

# **Family Tax Benefit and Cash Economy Activity**

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## Contents

Executive Summary .....	7
Chapter 1.....	9
Family Tax Benefit.....	9
Description of benefits.....	9
“Teething problems”.....	11
Developing hypotheses: the sensibility surrounding the Family Tax Benefit.....	13
Developing hypotheses: managing the risk of Family Tax Benefit debt .....	14
Linking the Family Tax Benefit with cash economy activity.....	17
Chapter 2.....	20
Cash Economy Activity.....	20
Definition of the cash economy .....	20
Size of and change in the cash economy .....	21
The impact of the cash economy.....	23
Causes for growth in the cash economy .....	26
What we know about the cash economy behaviour of individuals.....	27
Background to measuring individual cash economy behaviour .....	27
Chapter 3.....	33
The Methodology .....	33
Sources of data .....	33
<b>Part I</b> .....	33
National random survey in 2003 .....	33
Sampling design for the 2003 survey .....	35
Cautionary note on the sampling approach used in the 2003 survey .....	36
Affinity group data .....	37

Questionnaire data from the affinity group base.....	38
<b>Part II</b> .....	38
Comparison of key variables: 2003 survey with ABS population estimates.....	39
State or territory.....	40
Sex.....	41
Occupation.....	42
Age.....	43
Work status.....	44
Number of adults in household.....	45
Personal income.....	46
Summary of differences between the 2003 survey and the 2003 ABS statistics....	47
Comparison of key analytic variables in the 2003 survey with FACS statistics ....	47
Comparison of behavioural and attitudinal variables across four surveys .....	50
Summary.....	53
Chapter 4.....	54
Family Tax Benefit, Cash Economy Activity and Social Demographic Correlates... 54	
Approach.....	54
Relationship between receiving benefits and cash economy activity .....	55
Relationship between receiving benefits and social demographic variables.....	57
Summary.....	61
Chapter 5.....	62
Lifestyle and Employment Instability.....	62
Purpose of chapter.....	62
Identifying life style dimensions.....	63
Interpreting the factors: Factor I, economic insecurity.....	66

Interpreting the factors: Factor II, aspirations for success.....	67
Interpreting the factors: Factor III, financial planning .....	68
Interpreting the factors: Factor IV, financial social capital .....	69
Interpreting the factors: Factor V, social detachment from the system.....	70
Measuring instability in employment.....	70
Interpreting the factors: Factor I, full-time employment.....	72
Interpreting the factors: Factor II, unstable employment .....	72
Relating lifestyle dimensions and unstable employment to receipt of benefits.....	73
Summary.....	74
Chapter 6.....	76
What is Distinctive about Family Tax Benefit Recipients?.....	76
Approach.....	76
The logistic regression models.....	79
The role of the social demographic variables .....	80
The role of the lifestyle dimensions .....	80
Social demographic and lifestyle variables together.....	81
Chapter 7.....	83
Why Family Tax Benefit Recipients do Cash Work.....	83
Logistic regression model predicting working for cash-in-hand .....	83
Logistic regression model predicting purchasing and supplying in cash economy	84
Summary.....	86
Chapter 8.....	87
Doing Cash Work or Collecting Family Tax Benefit? .....	87
Effect of Family Tax Benefit on cash work.....	87
Effect of Family Tax Benefit on Broader Financial Decision Making .....	89

Knowledge of Family Tax Benefit.....	93
Rational decisions based on Family Tax Benefit.....	96
Social contexts and values .....	98
Summary.....	102
References.....	104
Appendix.....	108

## **Executive Summary**

A nation-wide survey of 7646 Australians conducted in 2003 revealed slightly higher rates of working for cash-in-hand among those receiving social security benefits.

For those receiving a Family Tax Benefit, participation in cash economy activity was 13% compared with 11% for those receiving other benefits, and 8% for those receiving no benefits at all.

This difference disappeared when controls were introduced for social demographic characteristics (age, sex, marital status, work status and number of children) and lifestyle choices (economic insecurity, aspirations for success, financial planning, financial social capital, and social detachment from the system).

There was little evidence to suggest that people engaged in cash economy activity in order to maximize their Family Tax Benefit either from the quantitative or qualitative parts of the study.

From the affinity groups, there was some anecdotal evidence of speculation that cash work would be attractive should one have the opportunity. But there was no empirical evidence from the survey to illustrate that this was happening on a significant scale. Of considerable interest was the fact that among this well educated population, the Family Tax Benefit was viewed as complex – to both understand and apply for. There was also tacit resistance to the idea that behaviour should be directed by government

policy, although for some segments of the population who are more desperate for money, it undoubtedly is.

The drivers of cash economy activity and of being a Family Tax Benefit recipient are not identical. Where there is overlap, the common theme seems to be poverty – the perception of having too little money to build a successful life and not enough money to do any financial planning.

The differences between the drivers of signing on for the Family Tax Benefit and cash economy activity relate to detachment from the system, financial social capital (support from friends and community networks) and stability in employment conditions. Those receiving a Family Tax Benefit tend to be less detached, have more financial social capital and more employment stability. Those involved in the cash economy are more detached from the system and experience greater instability in their employment conditions.

From the survey data, there is some evidence to suggest that those who are both purchasers and suppliers in the cash economy are more likely to receive a Family Tax Benefit when all other social demographic and lifestyle variables are controlled. The circumstances surrounding this small “pocket” of players who occupy this privileged position cannot be gleaned from the data we have available.

## **Chapter 1**

### **Family Tax Benefit**

#### *Description of benefits*

On 1 July 2000, the Australian Government revised the package of assistance for families with children, after announcing that they were condensing twelve welfare payments into three: Family Tax Benefit Part A; Family Tax Benefit Part B; and the Child Care Benefit. The reasons given for the change were greater administrative efficiency, a more user-friendly system, and more money in the pockets of more families (Sydney Morning Herald, 2000, 1 April).

The purpose of the Family Tax Benefit Part A was to help families with the cost of raising children. Importantly, the coverage of the benefit was broad. The benefit is paid for dependent children up to 20 years of age and dependent full-time students up to the age of 24 years of age who are not receiving other benefits. The benefit is income tested above a threshold (this value has increased from just below to well over \$30,000 in the past five years), but does not cut out quickly. A minimum benefit, for instance, continues until combined income exceeds a value that initially was above \$70,000, and currently is in excess of \$80,000. Up to 90% of families are estimated as being beneficiaries (Adelaide Advertiser, 2002, 24 January).

Family Tax Benefit B is targeted toward single-income households and sole parents and may be paid in addition to Family Tax Benefit A, depending on the level of the

family's combined income. Low-income families with a sole breadwinner are likely to benefit from both Parts A and B. Families with a single but very high income earner (greater than \$100,000) will benefit under Part B, though not under Part A. While the benefit is designed to support "stay-at-home mums", it does not preclude the possibility of some part-time work. The Part B payment can be made providing any secondary earner in the family stays below the income threshold, which initially was just over the \$10,000 mark and now is just under \$20,000 per year. The magnitude of the Part B payment is not affected by earnings providing the amount falls below a lower threshold of approximately \$4,000 per year (originally around \$2,000 per year). When earnings exceed this amount, the magnitude of the Part B payment is reduced on a sliding scale. Apart from the secondary earner's income, Part B payments are affected by the age of the dependent children. Part B payments are weighted in favour of children below 5 years of age.

The third benefit, the Child Care Benefit, is at its maximum for low-income families (up to around \$30,000 per year). The amount paid gradually declines as family income exceeds this threshold.

Family Tax Benefit payments are either made as direct fortnightly payments into bank or credit union accounts, or they are paid through the tax system as a lump sum on lodgement of a tax return or as a reduction in PAYE tax deductions across the year. The amount to be received in payments across the year is based on a family's estimate of income expected in the next financial year. It is now possible for a family to opt for receiving, for example, the Part B payment fortnightly and the Part A payment as a

lump sum, a strategy that has been recommended by the government to manage the risk of inaccurate forecasts for income for the next year.

While the Family Tax Benefit payments are directed to families, the Child Care Benefit is made directly to the provider of child care (with parents responsible for paying the balance). Alternatively, the Child Care Benefit may be paid as a lump sum to the family at the end of the financial year by the Family Assistance Office at Centrelink.

*“Teething problems”*

The simplification of the family support system was achieved through condensing twelve payment arrangements into three. Conceptually, there can be little argument that the new arrangements were tidier. But what has been essentially a policy clean-up at the macro level does not necessarily translate into clarity and simplicity at the micro level. People’s lives may not have the order and rationality that are required to manage these benefits in a way that enhances their sense of economic well-being. As Eliza Ahmed has argued, policy can often make perfect economic sense at a macro level, but fail the test of emotional intelligence at the level at which the policy requires cooperation from members of the public (Ahmed and Braithwaite, 2005).

In the year following the introduction of the Family Tax Benefit, decision making for families around the schemes was to prove complex and in some cases economically disastrous (Australian Associated Press, 2002, 5 April). Sole custodial parents were concerned that they would be forced into debt, owing the government part of the

Family Tax Benefit they had received when non-custodial parents made a claim on their share of the payment through the tax system (The Age, 2001, 23 April).

Problems also emerged when estimates of the coming year's income made by families were not accurate, in particular, when families underestimated the amount that they would earn. The problems were most likely to arise when a secondary earner, often a wife, returned to the workforce, or when a child left school to enter the workforce (The Age, 2001, 12 June). In theory, it seemed acceptable, arguably desirable, that families be able to plan their futures by choosing the method of delivery of government support that suited them best. But clearly the expectations and plans of individuals within families had to be responsive to the expectations, plans and competencies of others. Uncertainty about the future and the unpredictable actions of others, including the government's administrative arm, meant that complications lay in store for many Australians who claimed the Family Tax Benefit.

The confusion in the system and the public outcry over departmental demands to repay debts resulted in the Prime Minister announcing that the government would waive the first \$1,000 of debts per family. More than 500,000 families inadvertently had over-claimed family tax and child care benefits. The waiving of debts reduced the number to 145,000 (Australian Associated Press, 2002, 5 April).

In spite of government fine-tuning to ease problems in ensuing years, families have continued to accumulate debts that they have not anticipated, leaving the Ombudsman in February 2003 to deliver a scathing report on "the large amount of family debts, the size of the bills and the impact on low income families" (Australian Associated Press General News, 2003, 1 March; Commonwealth Ombudsman, 2003). Administrative

errors by Centrelink have also attracted criticism (Thomas, 2004). In spite of the publicity and concern expressed about the debt incurred when families underestimate their income and insist on fortnightly payments of the Family Tax Benefit, the evidence suggests that education, experience and the government's reforms to reduce errors and provide safeguards have not corrected the problem. Ninety percent of families on the Family Tax Benefit still opt for fortnightly payments, despite the risk of debt due to their underestimating their family's annual income for the following financial year (The Australian, 2004, 10 May). What is more, one third of families are ending the financial year with a Family Tax Benefit debt (The Australian, 2004, 10 May).

*Developing hypotheses: the sensibility surrounding the Family Tax Benefit*

The purpose of the Family Tax Benefit, its administration and its engagement with Australian families are all on the public record as a result of the government's active promotion of their new measures for providing family support and the media's interest in these developments. A review of the FACTIVA database from 1996 to 2005 uncovers the nature of the message delivered to the Australian public through the media. The message has been that the government is (a) supporting as many Australian families as possible; (b) respecting the choice of families to have a parent not in the workforce, particularly when children are under five; (c) respecting the choice of two income families who require child care; and (d) expecting families to take responsibility for planning and managing their finances and their economic and work situation so that they do not find themselves with a Family Tax Benefit debt that inflicts hardship on their families. Taken together this means that it is likely that

families have a “sensitivity” about the Family Tax Benefit and it is likely that this sensitivity underscores family decision-making.

Family Tax Benefit Part A was introduced to the Australian public as a measure that was to help families raise their children. As such, it makes sense that families would see the benefit as an allowance that they needed and would use fortnightly, not a payment that they might receive retrospectively. Family Tax Benefit Part B recognizes the costs incurred by primary carers who are not substantially in the paid workforce, regardless of whether or not they have a partner, and regardless of whether that partner is a high or low-income earner. Therefore, Family Tax Benefit Part B may provide disposable income that is not needed immediately, or it may be critical to a family making ends meet. Recipients of Family Tax Benefit Part B therefore may have the luxury of receiving their payment as a lump sum to compensate them for past expenditure or they may be in a hand-to-mouth situation, with a regular payment being essential for providing for the needs of their children. Considering the claimants of the two types of Family Tax Benefit together, it seems likely that there will be more cases of immediate need than cases where the Family Tax Benefit is regarded as a ‘saving’ for a rainy day. The sensitivity promoted around the Family Tax Benefit and the economic realities of many people’s lives may explain why most payments are received fortnightly.

*Developing hypotheses: managing the risk of Family Tax Benefit debt*

If most families opt for receiving the Family Tax Benefit payments fortnightly because they regard it as government support for helping them meet their children’s

daily needs, they are either wittingly or unwittingly living with the risk that they will encounter an overpayment situation. Awareness of the risk is not necessarily foremost in people's minds. Individuals can be caught out (Brennan, 2004; Doyle, 2001; McInnes & Sacco, 2001; Treble, 2002). In the first risk scenario, the risk is not one of the individual's making. Recipients rely on an administrative system to assess their domestic situation and make a payment. If administrative procedures are faulty, individuals bear the consequences of being either underpaid or overpaid, and in the latter case, returning the money to the government. There is no guarantee that a debt waiver will be granted even if the recipient of an overly generous Family Tax Benefit is innocent of the error (Treble, 2002). This is one type of risk that fortnightly Family Tax Benefit recipients face and that has attracted a good deal of media attention. It might be summarized as the "bad luck with government" risk.

Another risk involves a change in annual income, a not extraordinary occurrence with a mobile workforce and multi-person households. The consequences of a change in the income earning capacity of a member of a household for recipients of the Family Tax Benefit are threefold. First, a source of income may unexpectedly be lost without a redundancy payout or other form of compensation. This means that the Family Tax Benefit becomes a vital source of support, although probably not an adequate one because it was based on assumptions about a continuing higher income. In this situation, the Family Tax Benefit is helping, but not enough to keep the family going. Families will be eligible for an extra payment at the end of the financial year, but this does not provide timely relief nor is it responsive to the "sensitivity" of day-to-day support that the Family Tax Benefit is reputed to address. Individuals in this situation face a "feeding mouths" risk.

The second form of risk associated with incorrect income estimation is the opposite scenario. A person may acquire additional and unexpected income, with the result that the Family Tax Benefit that is being received fortnightly is now too high and must be paid back. In effect, this means that a family will be living “in clover” for part of the year, until repayment time arrives. If money has not been put to one side to meet the debt, families may find themselves unable to pay. Although the government has shown “tolerance” for those who inadvertently acquired a Family Tax Benefit debt (The Age, 2001, 2 July), there is also a clear expectation that Australians should be learning to better manage their private economic affairs and financially plan for the future (Australian Associated Press General News, 2002, 2 September).

“Responsibilization” of individuals to take control of situations and solve problems, even those that sometimes seem to be beyond their control, is a discourse that is apparent in discussions of citizen-government and employee-employer relations in many areas beyond welfare. Responsibilization reflects a desire to reinvigorate a sense of commitment and initiative in the population and reverse what some see as a paternalistic reliance on governments and firms to look after those they serve or those in their employ. Responsibilization in relation to the Family Tax Benefit may bring out unknown financial planning qualities in some, but others may be left on the wayside, unable to make much sense of or take control of their chaotic economic fortunes. Those caught in this trap may be said to be carrying an “overindulgence” risk.

The third risk arising from estimating future income in order to receive a Family Tax Benefit occurs in families where workforce participation is unstable and

unpredictable. A person may have no idea if their earned income will be over or under their estimated income until the end of the financial year when they lodge their tax return. Moreover, their capacity to estimate the goings and comings of others in the household may be equally, if not more uncertain. If this is the case, individuals who are receiving fortnightly Family Tax Benefits are in an especially difficult situation. It makes little sense to conceive of them as poor managers of the risks posed by accepting a Family Tax Benefit fortnightly, as some might conceive of those described above as the overindulgent group. Where individuals have little choice as to where and how they work, and no knowledge of the next job, managing risks associated with the Family Tax Benefit's fortnightly payments seems to be an impossible mission. In other words, individuals lack control over their life situation to such an extent that financial planning is a meaningless concept. We might consider this "a live for the moment" approach where debt may well be undesirable, but is an uncontrollable consequence of lifestyle.

#### *Linking the Family Tax Benefit with cash economy activity*

This report examines the relationship between being a recipient of the Family Tax Benefit (either Parts A or B) and working in the cash economy. The research is guided by two broad hypotheses that are not necessarily mutually exclusive. The first is the **risk hypothesis**: Individuals manage the risks of debt that may occur with the Family Tax Benefit by working cash-in-hand so that they have a cushion to protect them against unexpected and adverse economic events. The second is the **exploitation hypothesis**: Individuals who see opportunity to exploit the system for their own material gain will do so, and will do so in relation to all government benefits, not just

the Family Tax Benefit. The second hypothesis for explaining cash economy activity is a general hypothesis that has been proposed by others and will be expanded upon in the next chapter. The first hypothesis, however, is tied to the way in which the Family Tax Benefit is administered and therefore warrants further explanation here.

For individuals experiencing the risks that come with “live for the moment,” undertaking cash economy work while receiving the Family Tax Benefit is arguably the most viable management strategy. In Merton’s (1968) terms, in order to achieve the desirable outcome of being self-supporting and staying out of debt, the individual is attracted to the illegitimate path of earning cash income as a buffer against the economic uncertainty associated with her employment situation.

A similar argument applies to those facing a “feeding mouths” risk. They may work in the cash economy to make a little extra money to make up the shortfall that has occurred because they have lost their job and are unable to meet their family’s immediate needs on their current Family Tax Benefit. As their debts and unmet needs accumulate, and as they face uncertainty as to when they are likely to receive a topping-up of their Family Tax Benefit, an option that is likely to deliver a sense of control over economic well-being is cash economy work. Individuals obtain the cash the moment the work is done and they can feel a sense of security through their perception that the money is all theirs to use as they please, providing no-one finds out about it.

The argument for cash economy work in the face of the “overindulgence” risk is likely to be somewhat different in so far as it may have more to do with greed than

desperation. The desperation interpretation becomes viable if there is evidence of poor financial management and planning and misunderstanding of the consequences of Family Tax Benefit overpayments. Greed seems equally plausible if it can be argued that individuals who are doing better than expected are buoyed by their own success and don't want to lose it by returning money to the government. Therefore they deliberately set out to conceal as much of their income as possible in order to protect their Family Tax Benefit payment. The greed interpretation gains plausibility from prospect theory (Kahneman & Tversky, 1984). In essence this means that we all share a bias against purposefully reducing our prospects of wealth. We are consistently more risk taking when we face the prospect of losing money we already have in our pockets than we are when we face the prospect of collecting money from another's pocket (in this case, the government). If we look at cash economy activity among Family Tax Benefit recipients through this lens, it might be the case that the biggest offenders are those who do not want to repay the "illegitimate" benefit that they have acquired unexpectedly and inadvertently through their economic success.

The question of whether recipients of the Family Tax Benefit take the path of cash economy activity as a risk management strategy or through greed, or through both is a question that will be examined in subsequent chapters. First, however, we will briefly review the cash economy literature and the determinants of individual cash economy behaviour.

## Chapter 2

### Cash Economy Activity

#### *Definition of the cash economy*

There is no commonly agreed or used definition of the underground, or cash economy. While terms such as ‘underground,’ ‘grey,’ ‘hidden,’ ‘shadow’ and ‘cash’ economy are often considered to represent the same thing, their definitions generally include or exclude different activities. Schneider and Enste (2000:78) provide a commonly used definition: “all economic activities that contribute to the officially calculated (or observed) gross national product but are currently unregistered.” This is the definition that is adopted for present purposes, although like Schneider and Enste, we acknowledge that the definition does not cover all aspects adequately.

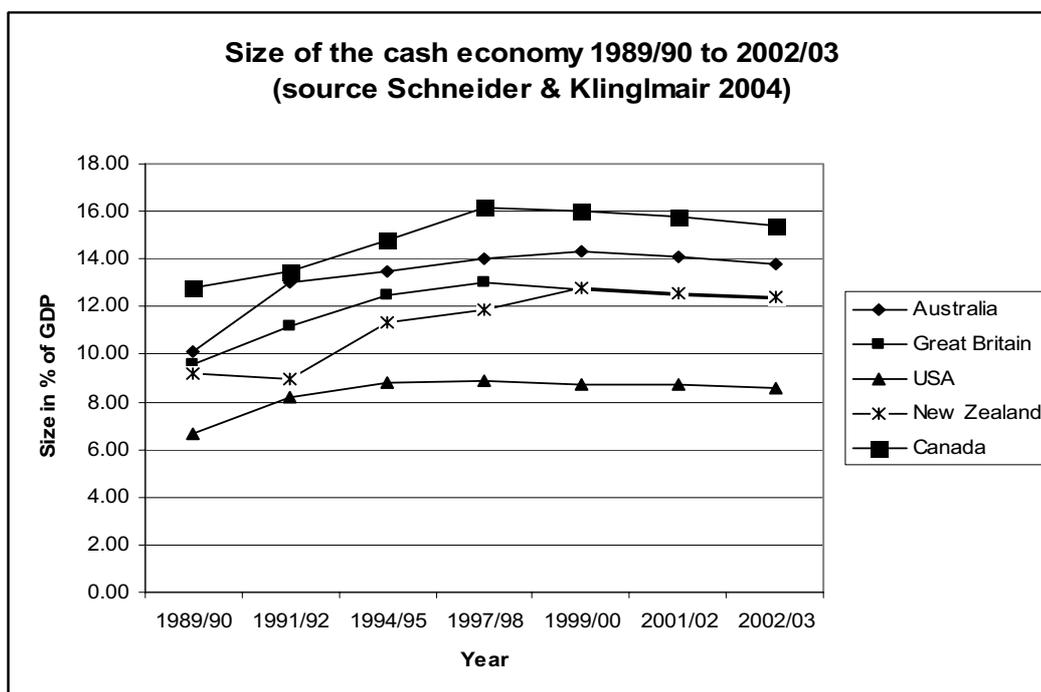
Differences in definition explain part of the reason for different estimates of the size of underground, shadow or cash economies. Another explanation for differences in estimates is associated with different calculation methods and the assumptions underlying them (see Breusch, 2005a and 2005b for a recent discussion of these issues, and Bajada and Schneider, 2005 and OECD, 2002 for a summary of how methods produce different estimates). These sources of dispute and ambiguity mean that the size of cash economies is usually understood as lying within certain ranges. Consistency in findings across methods and assumptions is critical to having some confidence in empirical research on the cash economy. For this reason,

methodological triangulation is sought to give credibility to findings and assertions about the cash economy, how it is changing, and what is driving the change.

### *Size of and change in the cash economy*

Systematic analyses of the size of cash economies in developing, transition and OECD countries have been done by Schneider and Klinglmair (2004) and Schneider (2002). Methods used are the MIMIC-method and currency demand approach (see Schneider & Enste 2000 for the rationale for this decision). Figure 2.1 shows changes in estimates for Australia and four comparable OECD countries for over a decade using data from Schneider and Klinglmair (2004).

Based on Schneider and Klinglmair's figures, the cash economy in Australia has increased from 10.1% in 1989/90 to 14.3% in 1999/2000, and then decreased to 13.8% in 2002/2003. This is an overall increase of 3.8% over a thirteen-year period (see Figure 2.1 below). Based on a figure of 13.8% of GDP, Australia's cash economy sits about 2.6% below the OECD average for 2002/2003 of 16.4%. It is less than the size of the cash economy in Canada, but more than that of Great Britain, New Zealand or the USA. The graph in Figure 2.1 shows a similar growth pattern in the cash economy across countries over the decade. In each of these five countries, an increase in the early 1990s is followed by a levelling off, or slight drop, in growth in the late 1990s.



**Figure 2.1: Australia’s cash economy 1989/90 to 2002/03 compared with four OECD countries (based on figures from Schneider and Klinglmair 2004)**

Bajada (2002) uses a variant of the currency demand method and has concluded that over the period from the mid 1960s to 2000, there has been little change in the size of the cash economy in Australia, with an approximate average of 15% of GDP. His estimates for Australia concur with those of Schneider, somewhere in the range of 12.2% to 15.4% of GDP in 2000 (Bajada, 2002:88).

A far more conservative estimate has emerged from the Australian Bureau of Statistics (ABS). Use of the recommended OECD approach entailed the analysis of each component of GDP using “subjective judgments” about the maximum level of understatement (ABS, 2003:3). The ABS (2003:3) acknowledged that such judgements were “obviously subject to a large margin of error”. This method assumes

that large to medium businesses have little involvement in the cash economy, and that small businesses and individuals are those predominantly involved in understatement of income. The ABS (2003:5) concluded that:

The largest possible upward adjustment required to income for the underground economy would be in the order of 5%.... Given the adjustments already made for underground transactions in the national accounts compilation, the ABS considers it highly unlikely that the level of GDP could be understated by more than about 2% on account of missed underground transactions.

The ABS (2003:6) is currently considering “how to develop estimates for historical periods,” so that the trends documented by the OECD can be verified.

#### *The impact of the cash economy*

The impact of the cash economy can be both positive and negative, social and economic. Briefly, the negative impacts include limiting the capacity of government to collect revenue; creating inequity between taxpayers; reducing government’s knowledge of the economy and therefore its capacity to steer the economy in productive and efficient directions; distorting macroeconomic policy; threatening the legitimacy of the tax system; and eroding moral (law abiding) standards (Brooks, 1998). Most importantly from the perspective of individual citizens and their social contract with government, cash economy activity, if substantial enough, will threaten

both “the quality and quantity of publicly provided goods and services” (Schneider & Enste, 2000:87).

Cash economy activity can be costly to the welfare system where payments are contingent on income earned. The extra income received in the cash economy may not be declared and the payee seemingly earns less than they actually do.

Consequently they may remain below income thresholds at which government benefits and payments can be claimed. Those taxpayers engaging in cash economy practices may just be unthinking and assume no harm is being done by their own small gain. Or they may knowingly and painstakingly be calculating their returns and manipulating their income so that they fall within cut-off levels for welfare benefits and payments such as pensions, family allowance, health care cards, rental assistance, and so on (see Brooks, 1998). When false claims on limited welfare resources are made, there is less in the pot for those who are genuinely entitled to government benefits and payments and require the support to meet their most basic needs and those of their dependants.

Cash economy activity may deplete the resources of government in other areas as well. Payments individuals should be making as child support and Higher Education Contribution Scheme (HECS) contributions may be lower than they should be through cash economy activity. Cash economy work can ensure a flow of income that is hidden from government, allowing those who want to avoid child support payments or student loan repayments to keep their recorded and reported income below a payment threshold. In the case of child support, the costs of this behaviour to government are twofold. Not only is the income untaxed, but as a result of its

invisibility, the custodial parent receives higher levels of supporting parent payment from the government to compensate for the lack of child support received.

Within a well-functioning democracy, it seems reasonable to conclude that individuals rather than the collective experience the positive effects of the cash economy. The individual giving the cash pays less for a service than they usually would, and thereby retains more disposable income. The individual receiving the cash also acquires more disposable income, without overhead costs imposed by government and without taxation, while at the same time lightening any repayment responsibilities they may have through government.

While the downside of the cash economy is most evident to government and the upside is most evident to its citizens, it is important to acknowledge some points of reversal to this argument. Schneider and Enste (2000:78) point out that if the cash economy increases disposable income of individuals, this will increase an individual's spending capacity. However obtained, an increase in spending capacity will have a beneficial flow-on to the official economy. Also, a cash economy may highlight and help to resolve inefficient government policy (Fleming, Roman & Farrell, 2000).

On the other side, individuals may gain in the short-term through participation in the cash economy, but there can be long-term disadvantages. This is particularly the case with superannuation. Those receiving cash-in-hand pay less tax, but it is also likely that their employer is not paying their superannuation entitlement. Those who have been excluded from the official economy may miss out on benefits that can come in handy later on, in case of accident, or retirement.

### *Causes for growth in the cash economy*

Much has been written about the reasons people engage in shadow or cash economies. Alm (1985) highlighted “increased tax burdens, greater government regulation, and widespread distrust of government” as reasons for growth. People increasingly want to limit their transactions with government, and do so by staying beyond its reach.

Cash economy activity has been linked with obtaining and maximizing social security payments (Bajada, 2002; Bajada & Schneider, 2005; Brooks, 1998; Schneider, 2002). Any benefits that are means-tested are open to exploitation by those who can successfully hide their income. These days, cash economy is a fairly unsophisticated way of protecting income from the government and certainly a poor choice for concealing large sums of income, but it undoubtedly remains the most viable option for those who are not part of the economic elite in Australian society (personal communication, Greg Rawlings, November 2005).

Brooks (1998) includes other factors in his analysis of why people engage in the cash economy: economic hardship as a result of stagnating real incomes and increases in unemployment; increases in self-employment; a shift in the economy to services; changing demographics; forces of globalisation; and a decline in tax morality.

Government policy and actions feature prominently in accounts of how the cash economy can undergo a growth spurt. Schneider (2002) highlights this point when he states that government aiming to decrease shadow economic activity has to first and

foremost analyse the complex and frequently contradictory relationships among consequences of its own policy decisions. Others also maintain that “the size of the shadow economy...may provide governments with indicators of potential policy flaws” (Fleming, Roman & Farrell, 2000:5).

#### *What we know about the cash economy behaviour of individuals*

While macroeconomists have monitored and documented trends in the growth of cash economies at an aggregate level, their analyses are unable to provide insight into the behaviour of individuals: Who is engaged in cash economy activity, how much are they earning, what are they doing, and why are they doing it. Micro-level analyses of the behaviour of individuals are beginning to appear in the literature.

#### *Background to measuring individual cash economy behaviour*

One approach that has emerged in the literature to identify the drivers of cash economy behaviour has been to ask people why they think they do what they do using a focus group methodology. Sometimes they are asked about their own behaviour, sometimes they are asked about the behaviour of others. This approach provides important insights into the discourse that surrounds cash economy behaviour in the community and is useful for initiating discussion and debate about the rights and wrongs of the behaviour through media campaigns and political debate. Focus groups, however, cannot answer the question of why people do what they do. Such knowledge is often unknown to those who behave in particular ways. Sometimes not knowing is innocent, sometimes far from it. Individuals don't want to face explanations of their

behaviour that will make them feel bad about themselves. We all engage in self-deception to protect our identities, until we find a socially acceptable rationale to justify our behaviour. Focus groups create opportunity to find and share these acceptable rationalizations. This process is important in its own right, but the process should not be misconstrued as one that provides insight into the inner motivations for why people do what they do. Schneider, Braithwaite and Reinhart (2001) found that public perceptions of the reasons for cash economy behaviour provided little in the way of predictive accuracy for those who worked in the cash economy and those who did not.

A more appropriate methodology for detecting drivers of cash economy behaviour is one that measures a set of likely explanatory variables independently and then uses statistical procedures to identify which variables are the strongest predictors of the behaviour. The challenge in using this approach is not so much statistical, but rather lies in knowing which variables to measure, and how to do so in a reliable and valid way.

In 2000, the Centre for Tax System Integrity (CTSI) at the Australian National University (ANU), in collaboration with Professor Friedrich Schneider from the Johannes Kepler University of Linz, Austria developed a survey module to measure cash economy participation directly through asking survey participants about the work that they had done for “cash-in-hand” and the work they had paid for “cash-in-hand.” A survey methodology was also used to collect data for other variables that were presumed to affect the decision to engage in cash economy activity.

At the outset, it should be emphasised that the method is not “a cure all” for the problems associated with estimating the size of the cash economy noted earlier. Furthermore, our work on measuring cash economy activity is still in its early stages of development, requiring repeated testing for reliability and validity. All that can be claimed at this stage is that the approach is promising. It should be seen as simply another method that can shed light on the cash economy from a different perspective.

Needless to say, the survey method that we have developed with Friedrich Schneider brings errors of its own kind to cash economy estimation. The individual survey method is prone to three kinds of error. First, people may be reluctant to admit to illegal behaviour for fear of being caught or they may have difficulty admitting to themselves they have engaged in illegal behaviour (a problem shared with focus groups). A substantial psychological and criminological literature has examined the ways in which individuals “distort” accounts of their behaviour to present themselves in a good light to self and others (Junger-Tas & Marshall, 1999; Rosenthal & Rosnow, 1969).

Second, those seriously engaged in making a lot of money in the cash economy are likely to distance themselves from a community survey that asks about cash economy activity. In their case they are being asked to divulge their financial interests, which they are probably loath to do, regardless of whether or not they believe their responses will be treated in confidence. We have to therefore accept that those deeply enmeshed in the cash economy to the tune of tens of thousands or millions of dollars are not going to “pop up” as respondents in a voluntary general population survey.

Third, is the issue of reliability and validity of measurement. In a paper and pencil survey setting, it is difficult to exercise a high degree of control over the ways in which people interpret the phrase “cash-in-hand.” In this first set of studies of their kind in Australia, we used the following explanatory sentence: “By cash-in-hand we mean cash money that tax is not paid on.” But even here, we have encountered confusion and contention around what cash-in-hand means.

This method, because it collects data at an individual level, provides an opportunity to compare different social and demographic groups in terms of cash economy activity. The emphasis is not on absolute levels, but rather on differences in levels between groups. The question is how can we explain differences in the cash economy activity of different groups – does such activity vary systematically with eligibility for government benefits, with lifestyle characteristics or with demographic and social location in Australian society?

The work that has been undertaken by the CTSI team using this approach has produced some important insights into the behaviour of those who participate in the cash economy.

Reinhart, Job and Braithwaite (2004) have summarized their findings as follows:

- between 5 and 10% of Australians report engagement in cash economy activity of some kind
- the activity is not localised in a socio-economic sense, occurring across all occupational groups; for example, rates of participation may be higher for

trades people (a density issue), but there is more cash economy activity in our sample (a volume issue), among professionals, managers and associate professionals

- cash economy activity is much higher among the young than among older, retired Australians
- most cash economy work is transient, carried out by people at one time point, but not at the next
- only 2% of cash economy work is provided by repeat players – people working in 1999-2000 and also in 2001-2002 in our surveys
- cash economy activities are more likely to be found among the employed with no difference found between part and full-time employees
- cash economy activities are higher among the self-employed, business owners and in the private sector generally
- jobs in the cash economy and jobs in the official economy are related – it appears that one bootstraps the other.

What was unexpected but very clear from these findings is that cash economy activity is not the domain of the poor and unskilled in Australia. While there is a group experiencing economic hardship, they are no more likely than anyone else to be easing their difficulties through cash economy activity. Cash-in-hand work is occurring across all socio-economic groups. Furthermore, the relationship between opportunity and need is complex. For some in the community they come together, for instance, for those people in an employment situation that gives them the opportunity to satisfy their need for more disposable income. For others, opportunity and need work in opposite directions, undoubtedly giving rise to frustration, if not despair. Any

analysis of cash economy activity needs to maintain a balanced understanding of the phenomenon, as a manifestation of both need and greed.

A further consideration that is flagged by Reinhart, Job and Braithwaite (2004) on the basis of their research findings is the changing social conditions in the workplace that have accompanied rising individualism and self-reliance. The times are such that governments of democratic countries throughout the world are changing their social contracts with citizens, asking them to be more entrepreneurial, self-sufficient, to show initiative and to seek out rewards for their individual effort. Challenges such as this do not go unheeded by the population. They comply, through developing their own scripts in an uncertain, brave new world. Cash economy activity may be one of these scripts that sit awkwardly, but unthinkingly, alongside government benefits as a way to get ahead.

## **Chapter 3**

### **The Methodology**

#### *Sources of data*

This report is based on three sources of data. The first is a national survey, the second comprises comments and insights made during discussions with two affinity groups involving mothers of infants and new borns, and the third involves questionnaire responses from these mothers and their partners. In Part I of this chapter, each method for data collection is described. Part II focuses on the primary data collection procedure, the survey, and a detailed analysis is conducted to ascertain the representativeness of the sample used.

#### **Part I**

##### National random survey in 2003

In September 2003, a national survey was conducted as part of the International Hope Initiative in the Regulatory Institutions Network at the ANU. The survey asked people about their hopes for the future, their current economic situation, and their chances of realizing the aspirations they had for themselves and their families. As part of assessing economic well-being, respondents were asked about their expectations of government and their reliance on government benefits of various kinds, about their work status, their occupation, their income and the ways they managed and made sense of their financial situation.

The design of the survey was novel in that it challenged the wisdom of traditional scientific survey practice. Previous survey work alerted us to public concern about confidentiality on sensitive issues. The 2003 survey was designed in such a way that it was transparently anonymous – no names, no follow-ups, no possibility of tracing individual identities. The survey was a success in so far as it provided evidence of the suspected problem in traditional surveys that addressed sensitive topics. One of the questions in the survey was “Would you have completed this questionnaire if it had not been anonymous?” A surprisingly high 53% said no, they would not have completed the survey if they had not been sure that it was anonymous. For this reason, data from the 2003 hope survey are a valuable data set for analysing and understanding Australians’ behaviour and the attitudes that underlie this behaviour.

A consequence of such a survey is that participation is purely voluntary. There is no possibility of nudging people into replying through follow-ups and reminders. If no answer is received, then nothing can be done about it. The result is a very low response rate in the Hope survey of 9.5% (N = 7646). Conventional wisdom has always been that low response rates reflect systematic bias. In the absence of any other data, this is a fair assumption because scientifically it is best to err on the side of caution. But as our capacity has improved to test sources of bias in data sets, the justification for assuming bias from low response rates has waned. Part II of this chapter is dedicated to evaluating this issue.

### Sampling design for the 2003 survey

A two-stage sample design with stratification at the first stage was employed for the survey. The sampling frame was based on the existing cluster structure of the Australia Post delivery system. The first stage involved stratification by state and territory and then within these strata selection of localities with probability proportional to a measure of size. The measure of size employed in both the stratification and the first stage selection was the number of delivery points quoted by Australia Post to street letterboxes and rural mailboxes in each locality. On the assumption that these two types of delivery points equate to households then this can be taken as a sample of households. A total of 1600 first stage sampling units were selected using a systematic selection of locality within state. Each selected first stage unit was allocated 50 surveys. The sample design thus gives each delivery point an equal chance of selection.

The surveys were delivered using Australia Post's Unaddressed Delivery Service (UDS) to each of the sampled localities. This system provides for the user to specify the type of delivery points chosen. In this case private post boxes, business street addresses and business post boxes were excluded from the delivery instruction leaving only private street addresses and rural street addresses. The distribution of surveys within each locality was left to the discretion of the local postal organisation. Some survey bundles would have been randomly distributed throughout a postman's run and some would have been distributed to 50 adjacent households. The random selection of respondent-within-household was effected by an instruction that the

survey was to be completed by the person in the household aged 18 years or over who had the most recent birthday. Thus while the **selection of households** is with equal probability, the **selection of persons** within household is unequal with probability of selection in inverse proportion to the number of persons aged over 18 in the household. A total of 80,000 surveys were delivered during the week from Monday 6 October to Friday 10 October 2003.

The survey and sampling design yield complete anonymity for the respondent. This is possible because there is no way of knowing to which particular address within a locality the surveys have been delivered and further, the questionnaire does not require respondents to identify themselves. The cover letter, printed on the first page of the questionnaire, makes the point strongly that the survey data cannot be traced back to the respondent thus ensuring anonymity. This is an attempt to gain freer disclosure from the respondent. Subsequent analysis will reveal the extent to which this objective has been achieved by comparison with more traditional survey methods where the respondent's name is known and a guarantee of confidentiality is made by the researcher.

#### Cautionary note on the sampling approach used in the 2003 survey

As previously mentioned the sample design yields a sample of people who have been selected according to their household size. This means there will be an increased probability of selecting people from smaller households. Or to put it another way, when selecting **households** at random, as has been done in this survey, people who live alone will be included at a greater rate than they would have been if **people** had

been selected at random. For example, in a typical sample of NSW households we would expect 23% of returns to come from one-person households. However, the same group account for only 9% of all people. Weighting of cases will correct for this.

The present report uses un-weighted data. While the estimates of population parameters will vary somewhat with weighted and unweighted data, relationships between variables are not expected to be substantively affected by a weighting procedure. Explaining the ways in which cash economy activity is linked with receiving a Family Tax Benefit through the relationships of these behaviours with other variables is the primary aim of this report.

#### Affinity group data

To gain an insight into the way that parents feel about the Family Tax Benefit and the impact it has on their financial and social decision-making, an affinity group methodology, based upon focus group methodology, was adopted. The principle aim of this part of the study was to explore parents' perception in greater depth so as to assist with interpretation of the primary quantitative analyses. The priority was not to obtain a representative sample but to use a technique that would draw out social interpretations that might explain the results that were discovered in the 2003 survey.

Participants were recruited from two parents groups in the Australian Capital Territory. Each of the groups consisted of approximately seven first-time mothers with children aged from 4 months up to 1 year old. The parents' groups were attended

by one of the researchers who led a discussion on the Family Tax Benefit. The advantage of the method was that the parents were known to each other and met as a result of their common interests (i.e. their children), which facilitated a more open conversation. A qualitative transcript of the discussion was taken by the researcher as the conversation took place.

#### Questionnaire data from the affinity group base

A potential weakness of the affinity group method is that individuals may be unwilling to disclose opinions or behaviours that they perceive to be socially undesirable. A second weakness of this approach is that opinions about financial and social decision making is derived from only one of the parents, and most likely from the parent who is not currently the primary income earner. In order to alleviate these weaknesses a small survey was also given to parents at the focus groups and to a convenience sample of similar parents. All of these parents were also asked to give an identical matched copy to their partner so that opinions from both parents could be compared. Of the questionnaires that were distributed, 17 were returned by the contacted parent and 11 were returned by their partners.

## **Part II**

In this section of the chapter, the adequacy of the 2003 survey sample will be assessed from three perspectives. First, comparisons will be made between (a) key social demographic variables and the ABS population estimates for the same year; (b) key

analytic variables and the Department of Family and Community Services (FACS) population statistics; and (c) behavioural and attitudinal variables measured in the 2003 survey and the same variables measured in more traditional surveys in the past five years.

#### Comparison of key variables: 2003 survey with ABS population estimates

Seven social demographic variables were chosen to gain some insight into the extent to which the 2003 survey sample was representative of the population: state in which the respondent lived; sex; occupation; age; working status; number of adults living in the household; and personal income. Comparisons were made with the population estimates published by the Australian Bureau of Statistics (ABS) for 2003.

The statistic used to ask if the representation of a category in the 2003 survey sample corresponded to that in the population was chi-square. Data were collapsed into target group versus other and the comparison was made between the breakdown in the 2003 survey and the breakdown in the Australian population in 2003 as estimated by the ABS. The formula used was:

$$\text{Chi-Square Goodness-of-Fit Test} = \sum (\text{Fo} - \text{Fe})^2 / \text{Fe}$$

where

Fo = Observed frequency

Fe = Expected frequency

Tables 3.1 to 3.5 show that the 2003 survey sample was significantly different from the population, but the differences were not sufficiently large in magnitude to suggest that some social demographic groups were poorly represented.

### **State or territory**

Although the sample represented all Australian states and territories adequately (see Table 3.1), some regions had better representation than others. The states and territories with a smaller population (South Australia and the Australian Capital Territory) were over-represented, while those with a larger population (Victoria and Queensland) were under-represented. In the case of the Australian Capital Territory, the over-sampling was deliberate and came about through including the pilot study conducted in the territory in the main sample. Early analyses showed negligible change in substantive findings as a result of their inclusion. Representation of the states of New South Wales, Western Australia, the Northern Territory, and Tasmania was consistent with that found in the population.

**Table 3.1: Is the 2003 survey different from the population on state or territory?**

<b>State/ Territory</b>	<b>Sample %</b>	<b>2001 Census %</b>	<b>Chi-square</b>
New South Wales	33.8	33.6	No Difference
Victoria	21.2	24.7	**
Queensland	16.9	18.9	**
South Australia	9.1	7.9	**
Western Australia	9.2	9.6	No Difference
Tasmania	2.7	2.5	No Difference
Northern Territory	1.3	1.1	No Difference
Australian Capital Territory	5.8	1.6	**

\*\* p < 0.05

## **Sex**

The 2003 survey had slightly more women than expected from the ABS population statistics. Again, however, the difference, while statistically significant, was not great: 57% in the sample compared with 51% in the population (see Table 3.2).

**Table 3.2: Is the 2003 survey different from the population on sex of respondent?**

<b>Sex</b>	<b>Sample %</b>	<b>2001 Census %</b>	<b>Chi-square</b>
Male	43	49	**
Female	57	51	**

\*\* p < 0.05

## **Occupation**

From Table 3.3, the 2003 survey sample over-represented professionals and associate professionals, and under-represented people working in trades and services, production and transport, basic clerical, and labourers. This kind of bias has been commonly encountered in our surveys, probably due to their requiring some commitment by respondents in terms of both time and effort. The question is: are all groups sufficiently well represented for the purposes of the analysis undertaken in this report?

The percentage point difference (9%) is greatest for the over-represented group of professionals. This is one of the biggest differences to report in relation to the 2003 survey sample (the other relates to personal income, see below). For the least well represented groups of production and transport workers and labourers the difference is 3 percentage points. These differences are not so great as to cause concern over the validity of the analyses in subsequent chapters - even the difference encountered with professionals.

Interestingly, managers and administrators, people working in intermediate clerical and trade positions, and those not in the workforce are correctly represented in our sample.

**Table 3.3: Is the 2003 survey different from the population on occupation?**

<b>Occupation</b>	<b>Sample %</b>	<b>2001 Census %</b>	<b>Chi-square</b>
Managers and administrators	5.7	5.5	No difference
Professionals	19.6	10.9	**
Associate professionals	9.8	7.0	**
Trades and services, advanced clerical	5.2	9.4	**
Intermediate clerical, intermediate trade	9.8	9.7	No difference
Production and transport	1.8	4.7	**
Elementary clerical	2.4	4.9	**
Labourers	1.5	4.8	**
Not in workforce	44.2	43.2	No difference

\*\* p < 0.05

## **Age**

The 2003 survey showed the kind of bias we have encountered in all of our surveys and that is commonly encountered by other researchers in their surveys: Young people are not keen participants. From Table 3.4, we are 7 percentage points below the population on the youngest group those aged between 18 and 29 years. This flips to an over-representation in the 2003 survey sample of middle-aged persons between 40 and 65, and then reverts to an under-representation of those over 65 years of age. Although the differences are statistically significant for every age group, the differences are minor, with the exception of the youngest age group. Even in this instance, however, the group is represented sufficiently well to feel confident that the

voice of the young can be pulled out for further meaningful analysis should that be required.

**Table 3.4: Is the 2003 survey different from the population on age of respondent?**

Age in years	Sample %	2001 Census%	Chi-square
18 - 29	14.3	21.0	**
30 - 39	18.0	20.1	**
40 - 49	23.0	19.6	**
50 - 59	22.3	15.8	**
60 - 64	7.8	5.6	**
65 +	14.5	17.0	**

\*\* p < 0.05

### **Work status**

On work status, the 2003 survey sample slightly over-represented full time workers (see Table 3.5). Part time workers are slightly under-represented, as are the unemployed. Those not in the workforce are correctly represented. The differences between the sample and population, while statistically significant, were not substantial.

**Table 3.5: Is the 2003 survey different from the population on work status?**

<b>Work Status</b>	<b>Sample %</b>	<b>2001 Census %</b>	<b>Chi-square</b>
Full time	40.9	37.9	**
Part time	15.9	17.8	**
Unemployed	3.3	4.3	**
Not working	39.9	40.0	No difference

\*\* p < 0.05

### **Number of adults in household**

It will be recalled that the sampling procedure which involved sampling households rather than people led us to expect an over-representation of single-person households in the sample. In fact, we have an under-representation of such households as shown in Table 3.6 (4 percentage points). Three or more person households also are slightly under-represented (4 percentage points). Two person households are slightly over-represented (9 percentage points). These differences are not considered sufficiently large to cause problems in the analyses.

**Table 3.6: Is the 2003 survey different from the population on number of adults in household?**

<b>Adults in household</b>	<b>Sample %</b>	<b>2001 Census %</b>	<b>Chi-square</b>
one person	24.7	28.7	**
two persons	57.6	49.2	**
three persons or more	17.8	22.2	**

\*\* p < 0.05

## Personal income

The 2003 survey under-represents the poorest Australians by 12 percentage points (see Table 3.7). This is the most dramatic case of under-representation of a group that we have detected so far in this sample, and it is cause for concern. Nevertheless, it is not surprising that the poorest would be among the least willing to make a commitment to completing a paper and pencil questionnaire about their hopes and economic well-being. In other survey research, we have documented high levels of cynicism in the Australian population. It would have been surprising if we had not encountered it in the 2003 survey.

In Table 3.7, an under-representation of the poorest Australians is accompanied by an over-representation of those who are comparatively well-off, that is, those earning above \$42,000 a year. The representation of people falling in the middle-income bracket of \$20,000 to \$41,000 is slightly below the level expected, but the difference is negligible for present purposes.

**Table 3.7: Is the 2003 survey different from the population on personal income?**

Personal income	Sample %	2001 Census %	Chi-square
less than 20,000	37.6	49.8	**
20,000 – 41,000	28.5	30.4	**
42,000 – 77,000	24.6	15.3	**
78,000 and over	9.4	4.4	**

\*\* p < 0.05

### *Summary of differences between the 2003 survey and the 2003 ABS statistics*

The 2003 survey differs notably from the population in the following respects:

- younger people aged 18 to 29 are under-represented
- professionals are over-represented as are high income earners
- production and transport workers and labourers are under-represented as are those earning less than \$20,000
- single person households are not over-represented as expected from the sampling strategy, but there is a small bias toward two person households.

Overall, the 2003 survey does not show biases that are different from those we have encountered with a traditional survey methodology over the past five years (Mearns & Braithwaite, 2001; Braithwaite & Reinhart, 2005). On the basis of these data we see little to question the validity of the sample for use in further analysis.

### *Comparison of key analytic variables in the 2003 survey with FACS statistics*

An essential part of economic survival for many Australian families involves reliance on a government benefit. We have noted a serious under-representation of the poorest Australians in this sample. Should we infer from this bias that we also have a bias against those who might be relying on the government for financial assistance?

In order to answer this question, chi-square tests once again were calculated to compare the 2003 survey data with the population values provided by FACS. In the 2003 survey, respondents were asked: "In the past 12 months have you received any

of the following Government pension, benefits or allowances . . .” Of the 21 benefits listed in the 2003 survey, FACS provided the number of recipients receiving each of nine benefits in 2003. Population values were calculated by summing the number of recipients each month in 2003 and dividing by 12. We thus used the average number of recipients over the 12 months of 2003 as the population value for use in the chi-square tests.

In Table 3.8, the percent of the 2003 survey sample receiving each benefit is reported. The corresponding FACS percent was calculated by taking the average number of recipients for 2003 (calculated above from FACS data) and dividing by the 2003 estimate of the Australian population aged over 15 years, that is, 16,100,000.

The results show a consistent over-representation of people receiving a benefit. The differences are not great except in the case of Parenting Payment (Partnered). One possibility is that the community attaches a different meaning to this benefit from that of the government department (namely there is confusion over Part A and Part B). But it is also likely that one benefit in the department’s records is “shared” by the child’s mother and father in the survey method. In other words, both claim they are receiving it. This means that in our sample, respondent A may be the recipient and ticks the “yes” box, respondent B may be the partner of the recipient, but nevertheless ticks “yes” on behalf of both of them. The result would inflate the estimate of the partnered Parenting Payment, although not to the extent observed in Table 3.8.

The general over-representation of benefit recipients in the 2003 survey warrants some comment. The 2003 survey was focused on matters of economic security and

these issues were particularly relevant to those relying on benefits. In a survey where there is no follow-up and no way of encouraging people to participate, we suspect that interest in the topic and available time have a lot to do with who returns a questionnaire and who does not. The sound representation of recipients of government benefits is desirable in light of the analyses that are to follow. We still should be mindful, however, that we have an under-representation of the poorest Australians in this sample.

**Table 3.8: Does the 2003 survey adequately represent recipients of benefits?**

<b>Benefit</b>	<b>Sample %</b>	<b>FACS %</b>	<b>Chi-square</b>
Age Pension	9.60	11.59	**
Disability Support Pension	4.6	4.28	No difference
Newstart	4.6	3.28	**
Partner's Allowance	1.80	0.39	**
Parenting Payment partnered	9.5	1.16	**
Parenting Payment single	4.8	2.8	**
Widow's Allowance	1.0	0.28	**
Wife Pension (disability)	1.8	0.22	**
Youth Allowance	2.5	2.31	No difference

\*\* p < 0.05

### *Comparison of behavioural and attitudinal variables across four surveys*

Four surveys conducted between 2000 and 2005 provided the opportunity to collect comparative data from the same set of questions. The important point to make in relation to these comparisons is that the 2000, 2002 and 2005 surveys used traditional survey methodologies. The 2003 survey was the only one that sampled households randomly and anonymously. In the tables below, the 2003 survey is the focus of interest and is presented in bold. The question that needs to be addressed is whether the 2003 survey is “out of step” with other surveys in the picture it is painting of Australians in terms of social demographic characteristics, attitudes and behaviours.

In Tables 3.9 to 3.13, comparisons are made across the surveys on six variables: (a) receiving cash-in-hand; (b) receiving and paying cash-in-hand; (c) number of children in household; (d) marital status; (e) family income; and (f) belief in trust norms. The comparisons reveal that the 2003 random, anonymous household survey produced findings that are remarkably similar to the more traditional surveys. The higher reporting of cash economy behaviour, which was anticipated once anonymity was assured in the survey, is less impressive against the 2005 data than it was when it was compared with the earlier surveys (Reinhart et al., 2004). It may be the case that cash economy activity has increased since the introduction of the GST (an anticipated effect on the basis of overseas research, see Brooks 1998 and Hill and Kabir 1996 on the Canadian experience, and the report by the Senate Select Committee on a New Tax System 1999 referring to the New Zealand experience) and this may account for the higher reports in both the 2003 and 2005 surveys.

**Table 3.9: Percent of Australians receiving cash-in-hand as reported in surveys in the years 2000, 2002, 2003 and 2005**

<b>Item</b>	<b>Categories</b>	<b>% July 2000</b>	<b>% Dec 2002</b>	<b>% Sept 2003</b>	<b>% July 2005</b>
		N = 1979	N = 1183	N = 7306	N = 1127
Receiving cash-in-hand	Yes	6.1%	5.4%	9.8%	7.4%
	No	93.9%	94.6%	90.2%	92.6%

Note: see Braithwaite (2001) for description of measure or see description in Chapter 4.

**Table 3.10: Percent of Australians both receiving and paying cash-in-hand as reported in surveys for the years 2000, 2002, 2003 and 2005**

<b>Item</b>	<b>Categories</b>	<b>% July 2000</b>	<b>% Dec 2002</b>	<b>% Sept 2003</b>	<b>% July 2005</b>
		N = 1953	N = 2275	N = 6656	N = 1120
Receiving and paying cash-in-hand	Yes	1.5%	2.2%	4.2%	5.1%
	No	98.5%	97.8%	95.58%	94.9%

Note: see Braithwaite (2001) for description of measure or see description in Chapter 4.

**Table 3.11: Percent of Australians with children as reported in surveys for the years 2000, 2002, 2003 and 2005**

Item	Categories	% July 2000	% Dec 2002	% Sept 2003	% July 2005
No. of children in household		N = 1991	N = 2293	N = 7391	N = 1092
	0	54.6%	54.1%	63.8%	73.9%
	1	16.3%	16.7%	13.9%	10.2%
	2	18.8%	19.3%	14.9%	10.6%
	3	8.1%	7.8%	5.7%	4.2%
	4 and more	2.2%	2.0%	1.8%	1.1%

**Table 3.12: Percent of Australians married as reported in surveys in the years 2000, 2002, 2003 and 2005**

Item	Categories	% July 2000	% Dec 2002	% Sept 2003	% July 2005
		N = 1234	N = 2289	N = 6830	N = 1117
Married	Yes	71.1%	72.8%	64.9%	75.0%
	No	28.9%	27.2%	35.1%	25.0%

**Table 3.13: Means and standard deviations on family income as reported in surveys in the years 2000, 2002, 2003 and 2005**

Item	Mean and SD	Mean, SD July 2000	Mean, SD Dec 2002	Mean, SD Sept 2003	Mean, SD July 2005
		1803	2105	N = 7044	N = 1123
Family income	Mean	48,688	53,653	65,794	63,840
	SD	36,866	41,223	49,493	47,574

**Table 3.14: Means and standard deviations on belief in trust norms as reported in surveys in the years 2000, 2002, 2003 and 2005**

<b>Item</b>	<b>Mean and SD</b>	<b>Mean, SD July 2000</b>	<b>Mean, SD Dec 2002</b>	<b>Mean, SD Sept 2003</b>	<b>Mean, SD July 2005</b>
		1986	2337	N = 7457	N = 1127
Belief in trust norms	Mean	3.18	3.13	2.85	2.98
	SD	.65	.70	.828	.715

Note: see Braithwaite (2001) for description of measure.

### *Summary*

The representativeness of a sample, like the validity of an attitude scale, can never be proven. The objective can only be to test as often as possible and search for sources of bias in the data set. This search process will continue, but on the basis of the checks carried out to date, we can conclude that the 2003 survey carries the same kinds of biases that are carried by traditional surveys. We consistently under-represent the young, often the old, and invariably the poor.

## Chapter 4

### Family Tax Benefit, Cash Economy Activity and Social Demographic Correlates

#### *Approach*

The central question that we address in this chapter is whether or not an individual's cash economy activity is related to receipt of government benefits, in particular, the Family Tax Benefit. The approach taken here is to divide the sample for the 2003 survey into three groups depending on how individuals responded to the question asking about receipt of government benefits (see list of 21 benefits in Appendix). The three groups formed from this question were: (a) individuals in receipt of the Family Tax Benefit; (b) individuals who did not receive this benefit but received one or more of the other 21 benefits listed in the survey; and (c) individuals who were not in receipt of any of the 21 benefits. These three groups are then compared on their cash economy activity.

Cash economy activity was measured in two ways. First, individuals were asked the following question:

*Have you worked for cash-in-hand payments in the last 12 months? By cash-in-hand we mean cash money that tax is not paid on.*

Respondents' answers of "yes" or "no" represent the first measure of cash economy activity in this chapter.

In addition to asking people if they had worked for cash-in-hand, the following question was asked:

*Have you paid anyone cash-in-hand payments in the last 12 months for work or services they provided to you? By cash-in-hand we mean cash money that tax is not paid on.*

Again, respondents answered “yes” or “no.” Using the “yes” responses to each of these cash economy activities, we constructed a new variable representing being involved in both sides of the cash economy exchange as a supplier and purchaser. This group was scored as 1. The remaining group comprising no involvement, or being a supplier, or being a purchaser was scored 0.

In the following analyses, contingency tables and chi-square tests of independence are provided to establish the nature of the relationship between being a Family Tax Benefit recipient and cash economy activity. Subsequently, a further set of analyses are carried out to compare Family Tax Benefit recipients, other recipients and non-recipients in terms of social demographic characteristics. Previous work has shown that those who work in the cash economy tend to be younger, self-employed and already in the workforce. Factors such as these, if they are also correlated with being a recipient of the Family Tax Benefit, can confound the relationship at the bivariate level between cash economy activity and being a Family Tax Benefit recipient.

#### *Relationship between receiving benefits and cash economy activity*

In Table 4.1, those who work for cash-in-hand are statistically more likely to belong to the categories of benefit recipients than non-recipients. When those receiving the

Family Tax Benefit are compared to other benefit recipients, we see that reports of cash-in-hand are again higher. But what can we infer from this?

Probably the factor that confounds the interpretation of the relative strength of these relationships most seriously is age. Previous work has shown that older people are less likely to engage in cash economy activity (Reinhart et al., 2004). What is more, older people are more likely to fall into the “other benefit” category as opposed to the “Family Tax Benefit” category. This means that the higher cash economy activity among those receiving a Family Tax Benefit could be simply a result of age, and have little to do with the benefit per se.

**Table 4.1: Percent receiving cash-in-hand among those receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Receiving cash-in-hand</b>	<b>% of no benefit recipients</b>	<b>% of other benefit recipients</b>
Yes	8.2	10.7
No	91.8	89.3

Chi-square = 27.01,  $p < 0.001$

In Table 4.2, the second cash economy measure is used, that is, individuals must not only receive money in the cash economy, they must purchase services in the cash economy. Here the differences are again statistically significant, but they are even less marked. These results are important because this second measure brings in the notion of intent to gain financially through the cash economy, and these data suggest that intent may be much the same across groups. Younger people, because of their reliance on casual and temporary employment, do not necessarily choose how they are paid.

They are paid cash-in-hand for temporary work or for small jobs. Many in this group do not declare the income through the tax system because they do not earn enough income to lodge a tax return. Their participation in the cash economy is essential to its operation, but they themselves are not breaking the law, nor are they in a position to insist they are paid any other way. In contrast, purchasers of cash economy labour are often more active players and have choice as to their participation. Previous work has shown that the suppliers of labour in the cash economy are in a different socio-economic position from the purchasers of cash economy activity. Purchasers are older and wealthier, suppliers are younger and poorer (Reinhart et al., 2004).

**Table 4.2: Percent receiving and paying cash-in-hand among those receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Working for and paying cash-in-hand</b>	<b>% of no benefit recipients</b>	<b>% of other benefit recipients</b>	<b>% of Family Tax Benefit recipients</b>
Yes	4.1	3.3	5.6
No	95.9	96.7	94.4

Chi-square = 9.36, p<0.01

*Relationship between receiving benefits and social demographic variables*

In the remainder of this chapter, the social demographic correlates of being a recipient of the Family Tax Benefit are examined: work status, sex, marital status, occupation, age, household income, and number of children. These results reported in Tables 4.3 to 4.9 are in accordance with expectations, given the nature of the Family Tax Benefit. The benefit is more likely to be received by part-time workers, by women, by

those who are married, by those who are less skilled in occupational terms, and by those who are younger. Household income is higher than average for the sample, but is less than the household income of those receiving no benefits. As the number of children increases, so does the percentage in receipt of a Family Tax Benefit.

**Table 4.3: The percent of respondents in full time work, part time work and not in workforce receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Working Status</b>	<b>No benefit</b>	<b>Other benefits</b>	<b>Family Tax Benefit</b>
% of full time workers	76.0	10.7	13.3
% of part time workers	51.1	19.9	29.0
% of persons not in workforce	33.9	48.6	17.6

Chi-square = 1,437.53, p<0.001

**Table 4.4: The percent of male and female respondents receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Gender</b>	<b>No benefit</b>	<b>Other benefits</b>	<b>Family Tax Benefit</b>
% of females	50.6	26.7	22.7
% of males	59.2	30.0	10.8

Chi-square = 177.62, p<0.001

**Table 4.5: The percent of married and unmarried respondents receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Marital status</b>	<b>No benefit</b>	<b>Other benefits</b>	<b>Family Tax Benefit</b>
% of unmarrieds	51.4	35.0	13.6
% of marrieds	56.0	24.0	20.0

Chi-square = 116.28, p<0.001

**Table 4.6: The percent of occupational categories receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Occupation</b>	<b>No benefit</b>	<b>Other benefits</b>	<b>Family Tax Benefit</b>
% of managers and administrators	69.5	19.6	10.9
% of professionals	64.8	18.8	16.4
% of associate professionals	62.8	19.6	17.5
% of trades and services	53.7	30.6	15.7
% of advanced clerical and intermediate trade	49.0	27.9	23.2
% of production and transport	42.0	36.5	21.5
% of elementary clerical	41.8	37.9	20.3
% of labourers	34.0	43.4	22.6
% of those not in workforce	25.7	56.0	18.3

Chi-square = 432.03, p<0.001

**Table 4.7: Age breakdown for recipients of no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Age in years</b>	<b>No benefit recipients</b>	<b>Other benefit recipients</b>	<b>Family tax benefit recipients</b>	<b>F statistic</b>
Means	47	53	39	383.19**

\*\* p<0.001

**Table 4.8: Household income breakdown for recipients of no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Household income</b>	<b>No benefit recipients</b>	<b>Other benefit recipients</b>	<b>Family tax benefit recipients</b>	<b>F statistic</b>
Means	\$ 83,180	\$ 40,154	\$ 52,200	632.19**

\*\* p<0.001

**Table 4.9: The percent of respondents without and with children receiving no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

<b>Number of children</b>	<b>No benefit</b>	<b>Other benefits</b>	<b>Family Tax Benefit</b>
% of persons with no children	66.4	31.8	1.8 <sup>a</sup>
% of persons with one child	39.4	21.7	38.9
% of persons with two children	31.4	19.3	49.3
% of persons with three children or more	28.0	18.4	53.6

Chi-square = 2330.95,  $p < 0.001$

<sup>a</sup> This ostensible departmental error or fraudulent claim (no-one should be receiving a benefit without a child) may result from the time frame used in the benefit question, that is, the last 12 months. Number of children was measured as the number of children living at home at the time the survey was conducted.

### *Summary*

This chapter has shown a small increase in cash economy activity among those receiving a Family Tax Benefit, but this increase is highly likely to be due to confounding factors associated with social demographic location and subsequent variation in lifestyle factors. In the next chapter, we develop measures of lifestyle for use in logistic regression analyses in Chapters 6 and 7.

## **Chapter 5**

### **Lifestyle and Employment Instability**

#### *Purpose of chapter*

In the 2003 survey, a number of measures were included to assess the following: (a) hopes and aspirations for the future (eg starting a family, buying a house); (b) capacity to realize hopes and aspirations economically; (c) satisfaction with progress toward achieving goals; (d) sources of support; and (e) strategies used to improve or cope with economic realities. These issues were evaluated in a preliminary way in this chapter as possible determinants of cash economy activity and as correlates of having a Family Tax Benefit.

In addition, previous research had alerted us to the variations in employment status that people could encounter within one year. We considered the measurement of instability in work status as being important in this research context, and therefore developed our own measure of instability in employment conditions through factor analysing a set of respondents' ratings of work condition experiences over the preceding 12 months.

Finally, lifestyles and instability in employment conditions were compared across the three categories singled out for analysis in the previous chapter: (a) individuals in receipt of the Family Tax Benefit; (b) individuals who did not receive this benefit but

received one or more of the other 21 benefits listed in the survey; and (c) individuals who were not in receipt of any of the 21 benefits.

### *Identifying life style dimensions*

A set of 16 multi-item scales were factor analysed to identify underlying social and economic lifestyle dimensions. The scales and their psychometric properties are summarized in Table 5.1. The factor analysis of these scales is presented in Table 5.2. The variance accounted for in the scales by the five-factor solution was 60%. Following Table 5.2, a summary of the five dimensions, their factor labels, and what they represent is provided.

**Table 5.1: A description of the psychometric properties of the social and economic lifestyle scales used in the lifestyle factor analysis**

<b>Social and economic lifestyle scales</b>	<b>Number of items</b>	<b>Range</b>	<b>Mean</b>	<b>SD</b>	<b>Alpha level</b>
financial well-being	3	z score	0	.88	.85
worries about personal situation	5	1 - 4	2.27	.73	.76
hand-to-mouth money	3	1 - 4	2.16	.74	.67
improvement in finances	4	1 - 5	2.67	.84	.82
lack of confidence in finances	3	1 - 5	2.55	1.00	.73
life satisfaction	8	1 - 9	5.72	1.64	.93
working toward the right job	4	1 - 5	2.21	1.06	.77
establishing a home	3	1 - 5	1.61	.84	.44
hoping for a good life	4	1 - 5	3.89	.50	.70
making good through hard work	3	1 - 4	1.87	.75	.65
investments for the future	5	1 - 4	1.73	.60	.64
commitment to financial planning	4	1 - 5	2.65	.87	.68
prioritising a secure future	2	1 - 4	2.40	.75	.47
help from close others	3	1 - 4	1.93	.61	.58
help from the community	3	1 - 4	1.58	.61	.73
institutional recluse	3	1 - 4	1.10	.30	.52

**Table 5.2: Principal components analysis with varimax rotation of the 16 social and economic lifestyle scales**

<b>Social and economic lifestyle scales</b>	<b>Factor I</b>	<b>Factor II</b>	<b>Factor III</b>	<b>Factor IV</b>	<b>Factor V</b>
financial well-being	-.81				
worries about personal situation	.73	.41			
hand-to-mouth money	.77				
improvement in finances	-.74				
lack of confidence in finances	.65				
life satisfaction	-.61				
working toward the right job		.72			
establishing a home		.72			
hoping for a good life		.47			-.42
making good through hard work		.67			
investments for the future			.71		
commitment to financial planning			.68		
prioritising a secure future			.67		
help from close others				.76	
help from the community				.84	
institutional reclude					.86
<b>Variance</b>	<b>22</b>	<b>13%</b>	<b>10%</b>	<b>8%</b>	<b>6%</b>
<b>Total var.</b>	<b>60%</b>				

These factors captured the underlying themes of economic insecurity, aspirations for success, engagement with financial planning, awareness of backup financial support if necessary, and social detachment from the system. Each factor is described below in terms of the scales that have significant loadings on it, and a factor label is provided for use in subsequent analyses.

*Interpreting the factors: Factor I, economic insecurity*

The following scales loaded on this factor:

(a) Financial well-being (negative loading). Please rate your situation on the following scales: (i) “finding it very difficult on present income” through “living very comfortably on present income”; (ii) “never feel poor these days” through “feel poor almost all the time” (reverse score); (iii) “never feel financially secure these days” through “feel financially secure almost all the time.”

(b) Improvement in financial situation (negative loading). Please rate your situation now compared with this time last year in terms of being “much worse off” through “much better off” on: (i) amount of money you are making; (ii) amount of money you can spend on what you like; (iii) amount of money you are saving; (iv) amount of money that you owe.

(c) Hand-to-mouth money. Please rate from “not at all” to “a lot” the extent to which you: (i) worry about where the money will come from tomorrow; (ii) live for the day

as far as money goes; (iii) feel confident that you could raise money if you needed to (reverse score).

(d) Worries about your personal situation. Please rate the extent to which you are worried or concerned about the following from “not at all” to “a great deal”: (i) paying your bills; (ii) your relationships with others; (iii) your assets and the money you have; (iv) your level of debt; (v) child care.

(e) Lack of confidence in financial management. Please rate from “not really” to “very much so” the extent to which you: (i) Are afraid that you may not be able to make the right decision financially?; (ii) Do you feel it is too hard to plan for your future financially?; (iii) Do you see financial planning as a burden?

(f) Life satisfaction (negative loading). Please rate your life from “dissatisfied” to “satisfied” on the following criteria: (i) what you are accomplishing in your life; (ii) your sense of purpose and meaning in life; (iii) how you handle problems; (iv) how interesting your day-to-day life is; (v) how much fun you are having; (vi) the variety and diversity of your life; (vii) your overall living standard; (viii) your life as a whole.

*Interpreting the factors: Factor II, aspirations for success*

The following scales loaded on this factor:

(a) Establishing a home. Please rate the extent to which the following are motivating forces in your life from “not really” to “very much so”: (i) starting a family or having a bigger family; (ii) finding a partner; (iii) buying a house, setting up a home.

(b) Hoping for the good life. Please rate from “hope to do much less!!” to “hope to do much more!!” the extent to which you would like to have opportunity for the following in your life: (i) spend time with friends; (ii) spend time with family; (iii) spend time on recreational opportunities; (iv) get out and have a good time.

(c) Making good through hard work. Please rate from “not at all” to “a great deal” how much you are relying on the following for your financial security: (i) taking on extra jobs; (ii) working longer hours; (iii) upgrading skills.

(d) Working toward getting the right job. Please rate the extent to which the following are motivating forces in your life from “not really” to “very much so”: (i) finding an interesting job; (ii) finding a well paid job; (iii) finding a job of any kind; (iv) going back to school, TAFE or university.

*Interpreting the factors: Factor III, financial planning*

(a) Investments for the future. Please rate the extent to which you do the following from “not at all” to “a great deal”: (i) buying shares or bonds; (ii) buying investment properties; (iii) taking out a life insurance policy; (iv) paying into a superannuation scheme or retirement fund; (v) borrowing money for investment.

(b) Prioritizing a secure future. Please rate from “not at all” to “a lot” the extent to which you: (i) make security the top priority when deciding how to manage your money in the future; (ii) prefer more secure jobs even if they pay less.

(c) Commitment to financial planning. Please rate from “not really” to “very much so” the extent to which you: (i) feel it is essential to plan for your financial future; (ii) see financial planning as exciting; (iii) enjoy financial planning; (iv) have people or resources to help with financial planning.

*Interpreting the factors: Factor IV, financial social capital*

The following scales loaded on this factor:

(a) Help from close others. Please rate from “not at all” to “definitely” the extent to which you could count on the following to help if you had a serious financial problem: (i) close friends; (ii) neighbours; (iii) relatives.

(b) Help from community support agencies. Please rate from “not at all” to “definitely” the extent to which you could count on the following to help if you had a serious financial problem: (i) people from a local church; (ii) people from a charity (eg Salvation Army); (iii) people from a community group (Rotary).

*Interpreting the factors: Factor V, social detachment from the system*

Institutional recluse. Please rate from “not at all” to “a great deal” the extent to which you: (i) work under an assumed name; (ii) keep your identity and your activities off government data bases; (iii) hide spare cash in your house, or on your property.

In order to form scales to represent these lifestyle dimensions, factor scores were calculated through the factor analysis reported in Table 5.2. Below, and in subsequent chapters, they will be referred to as the **lifestyle dimensions** of economic insecurity, aspirations for success, financial planning, financial social capital, and social detachment from the system.

*Measuring instability in employment*

Respondents were asked to indicate on a three-point scale from “not at all” (1) through “some of the time” (2) to “most or all of the time” (3) which of the following described their situation in the past 12 months:

- a) worked in a full-time job
- b) worked in a part-time job
- c) worked as a casual
- d) worked on short term contracts
- e) been training or studying
- f) been retired
- g) been fully engaged in home duties

- h) taken on responsibility for the care of a dependent
- i) been out of the workforce by choice
- j) been out of work, but looking for work.

Responses to these questions were analyzed using a principal components analysis with varimax rotation. Two factors emerged accounting for 44% of the variance. The results appear in Table 5.3.

**Table 5.3: Principal components analysis with varimax rotation of the 10 employment condition variables**

<b>Employment condition variables</b>	<b>Factor I</b>	<b>Factor II</b>
fully engaged in home duties	.806	
worked in full-time job	-.796	
out of workforce by choice	.721	
retired past 12 months	.687	
taken responsibility for caring of a dependent	.407	
worked as a casual		.719
worked in part-time job		.613
worked in short term contracts		.504
out of work/looking for work		.488
training/studying past 12 months		.482
<b>Variance</b>	<b>25%</b>	<b>19%</b>
<b>Total</b>	<b>44%</b>	

*Interpreting the factors: Factor I, full-time employment*

Factor I was bipolar with one end defined by full-time employment and the other end defined by workforce exit through choice not to work, retirement, care giving, or full-time home duties.

*Interpreting the factors: Factor II, unstable employment*

Factor II captured employment conditions that signalled partial and fluctuating engagement in the workforce. High scorers on this dimension had experienced many of the following in the past 12 months: looking for work, short-term contracts, casual work, part-time work, and studying or training.

Of these two factors, the one that was of most interest was Factor II because it captured the concept of interest, unstable employment. In order to form a scale to represent this concept, ratings were aggregated and divided by the number of items in the scale. This is the index that will be used in future analyses. The scale had a mean of 1.29, standard deviation of .34, and an alpha reliability coefficient of .48. While the alpha is somewhat lower than is optimal, it needs to be judged against the measurement properties that are likely to underlie it. High alphas are obtained when items overlap strongly in their content. There is a limit to how much overlap one could reasonably expect among the 5 items that make up the unstable employment scale. The limit pertains to the number of jobs a person can hold in 12 months, and

naturally this will lower the degree of overlap that is possible among these 5 measures.

*Relating lifestyle dimensions and unstable employment to receipt of benefits*

In Tables 5.4 and 5.5 lifestyles and employment stability are compared for those receiving no benefits, those receiving Family Tax Benefit, and those receiving another kind of benefit.

Table 5.4 shows that those receiving a Family Tax Benefit report higher levels of economic security, express stronger aspirations for success, have stronger social capital than other groups, but fall between the other groups on financial planning and social detachment from the system. Financial planning is not as foreign to them as it is to those who receive other benefits, but they are not as comfortable with it as those who receive no benefits. They are not as detached from the system as those receiving other benefits, and are almost on a par with those with no benefits in terms of engagement with the system.

Table 5.5 compares employment stability across the groups. Those receiving the Family Tax Benefit have the least stable employment situation, followed by those receiving other benefits. Those receiving no benefits were least likely to be experiencing employment instability.

**Table 5.4: Lifestyle dimensions breakdown for recipients of no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

Lifestyle dimensions	Means			F statistic
	No benefit	Other benefits	Family Tax Benefit	
economic insecurity	-.248	.256	.321	257.49**
aspirations for success	.055	-.149	.222	52.37**
financial planning	.168	-.265	-.028	116.31**
financial social capital	-.067	.090	.128	25.59**
social detachment	-.084	.192	-.069	47.05**

\*\* p<0.001

**Table 5.5: Employment instability breakdown for recipients of no government benefits, government benefits (FTB excluded) and Family Tax Benefit**

Stable employment	No benefit	Other benefits	Family Tax Benefit	F statistic
Means	1.26	1.29	1.37	52.20**

\*\* p<0.001

### *Summary*

This chapter provides measures of lifestyle and stable employment for use in subsequent chapters. Both lifestyle and stable employment differentiate Family Tax Benefit recipients from others. Importantly, Family Tax Benefit recipients have less stable employment conditions, feel less economically secure, and feel less positive

about financial planning. They have higher aspirations for success, are less detached from the system and have more financial social capital than others.

## Chapter 6

### What is Distinctive about Family Tax Benefit Recipients?

#### *Approach*

In this chapter, three propositions emerging from the previous chapter are reconciled:

(a) those receiving a Family Tax Benefit are somewhat more likely to be working for cash-in-hand; (b) the relationship between Family Tax Benefit and cash economy activity could be spurious, due to other confounding influences such as social demographic variables; and (3) the relationship could begin to acquire meaning if it can be shown that the same social and economic lifestyle dimensions drive both kinds of behaviour.

To gain some insight into the relationships between the key variables, this chapter uses logistic regression analysis to examine interrelationships simultaneously. The general form that the question takes is as follows: Does variable X affect variable Y when variables A, B and C are controlled. In the present context, one way of translating this question is as: Does receipt of a Family Tax Benefit predict cash economy behaviour when some basic social demographic variables are controlled such as sex, age, marital status, work status and number of children. In addition, we included the index of unstable employment with this set of variables. The rationale for putting these variables together as one explanatory block is that the social demographic measures and the unstable employment index represent conditions or characteristics over which individuals have little control. Some might argue that people choose to have children or choose to get married. In some respects this is true,

but these are also well-trodden social paths: the institutions of marriage and of child rearing are powerful directives that transcend individual choice for most people.

While people may deliberate long and hard about whom they will marry and when they will have children, choice in these areas generally involves fine-tuning social imperatives. Most people merely dabble in small variations from the developmental pathway that society has laid out for them.

This is not to say that individuals exercise no choice. The degree to which people actively and purposefully shape their destinies is captured by the lifestyle dimensions (note this include the aspiration of family and home). It is equally plausible that lifestyle choices are responsible for overlap in being a recipient of the Family Tax Benefit and a participant in the cash economy. We will not be able to conclude from the data that there is any causal connection between these variables. But establishing levels of co-variation is a useful starting point.

In this chapter, the role of social demographics and unstable employment in explaining the cash economy and Family Tax Benefit link is examined through logistic regression Model 2 in Table 6.1 and logistic regression Model 2 in Table 6.2. The other possibility is that lifestyle choices explain the relationship and this is assessed separately in Model 3 in Tables 6.1 and 6.2, and then in combination with the social demographic predictors in Model 4 in Tables 6.1 and 6.2. As has been the case in previous chapters, two cash economy variables are used: working for cash-in-hand (see Table 6.1) and being both a supplier and purchaser in the cash economy (see Table 6.2).

Because the Family Tax Benefit is contingent on people having children, this analysis restricts the sample to those people who have a child. Of the people who have a child, 47% receive the family tax benefit in this sample.

**Table 6.1: The B coefficients from a logistic regression predicting Family Tax Benefit (recipient or not) from working for cash-in-hand (Model 1), in addition to social demographic predictors (Model 2), in addition to lifestyle predictors (Model 3), and in combination (Model 4)**

Predictors	Model 1	Model 2	Model 3	Model 4
working cash-in-hand (0=no, 1=yes)	.333**	.251 NS	.132 NS	.179 NS
age in years		-.018**		-.011 NS
sex (0=female, 1=male)		-.608**		-.669**
working part time <sup>a</sup>		.601**		.579**
not working <sup>a</sup>		.605**		.454
marital status (0=unmarried, 1=married)		-.376**		-.099 NS
number of children		.303**		.282**
unstable employment		-.266 NS		-.499**
economic insecurity			.430**	.384**
aspirations for success			.183**	.192**
financial planning			-.300**	-.227**
financial social capital			.169**	.145**
social detachment			-.020 NS	.005 NS

\*\*  $p < .001$

<sup>a</sup> This is a dummy variable where the omitted category is working full time.

**Table 6.2: The B coefficients from a logistic regression predicting Family Tax Benefit (recipient or not) from supplying and purchasing in the cash economy (Model 1), in addition to social demographic predictors (Model 2), in addition to lifestyle predictors (Model 3), and in combination (Model 4)**

Predictors	Model 1	Model 1	Model 1	Model 4
supplier and purchaser in cash economy (0=no, 1=yes)	.420 *	.315 NS	.373 NS	.502*
age in years	-.018**			-.010 NS
sex (0=female, 1=male)	-.617**			-.679**
working part time <sup>a</sup>	.604**			.589**
not working <sup>a</sup>	.632**			.482**
marital status (0=unmarried, 1=married)	-.338**			-.041 NS
number of children	.304**			.377**
unstable employment	-.228 NS			-.479**
economic insecurity			.465**	.425**
aspirations for success			.184**	.208**
financial planning			-.318**	-.240**
financial social capital			.165**	.140**
social detachment			-.024 NS	-.001 NS

\*  $p < .01$ ; \*\*  $p < .001$

<sup>a</sup> This is a dummy variable where the omitted category is working full time.

### *The logistic regression models*

At the outset, it should be emphasized that our capacity to predict whether or not a person is a Family Tax Benefit recipient or not is barely better than chance. This means that many other factors need to be in the equation that we have not considered. One that is obviously important and that was tested in preliminary analyses was household income. But we encountered three problems with this variable. First, like

children, it dictates eligibility for the benefit. Second, the variable does not improve prediction dramatically. Third, it dominated many of the lifestyle predictors that we had included as “choice” variables. Therefore we omitted this variable from the analysis, but recognize the need for further work to understand the way in which it interacts with the variables selected for inclusion in the current analyses. Statistical indicators of the predictive power of the model include the Nadelkerke  $R^2$  of 17% for the combination model in Table 6.1 and 18% for the combination model in Table 6.2.

#### *The role of the social demographic variables*

When the social demographic variables are included with working for cash-in-hand, the relationship between cash economy activity and receiving the Family Tax Benefit disappears. In the case of being a purchaser and supplier of cash economy labour, exactly the opposite occurs. When the social demographic variables are controlled, the relationship becomes significant.

#### *The role of the lifestyle dimensions*

The lifestyle dimensions also are important and when included in the model by themselves, eliminate any relationship between cash economy activity and receiving a Family Tax Benefit. From the findings in Models 2 and 3 in both Tables 6.1 and 6.2, we can conclude that social location is important and lifestyle choice is important.

### *Social demographic and lifestyle variables together*

When the social demographic and lifestyle variables are entered together to predict being a recipient of a Family Tax Benefit, both types of variables played a significant role. Recipients of the Family Tax Benefit were more likely to be women with more than one child in part-time work, with stable rather than unstable employment histories. They were more likely to feel economically insecure, to have high aspirations for success, to shy away from financial planning, but to have a strong sense of having networks that would help them in a financial crisis (financial social capital).

The marked difference between the regression models in Tables 6.1 and 6.2 seeking to explain the relationship between cash economy activity and receiving the Family Tax Benefit was that the relationship disappeared when considering working for cash-in-hand, but became stronger when considering the combined status of being both a purchaser and supplier in the cash economy. It is not at all clear from the survey data what this actually means. Possibly the finding reflects special opportunities that can be exploited by those in a position to be a purchaser and supplier and that enhances the likelihood of qualifying for a Family Tax Benefit. But this is a speculative comment that is made with a view to signalling directions for possible further investigation.

Of considerable importance in these results is that not only is the relationship between most cash economy activity (that is working for cash-in-hand) and receiving a Family

Tax Benefit weak, but it can be explained by location in the social structure and by lifestyle choices which involve wanting to build a successful life while struggling to find the economic means to do so. In our previous work on the cash economy, we argued that increased participation in cash economy activity may accompany a desire to get ahead through self-reliance, initiative and hard work in an era when government was drawing back its support and sending the message that individuals need to plan for their own economic futures. These results are consistent with this thesis. The Family Tax Benefit is simply one other available means by which people with children can improve their position a little more to achieve their goals.

## Chapter 7

### Why Family Tax Benefit Recipients do Cash Work

With the help of the 2003 survey data, we are increasingly moving to the view that cash economy activity for recipients of the Family Tax Benefit has much the same meaning as it does for everyone else. In this chapter, we explore this position more extensively by predicting cash economy activity among those individuals who have children and who are receiving the Family Tax Benefit. Of particular interest here are the risk hypotheses. Is there any evidence that people who receive the Family Tax Benefit are more likely to engage in cash economy activity when they fear the risk of financial ruin (which could occur if they acquired a Family Tax Benefit debt)?

#### *Logistic regression model predicting working for cash-in-hand*

In Table 7.1, the social demographic and lifestyle variables from Chapter 6 are used to predict working for cash-in-hand. Two social demographic variables are significant. The more children a person has, the more likely they are to work for cash-in-hand. The more unstable a person's employment situation, the more likely they are to work for cash-in-hand. The lifestyle variables also play a role. Those who are working for cash-in-hand aspire to having a better life, yet they are detached from the system and do not regard financial planning as a viable option for them. This profile is very much the same as that of the cash economy worker identified in other studies (Braithwaite et al., 2003; Braithwaite et al., 2005; Reinhart et al., 2004; Schneider et al., 2001), except for the fact that in the research that has been done in Australia, cash economy work has been linked more significantly with the official economy.

Finally, it is important to note that this study, like others we have conducted predicting cash economy activity, shows the same pattern of poor prediction. The Nagelkerke  $R^2$  for the model in Table 7.1 was 11%.

**Table 7.1: The B coefficients from a logistic regression predicting working for cash-in-hand from social demographic and lifestyle predictors**

<b>Predictors</b>	<b>B value</b>	<b>Wald statistic</b>
age in years	-.010	.53 NS
sex (0=female, 1=male)	.200	.57 NS
marital status (0=unmarried, 1=married)	.217	.85 NS
part-time work <sup>a</sup>	-.127	.19 NS
not working <sup>a</sup>	-.401	2.25 NS
number of children	.263	6.13*
unstable employment	.938	9.88**
economic insecurity	.163	2.51 NS
aspirations for success	.250	4.30*
financial planning	-.309	5.93**
financial social capital	.098	1.12 NS
social detachment	.295	14.40**
<b>Predictors</b>	<b>B value</b>	<b>Wald statistic</b>

\* p<0.05, \*\* p<0.001

<sup>a</sup> This is a dummy variable where the omitted category is working full time.

*Logistic regression model predicting purchasing and supplying in cash economy*

In Table 7.2, the findings mirror those in Table 7.1 with one important exception. The negative B value for the dummy variable “not working” in Table 7.2 indicates that compared with those in full-time work at the time the survey was conducted, those

who are not in the workforce are less likely to be engaged in cash economy activity.

The relationship is weak and its significance is not of a predictive kind. Its appearance in this analysis, however, is consistent with the proposition mentioned above, that cash economy activity is linked to the official economy, and that without such links, people have difficulty doing cash deals that generate large amounts of income on a regular basis.

The Nagelkerke  $R^2$  for the model in Table 7.2 was again low at 13%.

**Table 7.2: The B coefficients from a logistic regression predicting supplying and purchasing in the cash economy from social demographic and lifestyle predictors**

Predictors	B value	Wald statistic
age in years	-.004	.04 NS
sex (0=female, 1=male)	.458	1.56 NS
marital status (0=unmarried, 1=married)	.284	.56 NS
part-time work <sup>a</sup>	-.462	1.19 NS
not working <sup>a</sup>	-.827	4.28*
number of children	.465	9.26**
unstable employment	1.256	8.43**
economic insecurity	-.060	.16 NS
aspirations for success	.020	.012 NS
financial planning	-.134	.71 NS
financial social capital	-.100	.50 NS
social detachment	.341	13.11**

\*  $p < 0.05$ , \*\*  $p < 0.001$

<sup>a</sup> This is a dummy variable where the omitted category is working full time.

## *Summary*

We interpret the findings of this chapter and the last to mean that there are different segments of cash economy activity and that these are not linked to any significant degree with being a recipient of the Family Tax Benefit. In the community, there exists large-scale cash economy activity that is highly organized and financially lucrative, but this sector is not going to be detected in population surveys, be they transparently anonymous or not. We know little about this sector, and such knowledge can only be gained through an approach that lends itself to understanding large-scale fraud and criminal activity.

There is also small-scale cash economy activity that is opportunistic and provides people with illegitimate means to increase their prospects of achieving legitimate goals. Within this group, we remain convinced that for some people their activity is guided by the need to put food on the table, and their opportunities for looking after themselves and their families are shaped by the structural constraints on their lives. For others it is a way of increasing disposable income and undoubtedly there are pockets of such behaviour within the Family Tax Benefit population. But the bottom line on the basis of the analyses in this report is that, whichever way we look at it – through the lens of poverty or ill-gotten prosperity, our capacity to predict or differentiate who is exploiting the welfare system and who is not is virtually impossible to predict from social demographic and lifestyle characteristics. Cash economy participation for those with or without a Family Tax Benefit appears highly sporadic and opportunistic.

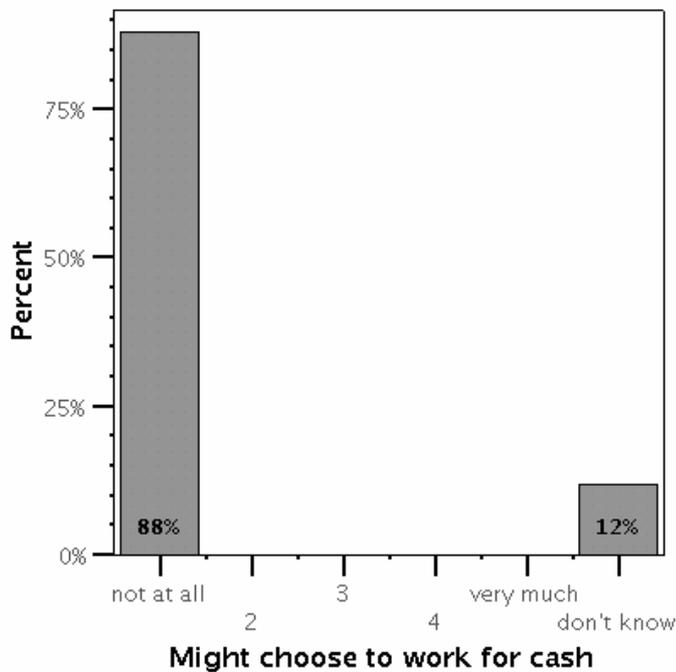
## Chapter 8

### Doing Cash Work or Collecting Family Tax Benefit?

The 2003 survey shows that the relationship between working in the cash economy and receiving the Family Tax Benefit is fairly weak, especially once other factors are taken into account. To explore parents' perceptions of the Family Tax Benefit in greater depth affinity groups and parent questionnaires were used in conjunction with each other. Of particular interest was identifying whether understandings of the Family Tax Benefit and attitudes towards it help explain the weak relationship between the Family Tax Benefit and participating in the cash economy.

#### *Effect of Family Tax Benefit on cash work*

Of particular interest with the affinity groups and the parent questionnaire was whether they would replicate the relationship between the Family Tax Benefit and participation in the cash economy that was found in the 2003 survey. In the parent questionnaire, which was answered anonymously, respondents were asked whether they thought the Family Tax Benefit was likely to influence their decisions about work, with one question focusing directly on whether participants thought it more likely that they, or their partner, would engage in some cash work so as to avoid declaring income and thereby lowering their benefit. As Figure 8.1 shows, the overwhelming response was that individuals did not consider this an option.



**Figure 8.1: Effect of the Family Tax Benefit on intentions to engage in the cash economy**

This result largely reflects the view that was expressed in the affinity groups in which none of the participants said that they did, or planned to do, cash work. However, several participants expressed support for working in the cash economy and said they would if they had the opportunity. The rationale was to avoid complications in declaring how much income they received, as it was perceived that the risk of receiving an incorrect amount of Family Tax Benefit was quite high. In the context of this discussion one respondent said that they would consider cash work:

...because it's quite complicated, I know my sister got caught out on it because her husband's salary was difficult to estimate and they lived on a

very tight budget with 3 children. They had to pay back quite a lot at the end of the year and it was very stressful for her.

*Effect of Family Tax Benefit on Broader Financial Decision Making*

Discussion in the affinity groups suggested that the relationship between Family Tax Benefit and cash work needs to be understood within a broader context of its effect on family decisions. This is in part due to the fact that many, but not all, of the participants did not feel that the Family Tax Benefit had much bearing on their decision making at all. Indeed a significant number of participants in the affinity groups had not even applied for the Family Tax Benefit:

Haven't followed it up because it is not going to change anything that we do...That's why we haven't been bothered following it up because its not that substantial that you'd make choices based upon it.

A clear perception among these participants was that the amount that they would, or did, receive from the Family Tax Benefit was not enough to affect the decisions that they made, or in some cases to even apply for:

It's a bonus but...

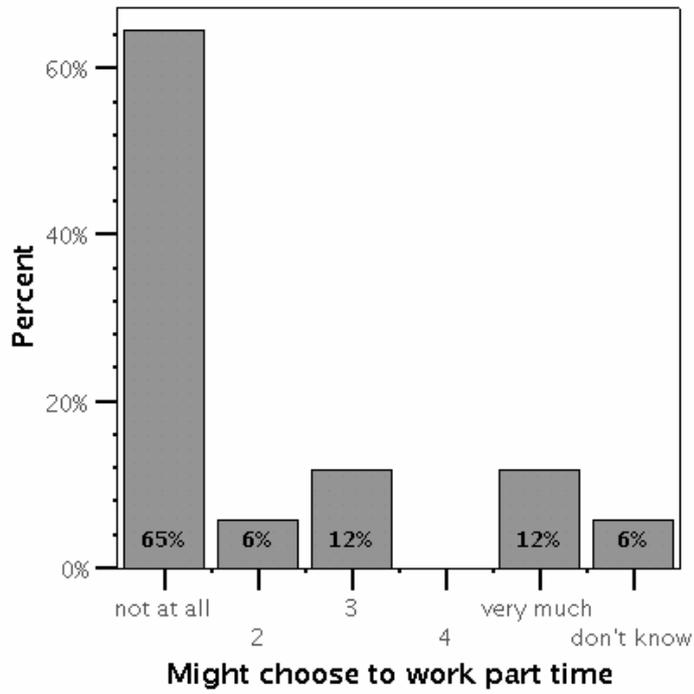
and

I just opted for the end of the year thing because I looked at the paperwork and thought I am not doing that for \$40 ... I could not think of anything worse... just too much hassle...

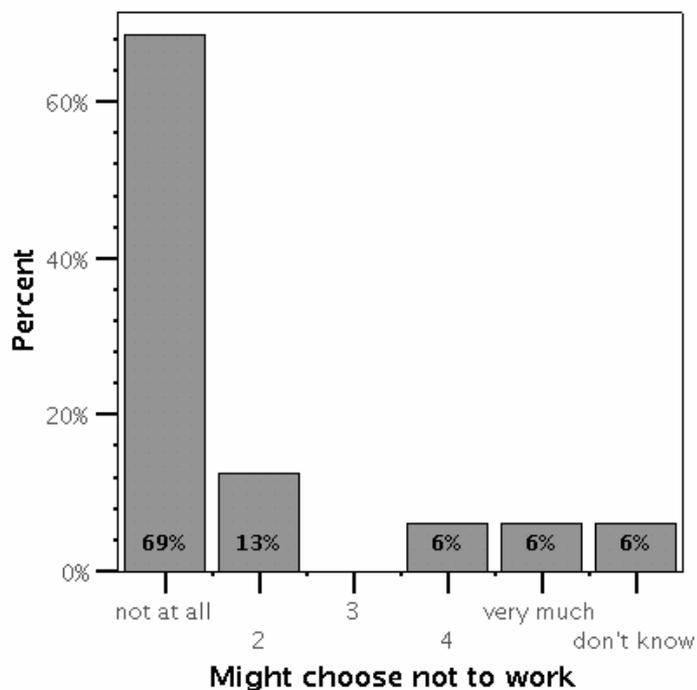
As well as being asked whether they would engage in cash work, participants had also been asked, in the questionnaire, whether the Family Tax Benefit would influence them to choose part time work or to not work at all. As Figures 8.2 and 8.3 show, the majority of participants did not think that the Family Tax Benefit had a strong impact on these choices either, though working part-time was clearly a consideration for some. The view of the majority of participants in the affinity groups can be summarised by the following quote:

It's not enough money, if it was more it might. It's not worthwhile me staying home to keep \$44 a week.

Although we have no way of knowing, it is worthwhile noting that this result may reflect the particular sample that was collected. The majority of participants were recruited in the inner suburbs of Canberra, which is an area of Australia with above average incomes and relatively low unemployment. This is pertinent because the results reported in Chapters 6 and 7 shows that receiving the Family Tax Benefit is associated with greater financial worries and that among those who receive the Family Tax Benefit, unstable employment is a predictor of participation in the cash economy.



**Figure 8.2: Effect of the Family Tax Benefit on intentions to engage in part-time work**



**Figure 8.3: Effect of the Family Tax Benefit on intentions to not re-enter the workforce**

While the Family Tax Benefit was not important for the majority of respondents this was not indicative of the general concern that these parents expressed over the costs of returning to work. The cost of childcare was considered the greatest hurdle that parents and particularly mothers had to contend with. As the following quotes show this was a dilemma for many of the parents:

Do you bother going back to work for \$150 a week after tax?

But if you don't go back do you have the same opportunities when you do go back.

It's a dilemma for us.

I'm looking at doing night work because it [paying for childcare] cancels out any benefit.

We are looking at moving closer to family or overseas to get more support.

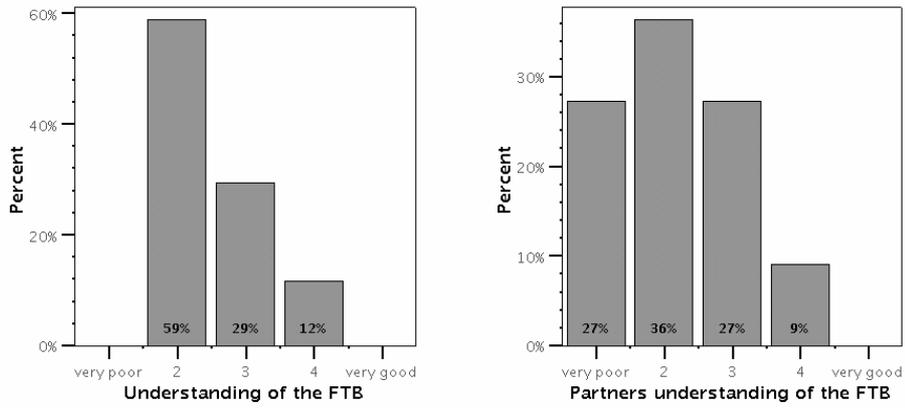
While parents had these broader concerns about returning to work, and balancing work with caring for children, the Family Tax Benefit was not central to this and participating in cash work to avoid losing payments did not appear to be a consideration for most parents. The focus groups and questionnaires highlighted a number of factors that may help explain this, including the participants' knowledge of the Family Tax Benefit, their social values towards social security, and the degree to which they react to government policies as rational calculators.

#### *Knowledge of Family Tax Benefit*

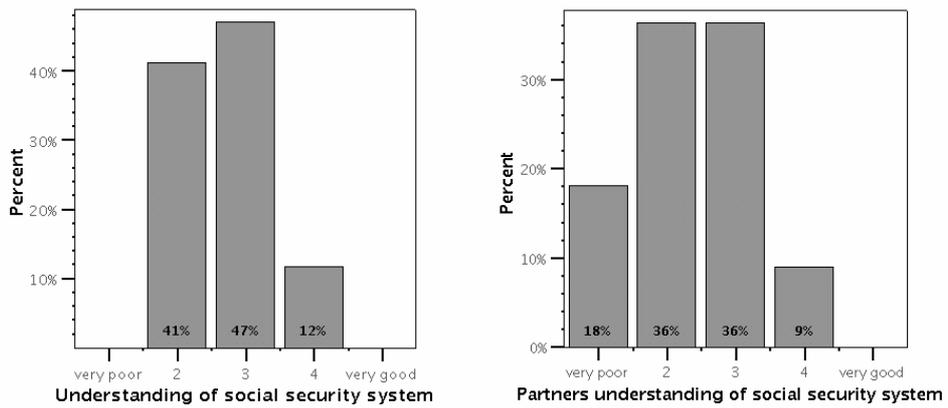
It was clear in the affinity groups and the parent questionnaires that most participants had a very limited understanding of the Family Tax Benefit. Discussion amongst affinity group participants revealed that many did not understand the components that made up the family tax benefit, how the Family Tax Benefit was related to income, or how much they might receive from it. This was reflected in the fact that a number of participants had not applied for the benefit because of perceptions that they were not eligible (even though one partner had zero income) or that the amount they would

receive was negligible. These beliefs were also strongly reflected in the responses given to the parent questionnaire. Figure 8.4 shows that most participants reported that they had a fairly poor to middling understanding of the Family Tax Benefit and how it affected their family income. Confidence in how well they understood the broader social security system was slightly higher as demonstrated in Figure 8.5. However, as demonstrated in Figure 8.6 the vast majority of respondents reported having a very limited understanding of how much they could earn before it affected their Family Tax Benefit payments. An additional question, which asked participants to give their “rule of thumb” regarding the income thresholds, was answered by very few of the participants.

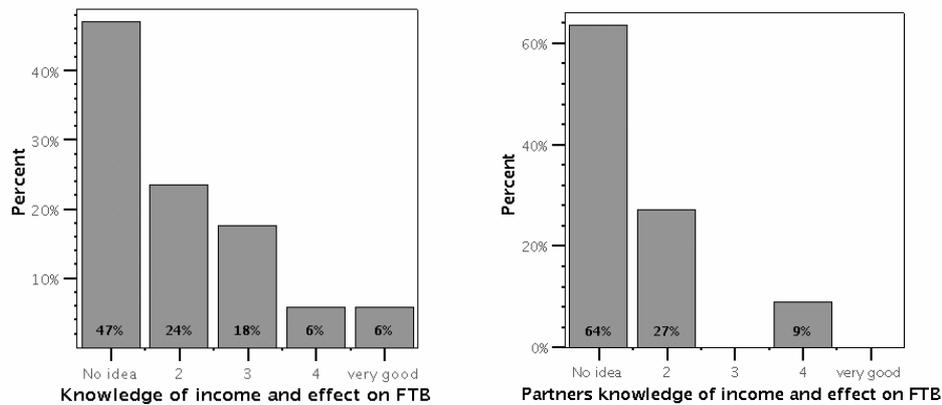
It might have been expected that in couples (especially with very young children) it would be the parent who was employed, rather than the primary caregiver, who would have a better understanding of how the Family Tax Benefit was affected by income. To test this both parents were asked to fill in copies of the parent questionnaire. The response rate from partners was somewhat lower, with only 11 questionnaires returned. However, it is evident from Figures 8.4, 8.5 and 8.6 that the perceived level of knowledge of partners was no higher than for the primary caregivers.



**Figure 8.4: Perceived understanding of the Family Tax Benefit and its impact on family income**



**Figure 8.5: Perceived understanding of how the social security system operates**



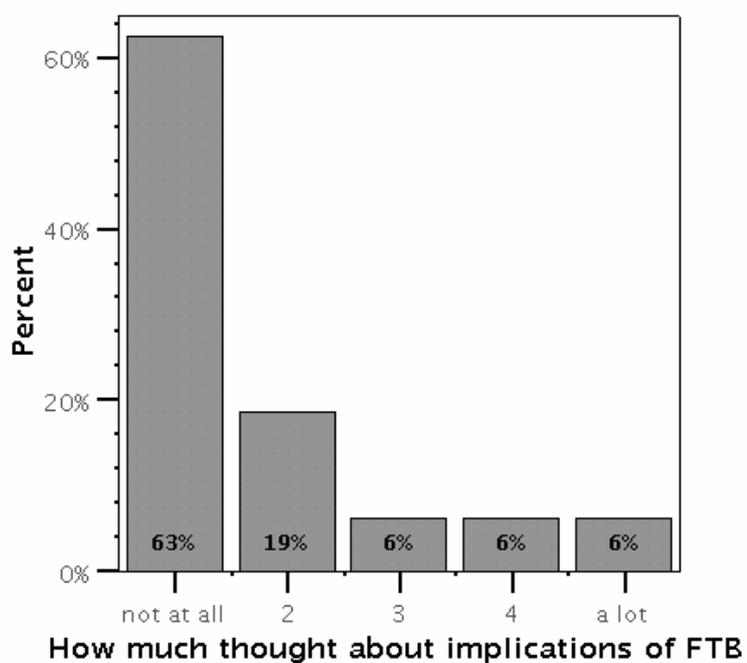
**Figure 8.6: Knowledge of how earning will effect Family Tax Benefit payments**

It is clear from these results that the parents, at least in this sample, have fairly limited knowledge of the Family Tax Benefit and how it operates. The hypothesis that individuals would operate in the cash economy in order to retain their Family Tax Benefit payments, at least in a calculating way, assumes a greater level of knowledge than the vast majority of participants seem to have.

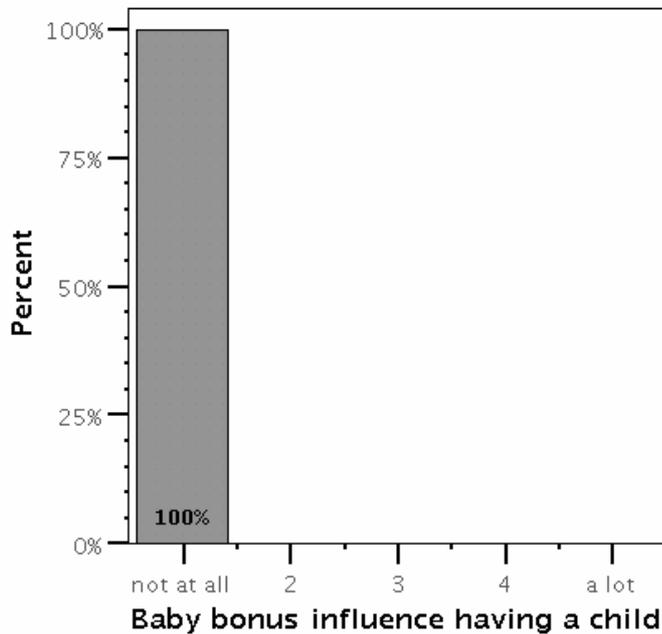
*Rational decisions based on Family Tax Benefit*

While the affinity groups and parent questionnaire suggests that one reason the Family Tax Benefit is not associated with greater participation in the cash economy is that most parents have limited knowledge, they provide even less support for the ideas that parents respond to government policy as rational calculators. When parents were asked how much they and their partner had thought about the implications of the Family Tax Benefit for how much they should work, the majority (see Figure 8.7) had not thought about it at all or had thought about it very little. Clearly the Family Tax Benefit had little impact upon the decision making of these families with regard to

financial decisions. The results, see Figure 8.8, were even starker when respondents were asked if the ‘baby bonus’ had influenced their thinking on having a child. Indeed every respondent reported that it had no influence on their decision and in the affinity groups, participants were extremely dismissive of the idea that it could have influenced them.



**Figure 8.7: Consideration given by respondents and their partners to the implications of the Family Tax Benefit for decisions about employment**



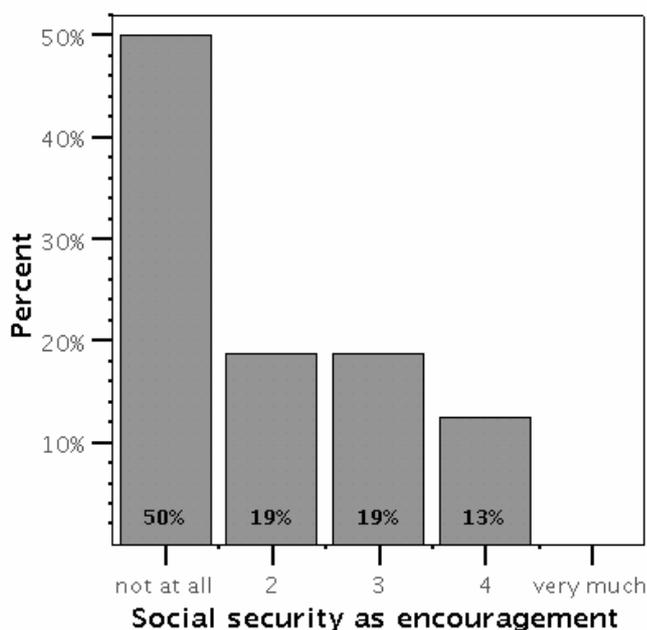
**Figure 8.8: Degree to which the ‘baby bonus’ influenced the decision to have a child**

Although there should be considerable caution used in drawing conclusions from this small sample, the results suggests that one reason why individuals are not motivated to engage in the cash economy to preserve their Family Tax Benefit is simply because most families finances are less planned than this assumes. It would also seem that most families’ do not respond to the Family Tax Benefit or baby bonus by explicitly weighing up the financial benefits of altering their behaviour in one way or other.

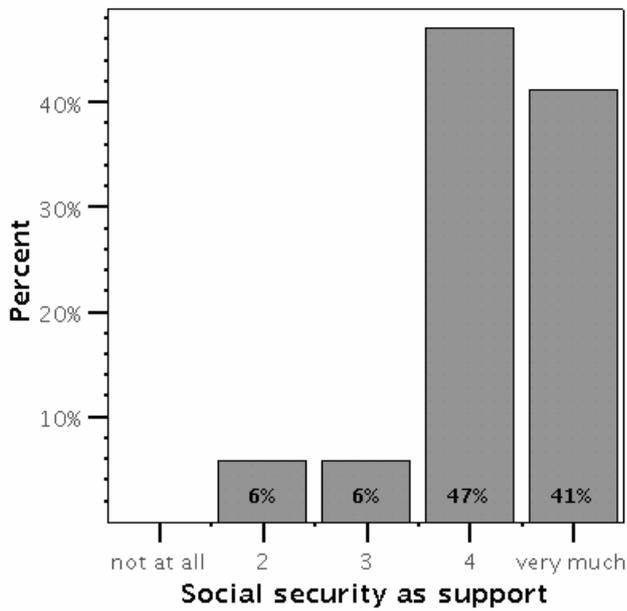
*Social contexts and values*

Another factor that may play an important role in the way that individuals respond to the social security system are the social values that they hold (Braithwaite, 1994) and the legitimacy with which they perceive the system (Tyler, 1990). An interesting

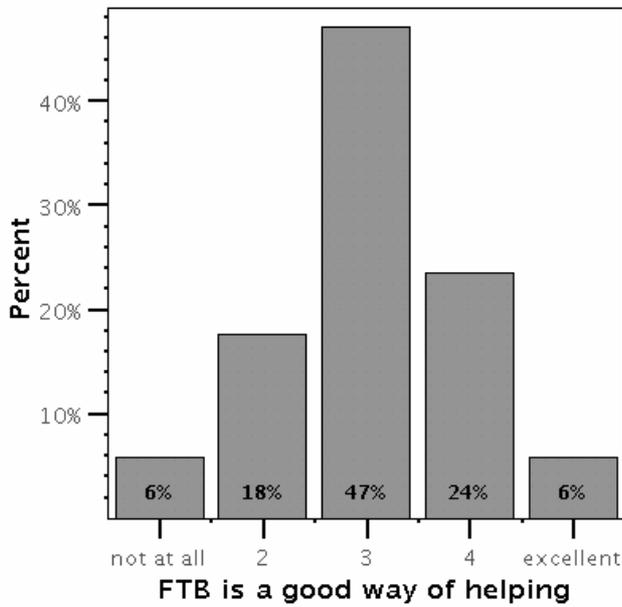
finding from the parent questionnaire was that participants perceived the social security system as being about achieving a social good. Two questions asked what respondents thought the social security system sought to achieve. Figure 8.9 shows that participants did not feel that payments were used by government as a means of affecting people's behaviour. Much greater support was given to the idea, as demonstrated in Figure 8.10, that social security is used to support those in need. This suggests that the majority of participants perceive the social security system, or at least its intention, as being oriented towards achieving a social good, and it may be that this gives the system a greater level of legitimacy. This was consistent with the finding that there was reasonable support for the Family Tax Benefit as a way of helping families (see Figure 8.11).



**Figure 8.9: Perception that the aim of social security systems is to change behaviour through financial rewards**



**Figure 8.10: Perception that the aim of social security systems is to support those in need**

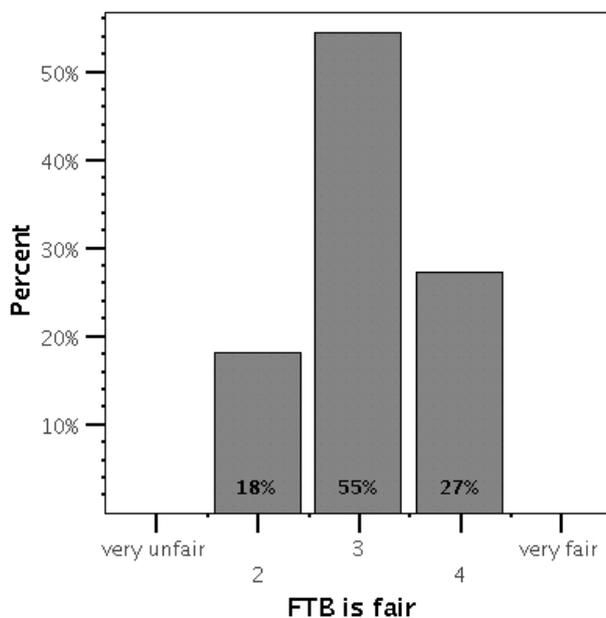


**Figure 8.11: Perception that Family Tax Benefit is a good way of helping families**

Perceptions of social security as having a legitimate social value was consistent with the perception, expressed in the affinity groups, that there was a simple ethical reason for not cheating on the Family Tax Benefit:

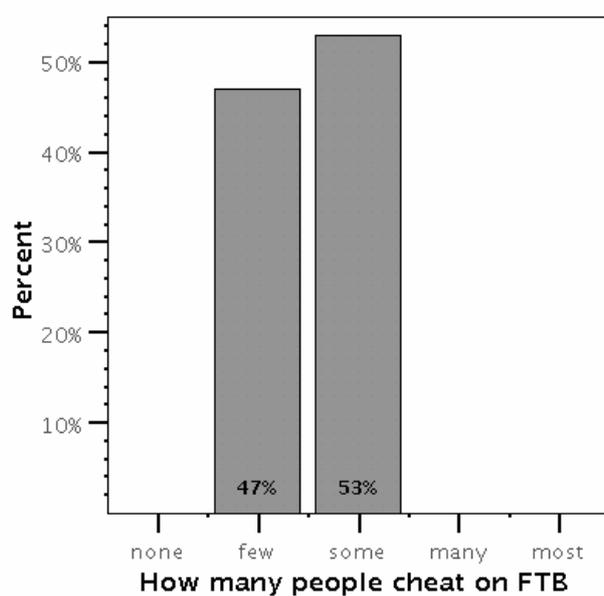
I think that is fair, that is that people only claim what they are entitled to.

Support for the goals of the social security system did not necessarily flow through to perceptions that the system was always fair. This was reflected in discussion of the risk of inadvertently being paid too much Family Tax Benefit and then being left with a debt. One respondent even described being “quite scared of the form”. Responses to the parent questionnaire, presented in Figure 8.12, also show that most participants did not consider the system as being particularly fair or unfair.



**Figure 8.12: Perception that the social security system is fair**

It was also significant that participants believed that a majority of people did not cheat the system (see Figure 8.13). While participants believed that a few people or even some did cheat the system, there was little support for the idea that cheating was widespread.



**Figure 8.13: Perceptions about how many people cheat on Family Tax Benefit**

### *Summary*

The affinity groups that were conducted and the parent questionnaires that were completed by participants in the affinity groups and other parents provide support for the finding that there is little relationship between cash work and the Family Tax Benefit. For participants, the Family Tax Benefit had not affected their likelihood of

working in the cash economy and seemed to have limited implications for other financial decisions. The primary reason appeared to be participants had limited understanding of the relationship between their income and the Family Tax Benefit, and had apparently spent limited time considering the implications for their financial behaviour. The limited data available on partners suggested a similar pattern of results. The results suggest that the participants considered the social security system as providing an important service to those in need and felt that there were ethical reasons not to 'cheat the system'.

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## Appendix

In the last 12 months have you received any of the following Government pensions, benefits or allowances...

	No	Yes
a) Austudy.....	No	Yes
b) Abstudy.....	No	Yes
c) Carer Allowance.....	No	Yes
d) Parenting Payment (Partnered) .....	No	Yes
e) Parenting Payment (Single) .....	No	Yes
f) New Enterprise Incentive Scheme (NEIS).....	No	Yes
g) Rent Assistance.....	No	Yes
h) Sickness Allowance (paid by Centrelink) .....	No	Yes
i) Youth Allowance .....	No	Yes
j) Carer Payment .....	No	Yes
k) Newstart.....	No	Yes
l) Partner's Allowance.....	No	Yes
m) Special Benefit.....	No	Yes
n) Veteran's Affairs Pension (War Widow, War Service).....	No	Yes
o) Widow's Pension/Allowance .....	No	Yes
p) Wife Pension.....	No	Yes
q) Family Tax Benefit .....	No	Yes
r) Child Care Benefit .....	No	Yes
s) Age Pension .....	No	Yes
t) Disability Support Pension .....	No	Yes