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Factors affecting compliance with rules: Understanding the behaviour and motivations behind customer fraud

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A report of research carried out by the University of Kent on behalf of the
Department for Work and Pensions

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The Author

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Summary

The questions the present research sought to answer were:

- i What can we learn about the reasons for benefit fraud from research in the fields of social policy, public economics, law and social psychology?
- ii Can what is learned from the causes of fraud usefully be turned into ideas for reforming the benefits system?

Key points

- Hardship is an important factor, motivating people to commit fraud.
- Opportunity to commit fraud is also a crucial factor, be it opportunity to work or to cohabit.
- The design of the benefits system probably enables some customers to hide behind the excuse of misunderstanding the system or being misinformed by benefits office staff.
- The perceived 'hassle' of declaring extra income from temporary or low paid jobs is another reason for fraud.
- Personal norms are not easily changed, so society's attitudes (social norms) look like a better prospect for change.
- With respect to attitude to and perceived fairness of the benefits system, treatment by Department for Work and Pensions (DWP) staff, which is seen as courteous and fair by customers, will reinforce voluntary compliance.

We conclude that the motivations for fraud are complex, and people are diverse in their fraudulent behaviour. This review, therefore, suggests that the improvement of compliance requires an approach that goes beyond the focus on deterrence to one that recognises the multitude of factors that are responsible for this type of behaviour.

1 Introduction

This report reviews literature which may be applicable to understanding fraud in a range of means-tested benefits (Income Support (IS), Jobseeker's Allowance (JSA), Pension Credit, Housing Benefit (HB)) and non-means-tested benefits (Incapacity Benefit (IB), Disability Living Allowance (DLA)). This is an attempt to bring together the contrasting and jumbled insights into customer non-compliance which can be gleaned from social surveys, public economics, law and social psychology.

Understanding benefit fraud is important because as well as the loss it represents, there is a large proportion of the public who believe that many people are falsely claiming benefits (SPARK Research, 2004, p.6). According to the British Social Attitudes study, 84 per cent of respondents replied that 'large numbers falsely claim benefits' (Taylor-Gooby and Martin, 2008, p.243). These beliefs could potentially undermine taxpayer support for social security even though the facts tell a different story. Further, the belief that 'everybody does it' might encourage fraud. In reality, fraud has fallen as technical developments have made it easier to detect. Estimates of fraud (not including error) are outlined in Table 1.1, although critics claim that these kind of figures are misleadingly high (e.g. Cook, 2006; Sainsbury, 1998, 2001).

Table 1.1 Estimated overpayments due to fraud during 2007/08

	%	£
HB	0.9	400m
IS	2.9	260m
Pension Credit	1.5	110m
JSA	3.0	70m
DLA	0.5	50m
Carer's Allowance	3.9	50m
Council Tax Benefit (CTB)	0.8	30m
IB	0.1	10m
Retirement Pension	0.0	0m
Total	0.6	0.8bn

Source: (DWP and National Statistics, 2008:24).

The erstwhile Benefit Fraud Inspectorate (BFI) was officially launched in November 1997, in response to widespread concerns about the estimated levels of fraud and attacks being made on the social security system (its functions have now been transferred to the Audit Commission). The Government was particularly concerned about standards of administration to deal with fraud in local authorities. Standards of administration varied across authorities and there was little evidence that good practice was being shared between administrators. It was also concerned about administration in the agencies of the former Department of Social Security (DSS). A better understanding of the problem, based on a rigorous inspection of existing activities, was essential to ensure the most effective use of the resources devoted to counter-fraud measures. Its aims were to 'deliver a benefits system which is fair, modern and efficient, and one which prevents fraudsters from milking the system' (BFI, 1998).

The importance placed on reducing benefit fraud by the Government was confirmed in a chapter of the 1998 Green Paper on welfare reform (DSS, 1998b), and was the subject of two Green Papers in its own right (DSS, 1998a, 1999). Social security fraud also featured strongly in the Treasury-sponsored Grabiner report into the informal economy (HM Treasury, 2000), demonstrating the connection of benefit fraud to other social problems. Between 2000 and 2002 the '*Targeting fraud*' publicity campaign ran, followed from 2003 to 2004 by the '*We're onto you*' campaign. Most recently, anti-fraud media campaigns have focused labelling benefit fraud as 'benefit theft', and that excuses won't be accepted – 'No Ifs, No Buts'. They spotlighted undeclared partners as well as earnings-related fraud (for a critical discussion of these campaigns see Connor, 2007).

The questions the present research sought to answer were:

- What can we learn about the reasons for benefit fraud from research in the fields of social policy, public economics, law and social psychology?
- Can what is learned from the causes of fraud usefully be turned into ideas for reforming the benefits system?

This report is a literature review which was compiled from books, journal articles and unpublished reports from the disciplines of social policy, social psychology, public economics and law. Abstracting databases, such as BIDS, Web of Science and Google Scholar, were searched for material relating to benefit fraud and tax non-compliance (which we believed would hold lessons for benefit non-compliance).

Incorrect payments can be split into three types according to the level of intent and who was responsible. Fraud includes cases where the customer can reasonably be expected to be aware of the effect of their circumstances on entitlement. Customer error occurs where the customer has provided incomplete or inaccurate information, or failed to report a change in their circumstances, but there is no fraudulent intent. Official error is where benefit is paid incorrectly due to inaction, delay or an incorrect assessment. This report considers only customer fraud, as there has already been a recent report on the reporting of changes in circumstances

by customers (Irvine, Davidson and Sainsbury, 2008). There are various types of customer fraud including:

- incorrect or undeclared income from full- or part-time employment. Colloquially known as working 'on the side', 'doing the double' or doing 'the fiddle', perhaps reflecting that though technically unlawful, those doing it may not regard it as criminal;
- having a partner but claiming as a single person;
- incorrect or undeclared capital held;
- undeclared other benefits;
- other undeclared source of income, e.g. occupational pension or sick pay;
- incorrect or undeclared income from the customer's partner's employment;
- incorrect claiming for number or type of dependants;
- false or assumed identity;
- customer not able to be contacted at registered address, is no longer at the address or provided a false address;
- incorrectly declared housing costs or income from housing;
- being in education and perhaps receiving funding;
- continuing to receive benefit while abroad;
- not declaring long-term hospitalisation;
- incorrect or undeclared income from maintenance payments;
- receiving benefits while in prison;
- instrument of payment fraud, alteration of documents;
- non-participation in work-related activity when this is a condition of eligibility.

The main sources of error are incorrect or undeclared capital, undeclared other benefits or other undeclared sources of income. The major sources of fraud are undeclared earnings above the permitted amount and living with a partner the customer has not declared. We sought out literature on all the above types of fraud, except instrument of payment fraud, but found that it overwhelmingly focused on earning while claiming, rather than living with a partner while claiming as a single person or fraud in disability benefits. Interestingly, this mirrors the perception of 'benefit fraud' which springs to the public's mind (SPARK Research, 2004). The present review concerns individual and household frauds, not organised criminals or landlords. Nor are we concerned with the problem of moral hazard, such as that which occurs when households deliberately split so as to make two poorer households primarily for the purpose of claiming more HB.

We conclude that the motivations for fraud are complex, and people are diverse in their fraudulent behaviour. This review, therefore, suggests that the improvement in compliance requires an approach that goes beyond the focus on deterrence to one that recognises the multitude of factors that are responsible for this type of behaviour.

2 An overview of the literature

There are relatively few investigations of activities such as working undeclared while in receipt of benefit (notable exceptions are Cook, 1989; Dean, 1998; Dean and Melrose, 1996, 1997; Hessing, Elffers, Robben and Webley, 1993; MacDonald, 1994). The most recent work on customer fraud and error in social security benefits has been commissioned by the DWP (DWP, 2005, 2006; Rowlingson, Whyley, Newburn and Berthoud, 1997; SPARK Research, 2004) and the National Audit Office (1997, 1999, 2003a, 2003b, 2004, 2005, 2006).

However, there is also literature about low incomes in general which has information pertinent to benefit fraud. For example, Bradshaw and Holmes (1989) examined the living standards of families on benefit and found that 'one-seventh of the sample had received extra income above the then permitted level' (p.137). Jordan *et al.* (1992) found that around two-thirds of their sample of poor households in the South West of England had benefited from undeclared earning (although the national figures on numbers claiming benefits not declaring all their earnings have fallen since then). Kempson *et al.* (1994) found that of their IS claimants, some decided to take a job that was within their earnings disregard, some earned more than their disregard but failed to declare their earnings, while others chose not to work at all. It was rare that people took the option of declaring earnings above the disregard.

Yet, this literature is now rather outdated, and is from a time when economic conditions were very different. For example, there was higher overall unemployment, which may have made benefit fraud more socially acceptable. This time-lapse is likely to have a significant impact on the applicability of their findings. As will be seen, local cultures are very important in explaining benefit fraud, and it is reasonable to expect these cultures to change over time, as well as from place to place.

A variety of methodological approaches have been taken for the study of fraud and compliance in receipt of benefits. There have been qualitative studies of the

attitudes and perceptions of those who engage in benefit fraud (Dean, 1998; Dean and Melrose, 1996, 1997; Rowlingson *et al.*, 1997). Lantto (1989) has analysed fraudulent receipt of disability benefits by capable working claimants. Another type of fraud is to not participate in work-related activity when this is a condition of eligibility, such as for IS or JSA. This problem has been examined by Kingston *et al.* (1986) and Burgess (1992). Other types of fraud that have some similarities with benefit fraud have also been studied using a variety of methods. For example, Henry (1978), Ditton (1977) and Mars (1994) adopted an anthropological approach. MacDonald (1994) conducted ethnographic interviews with individuals not in formal employment and officials. Payment of Value Added Tax (VAT) has been researched by means of interviews with businesses (rather than individual customers) by Adams and Webley (2001).

Another slant on benefit fraud research is the discussion of what it reveals about rights, responsibilities and citizenship (e.g. Dean, 1998; Dean and Melrose, 1996). There have also been contributions analysing the impact of legislation on benefit fraud (McKeever, 1999a, 1999b); social security fraud and the mass media (Doheny, 2004; Golding, 1999); the effectiveness of anti-fraud measures (Connor, 2007; Sainsbury, 1996); and the effectiveness of anti-fraud television campaigns specifically (Grover, 2005).

Loveland (1989) studied some administrative aspects of reducing overpayments and combating fraud in HB. Kingston *et al.* (1986) and Bateman (2008) looked from an administrative point of view at overpayments in United States (US) unemployment benefits and United Kingdom (UK) benefits respectively. Walsh and Milne (2007, 2008) examined the interview techniques of fraud investigators. However, the administrative angle will not be investigated in this review.

Researching and measuring the size of the 'hidden economy' is very hard (Harding and Jenkins, 1989) because it is difficult to measure the extent of tax lost through undeclared earnings. However, qualitative studies, although few in number, have looked at some specific aspects of illegal activity. Henry (1978) examined the social networks around the pilfering of goods and fiddling of services that comprise a hidden economy. Ditton (1977) studied petty pilfering carried out by employees through their employment. Yaniv (1986) modelled fraudulent receipt of unemployment benefits while working.

Various studies have found undeclared working while claiming to often be irregular and short-term in nature and involve small amounts of money earned. In Dean and Melrose's studies (Dean, 1998; Dean and Melrose, 1996, 1997) building work and freelance skilled work featured prominently, together with low-skilled retail work, cleaning and catering jobs. Some writers have suggested that it is, in fact, not those on benefits, but those already in jobs who are most likely to be engaged in other sorts of work activity – 'moonlighting' – because they are more likely to have the skills, tools and social contacts to obtain this sort of work (e.g. Morris, 1987; Pahl, 1984).

Over the past 25 years, social psychologists have been interested in economic behaviour such as unemployment, saving and tax-paying. One of the strands of that literature drawn upon for this review is that on tax compliance, which has some parallels with benefit fraud by misreporting income. Therefore, as well as such social surveys, theory and empirical evidence from economic and social psychology are drawn upon in this review.

It is difficult to obtain information about tax compliance behaviour. Data from official investigations are hardly ever available and data from other sources may be suspect. It is in the nature of this hidden behaviour that it is extremely difficult to observe. Even if data about tax evaders could be obtained, it would be difficult to model controlling for individual circumstances. However, tax compliance can be studied theoretically using field data and laboratory experiments.

A considerable body of research using experiments concerning tax compliance has accumulated. The experimental approach circumvents the problem of obtaining honest responses on illegal behaviour, but its shortcoming lies in the artificiality of the laboratory setting, which makes it difficult to generalise results into the real world. Laboratory experiments have the advantage that tax reporting factors (enforcement, tax rate, income level) can be controlled, but one must be mindful of the drawbacks of laboratory experiments (as noted by, for example, Cadsby, Maynes and Trivedi, 2006). The strengths and weaknesses of experimental designs in tax compliance research in economic psychology are reviewed by Torgler (2002). The major theoretical and empirical findings in recent personal tax compliance literature have also been surveyed by Cowell (1990), Andreoni *et al.* (1998) and more recently by Slemrod and Yitzhaki (2002).

Research on tax compliance has been dominated by an economic analysis of self-interest (expected utility theory) that frames the decision to pay as a rational attempt to maximise 'profits'. The basic assumption is that people are free riders: no one will voluntarily contribute tax unless the threat of punishment makes it sensible. Thus, traditionally, tax evasion has been understood in terms of the benefits of successful evasion weighed against the risk of detection and punishment (by, for example, Allingham and Sandmo (1972) who were interested in whether higher tax rates generate more or less compliance). If the perceived rewards outweigh the perceived costs, then, given the opportunity, people will act fraudulently. This type of research discusses the effects of varying penalties and optimal deterrence schemes, and implicitly assumes that the tax-paying decision is similar to investment and gambling decisions (for further discussion of this see Cadsby *et al.*, 2006). This framework has also been applied to the misreporting of earnings when claiming benefits (Wolf and Greenberg, 1986).

Hessing and Elffers (1993) treat tax evasion as defective behaviour within a social dilemma. It is the social dilemma which has made tax of interest to social psychologists. Just as the tax system confronts people with the choice between co-operative behaviour (paying taxes in full) and non-co-operative behaviour (evading some or all taxes), so does the social security system: individuals would

be better off if they broke the rules, but the whole system would break down if it was abused by all.

However, this perspective has failed to account adequately for the behaviour of evading taxes, as its approach would predict that virtually everybody would be evading taxes, as noted by Alm *et al.* (1992). Since it is not certain that one will be caught, economic models suffer from the shortcoming that they cannot explain why everyone does not commit fraud. This is because in these models the decision to pay one's taxes in full requires extremely high levels of risk aversion or an overestimation of the probability of being audited and fined. There must be other factors which economic models ignore (Alm, McClelland *et al.*, 1992; Helsing *et al.*, 1993). Therefore, this theoretical framework seems unlikely to be any more helpful in explaining benefit fraud. Consequently, we need to incorporate social and political dimensions to both the analysis of tax evasion and benefit claiming behaviour.

Therefore, more recent tax evasion research supports the claim that as well as the risk of discovery and punishment, non-economic factors also influence taxpaying behaviour, for example, ethics, perceived fairness, social norms, psychological orientation and 'tax morale' (Alm and Torgler, 2006; Cowell, 1992; Kirchler, 1999; Wenzel, 2002, 2004). A number of such social psychological factors have been used to explain the complexity of taxation compliance behaviour.

Although we draw some inferences from the tax compliance literature, there are important differences between payment of charges out of money already earned and receipt of benefit. There is no 'fiscal exchange' which may be interpreted as a contractual relationship with the Government. With taxes there is the concept of paying to receive government services in return, which Alm *et al.* (1992) found to be a reason why some people pay taxes even when there is no chance of detection and punishment. Further, Alm *et al.* (1992) have also found that there is a greater willingness to comply when taxpayers perceive that they will receive benefits from public goods. Nevertheless, for benefits in common with taxes, it seems reasonable to assume that a recipient's perception concerning the likelihood of being prosecuted and the severity of the penalties will affect his choice whether to declare income or not. It is not just tax compliance of individuals which has been studied, but also VAT and small business behaviour (e.g. Adams and Webley, 2001; Ahmed and Braithwaite, 2005), and we draw on that literature too.

Further, as well as tax behaviour evasion, there is a literature on evasion of charges e.g. for utilities (e.g. Fjeldstad, 2004). The conceptual framework needed to study service charges is, to some extent, different from the standard model of tax evasion. For example, service providers can observe non-payers of service charges, but it is hard to detect non-payers of income taxes. In the case of benefits the fraud is also unobservable. It is assumed that an understanding of the relationship between payment and the provision of services is a critical factor for compliance. This is less applicable in benefits: in benefits there is no contractual relationship for the provision of services.

Cook (1989, 1991, 1997, 2006) has noted that the public generally differentiate between tax and benefit fraud, being rather more sympathetic to the former than they are to benefit 'scroungers', as have Uglow (1984) and Mars (1994). Nevertheless, the tax evasion field provides a rich source of social psychological models on which to base explanations of benefit fraud and it seems reasonable to draw on tax compliance research, so throughout this review we draw out parallels between tax paying behaviour and benefit claiming behaviour.

There has been relatively little interest in social security fraud by social psychologists (exceptions are Hessing *et al.*, 1993; Yaniv, 1986), which is perhaps surprising given the public interest in the topic. Hessing *et al.* (1993) conceptualise benefit fraud as a combination of instigations and constraints (deterrents) which are found both in the individual and in the situation with which he or she is confronted. They argue that instigations operate in the early stages of considering contemplating benefit abuse, whereas constraints come into play at a later stage. For example, one feels instigated to do some work on the side (perhaps because of financial strain), that person then considers the constraints and how severe they are. The process could also work in a different way: someone may never have considered committing fraud, but be offered some casual work and may only then consider how much they need the extra income and whether to declare it. However, as Hessing *et al.* (1993) only studied unemployment benefits, the extent to which this theory would be applicable to other types of benefits can be questioned.

As well as tax compliance literature, we also looked at what is known about the reasons for non-compliance of non-resident parents (NRPs) with the Child Support Agency (CSA) as detailed in Atkinson and McKay (2005). However, this turned out to be limited in its applicability to benefit fraud. For example, compliance was found to depend on factors such as whether the NRP was previously married and their satisfaction with contact arrangements. Some of the reasons for non-compliance were frustrations with the CSA, their ex-partner, or their circumstances; putting children living with the NRP first; and working in an occupation with less opportunity of having the money deducted at source. These do not have helpful parallels with benefit fraud.

It was argued in the Green Paper *'Beating fraud is everyone's business: securing the future'* (DSS, 1998a) that there are five reasons for fraud:

- a lack of secure systems to prevent fraud (p.13);
- weaknesses in the detection of fraud (p.14);
- a parochial attitude towards detection – insufficient co-ordination across government and with the private sector (p.14);
- ineffective sanctions against fraudsters (p.14);
- equivocal public attitudes – 'cases of greed and condemned, but some small scale fraud is almost condoned as relieving need' (p.13).

The current research was about individual's motivation to commit fraud. As such, we did not look at the weaknesses of methods of preventing and detecting fraud, and the scope for greater co-ordination across government and with the private sector. However, we did consider evidence on the effectiveness of sanctions and the impact of public attitudes.

The most thorough piece of research into motivations for benefit fraud is that by Rowlingson *et al.* (1997). Among others, they found that reasons given for committing fraud were:

- financial need;
- inflexibility of the benefits system;
- low probability of fraud being detected.

Below we present research findings on each of these motivations, plus some additional ones, such as the local culture (or perceived social norms). We have drawn inferences from the tax literature where we feel it might be applicable to benefits. However, we are uncertain as to how valid this strategy is. This is because research shows the reasons for tax (non)compliance vary from one geographical area to another, even with those similar socioeconomic characteristics. This suggests that if inferences cannot be drawn between one town and another, it is a gigantic leap to predict social economic behaviour based on variable tax behaviour. What emerges is complexity because of the influence of 'culture' and locality. We outline a list of factors which may impact on benefit compliance, but in the absence of UK data it is impossible to say which are more important and as this study is exploratory and speculative, we cannot give weightings to each possible reason.

3 Financial strain

The simplest answer to why people commit fraud is that the motivation is economic. The question is, is it because of need, greed, or an entitlement culture? Financial strain affects people differently according to their personal strain, which may explain why not everyone attempts benefit fraud and shows that the reason for fraud goes beyond needing the money: those who feel they are in greater hardship may feel more motivated to commit fraud, but it is significant that not more people at a given level of income commit fraud. Hessing *et al.* (1993) found that lower income does not lead to fraud. They speculate that it may be the drop in income on going onto benefits which is relevant.

The main reason given for defrauding the system by Dean and Melrose's respondents was economic necessity (Dean, 1998; Dean and Melrose, 1996, 1997). Benefits were seen as not providing an adequate income. There is a wide debate on benefit levels and hardship. UK research has shown that those living on out-of-work benefits experience considerable hardship (Beresford, Green, Lister, and Woodward, 1999; Bradshaw and Holmes, 1989; Gordon *et al.*, 2000; Holman, 1999; Kempson, 1996; Kempson *et al.*, 1994) and some social researchers allege that the levels of benefit are too low (McKeever, 1999b; Sainsbury, 1996). Shaw *et al.* (1996) found that most IS claimants find it a struggle to make ends meet and believe that at least some people have to work on the side to achieve this.

Kempson *et al.* (1994) found that most of their sample committing fraud felt driven towards it in order to reduce their financial difficulties. Though the amounts earned by those working while claiming were small, they were seen as making a crucial difference to the family budget. Arrears on household bills were a common factor among those who earned more than their disregard without declaring it. Kempson (1996) found that generally speaking those benefit recipients working over their disregarded amount were working to pay off arrears they had built up, and the amounts earned were not large. A qualitative study of people who had had a sanction found that, while the motivations for committing fraud varied among the research participants, the sample included people who took part-time jobs to make ends meet or to help them financially through Christmas and other times of high expenditure (SPARK Research, 2004). They identified a group they termed the 'deliberates', deliberately committing fraud, but some of whom were acting out of need because of benefit being too low. As well as working, undeclared

cohabitation can be motivated as another way of getting out of financial need by sharing household bills while also claiming as a single person.

For most respondents, the problem of everyday life on a low income represented an even bigger worry than the prospect of being caught, which in any event is perceived to be relatively low (Rowlingson *et al.*, 1997). Nonetheless, Dean and Melrose's respondents did live with considerable anxiety (Dean, 1998; Dean and Melrose, 1996, 1997). For men in particular, better job opportunities would have dissuaded them from benefit fraud. They emphasised that what they wanted was a 'proper' job which was full-time, permanent, legitimate and at an acceptable wage of £150-200 [at 1995 prices] (Evason and Woods, 1995).

As well as low levels of benefits, low wages are also a relevant factor. If the household will be little better off in work, a response to hardship may be to work and claim. Katungi *et al.* (2006) showed that people in some deprived areas work informally in response to poverty, and identified low benefit rates, low wages and rules which limit the hours people can work as basic issues that underpin informal work. Dean and Melrose (1997) found that most wanted to get off benefits and would be easily dissuaded from fraud, which they did not see as a way of life, if only reasonable paid jobs were available.

Renooy (1990) explored the motives, background and circumstances that lead to participation in the twilight economy. For a third of his respondents serious financial problems were the most important reason. For this group their illegal income provided at least 40 per cent of their overall income and enabled them to keep their heads above water. MacDonald (1994) interviewed benefit fraud investigators and found that they agreed that the reason motivating undeclared earning was need, stemming from poverty or long-term unemployment. However, they said that greed was involved in the more serious cases.

Interestingly, Williams (2001, cited by Grover, 2005) found that for unemployed people doing informal work 'pure economic motivations do not predominate'. In contrast, Williams argues that informal work was 'principally used to help out others, or to cement or forge social networks'. This observation was based on his findings that the vast majority (80.5 per cent) of work was done for friends, family and relatives, and the amount paid was lower than in the formal economy. This finding is corroborated by Fletcher *et al.* (2008). Others have found that the financial rewards from social security fraud are generally low and they are used by people to 'get by' (Dean and Melrose, 1997; Evason and Woods, 1995; MacDonald, 1994).

Hardship is an important factor motivating people to commit fraud. The DWP could consider raising the limits on what can be earned without deductions from means-tested benefits. However, changing the benefit taper would have huge cost implications

Serious financial difficulty is one factor leading people to work on the side, but, as explained in the following sections, it is also important to possess appropriate skills and have supportive cultural standards.

4 Effect of deterrence

Surveillance operations, swoops on particular employers, random investigations, tip-offs and data matching are some of the ways in which DWP apprehend offenders. There are two elements to deterrence. Firstly, likelihood of being caught and secondly, sanctions for non-compliance. The effectiveness of deterrence will depend on beliefs about whether a certain amount of fraud is tolerated by the community (see section on social norms below).

In the standard economic model of taxpayer behaviour, the explanation of fraud is based on cost-benefit analysis, weighing up the gain from non-compliance with the personal cost of sanctions. From the standard economic theory on compliance, it would be expected that the more severe the sanctions perceived by taxpayers, the higher the compliance (Allingham and Sandmo, 1972). This is consistent with the results of several surveys that have indicated that respondents doing some form of tax evasion are less likely than non-evaders to believe that this will result in apprehension and punishment (Hessing, Elffers and Weigel, 1988b). A degree of support has been found for the hypothesis that compliance is likely to be higher when taxpayers perceive there to be a higher probability of being caught along with anticipated adverse consequences (Grasmick and Bursik, 1990). Findings from experiments on tax compliance suggest that a higher audit rate leads to greater tax compliance (Torgler, 2002).

In his study of benefits, MacDonald (1994) found that of his respondents who claimed that they had not or would not do undeclared work, virtually all gave practical rather than ethical reasons for this. In this way, the fear of being caught deterred many from taking up opportunities to work.

However, overall, the evidence on perceived likelihood of being caught for benefit fraud is mixed. For example, Rowlingson *et al.* (1997) identify the general view that the risk of being caught was low. Dean and Melrose (1997, p.105) argue that 'low income [is] a bigger worry than the prospect of getting caught'. For most respondents, the problem of everyday life on a low income represented an even bigger worry than the prospect of being caught, which in any event is perceived to be relatively low (Rowlingson *et al.*, 1997). Nonetheless, Dean and Melrose's respondents did live with considerable anxiety (Dean, 1998; Dean and Melrose, 1996, 1997). This suggests that claimants feel they are unlikely to get caught. If

this is not the case it could be that there is not enough precise information given out about the likelihood of being caught, as people are not very good at handling vague probabilities.

But, in contradiction, Hessing *et al.* (1993) found that fraudsters estimate the chances of being caught (and severity of punishment) as **higher** than they are (although this may have been because the sample included defrauders who had been caught). Adams and Webley (2001) found that although many businesses thought they would be caught not paying VAT, they still thought that others get away with it. This seems to apply to benefits where surveys show the perception that fraud is more widespread than it is.

Rowlingson *et al.* (1997, p.131) note that 'perceptions of the risk of detection are more important than the nature of the penalties'. Similarly, a report (SPARK Research, 2004) found from interviews that the deterrent effect of the sanction is not so much related to its severity, but to the impact it has on people – emotions such as shame and humiliation – regardless of the sanction the respondents had received.

This fits in with MacDonald's (1994) findings, that people would be more likely to do undeclared work somewhere they perceived as more anonymous, like London, as it was the tip-off they particularly feared, rather than other ways of getting caught. Reporting a person as suspected of benefit fraud is a way of settling scores with disliked neighbours and they disliked the idea that 'people talk'. People may fear being publicly shamed, which relates to the concept of social norms (see below). Indeed, Yaniv (1987) concludes that public exposure stigma will constitute a stronger deterrent than the expected punishment for dishonest claiming. This corresponds with sociologists' findings that informal sanctions can have a much greater effect on behaviour than legal sanctions (e.g. Grasmick and Bursik, 1990).

Perversely, Fjelstad (2004), in a piece of research from South Africa, comments that harsh sanctions may actually lead to resistance to public authorities, causing people to withhold taxes: people want their trust in the state to be reciprocated. However, it seems unlikely that a harsher system of detection and sanctions for benefit fraud would lead to widespread non-compliance in protest in Britain.

Punishment is the traditional way of dealing with crime, but in the view of Hessing *et al.* (1993, p.240) it seems to have little deterrent effect on benefit fraud. They suggest that the perceived risk of punishment is only one of a number of factors that influence fraudulent activity. What they term 'personal constraints' (such as perceived opportunity) were also important. It has been noted that tax compliance cannot be explained entirely by the level of enforcement (Graetz and Wilde, 1985). Alm *et al.* (1992) find that it is clear that although detection and punishment affect compliance to a degree, these cannot explain all, or even most, tax compliance behaviour. So compliance seems to depend on numerous factors beyond deterrence. It is those to which we turn now.

5 Opportunity

Dean and Melrose (1997) found that one of the predominant reasons for fraud was having the opportunity. This is consistent with the findings of Rowlingson *et al.* (1997) that in virtually all cases of working while claiming benefit, the recipient had been offered a job, rather than proactively looking for work. As with working on the side, cohabiting, without declaring it for the purposes of benefit, also depends on the opportunity to re-partner presenting itself.

Some writers have suggested that it is those already in jobs who are the most likely to be engaged in other sorts of work activity – ‘moonlighting’ – because they are more likely to have the skills, tools and social contacts to obtain this sort of work (e.g. Morris, 1987; Pahl, 1984). This is consistent with MacDonald (1994), who also found that involvement in undeclared working depended upon having specific manual skills and access to networks.

In Dean and Melrose’s studies (Dean, 1998; Dean and Melrose, 1996, 1997), building work and freelance skilled work featured prominently, together with low-skilled shop work, cleaning and catering jobs. MacDonald (1994) found that opportunity was greater for those having skills which could be traded, e.g. skilled manual trades.

Hessing *et al.* (1993) also find that opportunity for work is a crucial variable. They found that the occupations of the fraudulent group provided greater opportunity for fraud (according to officials). For example, the opportunity to conceal income and overstate deductions is generally accepted as being greater among the self-employed (Joulfaian and Rider, 1998).

When it comes to unskilled jobs, experience was important, as was having a good record, being reliable, able to take up the job at a moment’s notice, physical health, the ‘right attitude’ (to work long and hard and not jeopardise the existence of this kind of illicit activity), moving in the right circles and knowing the right people (MacDonald, 1994). Pubs were found to be particularly important places for picking up information about work going. Home-centred or isolated people were, therefore, found to have fewer avenues into undeclared work. This is consistent with Renooy (1990), who explored the motives, background and circumstances

that lead to participation in the twilight economy. For his respondents also opportunity factors through the social network, family, friends, and neighbours were important.

Overall, opportunity to commit fraud is a crucial factor, but there is little the DWP alone can do about this.

6 Benefit design and administration

The ease with which rules can be complied with is also of importance, and is linked to the complexity of the benefits system.

Despite recent improvement in in-work benefits, there are perverse incentives within the system which encourage claimants to commit minor fraud or face financial insecurity. Studies have found undeclared working while claiming to often be irregular and short-term in nature, and involve small amounts of money earned. The extremely casual nature of such work means it is a 'hassle' to declare the temporary earnings. MacDonald found that work was often so low paid that it would not make sense to sign off, lose benefits and be faced with the bureaucracy of submitting a new claim once the short-term job had terminated (1994).

Similarly, 'hassle' arises when there is a time-lag before benefits are adjusted. This encourages participation in the informal economy (Evason and Woods, 1995; Jordan and Redley, 1994). Kempson (1996) found that tenants were worried about taking temporary jobs if they had previously experienced long delays while their housing benefit was recalculated and, as a consequence, they might work in the 'informal economy'. Shaw *et al.* (1996, p.155) point to the difficulties in moving smoothly and swiftly on and off IS. Some see this as enforcing dependency on benefits. Jordan *et al.* (1992) found this too – that cumbersome benefit systems interact with casual, short-term work to create a system in which it makes sense for people to remain in receipt of benefits when carrying out irregular jobs (1992). The system is not flexible enough to cope with the realities of modern day employment or to accommodate rapid shifts in eligibility. However, since this body of research was conducted, reforms have been introduced to ease this problem and now entering or re-entering work is treated as change of circumstances rather than requiring a new claim.

As a result, some people see the benefits system as forcing them into fraudulent activities: Jordan *et al.* (1992) even found that cash work was justified as legitimate by some given the delays in implementing benefit claims. Where people are hardly

any better off taking extra hours of work (due to the benefit taper), it is tempting to take work and not declare it. Currently, this applies to people with mortgage interest payments, travel to work costs, or high childcare costs.

Some people use the complexity of the benefits system as an excuse to hide behind. However, the evidence on this is inconsistent. In contrast to Dean and Melrose's (1997) finding that hardly any of their respondents were 'streetwise' about their entitlements, Kempson found that, by and large, claimants were aware of the rules regarding how much IS claimants could earn before it affected their entitlement to benefits (1996). Some of their sample earning while working were aware that they should declare their earnings, but were too desperate for the money to do so.

Hardly any of Dean and Melrose's respondents were at all knowledgeable about their entitlements or keen to prolong their reliance on benefits (Dean, 1998; Dean and Melrose, 1996, 1997). This suggests that most people who claim benefits and work on the side have not made a conscious choice to do this, but are muddling through and waiting for something better to turn up.

This finding, that claimants are ignorant of their entitlement and unclear how much they are allowed to earn before losing benefits is backed up by Vincent *et al.* (1995). SPARK Research (2004) identify a distinct group which they label the 'incognisant', whose fraud was committed, in their own view, due to their unawareness of the rules or because the benefits system was negligent (again in their own view). They found that among people who (in their own view) were unaware of the rules or held that the system was (in their view) negligent, there was a common belief that there is a certain amount of money a claimant can earn without having to declare it. There seemed to be an informal grapevine of supposed (often wrong) knowledge of just what is and what is not allowed that originates not from the benefits office, but from 'benefit savvy' claimants (SPARK Research, 2004). On the other hand, Kempson *et al.* (1994) found that there was widespread awareness of the disregard so that those working within it usually did so consciously. Rowlingson *et al.* (1997) and SPARK Research (2004) found that claimants are often unaware that what they are doing is a crime.

Incognisants believe that the complexity and bureaucracy of the benefits system has conspired against them because they were given incorrect advice by benefits office staff. These people see themselves as soft targets for the system to convict. They do not view themselves as fraudulent types, but as victims. The last group are the vulnerable, who are either confused by the rules and regulations or have a low level of literacy. They often get their information about what has to be declared and how much they can work from family and friends in a similar situation. They do not understand forms and can have a chaotic lifestyle.

In an Australian study, three-quarters of Weatherley's (1993) respondents said unequivocally they would report income for reasons of honesty, fairness to others, or fear of detection. Others would not report small amounts of casual earnings,

justifying their non-compliance on grounds that payments failed to meet basic subsistence needs, or that income-reporting would unfairly disrupt payments. This is consistent with there being a complexity of reasons for benefit fraud.

Tax research has identified a group of individuals who are not following tax rules (they under-report income and/or over-deduct) yet report that they are not cheating the Government out of any money. One interpretation is that these respondents are taking shortcuts that seem fair to them, and benefit by saving time rather than deliberately lowering their tax liability. It is also possible that these respondents are deliberately avoiding knowledge of their true tax liability and are, therefore, able to justify lazy tax practices and a little cheating (Carroll, 1992). The same may be true of people claiming benefits, preferring to not know what the rules are.

How well the benefits are administered may also be relevant to compliance behaviour. Fjelstad (2004), in a study of local taxes in South Africa, found that in that context, one reason given for non-payment was inefficiency of billing. Alm (2006, p.243) found well functioning administration to be important to payment of taxes. This might be extended to benefit processing. Indeed, Dean and Taylor-Gooby (1992, p.119) suggest that a claimant's willingness to 'fiddle' the system may primarily be a reflection on their adverse experiences or frustrations with that system. If the staff working in the benefits offices are perceived to be helpful and efficient, then compliance may increase.

In summary, the DWP could continue ongoing moves to simplify the benefits system, so that it is less easy for customers to hide behind the excuse of misunderstanding the system or being misinformed by benefits office staff. They could look at options for easing the transition on and off benefit for people in temporary jobs. The DWP could also raise awareness among customers of what they can reasonably be asked to report and not just in terms of earnings, but other sources of fraud, e.g. not declaring a cohabiting partner.

7 Social context and beliefs

In the standard economic model of taxpayer behaviour, perceptions of government and fellow citizens do not affect the level of compliance. However, perceptions are important, in combination with opportunities. Attitude and behaviour tend to be strongly linked in tax-paying (e.g. Hessing, Elffers, Robben and Webley, 1992; Hessing, Elffers and Weigel, 1988a; S. Shefrin and Triest, 1992; Spicer and Lundstedt, 1976; Varma and Doob, 1998). This suggests that in considering the motivation for benefit fraud we need to consider firstly, personal norms and secondly, attitudes to others.

7.1 Personal norms

In this section we look at privately held individual ethics and the morality of falsely claiming benefits, referred to here as personal norms. Personal norms are the intrinsic motivations or the feeling of obligation which motivates a person without being forced or paid externally. Personal norms have a social basis, being based in large part on the social learning process (Weigel, Hessing and Elffers, 1987), and are linked to feelings of guilt. Guilt is contemplating non-compliance, but not actually going through with anti-social behaviour. Shame, on the other hand, is attached to subsequently being caught (see section below on social norms). Guilt and shame are strong inhibitors for tax evasion among taxpayers prone to be compliers (Grasmick and Bursik, 1990). This was also found by Bergman (2002). Personal norms need not be understood as stable and enduring personality characteristics, but, because of their social nature, as depending on and varying with groups and social norms at a given point in time (Wenzel, 2004).

While deterrence theory continues to be popular as a framework for understanding tax compliance, the notion of voluntary taxpaying and 'intrinsic motivation to pay taxes' has attracted considerable attention (Andreoni *et al.*, 1998; Lewis, 1982). In tax research, intrinsic motivation to pay taxes is called 'tax morale' (Alm and Torgler, 2006). Others refer to a similar phenomenon when they state that people pay tax because they believe it is the right thing to do (McGraw and Scholz, 1991; Richardson and Sawyer, 2001; Schwartz and Orleans, 1967). However, isolating reasons for differences in tax morale is notoriously difficult.

The intrinsic motivation to pay tax may come from the desire to be a good citizen or from the desire to contribute to the common good. The first represents duty or obligation to the state, and is a genuinely felt desire to do the right thing as a citizen. The second represents duty or obligation to one's fellow human beings, and is a genuinely felt desire to share resources with those who do not have them, to make sure that the basic needs of all are met, and to protect the rights of the most vulnerable. Schwartz and Orleans (1967) provided early evidence that appeals to taxpayers' personal conscience which could increase their tax compliance. Grasmick and Bursik (1990) found that personal norms in the sense of individually held ethical views about taxpaying, had a significant and substantial effect on self-reported tax compliance. Inclination to obey authority was shown to be important by Cadsby *et al.* (2006), rather than the tax payer seeing the situation of a risk-return trade-off of the traditional economic model.

In the tax compliance literature there is evidence that many countries with similar fiscal systems have different compliance experiences (for a discussion see Torgler, 2002). Having reviewed the field of social norms, two of the conclusions that Torgler (2002) draws are that:

- i Individuals who comply tend to view tax evasion as immoral.
- ii Compliance is higher if moral appeals are made to the taxpayer.

We can explore whether there is a noticeable effect of 'benefit morale', which mirrors that of tax morale. An important component of benefit morale would be to take into account the view that some of the unemployed form a 'dependency culture' in which individuals reject a work ethic, preferring instead to claim benefits as their personal norm. However, MacDonald (1994), in his study of post-industrial Cleveland, found that even those involved in undeclared work were motivated by quite a traditional morality about the value of work and supporting themselves and their own families, and would have preferred a 'proper job'. Indeed, it is suggested by him that undeclared work has a positive effect in terms of linking unemployed people back into a culture of work. He found relatively small amounts of money earned in unpleasant jobs, rather than a glamorous lifestyle. In other words, they were not 'workshy'. People doing undeclared jobs were less resigned than others to long-term unemployment. No one in MacDonald's sample reported being content to live on benefit. Undeclared work is a culture of enterprise rather than dependency. MacDonald found undeclared work was a way of maintaining self-respect. Similarly, Hessing *et al.* (1993) found fraudsters were entrepreneurial and had a commitment to work. They found that the fraudulent group had a higher score on what they termed 'Protestant Work Ethic' (Weber, 1905). They found this intriguing, but it is not so in the light of the findings of the above studies.

In Dean and Melrose's studies (1996, 1997), few of their respondents felt that by working while claiming they were doing something fundamentally dishonest (but they were not comfortable with it at the same): their personal norm was that it was acceptable to do this. Similarly, the work of Kempson *et al.* (1994) describes

a case study of a lone parent who took a job because of her financial situation. Without these undeclared earnings she said that she 'would have felt like turning to crime'. She did not see benefit fraud as a crime, even though she was in fact committing a criminal offence.

Elffers and Hessing (1990; cited in Hessing *et al.*, 1993) found a high correlation between benefit fraud and moonlighting. This suggests that those individuals who fraudulently claim unemployment benefits habitually make use of whatever opportunity arises. If they are receiving unemployment benefit then it will be working on the side. If they have a proper job it will be moonlighting and tax evasion. Their personal norm seemed to be that it is acceptable to work on the side. However, research shows that people bring their attitudes in line with their behaviour (Hessing *et al.*, 1993, p.240) and so the positive attitudes of those committing fraud may merely reflect the fact that they are fraudsters.

How people think about their money may influence their behaviour towards it. There is a standard assumption in economics that any sum of money is substitutable for another sum of money of the same value (i.e. they are fungible). However, this assumption has not been substantiated (H.M. Shefrin and Thaler, 1988). This is because the psychological notion of mental accounting – who people see the benefits as belonging to – may be pertinent to the investigation of tax compliance. Mental accounting has been used to explain aspects of savings behaviour (H.M. Shefrin and Thaler, 1988). The effects of mental accounting in personal financial decision are well-documented (H.M. Shefrin and Thaler, 1988; Singer, Singer and Ritchie, 1986). Some of the research on mental accounting has concentrated on the way people label and categorise, e.g. people have different accounts independent of one another for different purposes. The lesson here may be to look at whether people perceive their social security benefit as belonging to them or the taxpayer, whether they see it as a victimless crime, and how this frames their behaviour. A person's general attitude to crime may also be relevant here: Hessing *et al.* (1993) found that fraudsters were more tolerant of all kinds of fraud, while Alm and Torgler (2006) found that higher church attendance leads to greater willingness to pay taxes.

In the next section we look at perceived social norms, defined as the ethics and morality of falsely claiming benefits attributed to others.

7.2 Perceived social norms

Individuals are not just motivated by the state's deterrence methods, but by their social environment more generally. In this section we explain the concept of social norms and how it can be applied to benefit fraud. Some types of fraud are more likely to result in disapproval than others, so secondly we identify a 'hierarchy' of frauds which the public holds to. Lastly we draw out the implications of the theory of social norms for understanding benefit fraud.

In the tax evasion literature, related to the issue of the individual's tax morale is the issue of the perceived tax morale of the community: that is, the perception that others are meeting their taxpaying obligations. Social norms can influence the behaviours of those who identify strongly with a group of people to whom the norms are attributed. Moreover, social norms can become internalised to be a personal norm. So, it is important to consider not only the recipient's relationship with the authorities, but also with other claimants and the community at large.

Social norms are a pattern of behaviour which must be shared by other people and sustained by their approval or disapproval. They generally constitute accepted ways of thinking, feeling, or behaving that people in a group agree on and endorse as right and proper. Social norms help identify a person as a member of the group, or risk social sanctions. Therefore, norms about how one should behave are likely to constrain taxpayers as they review their taxpaying options, according to whether they are likely to experience shame if caught (Cullis and Lewis, 1997; Smith and Kinsey, 1987; Weigel *et al.*, 1987). An issue is to define who is a member of the group, as different communities may have different social norms with respect to benefit fraud.

The significance of social interactions in forming actions has been stressed by sociologists and social psychologists. Compliance behaviour may be affected by the behaviour of an individual's reference group, making the perception of how many other people are committing fraud an important factor. It in turn is linked to the deterrents of guilt and shame. Perception about the honesty of others plays an important role in compliance behaviour.

Thus, aside from the threat of legal sanctions and guilt feelings that people might impose upon themselves when they offend their own conscience by engaging in behaviours that they consider morally wrong, there is also the threat of shame, embarrassment, and social disapproval of others that individuals might experience when they violate norms which people they value support (Grasmick and Green, 1980). This is because social norms do not exist in an unstructured social field. Rather, others' beliefs and behaviours become the norm when we refer to these others as a relevant reference group (Wenzel, 2004). People consider some social norms as relevant to them while they reject the social norms of people whose support they value less. If the large majority of benefit recipients do identify with their fellow citizens, strategies to increase compliance through reference to social norms and widely shared views about the importance to claim benefits honestly would seem promising.

Turning to the tax literature, some have argued that social norms affect tax compliance (e.g. Webley, Cole and Eidjar, 2001). Concerning social norms, many studies on tax evasion have found a relationship between one's own tax non-compliance and the perceived non-compliance of others. People who believe that cheating is widespread among their peers tend to have more favourable attitudes towards tax evasion and are more likely to cheat on taxes (Wallschutzky, 1984). Both the perceived level of endorsement and the perceived **prevalence** of tax cheating among reference groups could affect taxpaying behaviour (Wenzel, 2005).

A survey of the tax literature found that holding the probability of penalty, the fine rate and the taxpayer's risk aversion constant, social and institutional factors systematically matter, and that experiments which consider the interaction between subjects indicate that moral constraints work as a disincentive to evade taxes (Torgler, 2002). Having reviewed the field of social norms, one of the conclusions that Torgler (2002) draws is that individuals with tax evaders as friends are more likely to be evaders themselves.

For tax, surveys suggest that taxpayers believe that a high proportion of taxpayers evade tax and regard this as appropriate behaviour, while most of them in fact personally disapprove of such acts, corresponding to MacDonald's finding with regard to benefits (1994). People seem to misperceive taxpaying norms (Wenzel, 2005). The same has been found for VAT paying behaviour. A small number of people in the Adams and Webley (2001) VAT survey believed that the business population are generally honest. However, far more take the view that it is only lack of opportunity and sanctions preventing them from engaging in fraud. They believe many people are engaging in small scale fraud of the type which would not be detected. In an Australian study, Coleman (1994) found that although small business taxpayers regard themselves as honest, bartering and cash jobs are often considered by them to be normal business practice. This kind of belief is a concern, as people may be comparing themselves to their peers and feeling that in order to keep things equitable they too should take any opportunity for fraud.

As can be seen, there are many examples in the taxation literature which show that accounting for social norms is crucial, and the same can be assumed to hold for benefits. Rowlingson *et al.* (1997, p.131) note that 'perceptions of the risk of detection are more important than the nature of the penalties'. This may be because social stigma is so important, above financial costs. Indeed, the importance the tax research gives to social norms is reflected in the finding of the 1998 Green Paper (DSS, 1998a) that developing 'an anti-fraud culture among staff and the public' would deter fraud (p.16) and that 'The most effective deterrent for those who would commit fraud will always be peer group disapproval and pressure' (p.20).

Renooy (1990) found participation in the twilight economy was associated not only with appropriate skills and better education, but supportive cultural standards too. Similarly, in some communities there may be a 'culture of entitlement' in which fraud is seen as the norm. MacDonald (1994), in his study of post-industrial Cleveland, found that undeclared work was an accepted part of life in this locality. MacDonald's findings show that the social and economic context of respondents was important. They happily talked of undeclared work as if it was part of their everyday life. It was not a provocative subject.

Perceived social norms can work both ways, as people may either fear social sanctions or believe that their fraudulent behaviour is condoned (see Grasmick and Green, 1980; Grasmick and Scott, 1982). A high incidence of non-payment may encourage non-payment, even by those able to afford to pay tax. The perception of widespread acceptance or practice of tax evasion might corrupt taxpayers and

make them follow the social norm, even if they personally think that everybody should honestly pay their taxes. Dean and Melrose (1996) found that 'many respondents indicated they felt more comfortable about claiming fraudulently because they believed this' (i.e. everybody does it) (p.12-13). Therefore, highlighting the extent of benefit fraud may actually exacerbate it because a common justification for cheating is that 'everybody does it' which can be extended to '...so why shouldn't I?' or 'it would be stupid not to do the same'. In the case of benefits, certain types of anti-fraud campaigns could actually fuel the belief that a lot of people are doing it and encourage some people to justify their actions.

Turning to variation in compliance levels, Cowell (1992) points to the different levels of taxation fraud between social groups and has argued that while some of these differences can be attributed to opportunities, people also take into account the climate in the community to which they belong (see also Wallschutzky, 1984). Huge variations in compliance exist both within poor communities and between communities that have quite similar socio-economic characteristics. In the same vein, Alm and Sanchez (1995) compare Spain and the US and provide experimental evidence that societal attitudes exert a significant impact on individual behaviour. However, Alm and Torgler (2006) find different compliance levels in the US and Europe. They attribute these to different tax morale. In the tax compliance literature there is evidence that many countries with similar fiscal systems have different compliance experiences, although there are difficulties to doing cross-country comparisons (for a discussion see Torgler, 2002). Despite these caveats, this research suggests that social norms vary from place to place. How to explain such differences with respect to benefit fraud would be a fruitful avenue for future research.

The implications of these findings for policy are that personal norms are not easily changed, so attitudes (social norms) look like a better prospect for change. Therefore, the longer term deterrence strategy could be to change social norms regarding the acceptability of benefit fraud. This could be done by continuing the ongoing advertising of successes in detecting fraud (at varying levels of seriousness and of various types) to continue to increase perceptions of the likelihood being caught.

Research on behalf of the Association of British Insurers (ABI, 2003), found a tolerance of some level of dishonesty. Similarly there is a hierarchy of public perception of the seriousness of benefit fraud in the community, which varies from place to place. There is a perceived hierarchy of fraud, both in the mind of the general public and of those committing fraud themselves, classified not so much by the nature of the fraud but the circumstances of the person committing it. There is more sympathy for those in greatest need. SPARK Research found that '*Older people and hard up families are given greater understanding than single people and the workshy*' (2004, p.5).

Some condemn fraud outright, while others condone it in certain circumstances. Nevertheless, Rowlingson *et al.* (1997) found there was a moral code about benefit fraud made on the basis of:

- need or 'greed';
- scale;
- regularity/persistence;
- premeditation;
- the degree to which others might suffer compared to a victimless crime.

The existence of this kind of hierarchy has been confirmed by other studies. For instance, MacDonald (1994) found that respondents made a distinction between short-term 'fiddling', which they were sympathetic to, and those who used undeclared earnings as a 'way of life'. They drew a line between 'serious' and 'trivial' fraud.

SPARK Research (2004) also developed a hierarchy of seriousness. Multiple fraud was regarded as the most serious, whereas a number of rationalisations are possible for a single fraud, e.g. not 'getting round' to inform the DWP that they have started a job. IB fraud was seen by participants as more serious than JSA fraud. JSA is thought to have the highest incidence of benefit fraud, while not being the most serious. This seems to be because people know people who are doing it. People are tolerant of this, taking it less seriously than the law does because cash in hand work is so entrenched. Any kind of fraudulent claim for state pensions is seen as the least serious because of the sympathetic attitude adopted towards pensioners. Where a pensioner gets a few extra hundred pounds they are not entitled to, many argued that they deserve to keep it. However, some acknowledged that this amounts to differential application of the law. Third generation unemployed or those that see benefit as a way of life or are perceived to have no work ethic, command little sympathy (SPARK Research, 2004). Another dimension to the seriousness relates to the length of time a fraud has been perpetrated and the number of separate frauds in one individual's case.

In terms of personal support of benefits system fraud by others, Jordan *et al.* (1992) found that respondents put limits on what they felt was legitimate to earn on undeclared cash jobs. They were critical of others who cheated on the system by overstepping the limits of fairness by earning much more or more regularly, yet remaining in benefits.

In the same way, MacDonald (1994) found that working on the side, which was short-term, motivated by family need and done for relatively little cash, was accepted: even those who were morally opposed to undeclared work could understand the motivations which might cause others to do it.

However, undeclared work as a way of life was perceived as wrong for people who had an alternative. Rowlingson *et al.* (1997) similarly found that it was felt that the hardened group of people committing fraud purely for financial gain should be severely punished, for example, put in prison. But it was understood that alternatives were often unavailable and that unemployment benefits were insufficient to live on adequately.

Likewise, many focus group participants in another study felt that a large number of small scale benefit frauds are desperate attempts to claw some money into the household because state benefits are insufficient. These kinds of fraud are not seen as nearly so serious as organised or systematic fraud and it was felt this should be taken into account in setting the penalty (SPARK Research, 2004). However, this was not a uniform view. A minority were of the view that no fraud should ever be tolerated, otherwise more fraudulent behaviour would result.

Criminalisation performs an important role in defining the boundaries between acceptable and unacceptable behaviour, but a measure that does not also command public support is unlikely to be effective (McKeever, 1999b). Social sanctions can be more of a deterrent than legal enforcement where a norm of compliance is upheld.

If taxpayers assume that the majority of the population cheats a great deal on their taxes, they may think that it is unreasonable to comply fully. There is a risk that such 'misperceived' social norms exert pressure on people to disregard their personal beliefs and evade tax. The policy implication is to correct downward the perceived extent of others endorsing, condoning or committing tax evasion which leads to a vicious cycle.

According to Hessing and Elffers (1985), social norms will have an influence on behaviour only if that behaviour is public and visible. The implication is that exposing fraudulent claimants can be effective (but the extent will depend on social norms in the community).

The implication of the theory of social norms is that steps should be taken to encourage social pressure, undermining the perception that benefit fraud is a victimless crime. There are limits to how many people the authorities can fine, so influencing a norm seems an attractive policy. This theory is consistent with the current DWP strategy. For example, the then Secretary of State for Work and Pensions, Peter Hain, was quoted as saying: *'Thieves are intent on stealing money from those most in need'*, an approach which is designed to make benefit fraud more unacceptable with the public (DWP, 2008).

However, we still do not have a sufficient understanding of how social norms arise in the first place, and how these norms can be changed by government policies.

7.3 Attitude to and perceived fairness of the benefits system

Non-compliance is a question not only of relationships between groups of citizens in local communities, but also state-society relationships. Within the tax compliance literature, perceived fairness in the state-society relationship has emerged as an important consideration (Wenzel, 2002). Fairness is conceptualised in this section in two ways. Firstly, the extent to which people feel that officials treated them in a respectful, impartial and responsive way (both DWP and wider government). Secondly, the extent to which individuals believe they are getting their fair share compared to others. We will consider each of these dimensions in turn.

Firstly, in tax evasion research, attitude to government performance is an important variable. Tax contributions to pay for a public good are affected by citizens' perceptions of the trustworthiness of the Government. Tax literature has found that citizens are likely to trust the Government only to the extent that they believe it will act in their interests. Webley *et al.* (1991) reported that experiment participants who felt alienated from government or had negative attitudes towards laws, were significantly more likely to have engaged in tax evasion. Similarly, Smith (1992) and Shefrin and Triest (1992) find that negative attitudes towards government correlate with less honesty in report incomes. Fjelstad (2004), for example, comments on the importance of trust in government. Yet because there is no 'fiscal exchange', whether the Government can be trusted with taxpayers' contributions has no parallel in the administration of benefits.

Nevertheless, what can be said is that when it comes to benefits administration, customers may have a negative attitude toward individual staff or towards the administrative body (DWP). They may see DWP as helpful, or, on the other hand, as an obstructive body with a strong agenda: *'If I could get away with it, I wouldn't tell. They [the former DSS] don't help you when you need it. You do it for others, but where are they [the former DSS] when you need them?'* (Kempson *et al.*, 1994, p.42). How staff act is likely to be important in this relationship. A finding from tax research suggests strongly that the more positive attitude customers have to DWP staff, the lower will be non-compliance.

Secondly, it is beneficial if customers perceive 'the system' to be fair. The claimant may believe that the benefits system treats him unfairly relative to others, or is unfair in how it detects and prosecutes fraud. The perception of the system as unfair could lead people to rationalise cheating. If the benefits system is seen as unfair in the way benefit is assessed or in levels of income inequality, then fraudulent claimants will feel less guilt. When benefit levels are eroded, and conditions of entitlement become stricter, people may not believe the state is giving them the security to which they are entitled (Dean and Melrose, 1996, 1997). Other research has also highlighted the importance of attitude to 'the system' in explaining fraudulent behaviour, for example, SPARK Research (2004) drew up a useful scheme of characteristics according to the degree to which a person sees himself as responsible for fault or 'the system' as to blame.

A study by Dean and Taylor-Gooby (1992) suggested a link between claimants' willingness to defraud the system and their sense that they were being treated unfairly. This could range from inadequately low benefit levels, to being 'messed about' when they put in a claim for benefit. Feeling they had not received what they were entitled to, some of Dean and Melrose's respondents justified their actions with reference to taxes or contributions they had paid in the past. Jordan (1992) found that it was generally agreed among respondents that earnings rules on benefits were unfair. Cash work was constructed as legitimate and excusable given the unreliability and short-term nature of much employment. Weatherley (1993) found that claimants who thought the system was unfair to them had less willingness to comply with it. Some justified their actions by saying that it would take a long time to get benefits reinstated if it was just a short-term job. Fair and courteous treatment reinforced voluntary compliance.

These findings to do with fairness are consistent with those found in the tax evasion literature. In income tax, the political acceptability of the system seems to be important (Adams and Webley, 2001). Tax literature has found that citizens are likely to trust the Government only to the extent that they believe it will act in their interests, that the system is fair and reasonable and that their trust of the state is reciprocated. For example, Bergman (2002) states that for many taxpayers the higher the level of legitimacy the system has, the higher will be voluntary compliance with taxes. Similarly it has been argued that taxpayers are more inclined to comply to the law if the exchange between the paid tax and the performed government services are found to be equitable (Torgler, 2002). Alm (1991) found a connection between conceiving the tax system as being fair and compliance. Eriksen and Fallan (1996) found that there was a strong influence of increased tax knowledge on the respondents' perceptions of the fairness of the system. The respondents' perception of fairness increased with improved tax knowledge, displacing myths and misperceptions.

In summary, economic psychology emphasises the perception of fairness of the system as an important factor in taxation compliance. If it is believed that the DWP is not operating fairly, then non-compliance could increase. Therefore, treatment by DWP staff which is seen as courteous and fair by customers will reinforce voluntary compliance.

8 Justifications for fraud

There are a range of ways in which people rationalise (or do not) their frauds. In fact, for some, the ability to justify their benefit fraud determines whether they carry on with it (Henry, 1978; MacDonald, 1994). Jordan found that moral rules about legitimate undeclared work were justified by morality regarding family life and economic necessity (1992). On the other hand, there are some whose fraudulent claims are deliberate and can be seen in the context of a lifestyle of other offending activities (SPARK Research, 2004). The justifications for fraud will be different for different types of people, who Dean and Melrose (1996, 1997) categorise in a typology as follows:

		Anxiety	
		Low	High
Reflexivity	High	'Subversive' claimants Use discourse of justified disobedience, that they are forced into fraudulent activity by the benefits system.	'Desperate claimants' Refer to economic necessity, use discourse of economic rationality, know what they are doing, but are worried about it.
	Low	'Unprincipled' claimants Feel no need to justify their behaviour, on the fringes of legal economic activity.	'Fatalistic' claimants Weakly argued justification for their often opportunistic fraud.

There is little evidence of a persistent and distinct class of people who live outside values of mainstream society. The motivations of the different groups are important to understanding what kinds of deterrence would work. The impact of deterrence, opportunity, or the complexity of the benefits system will be different for people with different motivations. For example, 'desperate' claimants mainly perceive they have worse financial hardship, and this is their main motivation. On the other hand, opportunity for cash-in-hand work may play more of a role for 'fatalistic' claimants.

9 Conclusion and recommendations

The questions the present research sought to answer were:

- i What can we learn about the reasons for benefit fraud from research in the fields of social policy, public economics, law and social psychology?
- ii Can the lessons learned from the causes of fraud usefully be turned into ideas for reforming the benefits system?

9.1 Research conclusions

With respect to the first research question, our conclusions about the reasons behind benefit fraud correspond broadly with those of Alm and Sanchez (1995) in relation to tax compliance that:

'People exhibit much diversity in their behaviour, and they are motivated by a variety of factors. There are individuals who always cheat and those who always comply, some who maximize expected utility, others who overweight low probabilities, ...some who are at times cooperative and at other times free-riders, and many who are guided in some way by social norms. These findings in total suggest that a government compliance strategy based only on detection and punishment may well be a reasonable starting point but not a good ending point'. (p.15)

In other words, we conclude that the motivations for fraud are complex, and people are diverse in their fraudulent behaviour, as the Dean and Melrose typology shows. This review therefore suggests that the improvement of compliance requires an approach that goes beyond the focus on deterrence to one that recognises the multitude of factors that are responsible for this type of behaviour.

Turning to the second of our research questions, the applied relevance of this research is what it tells us about preventing or limiting fraud.

9.2 Policy recommendations

These are lessons that we suggest could usefully be turned into ideas for contributing to a successful compliance strategy according to the reason for fraud:

Financial strain

- Hardship is an important factor motivating people to commit fraud. The DWP could consider raising the limits on what can be earned without deductions from means-tested benefits.

Opportunity

- Opportunity to commit fraud is a crucial factor, but there is little the DWP can do about this.

Benefit design and administration

The DWP could consider doing the following:

- continuing to simplify the benefits system, so that it is less easy for customers to hide behind the excuse of misunderstanding the system or being misinformed by benefits office staff;
- looking at further options for easing the transition on and off benefit for people in temporary jobs;
- raising awareness among customers of what they can reasonably be asked to report;
- raising awareness among customers of other types of fraud than working on the side, e.g. not declaring a cohabiting partner.

Effect of deterrence, social context, and beliefs

- Personal norms are not easily changed, so attitudes (social norms) look like a better prospect for change. Therefore, the longer term deterrence strategy could be to change social norms regarding the acceptability of benefit fraud. This could be done by the continuation of ongoing advertising of successes in detecting fraud (at varying levels of seriousness and of various types) to increase the perception of the likelihood being caught.

Attitude to and perceived fairness of the benefits system

- Treatment by DWP staff which is seen as courteous and fair by customers will reinforce voluntary compliance.

9.3 Future research

Questions for future research could include:

- What are the other characteristics of the groups committing fraud, such as age and gender and tenure? This might help in targeting future anti-fraud media campaigns.
- What are differing attitudes to tax fraud in different geographical areas? Research suggests that comparative research between different towns or estates would be worthwhile. What are the differences in social norms between otherwise similar communities? How are these social norms formed?
- Are there differences in the features of disability and unemployment benefits? Overwhelmingly, the literature we surveyed was about out-of-work benefit fraud, with little consideration of what motivates people to fraudulently claim disability or sickness benefits.
- What is the level of awareness of the current sanction regime? How does receiving a sanction affect a person's attitudes, and how much of a credible threat are they?
- Is driving fraud out cost-effective?
- Can the estimates of the extent of fraud be improved?

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