1. Introduction

INTRODUCTION

How many enterprises and entrepreneurs start up in business conducting a portion or all of their trade on an off-the-books basis? And how many continue to conduct a portion of their trade in such a manner once they become more established? What should be done about them? Should governments adopt ever more punitive measures to eradicate this form of risk-taking enterprise and entrepreneur from the economic landscape? Should a laissez-faire approach be adopted towards them? Or should these underground entrepreneurs be recognized as a hidden enterprise culture and policies pursued to help them legitimize their business ventures? If so, how might this be achieved? What can be done to help those currently working on an underground basis to move towards formalizing their business operations? And what preventive measures can be taken to ensure that in future, enterprises start up in a legitimate manner?

This book seeks answers to these questions. For a long time, academic commentators, the media and governments predominantly represented the underground economy in western nations as a ‘sweatshop’ realm where off-the-books employees work for low pay under exploitative conditions for unscrupulous employers. The picture painted was of back-street garment manufacturers in deprived neighbourhoods, vulnerable people standing on street corners waiting to be hired as ‘cash-in-hand’ day-labourers, ruthless and unprincipled gang-masters who employ (illegal) immigrant groups as labour in the agricultural sector, and of shady and corrupt employers who exploit weak and unprotected immigrant groups as cockle-pickers under lethal conditions on dangerous tidal beaches. The underground economy, in other words, was depicted as an exemplar of what occurs when unbridled profit-motivated capitalism is allowed to let rip.

It is consequently of no surprise that academic, media and government discourses throughout the western world have called for its eradication. Indeed, improving the ability of governments to detect this endeavour and developing tougher punishments to deter employers and employees has been widely pursued, in order that this apparently objectionable and undesirable toil can be eradicated from the economic landscape of the western world. If

all underground labourers were indeed working as off-the-books employees for low pay under exploitative sweatshop-like conditions, then there would be perhaps little need for this book. After all, there is little doubt that underground sweatshops need to be eradicated and stringent deterrents appear to be just the tonic required. In this book, however, I wish to evaluate critically the validity of this representation of the underground economy and in doing so, to question whether deterrence really is the appropriate way forward.

In an earlier book written as the first in what is intended to be a trilogy on the underground economy (Williams, 2004a), a significant portion of the underground economy in the western world, especially in lower-income populations, was revealed to be comprised of friends, neighbours and acquaintances engaging in 'paid favours' for each other, conducted not for the purpose of financial gain but in order to help each other out. The resulting argument was that if governments continue with their deterrence approach towards the underground economy, the social capital and active citizenship that governments are elsewhere in public policy seeking to nurture will be destroyed since paid favours now constitute a large portion of all mutual aid in contemporary society, especially in deprived populations. A call was therefore made for a new public policy approach to legitimize this hidden economy of paid favours (rather than eradicate it), in order that a more joined-up public policy approach towards underground work and developing social capital can be achieved, spheres so far considered as separate and unconnected.

In this second volume in the intended trilogy, the dominant representation of the underground economy as exploitative sweatshop-like employment and the deterrence approach is again put under the spotlight but this time, the focus of attention is on that large portion of underground work carried out under work relations akin to formal employment and for profit-motivated purposes, rather than as paid favours. My intention is to reveal first, that the vast majority of underground employment conducted for financial gain is not undertaken by off-the-books employees under sweatshop conditions but by people working on a self-employed basis and, second, that many of these self-employed engaged in off-the-books transactions display entrepreneurial qualities and can thus be seen as constituting a 'hidden enterprise culture'. Indeed, the argument of this book will be that unless this underground entrepreneurship is recognized, then western governments with their deterrence approach will destroy precisely the entrepreneurship and enterprise culture that they are otherwise so ardently seeking to foster.¹

To display the urgent need for this re-representation of underground enterprise as a hidden enterprise culture, as well as for a root and branch rethinking of how governments tackle this sphere, let me introduce Justin,

a young man in his early 20s whom I met while conducting interviews for this book. Justin is self-employed running his own rapidly growing car valet business with a number of employees and is a shining example of the sort of entrepreneurial person that western governments are seeking to nurture through their enterprise culture policies. How, therefore, did he become what he is today? As he recounted during our conversation, as a young boy, he had washed cars one Saturday morning at a charity event with his local scout group and following this, having seen the demand for such a service, had decided to continue to do so at weekends for people in his neighbourhood in order to earn some extra cash.

Knocking on doors and offering his services, he had quickly built up a regular clientele and had carried on doing this throughout his school years. By the time he reached 16 years old, he had a well-formulated plan of what he was going to do for a living. Rather than continue on to further education, he therefore left school and set about implementing it. He used the money accumulated from his weekend work to purchase a van and equipment to set up as a car valet and then set about building upon his existing client base. Today, five years after starting up, he employs three people and is currently seeking to reduce the share of his turnover from domestic customers and expand the proportion from the more commercial side of his operation, such as used car dealers and car maintenance garages for whom he provides a valet service. Although he continues to conduct a portion of his work for domestic customers on an off-the-books basis, especially for long-standing customers, he has over the years slowly transferred a greater share of his business into the legitimate realm and is intending to be in his words 'more or less fully legit' within the next year or so.

This book is about all of the Justins of this world. It is about those who engage in off-the-books work on a self-employed basis either when they are starting up their business ventures and/or more serially once they have established their enterprises. For some readers, these characters might be considered a rather minor group, some insignificant and superfluous backwater of the contemporary business world of little or no relevance or importance. In this book, however, these underground entrepreneurs will be shown to be far from being some trivial and inconsequential faction in commercial life. Indeed, and as will be later revealed, if they were a business, on most counts, Underground Entrepreneurs PLC would be by far most western countries' biggest corporation. In the USA, it would certainly eclipse General Motors or any of the other conglomerates that sit at the top of the Fortune 500. Likewise, Underground Entrepreneurs UK PLC would be larger than any of the FTSE 100 companies, and the same applies across all other western nations.

In bringing this hidden enterprise culture out into the open, the intentions in this book are twofold. On the one hand, the objective is to significantly advance understanding of the underground economy in western societies. By transcending the conventional negative depiction of this sphere as sweatshop-like exploitative work and revealing how off-the-books work is chiefly conducted by the self-employed who display entrepreneurial characteristics, not only will this book reconfigure how the underground economy is represented but also will display the need for a fundamental overhaul of how western governments deal with this sphere. Until now, tackling underground work and nurturing an enterprise culture have been treated as separate policy realms, resulting in western governments deterring through their policies towards underground work precisely the enterprise and entrepreneurship that other policies are seeking to develop. By here exposing the extent and character of this hidden enterprise culture and investigating what can be done about it, how this troubling contradiction can be overcome will be explored.

On the other hand, the aim in this book is to significantly advance understandings of entrepreneurship and enterprise culture. Until now, the entrepreneur has been predominantly represented by academic textbooks, the media and government as some sort of superhero figure and ideal-type that lesser mortals can only dream of emulating while enterprise culture has been depicted as a risk-taking society that always plays by the rules. Here, however, I will expose how such an uncontaminated, wholesome and legitimate representation of entrepreneurship and enterprise culture is wholly out of keeping with the lived experience, as the practices of the Justins of this world so clearly display. In other words, this book somewhat tarnishes, discredits and despoils the textbook ideal-type of the entrepreneur as some risk-taking superhero by exposing how trading on an underground basis is often deeply implicated in their practices. Similarly, it also blemishes the concomitant depiction of enterprise culture as always legitimate and above board by displaying how the glistening whiter-than-white legitimate enterprise culture that most commentators portray represents just the tip of the iceberg and that below the metaphorical waterline and so far ignored is a vast hidden enterprise culture of underground entrepreneurs. This, of course, has major implications for how public policy in future seeks to foster enterprise culture and entrepreneurship that are dealt with throughout this book.

Before going any further, however, it is necessary to be clear about what is here being discussed. After all, some new to the study of the underground economy might think that this book is seeking to represent drug dealers and those selling stolen or counterfeit goods on market stalls and in back-street public houses as entrepreneurs and part of some hidden enterprise culture.

Let me be clear at the outset that even if such endeavour might be interpreted as entrepreneurial (see Friman 2004; VanderBeken 2004; Vanduyne, 1993), this type of criminal activity is not the subject of this book.

Underground workers are here defined as those engaged in the production and sale of goods and services that are unregistered by, or hidden from, the state for tax, social security and/or labour law purposes but which are legal in all other respects. Importantly, therefore, for those who might assume that drug dealers, those selling stolen goods and so forth are being discussed, this definition explicitly denotes that the only criminality about underground work is the fact that the production and sale of the goods and services are not registered for tax, social security and/or labour law purposes (for example, Feige, 1990; Leonard, 1998a, b; Pahl, 1984; Portes, 1994; Thomas, 1992). The underground economy, that is, covers only work where the means are illegitimate, not the ends (goods and services) themselves. As such, underground workers are engaged in either: the evasion of direct (that is income tax) and/or indirect (for example VAT, excise duties) taxes; benefit fraud where the officially registered unemployed work while claiming benefits; or the avoidance of labour legislation, including employers' insurance contributions, minimum wage agreements or certain safety and other standards in the workplace.

This definition of what is included and excluded in the underground economy conforms in its entirety to nearly all other definitions found in the academic literature (for example, Feige, 1990; Leonard, 1998a, b; Marcelli *et al.*, 1999; Pahl, 1984; Portes, 1994; Thomas, 1992; Williams and Windebank, 1998). Importantly, it also mirrors the definition of the underground economy adopted by most western governments (for example, ACOSS, 2003; European Commission, 1998; Grabiner, 2000; ILO, 2002; OECD, 2000a, b, 2002).

This strong consensus across both governments and academic commentators concerning how to define the underground economy, however, is not apparent when it comes to denoting such work. Over the years, a multitude of adjectives and nouns have been used to symbolize such work (see Table 1.1). Some of the more popular include the 'black economy' (now redundant because of its racist connotations when contrasted to the formal 'white economy'), 'cash-in-hand work' (even though cheques are often used) and the 'informal economy' (which often causes confusion since unpaid work is also frequently included under this banner).

In this book, any permutation of the multiplicity of adjectives and nouns listed in Table 1.1 could have been hypothetically used to denote this sphere, even if some are perhaps more accurate than others (for example, to call this a 'ghetto' economy is to imply a socio-spatial concentration of such work that is far from evident). It is important to state, therefore, that the term

‘underground economy’ has been chosen for one straightforward reason. This is the most popular phrase used to denote such work, particularly in North America, so is most likely to generate instant recognition of what is being discussed among the widest number of readers. No other rationales underpin the decision to use this phrase. As such, readers should not assume any other rationales underpinning this choice of name. More important to understand is what is here being asserted about the nature of this work and what is to be done about it. In the rest of this introductory chapter, therefore, attention turns towards outlining the arguments being made.

Table 1.1 *Adjectives and nouns used to denote underground enterprise*

<i>Adjectives</i>			
Black	Cash-in-hand	Clandestine	Concealed
Dual	Everyday	Ghetto	Grey
Hidden	Invisible	Irregular	Marginal
Moonlight	Non-observed	Non-official	Occult
Off-the-books	Other	Parallel	Peripheral
Precarious	Second	Shadow	Submerged
Subterranean	Twilight	Underground	Unexposed
Unobserved	Unofficial	Unorganized	Unrecorded
Unregulated	Untaxed	Underwater	
<i>Nouns</i>			
Activity	Business	Economic activity	Economy
Employment	Enterprise	Firms	Industry
Sector	Work		

Source: extension of Williams (2004a, Table 1.1)

ARGUMENT OF THE BOOK

This book reveals that pervading western economies is a hidden enterprise culture that has so far received little attention. Part I highlights how studies of entrepreneurship and enterprise culture have on the whole failed to recognize this hidden enterprise culture while studies of the underground economy have similarly largely neglected the entrepreneurship of underground workers, at least in advanced economies. This sets the scene for the rest of the book that seeks to bring together these disparate fields of enquiry. Part II documents the extent and nature of the underground economy so as to reveal the relative magnitude of this hidden enterprise culture and provide

a portrait of those involved while Part III evaluates the various options available to public policy with regard to this endeavour. Arguing that western governments are currently destroying through their punitive approach towards the underground economy precisely the enterprise culture that they wish to foster, Part IV then sets out a new public policy approach that treats this hidden enterprise culture as an asset to be harnessed and details initiatives both to help enterprise in future start-up in a proper manner and to enable fledgling entrepreneurs and more established enterprises currently embedded in the underground economy to legitimize their operations. The outcome is not only a re-representation of the underground economy but also the provision of a guide as to how western governments can bring this hidden culture of enterprise into the legitimate realm.

Part I, in consequence, sets the scene for the rest of the book by revealing how the study of entrepreneurship and the study of the underground economy have both so far neglected the linkages between enterprise culture and underground workers. Chapter 2 will reveal how the literature on entrepreneurship and enterprise culture, although depicting entrepreneurs as risk-taking heroes and enterprise cultures as risk societies, seldom if ever questions whether this means that they always play the game by the rulebook. Notable by its absence from nearly all accounts of entrepreneurship and enterprise cultures will be shown to be the notion that risk-takers and risk societies might weigh up the costs of being caught and the level of punishments and decide to do business on an underground basis. As this chapter begins to intimate, however, such a clean and legitimate representation does not seem to dovetail with the lived experience of entrepreneurship and enterprise culture in the contemporary business world.

Chapter 3 then charts how until very recently, the literature on the underground economy in western societies largely failed to consider whether underground workers display entrepreneurial characteristics. Mapping the broad trajectories in the evolution of thought on the underground economy over the past three decades, this chapter will display how an ongoing tendency has been to focus upon its negative attributes and as such, represent it as a form of work that needs to be eradicated using deterrence measures. This chapter will display, however, that in recent years there has slowly begun to emerge a new stream of thought that is beginning to represent this sphere as a potential asset and how this is leading to a rethinking of whether deterrence is always the appropriate public policy response. This emerging view of the underground economy as a potential asset, it will be here shown, is very different to the much earlier strand, encapsulated in the writing of Hernando de Soto and other neo-liberals (for example, De Soto, 1989; Rosanvallon, 1980), which viewed underground workers (mostly in the third world) as entrepreneurs and argued that the solution was to

deregulate the formal economy to set all workers free from the shackles of state intervention. Instead, and in stark contrast, this new perspective that recognizes the presence of entrepreneurship in the underground economy will be here revealed to be exploring how this entrepreneurial endeavour can be transferred from the underground sphere into the formal economy and as such, resonates strongly with the current view of most western governments.

Having set the scene by displaying how entrepreneurship and the underground economy have been largely treated as separate and unrelated matters, Part II then begins to explicate the relationship by mapping the extent and nature of the underground economy to reveal the relative importance and character of this hidden enterprise culture. Chapter 4 commences this process by reviewing the various methodologies and findings of those who have sought to chart the size and growth of underground enterprise and this is followed in Chapter 5 by a detailed portrait of the heterogeneous varieties of underground enterprise. Here, for the first time, new extensive empirical evidence is reported of the proportion of underground work that is conducted by off-the-books employees, fledgling entrepreneurs, more established self-employed people and not-for-profit 'social' entrepreneurs, along with numerous first-hand case study accounts of underground workers so as to highlight the diversity within each of these segments of the underground economy. The outcome is both a quantitative and qualitative portrait of the underground economy, which displays how most underground work is conducted by self-employed people and paints a fine-grained picture of the diverse types of worker in this hidden enterprise culture.

Chapter 6 then seeks to explain this hidden enterprise culture in western societies. Moving away from the conventional use of single and universal causes to explain its existence, this chapter promulgates that a multitude of individual factors can influence the decision to work on an underground basis and whether they apply in any time or place depends on whether a host of other factors are present and how they combine together. For example, high tax levels might lead to a relatively extensive underground economy. However, where trust in government is higher and there is awareness of the benefits of taxation for social cohesion, then a hidden enterprise culture will not necessarily be the inevitable outcome of higher tax levels. Here, therefore, it will be revealed that the reasons for the existence of a hidden enterprise culture are complex, multi-layered and subtle and that they can be captured only through dynamic explanatory models that include a whole range of factors and how they interrelate. This appreciation, as will become apparent, is important when considering the initiatives required for dealing with underground work.

In Part III, the various policy options are evaluated. Chapter 7 explores the implications of persisting with the deterrence option that until now has been the dominant public policy approach towards underground enterprise in most advanced economies. This will reveal that continuing with this approach will result in western governments deterring precisely the entrepreneurship and enterprise culture that it otherwise wishes to nurture. Chapter 8 therefore considers whether the policy option of *laissez-faire* might be a way forward. Indeed, until now, for those who have brought to the fore the presence of entrepreneurship in this realm (for example, De Soto, 1989, 2001), this has been the approach advocated. Their argument has been that the widespread prevalence of entrepreneurship in the underground economy is a rationale for freeing other business from the shackles of state intervention and deregulating the formal economy. In this chapter, however, strong justifications are set out for not pursuing this policy path, not least that it would result in a 'race to the bottom' in western economies.

Chapter 9 then sets out the arguments for a third policy option that is beginning to receive much greater attention, namely facilitating the transfer of this work into the legitimate realm. While a largely deterrence approach might remain appropriate for eradicating off-the-books employees working in sweatshops, it is here contended that for fledgling micro-entrepreneurs and the more established self-employed that constitute the vast bulk of the underground economy, conventional deterrents (push measures) need to be combined with more enabling (pull) initiatives that encourage such work to transfer into the legitimate sphere.

Part IV then focuses upon identifying in some detail the variety of pull measures that might be used in conjunction with the existing push measures to harness this hidden enterprise culture. First of all, and in order to help enterprise in future start up in a legitimate manner, Chapter 10 pinpoints a range of preventive measures to encourage enterprise and entrepreneurs to no longer start up their business ventures conducting a portion or all of their transactions in the underground economy. Measures evaluated here will include those that seek to: simplify the process of compliance; create new categories of work that legitimize underground entrepreneurship and enterprise; use direct and indirect tax incentives to encourage more firms to start off on a legitimate footing; provide support to micro-enterprise start-ups, and help smooth the transition from unemployment to self-employment.

Chapters 11 and 12 then turn towards more 'curative' remedies to pull into the legitimate realm those fledgling entrepreneurs and more established enterprises that are currently conducting a portion or all of their trade on an off-the-books basis. Chapter 11 evaluates a range of supply-side incentives to encourage underground enterprise and entrepreneurs to make the transition

to the legitimate sphere, including the use of: societal-wide amnesties; individual-level voluntary disclosure; advisory and support services for those seeking to legitimize their operations; and formalization mentors or tutors. Chapter 12, meanwhile, evaluates the other side of the coin, namely demand-side measures to persuade customers to acquire goods and services from legitimate rather than underground sources. Here, three types of demand-side incentive will be evaluated: targeted indirect tax measures; targeted direct tax measures and a range of service voucher schemes that have been recently experimented with in some European nations.

Besides helping businesses start off in a legitimate manner and providing incentives (alongside deterrents) to encourage those already working underground to legitimize their activities, Chapter 13 explores the importance of first, raising awareness of the costs of underground work and benefits of working formally, and second, fostering societal commitment to legitimate work practices. This will contend that although it is important to use direct controls to ensure compliance, these need to be supplemented with indirect control methods so as to forge a 'high-commitment society' that relies more on internal control to elicit participation in the legitimate rather than underground economy.

Finally, Chapter 14 evaluates whether the issue of co-ordinating government thought and action when tackling the underground economy is as important as is sometimes asserted in public policy circles. Taking two polar opposite cases of a relatively fragmented style of governance in relation to the underground economy (that is, the UK) and a state with a highly co-ordinated institutional infrastructure (that is, France), this chapter reveals the paucity of current evidence to support the view that greater co-ordination of strategy and operations necessarily leads to greater effectiveness. Rather than write off joined-up approaches towards the underground economy, however, this chapter argues that there is thus a dire need for much more evaluation of the effectiveness of joined-up initiatives than has so far been the case.

In the concluding chapter, Chapter 15, the overall argument of the book will be then synthesized. Commencing by reviewing the case for the underground economy being represented as a hidden enterprise culture and thus an asset that needs to be harnessed rather than an obstacle to development, it then summarizes the arguments about how this might be achieved by combining deterrence (push) measures with enabling (pull) measures, concluding that unless concerted action is now taken in this policy direction, then western governments will with each new measure deter such work, ending up destroying precisely the enterprise culture that they are so desperate to nurture.

NOTES

1. Having reviewed the moral economy of paid favours in a previous book (Williams, 2004a) and the self-employed working on an off-the-books basis in this volume, the future intention in the final book in the trilogy will be to return to the segment of the underground economy conventionally focused upon, namely the so-called 'sweatshop' sphere where people work as off-the-books employees for legitimate or underground businesses. The objective will be to unpack the oversimplistic understandings of the nature of this sweatshop realm sometimes purveyed and reconsider conventional wisdom regarding public policy approaches towards this sphere.