Psychology of Money

Reader

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MAGYARORSZÁG KORMÁNYA

BEFEKTETÉS A JÖVŐBE

Preface

The main purpose of the course is to raise bachelor level students' awareness of the psychological factors that contribute to how individuals make money-related decisions either in their everyday life or during their economic activities. In order to improve their self-consciousness in a variety of such situations, besides classroom activities, discussions and debates, a comprehensive insight is provided about psychological and economic psychological research on money.

This reader provides thorough theoretical and empirical background explanations to the following topics:

- *the role of money in psychology*
- *money-related attitudes,*
- *economic socialization,*
- *the role of money in relationships and in families,*
- *money as a motivational tool,*
- *tax behaviour.*

This reader is based upon a variety of resources – published scientific articles as well as renowned textbooks such as Furnham and Argyle's „Psychology of Money" and Kirchlers' „The economic psychology of tax behaviour" – and is designed to follow the structure of the course along the topics presented above with the intention to deepen the theoretical knowledge of students on the subject.

2019. 06. 16.

Lecturer: Beáta KINCSESNÉ VAJDA

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Course information

Course title: Psychology of Money

Course code: 60C215

Credit: 3

Type: lecture

Contact hours / week: 2

Evaluation: mid-term performance evaluation / exam mark (five-grade)

Semester: 6th

Prerequisite course: Organizational behaviour

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Learning Outcomes

a) regarding knowledge, the student

- has an overview of psychology-related research on monetary behaviour;

- is familiar with the concepts regarding attitudes to money;

- understands how monetary-related attitudes and behaviour are formed during childhood;

- is familiar with the basics of tax behaviour;

- is familiar with the role of money in motivation along with the methodology of analysing said processes, preparing and supporting decisions;

- has a good command of the basic linguistic terms used in the field of the psychology of money.

b) regarding capabilities, the student

- is capable of analysing his/her own money-related attitudes;

- can identify problematic money-related behaviour;

- can employ psychology-related concepts when planning money-usage.

c) regarding attitude, the student

- behaves in a proactive, problem oriented way to facilitate quality work. As part of a project or group work the student is constructive, cooperative and initiative;

- is open to new information, new professional knowledge and new methodologies. The student is also open to take on tasks demanding responsibility in connection with both solitary and cooperative tasks. The student strives to expand his/her knowledge and to develop his/her work relationships in cooperation with his/her colleagues;

- is sensitive to the changes occurring to the wider economic and social circumstances of his/her job, workplace

or enterprise. The student tries to follow and understand these changes;

- is accepting of the opinions of others.

d) regarding autonomy, the student

- prepares and presents tasks related to financial decision making independently or in teams;

- conducts the tasks defined in his/her job description;

- takes responsibility for his/her decisions.

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Requirements

Students have to prepare homeworks (written essays) individually for each class, related to the actual topic of the lectures. Class attendance is compulsory and extra points may be gained by participating in classroom exercises, debates or mini presentations. The grade will be calculated on the basis of points collected during these tasks.

Grading

• 0-50%: fail

• 51-65%: pass

• 66-79%: satisfactory

• 80-89%: good

• 90-100%: excellent

Part 1: The role of money in psychology and research on attitudes to money

Learning outcomes of this topic: This chapter provides an overview on the psychological aspects of money related research, focusing on attitudes. Students will learn about the most important types of money-related attitudes and will improve their capabilities of analysing their own money-related attitudes and behaviours in general.

The psychology of money – a neglected topic? (Furnham and Argyle 2008)

As Furnham (2014) sets out, money is, in and of itself, inert. But everywhere it becomes empowered with special meanings, inbued with unusual powers. Psychologists are interested in **attitudes towards money**, why and how people behave as they do toward and with money, as well as what effect money has on human relations. The dream to become rich is widespread. Many cultures have fairy tales, folklore and well-known stories of wealth. This dream of money has several themes. However, it is also true that there are probably two rather different fairy tales associated with money. The one is that money and richness are just desserts for a good life. Further, this money should be enjoyed and spent wisely for the betterment of all. The other story is of the ruthless destroyer of others who sacrifices love and happiness for money, and eventually gets it but finds it is no use to him/her. Hence all they can do is give it away with the same fanaticism that they first amassed it. (Furnham 2014).

Psychologists have been interested in a wide range of human behaviours and endeavours. However, one of the most neglected topics in the whole discipline of psychology has been the **psychology of money**. Open any psychology textbook and it is very unlikely that the word money will appear in the appendix. We would expect a psychology textbook dealing with organizational behaviour to refer to the power of money as a work motivator or discuss the symbol of salaries; but few do. Why? There is a rich anthropological literature on the nature, meaning and function of gifts. There is also a sociological literature on the behaviour of rich and poor people and the social consequences of a large gap between the two. Despite the importance of money in everyday life, the psychology of money had received relatively little attention (Furnham and Argyle 1998).

It is true, though, that not all psychologists have ignored the topic of money. Freud directed attention to many

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unconscious symbols money has which may explain unusually irrational monetary behaviours. Behaviourists have attempted to show how monetary behaviours arise and are maintained, cognitive psychologists showed how attention, memory and information processing leads to systematic errors in dealing with money. Some clinical psychologists have been interested in some of the more pathological behaviours associated with money, such as compulsive savers, spenders and gamblers. Developmental psychologists have been interested in when and how children become integrated into the economic world and how they acquire an understanding of money. More recently, economic psychologists have taken a serious interest in various aspects of the way people use money (Furnham and Argyle 1998).

However, it still seems that the psychology of money overall has been **neglected**. There may be several reasons for this. Money remains a taboo topic; it appears to be impolite to discuss and debate. To some extent psychologists have seen monetary behaviour as either rational (as do economists) or beyond their 'province of concern'. It may even be that the topic was thought trivial compared to other more pressing concerns. Economists have had a great deal to say about money but very little about the behaviour of individuals for long. Both economists and psychologists have noticed, but shied away from the obvious irrationality of everyday monetary behaviour for decades in the past. Another reason may be that psychologists assumed that everything involving money lies within the domain of economics. Yet economists have also avoided the subject and had in fact not been interested in money as such, but rather in the way it affects prices, the demand for credit, interest rates and the like. Economists, like sociologists, study large aggregate data at the macro level in their attempt to determine how nations, communities and designated categories of people use, spend and save their money. Economists also differ from psychologists in two major ways, although they share the similar goal of trying to understand and predict the way in which money will be used. Economists are interested in aggregated data at a macro level. They are interested in modelling the behaviour of prices, wages etc., not of people. Psychologists are interested in **individual and small group differences**. Whereas economists might have the goal of modelling or understanding the money supply, demand and movements, psychologists would be more interested in understanding how and why different groups of individuals with different beliefs or different backgrounds use money differently. Whereas individual differences are 'error variance' for the economists, they are the 'stuff' of social psychology (Furnham and Argyle 1998).

According to another explanation (Burgoyne and Lea 2006), those few researchers who have studied this topic have mostly drawn on the methodological and conceptual tools of sociology and anthropology rather than those of experimental psychology or neuroscience. This is partly because on an evolutionary time scale, money is a recent phenomenon with a history going back no more than a few thousand years and the forms it takes across history and cultures vary widely. It seems unlikely that any brain mechanism could have evolved in this time specifically to handle money, so there has been a tendency to treat money as a purely cultural phenomenon for which no scientific account can be given (Furnham and Argyle 1998).

A number of books have appeared entitled 'The Psychology of Money'. Most of them supposedly reveal the 'secrets' of making money. However, often those most obsessed with finding the secret formulae, the magic bullet or the 'seven steps' that lead to a fortune are least likely to acquire it (Furnham and Argyle 1998).

The supposedly fantastic power of money means that the quest for it is a very powerful driving force. Gold-diggers, fortune hunters, financial wizards, robber barons, pools winners, and movie stars are often held up as examples of what money can do. Like the alchemists of old, or the forgers of today, money can actually be made. The acceptability of openly and proudly seeking money and ruthlessly pursuing it at all costs seems to vary at particular historical terms. From the 1980s to around 2005 it seemed quite socially acceptable, even desirable, in some circles to talk about wanting money. It was acceptable to talk about greed, power, and the 'money game'. But this bullish talk appears only to occur and be socially sanctioned when the stock market is doing well and the economy is thriving. After the various crashes during the century, brash pro-money talk is considered vulgar, inappropriate and the manifestation of a lack of social conscience. The particular state of the national economy, however, does not stop individuals seeking out their personal formula for economic success, though it inevitably influences it. Things have changed since the great crash of 2008. Money effectiveness in society now depends on people's expectations of it rather than upon its intrinsic or material characteristics. Money is a social convention and hence people's attitudes to it are partly determined by what they collectively think everyone else's response will be. Thus, when money becomes 'problematic' because of changing or uncertain value, exchange becomes more difficult and people may even revert to barter (Furnham 2014).

Many famous writers also thought and written about money-related matters. Marx talked about the fetishism of commodities in capitalistic societies because people produces things that they did not need and endowed them with particular meanings. Veblen believed that certain goods are sought after as status symbols because they are expensive. Galbraith, the celebrated economist, agreed that powerful forces in society have the power to shape the creation of wants, and thus how people spend their money (Furnham and Argyle 1998).

The scientific study of money is not just possible, but important for two main reasons (Burgoyne and Lea 2006). First, money is a very large fact in the lives of everyone who lives in a modern economy. Second, the way we respond to that fact makes a difference in our lives. During the last decades, several researches have shown how the appearance of money may alter people's behaviour. Specifically, Vohs et al (2006) have shown how money makes people feel **self-sufficient** and behave accordingly. In their research, they activated the concept of money through the use of mental priming techniques, which heighten the accessibility of the idea of money but at a level below the participants' conscious awareness. Nine experiments provided support for the hypothesis that money brings about a state of self-sufficiency. Relative to people not reminded of money, people reminded of money reliably performed independent but socially insensitive actions. The magnitude of these effects according to the results is notable and somewhat surprising, given that participants were highly familiar with money and that the researchers' manipulations were minor environmental changes or small tasks for participants to complete. According to the authors, the self-sufficient pattern helps explain why people view money as both the greatest good and evil. As countries and cultures developed, money may have allowed people to acquire goods and services that enabled the pursuit of cherished goals, which in turn diminished reliance on friends and family. In this way, money enhanced individualism but diminished communal motivations, an effect that is still apparent in people's responses to money today (Vohs et al 2006). Similarly, Guéguen and Jacob (2013) demonstrated in an experiment conducted in a field setting that people who handled money after using an ATM were less likely to help someone several seconds later. These results are in accordance with studies that reported that participants primed with money were less likely to offer help to a peer or to donate money to a University Student Fund, moreover, it shows that manipulating real money in a natural context elicited the same patterns of behavioural responses, suggesting that money probably activated feelings of self-sufficiency in turn decreasing the participants' motivation for social contacts.

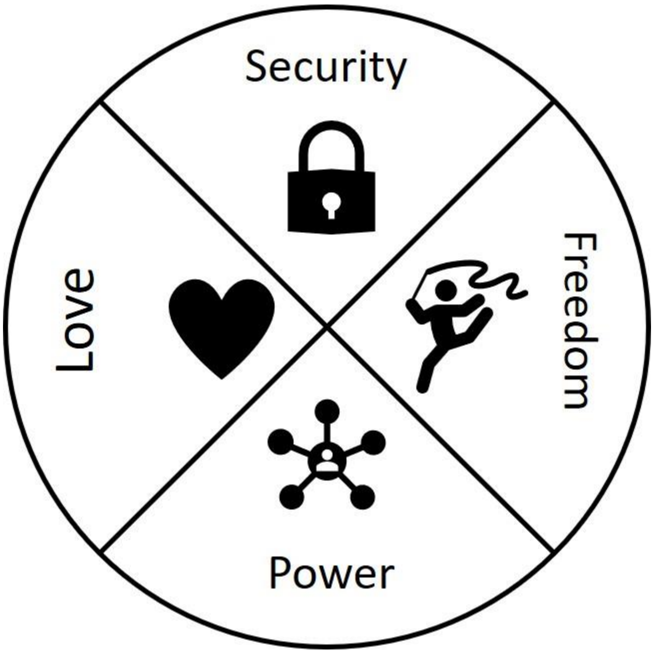
Attitudes to money

Baker and Hagedorn (2008) summarize early research on attitudes to money as follows. In the 1970s, Wernimount and Fitzpatrick used a semantic differential instrument with a set of 40 adjective pairs. They found that seven factors represented the structure of those items, and concluded that money has strong symbolic value, but means quite different things to different types of individuals, with gender, economic status, personality type and occupation being the most significant predictors of attitudes. They labelled their factors **"shameful failure", "social acceptability", "the pooh-pooh attitude"** (not Freudian, but discounting the importance of money), **"moral evil", "comfortable security", "social unacceptability"**, and **"conservative business values"**. This study demonstrated that attitudes toward money are multidimensional; however, it did not generate any further research using the semantic differential approach. Another early study with a very large sample (more than 20,000 respondents) but a flawed design (voluntary respondents in a Psychology Today survey) was by Rubinstein published in 1981. This identified **"free-spenders", "penny-pinchers", the "money-contented"**, and the **"money-troubled"**. Note that Rubinstein's items were never factor-analysed, and the data not subjected to useful statistical analyses. Not surprisingly, men and those with higher incomes tended to be more confident about money, and more satisfied with their incomes. One of the most thorough theoretically based attempts to measure attitudes toward money was by Yamauchi and Templer at the same time. Their research was based primarily on Freudian and neo-Freudian theories that predicted three fundamental elements in such attitudes: **"security", "retention"**, and **"power-prestige"**. They generated 62 items reflecting these 3 domains, framed in a seven point Likert format. With their scale (referred to as the MAS) the theoretically predicted dimension of power-prestige appeared as the first factor, but the other three significant factors, labelled by them as "retention-time", “distrust”, and “anxiety” represented combinations of their original theoretical dimensions. The researchers were surprised to find that money attitudes were unrelated to income, but associations with other psychological measures (e.g. “status concern”, anxiety, “time competence”, and Machiavellianism).

The other widely used measure of attitudes to money is Furnham’s “money beliefs and behaviour scale” (MBBS), which was first tested in 1984. Using a seven point Likert format, Furnham developed a pool of 60 items taken from three sources: Yamauchi and Templer, Goldberg and Lewis, and Rubinstein. As a result of his research, a total of five factors emerged in the end, labelled **“obsession”, “power-spending”, “retention”, “security-conservative”**, and **“inadequate”** (Baker and Hagedorn 2008).

Another early research is important to mention. There are four common unique money-associated emotions that have been identified by Goldberg and Lewis in the 1970’s based on qualitative descriptions of money-related behaviours: Security, Power, Love and Freedom (Figure 1). These key concepts are still used by researchers as a basis for exploring money-related attitudes. Furnham et al (2012), following the original authors, describe these symbols as follows. Money, for many, can stand for **Security**. It is an emotional lifejacket, a security blanket, a method of staving off anxiety. Having money reduces dependence on others, thus reducing anxiety. Evidence for this is, as always, clinical reports and archival research in the biographies of rich people. A fear of financial loss becomes paramount because the security collector supposedly depends more on money for ego-satisfaction. Money bolsters feelings of safety and self-esteem and so it is hoarded. Money also represents **Power**. Because money can buy goods, services and loyalty, it can be used to acquire importance, domination and control. With little money, these individuals feel weak, helpless and humiliated. Money can be used to buy-out or compromise enemies and clear the path for oneself. Money and the power it brings can be seen as a search to regress to infantile fantasies of omnipotence. Money for some is **Love**: it is given as a substitute for emotion and affection. Those who visit prostitutes, ostentatiously give to charity, spoil their children, are all buying love. Others sell it: they promise affection, devotion, endearment and loyalty in exchange for financial security. Money, through generosity, can be used to buy loyalty and self-worth but can result in very superficial relationships. Further, because of the reciprocity principle inherent in gift-giving, many assume that reciprocated gifts are a token of love and caring. According to the Freudians, the buying, selling and stealing of love is used as a defence against emotional commitment. For many people, money provides **Freedom**. This is the more acceptable and more frequently admitted attribute attached to money. It buys time to pursue one's whims and interests and frees one from the daily routine and restrictions of a paid job. For individuals who value autonomy and independence, money buys escape from orders and commands and can breed emotions of anger, resentment and greed.

Figure 1: Feelings that most frequently are disguised by money use



Source: Own construction

In their study, Furnham et al (2012) used a questionnaire developed on the basis of the aforementioned symbols to measure money-related attitudes. As the researchers set out, their study, on a reasonably representative community-based population in the UK, showed that participants associated money most strongly with security and least strongly with power. However, supported by the regression analyses, results showed that males were identified as having significantly stronger affective associations between money and power than females. Women seem to think of money in terms of things into which it can be converted whilst men think of it in terms of power. The results indicated that some affective emotions of money more than others proved to be clearly related to the self-reported demographic and ideology data, none of which would have been predicted by psychoanalytic theory. Two of all the predictor variables, personal definition of individual annual earnings in order to be considered rich and participant gender, were consistently returned as the best predictors of the emotional underpinnings of money. Specifically, males were more likely than females to report an emotional attachment to money in terms of freedom, power and love and participants who stated high annual earnings for what it means to be rich were more likely to believe that money means freedom, power and love. Participants who, according to their own definition, reported lower annual earnings for the definition of ‘being rich’, were more likely to believe that money means (emotional) security. The finding that males were more likely to associate money with love provides support for the gender-typed behaviour that men are less nurturing and caring and lends tentative support to the Freudian assertion that the buying, selling and stealing of love is used as a defence against emotional commitment. Also, it suggests that the desire to have more freedom and power from money is associated with lower (routine) work and pay. Educational attainment and political orientation were significant predictors of associations between money and freedom and money and power, always operating in the same way. Specifically, less well-educated participants and those with right wing political affiliations were more likely to associate money with power and freedom than better educated participants with left wing political affiliations. It is possible that individuals with a lower level of educational attainment perceive money as compensatory for a lack of education and thus the only viable way of acquiring freedom and power (Furnham et al 2012).

Since the original studies on the MAS and the MBBS, a number of researchers have either used those scales in the original format, or have adapted them slightly. Baker and Hagedorn (2008) combined these two scales and tested it on a random sample of individuals, finding that their 40-item new scale (shown in Table 1) of money attitudes is easily interpretable, and the factors are each represented by 8–10 items, producing high reliabilities. They have named those factors “power-prestige”, “frugality-distrust”, “planning-saving” and “anxiety”.

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Table 1: Items of MAS and MBBS combined scale in Baker and Hagedorn's (2008) research

Factor 1: "power-prestige"	Own nice things to impress others
	Sometimes boast about how much I make
	Purchase things I know will impress others
	Behave as if money is the ultimate success symbol
	Use money to influence people to do things
	Would do practically anything for money
	Spend money to make myself feel better
	Buy friendship by being generous
	Buy things I don't need to impress people
	Proud of financial victory and let others know
	Think about money more than others do
Factor 2: "frugality-distrust"	Automatically say I can't afford it whether I can or not
	Complain about cost of things I buy
	When I buy I complain about price paid
	Often feel guilt spending money on necessities
	Often say can't afford whether can or not
	Wonder if I could get same for less
	Money is the only thing I can really count on
	I'm better off than most friends think
	Bothers me to discover I could get it for less
	Believe money can solve all my problems
	I often buy things I don't need because it is on sale
Factor 3: "planning-saving"	I do financial planning for the future
	Proud of my ability to save money
	Save now to prepare for my old age
	Follow a careful financial budget
	Put money aside on a regular basis for future
	Prefer to save, as I'm never sure when I might need it
	Keep track of my money

	NOT TRUE: if there is money left over at the end of the month, I feel uncomfortable until it is spent
	Always know how much in savings account
	Know to the penny how much is in my wallet
Factor 4: "anxiety"	Amount of money saved is never enough
	I am bothered when I have to pass up a sale
	Most friends have more money than me
	Difficulty making spending decisions
	Nervous when I don't have enough money
	Worse off than most friends think
	Its hard for me to pass up a bargain
	I show worrisome behaviour when it comes to money

Source: Baker and Hagedorn (2008)

Summary of the chapter

Although some disciplines in psychology have dealt with issues related to money, most of them neglect this topic. The approach of psychologists related to money is different from that of economists in two main ways: they are interested in differences in individuals and small groups and instead of modelling, psychologists are more interested in understanding how and why different groups of individuals with different beliefs or different backgrounds use money differently. Research related to monetary attitudes is basically consistent and identifies 4-6 basic money-related attitudes that are based on feelings, cognitions and behaviours related to money, involving "power-prestige", "distrust", "anxiety", "security" or "planning-saving".

Test questions

1. What is the difference between how economists' and psychologists' investigate the topic of money?
2. What are the most important money-related attitudes found in empirical research?
3. What are the typical feelings the use of money may disguise?

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Part 2 Economic socialization (Furnham 2014)

Learning outcomes of this topic: this chapter provides and overview on economic socialization and the most important stages of understanding money-related concepts. Students will be able to understand how money-related attitudes and behaviour are formed during childhood and will be more conscious in taking responsibility in socializing their own (or relative) children in the economic world.

Children first learn that money is magical. It has the power to build and destroy and to do literally anything. Every need, every whim, every fantasy can be fulfilled by money. One can control and manipulate others with the power of money. It can be used to protect oneself totally like a potent amulet. Money can also heal both the body and the soul.

Children's first contact with money (coins and notes and more recently credit cards) often happens at an early age (watching parents buying or selling things, receiving pocket-money, etc.) but this does not necessarily mean that they fully understand its meaning and significance although they use money themselves. For very young child, giving money to a salesperson constitutes a mere ritual. They are not aware of the different values of coins and the purpose of change, let alone the origin of money, how it is stored or why people receive it for particular activities.

Understanding the use of money (Furnham 2014)

One of the most well-known early research on what children know about money comes from Berti and Bombi (1979) who interviewed 100 children from 3 to 8 years of age on where they thought that money came from. They singled out **six stages**:

- Stage 1: No awareness of payment and no recognition of money
- Stage 2: Obligatory payment – no distinction between different kinds of money, and money can buy anything
- Stage 3: Distinction between types of money – not all money is equivalent
- Stage 4: Realisation that money can be insufficient

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- Stage 5: Strict correspondence between money and objects – correct amount has to be given
- Stage 6: Correct use of change.

The authors later pointed out that the concepts about shop and factory profit in 8-year-olds were not incompatible. They showed that through training, children's understanding of profit could be enhanced. Both critical training sessions stimulating the child to puzzle out solutions to contradictions between their own forecasts and the actual outcomes, and ordinary tutorial training sessions (information given to children) that consisted of similar games of buying and selling, proved to be effective.

Despite several similar studies there is a lot we do not know: for instance how socioeconomic or educational factors influence the understanding of money; when children understand how cheques or credit cards work and why there are different currencies.

There is a long and patchy history of research into development of economic ideas in children and adolescents.

There are a number of prerequisites before children are able to understand buying and selling. A child has to know about the **function** and origin of money, change, ownership, payment of wages to employees, shop expenses and shop owners' need for income/private money, which altogether prove the simple act of buying and selling to be rather complex.

Studies have shown that the **social context** (country, economic system) clearly influences a person's understanding because market economies afford more opportunities to understand issues.

Other researchers also found differences in understanding **shop and factory profit**. Only 7% of 11- to 12 year- olds understood profit in shops, yet 69% mentioned profit as a motive for starting a factory today, and 20% mentioned profit as an explanation for why factories had been started. Young children (6 to 8 years) seemed to have no grasp of any system and conceived of transactions as simply an observed ritual without further purpose. Older children (8 to 10 years) realised that the shop owner previously had to buy (pay for) the goods before he could sell them.

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Yet, they do not always understand that the money for this comes from the customers and that buying prices have to be lower than selling prices. They thus perceive of buying and selling as two unconnected systems. Not until the age of 10 to 11 are children able to integrate these two systems and understand the difference between buying and selling prices.

Banking (Furnham 2014)

There has been a surprisingly large number of studies on children's understanding of the banking system, starting with Jahoda in 1981 who interviewed 32 subjects of ages 12, 14, and 16 about banks' profits. He asked whether one gets back more, less or the same as the original sum deposited and whether one has to pay back more, less or the same as the original sum borrowed. From this basis he drew up six categories: (1) no knowledge of interest (get/pay back same amount); (2) interest on deposits only (get back more; repay same amount as borrowed); (3) interest on loans and deposits but more on deposit (deposit interest higher than loan interest); (4) interest same on deposits and loans; (5) interest higher for loans (no evidence for understanding); and (6) interest more for loans – correctly understood. Although most of these children had fully understood the concept of shop profit, many did not perceive the bank as a profit-making enterprise (only one quarter of the 14- and 16-year-olds understood bank profit). Ng later replicated the same study in Hong Kong and found the same developmental trend. The Chinese children were more precocious, showing a full understanding of the bank's profit at the age of 10. A later study in New Zealand by Ng (1985) confirmed these additional two stages and proved the New Zealand children to "lag" behind Hong Kong by about two years. Ng attributed this to socioeconomic reality shaping (partly at least) socioeconomic understanding. This demonstrated that developmental trends are not necessarily identical in different countries. A crucial factor seems to be the extent to which children are sheltered from, exposed to, or in how much they even take part in economic activities. In Asian and some African countries quite young children are encouraged to help in shops, sometimes being allowed to "man" them on their own. These **commercial experiences** inevitably affect their general understanding of the economic world. This is yet another example of social factors rather than simply cognitive development affecting economic understanding.

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At the end of the 1990's, Berti and Monaci set out to determine whether third grade (7- to 8-year-old) children could acquire a sophisticated idea about banking after 20 hours' teaching over a two-month period. It was a before and after study that taught concepts like deposits, loans, interests, etc. They concluded: While the notion of shopkeepers' profit was successfully taught to third graders who already possessed the prerequisite arithmetic skills in only one lesson, in the present study it took 20 hours to teach the notion of banking at the same school level. Should this notion be retained in a third grade curriculum nevertheless?

Poverty and wealth (Furnham 2014)

Why are some people rich and others poor? There have been over 20 studies on the young, which tend to show that there are typically three types of explanations for poverty:

- voluntaristic/individualistic, suggesting it is the person's choice;
- structural/societal, suggesting that it is caused by social factors;
- fatalistic/chance, suggesting that fate is the main cause.

This, of course, raises the question of what the definition of poverty is. The results showed that all sorts of factors, like a young person's age, education, gender and culture all influenced their beliefs. Through many researches it is shown that socioeconomic concepts shape the speed of acquisition of economic concepts. This is particularly the case of wealth and poverty that is often featured in children's storybooks.

Saving (Furnham 2014)

Parents are often very eager to encourage their children to save. Children's behaviour and understanding of saving, like all economic behaviour, are constructed within the social group and are fulfilled by particular individuals aided by institutional (particularly school) and other social factors and facilities. There have been comparatively few studies on children's saving.

Children have to learn that there are constraints on spending and that money spent cannot be re-spent until more is acquired. Thus, all purchases are decisions against different types of goods; different goods within the same category; and even between spending and not spending.

In a series of methodologically diverse and highly imaginative experimental studies, Sonuga-Barke and Webley in the 1990's found that children recognise that saving is an effective form of money management. They realise that putting money in the bank can form both defensive and productive functions. However, parents/banks/ building societies don't seem very interested in teaching children about the functional significance of money. Yet young children valued saving because it seemed socially approved and rewarded. Saving is seen and understood as a legitimate and valuable behaviour, not as an economic function. However, as they get older they appear to see the practical advantage in saving. Some countries, like Japan, show a high rate of personal saving compared to others. The welfare state, the inter-generational transfer of money and the inability to postpone gratification have all been suggested as reasons for poor saving in Britain. There remains a good deal of research to be done to establish when, how and why adult saving habits are established in childhood and adolescence.

Commercial communications (Furnham 2014)

One of the most politicised of all the academic questions in economic socialisation concerns the understanding of advertising. Most of this debate inevitably concerns television advertising. The central question is simply at what age are children able to: (a) understand the difference between a commercial and the programme; (b) understand the aim or purpose of that commercial. The issue is couched in terms like gullibility and exploitation.

Acquiring money beliefs and behaviours (Furnham 2014)

The work of Webley and Nyhus who used Dutch data found that **parental behaviour**, like **discussing financial matters**, as well as their own **values**, did have a predictable but weak impact on their children's later behaviour. Clearly many factors impact on a person's money beliefs and behaviours. Children are economic agents and do have an autonomous economic world, sometimes called the playground economy. They swap and trade "goods" of value to them, a practice sometimes discouraged by schools and parents. These researchers believe that by adolescence, children's understanding of economic situations is "broadly comparable" to that of adults.

Studies have examined and found evidence of **sex differences** in how young people are socialised with respect to money and their resultant attitudes. Even in gender-sensitive countries like Norway, researchers have found that girls and boys have divergent preferences and spending patterns. The role of parents is crucial in the understanding and consumption patterns of their children. How family members keep, use, and discuss money is not a minor issue. Money is a tool for well-being, for it enables the purchasing of commodities to satisfy individual needs. It is up to the adults of the family to choose the best practice in managing their income and expenditures. This is a matter of financial capability: there is no single model of behaviour, but each family has to find the way that is the most appropriate for it.

Careful money management is certainly a good way to avoid quarrels. It is therefore extremely important, especially in blended families, to pay attention to money management. That requires various capabilities of the family members. Well-informed and financially capable adults are able to make good decisions for their families and to thereby increase their economic security and well-being.

Parental modelling and direct teaching about money can have both positive and negative consequences. In a research, three "**socialisation pathways**" were found leading to different money management outcomes:

- One outcome could be characterised as positive and effective; students who observed that their parents saved and managed their money taught them the importance of saving and money management.
- Another ultimately effective pathway could be characterised as negative; students observed negative ramifications of their parents' inability to save or manage their money. Contrary to what we might expect, this negative model resulted in students' resolve to not repeat their parents' mistakes.
- A third pathway also started out with negative saving or management modelling, but the outcome was also negative; like their parents, students were currently neither saving or managing well.

Many studies have looked at the intergenerational transmission of consumer attitudes, behaviours and values. Family structure and climate impact directly on children's consumerism. That is, the quality of a child/adolescent's relationship with their parent is primarily related to their money management practices.

Research results also confirmed that low **parental involvement** was significantly associated with poor money management. However, that association was weaker if the young person experienced family disruption. It is concluded that familial climate appears to be uniquely important in a wide range of adolescent behaviours.

What sort of parents teach their children the economic values of thrift and saving? Indeed, it has been suggested that parents care less about teaching thrift than teaching various other virtues. In fact there is longitudinal literature in support of the well-known post-modernist view that materialist values are being replaced by post-materialistic values like a need for belonging and self-esteem.

What **motivates** parents to give money to their children? In a typical economic analysis Barnet-Verzat and Wolff in 2002 considered three theoretically based hypotheses for this intergenerational transfer of money: altruism, exchange and preference shaping. We know that parents who emphasise prosocial and general altruistic values tend to give more money and try more often to meet the perceived needs of their children. But this can also be seen as a salary in exchange for the completion of household tasks. It is also used to shape behaviour such as when money is given for school grades attained. In their empirical research, these authors attempted to test the various hypotheses. However, they did recognise two problems. The first was that parents often have multiple motives – not just one single, primary motive. The second is that the exchange hypothesis may equally be difficult to test because reciprocities both immediate and delayed are often rather difficult to detect. They argued that one could simply ask the question of parents themselves but that motivational data is best seen in actual behaviour. Their careful econometric analysis showed that everything depends not on the size of the transfer but its regularity. Regular payments look more like exchange (the buying of children's services) while irregular payments are more like altruistic gifts. Family size as well as age, education and income of the family were systematically and logically related to pocket money motives. Richer parents gave more one-off gifts. Parents with more education and more professional jobs were more punctual and regular in their giving.
Parents are more likely to buy their children's help/labour as the size of their

family increases. Richer parents with fewer children are more likely to use pocket money to reward school results. Clearly, family size is an important variable because it directly affects parents' costs, but there are also issues around fairness and ensuring children all get treated equally. What is particularly interesting about studies such as this is that they examine what parents actually do as opposed to what they say they do. Some parents feel pressured to start pocket money systems; others seize it as an excellent educational opportunity. Clearly their ideas and motives are complex. Further, they are inevitably constrained by various economic and social factors from doing what they might like to do. Many have observed that children who have, and get, everything they want neither understand money nor respect those who gave it to them. Parents, it is argued, can set up for themselves potential time bombs in the way they socialise their children.

Parents attempt to educate their children about money by providing a good example and instruction. But most of all they develop allowance or **pocket money** systems that they believe will teach their children important lessons with regard to pocket money. It is a well-researched topic and there are many books for parents that provide suggestions and rules that are supposedly beneficial. Parents have many motives when setting up and putting into practice their pocket-money allowance system. They use it as an incentive to do things, to demonstrate their altruism, and also to try to shape their children's preferences.

Summary of the chapter

There are several cognitive stages children need to go through in order to understand the concepts of the economic world, such as buying with money, banking, profits, or being rich or poor. Economic socialization is shaped by intra- and inter-individual factors which also explain individual differences. The socio-economic background and parental attitudes and behaviours, such as pocket money practices and the motives to give pocket money affect the effect of economic socialization.

Test questions

1. How cognitive development affects economic socialization?

2. What are the basic parental motives for giving money to children?

Part 3 Money in the family

Learning outcomes of this topic: in this chapter, we focus on what happens within families; how money influences family life and how families – married or unmarried couples – manage their money. Students will learn about the most frequently used family allocative systems and will be able to be more conscious in shaping their own money management decisions in a partnership.

One of the major decisions facing anyone studying micro-economic behaviour concerns the choice of an appropriate level of analysis. Should the focus be on households, on individuals, or on some aggregate of the two? Since the early 1980s, the shortcomings of a 'black box' approach, in which the household is treated as a basic unit of analysis, have been exposed. For example, there was often a tacit assumption that each of the members of a given household shared a homogeneous standard of living, but studies have revealed that the use of resources is determined both by the **gender** of a household member and the **system of financial organisation adopted by the family**. Certain ambiguities and ambivalences that surround the ownership and use of money have also come to light, together with the potential for conflict where the interests of individual family members may not coincide. It was necessary, therefore, to 'take the lid off' the household. However, merely switching the focus from the household to the individual would also yield only part of the picture. By and large, individuals are located in households, in which resources are redistributed according to both economic and non-economic 'rules'. These may match, reinforce, or even reverse the principles that govern their distribution outside the household. In order to understand how individuals make economic decisions, therefore, we need to be aware of the way that their choices are shaped not just by economic factors, but by social rules of exchange as well. Decisions about the spending of 'household' money, for example, will be influenced by how it came into the household and who is entitled to own and use it. This means that besides economic factors, we must take account of the constraints imposed by the specific familial roles. For example, given the prevailing power structures in many societies, women in families typically have less freedom to make their own economic decisions than men. Therefore, one important non-economic variable in this context is gender and its associated norms and expectations. Of course, trying to study individuals within households complicates the picture considerably. Households are infinitely variable. They are also fluid over time and subject to major changes in composition, as, for example, when a child is born or leaves home to start his or her own household. The 'rules' that govern resource distributions within households are also highly varied and sensitive to the influence of a variety of contextual factors, such as the movement of a family member in or out of the labour market.

As Vogler et al (2006) argue, there has been a rich sociological literature on the different ways in which married couples organize household money, which not only points to an important link between money, power and inequality within marriage, but also suggests that the intra-household economy may have an independent effect in overcoming or reinforcing inequalities between male and female partners generated in the labour market.

The basic typology for family **money allocation systems** comes from Pahl (1995). In her study, she was interested in how married couples defined the money which entered the household. Regarding the question, 'How do you feel about what you earn: do you feel it is your income or do you regard it as your husband/wife's as well?' Many respondents amended the question, explaining that they saw their main income as belonging to 'the family', rather than to themselves as a couple. There were substantial differences between husbands and wives on this issue, and also between answers relating to the income of the respondent and the income of the other partner. Men's income was more likely to be seen as belonging to the family than was women's income: the idea of the male breadwinner was still powerful. However, both men and women were more likely to see their partner's income as belonging to the individual, while they preferred to think of their own income as going to the family as a whole. In general, both men and women seemed to define the family as a unit within which money is shared, but this was particularly so among men, and especially when they were thinking about their own money: only when husbands were thinking about their wives' earnings did more than half of the sample earmark the money as being for the use of the individual rather than the family. Both partners tended to see the husband as the main earner, the breadwinner whose income should be devoted to the needs of the family, in contrast to the wife whose earnings were seen as more marginal. It was interesting to see that both partners tend to regard their own money as belonging to the family to a greater extent than their partner's money: this suggests that earners welcomed the role of

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breadwinner and the power attached to it (Pahl 1995).

Anthropologists have documented the **social nature of exchange** and the central role of money as a medium of exchange. A very interesting collection of papers on money and the morality of exchange explored this point in a variety of different cultures. They suggest that to understand the way in which money is viewed it is vitally important to understand the cultural matrix into which it is incorporated. While in some societies money is seen as morally neutral or positively beneficial, in others it is associated with danger, selfish individualism or anti-social acquisition. In thinking about the control and allocation of money within the family, and the power which particular individuals have over financial resources, it is important to have regard to the meanings attached to money and the extent to which money is earmarked for specific purposes. At the point where it enters the household economy money earned by the husband is regarded rather differently from money earned by the wife: is this translated into differences in how the money is spent? The disparity in income between men and women, particularly during the child rearing years, means that there has to be some sharing of resources if the women and children are not to have a lower standard of living than the men. Every couple has to devise some arrangement by which this transfer of resources takes place. Though many never consciously decide to organise their finances in one way or another, in every case there is a describable system of money management. There are a number of questions which help in distinguishing one system from another. To what extent is money pooled? Who has overall control of financial arrangements and big financial decisions? Who takes responsibility for managing money on a day to day basis? In the typology used by Pahl (1995), the following categories had been used:

In the **female whole wage system** the husband hands over his whole wage packet to his wife, minus his personal spending money; the wife adds her own earnings, if any, and is then responsible for managing the financial affairs of the household.

In the **male whole wage system** the husband has sole responsibility for managing household finances, a system which can leave non-employed wives with no personal spending money.

The **housekeeping allowance** system involves separate spheres of responsibility for household expenditure.

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Typically the husband gives his wife a fixed sum of money for housekeeping expenses, to which she may add her own earnings, while the rest of the money remains in the husband's control and he pays for other items.

The **pooling system** involves complete or nearly complete sharing of income; both partners have access to all or nearly all the money which comes into the household and both spend from the common pool. Couples adopting this system often explain that 'It is not my money or his/her money - but our money', and this phrase expresses something of the ideology which underlies pooling. There has always been an issue about the extent to which the ideology becomes reality.

The **independent management system** is defined by both partners having their own source of income and neither having access to all the household funds.

The move towards individualisation is taking place in parallel with, and perhaps in association with, changes in marriage and the family. The growth of cohabitation, and the increase in relationship breakdown and divorce, have contributed to a situation in which women, in particular, cannot look to marriage as a source of financial security in the way that the founders of the welfare state envisaged. At the same time the increase in women's employment, and the availability of income maintenance for lone parents, has freed women from complete financial dependence on men. However, the access which individuals have to household finances depends not only on earnings and on how finances are managed, but also on spending priorities and responsibilities. Within households there are conventions about who should pay which bills and buy which items. These conventions may reflect wider social norms, or they may simply have developed as the members of the household negotiated the patterns of their life together. (Pahl 2008)

The gendering of spending does not matter if all the money coming into the household is pooled in a joint account to which both partners have access. However, it may be a very different story if the partners keep their finances separately and there is no expectation of sharing, either in income or spending. When household finances are managed independently, both partners may enjoy a sense of autonomy and personal freedom, so long as their incomes are broadly equivalent. However, motherhood is often accompanied by a drop in a woman's income. If this happens to a woman, while at the same time her outgoings increase, because she is expected to pay the costs of children, the situation may change. The crux of the matter is that children can never be fully individualised, in the sense that they cannot support themselves as autonomous individuals in the labour market. This implies that whoever is responsible for children has to carry their costs for them, unless children are supported by the state in their own right. If the couple do not adapt their money management practices, they may find that one partner is much better off financially than the other. Otherwise, despite all the aspirations towards equality in relationships, gender inequalities in earnings and gender differences in spending priorities may mean that in certain circumstances individualisation in couple finances is a route to inequality. (Pahl 2008)

Patterns of money management within households have been shown to express strongly held **norms**, values and ideologies. So it might be expected that in different societies couples would adopt very different approaches to money management. Generalising very broadly, over much of Asia the extended family or clan is the more pertinent boundary of domestic money; in India, for example, the Hindu Undivided Family is a legal construct which is officially recognised as a financial unit for tax purposes. In many such households there is a common fund, often administered by a senior woman; though individuals may keep control over a part of their incomes this is often a subject of dispute. By contrast, over much of sub-Saharan Africa, the 'separate pot' system of money management is more common than the 'shared pot'. (Pahl 2008)

An analysis of British couples indicates that in both 1994 and 2002, allocative systems were strongly related to whether couples were married or cohabiting and among cohabiting (but not married) couples, they also varied sharply according to whether or not respondents had dependent children under 16 years old living with them in their households. Married couples (regardless of whether or not they had children), together with cohabiting parents, were most likely to use one of the three allocative systems in which households operated more or less as single economic units, whereas childless cohabiting couples stood out in being much more likely than their married counterparts to use one of the individualized systems in which money is kept partly or totally separate. Another important difference between married and cohabiting respondents was that at both points in time, male and female cohabitees were much less likely than

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their married counterparts to perceive the ways in which they organized money in the same, or at least similar, ways. Although the numbers are very small, the data suggest that female cohabitees (with and without children) were more likely than their male counterparts to perceive themselves as using the independent management system, whereas cohabiting fathers were more likely than cohabiting mothers to perceive themselves as using the traditional housekeeping allowance system associated with the male breadwinner model of gender. Since our male and female respondents were not partnering each other, we cannot of course, deduce from this finding that individual cohabiting couples necessarily experience such large differences in their perceptions of finances in their own relationships, although this is something which requires much more attention in future research. (Vogler et al 2006)

Although typologies of money management are helpful in analysing the ways families operate, it has become apparent that heterosexual couples' approaches to money management and to the formation of intimate relationships have been changing in ways that make application of the typology more difficult, as Ashby and Burgoyne states (2008). Indeed, some categories may give a misleading picture of what a couple is really doing with their money. According to these authors, a **more nuanced approach is needed**, and they explore some of the diverse arrangements that lie behind certain categories in the typology. As they assert, since the typology was introduced in the 1980s there have been several important cultural and demographic changes affecting the employment patterns of men and women. For example, increasing numbers of women have been entering and remaining in the labour market. Women are now beginning to contribute on a more equal basis to couples' joint household income, and there are more dual-earner families, with a parallel reduction in the importance of the traditional breadwinner role. Additionally, both men and women have become considerably less traditional in their attitudes to gender roles in both the home and labour market—though this has not always translated into more egalitarian practices. There have also been significant changes in the types of relationships couples are choosing to establish, and alternatives to marriage have been increasing rapidly. In 1998, only 42% of households in Europe conformed to the stereotypical image of the family as comprising one man and one woman plus 2.4 children. Marriage in much of the western world seems to have become almost a life-style choice, with the nature of the institution and roles within it shifting in parallel with other social changes. Women are more likely to develop their careers before considering marriage and childbirth and a substantial number continue in paid employment thereafter. Following the liberalisation of the divorce laws, remarriages have also increased as a proportion of the married population. However, one of the most significant changes has been the huge increase in the number of unmarried couples living together. Another form of partnership that is becoming more common is 'living apart together': referring to those who are not currently married or cohabiting saying they have a regular partner. From their research, it seems that **partial pooling** and **independent money management** is gaining increasing proportion, therefore, it is worth to look into the details of these two categories. The broad definition of independent money management is an arrangement where both partners typically have their own income and keep their money in separate accounts. In line with this, Ashby and Burgoyne (2008) state that their criteria were that partners had individual accounts (typically paying their incomes direct into them) and did not have direct access to any joint pool of money, or to each other's accounts. However, as they argue, it was not always possible to 'read off' IM couples' actual practices from the criteria used to define the system. For example, two of the couples that were interviewed seemed to treat money in a more collective way than the category implies, and in one case they had direct access to each other's money through internet banking and debit cards. This demonstrates how more than ever in today's society (with technological advances in personal banking, for example), focusing solely on the organisation of money in terms of the accounts couples use does not always provide a reliable picture of their arrangements in practice. In much the same way that having a joint account does not always indicate sharing. As these authors detail, these findings suggest that having independent accounts (and no joint account) does not automatically mean that couples are operating as separate financial entities. Instead there was much variation between the couples. For example, although the majority of interviewed couples using IM did not need their partner's permission to spend, they differed in the extent to which they discussed personal spending with their partner, and in the amount that they would be happy to spend from their own accounts without consulting each other. Some couples were happy to spend an unlimited amount of money on themselves without consultation whereas others felt they should discuss anything over £50. Couples also differed in how much of their independent money they would spend on their partner (for something other than a joint expense) without expecting this money back. Indeed some couples did not really feel they loaned each other money -

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rather they simply gave each other small amounts of money when they needed it. Others would always pay back any money their partner gave them (however small the amount) and would expect their partner to do the same. Savings were often treated differently from earnings: in most (but not all) cases these were kept in individual names and were subject to individual decision-making. The same typically applied to debts though some couples could envisage changing these practices in the future. The amount of independent spending power each partner had varied according to individual income and how the couple had decided to deal with the joint expenses. All of the couples had a number of important issues to negotiate when it came to the latter, including (a) how much each partner contributed towards the expenses; (b) what was actually defined as a joint expense; (c) where the expenses were paid from; and (d) who ensured the expenses were correctly paid. Many of the couples (at both phases of the marriage study and in the cohabiting couples study) contributed 50/50 to joint household expenses (rent, bills, food, etc.) especially when they earned similar amounts. When couples earned different amounts, some contributed an amount proportional to earnings whilst others still paid 50/50 (which of course meant that the lower earning partner had less money for leisure and personal spending). Different types of household expenses could be paid for in different ways: joint household expenses were often managed in a routine way whereas joint social expenses were more open to negotiation. Sometimes how the latter were defined and paid for were deliberately 'fudged' to help offset earning disparity. Some couples engaged in detailed accounting, calculating each partner's contribution precisely and keeping careful records of the bills they had paid. Others were content with rough calculations and roughly balancing their spending over time.

As Ashburn and Burgoyne (2008) details, the main difference between IM and PP was that the majority of the latter had their incomes paid initially into their separate accounts and then pooled enough money (equal or proportionally) to cover joint expenses. Unlike those classed as pooling who generally paid their incomes into a joint account and then (sometimes) withdrew an agreed amount solely for personal spending money (PSM), couples labelled as PP often had large sums of money at their own disposal which they used for a variety of purposes, such as car expenses, savings, separate mortgages, and repayment of debts. Another important difference and a key feature of PP is that each partner had control over a separate source of money. In this way, PP couples resemble those using IM. Yet unlike IM, these couples had a

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pool of money (usually a joint account in both names) to which they both had direct access. Typically, each partner treated the money in their separate accounts as their own money to spend as they wished, without needing to consult their partner. Reasons for separate accounts includes having some kind of financial independence. Independence was highly valued by the subjects of this research, and formed an important part of their relationships and their lives. Having exclusive access to money provided each partner with a vital sense of autonomy and control. It meant they had the freedom to spend some money as they liked without having to always ask their partner, or account for their decisions. Even if the amount of money they had was small, it was seen as important to each partner's happiness and well-being to have some money that was just theirs. Some couples also enjoyed the privacy that came from having separate accounts. Some participants felt that as they worked hard to earn their money they deserved to be able to have separate control over it. For a number of couples and especially the female partners, keeping money independently was related to a belief in equality, an avoidance of dependency, and a rejection of the traditional model that the male partner should control all of the finances. These beliefs about equality related to joint expenses and the way that they were paid for. Many of the participants (both male and female) felt it was only "right" and "fair" that if you could afford to pay 50/50 then you did so. When couples earned differed amounts they sometimes felt that it was fairer to contribute on a proportional basis but they still valued each paying their own way. By organising their money separately and both paying for joint expenses they avoided the feeling that one partner was dependent or placing a burden on the other. A number of the couples recognised that their contrasting approaches to money would lead to conflict if they pooled their money. There could also be a risk that they might start monitoring and commenting on each other's spending. Additionally, some couples felt that on a practical level it was less problematic to manage independent money than pooled resources. They felt they were much more aware of what was coming in and going out when they were the only person spending from an account. For different reasons, a number of the partners said that keeping some money separately made them feel more secure. Some related this to having experienced the breakdown of a previous relationship. Ashby and Burgoyne (2008) considers it important to point out that for some of the couples participating in their study, keeping money separately and contributing equally was almost a non-decision. They had not actively decided against pooling, but had simply carried on paying their earnings into the independent accounts they had when they started living together. Meanwhile, they had found ways to manage their joint expenses through their separate accounts in a way that worked for them, and so just continued in this way. (Ashby and Burgoyne 2008)

Summary of the chapter

Although one of the seemingly appropriate units of the analysis of economic decisions is households or families, it also has setbacks as families differ widely in how they make their money-related decisions. The gender of the earner as well the allocative system used affect how a specific household makes its economic decisions. Nowadays, allocative systems that are frequently used are partial pooling and independent money management.

Test questions

1. What are the most typical monetary allocative systems in families?
2. What are the possible reasons for choosing independent money management in a family?
3. What are the possible reasons for choosing partial pooling as an allocative system in a family?

Part 4 The role of money in motivation (Furnham 2014)

Learning outcomes of the chapter: regarding knowledge, students will know about the role of money in specific motivational models and will be familiar with how monetary incentives may affect performance. Students will be more sensitive in motivation-related managerial decisions and take more responsibility in such decisions.

To the layperson and especially the supervisor who finds it difficult to motivate his/her staff to work harder, money is a crucial and **powerful motivational tool**. Yet, psychological research has consistently suggested that where money has motivational power it is nearly always negative. If you pay people at market rates and equitably, money, it is argued, has little motivational force.

We know that the **relationship between salary and job satisfaction** is very weak (correlations usually around r = .15); that the relationship between pay itself and pay satisfaction is not much higher (around r = .25); that focusing on money rewards can act to demotivate people; and that after a salary around twice the national average (£50,000 or $75,000) there is little or no increase in levels of well-being and happiness. There is substantial evidence that, beyond a reasonable level, the absolute amount of pay is not as important to well-being as the comparative amount. In any society salary is an index of status and prestige, and there is an obvious disparity in this relationship. Pay is a form of social approval. Low pay indicates low skills and less important work to most people. Strikes for more money are often as much about desire for respect as they are about salaries.

Psychologists cite support for their relative disregard of money as a motivator from surveys in which workers were asked which factors were most important in making a job good or bad; "pay" commonly came sixth or seventh after factors such as "security", "co-workers", "interesting work", and "welfare arrangements". This has been confirmed in more recent surveys, which have found that pensions and other benefits are valued more than salary alone. In short: Money is important but not that important relative to other factors.

The central question is how, when, for whom and, most importantly, why money acts as a motivator or demotivator at work.

Intrinsic satisfaction implies that merely doing the job is, in itself, its own reward.

Therefore, for such activities no reward and no management should be required. The activity is its own reward. But the naive manager might unwillingly destroy this ideal state of affairs. If a person is happy (absorbed in a state of flow) doing a task, for whatever reason, but is also “managed” through explicit rewards (usually money), the individual will tend to focus on these obvious, extrinsic rewards, which then inevitably have to be escalated to maintain satisfaction. This is therefore a paradox: reward an intrinsically motivated person by extrinsic rewards and he/she is likely to become less motivated because the nature of the motivation changes. Unless a manager can keep up the increasing demands on the extrinsic motivator (i.e. constant salary increases) the person usually begins to show less enthusiasm for the job. The use of reinforcers – i.e. paying people – is often counterproductive when the task is intrinsically interesting. That is, intrinsic motivation decreases with extrinsic rewards. Deci and Ryan demonstrated 30 years ago that reinforcement of progressively improved performance produced no loss (or gain) of intrinsic interest. Some activities are rewarding because they satisfy curiosity, some because they produce an increased level of arousal. Deci proposed that intrinsic motivation is increased by giving a sense of mastery and competence, through the use of skills, and also by a sense of control and self-determination by autonomy to choose how the work is done. Both of these factors have been found to increase motivation. In addition to the enjoyment of competence, leisure research shows that people often enjoy the sheer activity, e.g. of dancing, music, or swimming, though they enjoy these things more if they are good at them. The most controversial work in this area suggests not only that intrinsic motivation is far preferable to extrinsic motivation, but also that extrinsic rewards are actually demotivating. The most powerful and popular advocate of this is Kohn who in 1999 suggested that rewards can only create temporary compliance, not a fundamental shift in performance. Kohn offers six reasons why this seemingly backward conclusion is, in fact, the case:

- Pay is not a motivator. While the reduction of a salary is a demotivator, there is little evidence that increasing salary has anything but a transitory impact on motivation. This was pointed out 50 years ago. Just because too little money can irritate and demotivate does not mean that more money will bring about increased satisfaction, much less increased motivation.

- Rewards punish. Rewards can have a punitive effect because

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they, like outright punishment, are manipulative. Any reward itself may be highly desired, but by making that bonus contingent on certain behaviours, managers manipulate their subordinates. This experience of being controlled is likely to assume a punitive quality over time. Thus, the withholding of an expected reward feels very much like punishment.

- Rewards rupture relationships. Incentive programmes tend to pit one person against another, which can lead to all kinds of negative repercussions as people undermine each other. This threatens good teamwork.

- Rewards ignore reasons. Managers sometimes use incentive systems as a substitute for giving workers what they need to do a good job, like useful feedback, social support, and autonomy. Offering a bonus to employees and waiting for the results requires much less input and effort.

- Rewards discourage risk taking. People working for a reward generally try to minimise challenge and tend to lower their sights when they are encouraged to think about what they are going to get for their efforts.

- Rewards undermine interest. Extrinsic motivators are a poor substitute for genuine interest in one's job. The more a manager stresses what an employee can earn for good work, the less interested that employee will be in the work itself. If people feel they need to be "bribed" to do something, it is not something they would ordinarily want to do.

This literature essentially says this: one can distinguish between **intrinsic motivation** to partake in some activity out of sheer enthusiasm, joy or passion and **extrinsic motivation** which involves offering a range of incentives to do an activity rather than the activity itself. The intrinsically motivated worker is therefore easier to manage, happier and possibly more productive. More controversially it has been suggested that extrinsic rewards like money can actually decrease joy and passion and even productivity in the long run. Of course, all jobs are a combination of both: some are done "just for the money" because the tasks are so unintrinsically motivating. The issue that is consistently debated in this area is that of perceived fairness. However, fairness is a relative concept: what is fair for the

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giver (allocator) may not be fair for the receiver. Questions arise about specific issues: should you pay for the job or performance on the job; and should you pay for talent or effort?

Equity theory, borrowed by psychologists from economics, views motivation from the perspective of the social comparisons that people make among themselves. It proposes that employees are motivated to maintain fair, or “equitable”, relationships among themselves and to change those relationships that are unfair, or “inequitable”. Equity theory is concerned with people’s motivation to escape the negative feelings that result from being treated unfairly in their jobs once they have engaged in the process of social comparison. Equity theory suggests that people make social comparisons between themselves and others with respect to two variables – outcomes (benefits, rewards) and inputs (effort, ability). Outcomes refer to the things that workers believe they and others get out of their jobs, including pay, fringe benefits or prestige. Inputs refer to the contributions that employees believe they and others make to their jobs, including the amount of time worked, the amount of effort expended, the number of units produced, or the qualifications brought to the job. Equity theory is concerned with outcomes and inputs as they are perceived by the people involved, not necessarily as they actually are, although that in itself is often very difficult to measure. Not surprisingly, therefore, workers may disagree about what constitutes equity and inequity on the job. Equity is therefore a subjective, not objective, experience, which makes it more susceptible to being influenced by personal factors. Equity theory states that people compare their outcomes and inputs to those of others in the form of a ratio. Specifically, they compare the ratio of their own outcomes/inputs to the ratio of other people’s outcomes/inputs, which can result in any of three states: overpayment, underpayment or equitable payment (Figure 2).

Overpayment inequity occurs when an individual’s outcome/input ratio is greater than the corresponding ratio of another person with who that individual compares himself/herself. People who are overpaid are supposed to feel guilty. There are relatively few people in this position.

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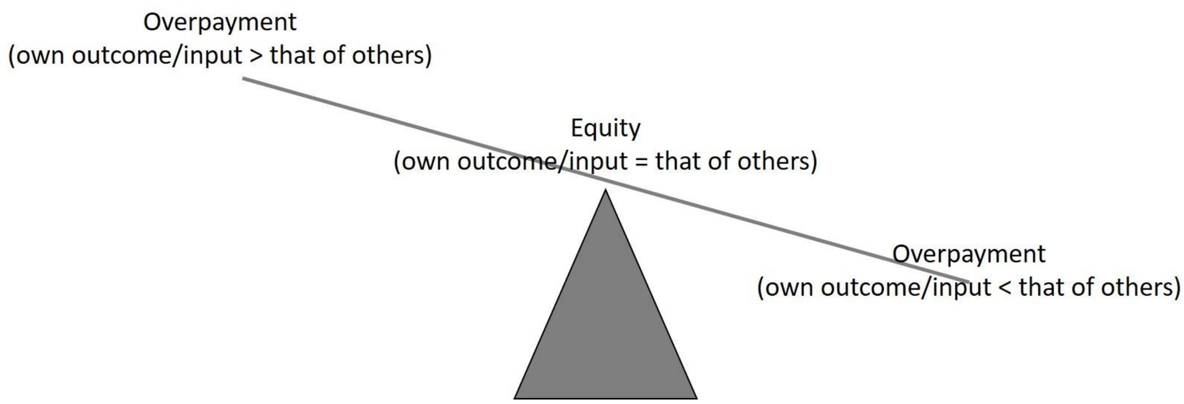
Underpayment inequity occurs when an individual's outcome/input ratio is less than the corresponding ratio of another person with whom that individual compares himself/herself. People who are underpaid are supposed to feel angry. Many people feel under-benefited.

Equitable payment occurs when an individual's outcome/input ratio is equal to the corresponding ratio of another person with whom that individual compares himself/herself. People who are equitably paid are supposed to feel satisfied.

Figure 2: States of equity and inequity



Sources: Own construction

According to equity theory, people are motivated to escape the negative emotional states of anger and guilt. Equity theory admits two major ways of resolving inequitable states. Behavioural reactions to equity represent things that people can do to change their existing inputs and outcomes such as working more or less hard (to increase or decrease inputs), or stealing time and goods (to increase outputs). In addition to behavioural reactions to underpayment inequity, there are also some likely psychological reactions. Given that many people feel uncomfortable stealing from their employers (to increase outputs), or would be unwilling to restrict their productivity or to ask for a salary increase (to increase inputs) they may resort to resolving the inequity by changing the way that they think about their situation. Because equity theory deals with perceptions of fairness or unfairness, it is reasonable to expect that inequitable states may be redressed effectively by merely thinking about their circumstances differently. For example, an underpaid person may attempt to rationalise the fact that another's inputs are really higher than his/her own, thereby convincing himself/herself that the other's higher outcomes are justified. How people will react to inequity depends on how they are paid. If they are paid by the time they are there they can reduce the rate of work, but if they are on piece work they may reduce the quality of work. Similarly, a salaried employee who feels overpaid may raise his/her inputs by working harder, or for longer hours or more productively. Likewise, employees who lower their own outcomes by not taking advantage of company-provided fringe benefits may be seen as redressing an overpayment inequity. Overpaid persons (few though they are!) may readily convince themselves psychologically that they are really worth their higher outcomes by virtue of their superior inputs. People who receive substantial pay rises may not feel distressed about it at all because they rationalise that the increase is warranted on the basis of their superior inputs, and therefore does not constitute an inequity.

Compensation: Pay satisfaction and job satisfaction (Furnham 2014)

A great deal of research has been dedicated to the question many people think is self-evident: the relationship between **pay and job satisfaction**. While people are happy to acknowledge the fact that pay/salary/money is but one "reward" for work, it is considered by far the most important. Pay satisfaction is a core component of job satisfaction but there are a whole host of other factors (relationships at work, autonomy on the job, physical working conditions) that also play a part. There are various dimensions to pay satisfaction that are interrelated: pay level, pay rises, benefit level and pay structure/administration. Further, various factors are related to pay satisfaction, like worker money attitudes, race, gender, income and also pay equity comparisons. Most studies have examined pay satisfaction in those of average as well as low pay. Some have shown self-evident findings such as the idea that personal attitudes to pay actually influence pay satisfaction.

One important study (that of Williams in 2006) looked at the evidence for the relationship between seven factors: age, gender, education, tenure, salary grade, and job classification as well as actual salary/wage. There were two particularly interesting findings from this analysis. The first was how low the correlations were, indicating little or no relationship between things like gender and tenure and different types of pay satisfaction over various different samples. The second was that all the higher correlations were negative: thus older people were less satisfied with pay rises and structure; education and pay structure; salary grade and pay rise satisfaction. The authors believe the results suggest that older people may be less satisfied with pay because their expectations for the reward of service were not met. Similarly, the higher paid may be less happy because they too had higher expectations of the things that they received.

Dozens of researchers have done small-scale (relatively few people) studies correlating pay and satisfaction at any one point in time. It is possible to summarise this extensive research effort:

Nearly all studies find a positive relationship between pay and job satisfaction but it is small ($.10 < r < .20$). Pay is not a strong factor in job satisfaction: external rewards are relatively ineffective in driving motivation, performance and satisfaction.

Most studies concentrate on pay, not general job satisfaction. Other factors like a person’s personality, ability and values appear to influence (i.e. mediate or moderate) the relationship between pay and satisfaction. Pay satisfaction is not primarily determined by simply how much one gets (i.e. absolute monetary reward).

There are theories (i.e. self-determination theory) that suggests that over time, money rewards are demotivating and dissatisfying because they undermine perceived autonomy and well-being.

The results in this area show that pay is weakly related to job satisfaction, which is determined by many factors. Further, it is clear that the assumption that satisfaction leads to (causes) productivity is too simple as there is evidence that in certain circumstances the direction of causality goes the other way.

Reward systems (Furnham 2014)

Every job has an inducement/incentive and hopefully an agreement between inputs (amount of work) and outputs (e.g. pay). This wage–work bargain is in fact both a legal and a psychological contract that is often very poorly defined. For instance: what about bonuses, currently a highly debated topic? The concept is derived from the Latin “bonum” meaning a good thing. The idea of a bonus is not unlike performance related pay. There are two types of pay – base pay or salary vs. “variable” pay, which may be a one-off and related very specifically to financial performance over a time period. Thus, it could be argued that bonuses are cheaper and more efficient than trying to influence pay structures to make pay effective. Thus, one can have a company with the CEO on a £/$100,000 base and a 75% bonus programme with middle managers on £/$50,000 with 50% and supervisors on £25,000 with 25%. This system can keep internal comparators stable on say a 1:20 ratio, meaning that the highest paid in any organisation gets 20 times the lowest.

Organisations determine pay by various methods, including: historical precedents, wage surveys and job evaluations (using points). They have to benchmark themselves against the competition so as to meet or exceed the market rate. Certainly, it is believed that monetary rewards are better at improving performance than such things as goal setting (management by objectives) or job-enrichment strategies.

There is a rich literature on what professionals and lay people think about pay systems. Nearly everyone is paid for work in money but organisations differ widely in how money is related to performance. The question of central interest to the organisational psychologists is the power of money as a motivator. There are several ways of doing this:

- Piece work: Here workers are paid according to how much they produce. It can only be judged when workers are doing fairly repetitive work where the units of work can be counted.
- Group piece work: Here the work of a whole group is used as the basis for pay, which is divided between them.
- Monthly productivity bonus: Here there is a guaranteed weekly wage, plus a bonus based on the output of the whole department.
- Measured day work: This is similar except that the bonus depends on meeting some agreed rate or standard of work.
- Merit ratings: For managers, clerical workers and others it is

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not possible to measure the units of work done. Instead their bonuses or increments are based on merit ratings made by other managers.

- Monthly productivity bonus: Managers receive a bonus based on the productivity of their departments.
- Profit-sharing and co-partnership: There is a guaranteed weekly wage, and an annual or twice yearly bonus for all based on the firm's profits.
- Other kinds of bonus: There can be a bonus for suggestions that are made and used, and there can be competitions for making the most sales, finding the most new customers, not being absent, etc.
- Use of other benefits: Employees can be offered other rewards, such as medical insurance or care of dependents.

Pay for performance (PFP) (Furnham 2014)

A topic of considerable interest is the whole issue of **performance-related pay**: the idea of linking pay with performance. Piecework and related methods are used most for skilled manual work. There have been many early studies of rates of work when there is payment by results. Wage incentives can also reduce absenteeism, when a bonus is given for regular attendance. These schemes work better if there is participation over their introduction and simply increasing the rate of pay can have dramatic effects in reducing labour turnover. Use can be made of nonpay incentives, such as more free time or recognition, but financial incentives have the most effect.

Problems with these plans arise where particular workers have differential opportunities to produce at a higher level – that is some workers may be unfairly disadvantaged under such a system. Further, wage incentives that reward individual productivity can, and often do, decrease co-operation among workers. Rewarding team productivity is an obvious solution but, of necessity, as the size of the team increases so the clear relationship between any individual's productivity and his/her pay decreases.

Without wage incentive schemes the productivity in any organisation tends to be "normally distributed" in a bellshaped curve, but the introduction of a system sometimes leads to a restriction of production when workers come to an informal agreement about the norms of production. That is, there is often a restriction of range. This may be because workers fear increased productivity will lead to layoffs, and/or that rate of payment will be reduced to cut labour costs. Obviously the restriction of range is in part a function of the history and climate of trust in any organisation.

The idea of PFP is that by linking pay with performance people are more inclined to direct and sustain desirable, goal-specified work-related behaviours. The idea is that money has both instrumental and symbolic motivational properties. It establishes behavioural criteria by which rewards are allocated and aligns employee behaviour with organisational values and objectives.

It is recognised that money/pay is one of many rewards at work and that unpaid or voluntary workers have to be managed and motivated without the "stick of money". The effectiveness of performance-related pay on measurable organisational inputs has, as one may expect, attracted considerable interest. According to research, PRP may have greater effect at lower organisational levels, where job responsibilities are less ambiguous; Implementation breakdowns account for failure of PRP systems but are not the only reason; public institutions are more transparent and there is a closer scrutiny of PRP, which means they have to be seen as more fair, valid and nonpolitical.

Self-determination theory suggests that PFP systems are imposed by others (usually bosses) and seen as involving both punishments and rewards. If people identify with these systems and retain a sense of autonomy they may thrive, but if not they may become seriously disengaged.

With the current emphasis on team working, **group-level incentive plans** have been popular. Profit sharing is a good example. It is assumed that the synergistic benefits of greater cooperation (hopefully leading to productivity) can offset the theoretical benefits of paying for individual performance. Gain-sharing plans involve a system where bonuses are based on the measurable cost reductions (in labour, materials, supplies) that are under the control of the work force. These plans involve all members of the work unit – even support staff and managers. Trade

Unions over the world oppose individual incentive plans, arguing that they promote unhealthy competition, increase accidents and fatigue, and disadvantages older or less healthy workers. Some even oppose group incentive schemes because they argue that they ultimately lead to a reduction in the quality of working life. They want people paid for the job they do, not performance on the job: they thus favour equality not equity. The major problems with performance-related pay systems are, first, the fact that ratings of performance tend to drift to the centre. Feeling unable to deal with conflict or anxiety between people in a team, managers overrate underperformers and underrate better performers, so undermining the fundamental principles of the system. Next, as has been pointed out, merit increases are too small to be effective. Paradoxically in difficult economic times, when higher motivation and effort are required, the size of merit pay awards tends to be slashed. The aims of such systems are straightforward: good performers should be pleased with, satisfied by, and motivated to continue to work hard because they see the connection between job performance and (merit-pay) reward. Equally, poor performers should be motivated to "try harder" to achieve some reward.

There are different types of PFP systems depending on who is included (to what levels), how performance will be measured (objective counts, subjective ratings or a combination) and which incentives will be used (money, shares, etc.). For some organisations the experiment with PFP has not been a success. Sold as a panacea for multiple ills it has backfired to leave a previously dissatisfied staff more embittered and alienated. There are various reasons for the failure of PFP systems. First, there is frequently a poorly perceived connection between pay and performance. Many employees have inflated ideas about their performance levels, which translate into unrealistic expectations about rewards. When thwarted, employees complain, and it is they who want the system thrown out. Often the percentage of performance-based pay is too low relative to base pay. That is, if a cautious organisation starts off with too little money in the pot, it may be impossible to discriminate between good and poor performance, so threatening the credibility of the whole system.

The most common problem lies in the fact that, for many jobs, the lack of objective, relevant, countable results requires heavy, often exclusive use of performance ratings. These are very susceptible to systematic bias – leniency, halo, etc., which render them neither reliable nor valid. Another major cause is resistance from managers and unions. The former, on whom the system depends, may resist these changes because they are forced to be explicit, to confront poor performance and to tangibly reward the behaviourally more successful. Unions always resist equity- rather than equality-based systems because the latter render the notion of collective bargaining redundant.

Further, many PFP plans have failed because the performance measure(s) which are rewarded were not related to the aggregated performance objectives of the organisation as a whole – that is to those aspects of the performance which were most important to the organisation. Also, the organisation must ensure that workers are capable of improving their performance. If higher pay is to drive higher performance, workers must believe in (and be capable of) performance improvements. PFP plans can work very well indeed, providing various steps are taken. First, a bonus system should be used in which merit (PFP) pay is not tied to a percentage of base salary but is an allocation from the corporate coffers. Next, the band should be made wide whilst keeping the amount involved the same: say 0–20% for lower paid employees and 0–40% for higher levels. Performance appraisal must be taken seriously by making management raters accountable for their appraisals; they need training, including how to rate behaviour (accurately and fairly) at work. Information systems and job designs must be compatible with the performance measurement system. More importantly, if the organisation takes teamwork seriously, group and section performance must be included in the evaluation. It is possible and preferable to base part of an individual's merit pay on team evaluation. Finally, special awards to recognise major individual accomplishments need to be considered separately from an annual merit allocation.

However, there are definite **limitations to the effects of money on work**. Some people are less interested in earning more money; it depends on how much their friends and neighbours earn, how large their family is, whether they are trying to buy a house or a car. On the other hand they may raise their level of financial aspiration, and want a bigger house or car, or they may find new things to buy, or they may regard money as an index of success. But the central question remains: which pay system has the strongest effect on worker performance and satisfaction? A simple question but one without a simple answer. As noted above there are many alternatives: profit share, small group incentives, individual piece-work. At the beginning of the

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twentieth century relatively simple piece-rates were the norm, but by the end of the century individualised variable performance pay was more common. This change was based on many things: such as changes in the law (employment, tax, social welfare); changes in economic affairs (interest rates, exchange rates); and the ability to measure and monitor performance. They note that the pay for performance system has four important characteristics. This is contrasted with profit sharing, which is based on the performance of the organisation as a whole.

Summary of the chapter

Theories of intrinsic and extrinsic motivation explain how and why using money as a motivational tool may be problematic. Equity theory emphasises the importance of the psychological assumptions people make when comparing their efforts and incomes with their reference group. In case of using performance-related motivation systems, there are several conditions that need to be met to make it efficient.

Test questions

1. What is the difference between intrinsic and extrinsic motivation?
2. What are the possible psychological and behavioural consequences of the lack of pay equity according to equity theory?
3. What are the conditions that need to be met in order to make performance-related motivational systems effective?

Part 5 Tax behaviour (Kirchler 2007)

Learning outcomes of this topic: this chapter provides knowledge on the basics of tax behaviour. Students will be able to analyse taxation-related issues taking the characteristics of taxpayers into considerations and will be capable of seeing tax behaviour in its complexity. This enables decisions to be taken with more responsibility and enhance the acceptance of others' opinions.

In this reader, besides providing the background on conceptualising and clarifying tax compliance, avoidance and evasion, we focus on parts of Kirchler's work on fairness perceptions and motivations to comply. It is important to know though that the topic is highly compex (see Figure 3).

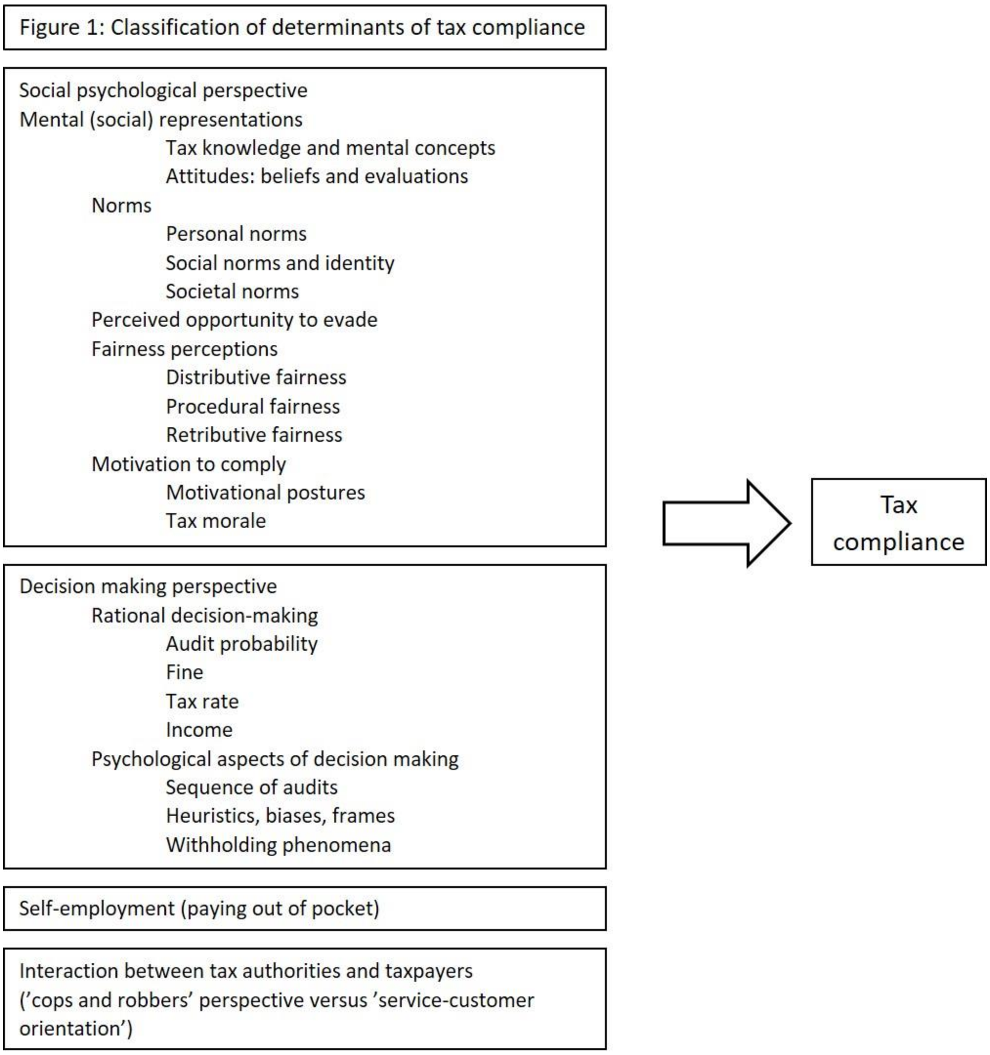
Tax compliance versus non-compliance (Kirchler 2007)

Just as the shadow economy has increased in the past, tax evasion has also risen, creating a problem of growing concern. However, as will be shown below, most taxpayers do not engage in income tax evasion. Nevertheless, tax compliance is less than perfect. At this point the meaning of tax evasion or tax avoidance and tax compliance versus non-compliance should be clarified. **Tax compliance** is probably the most neutral term to describe taxpayers' willingness to pay their taxes. **Non-compliance** represents the most inclusive conceptualisation referring to failures to meet tax obligations whether or not those failures are intentional. The degree of compliance varies, however, and non-compliance does not necessarily imply the violation of law. The meaning of compliance can be perceived, as some authors do, as a continuum of definitions, which ranges from the narrow law enforcement approach to wider economic definitions and on to versions of taxpayer decisions to conform to the objectives of tax policy and cooperation with the society. While at the one end of the continuum non-compliance is illegal, at the other end, non-compliance can conform to the law. McBarnet published a paper in 2001 in which he distinguishes between different forms of compliance:

- **committed compliance** is taxpayers' willingness to pay their taxes without complaints;

- **capitulative compliance** refers to reluctantly giving in and paying taxes; whereas
- **creative compliance** is defined as engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the brackets of the law.

Figure 3: Classification of determinants of tax compliance



Source: Kirchler 2007 (p. 3.)

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Kirchler's book (2007) draws an important distinction between taxpayers who voluntarily comply with the tax law and taxpayers who comply as a result of enforcement activities.

In most countries there is a legal distinction between tax avoidance and tax evasion. **Tax avoidance** is not illegal, as attempts are made to reduce tax liability by legal means, taking advantage of loopholes in the law and the 'creative designing' of one's own income and deductions. On the other hand, **tax evasion** is illegal, as it involves deliberately breaking the law in order to reduce the amount of taxes due. Evasion can involve acts of omission (e.g., failing to report certain assets) or commission (e.g., falsely reporting personal expenses as business expenses). 'Tax evasion behaviour' or 'tax cheating' can also be described as a deliberate act of non-compliance that results in the payment of less tax than actually owed whether or not the behaviour eventuates in subsequent conviction for tax fraud. Tax evasion excludes inadvertent non-compliance resulting from memory lapses, calculation errors, inadequate knowledge of tax laws, etc.

However, many people may have difficulties in seeing the difference between tax evasion and tax avoidance from a **moral perspective**. For example the house painter who does a bit of extra work in the black economy violates the law, while the wealthy investor who engages a tax lawyer to look for tax havens does not. From a moral point of view their behaviour may not seem to be all that different. Clearly, the borderline between what seems morally right and wrong does not always coincide with the border between what is legal and illegal.

On James and Alley's continuum-concept, one pole would be defined as committed, voluntary compliance, followed by capitulative compliance or compliance due to threats and harassments. Then would follow creative compliance, which, in the case where taxable income is designed against the spirit and purpose of the law, would result in tax circumvention and tax flight, and end in deliberately illegal actions, defining the other pole of evasion. They propose to define compliance in terms of following both the letter and the spirit of the law.

Under-reporting reduces the tax revenues of the state, affects public provision of goods and services, undermines tax effects on fair income redistribution, corrodes feelings of fair treatment and creates disrespect for the law. Therefore, there is little doubt that non-compliance should be contained,

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and evasion, in particular, needs to be combated. It is, however, wrong to assume that the majority of people try to evade or avoid paying taxes. Survey studies and experiments on income tax behaviour show that honesty characterises a majority of participants. The level of tax compliance generally appears to be quite high in most countries, regardless of the incentives to cheat, and much higher than expected by most economists relying on the rational choice model. This evidence seems to contradict the fact that the amount of US federal income tax evaded equals the US federal deficit as well as the assertion that shadow economy and tax evasion are of growing concern. We are left with seemingly contradictory findings on tax evasion: on the one hand, the amount of evaded tax and the size of the shadow economy have increased, on the other hand, most studies find that only a minority of taxpayers evades taxes; the majority complies. The interpretation favoured here is that, while the number of people evading is still small, the amount (or sum) of evaded tax is increasing, and corporate crime is alarming. In other words, the few people evading evade higher amounts and corporations engaging in tax evasion and avoidance represent an increasing problem, while the quantity of people evading may remain constant. That being said, the absolute financial value of shadow work and tax avoidance is increasing at an alarming rate.

Social representations of taxes – fairness perceptions (Kirchler 2007)

Tax laws are difficult to understand and are of little interest to the ordinary taxpayer. This attitude can result from the belief that taxes are to be paid, taxes are unavoidable as income is taxed at source, or that attempting to understand the law is not worth the frustration due to its complexity.

While taxes might not be a frequently disputed issue in day-to-day conversations, people do try to make sense of their contributions to the community when taxes are due or whenever government spending is contested or new taxes are introduced. Moreover, people discussing taxation issues evaluate fiscal policy, tax rates and the use of taxes for the provision of public goods, as well as the interaction between themselves as taxpayers and tax authorities. Eventually, motivation to comply or not to comply develops, and this shapes

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subsequent behaviour. Besides moral principles and sentiments, the social dynamics that have received much attention are issues of fairness, either of the tax code or its enforcement, and taxpayers' evaluation of government expenditures.

In social psychology, three areas of justice are differentiated: (a) distributive justice, (b) procedural justice, and (c) retributive justice.

Distributive justice refers to the exchange of resources, both benefits and costs. Equity theories draw attention to the fair distribution of the results of exchanges between partners. If rewards and costs are borne equally and distributed fairly between partners, exchange is balanced, and the relationship is judged to be satisfactory. According to the equity rule, which is most likely applied in business relationships, partners are compensated in proportion to their contributions. In the field of tax compliance, distributive justice refers to taxpayers' perception of the balance of their share to the commons relative to the benefits they are entitled to receive, and to the contributions others make relative to their share of public goods. Research on horizontal fairness has examined the distribution of resources between taxpayers of comparable income groups.

Procedural justice refers to the processes of resource distribution. In other words, if people perceive the formula used to distribute resources (benefits and costs) as fair, then procedural fairness is high. Procedures of allocation of resources are regarded as fair if the partners involved are treated in a way they think is appropriate. Treatments are considered fair if decisions about resource allocation are perceived as being consistent, accurate and free of errors, representative and ethical, and correctable in case of errors.

Retributive justice is concerned with the perceived appropriateness of sanctions in cases of norm breaking. The central questions refer to attributions of responsibility to those guilty of wrongdoing, the restoration of damages to the wronged party and the punishment a norm-breaker deserves.

Justice considerations are in contrast to the neoclassical model of rational decision-making, as they assume that taxpayers evaluate their expected outcome in a given situation and take the best alternative. Justice considerations imply that taxpayers compare their contributions and benefits as well as their treatment with others, and judgments of fairness depend on the perspective a person takes. Judgments of fairness may regard individual treatment and outcomes relative to other individuals, or focus on group and societal outcomes. At an individual level, taxpayers are concerned with their individual tax burden and with their share of public goods.

Wenzel developed a framework that relied on two dimensions: the first dimension classified justice and fairness perceptions at an individual, group or societal level, while the second dimension distinguished between the distribution of resources, procedures and retributive justice. At the individual level, the perceived recipient unit is the individual. Taxpayers are concerned about fairness of their outcomes as well as being treated in a way they are entitled to in relation to their merits, efforts and needs. At the group level, the perceived recipient unit is a social group, e.g., occupational group, income group, a minority group in the country. Taxpayers are concerned about fairness of the outcomes as well as of the treatment of their group. Group members judge entitlements and treatments that they receive as members of a specific group, and resource allocation and procedures directed towards their group. Concerns regard specific constraints, tax rates, benefits, audits; and sanction practices are made with reference to a specific group. On the group level, dynamics of social categorisation and identification with a category come into play. At the societal level, the category to which taxpayers refer is the whole nation. Fairness judgments regard taxation in the country, fairness of progressive, regressive or flat tax, and procedures applied by the tax office.

Although it seems reasonable to assume that willingness to pay one's taxes rises if the distribution of tax burdens across citizens and groups is perceived as fair, if the exchange relationship with the government is balanced, and if procedural justice is high, the results of empirical studies do not unequivocally confirm this assumption. Lack of congruent findings in tax compliance research is not limited to justice perceptions. To the best of our knowledge, no study has revealed negative effects of perceived distributive justice; however, the positive impact on tax compliance was not always confirmed, and if the impact reached statistical significance, the effects were rather small. While it can be argued that tax behaviour is complex with many variables influencing tax compliance, making it unlikely that one isolated determinant might explain a large proportion of variance, it should also be noted that there are probably

inter-individual and situational differences with regard to the relevance of fairness and justice issues that might not be important to all taxpayers to an equal extent or relevant in all circumstances. For instance, experimental results have shown that taxpayers who received no public transfer generally perceived their exchange equity with the government to be less equitable than taxpayers who received a public transfer. However, the effect of the public transfer on reported income depends on the extent to which taxpayers refer to their perception of equity in their tax-reporting decisions. Participants who perceived equity to be important in their tax-reporting decisions reported more income when they received a public transfer, but reported less income when they received no public transfer, as predicted by equity theory. In contrast, participants who perceived equity to be less important in their tax-reporting decisions acted directionally consistent with the predictions of the neoclassical economic model. Besides inter-individual differences, situational differences may lower the predicted effect of justice issues. Because individuals' information processing capacities are limited, most individuals base their distributive justice perceptions on very few – one or two – salient dimensions of the situation. Depending on the actual social situation, taxpayers may perceive themselves as individuals or as members of a social group, such as a particular occupational group, or as members of the nation and interpret and evaluate fairness issues differently.

Motivation to comply (Kirchler 2007)

The motivation to comply depends on subjective constructs of tax phenomena and collective sense-making of subjective tax knowledge, on myths and legends about taxation and others' tax behaviour, on subjective constructs and evaluations of perceived and internalised norms, perceived opportunities not to comply and fairness perceptions. The condensation of these variables results in the motivation and drive of taxpayers to behave honestly.

On the individual level, **motivational postures** are the driving factor of compliance and non-compliance, whereas at the national level, tax morale and civic duty are the motivational forces leading to or deterring from engagement in the shadow economy, tax evasion and avoidance. Motivational postures are an integrative concept of taxpayers' beliefs, evaluations and expectations relative to their tax authority, as well as their actions in response to their beliefs, evaluations and expectations. Thus, motivational postures integrate the following

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concepts: subjective knowledge of tax law, subjective concepts, attitudes, norms and fairness perceptions, as well as intended behaviour. Motivational postures determine how taxpayers position themselves in relation to tax authorities. They determine cooperation and non-compliance and justification processes.

V. Braithwaite and her colleagues have identified five motivational postures. **Commitment** and **capitulation** reflect an overall positive orientation towards tax authorities, whereas **resistance**, **disengagement** and **game-playing** reflect a negative orientation. Table 2 represents definitions of the five postures accompanied by statements representing them.

Table 2: Motivational postures and statements representing them

Motivational posture	Description	Statements representing motivational postures
Commitment	Commitment combines a positive orientation towards tax authorities and deference. The tax system is perceived as desirable, tax law and tax collection are perceived as fair. Committed taxpayers feel a moral obligation to pay their share and to act in the interest of the collective.	a) Paying tax is the right thing to do. b) I feel a moral obligation to pay my tax. c) Overall, I pay my tax with goodwill.
Capitulation	Capitulation reflects a positive orientation in terms of acceptance of the tax authorities which hold legitimate power to pursue the collective's goals. As long as citizens act according to the law, authorities are perceived to act in a supportive way.	d) If you cooperate with the Tax Office, they are likely to be cooperative with you. e) The tax system may not be perfect, but it works well enough for most of us. f) No matter how cooperative or uncooperative the Tax Office is, the best policy is to always be cooperative with them.

Resistance	Resistance reflects a negative orientation and defiance. The authority of tax officers may be doubted and their acts may be perceived as controlling and dominating rather than as supportive.	g) If you don't cooperate with the Tax Office, they will get tough with you. h) It's important not to let the Tax Office push you around. i) It's impossible to satisfy the Tax Office completely.
Disengagement	Disengagement also reflects a negative orientation and correlates with resistance. Individuals and groups keep socially distant and blocked from view and have moved beyond seeing any point in challenging tax authorities.	j) If I find out that I am not doing what the Tax Office wants, I'm not going to lose any sleep over it. k) I don't care if I am not doing the right thing by the Tax Office. l) If the Tax Office gets tough with me, I will become uncooperative with them.
Game-playing	Game-playing expresses a view of law as something that can be moulded to suit one's purposes rather than as a set of regulations that should be respected as guideline of one's actions. In the field of tax behaviour, game-playing refers to 'cops-and-robbers' games with taxpayers detecting loopholes for their advantages and perceiving tax officers as cops who engage in catching cunning taxpayers.	m) I enjoy spending time working out how changes in the tax system will affect me. n) I enjoy talking to friends about loopholes in the tax system. o) I like the game of finding the grey area of tax law.

Source: Kirchler 2007 (p. 98)

Summary of the chapter

Tax behaviour is a highly complex topic. Individual and group differences may be due to differences in tax knowledge,

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norms, social representations, attitudes and also tax systems. Justice considerations as well as employment forms affect willingness of paying taxes. Tax compliance may be interpreted as a continuum with commitment at one end and disengagement or tax evasion at the other end of it. Different motivational postures of taxpayers require different approaches by the authorities.

Test questions

1. What is the difference between tax avoidance and tax evasion?
2. How may different justice considerations affect tax compliance?
3. What motivational postures may be described regarding tax behaviour and what reactions are advised for them from the part of the authorities?

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