

**CENTRE FOR TAX SYSTEM INTEGRITY**



Getting on or getting by? Australians  
in the cash economy

Valerie Braithwaite, Monika Reinhart & Jenny Job



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AUSTRALIANS IN THE CASH ECONOMY**

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## **Abstract**

This paper reviews empirical evidence on the extent of and type of involvement of Australians in the cash economy. Survey data were collected from a random sample of Australians in 2000 and 2002. The results show that cash economy activity is scattered throughout the population and tends to be undertaken by different people at different times. For most of the population, the amount earned and spent in the cash economy is less than \$5,000 per year. In general, Australians know cash economy activity is illegal and think it is wrong, but they seem to accept such behaviour as commonplace and part of the landscape of success and survival in a competitive world. This paper shows connections between the formal and informal economies - those who have jobs in the formal economy tend to be those with jobs in the cash economy, and people believe cash transactions of this kind occur because workers want to avoid tax and employers want to avoid superannuation, insurance and other compensatory payments.

## Getting on or getting by? Australians in the cash economy

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### Introduction

Economic transactions that are undertaken to escape the attention of tax and financial regulators attract interest. On the one side are those looking to emulate the latest ruse; on the other side are those whose job it is to crack down on tax evasion and crime; and in the middle are the masses who simultaneously are entertained and shocked by tales of bold, illegal financial wizardry. Unfortunately, displays of defiance involving money laundering, overseas bank accounts, and major fraud are not the subject of the analysis undertaken in this chapter. Nor are we including in our analysis the hidden economic transactions that occur at the other end of the spectrum – the common kinds of bartering that flourish in any community with a modicum of social capital. Our focus is on economic transactions that lie between these two extremes where individuals pay others or are paid by others in cash for work that has been done, and where the understanding is that tax is not paid on the earned income. These are activities that are part of what is variously referred to as the ‘hidden,’ ‘underground,’ ‘shadow,’ ‘grey’ or ‘cash’ economy. Drawing on Feige’s (1996, 1999) typology of such activities, the focus of our attention falls mainly in the *unreported economy* in which rules regarding the declaration of income are violated to evade tax, and the *unrecorded economy* in which income producing activities are concealed and not represented through normal accounting conventions, and therefore, cannot be appropriately included in the national accounts.

The domain of enquiry, therefore, involves fairly ordinary activities that most people engage in – paying for household maintenance or home improvements in cash; paying cash for child care, out of school tuition, car repairs, laundry, cleaning and meals; being the recipient of cash for helping out in a business; or being paid cash for a second job. As we suggest in this chapter, whether or not people code these activities and payments as significant, in so far as they make tax evasion a little easier remains an open question in Australia. After all, paying or being paid in cash is not a crime. It only becomes illegal and

of concern to a tax authority when the income generated by this transaction is not declared or is 'hidden'.

This chapter aims to provide a snapshot of the ways in which Australians routinely think about the cash economy and contribute to its apparently increasing presence (Schneider, 2002). Schneider has ranked Australia 14 among 21 OECD countries in terms of the size of its cash economy. Based on a figure of 14.1% of GDP (see Schneider, 2002), Australia's cash economy 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 and the USA.

From a macro economic perspective, interest in the cash economy revolves around the contentious issue of size, the macro drivers of increased cash economy activity, and the implications for the projection of economic growth and economic policy. From a micro economic perspective, the question is why do individuals become involved in the cash economy: Are they aware of what they are doing, do they actively choose or passively drift into this behaviour, what is the reasoning that lies behind their actions, and how do they make sense of the cash economy more generally? Understanding and identifying the micro triggers is the purpose of the work reported in this chapter.

The chapter is organised around three key issues. In Section 1, we use survey data collected from a random sample of 2040 Australians in 2000 to answer the following questions:

- (a) Are Australians tolerant of cash economy activity?
- (b) Do Australians share an understanding that cash economy activity is illegal and unacceptable?
- (c) Do Australians feel responsible for doing something about cash economy activity?
- (d) How likely is it that Australians are unintentionally complicit in cash economy activity; or at the very least, turn a blind eye to their own involvement and of those with whom they transact business?

Section 2 brings together previous work on the attitudinal drivers of cash economy activity

(Braithwaite, Schneider, Reinhart & Murphy, 2003; Reinhart, Job & Braithwaite, 2004; Schneider, Braithwaite & Reinhart, 2001). In particular, we hypothesise that tax morale and the social and legal practices that nurture tax morale determine level of engagement in the cash economy. The data used to test these hypotheses combine survey responses from 2000 and 2001-2.

Finally, in Section 3, we use the same data set to explore the prevalence of cash economy activity and ask whether or not cash economy payments and earnings are localised in particular social demographic groups. Of particular interest are questions of whether cash economy earnings are more likely to be found among the young, the poor, the unemployed, those supporting families, and those receiving social security or other government benefits.

### **Section 1: Australians reflect on the cash economy**

#### ***Database***

The data used in this section came from a national survey, the Community Hopes, Fears and Actions Survey (CHFAS) (Braithwaite & Reinhart, 2001; Braithwaite, Reinhart, Mearns & Graham, 2001). CHFAS was conducted between June and December 2000, and was a tax omnibus designed to collect baseline data on how Australia's tax system was faring at the time of the introduction of the GST. A sample of 7754 randomly selected citizens from the publicly available electoral rolls received a questionnaire and reply paid envelope. Reminders were sent at varying intervals over the following six months to those with whom we had had no contact. Included in this process was a mail out with a new questionnaire after five weeks. In all, 2040 questionnaires were collected for analysis. The response rate, after adjusting for out-of-scope respondents (no longer at the address or deceased), was 29%. While low in comparison with other surveys, this response rate is consistent with other research reports based on single topic tax surveys (Kirchler, 1999; Pope, Fayle & Chen, 1993; Wallschutzky, 1996; Webley, Adams & Elffers, 2002). Detailed analyses of early versus late respondents and comparisons with census data on social demographic indicators suggested that the sample provided a relatively representative cross-section of the Australian population. Under represented were young males and over represented were those in scribing occupations (see Mearns & Braithwaite,

2001 for details on the methodology and the sampling).

### ***Findings***

When asked about the morality of cash economy activity, only a minority of Australians was prepared to condone it. In response to the question, ‘do you think you should honestly declare cash earnings on your tax return?’ 72% said yes, they thought they should. Only 15% gave an unequivocal no, and 13% opted for a ‘don’t know’ response.

Further evidence of the moral overtones associated with not declaring cash income to the tax authority was evident in another set of questions about ‘how you would feel if you were caught and fined for not declaring \$5000 that you had earned outside your regular job?’ The overwhelming majority responded with feelings of wrongdoing (82%), guilt (70%), shame (72%), and embarrassment (74%), with a high 89% expressing concern to put matters right. Australians know the law and have been well socialised into thinking that they should abide by it.

But is the theory reflected in practice? There are a number of pieces of evidence from the CHFAS that suggest that some slippage is tolerated. Australians were asked how they would respond if they found out an acquaintance was working for cash-in-hand payments. The majority said that they would think it was wrong (52%), but it was just a majority by a whisker, and the percentage fell short of what we might expect given the moral sentiments expressed above. Furthermore, 35% said they would not care, only 23% said they would voice disapproval directly to their acquaintance, and a low 7% said they would report it to the Tax Office. In fact, a higher proportion, 13%, said they would respond by thinking their acquaintance was clever. In situ, moral constraints seem to evaporate for many people. Perhaps the slippage occurs because there is not deep commitment to the moral principle. It is worth noting, in this regard, that 32% thought that working for cash-in-hand payments was a trivial offence, and only 48% were clearly of the opinion that the government should actively discourage participation in the cash economy. An unusually high 29% said that they just didn’t know if the government should do anything or not.

The picture that emerges from these data is of a society where a moral code and a law regarding cash economy activity remain intertwined and where citizens openly acknowledge what is right and what is morally acceptable. At the same time, there is a story of the desirable and the practicable coming apart. In practice, there appears to be a shift away from the ideal code of practice. Helping explain this shift are responses to questions about what other people are doing. In addition to asking ‘what do YOU think’ about the cash economy, we asked ‘what do you think MOST people think?’ The data were striking in showing how most people thought that others were far more free of the constraints of morals and law than they were. Only 20% of Australians thought that MOST people believed in declaring cash earnings (compared to 72% in response to what do YOU think), and 56% thought that most people considered cash-in-hand tax evasion to be a trivial offence (compared to 32% for what do YOU think). We see from these data that the personal norms regarding the right thing to do are at odds with the same people’s perceptions of social norms, that is, perceptions of what others think. People believe the social norms to be far more lax and permissive on cash economy matters than their own personal norms.

Both personal and social norms play a role in shaping tax behaviour (Wenzel, 2004a, b). Some people might be expected to stick by their moral position regardless of what others are doing. Others look to their environment for cues and do their best to fit in. In the area of cash economy, there is every reason to believe that, when relatively small amounts of money are involved (less than \$50), the path of least resistance is to ‘go with the flow’ – at least ‘go with *what one believes is* the flow.’ We know from the CHFAS that most Australians will use cash for transactions that involve a sum of less than \$50 (Braithwaite et al., 2001). In supermarkets, 75% of Australians reported using cash if their purchases were below the \$50 mark, in stores selling sporting goods, books, clothes or gifts, 66% used cash for purchases below \$50, and in restaurants, 77% used cash if the bill was less than \$50. Thus, we might infer that it would be common practice for most Australians to use cash for the run-of-the-mill activities that we have found to be associated with the cash economy (see Schneider et al., 2001 for details of these activities). Having handed over the cash, they can only surmise whether the provider declares it as income to the Tax Office. We suspect that most Australians assume it is not declared, on the basis of their responses

about what most people think, but there usually is no hard evidence. When we asked the question, ‘In the past 12 months have you paid anyone cash-in-hand for goods and services?’ - knowing that they were going to evade tax - only 14% state that they had.

Our final question on Australians’ reflections on the cash economy was ‘why, in your opinion, do people do it?’ A set of options was provided. Most Australians thought that people worked for cash-in-hand to avoid paying tax (92%), to get more disposable income (88%), and because they needed extra money from a second job (84%). The reasons they gave were financial and personal - there was less agreement on people working for cash-in-hand to avoid entering the government system (61%) or because the tax rates were too high (67%).

There appeared to be less agreement on why people were paid cash-in-hand. Most agreement emerged for employers wanting to avoid insurance, superannuation and other compensatory payments for their employees (74%), preferring to stay clear of government and its red tape (67%), and reducing costs (62%). The CHFAS, unfortunately, did not include questions on why ordinary citizens paid suppliers cash-in-hand for the services and goods they received.

## **Section 2: Attitudes that predict cash economy participation**

In the previous section, we explored the ways in which Australians understand the cash economy, regardless of whether or not they participate in it themselves. How we interpret, understand and talk about the cash economy, however, does not necessarily tell us why some people become involved and why others do not. In the remainder of the chapter, our goal is to identify some of the key factors that lead some people into cash economy activity, while others stay away.

The reasons for tax non-compliance are complex and multifaceted (Collins, Milliron & Toy, 1992; Jackson & Milliron, 1986; Richardson & Sawyer, 2001), but one of the most important attitudinal factors to emerge at the macro analytic level is tax morale (Torgler,

2003). Using cross-national data sets, Torgler has been able to show that countries that have low tax morale also have higher tax evasion and tax avoidance.

Within the context of the cash economy, tax morale has been singled out as a constraint in situations where opportunity beckons (Brooks, 1998; Schneider & Enste, 2000; Wallschutzky, 1993). Tax morale has been defined broadly by Frey and his colleagues (for example, see Frey & Feld, 2002) as the ‘intrinsic motivation to pay taxes’ (Torgler, 2003, p. 5). Others refer to a similar phenomenon when they state that people pay tax voluntarily (Alm et al., 1995; Andreoni et al., 1998; Lewis, 1982), because they believe it is a desirable thing to do (Schwartz & Orleans, 1967; McGraw & Scholz, 1991; Richardson & Sawyer, 2001; Weigel, Hessing & Elffers, 1987).

### ***Database***

In order to test the hypothesis that tax morale constrains people in their cash economy activity, seven variables that are thought to reflect tax morale were selected from the Community Hopes, Fears and Actions Survey (CHFAS) and from the follow-up Australian Tax System: Fair or Not Survey (ATSFONS). The surveys were conducted 18 months apart, with the ATSFONS following up respondents from the CHFAS and adding 1213 new cases to the sample (response rate for this new sample was 38%). For the present analysis, the new cases from the ATSFONS are added to the CHFAS sample to give a total of 3253 respondents, of whom 184 had worked for cash-in-hand payments (suppliers) and 455 had paid others cash-in-hand (purchasers).

The seven variables thought to reflect tax morale are listed in Table 1. These variables are measured through a set of multi-item scales, the details of which can be obtained from Braithwaite and Reinhart (2001). For present purposes, it is important to note that the scales reflect the degree to which individual respondents endorse each of the attitudinal concepts listed in Table 1. Thus, the higher the score, the stronger the attitude.

The first five variables in Table 1 represent internal constraints. By internal constraint we mean an attitude that boosts the individual’s sense that engaging in the cash economy is

wrong, and is something that will and should generate feelings of discomfort, shame, guilt, or disapproval. In addition to asking directly about such feelings and beliefs (1-3 in Table 1), respondents were asked to predict their behaviours towards an acquaintance engaged in cash economy activity (4-5 in Table 1). The assumption was that people with high tax morale themselves, in particular with a deep sense of moral commitment, would be more likely to report cash economy 'wrongdoing' to the authorities and would be less likely to approve of such behaviour.

The final two measures in Table 1 (6-7) are external (as opposed to internal) constraints that are required to legitimise and nurture tax morale. Internal constraints are learnt and reinforced by the community that shares them. As that community disappears, and as internal constraints like tax morale lose value and fail to elicit respect, individuals 're-define' doing the right thing so that they can adapt to their changing environment without feeling fearful or guilty about the consequences. Some psychologists and criminologists refer to this as rationalisation (Thurman, St John & Riggs, 1984), implying that wrongful actions are undertaken against the backdrop of an enduring moral code. In the domain of taxation, our rapidly changing world makes the moral foundations less solid. 'The right thing to do' is constantly being challenged, if not re-defined, by changing laws, changing technologies, changing norms, and changing codes for survival. Thus, tax morale is unlikely to remain high if the community perceives flouting of the law and little likelihood of sanctioning from the authorities.

**Table 1: Measures that are associated with tax morale and their relationships with participation in the cash economy as a supplier (person who works for cash-in-hand = 1, other = 0) or purchaser (person who pays cash-in-hand = 1, other = 0)<sup>a</sup>**

Measures linked to tax morale	Pearson product-moment correlation coefficient	
	Working for cash-in-hand (supplier)	Paying cash-in-hand (purchaser)
<i>Internal constraints</i>		
1. Personal norm of being honest on tax	-0.17***	-0.03
2. Pride in being an honest taxpayer	-0.12***	-0.08***
3. Feelings of shame, guilt and embarrassment if caught for not declaring cash payments	-0.11***	-0.09***
4. Approving of an acquaintance working cash-in-hand – thinking they were clever	0.17***	0.10***
5. Willing to dob-in an acquaintance working cash-in-hand	-0.11***	-0.13***
<i>External constraints</i>		
6. Perceptions of a social norm of being honest	-0.09***	-0.10***
7. Perception of enforcement by the tax authority – chances of being caught	-0.12***	-0.18***

<sup>a</sup> The questions asked were ‘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’ and ‘Have you paid anyone cash-in-hand payments in the last 12 months for work or services they provided to you? By cash-in-hand we mean cash money that tax is not paid on’.

\*\*\*  $p < 0.001$

### ***Findings***

In Table 5, correlations are reported between tax morale and working in the cash economy (supplier) (Column 2) and tax morale and paying others who are working in the cash economy (purchaser) (Column 3). With one exception, the five measures of internal constraints were significantly correlated with cash economy participation in the direction that one would expect. Participation was higher among those who did not feel shame or guilt, who felt little pride in being an honest taxpayer, and who were tolerant, if not approving, of acquaintances working for cash-in-hand. The one exception involved taxpayer ethics. One could *believe* that one should be honest in one’s tax dealings, yet pay someone in cash, knowing that they would not declare it to the Tax Office. The other important observation to make regarding the correlations in Table 1 is that all the

relationships are quite low. Thus, tax morale constrains cash economy activity, but only to a small degree, whether one is a supplier or a purchaser.

For the external constraints of the perceived norms of others in the community (6 in Table 1) and the likelihood of getting caught (7 in Table 1), the correlations again are significant though small, and are in the direction predicted. As hypothesised, when external constraints are perceived to be strong, be they social or legal, the likelihood of being involved oneself as a supplier or purchaser is lower.

In summary, tax morale is important as a base for containing cash economy activity. Tax morale like conscience is a self-regulatory device. As with all self-regulatory devices, tax morale needs the support of social and legal infrastructure. Tax morale is likely to flag if society's major institutions and citizenry show signs of not taking tax compliance seriously. Thus, we find that perceptions of how other people are responding to the cash economy (perceptions of the social norms), and the likelihood of being caught also play a role in containing individual participation in the cash economy. While the consistency in the statistics associated with various indicators of tax morale is impressive in Section 2, we should not be deceived into thinking that the story is all about tax morale. The amount of variation in cash economy behaviour that is explained by tax morale remains notably small. Tax morale provides a base for containment. It is not sufficient by any means. There are other factors at work that trigger cash economy involvement. In the next section, we consider some other explanations.

### **Section 3: Social demographic dispersion of cash economy participation**

The media have popularised the notion that cash economy activity occurs mainly within certain social groups. Tradespersons, taxi drivers and welfare beneficiaries are regularly targeted for cash economy crackdowns (The Age, 2003; Clark, 2003). The assumption has always been that material self-interest prevails particularly when opportunity presents itself and needs demand satisfaction (Brooks, 1998; Schneider & Enste, 2000). In this section we ask whether there is evidence to support the idea that cash economy activity occurs in pockets or is restricted to certain social demographic groups. We ask whether those who

supply cash economy labour or purchase cash economy labour are predominantly: (a) male or female; (b) young or old; (c) married or not married; (d) with or without children at home; (e) Australian born or born elsewhere; (f) with high income or low income; (g) with basic educational qualifications or highly educated; (h) in the official paid workforce or outside of it; and (i) employed by others or self-employed? Finally, we examine the occupational profile of cash economy workers, asking what kinds of jobs do they do officially, and does this correspond to their cash economy work.

### ***Data set***

The analyses presented in this section are based on the aggregated data set used in Section 2 that combines the random sample from the CHFAS in 2000 and the new random sample from the ATSFONS in 2001-2. In earlier work, analyses were carried out on a sample of people who responded to the CHFAS in 2000 and later these same people responded to the ATSFONS in 2001-2. Results from this panel study are reported in Braithwaite et al., (2003). Where these findings are referred to below, they are identified as ‘panel study findings’ to distinguish them from the aggregated data set used for this chapter.

### ***Findings***

Based on the aggregated data set, the percentage of Australians who reported that they had worked in the cash economy in the past 12 months was 6%. The average amount earned in the cash economy was in the vicinity of \$2000, with 62% earning less than \$1000 and 11% earning more than \$5000. The kinds of jobs that people most commonly reported doing for cash-in-hand involved household services (34%), home repairs (22%), teaching and training (19%), and garden work (8%).

The pattern for purchasers was similar, but with a higher rate of involvement. The percentage paying for cash economy services in the past 12 months was 14%, but again the average paid out was in the vicinity of \$2000. Of the purchasers, 66% estimated their expense as being less than \$1000, and 6% reported paying out more than \$5000. The jobs

that purchasers paid for primarily involved home repairs (45%), followed by household services (23%) and gardening (21%).

From panel data findings reported in Braithwaite et al., (2003), most of this activity was transient from one year to the next, with only 2% of those working for cash-in-hand being ‘stayers’. Most took work of this kind at one time point, but not the other: 4% in 2000, and 4% in 2001-2 (Braithwaite et al., 2003). The same story of being a transient applied to purchasers. While 8% reported being repeat players from one year to the next, 8% purchased cash economy services only in 2000, and 9% only in 2001-2 (Braithwaite et al., 2003).

The transient and, as we will see below, dispersed nature of cash economy activity is perhaps the most surprising finding from this research. Not only is cash economy work undertaken by different people at different times, but these people come from all different walks of life. If we are to believe the data presented here, cash economy activity can pop up anywhere and everywhere – we may think it is wrong, but we live happily in its midst. Before pursuing this argument further, however, let us return to the data summarised in Table 2, showing variation and similarity across different social demographic groups.

Looking at the supply column (Column 3) in Table 2, most of the percentages showing cash economy activity fall in the 4 to 7 range. The differences that emerged between groups, while statistically significant, are not dramatic. Working for cash-in-hand payments was significantly more common in some social demographic groups than others, but the percentages indicating participation rates show its presence in all groups to some degree.

**Table 2: Percent of the sample who provide labour in the cash economy (suppliers) who purchase labour in the cash economy (purchasers) broken down by social demographic characteristics**

Social demographic variable	Category	% supplying labour		% purchasing labour	
Sex	male	7	***	16	**
	female	4		13	
Age	30 yrs or less	13	***	8	***
	31-54 years	6		16	
	55 yrs or more	2		14	
Marital status	married	5	***	16	***
	not married	9		11	
Dependents	no child at home	6		14	
	child at home	6		16	
Australian born	no	4	*	17	*
	yes	6		14	
Education level <sup>a</sup>	primary/intermediate	2	***	7	***
	leaving, year 12	7		12	
	trade, diploma	9		18	
	university	6		22	
Personal income	less than \$12 000	7		8	***
	\$12 000 – \$18 999	6		11	
	\$19 000 or more	6		18	
Official work status	full-time	6	*	17	***
	part-time	8		15	
	none	5		12	
Work sector	self-employed	10	**	20	*
	employee private	7		14	
	employee public or non-profit	4		16	

<sup>a</sup> The sample used for this particular analysis came from the CHFAS. The question was not asked in ATSFONS. All other analyses are based on the aggregated data set.

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

From Table 2, the most marked differences for working for cash-in-hand emerge in relation to education, age and work sector. Those who were older and more poorly educated were *not* prominent in the ranks of cash economy workers. Indeed, those who left school at 15 years of age or less were the least represented of all groups as workers in the cash economy (2%). The young, however, were over represented, as were the self-employed. Filling this picture out a little more are results depicting the cash economy worker as an unmarried Australian-born male. In 2000, this person was far more likely to be in the official work force either as a full-time or part-time worker, but by 2001-2, the

relationship was less marked. Thus, we see only a weak relationship emerge in the aggregated data set summarised in Table 2. At this stage, it remains unclear whether this change is due to sampling fluctuation or to the impact of the GST.

If we turn our attention now to those who purchased the labour of the cash economy worker, the social demographic profile is reversed in some important respects. Purchasers were older, wealthier, and married. They were well-educated with full-time jobs. They were also somewhat more likely to be self-employed and not born in Australia, although both these relationships weakened from 2000 to 2001-2.

These research findings associate cash economy activity with mainstream Australia. There is little evidence in the analyses presented to date of such activity being the preferred option of socially marginalised or economically disadvantaged groups in society. Nevertheless, we can use the aggregated CHFAS and ATSFONS data set to look more deeply at those in receipt of a government benefit and those whose work in the official economy is unskilled. First, we explore the data for evidence of recipients of government benefits working for cash-in-hand more often than others in the community. Second, we examine the source of cash economy labour: Is it more likely to be drawn from particular occupational groups, in particular unskilled groups?

Neither the 2000 nor the 2001-2 surveys were designed to address specifically issues of government benefits. From the survey data, however, we were able to group respondents into one of three categories: (a) those in receipt of a government allowance such as Youth Allowance, Austudy or Newstart who had lodged a tax return; (b) those not in receipt of a government allowance such as Youth Allowance, Austudy or Newstart who had lodged a tax return; and (c) other. Since lodgment is expected of all Australians whose annual income exceeds \$6000, the numbers comprising the first two groups were quite respectable for the purposes of this analysis. A comparison of these groups in terms of who worked in the cash economy and who did not produced significant findings (see Reinhart et al., 2004 for full report). Of those who received an allowance, 11% were employed in the cash economy. Of those who did not receive an allowance, 5% were cash economy workers. The percentage was the same for the 'other' category. A disproportionate number of

beneficiaries under these schemes would have been younger Australians. Thus, support emerges for increased cash economy work being undertaken by beneficiaries of government benefits in circumstances where the beneficiary is relatively young. The age qualification is important because when this analysis was repeated for older Australians, no significant differences emerged. Participation rates were 5% for those who lodged a tax return and received a pension, 7% for those who lodged a tax return and did not receive a pension, and 5% for those in the ‘other’ category.

Finally, we ask the question where does the cash economy labour come from? Statistically, there is a relationship between the jobs held in the official economy and those performed in the cash economy (see Reinhart et al., 2004 for details of the analysis). Those who are managers or professionals are more likely than other occupational groups to be working as managers or professionals in the cash economy. Similarly, those officially in clerical, sales and trades are proportionally overestimated in cash economy activities in clerical, sales and trades. And transport, production and labouring work in the official economy is more likely to be carried out by the same people in the cash economy. But the other observation that can be made from the data in Table 3 is that while cash economy skilled work (either managerial/professional or trades/clerical/sales) is more likely to be done by those with the relevant skills in the official economy, most skilled cash economy workers find work outside their main occupation. In contrast, unskilled workers who venture into the cash economy stay within the category of unskilled labour.

**Table 3: Do Australians stay within their occupational group or diversify when they work in the cash economy**

	% staying within	% going outside
Professional, managerial	37	63
Trade, clerical, sales, hospitality	38	62
Transport, production, labourers	69	31

## **Conclusion**

Australians engage in the cash economy as suppliers of labour and purchasers of labour. The social demographic profiles of these groups differ. Purchasers tend to be older, married, employed full-time, highly educated and highly paid. Suppliers are more likely to be male, young, not married, and to have a diploma or a secondary qualification. Both groups were over represented among the self-employed, particularly suppliers. Suppliers were also more likely to be receiving a youth or student allowance or a government benefit designed for the unemployed. These profiles suggest that those who profit from the cash economy are the privileged in our society and those who are trying to get a foothold on the ladder of opportunity. Through involvement in the cash economy, Australians both line their wallets and meet their needs.

These differences, however, do not polarise social-demographic groups. Cash economy activity is widely dispersed and highly visible in the population. The visibility is reflected in Australians' perceptions of community tolerance of cash economy activity, a tolerance that is accompanied by a personal belief that it really is the wrong thing to do. The tension that has been documented between Australians' perceptions of social norms and their personal ethics would appear to be an unstable psychological state. Either Australians compartmentalise cash economy activity as something over which they have little control – as something they deal with by going with the flow – or they are in the process of bringing their personal beliefs in line with social realities. Presumably this process involves looking more kindly on those engaging in the cash economy, even if it seems wrong, and re-defining cash economy activity as a way of showing initiative, making one's way in the world and getting ahead, particularly among the young.

As for the role of tax authorities in this climate, the challenge appears to be one of containment rather than elimination of cash economy activity. A surprising number of Australians are unsure whether the government should or should not be cracking down on such activity. The links between the cash economy and the official economy are strong. People work in both, sometimes in the same job, sometimes not. The relationships between the two economies suggest that at the individual level, getting a job in one may be an

advantage in getting a job in the other. For many Australians, cash economy activity may simply be a response to the challenge of the times – to work hard, to reap the rewards of their efforts, to save for retirement, and to express their individualism through self-reliance. Within the confines of this newly emerging and prized self-image, tax authorities, for many Australians, have yet to convincingly stake their claim.

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