INCOME TAX COMPLIANCE AND ALTERNATIVE VIEWS OF ETHICS AND HUMAN NATURE

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Abstract

Tax compliance behavior is a window to state-society relations because it has implicit assumptions about that relationship. Attitudes toward taxation, like populations, are rarely homogeneous. We expect that people's beliefs about taxation will vary according to circumstance and perspective. This paper describes research in progress regarding the circumstances and perspectives of recent immigrants from Mexico and their beliefs about taxation. At the foundation of tax theory and policy are researchers' conceptions of human nature, compliance and ethics. In this paper I argue that researchers' conceptions of these ideas lead to oversimplifying analysis of taxpayers' choices. To better understand the complexity behind partial compliance, researchers should adopt different conceptions of human nature, compliance and ethics. This paper develops alternative conceptions in light of interview data from immigrant street vendors and pragmatist social theory. The concluding discussion addresses policy questions about the relationship between the state and the taxpayer.

Compliance with tax law is a subject of much research and policy debate. At the foundation of theory and policy researchers have conceptions of human nature, compliance and ethics. In this paper I argue that the researchers adopt conceptions of these key ideas that oversimplify the relationship between taxpayers and tax compliance. For instance, how might we account for incomplete compliance by immigrant street vendors? One view, dominant in the field, assumes that rational agents ethically and immorally fail to comply to minimize their bottom line tax burdens. This paper develops this view and critiques its assumptions. In order to

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3 For some sociological and cultural approaches to this ethical issue, see Ulricen, Nylen, "Ethical Views on Tax Evasion Among Swedish CEOs," *Journal of Accounting, Ethics & Public Policy*, Vol. 1, No. 3 (Summer, 1998); Apostolos A. Badas and Harlemon Tsoukas, "Consequences of Distrust: The Vicious Circle of Tax Evasion in Greece," *Journal of Accounting, Ethics & Public Policy*, Vol. 1, No. 4 (Fall, 1998).
understand and evaluate the complex concerns in people's choices, researchers could adopt different conceptions of human nature, compliance and ethics that will permit them to better understand why partial compliance is compelling to people.

Tax compliance behavior is a window to state-society relations because it expresses people's beliefs and understandings about that relationship. Attitudes toward taxation, like populations, are rarely homogenous. We can expect that different people's beliefs about taxation will vary according to circumstance and perspective. The circumstances and perspectives of recent immigrants from Mexico are one population to examine for their beliefs about taxation and how this illuminates their relationship with the state. Likewise, recent immigrants' beliefs and behaviors will illuminate some taxation based assumptions regarding the relationship between state and society.

To illuminate the distinct choices in these conceptions, this paper explores the thesis that immigrant street vendors partly comply with tax laws because their moral commitment to their families is greater than to the market and the government. The paper begins by examining contemporary choices surrounding conceptions of compliance, human nature, and ethics. I discuss research detailing how recent immigrants view taxation and how their behavior is illuminated by the Pragmatist process approach. Then I develop alternative conceptions of human nature, ethics, and compliance in light of pragmatist social theory. In the concluding discussion, some policy questions about the relationship between the state and the taxpayer are discussed.

**Tax Compliance Research**

Contemporary research on tax compliance links moral and ethical behavior with compliance, but researchers have adopted exclusive views of compliance, human nature and ethics. Research on tax compliance tends to interpret compliance choices in light of bottom-line effects on an individual's tax burden. Researchers assume that people want fairness in their tax burdens and researchers presume that people understand fairness in terms of their bottom-line tax burden. I will label this approach a demand-side approach because it assumes and operationalizes fairness in terms of taxpayers' interpretation of bottom-line tax burdens. There are bound into this approach a variety of assumptions discussed below.

Researchers that pursue demand-side approaches operationalize the demand for fairness experimentally by examining compliance as a function of "equalizing" or making "fair" bottom-line tax burdens. Some of this research emphasizes how the state would eliminate loopholes for the wealthy, or equalize the tax burdens for people of similar income or reduce the tax burden for the poor. For instance, McGraw and Scholz, and Reckers, Sanders and Roark, provide survey research examples of this approach. Researchers assume and adopt this bottom-line compliance model because they think people demand fairness in this way. However, this may not be the only way taxpayers think of fairness, nor is the demand-side approach the only way to conceive of compliance. Before examining alternatives to both we should establish the constellations of assumptions that underlie demand-side approaches to compliance.

**The Question of Ethics**

Researchers using a demand-side approach utilize ethical positions that reinforce the tendency to examine compliance as a

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5 McGraw and Scholz at 471-472; Reckers, Sanders, and Roark.

question of bottom-line tax burdens. The question of ethics in
compliance research comes up in two ways. First, in the way
researchers model human nature, and second, in researchers’
conceptions and use of ethics and moral decision-making.  

Human Nature

Researchers typically acknowledge two models of how
humans are motivated, by self-interest or by normative
compulsion. Individuals respond to prior socialization and/or
available information about the importance of complying with the
tax laws. Researchers assume that both models operate
simultaneously in people’s lives. But researchers only
operationalize self-interest and normative compliance in terms of
an individual’s bottom-line demand for fairness. So researchers
assume that people reduce social relationships or competing other
moral principles operating in their lives to an interest in bottom-
line fairness. By operationalizing the models in this way,
researchers attempt to reduce and make manageable the complexity
taxpayers’ situations, but the approach ends up oversimplifying
and decontextualizing decision-making, and so discounting the
potential ethical complexity of compliance decision circumstances.

7 Dmitri N. Shalin, “Pragmatism and Social Interactionism,” American
8 Examinations of human nature with emphasis on the pragmatist position are
found in: James Campbell, Understanding John Dewey: Nature and
Cooperative Intelligence, Chicago, IL: Open Court, 1995; Victor W. Turner,
“Ch. 2: Dewey, Dilthey, and Drama: An Essay in the Anthropology of
Experience,” pp. 33-44 in The Anthropology of Experience, Victor Turner and
Edward M. Brinner, eds., Chicago, IL: University of Illinois Press, 1986; John
Anselm L. Strauss, George Herbert Mead on Social Psychology, Chicago, IL:
9 McGraw and Scholz at 471-472; Reckers, Sanders, and Roark, pp. 825-828.
10 McGraw and Scholz, p. 472.

Occasionally researchers acknowledge the overlap between
normative and self-interest models of human nature or they
contextualize bottom-line tax decisions with other types of
decisions. However, extant approaches do not show how research
subjects understand and apply aspects of self-interest or normative
compliance in different decision circumstances. Decisions come in
particular social contexts and it is unclear how a researcher should
relate components of a social context to either self-interest or
normative models of human nature. Our typical interest in bottom-
line or demand-side fairness reinforces the use of these models
because people’s choices can be seen in clear relief. Either they
minimize their burden or they comply but how they understand
why they are making a particular choice is unexamined. The self-
interest and normative conceptions of human nature cannot
unambiguously relate self-interest to context nor can either identify
and separate the analytical use of self-interest ideas from that of
normative ideas with respect to social context.

As a result, using self-interest and normative conceptions of
human nature abstracts the complexity of life by unnecessarily
simplifying behavior not because analysts cannot deal with the
complexity of human behavior, but because the models selected
cannot. We need conceptions of human nature that can deal with
situations where multiple moral principles intersect from the
outset. We want to comprehend the complexity of human behavior
to illuminate how people make difficult decisions.

Ethics and Moral Reasoning

Added to these oversimplifying assumptions about human
nature, researchers adopt essentialist models of moral reasoning or
engage in discussions of ethics that further constrain the ability to
account for compliance behavior within the social contexts in
which compliance choices are manifested. For instance, McGraw and Scholz adopt a view of moral reasoning that assumes people begin by recognizing a situation in which a single moral or ethical principle is challenged and must be dealt with. Once the principle is specified, researchers judge the actors’ action. Moral reasoning is considered underdeveloped in those people who do not adopt impersnal standards of choice. But this explanatory strategy denies that human experience is complex and that frequently several moral principles compete from the outset. In effect, people may be wrestling with different aspects of a problem and making choices about how to deal with it, even as circumstances are changing creating a different problem.

Reckers, Sanders, and Roark adopt an essentialist definition of ethics where ethics are the normatively founded guides for behavior. They presume societal unanimity regarding norms and ethics. They regard ethics as a social duty and operationalize unethical behavior as ‘morally wrong’ behavior. Their research finds that ethical behavior is positively related to compliance with tax law. Their position is to equate non-ethical behavior as behavior that is ‘morally wrong.’ Even though they acknowledge there are multiple sources of moral or ethical behavior, their experiment only models demand-side ethics, or the bottom line. Alternative or competing ethical positions are not discussed and so we miss an opportunity to see how starting from a different

conception of ethics leads to a different research strategy and different findings.

Together, these models of human nature, ethical and moral reasoning, and the emphasis on demand compliance establish and reinforce an analyst-driven perspective toward tax compliance. In this research, context matters, but only those contextual elements selected by the focus on a demand approach to compliance. For alternative conceptions of human nature, ethics and compliance, I have examined some decisions made in context and made sense of these from a pragmatist alternative theoretical perspective.

**Fairness and Compliance:**
**Making Sense of Immigrant Street Vendors**

Discussed above were analyst-driven and essentialist views of human nature and compliance. The data presented below reveal alternative conceptions of human nature and ethics. Pragmatist social theory is a tool for systematizing these observations.

**Human Nature**

Instead of reducing human nature to an *a priori* choice of self-interest or normative compulsion, pragmatists assume human nature is uniform, everyone has the same basic mental capacities and propensities, we are all capable of choice and habit, evaluation, deceit and honesty, and so on in generally the same way. Pragmatists start with the analysis of situations, particularly problem situations where situated freedom can be understood. Where a problem situation is identified, then a window to understanding and analyzing creativity and communicative action is opened. Identifying a problem identifies a sense of social organization, of particular individuals and interests and the particular biases and knowledge those involved bring to a problem.

Pragmatists anchor cognition to particular situations, particularly problem situations. In this way they came to see that

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13 This section relies on discussions found in Rucker, 1969, and Leaf, 1996.
people are interconnected by being part of problems and by sharing the language of a problem. This is in contrast to analysts a priori identifying a problem and imposing bottom-line sense of cognition from only a rational choice or a norm-driven perspective. Pragmatists make clear an alternative approach to human nature by recognizing the manifold of cognition and interest.  

Mind, thought and consciousness are explained as products of active processes involving a number of agents, not isolated individuals. Concepts are determined in the course of people’s activity. People know the world as a process of knowing activities. New problems are raised and met by new experience or information as “social conditions.” Thought and objects are equally real and are the result of problem solving activity. Ideas are tested and surrender to other ideas in the face of problems and data. This position implies that human nature is multi-faceted and that people are learners and communicators, habitual as well as choice-makers.

Experience is what composes reality and it is pluralistic, which is to say that experience is not some fixed category, or set of concepts. Experience changes with time and context. Concepts useful for relating experience can change and differ from person to person. Social reality is related and reconciled by different people in the course of reflection and communication. So, experience is complex and is located in different ways of knowing, moral, kin-oriented, etc. It is in relating distinct interests and experiences in light of different ways of knowing that street vendors come to make the choices they do. In contrast to analyst-driven method described above, this theoretical perspective makes clear why street vendors’ lives are complex, and invites us to understand how immigrant vendors make choices across seemingly incommensurable categories. This position assumes that situations can have more than one moral principle involved, but by

examining the ends involved, one principle might come to the fore and dominate the choice setting.

Ethics

The pragmatist approach to ethics is distinct from the discussions in the literature. Broadly speaking the difference is between imposing an ethic and measuring deviance from it and understanding ethics by studying conduct. In the one, law and ethics are equated and law tells us about state sanctioned behavior given moral or ethical force. But law need not be equated with ethics. For pragmatists, ethics is the worth of a whole action taken in its context and the moral problem is one of conflicting ends, interests and values. What is done is in reference to what is not done, and by examining both, distinct values are accounted for. Moral ideas only grow out of situations, so by looking at situations we see how people reconcile distinct ethical ideas. There are moral and ethical ideas — street vendors, tax practitioners, IRS agents all have them — but we can only practice, reconcile, and develop these ideas in light of particular choice-making information.


Street vendors view compliance as a balance between demand and supply problems. They are interested in the supply of adequate goods and services. Their ethic privileges their family life and future. They withhold taxes toward investment in private schools or in hopes of relocating themselves to better neighborhoods. They understand that there is a discrepancy between the “impersonal” services provided to different neighborhoods and they want better services than they receive. When they examine their situations some immigrant vendors recognize that further participation in the market depends on at least partly complying with tax law, so they do. They conform not out of interest in complying with societal norms but out of reconciling interest in future earnings and the lifestyle created by present earnings.

Street Vendors and Compliance

Immigrant street vendors acknowledge and account for the effects of a variety of competing moral principles on their tax compliance decisions. Street vending as an activity is considered part of the ‘informal’ economy and there are many recent discussions of ‘informality’ in a variety of literatures. The problem of informality to the state is regularly discussed in terms of misapprehended macro-economic statistics and missing potential revenues.18

Data and Method

My ethnography of Chicago’s Maxwell Street Market was conducted over a three-year period (March of 1989 and formally ending in July of 1992). I became a vendor to adopt the mindset of a participant by practicing their lifestyle. This practice legitimized my presence in both vendors’ and consumers’ eyes, and gave me insight into the vendors’ lifestyle and day-to-day circumstances. I sold used items for eight months and new bathroom accessories the remaining 12 months. More than 100 vendors were interviewed in the course of the research period. Many were interviewed multiple times. Every vendor, except one, described to me how they rationalized “illegal” minimization of their tax liability. I sampled to include variation in vendor ethnicity, gender, age and household composition. Of the people interviewed, 19 households were Spanish-speaking, 24 were black, 11 were white, and two were Asian. Interviews were open-ended, but directed from an interview guide. The questions were translated to Spanish and back-translated to English. The data below are from the 14 Spanish-speaking households that migrated to Chicago. My field notes include hundreds of informal conversations and observations on everything from my state of mind to the myriad of everyday Market activities. These vendors sell new and used goods, Sundays only, from displays set up in a 12-square-block area


southwest of downtown Chicago. The Market has operated since the middle part of the 19th century, but was recently moved because of the University of Illinois expansion. I coded and transformed this qualitative interview and field data using Qualpro (computer software for qualitative analysis).

Analysis
In contrast to demand considerations, we will use the term supply-side considerations for the way some immigrant street vendors understand the context of their compliance decisions. Instead of fairness as demand for bottom-line equity, we will see how some immigrant street vendors see fairness as a public goods problem and a market access problem. On the one hand, some immigrant street vendors see their tax compliance choice as a way to compensate for having poor public goods such as education or streets and sanitation. On the other hand, some immigrant street vendors see their tax compliance decision as a way to mitigate fairness concerns that stem from having unequal opportunity to participate in the market.

In each of the following examples we want to see how the vendors themselves relate aspects of their circumstances to aspects of the compliance choices they have to make. By doing so we get a sense of vendors circumstances and a sense of how vendors understand themselves and the choices they are making.

The first two examples are of vendors who paid no taxes and instead pay for their children's parochial school tuition. Lupe and her husband Diego both vend and both feel that the state fails to provide an adequate level of education to their neighborhood. While I conducted this research, Chicago public schools were widely condemned in the media. Lupe and Diego used vending income to put their children in private schools. Lupe comments on her assessment and contribution:

Our neighborhood schools only teach the children to join gangs. Oh, some do well, but I pay for my

children's parochial education and I know it is a better education. But every year it gets higher and higher. It started out at five hundred dollars every month (for four children) and most of the time all the money I make vending goes for tuition.

Lupe rarely pays tax on the money that pays for her children's education. Her choice was for her children's education and the hope of achievement she promoted in her children. In the choice between the state and her family, the family won. She makes the choice between tax and tuition pointed clear:

I know taxes should be paid, my husband started paying some taxes from his vending income. But my situation is different, he thinks of all of us, but I think first, always first, about my children. I know that education is important and they need it, so I try to help them get it.

Lupe could not be clearer than this. Her sentiments are echoed by most immigrant women who vend. However, it is important to note that her husband Diego began to pay taxes on his income and that she sets his sphere of concern as distinct from hers, his being 'all of us.'

Indeed Diego rarely addressed education, noting that part of the income he earned occasionally subsidized tuition and other expenses. But he assessed his compliance choice with more concern about the level and quality of services available in his neighborhood:

I understand that there are neighborhoods with good schools, good streets, less crime but these are also more expensive homes. I work hard at the factory and still can only make enough money for the home we have here. I want to live in a better
neighborhood but this is what we can afford and so we vend and we put up with canyons in the streets and sidewalks and we pay the parish tuition.

Context counts. People have some knowledge of their context and choices. This knowledge is often slim but people act on what they have. They choose in light of comparisons they can make from the information that is readily available from newspapers and visits to different neighborhoods. People struggle to make relatively stable income stretch as far as possible but then they make the choice to compensate for inadequacies from less stable income that they have more control over. Diego is well aware of what tax money is for:

I know that the money is for the good of the neighborhood, but what happens to it? Where are the workers? Only the politicians and friends are the ones that get help. Some families save money and try to move to other neighborhoods and for us that is what we will try and do as well.

Immigrant vendors are not the only vendors who withhold part of their tax burden for these ‘supply’ reasons, but among the most recent immigrants this logic and behavior were pervasive. Among the older migrants and among vendors of many years experience, neighborhoods and schools were less important because, as alluded to by Diego, those vendors had already purchased homes in neighborhoods they liked better.

Having poor services in a neighborhood or knowing that the government is not playing a sufficient role in local upkeep is another reason people purposely minimize their tax obligation. Prieto takes this view of the problem:

The money they collect, the tax that people pay, where does that money go? I mean does it go back into that area or does it go into the general city fund or something like that? I think if they would take that money and put it back into that area and kept that area up and when something was wrong to build it up or fix it up I think people would want to live in their neighborhoods. But neglect has caused destruction; the city has not put things back into many neighborhoods.

Since all but one of the vendors I spoke with admitted to evading taxes in one way or another, the question here is not how they evade, but why. Vendors do not use the state or other impersonal standard as a reference point when calculating their income tax liability; instead the local neighborhood and what the state is doing, is the important reference point. Prieto is among the many vendors who see the lack of city services in neighborhoods as a reason to not pay taxes.

This line of argument can be extended to people who feel that state policy is not in keeping with their higher ethical or moral purpose, but the community of interest for such alternative purposes (the "sovereign" groups for instance) is much smaller than those interested in education or neighborhood quality-of-life issues. Most every vendor, immigrant or not, indicated an interest in their neighborhood and the quality-of-life available to them.

On the other hand some vendors, as Lupe and Diego above, recognize that to pay taxes is to become more closely related to aspects of economic life that might lead to greater economic mobility. We can refer in this context and literature to opportunities for market participation.19 Martin sells leather goods and was trained in leather craft in Mexico. He hopes to have his own business some day. Meanwhile, he has come to understand how, besides cash income, vending can support his dream.

I report taxes quarterly, not on every dollar I make, but pretty close. I understand that bankers pretty much predict how much business you’re doing based on your taxes and if I file year after year of very low taxes my business isn’t doing much in terms of sales and so when I go to the bank and want to borrow money they want your income taxes and so they won’t give me much... For a lot of people who aren’t looking to get bank loans or selling their business, well, that’s one thing. But if I’m going to sell my business when I don’t want it any more and because my time and effort is worth a lot of money and my clients and my repeat customers...then I can show them in records how much my business has been making over the years and so others won’t be able to do that if they don’t pay their taxes... So, I pay some since it is to my benefit.

Martin is among many vendors planning for a future in business, or for a home in a more expensive neighborhood. He is cognizant that his choice is not the only possible choice and is aware that other people behave differently. Martin comments on different choices:

Look, I don’t pay all my taxes, I have other things I want to buy, my wife takes care of our children and life is expensive. I know, look around you (referring to Lupe and Diego), that many people have children and they want their kids in the best schools they can. Myself, I want the best neighborhood I can, it’s like the old saying, “Cada Chango su columpio,” every monkey has his swing.

Each distinct context, swing for Martin, acts as different choice circumstances for vendors. More detail regarding these contexts and choices could be provided, but are better left for a detailed analysis of household decision-making processes. The point is simple. Immigrant vendors realize that there are multiple principles on which to act and they act considering the entire situation and the worth of each choice in its context. Furthermore, contexts change and so do decisions; Diego and Martin both exemplify learning processes. They know that a close relationship to the market may mean mobility but it also requires that they conform to standards of a distinct institution. Weighing these choices leads them to change their behavior with respect to tax compliance.

So, these are supply considerations, and though they are sensible they would not be obvious to researchers employing the typical conceptions of ethics and human nature discussed above. These data have also provided access to some details of compliance situations and how they change over time. Not all immigrant vendors behave in terms of supply considerations. Some vendors do choose to evade taxes for bottom-line or demand-side considerations, simply because they can maximize their income by not declaring cash income. As acknowledged by Reckers, some vendors do not equate compliance choices with ethical or moral dilemmas.20 By describing the choice context we get a sense for how supply-side effects are different from demand-side effects on compliance decisions. To replicate this work we need to synthesize from this data conceptions of human nature and ethics and relate them to a type of social science that rejects having to choose from demand- or supply-side types of compliance.

In these data we get a picture of the complex circumstances surrounding compliance decisions. Vendors strategize on a variety of dimensions, mixing distinct principles in an ongoing process, resolving situations, identifying new problems. They are not

20 Reckers, Sanders, and Roark, op. cit.
wholly self-interested, and they comply to a variety of demands. We should turn now to how to make systematic sense of these data with an alternative conception of human nature and ethics.

Policy Implications: Where Should Fairness Be Located?

Immigrant families invest in their children and their neighborhood hoping that they will reap market benefits in the future. They do this because they are unhappy with the results of current state investments in local public goods and because they can avoid some or all of their tax burden. Some immigrant vendors comply, at least partly, with tax law because they see the importance of complying for future opportunities at market participation, but they consistently privilege their families in their choices. This paper evaluated a typical approach to tax compliance behavior and indicated a distinct approach to understanding immigrant vendor tax compliance behavior by starting with how the vendors themselves understand and relate to compliance, over time and in the course of reconciling distinct interests. But how does the behavior of immigrant vendors speak to the relationship between state and society?

Staudt identifies a 'market participation' bias in tax policy that is implicit in the historical study of the intellectual foundations of the tax code. Demand-side discussions of compliance, operationalized with the analyst driven conceptions of human nature and ethics are an implicit affirmation about the relationship between taxpayers and the state: that it is the state's job in policy to produce a 'level' playing field for participation in the market. By equalizing bottom-line burdens, the state attempts to level opportunities to participate in various market activities, savings, consumption, investment etc. So the idea of compliance assumes taxpayers are mostly interested in the bottom-line but also implicitly focuses on market participation. Compliance, to researchers, might be said to have the met-assumption that fairness of market participation, thought of as fairness of bottom-line burdens, motivates taxpayers. This emphasis on equalizing market participation implicitly discounts an alternative relationship between state and taxpayer, the perceived fairness of public goods. Assumption of the demand side emphasis is to focus on impersonal standards of fairness. This further presumes that people will always abstract their intimate relations from their tax situation. They might sometimes, but not always but what is important is how this presumption also has to do with leveling the demand side of the playing field. The playing field for participation in the market is leveled.

In demand-side research, ethical behavior is behavior compelled by the focus on a particular relationship between the state and society that reinforces the market system and veils the implicit demand-side interest in leveling the public goods playing field. Focusing on the supply of public goods makes problematic choices that privilege market participation. In this paper I have sought to reveal the assumptions that underlie researchers emphasis on demand-side compliance, and an implicit model of state-society relations that privileges market participation. This makes our policy question clearer: what mix of demand and supply policy best meets the needs of citizens as they relate to society?

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21 Staudt, op. cit.

22 Take, for instance, recent litigation on the way school districts are funded.