

Understanding MPs views about the cash-in-hand / informal economy

Summary report by Matthew Lipson and Aaron Barbour

“In the last two years I have been working for cash-in-hand. I know what I am doing may be benefit fraud, but I had no choice. I was being threatened by the people I owed money to and I had to do something before the situation got out of hand. I couldn’t use my benefits to pay debts as that’s my family’s lifeline, and I owed a lot. Most people who work informally have multiple problems. It’s because they have poor educational background, never had a decent job, single mothers with childcare issues, like me, those who are in debt, like me...it’s very difficult to get out of such a situation and find proper work. You feel trapped.”

Sarah, a Newham resident

In spring 2008 we interviewed a small number of Members of Parliament (MPs) and received written responses from a member of a Select Committee to understand their views and attitudes towards the cash-in-hand / informal economy. This summary report details our findings.

Community Links and informal economy: ‘Need not Greed’

Over the last eight years Community Links has taken a particular interest in the informal economic activity of small businesses, the self-employed, and employees. The informal economy has a major impact on the lives of the people we work with, and is integral to many people’s experience of poverty.

For people living on the breadline informal paid work takes them out of ‘absolute’ poverty enabling them to cover the rent or pay the debt collector knocking on the door. But it may trap them in ‘relative’ poverty as they are working outside of the ‘mainstream’, without access to the national minimum wage, holiday or sick pay, or legal protection. Our research also shows that informal paid work can have a positive role in peoples’ lives, keeping them from absolute poverty, whilst developing confidence and skills, and getting them out of debt. For our extensive research ‘back catalogue’ visit: www.neednotgreed.org.uk

Definition of cash-in-hand / informal paid work

We have adopted the definition most commonly used: *‘Informal work involves the paid production and sale of goods or services which are unregistered by, or hidden from the state for tax, benefit and/ or labour law purposes, but which are legal in all other respects.’* EU (1998). Illegal or criminal activities such as drug dealing or prostitution have been excluded, as have exchanges of unpaid work.

Did you know?

- ▶ The informal economy is estimated to account for 7-16 % of GDP in the EU in the 1990s (Williams & Windebank, 2002).
- ▶ The informal economy represents 12.3% of UK annual GDP around £120Billion (Schneider, 2002).
- ▶ The TUC estimates there are 2 million vulnerable workers in the UK, a majority of whom have worked informally. (TUC, 2008).
- ▶ Although the UK has one of the lowest levels of informal economic activity in the EU there has been a steady rise across all OECD countries over the last decade.
- ▶ The informal economy is known by several names: Cash-in-hand, Hidden economy, Shadow economy, Grey markets, Working off-the-books, Ghosts and Moonlighting.

Project objective

We set out to understand MPs views and attitudes towards the informal economy.

Methodology

A researcher from a multinational technology company volunteered for linksUK, the national team of Community Links, in 2008. He coordinated a small volunteer team of professional researchers to conduct face-to-face semi-structured interviews with six MPs (from the three major political parties, across the UK). One was a member of a Select Committee.

Findings: MPs' attitudes towards the informal economy

Although poverty and social exclusion was a priority for participating MPs, they rarely related these issues to cash-in-hand work and the informal economy. This may be because MPs rarely hear these issues first-hand in their own constituencies, possibly because MPs are seen as part of the establishment, and therefore are not considered approachable on this matter. *“Constituents come [to surgery] asking for rent assistance. They don't highlight their inability to pay the rent as the reason why they take on cash-in-hand work and don't pay income tax.”* MPs may make the connection but feel they are unable to respond appropriately. Despite cash-in-hand work being an integral part of constituents lives and a crucial factor to consider when presented with individual complex problems, it remains a taboo subject. As one MP simply stated: *“informal work doesn't naturally arise”*.

Certain types of informal paid work were mentioned much more commonly than others. For instance, every MP talked about members of immigrant communities working in industries like catering, cleaning or agriculture. Some MPs thought that most informal paid workers were self employed and they highlighted specific areas including internet traders and buy-to-let landlords. Other MPs were focused more on larger employers who paid people cash-in-hand, with neither party paying tax, (found in the construction industry for example and relevant for the coming 2012 Olympics). Most participating MPs were aware of the diversity in informal paid work arrangements for both self-employed and people employed by businesses. Young people, unemployed people, women as home-workers, asylum seekers, and refugees were also mentioned. Few mentioned how lone parents are paid for positive work like caring or child minding. Some MPs distinguished between those who worked informally as their main income and those who did it to supplement an existing income. The underlying assumption was that the informal economy involved poor people doing low-paid work for the relatively affluent.

One MP responded: *“The European Commission found recently that professional people with above average incomes are more likely than others to purchase goods and services from the hidden economy. Other research shows that most people are likely to have some involvement with the hidden economy at some stage by employing someone in the hidden economy to undertake work, such as gardening or home maintenance.”*

Most MPs in the study felt that informal paid work was conducted either because employees were “avoiding paying tax” or employers “were maximising profits” (see table below). MPs were cautious not to explicitly assign blame to specific groups of people and tended to emphasise the role of illegal business practices over unethical informal workers' choices. This highlights the clear but subtle restrictions MPs place upon themselves when considering the informal economy. These restrictions may be down to social and political reasons which prove to be very influential to MPs behaviour.

Employees reasons	Business reasons	External reasons
<ul style="list-style-type: none"> ▶ Pay for essentials ▶ Fill a gap between jobs ▶ Help get into new area of work ▶ Develop new skills and experiences ▶ Debt ▶ Want to earn more ▶ Don't realise earning enough to pay tax ▶ Distracted by personal events like divorce, sickness, housing problems ▶ Lack self-confidence to get formal work ▶ Unaware of the benefits of formal work like the minimum wage ▶ Compare themselves to others who avoid paying income tax without being penalised ▶ Don't realise their employer isn't paying their national insurance contributions ▶ Unclear of how they benefit from the way tax is spent ▶ Fear: scared to go on record ▶ Proud not to be reliant on the state 	<ul style="list-style-type: none"> ▶ Avoid bureaucracy ▶ Reduce costs ▶ Avoid tax ▶ Avoid national insurance contributions ▶ Hover below VAT threshold 	<ul style="list-style-type: none"> ▶ Complexity of calculating and paying income tax ▶ Complexity of benefits system ▶ Aware of few formal work alternatives ▶ Hard to stop working informally once started without facing legal proceedings ▶ Poverty trap: if forced to pay tax on very low salaries as this removes the financial incentive for moving off benefits ▶ Lengthy delays on asylum applications (years) ▶ There is a large market of willing informal purchasers / customers

Reasons given by participating MPs for why people take on informal paid work

MPs were quick to blame businesses for encouraging people to work unethically without paying tax so as to maximise their profits. Fewer were critical of the underlying policy framework or purchasing practices that reinforced this behaviour. Only two discussed the complex implications of existing employment, benefits and taxation legislation. *“The system may be too complex, even if well meaning and sensible. It could be simpler, more balanced to levels of financial literacy. For instance, it is very difficult for a cleaner to bring their own tools to the job and it's clearly impractical to check the working status of every person you buy from with cash.”* Another gave the example of the benefits trap which can cause people to work illegally or that punitive measures can discourage them from coming clean at a later date.

When discussing the impact of the informal economy, all participating MPs highlighted the reduced revenue raised from taxation, and most mentioned negative consequences for employees such as a lack of a minimum wage, state pension contributions or health and safety protection. Fewer discussed secondary consequences like consumers losing guarantees or recourse to legal protection, businesses suffering from unfair competition or increasing pressures on public services in areas where more informal workers live. One mentioned that there was less of an incentive to integrate into society, as informal paid work is often easiest to find within one's own ethnic community

MPs suggested that government's role should be to introduce a carefully considered blend of policies to encourage employees and employers to move into the formal economy and pay tax. Nearly all felt that more could be done to explain how the current benefits, employment and taxation systems work and why they were designed in that way. For instance people could be reminded of the advantages of formal work and the consequences of being caught working informally. Many believed modifications were required and one participant referred to evidence which shows that HM Revenue and Customs recovered four times more tax using supportive campaigns to bring people into the tax and employment systems than by pursuing and punishing tax avoiders. *"HM Revenue and Customs has been successful in using new methods to encourage large numbers of people into the formal economy relatively quickly, while still penalising them for dishonesty. Such methods have enabled HM Revenue and Customs to make higher returns than from its civil and criminal investigations."* One MP suggested telling people, possibly through a marketing campaign, about the positives of working formally; another suggested introducing a London weighting for tax credits, particularly to cover expensive childcare costs.

Conclusion

We found the MPs we interviewed were aware of some of the issues and the reasons why people work informally, but lacked an understanding of context. They gave less detailed answers to what should be done to support more people out of the informal economy, formalise their work and make the transition into formal employment. A more detailed study is needed with a wider group of MPs to understand further their views and to explore their role in implementing solutions to harness the talent and enterprise in the UK's informal economy.



Get involved with the 'Need not Greed' Campaign

Community Links co-ordinates the 'Need Not Greed' Campaign. We seek to move more people out of cash-in-hand work into the formal economy. We are actively lobbying MPs and government departments to address the UK informal economy and develop appropriate solutions and preventative measures.

As a national campaign with a coalition of over 50 members throughout the UK we are calling for:

1. National policy changes to Housing Benefit and Work Incentives rules to smooth the transition for people off benefits and into formal paid work.
2. Debate amongst government officials, political parties but most importantly within society, that people living in poverty work cash-in-hand out of need not greed.
3. A tangible commitment (in their manifestos) by the three major political parties, should they be elected, to harness the UK's informal economy.
4. Practical informal economy projects to be piloted throughout the UK.

Join us at www.neednotgreed.org.uk

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linksUK

Links UK is the national team of innovative east London charity Community Links. Our purpose is to champion social change. We pioneer new ideas and new ways of working locally and share the learning nationally with practitioners and policy makers. As a result, we are recognised as national leaders in regeneration and social policy.