

Centre for Tax System Integrity

Working Paper 83 – Getting on or getting by? Australians in the cash economy.

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 (n=2040) and 2002 (n=3253).

The results show that cash economy activity is scattered throughout the population, and tends to be undertaken by different people at different times. For those who participate in the cash economy, 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.

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.

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.