

The Approximate Amount of Cash Transactions in The Wholesale Apparel Business in New York City In 2004

The first challenge in estimating the volume of cash business in any industry is to find reliable sources of information. A good starting place is the U.S. Department of Treasury. In a release dated February 14, 2006 the Internal Revenue Service estimated that the under reporting of income in 2001 was 18%. This is the most recent year available. Although under reporting of income is different from cash transactions, there is a very close relation according to an expert on the cash economy, Stanford Professor Joseph Bankman. A There is a lot of cash around and, not surprisingly, with such low reporting rates, the missing cash piece of the tax pie is huge.@ A Tax Enforcement: Tax Shelters, The Cash Economy, and Compliance Costs,@ 2004 Laurence Neal Woodworth Memorial Lecture in United States Tax Law, J. Bankman, 31 Ohio N.U.L. Rev. 1, 7 (2005).

The U.S. Treasury estimate is the most useful and reliable starting point for an estimate of the percent of the apparel business which involves cash transactions. Nevertheless, there are two reasons why the U.S. Treasury percent of under reported income underestimates cash transactions. First, many cash transactions are reported and, by definition, those transactions would not be included in this estimate. Second, the 18% figure is the corporate and partnership business under reported figure. The sole proprietor business under reported figure is substantially higher - 57%. Many apparel wholesalers are

sole proprietorships. While using the U.S. Treasury percent provides insights into the likely volume of cash business, this percent is more likely to be a floor under the amount of cash transactions - a minimum - than a ceiling.

In 2004, the gross metropolitan product (this is a measure of economic output; it is the market value of goods and services produced by labor and property located in the metropolitan area) for the greater New York City area was \$901 billion. According to the Bureau of Economic Analysis, an agency of the U.S. Department of Commerce, gross product measurements should approximate gross income (although they differ because of different components). AA Guide to the NIPAs, p. M-5. The \$901 billion figure is similar to the gross income of the greater New York City area.

The apparel business as a percent of total New York City greater metropolitan business can be estimated by comparing consumer expenditures on apparel and textile items against total consumer expenditures. Using this approach, in the greater New York metropolitan area the apparel industry was 5.5% of the total business in 2004. Multiplying the gross greater New York metropolitan product by this percent approximates the income generated by the apparel business in New York City in 2004: \$901 billion \times 5.5% = \$ 49.56 billion. There was about \$49.56 billion of gross income in the apparel business in the greater New York metropolitan area in 2004.

The next step is to deduct retail sales to arrive at wholesales. Total apparel retail sales in 2004 in greater New York City were \$21 billion. Subtracting this figure from \$49.56 billion leaves about \$28.56 billion in wholesale apparel income in greater New York City in 2004.

The cash volume of the greater New York wholesale apparel income may be estimated by multiplying the wholesale apparel income in the greater New York City metropolitan area by the U.S Treasury percent of under reported income: $\$28.56B \times 18\% = \5.14 billion. In 2004 there were approximately \$5.14 billion of wholesale apparel business cash transactions in greater metropolitan New York. In weekly terms, this is a little less than \$100,000,000 in wholesale apparel cash transactions each week. There was an immense amount of wholesale apparel cash business in greater New York City in 2004.