with a certain group. Robben et al. (1990) recruited two different groups of participants for their experimental simulations on income tax evasion. One group consisted of self-employed Dutch taxpayers and the other one of Dutch governmental officials. The main hypothesis was that the latter group would tend to comply more than the former group because of differences in social norms, personality characteristics and fiscal attitudes between the two groups. Their hypothesis was not confirmed. Significant differences in compliance levels between the two groups were not found and the authors concluded that their findings did not support the role of social norms, or did they? At no point during the experiment were participants reminded of their real life identities as self-employed and governmental official respectively. Instead both groups were asked to perform the same task that of running a small business and report income tax at the end of the fiscal year. They were, thus, asked to assume the same identity, that of a sole trader. So the fact that governmental officials were not found to comply more was because they were not behaving as such but as sole traders.

Present findings suggest that social norms on income tax evasion may reflect a variety of situational, social, psychological and economic factors. So these social norms define the groups with which we identify and dictate the way we see ourselves as taxpayers. Future research on income tax evasion has a lot to gain from investigating situational, economic, social and psychological factors, together within a model of social norms. The data of the present study suggest that social norms reflect the reality created by a certain place and time, certain individuals and groups.

Modern policies to combat tax evasion attempt to inform taxpayers about their responsibilities whilst tax researchers suggest that taxpayers should be persuaded rather than threatened into paying income tax. Drawing on social psychological theories on compliance, Cialdini (1989) stressed that people comply with what they perceive to be consistent with their beliefs, attitudes, words, and deeds. He refers to this tendency as *the commitment/consistency principle* and argues that 'after committing oneself to a position, one should be more willing to comply with requests for behaviours that are consistent with that position' (p.206). He further applies this principle to tax compliance and proposes that the tax authorities should (i) identify existing norms among taxpayers that relate to tax matters, (ii) focus attention on these norms/values as existing personal commitments and (iii) sensitise 'the citizenry to the inconsistency between possessing such personal commitments and failing to be fully tax compliant' (p.209). The norms that he proposes on the positive side are social responsibility, personal integrity, paying one's way, and patriotism, while on the negative side are norms such as cheating, stealing, lying, criminal action, harming others, and weakening the nation. The present study focused on how taxpayers as members of certain occupational groups are influenced by norms related to their standing and reputation within these groups. If a sole trader believes that in his/her line of work it is not acceptable to deal with cash payments, he/she may not do so. This may explain the prevalence of cash earnings among sole traders in some occupations but not in others. However, what about sole traders in occupations in which cash payments are acceptable? Stressing the inconsistency between dealing with cash and being professional may be a useful policy. If cash payments are acceptable in a sole trader's line of work but such payments pose a threat to his/her professional reputation, then the sole trader is faced with a dilemma. By carefully manipulating this dilemma, the tax authorities may be able to increase tax compliance for this group of sole traders. By the same token, if clients are reminded of the risks against malpractice that they run for paying sole traders in cash, then their willingness to consent to such transactions may be reduced.

So, the findings suggest that there may be two additional sanctions which may influence sole traders: (a) being disapproved of by others in your occupational group by violating the group's norm on cash payments and (b) losing clients by being unprofessional. Even though the first is more of a social sanction and the other more of an economic one, both of them are closely related. If trading with 'cash in hand' is not the proper and correct behaviour for a particular occupational group then trading on these terms may damage one's professional reputation among colleagues and clients, to the point of losing face among one's colleagues and clientele.

There are several limitations to this study. First, although cash payments make it easy to evade, not everyone who deals with such payments does evade. Often, however, cash payments are associated with tax evasion and in the construction industry where such

payments are frequent so is tax evasion. Another problem with self-reported tax behaviour is the fact that tax behaviour is not a salient behaviour since self-employed people make their tax returns once a year and they might not remember about their tax decisions (Webley et al., 1991). Transactions in the hidden economy, however, require the participation of more than one person and hiring oneself out has enough impact on daily activities to make it easier to remember. Also, 'doing additional hidden work is often considered as only a minor infringement and for that reason it may be assumed that at least some hidden workers are willing to report on it' (Kazemier and van Eck, 1992; p.571). So, the question is did the participants in this study give truthful answers and are their answers regarding reluctance to deal with cash in hand correlated with their actual behaviour? Let us examine the evidence.

The response rate was very low. A low response rate may be due to problems with the structure and phrasing of the questionnaire. Those who did reply, however, did not mention any problem with the questionnaire's items and they seem to have understood what the questions were asking them. The item non-response rate was extremely low, the highest item non-response was 6 per cent for the item asking for taxpayers' income. So, once taxpayers decided to reply to the questionnaire, they seem to have found no difficulties. The questionnaire was also too short, one page, to cause respondents' fatigue. Surveys asking about people's participation in the black economy suffer from a low response rate because of the sensitivity of the issue in question. Smith (1986) comments that 'such extreme caution – verging perhaps on paranoia – contrasts sharply with the enthusiasm with which many pub bores appear prepared to regale even complete strangers with tediously detailed anecdotes about their transactions in the black economy and their views about taxation' (p.78). The fact that the response rate for tradesmen was two times less than that for professionals strengthens the conviction that the low response rate was due to the issue of the black economy. So, the target sample was not forced to respond, they had no incentives to do so (monetary, gifts, prizes, etc.) other than their own interest in the study. Many did not choose to respond. Those who did were most likely to have given their true and honest opinions. Another explanation for the low response rate was the source from which names and addresses of potential respondents were selected. Although the yellow pages site on the Internet allows cheap access to a large sample of sole traders across the UK, as a database it is not updated frequently and is not regulated sufficiently, that is, any information provided by the trader is not double checked. 5 per cent of the questionnaires sent were returned, most often with the indication that the sole trader had moved; it may be that more questionnaires which did not reach the addressee were not returned to the researcher but rather discarded on the spot.

Future studies should target a larger number of sensitive groups regarding their transactions with cash payments and use a semi-structured interview approach or focus group discussions rather than a mailed questionnaire so that new issues on the black economy can be brought to light and older ones to be investigated at depth.

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