Untaxed Cash Work:
Feeding Mouths, Lining Wallets

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Introduction

The cash economy is reputed to be growing internationally. Estimates of the size of the cash economy in Organisation for Economic Co-operation and Development (OECD) countries show this consistent upward trend, and governments are increasingly concerned to understand the drivers of this growth and find mechanisms for its containment. A growing cash economy challenges governance in a number of ways. First, it reduces the legitimacy of the taxation system. Second, it distorts macroeconomic policy. Third, it threatens the social contract between government and the community.

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 the cash economy activity, how much are they earning, what are they doing, and why are they doing it. Through a micro-level analysis of the behaviour of individuals, we hope to provide some insight into where cash economy activity is rife in Australia, and what are the factors that boost its attractiveness to individuals.

This report is divided into six chapters. First, OECD data on the changing nature of cash economy activity across the world is reviewed. These data provide a context in which to interpret data on the size of the cash economy in Australia. Chapter 2 reviews Australian data on the cash economy and summarises the conclusions of macroeconomists about the size of the Australian cash economy. Chapter 3 analyses Australian data on the activity of individuals in the cash economy in 2000, 18 months

later in 2002, and then 18 months further on in September 2003. Chapter 4 uses these data to ask whether there are segments of Australian society in which cash economy activity is rife. Cash economy activity is measured in terms of the number of people involved as well as the amount each person reports making, on average, in the cash economy. Finally, we ask the question, is work in the cash economy more prevalent among those who are among the most vulnerable in our society, and therefore also most likely to be in receipt of government benefits? Chapter 5 considers the issue of necessity, and the relationship between cash economy activity and material well-being. Chapter 6 concludes the report and summarises the main findings.

Chapter 1

OECD data on the cash economy

Of considerable concern among policy makers throughout the world is "…the increasing importance of the underground relative to the official economy" (Schneider & Enste, 2000:828). In other words, it seems that not only are cash economies 'alive and well', they are growing in size.

This chapter provides some brief reasons for the increase in cash economy activity as well as data on the change over time of the cash economy in OECD countries. The different definitions and the methods used to calculate the size of the cash economy will be briefly summarised. It should be noted that different definitions, different assumptions and different calculation methods produce different results in the size of the cash economy (for a review and critique of the different methods for calculating the size of the cash economy see Bajada, 2002; Lafleche, 1994; OECD, 2002; and Schneider & Enste, 2000).

Definitions 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". They

acknowledge, however, that definitions such as this do not cover all aspects adequately. Others highlight specific aspects in their definitions:

> In the broadest sense, the underground economy includes all production, both legal and illegal, that is hidden from income tax. Restricting the concept to production excludes such activities as theft and extortion, which produce no added value in the economy and may actually be regarded as transfers (Lafleche, 1994:40).

And others narrow their definition, as Bajada (2002:8) does in his work on Australia's cash economy:

> For our purposes we regard the underground economy as consisting of activities which would normally be measured in the national accounts, but because of the failure to report income in whole or in-part is neither measured nor taxed. All forms of criminal activities, such as theft, drug trafficking and prostitution, are generally not part of the underground economy. All types of do-it-yourself activities, such as household repairs and maintenance by the homeowner as well as other non-market activities, do not form part of the underground economy.

In Bajada's definition the taxation evasion aspect is prominent and illegal activity is excluded. This is in keeping with the commonly used approach developed by Vito Tanzi in 1980 to measure the size of the underground economy (see Bajada, 2002; Lafleche, 1994; and Schneider & Enste, 2000).

In understanding the differences it is helpful to group different types of activity (Feige, 1999:16; 1996:8-10):

- when fiscal rules are violated, tax evasion and benefit fraud behavior is said to comprise the *unreported economy*
- when income-producing activities are concealed and thus cannot be appropriately included in national income accounts, accounting conventions are violated, creating an *unrecorded economy*
- corruption, extortion, financial fraud, smuggling, organized crime, and theft of state property are examples of *illegal economy* activities
- when activities circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rules covering property relationships, commercial licensing, labor contracts, torts, financial credit, and social security systems an *informal economy* exists.

Grouping in this way demonstrates that different measures necessarily must be used to estimate size. For our purposes, we conceive the cash economy as including the unreported and unrecorded economy, and, therefore, more in keeping with Bajada's definition. It is of note, however, that the community seems to have a broader view of the cash economy and regards illegal activity (for example terrorist activity and criminal activity such as identity fraud and money laundering) as relevant, as well as tax fraud and evasion at both the higher and lower levels of society (Commonwealth of Australia, 2003a).

In summary, there is no one definition of the cash economy. Differences in definition explain part of the reason for different estimates of the size of underground, shadow or cash economies.

Methodologies for calculating the size of the cash economy

Broadly, there are three main methods which can be used to measure the size of the cash or shadow economy, each with its own advantages and disadvantages (see Bajada, 2002; Lafleche, 1994; Schneider & Enste, 2000):

1. Direct or micro approaches: the survey method, and auditing methods to estimate the tax gap
2. Indirect or macro approaches: based on the national accounts (discrepancy method [difference between legitimate income and expenditure], transactions approach [relationship between volume of transactions and official GNP], labour market [participation rate]); physical input (electricity consumption); and the monetary methods (variations on currency demand)
3. Model approaches: 'soft modelling', RESET procedure, MIMIC (multiple indicator, multiple cause) procedure.

Within academic circles, the currency demand method, in spite of receiving its share of criticism, is one of the most popular and commonly used methods of estimating the size of the underground or cash economy (Bajada, 2002; Lafleche, 1994; Schneider & Enste, 2000). The currency demand method falls under the general category of monetary methods. Monetary methods rely:

> on a more indirect methodology based on economic theory, which attempts to evaluate the extent of underground activities as a whole. Accordingly, the monetary approach generally uses a broader definition of the underground economy, one that includes both legal and illegal activities and that is not necessarily restricted to value-added. That is one of the reasons that estimates of the size of the underground economy obtained from these methods are generally higher than those produced by national-accounts methods… (Lafleche, 1994).

Phillip Cagan was the first to propose the currency demand method in 1958 (Schneider & Enste, 2000), although Pierre Gutmann is generally credited with its development in 1977. Gutmann examined "the ratio between currency and demand deposits over the years 1937-76" (Schneider & Enste, 2000), assuming that "the ratio of currency stock to demand deposits would remain stable as long as payment habits did not change" (Lafleche, 1994). Feige's alternative approach in 1979 was "based on the relationship between income and total transactions, both cheque and cash. This method makes the assumption that the ratio of total transactions to income would normally remain constant" (Lafleche, 1994). The Gutmann and Feige methods are the least popular of the currency demand approaches "primarily due to their restrictive assumptions and the sensitivity of the estimates to changes in these assumptions" (Bajada, 2002).

The most popular of the currency demand methods is that developed by Tanzi in 1980, "who argued that the main motive for working in the underground economy

was to avoid paying taxes" (Bajada, 2002). It should be noted that Tanzi did not include illegal activities in his methodology "except to the extent that they were influenced by the income tax rate" (Lafleche, 1994:43). Tanzi's method, with modifications, is the one employed by Schneider and Bajada in their OECD and Australian work. Schneider and Enste (2000) emphasise the point that all methods have their weaknesses – one therefore must seek triangulation when estimating the size of the cash economy through the use of different methods with different sources of error.

Causes of an increase in the size of cash economies

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. In addition, Schneider (2002) draws attention to social security payments, and Brooks (1998) includes increases in means-tested transfers; 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 why the cash economy is growing. 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).

Size of the cash economy in 21 OECD countries

A good starting point for understanding the size of Australia's cash economy is to first consider it in relation to other OECD countries. Schneider (2002) has carried out the most systematic analysis of the size of cash economies in developing, transition and OECD countries. Schneider usually uses the currency demand approach (see Schneider & Enste 2000 for the rationale for this decision). Table 1.1 below shows a small but steady increase in the size of cash economies in the OECD countries in just over the last 10 years.

Table 1.1: Size of the cash economy in 21 OECD countries

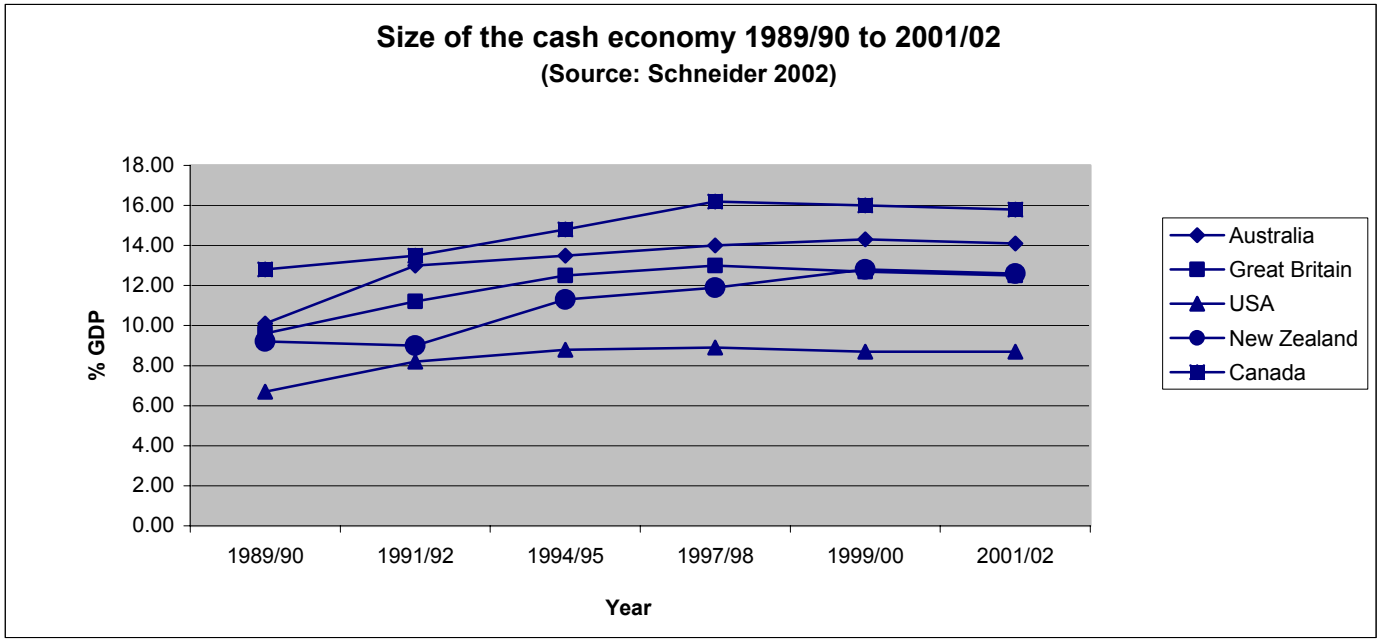
OECD Countries	Size of the Shadow Economy (in % of GDP) using the Currency Demand Method					
	Average 1989/90	Average 1991/92	Average 1994/95	Average 1997/98	Average 1999/2000	Average 2001/02[1)]
1. Australia	10.1	13.0	13.5	14.0	14.3	14.1
2. Belgium	19.3	20.8	21.5	22.5	22.2	22.0
3. Canada	12.8	13.5	14.8	16.2	16.0	15.8
4. Denmark	10.8	15.0	17.8	18.3	18.0	17.9
5. Germany	11.8	12.5	13.5	14.9	16.0	16.3
6. Finland	13.4	16.1	18.2	18.9	18.1	18.0
7. France	9.0	13.8	14.5	14.9	15.2	15.0
8. Greece	22.6	24.9	28.6	29.0	28.7	28.5
9. Great Britain	9.6	11.2	12.5	13.0	12.7	12.5
10. Ireland	11.0	14.2	15.4	16.2	15.9	15.7
11. Italy	22.8	24.0	26.0	27.3	27.1	27.0
12. Japan	8.8	9.5	10.6	11.1	11.2	11.1
13. Netherlands	11.9	12.7	13.7	13.5	13.1	13.0
14. New Zealand[2)]	9.2	9.0	11.3	11.9	12.8	12.6
15. Norway	14.8	16.7	18.2	19.6	19.1	19.0
16. Austria	6.9	7.1	8.6	9.0	9.8	10.6
17. Portugal	15.9	17.2	22.1	23.1	22.7	22.5
18. Sweden	15.8	17.0	19.5	19.9	19.2	19.1
19. Switzerland	6.7	6.9	7.8	8.1	8.6	9.4
20. Spain [3)]	16.1	17.3	22.4	23.1	22.7	22.5
21. USA	6.7	8.2	8.8	8.9	8.7	8.7
Unweighted Average over 21 OECD Countries	13.2	14.3	15.7	16.7	16.8	16.7

1) Preliminary values.
2) The figures are calculated using the MIMIC-method and Currency demand approach. Source: Giles (1999b).
3) The figures have been calculated for 1989/90, 1990/93 and 1994/95 from Mauleon (1998) and for 1997/98 and 1999 own calculations.

Source: Schneider (2002)

Based on Schneider's figures, the cash economy in Australia has increased from 10.1% in 1989/90 to 14.1% in 2001/02, that is, an increase of 4% over an eleven-year period (see Graph 1.1 below). Based on a figure of 14.1% of GDP, Australia's cash conomy sits about 2.6% below the OECD average of 16.7%. It is less than the size of the cash economy in Canada, but more than that of Great Britain, New Zealand or the USA.

Graph 1.1: Australia's cash economy 1989/90 to 2001/02 compared with four OECD countries (based on Schneider's figures)



Note: the mean of the size of Australia's cash economy over the period 1989/90 to 2001/02 is 13.17%. In each of these five countries there appears to be a levelling off in growth, and/or a minor decrease, in the size of the cash economy since 1999/00.

Chapter 2

Australia's cash economy: its impact and size

Australia is just one of many countries with a cash economy which appears to have grown over the last decade. International trends, however, are not grounds for being complacent about suspected growth. The cash economy has impacts on government policy and ultimately on the Australian community in general. This chapter will review some of these impacts, as well as various estimates of the size of the cash economy in Australia.

What's the impact of the cash economy?

The impacts of the cash economy can be both positive and negative, and are both 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 threatens both "the quality and quantity of publicly provided goods and services" (Schneider & Enste, 2000:87).

Individuals rather than the collective arguably experience the positive effects of the cash economy within a well-functioning democracy. The individual giving the cash

pays less for a service than they usually would, and retains more disposable income. The individual receiving the cash acquires more disposable income. Schneider and Enste (2000:78) point out that increases in individual's spending capacity – however obtained – do 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).

Australia's Cash Economy Task Force and policy direction

The Tax Office established the Cash Economy Task Force in 1996 to examine the nature of the cash economy and to suggest steps the Tax Office could take in dealing with it. The Task Force (Australian Taxation Office, 1997:5) noted the impacts recognised in the international literature, and they also had some special concerns in the Australian context:

> The cash economy also imposes significant costs to the community through the linking of taxable income to eligibility for welfare payments and to obligations such as superannuation contributions, workers' compensation premiums and child support payments.

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 be taking advantage of the

self assessment taxation system by assessing their income at levels that allow them to 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, those who are genuinely entitled to government benefits and payments may receive less or none of what they should.

As well, payments individuals should be making to the government such as child support and Higher Education Contribution Scheme (HECS) contributions may be adversely affected by involvement in the cash economy. Cash economy activity may increase disposable income while keeping the reported income below a payment threshold. For example, in the case of child support the result is that the custodial parent receives higher levels of supporting parent payment from the government to compensate for the lack of child support received, meaning that there is less money in the welfare purse for others genuinely entitled to welfare benefits and payments.

For others, participation in the cash economy brings short-term gains but long-term disadvantages. This is particularly the case with superannuation. Those receiving cash-in-hand pay less tax and the employer may pay less superannuation or none at all. Those without sufficient superannuation may not have enough money to live on in retirement.

Undeclared cash income lowers Gross Domestic Product (GDP) which means the government bases its economic policy and future direction on a figure lower than the actual. The issue for government and policy makers is that because the cash economy is not included in official statistics, the economy may be in a different situation than

statistics show - that is, greater overheating or contraction (Bajada, 2002). The OECD (2002:10) highlights the significance of this in the measurement of levels and trends which may impact on the ability to make international comparisons, affecting monetary contributions given or received by a country, or the measurement of poverty, or the measurement of environmental standards. Bajada (2002:2) states that the quality of the National Accounts in Australia is vital for policy makers to make the necessary policy changes:

> Not only are the actions of the tax cheats reducing the size of the tax base and tax revenue, they also affect the quality of economic data which the Australian Bureau of Statistics collects and which policy makers use to gauge their policies. Can we say that the Australian National Accounts (ANA) portray an accurate measure of the activities that are taking place in the economy? Is the inflation rate representative of the prices Australian households are paying for their goods and services? A large underground economy would suggest the answer to each of these questions is no.

According to Bajada (2002:9), the main concerns for Australia of cash economy practices are:

- that unreliable data affect the credibility of any statistical estimates attempting to model an economic phenomenon;
- that unreliable data give rise to inefficient policy prescriptions;
- that significant underground activity deprives the government of much needed tax revenue to fund public works;

- that honest businesses face the threat of closure because of unfair price competition coming from businesses that cut costs through participating in the underground economy.

A further issue, raised by Schneider and Enste (2000:78), but that has received little attention in the Australian context, is that "… a prospering shadow economy may attract (domestic and foreign) workers away from the official economy and create competition for official firms". Australia, because of its relative geographical location, may be immune from the problem to some degree. As far as we can tell, however, this issue has not been addressed.

Cash economy practices also affect public sector resourcing with more staff being devoted to compliance or enforcement work in agencies such as the Tax Office and Centrelink (see Commonwealth of Australia, 2003a). The community has an expectation of fairly administered government programs and non compliance means that more staff must work on uncovering and reducing cash economy practices. As public sector resourcing is funded by the taxpayer, including resources for enforcement work, fewer tax dollars are available for other government services such as health, education, community safety, or welfare.

Finally, not only are there economic impacts of cash economy practices but there are also implications for the relationship between community and government (Braithwaite, 2003; Brooks, 1998). If the community believes that government agencies like the Tax Office are unfair because they pick on the little people while allowing the big end of town to get away with avoiding and evading taxation, trust in

the Tax Office is eroded and this in turn further reduces compliance levels (Braithwaite, 2003). A relationship of low trust between government, government agencies and the community reduces people's faith in others, in democracy and in the way the government works.

The size of the cash economy in Australia

> It was apparent from the beginning that all empirical research in this field must necessarily be exploratory not only because of the problem of definition but also because of the lack of adequate statistics (Sethusaman, 1951:22 in Fisher, 1983).

In the fifty years following the above statement many might say not much has changed. Debate continues about definition of the cash or underground economy, which method to use to calculate the size of it, which statistics to use and from where to get them. The OECD (2002) is critical of many of the modelling techniques used in the measurement of the size of cash economies. Fleming, Roman and Farrell (2000) maintain that:

> It seems unlikely that robust estimators can be developed without a clear understanding of both: 1) the underlying economic theory describing how shadow economies come about; and 2) what drives the level of activity in each component sector.

For reasons such as these, calculating the size of the cash economy is a difficult task, and because there is such a range of estimates it is even more difficult for government and policy makers to decide what magnitude of corrective action they should take (Commonwealth of Australia, 2003a).

Based on the little academic research available at the time, the Cash Economy Task Force (Australian Taxation Office, 1997:10) estimated the Australian cash economy "to be between 3.5 percent and 13.4 percent of GDP". Such a wide range means that it is hard to know how much the government should be worried about the cash economy and its effects. "Using 1995/96 GDP figures as a base and an effective average tax rate of 23%, these studies suggest that the annual amount of income tax revenue foregone could be between $3.9 billion and $15.1 billion" (Australian Taxation Office, 1997:10).

The figures quoted by the Cash Economy Task Force are found in exploratory work conducted in the 1980s by Australian economists. Fisher (1983) stated that a bank (CBA) review article provided an estimate of the cash economy at 10% using a currency ratio method (see also Bajada, 2002:39). Using an expenditure method, Fisher (1983) calculated a figure of 3.5% of GDP in 1980/81, and while suggesting caution in assuming the accuracy or authoritativeness of such a figure, he maintained it was more likely the cash economy was closer to his lower calculation than one of 10%. Fisher (1983:1) referred to work by Norman in 1982 who used "a modified currency ratio (Guttman) (sic) method to derive a figure of 13.4%…in 1981/82". Referring to the Norman (1982) paper, the tax loss from an underground economy of 13.4% was estimated to be about $3.5 billion.

Schneider and Bajada have separately conducted comprehensive and longitudinal studies on the size of the Australian cash economy (see Chapter 1 above for Schneider's recent work). Both Schneider and Bajada use currency demand methods or approaches which explain movement in currency stock.

> …the currency demand approach is most often used to estimate the size of the shadow economy. This approach estimates the size of the shadow economy by calculating the difference between the size of the economy (based on actual levels of cash) compared to the expected level of cash demand (given its GDP and its velocity of money) (Schneider, 2000:414).

However, this methodology can include a range of model types and this partly explains the slight differences in Schneider's and Bajada's estimates. Bajada's approach uses an excess sensitivity methodology to improve the performance of the model, and this varies from the currency demand method developed and used in the 1980s (email conversation with Bajada, 9 October 2003). Both Schneider and Bajada take into account potential cash economy participation among those on welfare benefits and those not working in the legitimate economy. The original models did not take account of the 'special' opportunities and incentives for cash economy participation among these groups.

Bajada (2002) has calculated figures on the size of the Australian cash economy from the mid 1960s to 2000, and has followed this up recently with work on the size of Australia's cash economy from 2000 to 2003, that is, post tax reform. He maintains

that, on average, the cash economy in Australia has remained at "about 15% of GDP since the mid-to-late 1960s" (Bajada, 2002:2). Bajada (2002:88) acknowledges that his estimate for Australia of about 15% of GDP is higher than previous estimates of about 10% (see Fisher, 1983). While Schneider's more recent estimates of an Australian cash economy of 14% are close to Bajada's figure of 15%, Schneider's figures suggest a growing Australian cash economy over the last ten years (see Table 1.1 and Graph 1.1 above).

The most recent estimates of the size of the cash economy have come from the Australian Bureau of Statistics (ABS). In October 2003, the Bureau released a feature article on Australia's cash economy and GDP. The ABS used an approach recommended by the OECD (OECD, 2002) which necessarily comes with definitions and assumptions different from those used in other methods. Using 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) acknowledges that such judgements are "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.

In summary, there has not been a convergence on findings relating to the size of the cash economy in Australia, and the range of estimates in many instances is likely to be too wide to be practicable as a base for policy development. Of significance, however, is the point made by Bajada in relation to his consistent estimate of 15%. In Australia, he suggests, cash economy "activities have been entrenched in the working ethics over many years" (Bajada, 2002:2).

Conclusion

It is clear that an estimate of the size of a cash economy will vary depending on the method used to calculate it and the assumptions made. If we put faith in the currency demand method used by both Schneider (2000; 2002) and Bajada (2002), it seems that the current size of Australia's cash economy sits between 14% to 15% of GDP. The use of a different method by the ABS puts the size of the cash economy as low as 2%. On the issue of change, Schneider claims an increase of an order that corresponds to the OECD average over 11 years. Bajada, over the period from the mid 1960s to 2000, maintains that there has been little change. The ABS (2003:6) is currently considering "how to develop estimates for historical periods".

What is also clear is that a cash economy of around 15% would have some significant negative effects on the National Accounts, the policy government sets, and on the quality and quantity of benefits and services the Australian community receives from

government. If the cash economy is around the 14-15% mark, we might assume that certain individuals pay less tax than they should by declaring less income than they earn. We might also assume that there are people claiming government payments and benefits to which they are not entitled, or making lower payments to government than they should. And we can assume that the community in general is aware of this (see Braithwaite, Reinhart, Mearns & Graham, 2001), and their perceptions of non compliance on the part of others in the community does nothing to build or maintain their trust in others, in government and in government departments and agencies. Alternatively, it may be seen another way: In an era where government is encouraging self sufficiency, some of those who are claiming government payments and benefits may be finding life so difficult that they are compelled to engage in cash economy practices to supplement their income to provide for themselves and/or their dependents.

Whether the true size of the cash economy is at the lower limit or the upper limit, Bajada's point that there is considerable stability in cash economy activity is well taken. Australians may be enmeshed in, or at least faced with, a web of cash economy practice, whether they like it or not. One wonders if *carpe diem* (seize the day) is a strong philosophy in Australia – are people just not thinking about the impact of their actions and preferring to live for the moment rather than think of the future? While many of those engaged in government regulation might think cash economy practices are those of the self-interested rational actor, there may also be more to it than that. The following chapters provide behavioural data on Australians who work in the cash economy. Such data may help illuminate some of the drivers of cash economy participation and point to directions for future research.

Chapter 3

Australians' self-reports of their cash economy activity

Background

Economists have devoted considerable effort to measuring the size of the cash economy indirectly through aggregated or macroeconomic indicators. As noted in the previous chapter, workforce participation, electricity consumption, and monetary demand are among the measures that have been used to give an indirect estimate of the size of the cash economy. In 2000, the Centre for Tax System Integrity at the Australian National University (ANU), in collaboration with Professor Friedrich Schneider from the 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".

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 in Chapter 1. It is simply another method that can shed light on the cash economy from a different perspective. Needless to say, it brings errors of its own kind to cash economy estimation. The individual survey method is prone to three kinds of errors: 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 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. Third, 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."

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 breakdown for different groups is the focus of the next two chapters. This chapter presents basic descriptive information about cash economy activity in Australia, specifically the proportion of the population involved, how much they earn, what kinds of jobs they do, and how long they remain in the cash economy sector.

Sources of data

This report is based on three sources of data, the first two collected under the auspices of the Centre for Tax System Integrity, the second as part of a larger study sponsored by the Regulatory Institutions Network's International Hope Initiative.

National random surveys in 2000 and 2002

Between June and December 2000, a national survey was conducted by the Centre for Tax System Integrity at the ANU (for details see Braithwaite, 2001; and Braithwaite, Reinhart, Mearns & Graham 2001). A stratified random sample of 7754 persons was selected from the publicly available electoral rolls. The Community Hopes, Fears and Actions Survey was sent to each person who had been randomly selected, together with a letter explaining the intent of the study and a stamped addressed envelope for the return of the completed questionnaire. Two reminder cards were sent at two to three week intervals. After five weeks, a second questionnaire was posted to non-respondents, again followed by two reminder cards. (Details of the methodology of the survey are available in Mearns and Braithwaite, 2001.)

Of those contacted, 29% completed and returned the survey, providing 2040 cases for further analysis. While this response rate was lower than that obtained with two companion surveys conducted at approximately the same time (The Community Participation and Citizenship Survey produced a 44% response rate (Job, 2000), while the Graduates' Hopes, Visions and Actions Survey produced a 33% response rate (Ahmed, 2000)), there were reasons for expecting such an outcome. The Community Hopes, Fears and Actions Survey was a tax marathon designed to provide detailed information on how Australians evaluated and interacted with their tax system. The other surveys were not only notably shorter, but also contained proportionately fewer questions on taxation, focusing instead on social capital and tertiary education respectively. A number of researchers have commented on the way in which

questionnaires with a tax focus "dampen" the enthusiasm of respondents. The general consensus appears to be that a tax questionnaire is likely to yield response rates at the lower end of the spectrum, at best around the 30% mark (Pope, Fayle & Chen, 1993; Kirchler, 1999; Wallschutzky, 1996; Webley, Adams & Elffers, 2002).

In spite of the somewhat low response rate, the sample appeared to be surprisingly robust against suspected sources of bias. A series of diagnostic analyses (see Mearns & Braithwaite, 2001) showed the sample to be relatively representative of the population with regard to sex, ethnicity, education, age, occupation, and marital status. The biases that were detected pointed to an over-representation of those in scribing occupations who would have been more comfortable with a detailed response-intense questionnaire, and an under-representation of younger age groups (18 to 25 years) who traditionally are difficult to recruit for self-completion surveys.

In 2002, a follow-up national survey called the Australian Tax System: Fair or Not Survey was conducted by the Centre for Tax System Integrity. This survey was sent to those who took part in the earlier survey and to a new random sample of 3000 people drawn from the electoral roll. Responses were received from 1161 of the 2040 respondents involved in the earlier survey (a 57% retention rate, 69% when out of scope respondents were excluded) and from 970 new respondents. The response rate for the new random sample was 38%. In addition, 195 follow-up questionnaires were received from a random sample of 2000 people whom we had contacted in 2000 but who had not taken part in the survey on that occasion (13% of in-scope respondents).

National random survey in 2003

In September 2003, a national survey was initiated as part of the International Hope Initiative in the Regulatory Institutions Network at the ANU. The initial trial of this survey provided data that could be used to test the robustness of the findings from the 2000 and 2002 survey. This test was important because of concerns that the earlier surveys underestimated cash economy activity because people were afraid that someone could track their identity. The 2003 survey had been designed in such a way that it was transparently anonymous. 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 survey are used as a validity check on the inferences made from the data extracted from the earlier surveys. It is important to emphasise that the 2003 data are interim data from a survey which is still in the field. In order to provide as much information as we can at this point, we have included a description of the sampling design used in this survey below.

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 what type of delivery points are 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. At the time of writing some 6400 completed surveys had been received for a response rate of approximately 8 percent.

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

As previously mentioned the sample design yields a sample of people who have been selected according to their household size. Estimates made from the data will use a weighting factor to correct for the increased probability of selecting people from smaller households. 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 use of un-weighted data will provide different estimates to weighted data only in situations where there is a relationship between household size and the parameter being estimated. In the analyses in this report, which are based on interim data from the survey, all estimates use un-weighted data rather than weighted

data. Preliminary analysis of the cash economy participation rates suggest that if weighted data were used, the estimate would be slightly higher at 10.1%. This comes about because of slightly higher cash economy participation in multiple person households for the sample so far analysed.

Data on cash economy activity

Survey 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.

Table 3.1: Percentages of Australians active or not active in the cash economy for the years 2000, 2002 and 2003

Item	Categories	Percentages in 2000 N = 1979	Percentages in 2002 N = 1183	Percentages in 2003 N = 3374
Active in the cash economy	Yes No	6.1% 93.9%	5.4% 94.6%	9.4% 90.6%

Table 3.1 shows that the percentage who answered yes to this question ranged from 5.4% in 2002 to 9.4% in 2003. The higher rates obtained in 2003 at this stage are being interpreted as a reflection of the anonymity of the 2003 survey compared with the 2000 and 2002 surveys. We cannot be sure, however, that there has not been a real increase in cash economy activity until we use the 2000/2002 methodology again in a survey planned for 2004.

It is of note that the surveys using comparable methodologies produced similar rates of cash economy participation – 6.1% in 2000 at the time the GST was first introduced and 5.4% 18 months later in 2002.

In addition to asking about participation in the cash economy, those who answered "yes" were asked how much they had earned. Tables 3.2 and 3.3 summarise the cash economy earnings that were reported in the three surveys.

Table 3.2: Average cash economy income for the years 2000, 2002 and 2003

Item	Mean income/per year for 2000 n = 120	Mean income/per year for 2002 n = 64	Mean income/per year for 2003 n = 316
Income in Australian dollars	2,306.95	1,320.83	3,220.11

Table 3.3: The distribution of cash economy income across 4 monetary categories for the years 2000, 2002 and 2003

Item	Categories	Income in Cash Economy for 2000	Income in cash economy for 2002	Income in cash economy for 2003
Income in Australian dollars	1 less than 1,000	60%	65%	51%
	2 more than 1,000 but less than 5,000	26%	28%	32%
	3 more than 5,000 but less than 10,000	6%	5%	9%
	4 over 10,000	8%	2%	8%

From Table 3.2, we can see that on average, the amounts earned in the cash economy by these samples are not substantial. While we see some fluctuation from year to year – just over $2,000 in 2000, down to just over $1,000 in 2002, and up to just over $3,000 in 2003 – the significant message from these data is that there is a portion of Australians earning small amounts of money "outside the tax system" that has been occurring consistently over these three years.

To give a better sense of the distribution of the amounts earned in the cash economy, we calculated the percent earning less than $1,000, more than $1,000 but less than $5,000, more than $5,000 but less than $10,000, and more than $10,000. Table 3.3 provides a breakdown of the amount earned in the cash economy in the three surveys. In each case, the majority of cash economy participants are earning less than $1,000. A further quarter earn between $1,000 and $5,000. The minority (less than 20%) earn more than $5,000.

Those who said they had participated in the cash economy were asked, in 2000 and 2002 only, what kind of work they were doing. These jobs were coded into six broad categories using the ABS occupational coding frame. The distribution of cash economy participants across the major occupational groups is shown in Table 3.4.

Table 3.4: Distribution of cash economy jobs across the ABS occupational categories for the years 2000 and 2002

Item	Categories	Percentages for 2000 n = 120	Percentages for 2002 n = 64
Jobs in the cash economy	1 Professional, managerial	21.1%	12.0%
	2 Trade, clerical	18.8%	20.0%
	3 Intermediate clerical, sales, hospitality	9.5%	20.0%
	4 Transport, production	7.4%	6.0%
	5 Elementary clerical	13.7%	6.0%
	6 Labourers –farm, factory, house	29.5%	36.0%

Most cash economy jobs in 2000 and 2002 were unskilled, falling into the category of labourers and household services (around the 30% mark). The next most common category of cash economy work (around 20% of jobs) involved trades of some kind. After that, professional and managerial work featured prominently in 2000 but had dropped back in 2002. The opposite was the case with clerical, sales and hospitality jobs. They were not so prevalent in 2000, but strongly represented in 2002.

Many have conjectured about how participation in the cash economy relates to participation in the official economy. In subsequent chapters, this question will be examined in more detail, but at this stage we want to make a simple point. People from all walks of life participate in the cash economy. Table 3.5 shows that one's main occupation (one's day job, main job or official job) does not preclude participation. Participation in the cash economy among the main occupational groups

does not depart too much from the distribution of these occupations in the samples as a whole. Somewhat fewer professional and managerial workers are involved in cash economy activity (36-38% compared with the 48-52% present in the total survey samples), while somewhat more trades and clerical people are involved in cash economy activity (20-26% compared with the 14% present in both the 2000 and 2002 samples).

Table 3.5: Breakdown (%) of the main occupations held by Australians who were active in the cash economy during the years 2000 and 2002

Item	Categories	Percentages in 2000 n = 120	Percentages in 2002 n = 64
Main Occupations	1 Professional, managerial	37.6%	36.0%
	2 Trade, clerical	25.7%	20.0%
	3 Intermediate clerical, sales, hospitality	16.9%	14.0%
	4 Transport, production	5.9%	10.0%
	5 Elementary clerical	8.9%	10.0%
	6 Labourers –farm, factory, house	5.0%	10.0%

The amount earned in the official economy by cash economy participants tends to be somewhat lower on average than the mean personal income for the samples as a whole. From Table 3.6, the official personal income of $24,000 reported by cash economy participants was $4,000 lower than the 2000 sample mean; the same official personal income for 2002 is $7,000 lower than the sample mean. These findings suggest that while cash economy workers are dispersed across occupational groups, they may not be doing as well financially in the official economy as their non-

participating counterparts. This issue needs to be explored in more depth in future research.

Table 3.6: Official income of Australians who are active in the cash economy for the years 2000, 2002 and 2003

Item	Mean income/per year for 2000 n = 120	Mean income/per year for 2002 n = 64	Mean income/per year for 2003 n = 316
Income in Australian dollars	24,000.00	24,322.58	30,017.54

So far, these data suggest that cash economy activity occurs on a small scale, although it is not pocketed in segments of Australian society, rather it is distributed widely across the population. The final question we ask is whether or not this still holds when we divide the sample into hard targets and soft targets. Hard targets were defined as those people who were involved in the cash economy in 2000 and were still involved 18 months later in 2002 ("in 2000 and 2002"). Soft targets were those involved at one time point but not the other ("in 2000 and out 2002" or "out 2000 and in 2002").

Table 3.7: Percentage of Australians active in the cash economy in the years 2000 and 2002 who could be considered hard and soft targets

Item	Categories	Percentage
In and out of the cash economy	1 In 2000&2002 2 In 2000-Out 2002 3 Out 2000-In 2002 4 Neither 2000 nor 2002	2.0% 3.9% 3.7% 90.4%

As can be seen from Table 3.7, most cash economy work was transient; only the minority (2%) were hard targets in that they were involved at both time points. The next set of analyses attempted to answer the question of whether the hard targets earned more in the cash economy than the soft targets and whether they were more likely to come from particular occupational groups. Table 3.8 shows the amount earned in the cash economy by transients (soft targets) and continuing participants (hard targets). These data suggest that the hard targets may earn more money, on average, through their continuing involvement, a hypothesis that needs to be explored in future research.

Table 3.8: Mean income in the cash economy for hard and soft targets in the years 2000 and 2002

Item	Categories	Mean income in cash economy 2000	Mean income in cash economy 2002
Mean income in cash economy in Australian dollars	1 In 2000 and 2002 2 In 2000-Out 2002 3 Out 2000-In 2002	2,998.89 1,869.92 na	3,604.55 na 1,420.97

Note: na means not applicable because of no cash economy activity at this time

The final analysis in this chapter looked at the cash economy jobs that supported the hard and soft targets. The differences across the columns in Table 3.9 are not marked, particularly given the small numbers in some of these categories.

Table 3.9: Distribution of cash economy jobs among hard and soft targets during the years 2000 and 2002

Item	Categories	Column % In 2000 and 2002	Column % In 2000-Out 2002	Column % Out 2000-In 2002
Jobs in the cash economy	1 Professional, managerial	18%	23%	20%
	2 Trade, clerical	24%	17%	17%
	3 Intermediate clerical, sales, hospitality	6%	6%	14%
	4 Transport, production	18%	3%	0%
	5 Elementary clerical	18%	8%	12%
	6 Labourers –farm, factory, house	16%	43%	37%

Conclusion

In summary, most Australians say they do not and have not worked in the cash economy in recent years. Of the minority who do acknowledge doing cash economy work, most earn small amounts of money, that is, less than $5,000 per year, and most are transient in that they are doing so at the time of one survey, but not at the time of the other survey. The likelihood of people going in and coming out is much the same in these initial years following the introduction of the GST.

Participation in the cash economy does not appear to be localised in one occupational group. These findings challenge some of the stereotypes that exist about who in the community is doing cash jobs and not declaring it to the tax office. At one level, the stereotypes are confirmed. For example, there is a tendency for those people working officially in trades and clerical positions to be involved in the cash economy. But

balancing this statement is another equally valid observation. Most of the cash economy activity was undertaken by those people whose official job was classified as professional or managerial.

This chapter has provided a broad-brush description of the cash economy activity detected in our three random samples of Australians. Before going on to look at the social and demographic characteristics of these people in more detail, an initial typology of cash economy participants is proposed, a typology that is data inspired rather than driven, but one that will be repeatedly put to the test in this report and in subsequent work.

First, it would be naïve to expect a survey methodology such as this to pick up serious and large-scale activity in the cash economy. Those who are earning hundreds of thousands of dollars and keeping these large sums out of the reach of the tax office are unlikely to answer our questionnaire. Therefore, our first category comprises those cash economy players who will not be picked up through a community survey. We will refer to them as belonging to the category, corporate crime underground. Cash economy activity of this kind can best be detected and analysed by the government; in the past such activities have been undertaken by government agencies such as the National Crime Authority (now called the Australian Crime Commission) and AUSTRAC, and auditors and special investigation officers from the ATO and Centrelink.

The second and third groups of cash economy participants are represented in our survey data, although there always remains a question mark over whether or not we

have adequate representation of these groups. The first group we will call cash-in-hand-to-mouth, meaning that their resources are meagre and they may be struggling to make ends meet.

In contrast to this group, we appear to be seeing evidence of a well-to-do group who are engaging in cash economy activity. We shall call this group cash-in-hand-to-wallet because at first glance, they do not seem to be suffering from a serious resource deficit.

At this stage, this typology is no more than a hypothesis, based on what the initial descriptive statistics tell us, and perhaps more importantly, what they are not telling us. In the following chapters, we will accumulate evidence to justify the use of the categories, cash-in-hand-to-mouth and cash-in-hand-to-wallet.

Chapter 4

The relationship between cash economy activity and official employment networks

Background

The central question that we address in this chapter is whether or not an individual's cash economy activity is related to the way in which that person engages in the official economy. There are a number of hypotheses that can be put forward to guide the analysis of this question. Arguably the most obvious, and the one investigated in this chapter relates to opportunity. Opportunity might be operationalised in terms of the amount of time a person has available to engage in cash economy work. For instance, those who work part-time or do not have a regular job may have more opportunities to earn money in the cash economy than those employed full-time. Opportunity may refer also to a person's capacity to keep earnings out of the view of the tax office. For instance, those who run their own business or who are self-employed are generally considered more able to evade tax through under-declaring the income they earn.

In this chapter cash economy activity and the income earned from this activity is related to a person's work status (full-time, part-time, not working) and to the sector in which the person has mainly worked (employee in private company, employee for a non profit organisation, government employee, self-employed).

We also revisit the issue of official occupation and income. In the previous chapter, descriptive statistics were presented for the three samples separately. In this chapter, we combine the data from the surveys conducted in 2000 and 2002 to increase the number of cash economy cases for the analysis. Those who did the survey for the second time in 2002 were not included in the database – we only added those people in 2002 who had not taken part in the survey in 2000. The newly combined data set (2000/2002) provided 184 cases of people who said they had worked in the cash economy in the past year. The analyses in this chapter are based on the combined 2000/2002 data set.

Measuring workforce participation

Survey respondents were asked the following question: Last week, were you (a) working full time for pay, part-time for pay, unemployed, retired, being a full-time student or keeping house[1]. These responses were collapsed into three categories – working full-time, working part-time, not working. Survey participants were then asked to tell us what kind of work they did. This included job title, the main tasks that the person did and the kind of business or industry they worked in. If they were retired or unemployed, we asked for information on their last regular paid job to gain some insight into the employment circles in which they moved. Finally, participants were asked whether their job was with (a) a private company or business, (b) non-profit

[1] Readers will recall that cash economy activity was measured using the time period, "in the last 12 months". Thus, we are unable to say that those who are doing cash economy work at a particular time are also, at that time, engaged in a certain kind of employment. The answer to the question, why was cash economy activity not measured for the last week is that the prevalence is too small to pick up a sufficient number of cases to justify the inclusion of the question. Other than this, the reason for the time frame chosen for each measure is methodological and maximises compatibility with other surveys.

organisation, (c) government, or (d) self-employed or in partnership or running one's own business.

Relating cash economy activity to working status

Tables 4.1 and 4.2 show the relationship between work status and cash economy activity. Cash economy activity is more likely to occur among those who are "connected" with the official economy either as part-time workers or as full-time workers. Those who were not working at the time the survey was conducted – either because they were retired, keeping house, a student or unemployed – were significantly less likely to have worked in the cash economy in the last 12 months.

The pattern was different when we considered the amount of money earned through this activity. At first appearances, it seemed that the highest earnings were among the full-time workers and those not working at all, with part-time workers falling behind. A check for statistical significance, however, revealed that the amount earned in the cash economy was not significantly different for people with different work status. On the basis of these data, we must assume that the three work status groups - full-timers, part-timers and those who do not have a job - earn much the same amount of money through their cash economy activities[2].

[2] The 2003 survey produced non-significant findings for work status on both cash economy measures – whether they have worked in the cash economy or not and how much they have earned.

Table 4.1: Percentage of Australians working in the cash economy by work status

Item	Categories	Active in the cash economy n = 183	Not active in the cash economy n = 2909
Work status	1 Full-time (n = 1374)	6.4%	93.6%
	2 Part-time (n = 540)	7.6%	92.4%
	3 Not working (n = 1178)	4.6%	95.4%

Chi-square = 7.07* * $p < 0.05$

Table 4.2: Average cash economy income for Australians working full time, part time or not working at all

Item	Categories	Mean income in the cash economy per year in Australian dollars	F-value
Work status	1 Full-time	2,259.85	1.26 NS
	2 Part-time	960.59	
	3 Not working	2,269.63	

Note: NS means not significant at the .05 level.

Relating cash economy activity to work sector

When we consider opportunity to work in the cash economy, most experts and policy makers turn their attention to the self-employed or those who run their own businesses. A substantial literature documents problems of under-reporting of income in this group (see Coleman & Freeman, 1997; Bankman & Karlinsky, 2001; Weigel, Hessing & Elffers, 1987). The survey data were used to compare the self-employed or

business owners with employees from the private sector, government and non-profit organisations. The issue was not the general one of under-reporting of income for tax purposes, but rather the specific issue of have you worked for cash-in-hand in the last year.

Table 4.3 provides the breakdown of cash economy participation by work sector and Table 4.4 reports the corresponding average cash economy earnings. No significant differences emerged for average cash economy earnings, but a significant effect was found in the case of sector. While the self-employed and business owners had the highest level of cash economy activity, employees working in the private sector were not far behind. What is of note in Table 4.4 is the lower participation rates among workers in the public or non-profit sectors.

Table 4.3: Percentage of Australians working in the cash economy activity by work sector as defined by their official or main job

Item	Categories	Active in the cash economy n = 156	Not active in the cash economy n = 2300
Sector of work	1 Private company or business (n = 1266)	6.6%	93.4%
	2 Non profit organizations eg universities (n = 190)	5.8%	94.2%
	3 Commonwealth, State or Local Government (n = 610)	3.9%	96.1%
	4 Self-employed; own business (n = 390)	9.7%	90.3%

Chi-square = 13.73** * *$p < 0.01$

Table 4.4: Average cash economy income for Australians whose main job is in the private, non-profit, government, or self employed work sectors

Item	Categories	Mean income in the cash economy in Australian dollars	F-value
Sector of work	1 Private company or business	1,712.38	1.62 NS
	2 Non profit organizations e.g. universities	773.33	
	3 Commonwealth, State or Local Government	1,188.10	
	4 Self-employed; own business	3,370.00	

Note: NS means not significant at the .05 level.

Revisiting official occupation with the combined 2000/2002 sample

The findings in this chapter so far suggest that cash economy activity may be related to the way in which one is connected to the official economy. The trend, although often not significant, is for cash economy activity to be higher among those well enmeshed in the official economy, particularly in the private as opposed to public and non-profit sectors. In this section, we therefore revisit official occupation with the combined 2000/2002 sample and re-examine the question of whether cash economy activity is more common in some occupational groups than others.

Overall, occupational group was significantly related to cash economy activity in terms of participation (yes versus no) (see Table 4.5), although not in terms of dollars earned (see Table 4.6, but note small numbers in three categories in particular). To investigate the relationship with main occupation a little further, we collapsed the data

into one occupational group (e.g. professional, managerial) versus other (all remaining occupational groups combined) and related this new variable to whether or not a person had worked in the cash economy in the past year, by means of six separate chi-square tests of independence. These analyses revealed that cash economy activity was significantly less likely to occur among those whose main occupation was categorised as professional or managerial (chi-square = 9.07, $p < .01$) and significantly more likely to occur among trade and clerical workers (chi-square = 13.15, $p < .01$).

Table 4.5: Percentage of Australians working in the cash economy broken down by their official or main occupations (the combined 2000/2002 data set)

Item	Categories	Active in the cash economy n = 151	Not active in the cash economy n = 2288
Main occupation	1 Professional, managerial (n=1194)	4.7%	95.3%
	2 Trade, clerical (n=340)	10.6%	89.4%
	3 Intermediate clerical, sales, hospitality (n=397)	6.0%	94.0%
	4 Transport, production (n=200)	5.5%	94.5%
	5 Elementary clerical (n=156)	9.0%	91.0%
	6 Labourers –farm, factory, house (n=152)	6.6%	93.4%

Chi-square = 18.25* ** $p < 0.01$

Table 4.6: Average cash economy income for Australians from different official or main occupation groups

Item	Categories	Mean income in the cash economy in Australian dollars	F-value
Main occupation	1 Professional, managerial (n = 54)	1,912.75	1.13 NS
	2 Trade, clerical (n = 36)	3,166.94	
	3 Intermediate clerical, sales, hospitality (n = 23)	1,281.50	
	4 Transport, production (n = 11)	1,250.00	
	5 Elementary clerical (n = 14)	722.92	
	6 Labourers – farm, factory, house (n = 10)	449.88	

Note: NS means not significant at the .05 level.

Finally, we asked the question, do Australians do cash economy work in the same broad area in which they earn their main or official income? These data are summarised in Table 4.7. Here we are dealing with a sub-population of people who (a) are involved in cash economy activity and (b) have or have had a main job in the official economy. From this table, we see that 37% of people whose main occupation is categorised as managerial and professional do cash economy work in this same area, 45% of those whose main occupation is classified as trades or clerical do cash economy work in this same area, 26% of those whose main occupation is intermediate clerical, sales or hospitality do cash economy work in this same area, 33% of those whose main occupation is transport and production do cash economy work in this same area, and 70% of those whose main occupation is labourer do cash economy work in this same area. The one omitted occupational group in this list, elementary

clerical, departs from the dominant pattern. Here we do not see a correspondence between official and cash economy work. Elementary clerical workers are more likely to have cash economy jobs that fall into the unskilled labouring category (farm, factory or household services).

Table 4.7: Do Australians do the same job in the cash economy as they do in the official economy?

	Jobs held in the cash economy						
Main occu-pations	1 Prof. manager	2 Trade, clerical	3 Clerical, hospitality	4 Transport, production	5 Elem. clerical	6 Labourer	Total
1 Professional managerial	**16** **37%** **70%**	6 14% 25%	4 9% 27%	3 7% 30%	5 12% 38%	9 21% 24%	**43** **100%** **35%**
2 Trade, clerical	3 10% 13%	**13** **45%** **54%**	1 3% 7%	2 7% 20%	2 7% 15%	8 28% 21%	**29** **100%** **24%**
3 Clerical, sales, hospitality	2 11% 9%	2 11% 8%	**5** **26%** **33%**	0	4 21% 31%	6 32% 16%	**19** **100%** **15%**
4 Transport, production	0	2 22% 8%	1 11% 7%	**3** **33%** **30%**	1 11% 8%	2 22% 5%	**9** **100%** **7%**
5 Elementary clerical	1 8% 4%	1 8% 4%	3 23% 20%	1 8% 10%	**1** **8%** **8%**	6 46% 16%	**13** **100%** **11%**
6 Labourers - farm factory house	1 10% 4%	0	1 10% 7%	1 10% 10%	0	**7** **70%** **18%**	**10** **100%** **8%**
Total	**23** **19%** **100%**	**24** **20%** **100%**	**15** **12%** **199%**	**10** **8%** **100%**	**13** **11%** **100%**	**38** **31%** **100%**	**123** **100%** **100%**

To gain a more rigorous appreciation of these data, we used a series of chi-square tests of independence as we did in relation to the data in Table 4.5. The first task involved collapsing the data into a set of two by two tables. We considered one of the main occupational groups at a time (e.g. professional, managerial) and collapsed the

remaining main occupations into the "other" category (e.g. not "professional or managerial"). We then did exactly the same for the cash economy occupational category.

Having collapsed the data in this way, we carried out six chi-square tests of independence (that is, main occupation [2 categories] by cash economy occupation [2 categories]) – a 2x2 chi-square test for each occupational group – in which we asked the following question: Are people more likely to do cash economy work in the same area or category that defines their main or official occupation?

The results of these analyses showed that the answer was "yes, they do" for every category except elementary clerical. Among those who have a job, the nature of that job is connected to the kind of cash economy work that they do. While diversification does occur, as is evident upon close inspection of Table 4.7, it is less common than consolidation of one's skills through keeping cash economy and official economy activities roughly aligned.

Conclusion

In this chapter, we have investigated the question of whether one's work status (hours worked, sector in which one works, occupation) is related to cash economy activities. There is no evidence in the data analysed here to suggest that cash economy work is the province of those who are <u>not</u> employed in the official economy. Indeed, these data point to links between the official and cash economies. People are more likely to

stay in their own occupational group as they move between the official and cash economies.

Furthermore, these data tentatively suggest that cash economy activity is more rife in the private sector than the public or non-profit sectors. The question this raises for future research is the degree to which cash economy activity is a product of a competitive marketplace? If so, it may be a cost that we must bear – at least within limits.

Chapter 5

The relationship between cash economy activity and material well-being

Background

If opportunity is one reason why people engage in cash economy activity, it is appropriate to ask the more fundamental question: Is cash economy activity driven by a desire to further one's material well-being? For those enmeshed in a self-interest philosophy, the answer to this question may seem obvious. But the finding that less than 10% of the population engage in this activity suggests that overall, institutional constraints are working as they should. For the minority, however, they are not strong enough, and in this context, need emerges as a possible explanation next to opportunity. It would be remiss not to point out that a host of other factors should be considered as instigators of and constraints on cash economy activity (see Braithwaite, 2001 for a summary of factors that have been considered in the literature). But within the context of this report, need assumes high priority. While acknowledging that some of us are more easily contained by institutional forces than others, few would disagree with the proposition that most of us will be less easily contained when our need for material or economic security is great. To caricature this point – which lies at the heart of the structure of this chapter – it is not in the nature of human beings to starve, or allow their children to starve, to preserve the integrity of institutions of governance.

Thus, the approach taken in this chapter is to focus on a particular aspect of material self-interest that varies across the population – economic need. Economic need is measured indirectly through a set of social demographic markers that have become

associated with vulnerability or the lack of economic independence and well-being in the population. Four types of social demographic indicators have been selected for analysis here. The first is reliance on a government benefit of some kind, the argument being that those who are in receipt of such a benefit are defined by government as "doing it tough" compared to their fellow Australians. The second characteristic that we will use as a proxy for material, or more precisely economic need, is family income. We will examine the proposition that those who come from poor families (measured in terms of family income) are more likely to engage in cash economy activity than those who come from wealthier families. The third social demographic indicator that we will consider is age. We assume that feelings of economic deprivation, that is being less financially secure, are most keenly felt by those who have not got a secure foothold in the job market – that is, those starting out in life (those under 30 years of age) and those who are aging (those over 60 years of age who are no longer in the workforce). In order to ensure that we take adequate account of wealth, the analyses with age are conducted for those who report a low personal income (less than $12,000 per year) and those who do not. Finally, we examine the plight of those who are not in the workforce, the group who are most disadvantaged if they need to raise capital relatively quickly. Again we separate the analyses for those who have low personal income per year and those who do not.

Data base

In these analyses, we draw on two data sets. The first is the combined 2000/2002 data set that we used in the previous chapter. The second is the first 3548 cases from the

2003 survey. The source of data (2000/2002 data set or 2003 data set) will be identified within the table headings.

The social demographic indicators of material well-being: benefit recipient

In the 2000/2002 data set, participants were asked if they had lodged a tax return for the previous financial year, and if they had done so, had they reported the income they had received from "Australian government allowances such as Youth Allowance, Austudy and Newstart". If they received no such allowance and had lodged a tax return, they ticked a special response category. Using these data, we constructed a new variable in which we classified respondents into three categories: (a) lodged a tax return and were in receipt of a government allowance of the type mentioned above, (b) lodged a tax return and were not in receipt of a government allowance of the type mentioned above, and (c) did not lodge a tax return (this group may or may not have been in receipt of an above mentioned government allowance). This variable, labelled tax lodging recipient of Youth Allowance, Austudy or Newstart (abbreviated to tax lodging YAAN recipient below), was our first measure of being economically in need.

Our second measure was identical to that described above, except the reference point was "Australian government pensions, superannuation pensions, and other pensions or annuities". This variable was labelled tax lodging pension recipient.

Our third measure of being in receipt of a government benefit came from the 2003 data set in which people indicated whether or not they received any one of 20

benefits[3]. The average number of benefits received in this sample was 1.85 with 53% indicating that they did not receive any of these benefits. The variable that we constructed from these data was labelled benefit recipient and had two levels: (a) receiving no benefit versus (b) receiving at least one benefit.

Relating cash economy activity to receiving a benefit

Table 5.1 shows that those who are in receipt of a government allowance such as Youth Allowance, Austudy, or Newstart and who lodge a tax return are more likely to be engaged in cash economy activity than the other groups. Importantly, however, this group is not earning significantly more in their cash economy dealings than these other groups (see Table 5.2).

Table 5.1: The percentage of Australians engaging in cash economy activity by the three levels of the variable, being a tax lodging YAAN recipient (combined 2000/2002 data set: N = 3162)

Item	Categories	Active in the cash economy n = 184	Not active in the cash economy n = 2978
Government allowance and lodging a tax return	1 Did lodge and received allowance (n = 394)	11.4%	88.6%
	2 Did lodge and did not receive allowance (n = 1851)	5.2%	94.8%
	3 Other (n = 917)	4.7%	95.3%

Chi-square = 26.05** ** $p < 0.01$

[3] The 2003 data set does not include all sources of government support: e.g. loans/grants associated with housing or tertiary education are excluded. See the appendix for the benefits considered.

Table 5.2: Average cash economy income for the three levels of the variable, being a tax lodging YAAN recipient (combined 2000/2002 data set: N = 157 cash economy participants)

Item	Categories	Mean income in the cash economy in Australian dollars	F-value
Government allowance and lodging a tax return	1 Did lodge and received allowance (n = 36)	2,785.69	1.40 NS
	2 Did lodge and did not receive allowance (n = 83)	1,460.65	
	3 Other (n = 38)	2,300.58	

Note: NS means not significant at the .05 level.

Tables 5.3 and 5.4 examine the relationship between cash economy activity and being the recipient of a government pension (or superannuation or annuity pension of another kind). Those in receipt of a pension who have lodged a tax return are no more likely than anyone else to be engaged in the cash economy and the amount they earn, on average, is not significantly different from the amount that others earn.

Table 5.3: The percentage of Australians engaging in cash economy activity by the three levels of the variable, being a tax lodging pension recipient (combined 2000/2002 data set: N = 3162)

Item	Categories	Active in the cash economy n = 184	Not active in the cash economy n = 2978
Government pension and lodging a tax return	1 Did lodge and received a pension (n = 641)	5.0%	95.0%
	2 Did lodge and did not receive a pension (n = 1668)	6.7%	93.3%
	3 Other (n = 853)	4.8%	95.2%

Chi-square = 4.52 NS (not significant at .05 level)

Table 5.4: Average cash economy income for the three levels of the variable, being a tax lodging pension recipient (combined 2000/2002 data set: N = 157 cash economy participants)

Item	Categories	Mean income in the cash economy in Australian dollars	F-value
Government pension and lodging a tax return	1 Did lodge and received a pension (n = 24) 2 Did lodge and did not receive a pension (n = 96) 3 Other (n = 37)	2,592.50 1,680.20 2,308.70	0.60 NS

Note: NS means not significant at the .05 level.

Our third measure of low material well-being was taken from the 2003 survey in which respondents indicated whether or not they were beneficiaries of one or more government benefits. Those receiving benefits were somewhat more likely to be engaging in cash economy activities; 11% compared to 8% among those not receiving benefits of any kind (see Table 5.5). Again, however, we found no significant differences in the amount of money earned in the cash economy (see Table 5.6).

Table 5.5: The percentage of Australians engaging in cash economy activity by two levels of the variable, being a benefit recipient (2003 data set: N = 3323)

Item	Categories	Active in the cash economy n = 312	Not active in the cash economy n = 3011
Recipient of benefit	1 Not receiving a benefit (n = 1761) 2 Receiving a benefit (n = 1562)	8% 11%	92% 89%

Chi-square = 7.05* * $p < 0.05$

Table 5.6: Average cash economy income for Australians receiving and not receiving a benefit (2003 data set: N = 283)

Item	Categories	Mean income in the cash economy per year in Australian dollars	t-value
Recipient of benefit	1 Not receiving a benefit (n = 134) 2 Receiving a benefit (n = 149)	3,074.13 3,365.49	-0.29 NS

Note: NS means not significant at the .05 level.

The social demographic indicators of material well-being: family income

Survey respondents were asked: what was your family's income last year – in thousands of dollars. Responses were made on a scale anchored at one end by none, 5 thousand and so on through 50, 60, 75, 100, and 250+ thousand dollars. Respondents circled the category that best described their situation. For the analyses in this chapter, family income was divided into three categories: less than or equal to $24,000 (labelled poor), between $25,000 and $50,000 inclusive (labelled middle range), and over $50,000 (labelled modest-high).

Relating cash economy activity to family income

Tables 5.7 and 5.8 show no relationship between cash economy activity and family income. This surprised us – we expected that those at the lower end of the economic spectrum would be finding it hard to make ends meet and would welcome the additional money they could earn through cash economy activity. The fact that we did

not find a relationship raises more questions than it answers. Possibly the expected relationship has been masked by the observation made in the previous chapter – those who work in the cash economy tend to have occupational connections with the official economy. If poor families are marginalised in labour markets, their need for and interest in cash economy work may not progress past the point of wishful thinking, as they lose out to those already doing the job or a similar job in the official economy.

Table 5.7: The percentage of Australians engaging in cash economy activity by different levels of family income (2000/2002 data set: N = 2839)

Item	Categories	Active in the cash economy n = 174	Not active in the cash economy n = 2665
Family income	1 Poor (less than 25,000, n = 620)	6.5%	93.5%
	2 Middle range (25,000-50,000, n = 1181)	6.4%	93.6%
	3 Modest-high (more than 50,000, n = 1038)	5.7%	94.3%

Chi-square = 0.57 NS (not significant at .05 level)

Table 5.8: Average cash economy income for different levels of family income (2000/2002 data set: N = 150)

Item	Categories	Mean income in the cash economy per year in Australian dollars	F-value
Family income	1 Poor (less than 25,000, n = 34)	2,265.71	0.92 NS
	2 Middle range (25,000-50,000, n = 64)	3,438.05	
	3 Modest-high (more than 50,000, n = 52)	1,385.77	

Note: NS means not significant at the .05 level.

A first step toward investigating the issue further involved testing the family income and cash economy activity hypothesis in the most recent 2003 survey. In this analysis of data collected in October 2003, we found evidence of the expected significant relationship (see Table 5.9). Respondents who reported family incomes of less than $24,000, as well as those reporting family incomes ranging from $24,000 to $50,000, were more likely to report working in the cash economy. Reports of the amount of money earned in the cash economy did not differ significantly across family income groups.

Table 5.9: The percentage of Australians engaging in cash economy activity by different levels of family income (2003 data set: N = 3007)

Item	Categories	Active in the cash economy n = 276	Not active in the cash economy n = 2731
Family income	1 Poor (less than $25,000, n = 516)	11%	89%
	2 Middle range ($25,000-50,000, n = 1125)	11%	89%
	3 Modest-high (more than $50,000, n = 1366)	7%	93%

Chi-square = 12.97** ** $p < 0.01$

Table 5.10: Average cash economy income for different levels of family income (2003 data set: N = 250)

Item	Categories	Mean income in the cash economy per year in Australian dollars	F-value
Family income	1 Poor (less than $25,000, n = 50)	1,565.50	2.70 NS
	2 Middle range ($25,000-50,000, n = 111)	2,947.68	
	3 Modest-high (more than $50,000, n = 89)	4,956.40	

Note: NS means not significant at the .05 level.

The social demographic indicators of material well-being: age (with personal income)

Survey respondents provided their age in years. In this chapter, age is collapsed into three categories. Young Australians are grouped together into one category which is defined as being under 30 years of age. Those who have retired and are over 60 are classified as older Australians. The remaining respondents are part of the group defined as middle aged or older Australians who are still working.

The second variable used for comparative purposes in this section was personal income. We were interested in comparing two subgroups – young and older retired Australians with a personal income of less than $12,000 per year compared to those with a personal income of more than or equal to $20,000 per year. Possibly age alone is not the critical factor in cash economy activity, but rather it is the income that

young and older Australians have at their disposal that determines their vulnerability as they try to build or hold on to their economic security.

Relating cash economy activity to age (with personal income)

Table 5.11 reports the strongest relationship found so far – cash economy activity is substantially higher (13.50%) among young Australians, that is, those under 30 years of age. No significant differences were found in the income earned by these groups in the cash economy.

Table 5.11: The percentage of Australians engaging in cash economy activity by three different age groups (2000/2002 data set: N = 3111)

Item	Categories	Active in the cash economy n = 181	Not active in the cash economy n = 2930
Age	1 Young Australians (less than 30 years, n = 362)	13.50%	86.50%
	2 Middle aged (30-60 years, n = 2130)	5.90%	94.10%
	3 Older retired Australians (more than 60 years, n = 619)	1.10%	98.90%

Chi-square = 64.18** ** $p < 0.01$

Table 5.12: Average cash economy income for young, middle aged and older retired Australians (2000/2002 data set: N = 155)

Item	Categories	Mean income in the cash economy per year in Australian dollars	F-value
Age	1 Young Australians (less than 30 yrs, n = 47) 2 Middle aged (30-60 yrs, n = 103) 3 Older retired Australians (more than 60 yrs, n = 5)	1,246.81 2,359.86 1,135.00	1.21 NS

Note: NS means not significant at the .05 level.

In the next phase of the analysis we looked into the role that personal income played in cash economy activity. The need hypothesis would predict that the young would have higher than average involvement in cash economy activities when their personal income was low. At first glance, Table 5.13 seems to confirm the need hypothesis, but unfortunately the difference was not large enough to reach statistical significance. Being young appears to be a more significant factor in cash economy activity than being poor and young. No difference between the young who are poor and the young who are better off emerged in relation to the cash economy dollars earned (see Table 5.14).

Table 5.13: The percentage of young Australians engaging in cash economy activity who, on the basis of their personal income, have been classified as poor and better off (2000/2002 data set: N = 310)

Item	Categories	Active in the cash economy n = 41	Not active in the cash economy n = 269
Personal income of young Australians	1 Poor (less than $12,000, n = 133)	17.29%	82.71%
	2 Better off (more than $19,000, n = 177)	10.17%	89.83%

Chi-square = 3.36 NS (not significant at .05 level)

Table 5.14: Average cash economy income for young Australians who are poor and better off (2000/2002 data set: N = 39)

Item	Categories	Mean income in the cash economy in Australian dollars	t-value
Personal income of young Australians	1 Poor (less than $12,000, n = 22)	966	-0.82 NS
	2 Better off (more than $19,000, n =17)	1,513	

Note: NS means not significant at the .05 level.

In the case of older Australians over 60 years of age, the comparison of the poor and those who were financially better off was not of particular interest for the simple reason that cash economy activity is not common in this age group. This was evident in Table 5.12, but the rareness of the event is even more striking in Tables 5.15 and 5.16 which have been included for the sake of completeness.

Table 5.15: The percentage of older retired Australians engaging in cash economy activity who, on the basis of their personal income, have been classified as poor or better off (2000/2002 data set: N = 444)

Item	Categories	Active in the cash economy n = 7	Not active in the cash economy n = 437
Personal income of retired Australians over 60 years	1 Poor (less than $12,000, n = 253)	2.00%	98.00%
	2 Better off (more than $19,000, n = 191)	1.00%	99.00%

Chi-square = 1.03 NS (not significant at .05 level)

Table 5.16: Mean cash economy income for older retired Australians who are poor and better off (2000/2002 data set: N = 5)

Item	Categories	Mean income in the cash economy in Australian dollars	t-value
Personal income of retired Australians over 60 yrs	1 Poor (less than $12,000, n = 4)	1,043.75	na
	2 Better off (more than $19,000, n = 1)	1,500.00	

Note: Sample is too small to consider a statistical test.

The social demographic indicators of material well-being: being employed (with personal income)

In Chapter 4, we related cash economy activity to being in full-time or part-time work or not employed. In this section of Chapter 5, we focus on not being employed, that is, on people not having access to regular paid employment. Thus, for these analyses, the work status variable is dichotomised into not being employed and being employed.

Personal income is also used in this section in conjunction with being employed. In so doing, we take account of those people who do not need the financial security that a

regular job might offer because they are independently wealthy. The variable is collapsed as previously. Those with a personal income of less than $12,000 per year are compared to those with a personal income equal to or more than $20,000 per year. This comparison is made for those without a job and those with a job.

Relating cash economy activity to being employed (and personal income)

The hypothesis tested here in the context of linking cash economy activity to economic need is that those without employment will be more vulnerable and therefore more attracted to cash economy activity. Yet we know from Chapter 4, that being employed seemed to boost cash economy activity, not dampen it. In this section we compare the employed with those who are not employed, and then proceed to fine-tune this analysis by taking account of personal income.

Table 5.17 shows that those who are not working are significantly different from their working fellow Australians in engaging in less cash economy activity (Table 5.17 is a collapsed version of Table 4.1). Money earned in the cash economy does not differ between the two groups (see Table 5.18).

Table 5.17: Percentage of Australians engaging in cash economy activity by employment (2000/2002 data set: N = 3092)

Item	Categories	Active in the cash economy n = 183	Not active in the cash economy n = 2909
Employment	1 Employed part- or full-time (n = 1914)	6.7%	93.3%
	2 Not employed (n = 1178)	4.6%	95.4%

Chi-square = 6.09* * $p < 0.05$

Table 5.18: Average cash economy income for Australians who are employed and for those who are not (2000/2002 data set: N = 156)

Item	Categories	Mean income in the cash economy in Australian dollars	t-value
Employment	1 Employed part- or full-time (n = 107) 2 Not employed (n = 49)	1,847.00 2,269.63	-0.60 NS

Note: NS means not significant at the .05 level.

When employed Australians are divided up into two groups in terms of their personal income, we find that cash economy activity is significantly higher among those who we have classified as poor (annual income of less than $12,000). From Table 5.19, those who are employed but poor have a participation rate of almost 11%. Those who are employed and better off financially, have a participation rate similar to the community average of 6%. The groups did not differ significantly on amount earned (see Table 5.20).

Table 5.19: The percentage of employed Australians engaging in cash economy activity who, on the basis of their personal income, have been classified as poor and better off (2000/2002 data set: N = 1695)

Item	Categories	Active in the cash economy n = 112	Not active in the cash economy N = 1583
Personal income of Australians employed	1 Poor (less than $12,000, n = 221) 2 Better off (more than $19,000, n = 1474)	10.86% 5.97%	89.14% 94.03%

Chi-square = 7.44** ** $p < 0.01$

Table 5.20: Average cash economy income among employed Australians who are poor and better off (2000/2002 data set: N = 99)

Item	Categories	Mean income in the cash economy in Australian dollars	t-value
Personal income of Australians employed	1 Poor (less than $12,000, n = 22) 2 Better off (more than $19,000, n= 72)	1,077.50 2,235.40	-1.04 NS

Note: NS means not significant at the .05 level.

When these analyses are repeated for those who are not employed, no significant differences emerge (see Tables 5.21 and 5.22). Those who are unemployed enjoy a 5% participation rate, regardless of their personal income.

Table 5.21: The percentage of non employed Australians engaging in cash economy activity who, on the basis of their personal income, have been classified as poor and better off (2000/2002 data set: N = 927)

Item	Categories	Active in the cash economy n = 49	Not active in the cash economy n = 878
Australians not employed	1 Poor (less than $12,000, n = 615) 2 Better off (more than $19,000, n = 312)	5.20% 5.40%	94.80% 94.60%

Chi-square = 0.03 NS (not significant at .05 level)

Table 5.22: Average cash economy income among non employed Australians who are poor and better off (2000/2002 data set: N = 48)

Item	Categories	Mean income in the cash economy in Australian dollars	t-value
Australians not employed	1 Poor (less than $12,000, n = 31) 2 Better off (more than $19,000, n= 14)	1,399.67 4,589.29	-1.80 NS

Note: NS means not significant at the .05 level.

Conclusion

In support of the need hypothesis, we found some evidence of higher cash economy participation among recipients of government benefits and among poor families. But these effects were not strong, nor were they consistent across samples. To pose the dilemma more evocatively, 47% of the 2003 sample were receiving benefits of some kind from the government – if there is economic need in this group, what does it mean within the context of their experiences and how does this play out in terms of cash economy participation. Certainly economic need requires a new conceptualisation – one that takes into account aspirations, fears and plans for the future, far more than is captured by estimates of personal and family income.

While this chapter does not open our eyes to the nature of the poverty-cash economy nexus, it does shed light on how cash economy participation varies with age and employment. Those who are younger (under 30 years of age) do more cash economy work, as is the case for those who are employed. Interestingly, we found very low

participation rates among older Australians (over 60 years of age) who had retired from the workforce.

Together the findings in this chapter suggest that while cash economy activity should not be ruled out as a pathway for avoiding destitution, it is just as likely to be used as a pathway for getting ahead (see the profiles that appear at the conclusion of this chapter). Cash economy opportunities do not appear to be as accessible as we might assume to the down and out. Opportunities are available to those who are willing to show initiative, who are good value in the labour market and who are prepared to seize the moment to make something of themselves – the young who have found a job and have a foot in the door of the official economy.

Profile: young people active in the cash economy

Young people (under 30 years) working in the cash economy represented 1.6% of the 2000/2002 sample. There were 49 of them. This was their profile:

- 78% are unmarried
- 69% have no children
- 61% are female and 39% male
- 43% work full-time, 27% part-time, 31% are not working (the majority of those not working are students)
- the average age is 23
- 92% earn less than $5,000 per year in the cash economy
- their official or main jobs range from managers, analysts, physiotherapists, school teachers, musicians, sales assistants to hand packers and kitchen-hands
- average official income per year is $15,714
- average family income per year is $65,795
- average cash economy income is $1,246
- 37% receive an allowance, 17% receive a pension
- 6% are poor, earning less than $12,000 per year
- 36% are poor and female, 20% are poor and male
- 4% have tax debts
- 43% have to repay a HECS debt

Their cash economy jobs were:

- 29% Intermediate clerical, sales, hospitality
- 24% Labourers – farm, factory, house
- 20% Professionals, Managers, Associate professionals
- 13% Elementary clerical
- 9% Trade, clerical
- 4% Transport, production

Profile: retirees active in the cash economy

Retirees (over 60 years of age and no longer in the workforce) working in the cash economy represented 0.22% of the 2000/2002 sample. There were 7 of them. This was their profile:

- all but one are poor with a personal income of less than $12,000
- 70% have a poor family as well
- 1 person is still working full time
- average age is 72
- 100% earn less than $5,000 per year in the cash economy
- jobs held when still in the work force are mixed: actor, minister, advertising, sales assistant, labourer
- average official income per year is $9,285
- average family income per year is $22,857
- average cash economy income per year is $1,135
- all are married
- none of the spouses is still working
- none have tax debts

Their cash economy jobs were:

- Professionals, Managers, Associate professionals
- Elementary clerical
- Labourers – farm, factory, house
- no information given

Chapter 6

Conclusions and main findings

This report has been framed around two issues: opportunity and economic need and their role in explaining cash economy activity. We have been able to shed some light on opportunity, but the verdict is still out on economic need. What is clear from these findings is that cash economy activity is not the domain of the poor and unskilled. It 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 which 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, as they see what their fellow Australians can do, and they cannot do. The data presented in this report suggest that there is a group who objectively seem to be experiencing economic hardship, but who are no more likely than anyone else to be easing their difficulties through cash economy activity. We hypothesize that they are handicapped in the cash economy game because they lack connections with the official economy. Having a job helps cash economy activity along.

The main findings of this report are 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
- cash economy jobs and jobs in the official economy are related – it appears that one bootstraps the other.

In setting out to write this report, we brought a set of expectations and assumptions based on our previous work. Elsewhere, an argument has been made for cash economy activity being seen as an answer to the tax avoidance measures used by the wealthy, and as a way of "thumbing one's nose" at authority (Braithwaite, 2003; Braithwaite, Schneider, Reinhart, & Murphy, 2003). We do not step back from this position. But we do see another issue that must be considered alongside the responses we have observed and discussed previously. 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. Maybe cash economy activity is best understood as one of these scripts.

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Appendix

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

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**