

Chapter 5

Charting the Shoals of the Cash Economy

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In this chapter, we examine the issue of movement into and out of the cash economy. All indications are that the cash economy is on the increase worldwide and is posing a challenge for sovereign states aiming to control its growth. An increasing economic literature is addressing the factors that drive its development and map its effects on the official economy, and society at large. Less widely researched is the behaviour of those moving into and out of the cash economy, what motivates them to take part, and what keeps them at a distance from this kind of activity (see Wiegand (1994) as a notable exception). The literature on individual tax evasion points to a number of possible explanatory variables, among them perceptions of justice, civic virtue, moral obligation, social identity, and social norms, to say nothing of the classic self-interest variables of human greed as an instigator, and fear of punishment as an inhibitor (see Webley, Robben, Elffers and Hessing, 1991; Andreoni, Erard and Feinstein, 1998; Richardson and Sawyer, 2001). In this chapter, some of these ideas are drawn together through the concept of motivational postures. Motivational postures are central to the operation of the social rift model of regulatee responsiveness, which comprises a set of explanatory propositions for how and why people distance themselves from authority and find the psychological freedom to act outside the constraints imposed by that authority. While social distancing is not a sufficient condition for taking part in the cash economy (people must find the prospect attractive or advantageous to them), it is a necessary condition for throwing off the constraints imposed by an authority through laws and regulatory practices, persuasion and punishment, obligations and moral pressure.

Background

The non-observed economy, variously referred to as the underground, cash, hidden, black, or shadow economy, is monitored by governments worldwide with a view to ascertaining its size and curtailing its growth. The concern that governments express over the non-observed economy is based not so much on the fact that it exists, but on the percentage of Gross Domestic Product (GDP) it represents (Schneider and Enste, 2000; Bajada, 2002; Ott, 2002; Schneider, 2002).

If the non-observed economy increases substantially as a percentage of official GDP, governments are likely to see an erosion of their tax base, and a reduction in the revenue that they can expect to collect for the purposes of governance. Of further concern is the fact that the government's ability to plan future economic policy depends on reliable and accurate estimates of economic activity. Distortion in the estimates weakens the accuracy of statistical modelling of future economic performance.

Apart from making life difficult for government administrators, a thriving non-observed economy can signal systemic problems of governance. For instance, low public confidence in political and social institutions of governance has been linked with a shift in productivity from the official to the underground economy (Ott, 2002). Furthermore, a thriving underground economy provides something of a haven for serious criminal activity (Organisation for Economic Cooperation and Development, 2002). Within its fold lie a raft of activities including the avoidance of tax (indirect or direct) and government regulation, defrauding government social security and health care systems, and the illegal production of goods and services forbidden by law (such as terrorism, drug trafficking or people smuggling).

Little consensus exists about how the non-observed economy should be defined or measured. The handbook of the Organisation for Economic Cooperation and Development (OECD) (2002) on *Measuring the Non-observed Economy* identifies four components: (a) underground production (activities that are legal and productive, but concealed from public authorities); (b) illegal production; (c) informal sector production; and (d) production of households for their own final use. The size and impact of the components will differ across countries, and not surprisingly, different countries (and researchers) adopt different definitions of what components should be measured, and what the best method of measurement is likely to be given the context (see, for example, Schneider and Enste, 2000; Bajada, 2002; Ott, 2002; Schneider, 2002).

In spite of these difficulties, some progress has been made toward 'sizing' the non-observed economy worldwide. Table 5.1 presents figures from the work of Friedrich Schneider, tracing the growth in what is referred to as the shadow economy in 21 OECD countries over a ten year period. While the average for OECD countries is estimated as having reached the 16 per cent mark, the best estimates available for developing countries and countries in transition are substantially higher (41% and 38% respectively).

Explaining Growth in the Non-observed Economy

Understanding growth in the non-observed economy involves answering a set of complex and interrelated questions about economic activity of different kinds at different levels. In order to piece together the entire puzzle, understanding of one kind of activity at one level may require following quite a different path from understanding activities at other levels. This chapter therefore tackles only one small piece of the puzzle. The focus is on the activities of ordinary citizens

Table 5.1 Size of shadow economy in per cent of GDP for 21 OECD countries using currency demand method

OECD countries	Per cent estimate			
	Average 1989/90	Average 1991/92	Average 1999/2000	Average 2001/2002*
Australia	10.1	13.0	14.3	14.1
Austria	6.9	7.1	9.8	10.6
Belgium	19.3	20.8	22.2	22.0
Canada	12.8	13.5	16.0	15.8
Denmark	10.8	15.0	18.0	17.9
Germany	11.8	12.5	16.0	16.3
Finland	13.4	16.1	18.1	18.0
France	9.0	13.8	15.2	15.0
Greece	22.6	24.9	28.7	28.5
Great Britain	9.6	11.2	12.7	12.5
Ireland	11.0	14.2	15.9	15.7
Italy	22.8	24.0	27.1	27.0
Japan	8.8	9.5	11.2	11.1
Netherlands	11.9	12.7	13.1	13.0
New Zealand	9.2	9.0	12.8	12.6
Norway	14.8	16.7	19.1	19.0
Portugal	15.9	17.2	22.7	22.5
Sweden	15.8	17.0	19.2	19.1
Switzerland	6.7	6.9	8.6	9.4
Spain	16.1	17.3	22.7	22.5
USA	6.7	8.2	8.7	8.7
Unweighted Average	13.2	14.3	16.8	16.7

* Preliminary figures.
Source: Schneider (2002).

working for and purchasing services on a cash-in-hand basis. Cash-in-hand services, in this research context, fall predominantly into the category of legally productive activity that is transacted in a way as to avoid tax and/or government detection.

Research Goals

The purpose of this chapter is to focus on the behaviour of individuals and to ask why some people in a country like Australia find their way into the cash economy, while others do not. The data were obtained from the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2001; Braithwaite, Reinhart, Mearns and Graham, 2001) conducted in 2000 and the *Australian Tax System: Fair or Not Survey* (Braithwaite and Reinhart, forthcoming) conducted in 2001-2002. The surveys were based on a stratified random sample of Australians selected from publically available electoral rolls. In 2000, the response rate was 29 per cent ($n = 2040$) (see Braithwaite, Chapter 2, this volume for further details). In 2002, 1160 of these respondents were successfully contacted and completed a further survey.

The data on cash economy activity were collected through a self-report methodology in which respondents were asked about their actions, both as a purchaser of services on which tax is not paid and as a supplier of services on which tax is not paid. While the method is not without its problems or limitations, self-reports have proven to be surprisingly useful across a range of criminological research contexts (Junger-Tas and Marshall, 1999).

The survey findings are presented here in two parts. First, we examine the social demographic profile of those who do not participate in the cash economy (neither as a supplier nor purchaser) and those who do, and examine the likelihood of people moving into and out of such activities over an 18 month period. Next, we test five hypotheses about cash economy participation. All are derived from a social rift analysis of regulatee responsiveness (Braithwaite, Braithwaite, Gibson and Makkai, 1994; Braithwaite, 1995). The central idea of the social rift model is that individuals control the distance they place between themselves and an authority in order to psychologically minimise the threat the authority poses and the influence the authority can have over their behaviour (see Braithwaite, Chapter 2, for a description of motivational postures). As individuals distance themselves from an authority, they may also perceive weaknesses in the integrity of the authority. A perceived lack of integrity may make it easier to devalue the authority. This process has been discussed by others in terms of self-justification or rationalisation of the ways in which one departs from or fails to satisfy social expectations, laws and rules (Sykes and Matza, 1957; Thurman, St John and Riggs, 1984). Part of the process of distancing and devaluing may involve finding social support for the position one is taking. Through finding like-minded others, a shared social identity may emerge that gives members credibility and confidence in their opposition to the authority (see Taylor, Chapter 4, this volume). In certain regulatory contexts, however, the distancing and the devaluing may be rather private undertakings, given that individuals may be reluctant to expose supposed

misdeemeanours to public gaze. With social distance and justification for the distance in hand, the individual is psychologically free to behave in ways that are not necessarily to the authority's liking. In these circumstances, the individual will not necessarily engage in non-compliant activities: The opportunity and the incentive need to be present. But given opportunity and incentive, non-compliant activity becomes an option, once psychological freedom from authority influence has been achieved.

Hypothesis Development

Motivational postures reflect the degree to which individuals are accepting of a tax authority in terms of its goals and ways of operating and the degree to which they are sympathetic to the enterprise and open to its influence. Two postures, capitulation and commitment, are sympathetic postures, the former because resistance to authority seems useless, and the latter because paying tax is seen to be a noble action. Three other postures represent the placing of greater distance between the tax office and taxpayers. Resistance reflects the posture of those who are within the system but object strongly to the way it is operating, disengagement reflects the posture of those who have cut themselves off completely from the system and want nothing more to do with it, and game playing reflects detachment with effective defiance. Those who adopt the game playing posture relax the social distance constraints to the point where they can obtain the information they need to beat the tax office at its own game. Game playing is about tax avoidance, that is, finding ways of legally using law against the tax authority and sidestepping the obligation to pay tax (see McBarnet, Chapter 11, this volume).

Involvement in the cash economy, at least as a supplier, does not involve playing with or misunderstanding law, but rather it involves knowingly engaging in illegal activity. For this reason, one might expect to encounter disengagement more often than normal in this group, with commitment being displayed a little less often. Thus, we hypothesise that the motivational postures most likely to be related to being involved or not involved in the cash economy are disengagement and commitment, with disengagement increasing the likelihood of participation, and commitment decreasing participation (Hypothesis 1).

Those who break the law through cash economy activity are likely to be able to justify their behaviour. Justification can take many forms and may vary from individual to individual depending on experience and circumstances. A justification, however, that is likely to be systematically expressed by those involved in the cash economy is the rather broadly based one that the tax office lacks integrity. By this we mean that the tax authority lacks soundness of purpose in the goals it pursues, and the way it pursues them. Thus, we hypothesise that cash economy activity will be higher among those who believe that the tax office displays low integrity (Hypothesis 2).

The psychological purpose of distancing from and dismissing the integrity of an authority is to gain a sense of well-being. In theory, personal well-being involves creating one's own sense of security outside the reach of the authority.

This may be with like-minded others in one's social network or it may be through one's own assemblage of beliefs and observations about how the world operates and one's place in it. We thus propose three hypotheses associated with self-protection from sanction, shame or guilt: (a) Cash economy activity will be higher among those who do not anticipate being caught or punished by the tax office (Hypothesis 3); (b) cash economy activity will be higher among those who anticipate feeling no shame or guilt in the event of being caught by the tax office (Hypothesis 4); and (c) cash economy activity will be higher among those who do not identify with the group called 'honest taxpayers' (Hypothesis 5).¹ Once constraints on behaviour have been relaxed through removing concerns about being caught and/or fined, through eliminating feelings of shame and guilt, and through re-interpreting so called wrongdoing to make it acceptable, the path has been cleared for participation in illegal activity.

Research Findings

The first task was to find out the social demographic characteristics of those who were involved in cash economy activity in *both* 2000 and 2002, those involved in 2000 but not 2002, those not involved in 2000 but involved in 2002, and those not involved at either time. The analysis was carried out for suppliers and purchasers of labour. In order to find out who was a supplier, respondents were asked: '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' (response categories were 0 indicating no and 1 indicating yes). Purchasers were classified according to their answer to the following question: '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' (response categories were 0 indicating no and 1 indicating yes).

Moving In and Out, and Staying Put

Of the 1119 people who provided answers to the questions about supplying cash-in-hand work or services in the 2000 and 2002 surveys, we found that the vast majority claimed not to be involved at either time (90.4%). The remainder comprised 2.0 per cent (N = 22) who were supplying labour in 2000 and 2002, 3.9 per cent (N = 44) who were supplying labour in 2000 but not 2002, and 3.7 per cent (N = 41) who were not supplying labour in 2000 but were in 2002. These figures suggest that among those who are involved in the supply of labour, there is considerable movement in and out of the shadow economy (79% are involved at one time, but not the other). Such a pattern implies that the drivers of cash economy participation are not stable but change as the individual's life space changes. Within this frame, it is worth noting that between the 2000 and 2002 surveys, a goods and services tax was introduced in Australia, allegedly making it harder for small businesses to operate successfully within the cash economy.

When attention is turned to those who purchase cash economy work or services, again we find the majority of survey respondents uninvolved at both times, although the percentage claiming non-involvement in purchasing is substantially lower than the percentage claiming non-involvement in supplying (75.4%). The remaining 25 per cent are distributed evenly across the remaining three options for involvement: 7.5 per cent were involved in both 2000 and 2002, 8.0 per cent were involved in 2000 but not 2002, and 9.2 per cent were involved in 2002 but not 2000. Again, purchasers tended to move in and out of cash economy activity across the 18 month to two year period, with 70 per cent involved at one time, but not the other.

The numbers involved in the cash economy from this community survey are on the smallish side for purposes of statistical analysis, but given the rarity of data of this kind, some insights may be gleaned from examining the characteristics of those who are repeat players, transitional players and non-players.

We considered it likely that type of involvement as a supplier or purchaser would be related to a range of social demographic characteristics such as age, sex, marital status, number of children, family income, education, work status, occupation, work sector, and country of birth (Australian versus non-Australian). On the supply side, few of these variables were relevant to cash economy involvement. The significant relationships² to emerge were as follows. Younger people aged 18 to 30 were more likely to be supplying labour in the cash economy (and were also the age group most likely to move out of this kind of work from 2000 to 2002). Those owning their own business had disproportionately high involvement in supplying labour in the cash economy. The relationship between education and cash economy labour supply was most notable among those with diplomas. A diploma, and to a lesser extent a tertiary qualification, indicating the possession of skills of a specialised kind, increased the likelihood of cash economy involvement. Being a supplier of labour in the cash economy at some time was also more likely among those with a personal income, or a family income, in the middle range of A\$19 000 to A\$47 000.

Being a purchaser of cash economy labour had several links to social demographic characteristics. Purchasers were more likely to be in the middle age group (31 to 55 years), married, to have a university degree and a professional or managerial occupation, to work full-time, and to be among the highest personal income and family income group (that is, a personal or family income of A\$48 000 to A\$250 000). Purchasers were also more likely to work in their own businesses.

Testing the Motivational Postures Hypothesis

To supply labour in the cash economy, or more specifically, to fail to declare payment received on one's tax return, is to evade tax. Given that this is a commonly known form of tax evasion (Braithwaite et al., 2001), it was hypothesised that the motivational postures that would be dominant in the cash economy worker would be high disengagement from and low commitment to the tax system. The data on the motivational postures for each group of taxpayers is

presented in Table 5.2. Scores on each posture range from 1 to 5, with higher scores indicating more of the attribute being measured. Table 5.2 shows that the hypothesis was confirmed: Disengagement is higher and commitment is lower among those involved in supplying labour in the cash economy in 2000 and 2002 compared with those who had never been involved in such activity. The scores of transient cash economy workers fell between those of the repeat players and non-players.

The purchase of services in the cash economy was related to motivational posturing in unexpected ways. Those who had never purchased services in the cash economy had relatively higher game playing scores, a finding that makes sense given that game playing provides a legal avenue for avoiding taxes, whereas the cash economy does not. The absence of a relationship between being a purchaser in the cash economy and the motivational postures of disengagement and commitment suggests that there is not a moral or legal consciousness coming into play to prevent people purchasing services in the cash economy. The data suggest that people can be committed to the tax system on the one hand and pay for services in the cash economy on the other. This is consistent with the weak but significant relationship in Table 5.2 showing purchasers as being relatively high on commitment to the tax system. The purchaser-supplier relationship appears to be one where the purchaser provides the temptation and opportunity, while the supplier carries the moral responsibility for tax evasion.

Testing the Integrity Hypothesis

Integrity, defined in an institutional rather than individual sense, describes unity and soundness of purpose (see Braithwaite, Chapter 13, this volume). Soundness of purpose refers to holding goals and standards that are in keeping with principles of democratic governance, and that are willingly and openly defended in these terms. Unity of purpose means that there is a reasonable level of consistency and connectedness between ideals, operating principles and actions from the micro-level of taxpayer-tax administrator interaction to the macro-level of government-to-government interaction.

Tax system integrity is conceptualised in terms of five different, but interrelated dimensions: (a) collection of taxes in such a way that all groups are paying their fair share; (b) the use of taxes for the public good; (c) genuine consultation with taxpayers about the tax system; (d) respectful treatment of taxpayers; and (e) granting taxpayers the status of trustworthiness in the absence of information to the contrary.

These five dimensions were measured using a set of attitude scales, some of which have been used in other contexts and some developed specifically for taxation (see Braithwaite, 2001, for further details). Generally, responses on these scales comprised ratings that indicated different levels of agreement or disagreement with a set of statements. The important point to note about these measures is that they are all concerned with external integrity, that is, how outsiders perceive the tax office and tax system performing on the five dimensions.

Table 5.2 Mean scores and significant differences on motivational postures for four groups defined by cash economy activity in 2000 and 2002

	Group				
Motivational postures	1 Both '00 and '02	2 Neither '00 nor '02	3 In '00 out '02	4 Out '00 in '02	F Value
<i>Suppliers</i>					
Commitment	3.55 ^{2, 4}	3.90	3.76	3.86	3.86**
Capitulation	3.25	3.43	3.29	3.40	1.87
Resistance	3.27	3.15	3.25	3.14	0.87
Disengagement	2.60 ²	2.25 ^{3, 4}	2.41	2.42	5.57**
Game playing	2.60	2.39	2.37	2.50	1.30
<i>Purchasers</i>					
Commitment	3.99 ³	3.87	3.79	3.90	2.10
Capitulation	3.35	3.43	3.34	3.40	1.42
Resistance	3.18	3.15	3.21	3.12	0.56
Disengagement	2.23	2.27	2.38	2.26	1.51
Game playing	2.27 ²	2.42 ⁴	2.41	2.25	3.35*

* $p < .05$ ** $p < .01$

Note: Significant differences among the four groups for each posture were tested using one way analyses of variance, with between groups means tested using the least-significant difference method. A superscript next to a mean score indicates that that particular mean is significantly different from the group defined by the superscript.

The question of internal integrity (what actually happens within the sanctuary of the tax office) is equally important, but needs to be addressed through a different methodology.

The extent to which the collection of taxes is perceived as being fairly shared across social groups (the avoidance of a free-rider effect) was measured using an index developed by Kinsey and Grasmick (1993). These authors argued that an individual's perceptions of unfairness in contributions to the tax system could be inferred from the degree to which citizens rated groups of taxpayers differently on the question, were they paying their fair share of tax. Kinsey and Grasmick's method is a useful one, but their measure is reliant on a small number of taxpayer groups. After all, the amount of dispersion or unfairness detected will be totally dependent on the nature of the groups rated by respondents. In order to resolve this problem, we decided to focus on groups that would give us maximum variation in occupational status from the very rich to the ordinary worker. Differences in the

treatment of the rich and powerful and the average working person have caused considerable dissatisfaction with the tax system in Australia (see Taylor, Chapter 4, this volume).

Respondents in the present study were given sets of occupations that fell into the following categories: (a) top earning professionals and CEOs of corporations; (b) small business owners and farm owners; and (c) trades people and low income wage and salary earners. Ratings of fairness of tax contributions were averaged for each group and the standard deviation of these scores was used as an index of unfairness in contributions. The greater the standard deviation, the more the respondent perceived differences in the fairness of tax contributions from high to low status groups.

The use of tax for the public good was measured in terms of citizen satisfaction with government. First, we asked: 'Overall, how dissatisfied or satisfied are you with the way the government spends taxpayers' money?'. We then asked two questions that formed the fair deal index: (a) Do you think that the tax you pay is fair given the goods and services you get from the government? and (b) Would you prefer to pay less tax even if it means receiving a more restricted range of goods and services? (reversed scored).

Consultation was a special purpose scale made up of the following items: (a) The Tax Office consults widely about how they might change things to make it easier for taxpayers to meet their obligations; (b) The Tax Office goes to great lengths to consult with the community over changes to their system; (c) The Tax Office is more concerned about making their own job easier than making it easier for taxpayers (reverse scored); and (d) The Tax Office listens to powerful interest groups, not to ordinary Australians (reverse scored).

Treating taxpayers with respect was based on the work of Tom Tyler (1997) and asked respondents to indicate level of agreement with: (a) The Tax Office respects the individual's rights as a citizen, and (b) The Tax Office is concerned about protecting the average citizen's rights.

The scale to measure treating taxpayers as if they are trustworthy was taken from the work of Braithwaite and Makkai (1994): (a) The Tax Office treats people as if they can be trusted to do the right thing, and (b) The Tax Office treats people as if they will only do the right thing when forced to (reverse scored).

Finally, the Australian Taxation Office (ATO) has a Taxpayers' Charter that delineates 12 standards for how taxpayers should be treated (see Braithwaite, Chapter 1, this volume for a description). Respondents rated the ATO on their performance on each standard (Braithwaite and Reinhart, 2000). These responses were summed to give a Taxpayers' Charter score which corresponds well with the concept of procedural justice, that is, the degree to which the tax office employs fair and reasonable processes in its dealings with taxpayers (see Wenzel, Chapter 3, this volume).

Together, these measures represent tax office integrity. In Table 5.3, the different kinds of involvement in the cash economy are related to each of the integrity measures, first for suppliers, then for purchasers. With the exception of the first measure (rich not paying) which is a dispersion measure, the integrity

scale scores range from 1 to 5, with a higher score indicating more of the attribute being measured.

Table 5.3 Mean scores and significant differences on integrity measures for four groups defined by cash economy activity in 2000 and 2002

Integrity	Group				F Value
	1 Both '00 and '02	2 Neither '00 nor '02	3 In '00 out '02	4 Out '00 in '02	
<i>Suppliers</i>					
rich not paying	0.94	0.81	0.90	0.85	1.36
dissatisfaction	3.77	3.53	3.39	3.73	1.17
fair deal	2.89	2.95	2.95	2.84	0.25
consultation	2.66	2.72	2.63	2.67	0.31
respect	2.93 ²	3.30	3.20	3.26	1.66
trustworthiness	3.04	3.25	3.03	3.21	1.51
enact Charter	3.17 ²	3.60	3.54	3.38	2.78*
<i>Purchasers</i>					
rich not paying	0.93 ²	0.79 ³	0.90	0.81	3.83*
dissatisfaction	3.53	3.48 ^{3,4}	3.74	3.75	3.14*
fair deal	2.90	2.95	3.13 ⁴	2.87	1.67
consultation	2.51 ²	2.74 ³	2.55	2.70	4.35**
respect	3.08 ²	3.31	3.17	3.26	2.48
trustworthiness	3.22	3.24	3.23	3.15	0.43
enact Charter	3.31 ^{2,3}	3.60	3.61	3.53	2.88*

* $p < .05$ ** $p < .01$

Note: Significant differences among the four groups for each integrity measure were tested using one way analyses of variance, with between groups means tested using the least-significant difference method. A superscript next to a mean score indicates that that particular mean is significantly different from the group defined by the superscript.

These findings provide limited support for the integrity hypothesis when applied to suppliers, and broader support for the hypothesis when applied to purchasers. The major differences between the groups involved those who had never been involved in the cash economy and those who were involved on both occasions in 2000 and 2002.

Suppliers who were repeat players in the cash economy were less likely to perceive the tax office as having respect for taxpayers and as enacting the principles of the Taxpayers' Charter. These were the only integrity measures related to being a supplier of labour in the cash economy.

Purchasers who were repeat players had more doubts about the integrity of the tax office in terms of its adherence to the Charter, its consultation record and its respect for taxpayers. They also complained more about disparities among groups in the payment of a fair share of tax. Those who had never been involved in purchasing in the cash economy were significantly more satisfied about the way the government spent taxpayers' money than were those involved in purchasing in the cash economy on a transient basis.

Testing the Sanctioning Hypothesis

Sanctioning was broadly conceived as an external or internal stimulus that would be interpreted by an individual as a disincentive for taking part in the cash economy. The external stimulus was the likelihood of getting caught. The measure involved asking the respondent to imagine that they had failed to declare \$A5 000 for work they had done outside their regular job. The estimated probability of getting caught was recorded on a five point scale where 1 meant 0 per cent and 5 meant 100 per cent. In addition we tested a full deterrence term that captured perceptions of consequences and the seriousness of these consequences if indeed one was caught. The deterrence term was calculated as the product of the likelihood of getting caught \times the likely severity of punishment \times concern about punishment (following Braithwaite and Makkai, 1991). From Table 5.4, suppliers and purchasers were least likely to anticipate being caught and had the lowest deterrence score. The group most likely to anticipate being caught and to rate deterrence high were those who had never been engaged in the cash economy.

The internal stimulus hypothesised to be at work to curb cash economy involvement is commonly referred to as conscience, represented here by shame acknowledgment (Ahmed, Harris, Braithwaite and Braithwaite, 2001). Respondents were asked to indicate the degree to which being caught for not declaring A\$5 000 for work done outside one's regular job would make them feel: (a) that what they'd done was wrong; (b) bad about the harm and trouble they had caused; (c) let down the family; (d) angry with self; (e) guilty; (f) embarrassed; (g) humiliated; (h) concerned to put things right; and (i) ashamed. Scale scores ranged from 1 to 5, with higher scores indicating higher levels of shame acknowledgment. In addition, respondents were asked about whether or not it was important to be a member of the group called honest taxpayer and whether or not they felt a sense of pride in being a member of this group. Together these two questions formed the honest taxpayer identification index with scores ranging from 1 (low identification) to 7 (high identification). The hypothesis was that conscience measured through feelings of shame and guilt or through one's ties to the social group called honest taxpayers (see Taylor, Chapter 4, this volume) would act as an internal constraint on cash economy activity. In Table 5.4, those who have never been involved in the

cash economy, either as suppliers or purchasers, value their social identity as honest taxpayers more highly. Moreover, they score more highly on shame acknowledgment when they are asked to imagine themselves being caught for not declaring additional cash income on their tax return. Overall, sanctioning of either an external or internal kind is most likely to be recognised as an inhibitor of wrongdoing by those least likely to be involved in the cash economy.

Table 5.4 Mean scores and significant differences on sanctioning measures for four groups defined by cash economy activity in 2000 and 2002

	Group				
Sanctioning	1 Both '00 and '02	2 Neither '00 nor '02	3 In '00 out '02	4 Out '00 in '02	F Value
<i>Suppliers</i>					
prob. caught	2.27 ²	3.13 ^{3, 4}	2.60	2.63	6.67**
deterrence	111.09 ²	174.27 ⁴	143.93	130.33	4.93**
acknowledgment	2.63 ²	3.15	2.94	2.96	4.53**
honest taxpayer	5.62	5.99 ³	5.51	5.68	4.12**
<i>Purchasers</i>					
prob. caught	2.51 ²	3.24 ^{3, 4}	2.69	2.46	19.52**
deterrence	123.22 ^{2, 3}	181.15 ⁴	157.06	130.72	11.83**
acknowledgment	2.86 ²	3.19 ^{3, 4}	2.94	2.94	8.40**
honest taxpayer	5.81	6.02 ^{2, 3}	5.50	5.77	6.82**

** $p < .01$

Note: Significant differences among the four groups for each sanctioning measure were tested using one way analyses of variance, with between groups means tested using the least-significant difference method. A superscript next to a mean score indicates that that particular mean is significantly different from the group defined by the superscript.

Conclusion

Several concepts central to the social rift model of regulation have been shown to predict cash economy activity. The model proved particularly useful in differentiating those who were repeat players in the cash economy over a two year period and those who had never been involved.

Suppliers of cash economy labour were more disengaged from the tax system and expressed a relative lack of commitment to the system. They downplayed the prospects of getting caught more than others, and expressed less concern, shame and remorse for tax evasion than non-participants. Furthermore, they were more

likely to believe that the tax office was lacking in procedural justice, through failing to meet their obligations under the Taxpayers' Charter and failing to respect taxpayers. In social demographic terms, suppliers tended to be younger, to have been educated along a vocational training path, to have family incomes falling into the middle income range, and to be running their own businesses.

Purchasers who were repeat players displayed a different style of engagement with the tax system and the cash economy. Like suppliers, when asked to imagine a scenario where they were caught evading tax, they expressed less fear of being caught and of the consequences. Interestingly, they did not distance themselves from the honest taxpayer identity nor did they express a lack of commitment to the system. As purchasers they apparently felt they could simultaneously be supporters of the tax system and the cash economy. Nevertheless, they were critical of tax office performance in terms of treating taxpayers with respect, consulting with taxpayers and abiding by the Charter. Purchasers also perceived greater disparity among occupational groups in the extent to which they paid their fair share of tax. Demographically, purchasers were among the more privileged in our society. They belonged to high income families, they were well-educated, employed, had professional or managerial occupations, were married and were in the middle age range. Purchasing cash economy labour was also more common among those with their own businesses.

Thus, purchasers and suppliers in the cash economy are not too much alike, apart from the fact that both are more likely to be found among the self-employed. Suppliers are the less successful group according to standard indicators: They are not as rich as purchasers, they are younger, less settled and less well educated. Moreover, they have placed themselves at a greater distance from the tax authority, expressing doubts about the office's procedural fairness and little concern about the impact of sanctions. Suppliers show signs of placing themselves beyond the reach of regulators, more so than appears to be the case for purchasers.

These findings are only the beginning to understanding how individuals become caught up in cash economy activity. Even so, there is evidence here to support some of the main ideas that economists have been touting in their analyses of growing cash economies at the macro level. For instance, sanctioning and the perceived chances of being caught have emerged as a strong and consistent predictor of cash economy activity for both suppliers and purchasers. Future work by our research group will explore the experience of sanctioning and whether or not this intervention discourages future cash economy activity. While deterrence theory is clearly relevant to the management of individual participation in the cash economy, so too are notions of tax system integrity and procedural justice. As Ott (2000) and her colleagues have observed in transitional economies, the cash economy provides an escape for people who have lost confidence in government and what it purports to represent within democratic society.

The surprising, and very important outcome of our research to date is that issues of integrity, in the sense of adherence to the Taxpayers' Charter, social fairness and citizen inclusiveness, are more important in predicting the future behaviour of purchasers than suppliers, and purchasers do not, it appears, exist on the margins of our society. They are more often than not found among the

privileged ranks of our social order: High income earners, the well educated, professionals, managers and business owners, married and in the prime years of their lives. They have the credentials for being ‘masters of the universe’ to borrow a phrase from Tom Wolfe’s (1987) *The Bonfire of the Vanities*. The question is: Are they also driving tax evasion in the cash economy?

Notes

- 1 While it would have been interesting and more directly relevant to ask about identification with the category, ‘dishonest taxpayer’, we were concerned about the reliability and validity of responses to this question in a general population survey. Such a question is better suited to populations with a known and proud history of resistance to taxation.
- 2 The four types of involvement in the cash economy were cross-tabulated against the social demographic variables (each expressed as a categorical variable) and each relationship was tested for statistical significance using the chi-square test of independence.

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