
TACKLING THE UNDERGROUND ECONOMY IN DEPRIVED POPULATIONS: A CRITICAL EVALUATION OF THE DETERRENCE APPROACH

Colin C. Williams
The Management Centre
University of Leicester

Abstract

The aim of this paper is to evaluate critically the public policy approach that seeks to tackle the underground economy in deprived populations by deterring people from engaging in such work by ensuring that the expected cost of being caught and punished is greater than the economic benefit of participating. Reporting evidence from an extensive study of underground work in 861 households in contemporary England, this paper uncovers that although some underground work in such populations is conducted for purely money-making purposes, the majority is carried out for friends, neighbors and kin for rationales associated with redistribution and building social capital rather than purely to make or save money. As such, the argument here is that unless governments seek to develop substitute mechanisms to enable engagement in such paid favors but on a legitimate basis alongside deterrence measures, then attempts to tackle the underground economy in deprived populations will end up destroying the social support networks that other realms of public policy are presently so actively seeking to develop. The paper concludes by providing an outline of the public policy changes required.

Introduction

Throughout the world, the issue of tackling the underground economy is now high on the political agenda. For example, at the European Council meeting in the spring of 2003, the eradication of underground work was made one of the top ten priorities for action in the European Union (European Commission, 2003). The result is that throughout the western economies and well beyond, governments are seeking to develop measures to eradicate the underground economy.

The aim of this paper is to evaluate critically the dominant public policy approach that is being adopted throughout the western economies to eradicate such work. This seeks to tackle the underground economy by deterring people from engaging in such work by ensuring that the expected cost of being caught and punished is greater than the economic

benefit of participating (e.g., International Labor Office, 2002). To do this, I here take a case study of UK public policy where such a deterrence approach has been adopted and targeted at deprived populations in particular where underground work is seen to be rife (e.g., Grabiner, 2000; Home Office, 2003a,b; HM Customs and Excise, 2003).

To critically evaluate this approach, evidence gathered in an extensive study of the underground economy in affluent and deprived urban and rural English areas is reported. This will reveal not only that underground work is concentrated in affluent, not deprived, populations but also that when such work takes place in deprived populations, the vast majority is conducted for friends, neighbors and kin for rationales associated with redistribution and building social capital, reflecting the prevalence of a culture of paying for favors. As such, the argument here is that if the further destruction of one of the principal ways in which social capital is forged and maintained in deprived populations is to be prevented, then policies to deter underground work will need to be complemented by the provision of substitute mechanisms to enable such populations to continue to engage in paid favors but in a more legitimate manner than is currently the case.

Before commencing this analysis, however, a definition of the underground economy is required, or what is variously known as the "undeclared work", "informal employment" and the "hidden economy". Although numerous terms are used to refer to such work, the widespread consensus is that underground work involves the paid production and sale of goods and services that are unregistered by, or hidden from the state for tax and welfare purposes but which are legal in all other respects (European Commission, 1998; Feige, 1999; Grabiner, 2000; Portes, 1994; Thomas, 1992; Williams and Windebank, 1998, 2001a,b). Underground work thus includes activity that is illegal solely because the earnings are not declared to the state for tax and social security purposes. Unpaid work is not included in this definition and nor are activities in which the good and/or service itself is illegal (e.g., drug trafficking).

Who engages in the underground economy, why and what needs to be done about it? a literature review

Here, the previous literature is reviewed on who engages in underground work, why they do so and what needs to be done about it, so as to help the reader identify how the study reported here takes forward knowledge on this realm of public policy.

Analyzing past literature on the underground economy, it quickly becomes apparent that the principal focus has been upon estimating its magnitude and how this varies either spatially or socially (e.g., Feige, 1999; Fortin *et al*, 1996; Leonard, 1998; Renooy, 1990; Thomas, 1992; Williams and Windebank, 2001a,b). Taking as the starting point the "marginality thesis" that views underground work to be concentrated amongst marginalized groups and areas (e.g., Castells and Portes, 1989; De Soto, 1989; Lagos, 1995; Maldonado, 1995), most studies have done little more than attempt to either corroborate or falsify this thesis (see Williams and Windebank, 1998). Although the steadfast popular belief in most western economies is that underground work is concentrated in marginalized populations, namely in deprived inner city localities (Blair and Endres, 1994; Elkin and McLaren, 1991; Haughton *et al*, 1993) and poorer peripheral regions (Button, 1984), the vast majority of empirical studies show that this is not always the case and that it is frequently

concentrated in affluent populations (e.g., Van Geuns et al, 1987; Mingione, 1991; Mingione and Morlicchio, 1997; Renooy, 1990; Williams and Windebank, 1998).

Turning to why people engage in underground work, the predominant belief is that underground work is conducted under market-like work relations for profit-motivated purposes; it is a form of employment that people use and supply in order to make/save money. Such a market-centered reading pertains both amongst those accepting the tenets of the "marginality thesis" which views such work to be conducted by marginalized populations (e.g., Blair and Endres, 1994; Button, 1984; Castells and Portes, 1989; Kesteloot and Meert, 1999; Portes, 1994) and those who recognize that it is more concentrated in affluent areas (e.g., Fortin *et al.*, 1996; Jensen *et al.*, 1995; Mingione, 1991; Mingione and Morlicchio, 1993; Pahl, 1984; Renooy, 1990; Williams and Windebank, 1998; Van Geuns *et al.*, 1987).

This market-centered reading even predominates when multiple types of underground work are recognized ranging from its "organized" forms where such work is conducted for formal or informal businesses to its "autonomous" forms where it is undertaken on a self-employed basis (e.g., Fortin *et al.*, 1996; Jensen *et al.*, 1995; Leonard, 1994, 1998; MacDonald, 1994; Pahl, 1984; Renooy, 1990; Williams and Windebank, 1998). Consequently, even if underground work is no longer always viewed solely as an exploitative form of low-paid employment sitting at the bottom of a hierarchy of types of formal employment, but as a heterogeneous labor market with a hierarchy of its own, all such work remains widely viewed as market-like and profit-motivated, as displayed by the fact that this sector has been often discussed as a "segmented informal labor market" (e.g., Williams and Windebank, 1998).

More pertinently, such a market-centered reading also prevails when studies consider the geographical variations in the nature of underground work. This is the case whether underground work is seen to be composed mostly of exploitative organized forms of employment concentrated in deprived areas (e.g., Sassen, 1997) or a more refined approach is adopted that views residents in affluent areas as engaged in higher-quality underground work of the well-paid self-employed autonomous variety and the populations of deprived areas in lower-quality work of the poorer paid organized kind (e.g., Fortin *et al.*, 1996; Jensen *et al.*, 1995; Leonard, 1994, 1998; Mingione, 1991; Pahl, 1984; Renooy, 1990; Williams and Windebank, 1998).

In consequence, and based on this widespread view that such work is conducted for unadulterated economic reasons, the near universal public policy response has been to seek to ensure that the expected cost of being caught and punished is greater than the economic benefit of participating in such activity. To do this, stringent regulations and punitive measures have been adopted so as to change the cost-benefit calculation of participants and thus deter participation in underground work.

In the UK, this policy of deterrence is applied to two principal types of underground worker. On the one hand, if somebody is not claiming any form of benefit and their income is over the personal tax allowance (£4,610 in 2003-04 or US\$8,200), then they are meant to declare their tax liability under section 7 of the Taxes Management Act 1970 so that a self-assessment form can be sent. If they do not, then these "ghosts" (in Inland Revenue

parlance) are engaged in tax fraud. There is also an additional requirement if turnover exceeds £51,000 (US\$91,000), to register with Customs and Excise for VAT. On the other hand, if somebody is receiving benefits at the same time as engaging in paid work, they are meant to declare their income. If they work for 16 hours or more per week, they are generally not entitled to benefit. If they declare earnings, their benefit is reduced pound for pound above the "earnings disregard" thresholds of £5 (US\$8.90) for any weekly part-time earnings for single people, £10 (US\$17.80) for a couple or £15 (US\$26.70) a week for certain other groups such as lone parents and disabled people. If they do not declare these earnings, then they are involved in benefit fraud and can be prosecuted in the civil courts under the Social Security Administration Act 1992, section 112 on false representations for obtaining benefit, under section 111A covering the dishonest obtaining of benefit or can be given a caution or administrative penalty of 30 per cent of the overpayment under the Social Security Administration (Fraud) Act 1997.

In 1998/99, the DSS prosecuted some 6000 people for failing to declare earnings when claiming benefits. Some such as Cook (1989, 1997) have compared these figures to the 50-100 cases prosecuted by the Inland Revenue to highlight the inequities in the system. Although this ignores how the Inland Revenue has been entitled to recover money owed whilst the DSS was not, it was in part due to precisely the differential powers of these agencies as well as a concern that the likelihood of detection, prosecution rates and deterrents were woefully inadequate, that the Chancellor of the Exchequer in late 1999 asked Lord Grabiner to conduct an investigation into the "informal economy" and to produce a report in time for the March 2000 Budget. For Grabiner (2000: p. 19),

As long as people can profit by not declaring their work, it will be impossible entirely to eradicate the hidden economy. Therefore, the most effective way of tackling the problem is significantly to improve the likelihood of detecting and penalizing offenders. What is needed is a strong environment of deterrence.

In his report, Grabiner (2000) thus recommended the following measures to deter engagement in underground work:

- To provide incentives to join the legitimate economy, a confidential phone line should be launched to enable advice to be given on how people can put their affairs in order;
- To prevent identity fraud, procedures should be tightened for issuing National Insurance numbers and better controls introduced on the issue and use of birth certificates, to prevent their use as proof of identity by third parties;
- To improve the rate of detection and the effectiveness of punishment, it recommended that the Government should: consider ways to use information from private sector sources as a cross-check on the details people provide to Departments; give investigators the power to make routine "reverse searches" of the telephone directory to find names and addresses of people who advertise businesses giving only a telephone number; build on the inter-Departmental work already begun by setting up a specific government function to detect and investigate informal businesses, and; agree common guidelines for staff about what data sharing is legally permissible and how it should be carried out in practice. In particular, it advocated a central point of contact to

co-ordinate the exercise and monitor its effectiveness;

- To increase punishment through: requiring people suspected of working while claiming that they are unemployed to attend the Jobcentre more frequently, and at unpredictable times, as a condition of receiving their benefit; make more use of a warning procedure such as to employers reasonably suspected of colluding with fraudulent benefit claims, that if they do not clean up their act, they will expose themselves to more detailed investigation and possible prosecution; if other measures fail to work, consider the option of punishing persistent fraudsters by removing, or heavily reducing, their right to benefit for a specific period; and carry out research into the sentences imposed for benefit fraud and particularly into variation in the sentencing of persistent offenders. To resolve the inequities in prosecution rates between "ghosts" and those "working whilst claiming", meanwhile, it advocated the introduction of a new statutory offence of fraudulently evading income tax to be tried in the magistrates' court;
- To use publicity as a deterrent, the incentives available to people to take formal jobs and the costs of being informal should be advertised, and it also advocated the use of advertising as a tool for changing attitudes regarding the social acceptability of underground work.

It is clear therefore that the overarching policy thrust suggested is one of increasing both the probability of detection and the punishments for those caught so as to deter people from engaging in such work.

In the March 2000 Budget Statement by the Chancellor of the Exchequer, it was announced that this report by Lord Grabiner QC would be implemented in full. Starting in May 2000, a confidential phone line was launched to advise people on how to legitimize their activity followed from January 2001 onwards by the tougher rules and penalties outlined above applied to those who failed to respond (e.g., HM Customs and Excise, 2003; Home Office, 2003a,b; Small Business Service, 2003).

Based on the assumption that underground work is a market-like form of work conducted for unadulterated economic reasons, therefore, UK public policy has sought to ensure that the expected cost of being caught and punished is greater than the economic benefit of participating through the use of stringent regulations and punitive measures so as to change the cost-benefit calculation of participants and thus deter participation in underground work. In what follows, the intention is to evaluate critically whether this is an apt description of the nature of underground work and whether deterrence is the most appropriate means of eradicating it, especially with regard to deprived populations who have conventionally been targeted by such policy.

Examining underground work in England

To analyse the level and nature of underground work, between 1998 and 2001, 861 structured face-to-face interviews were conducted in eleven deprived and affluent localities in both urban and rural England (see Table 1).

These localities were selected based on maximum variation sampling using the Index of Multiple Deprivation produced by the DLTR (DLTR 2000) so as to investigate the above cited marginality thesis that underground work is concentrated amongst deprived populations.

To identify the extent and character of underground work, a relatively structured interview method was employed centred around a list of 44 common activities covering home improvement and maintenance, routine housework, gardening, car maintenance and caring activities. In order to identify where households used underground labour, interviewees were asked whether each of the 44 activities had been undertaken in the household during the previous five years/year/month/week (depending on the activity). If so, they were asked: who had conducted the task (e.g., a household member, kin living outside the household, a friend, neighbour, firm, landlord, etc); whether the person had been unpaid or paid, and if paid, whether it was "underground" or not, as well as how much they had been paid. They were also asked in an open-ended manner why they had decided to use that source of labour so as to enable their motives to be understood.

Following this, the supply of underground work by household members was examined. The interviewee was asked whether a household member had conducted each of the 44 tasks for another household and if so, who had done it, for whom, whether they had received money, how much they had received and why they had decided to do the task. To capture other underground work received and supplied, meanwhile, a series of open-ended questions with probes were used, focusing particularly on underground work conducted for firms and why they had decided to do it. Below the results are reported.

Table 1 Overview of English localities studied

<i>Area-Type</i>	<i>Locality</i>	<i>Description of area</i>	<i>Number of Interviews</i>
Affluent rural	Fulbourn, Cambridgeshire	"Picture postcard" rural village in high-tech sub-region	70
Affluent rural	Chalford, Gloucestershire	Rural village in Cotswolds.	70
Deprived rural	Grimethorpe, South Yorkshire	Ex-pit village with very high unemployment.	70
Deprived rural	Wigston, Cumbria	Village with one factory dominating the local labour market.	70
Deprived rural	St Blazey, Cornwall	Village in a tourist region	70
Affluent suburb	Fulwood, Sheffield	Suburb in south-west Sheffield	50
Affluent	Basset/Chilworth,	Sole affluent suburb within the	61

suburb	Southampton	city of Southampton	
Deprived urban	Manor, Sheffield	Social housing estate with high unemployment	100
Deprived urban	Pitsmoor, Sheffield	Inner city area in reindustrializing city with high levels of private sector rented accommodation and high unemployment	100
Deprived urban	St Mary's, Southampton	Inner city locality in affluent southern city with high levels of private sector rented accommodation and high unemployment	100
Deprived urban	Hightown, Southampton	Social housing estate with high unemployment	100

The size and distribution of the underground economy

Contrary to the view in the marginality thesis that such work is concentrated in deprived populations, this study found that this is not the case. On the one hand, households in affluent areas were generally found to employ underground workers to a greater extent than their counterparts in deprived areas (see Table 2). Analyzing the type of labor used to undertake the 44 tasks, over one in ten (11.2 per cent) were last conducted on an underground basis in the affluent suburb of Sheffield but just one in twenty (5.4 per cent) in the deprived neighborhoods of this city.

Table 2 Percentage of everyday tasks undertaken using underground work in England: by locality-type

<i>Area</i>	<i>% of tasks last conducted using underground work:</i>
All Areas	5.5
Lower income rural areas	5.6
Higher-income rural areas	4.1
All Rural Areas	5.0
Lower-income Areas – Southampton	4.4
Higher-income Suburb - Southampton	6.5
Lower-income Areas- Sheffield	5.4
Higher-income suburb - Sheffield	11.2
All Urban Areas	5.8

On the other hand, and as Table 3 displays, households in affluent areas also conduct a disproportionate share of all underground work and receive much greater monetary rewards than those living in lower-income areas. This applies in both the urban and rural environments studied. Comparing lower- and higher-income urban areas, for example, the average amount received for conducting a task on a underground basis was

£90 compared with £1,665 respectively; the average hourly wage rate for underground work was £3.40 compared with £7.50; and the mean annual household income from underground work was £58 compared with £899. For the 40 per cent of households in lower-income neighborhoods who supplied underground labor, meanwhile, the mean annual household income from such work was £115 compared with £2,420 in the 18 per cent of households who supplied such work in affluent suburbs. The monetary rewards from underground work, therefore, are heavily skewed towards the affluent suburbs. If deprived neighborhoods are targeted in consequence, then little headway will be made in eradicating this work from contemporary society. This study thus reinforces in the context of contemporary England previous studies conducted elsewhere in the world, especially in North America, that challenge the marginality thesis (e.g., Fortin *et al*, 1996; Jensen *et al*, 1996).

Here, however, attention turns to some key issues that have not been so far considered to any extent in the literature. What are the work relations and motives within which underground work is conducted and do these differ across populations?

Table 3 Participation in underground work in England: by area

Area type	All	Urban		Rural	
		Higher income	Lower Income	Higher income	Lower income
No. of households	861	111	400	140	210
% of all households surveyed	100	13	47	16	24
% of all underground tasks conducted by	100	22	37	25	16
Average pay/ underground task (£)	-	1,665	90	564	25
Mean household income p.a. from underground work	-	899	58	921	47

Nature of underground work

Until now, it has been assumed that by targeting deprived populations, one is eradicating some of the most exploitative types of underground work organized by unscrupulous employers seeking to profit from those in need of such work in order to get-by (e.g., Fortin *et al*, 1996; Renooy, 1990; MacDonald, 1994; Sassen, 1997; Williams and Windebank, 1998). This study suggests, however, that this is but a partial sketch of the situation.

In deprived neighborhoods, there does of course exist underground work organized by unscrupulous employers exploiting employees on very low wages that are

below the national hourly wage (e.g., in restaurants, on building sites). As Table 4 reveals, however, the vast majority is not of this type. Most "employers" are usually friends, kin and neighbors. Indeed, just 5 per cent of the underground work received by these 861 households was supplied by formal or informal businesses and 25 per cent by self-employed people previously unknown to the household. Friends, neighbors and kin thus provided the labor for 70 per cent of all underground work. As such, most underground work is provided by fairly close social relations rather than by anonymous firms and/or individuals. One of the most fascinating findings, moreover, and reinforcing previous studies (e.g., Van Eck and Kazemeier, 1985), is that this underground work provided by close social relations is paid at wage rates 35 per cent lower than the underground work carried out by firms and/or individuals previously unknown to the supplier.

Is it really the case, therefore, that self-interest and profit motivation has penetrated so deeply that we now exploit our friends, neighbors and kin by paying them low wages to do work for us? Or are different motives prevalent when such work is conducted meaning that the low wages cannot be taken as indicative of exploitative market-like work relations? To answer these questions, the motives of both users and suppliers are now investigated.

Table 4 Character of suppliers of underground work in England: by area-type

Area		% of all underground work conducted by:			
		Firm/ unknown person	Friend/ neighbor	Kin	Household member
Rural area	Higher income	5	56	24	15
	Lower income	8	52	4	1
Southampton	Higher income	92	1	21	17
	Lower income	30	30	1	3
Sheffield	higher income	76	20	29	11
	Lower income	33	29	7	0
Both cities	Higher income	84	11	35	5
	Lower income	32	29	38	1

Motives of employers and suppliers of underground work

It is normally assumed that employers use underground labor in order to save/make money. However, Table 5 displays that this is not always the case. This notion of saving/making money is the primary motive in just 31 per cent of instances where underground work was used and in nearly every case, it was either firms and/or self-employed people previously

unknown to the employer who were conducting this work. There is thus a strong correlation between the desire to get jobs done cheaper than would be the case if somebody were formally employed and the use of unknown firms and people to do the underground work.

Table 5 Motives for employing underground labor in England: by type of area

Reason:	Urban		Rural		All Areas
	Lower-income	Higher-income	Lower-income	Higher-Income	
To save money	18	80	6	20	31
To financially help the supplier	11	6	34	32	22
Community-building	71	14	60	48	47

However, there are some significant geographical variations. Such a motive is much more prevalent in higher- than lower-income areas as well as urban rather than rural areas. This significant geographical variation in purchasers' motives is for two reasons. Firstly, and as detailed in Table 4, people living in affluent and urban areas make far greater use of firms and/or self-employed people not known by the household, and in nearly every case where this labor is used, the rationale is to use underground work as a cheaper alternative to formal employment. The resulting is the greater prevalence of profit-oriented motivations in affluent and urban areas. Secondly, residents of affluent and urban areas are more likely to turn to formal suppliers where underground labor is not used so more frequently cite cheapness as the reason for using such labor. In lower-income and rural areas where the alternative is either self-provisioning or more usually not conducting the task at all, cheapness is less likely to be the chief reason.

Economic rationales, however, are not the only reason for using underground work, especially in lower-income and rural areas. Indeed, in few cases where friends, neighbors and kin were employed was saving money the primary rationale for using underground labor. On the one hand, and particularly in deprived localities, there was a culture of paying for favors. This was done so as to avoid relations turning sour if a favor was not returned. As such, money was acting as a substitute for trust in situations where otherwise favors would not be conducted.

On the other hand, paying people on an underground basis was seen as a way of giving them money and avoiding any connotation of charity being involved. As Kempson (1996) has previously revealed, people avoid accepting charity at all costs. This was well understood by the respondents in this survey. Anybody wishing to give aid paid them for doing a task to "help them out". As such, the vast majority of employers of underground labor in deprived neighborhoods did so for purposes other than saving money.

Table 6 Motives of suppliers of underground work in England: by locality-type

Reason:	Urban		Rural		All Areas
	Lower-income	Higher-income	Lower-income	Higher-Income	
To make money	51	90	26	48	50

To help the customer	13	5	30	32	22
Community-building	36	5	44	20	28

Not-for-profit rationales also prevailed amongst suppliers of underground work (see Table 6). Only half of all underground tasks in deprived urban neighborhoods were undertaken primarily to make money (90 per cent in the affluent suburbs). The rest was conducted to help somebody out. In no cases, however, was this work offered for free because the supplier was conscious that this would be unacceptable to those receiving the work. Rather, a fee was charged which, although well above constituting a token gesture, was well below the normal market price. Indeed, 84 per cent of all one-to-one aid between friends and neighbors in these deprived localities was done for a monetary payment, indicating how mutual aid in deprived neighborhoods is imbued with a payment ethic so as to avoid relations turning sour if a favor is not returned.

Implications for Public Policy

This study of deprived and affluent localities in English urban and rural areas thus reveals that if attempts to eradicate underground work target deprived localities, they will be concentrating on a locality-type in which the value of total underground work is relatively small and populations where the vast majority of underground work is not a market-like form of work conducted for the purpose of profit. Although the residents of these neighbourhoods do indeed engage in exploitative forms of underground work, the vast majority appears to be a type of mutual aid. The prevailing culture is to pay cash for favours (in 84 per cent of circumstances where a friend or neighbour does a favour) due to the absence of trust in these neighbourhoods. Eradicating underground work through more punitive measures is thus likely to lead to the demise of the little social capital that remains in such deprived neighbourhoods.

What, therefore, is the way forward? First of all, there is a need for public policy to refocus attention on the populations of affluent areas who both use and conduct the vast majority of underground work. To target these populations would be the most effective means of reducing the amount of underground work in society. Secondly, and so far as deprived localities are concerned, it is obvious that something needs to be done other than simply attempt to deter such work. Although there exists exploitative underground work that needs to be eradicated through more punitive measures, the vast majority of such work is a moral economy of paid favours that if destroyed, will eradicate the social support networks that remain in existence in these deprived neighbourhoods.

One possible policy option, therefore, might be to continue to pursue a deterrence approach towards underground work conducted for profit-motivated purposes but to adopt a more laissez-faire approach towards those engaged in paid favours for friends, neighbors and kin. However, the pursuance of such a twin-track approach towards the underground economy is hindered by a key problem. It would be very difficult for public administrators to identify what underground work was being conducted in which sphere. Although some forms of underground work such as informal or formal businesses working on an underground basis are easily categorized as the type of work that needs to be deterred, it becomes much more difficult once one starts examining individuals conducting underground work on an autonomous basis. Whether they are acting as self-employed

people working for profit who need to be deterred from doing so or as individuals engaged in mutual aid to help others would be difficult to decipher. For this reason alone, it is thus argued that the policy option of a deterrence approach towards profit-motivated underground work and a laissez-faire approach towards the social economy of favors is inappropriate.

Another reason that this twin-track policy approach of deterring profit-motivated underground work and adopting a laissez-faire approach towards the moral economy of paid favors is inappropriate is because even if the latter type of underground work is conducted for redistributive or sociability reasons, it is still fraudulent activity that deprives the state of revenue for social cohesion purposes. As such, it still needs to be eradicated. If social support networks are not to be destroyed in doing this, however, then what will be required are substitute mechanisms that allow people to continue to conduct paid favors for others but in a more legitimate manner than is currently the case.

If these social support networks are not to be destroyed, it thus appears necessary to pursue a policy that combines more stringent regulations with the development of alternative institutions of accumulation that people can use as a substitute for underground work when helping each other out.

Given how this study clearly shows that the norms of reciprocity in deprived neighbourhoods are based on cash payments, this study displays that these substitute mechanisms will need to adopt some form of tally system or payment since this is what people want when doing favours for each other. Two possible institutions of accumulation that might thus be developed in this regard are local exchange and trading schemes (e.g., Williams et al, 2001) and time banks (e.g., Seyfang and Smith, 2002). Each is here outlined in turn in order to show the ways in which they allow such populations to engage in paid favours for others but in a formal system in which favours are recorded and stored.

Local Exchange and Trading Schemes (LETS) are non-profit making associations that encourage people to help each other out by putting people in need of aid in touch with those who are willing to help (see North, 1996, 1999). They do this by compiling a directory that lists the services that members would like ("requests") along with a list of the types of help that members are willing to engage in ("offers"). The receiver and supplier then use a local currency created by the LETS for the purpose of reimbursement. Similar to national currency, a check is written by the purchaser and given to the supplier who sends it to the LETS bank who credits and debits the accounts. Recently, UK policy-makers have displayed considerable interest in the potential of LETS as bridges into work for unemployed people. Here, however, the aim would be to use them in a different manner. Rather than cultivate them as springboards into employment, it is argued that they should be used principally as a vehicle for facilitating reciprocity.

The benefit of using them in this manner is that this is precisely the role in which they are most effective. A recent national survey of LETS in the UK based on a postal survey of all LETS coordinators, 2,515 postal questionnaires, in-depth action-orientated research and interviews with key figures in UK LETS finds that they are most effective as capacity building vehicles that develop acts of one-to-one reciprocity rather than as springboards into formal employment. Indeed, some 76 per cent of members asserted that

LETS had helped them to develop a network of people on whom they could call for help. Examining how participants would have got the work completed if the LETS did not exist, moreover, this study found that some 35 per cent of the work would have been conducted in the underground sector (Williams et al, 2001). LETS, therefore, appear to be a substitute for the underground sector that people will use if they exist in an area. If LETS were more widely introduced and supported, then they thus represent one possible potential vehicle for facilitating reciprocity and providing a substitute for the underground sector.

Time banks, meanwhile, reward informal engagement by paying one "hour" for each hour of commitment, which can at any time be "cashed in" by requesting an hour's work in return from the system (see Boyle, 1999; Cahn, 2000). As such, time banks record, store and reward transactions where neighbors help neighbors. Starting in the US (see Cahn, 2000), time banks have been promoted in the UK by the New Economics Foundation (NEF). However, they are in their infancy. In late 2001, just 15 time banks were operational (with 400 participants and 9,760 hours in total being traded) and a further 21 under development. As such, they are currently only in their start-up phase. The most recent national evaluation, nevertheless, again shows a large proportion of the work conducted on time banks would have been carried out in the underground sector if the time bank did not exist (Seyfang and Smith, 2002).

Conclusions

In sum, this study has evaluated critically the currently dominant public policy approach that seeks to tackle the underground economy in deprived populations by deterring people from engaging in such work by ensuring that the expected cost of being caught and punished is greater than the economic benefit of participating. It has revealed that the majority of underground work in deprived populations is primarily conducted not in order to make or save money but for reasons associated with redistribution and community-building. As such, policies that seek to change the cost-benefit ratio of participating in underground work largely mis-interpret the character of, and rationales underpinning, underground work. This work is mostly conducted for non-profit making reasons and if public policy continues in its current vein of seeking to deter this work through more stringent regulations, then the likely outcome will be the destruction of one of the principal sources of social support that remains in deprived areas, in that 84 per cent of favors between friends and neighbors are conducted on paid basis.

Here, therefore, it has been argued that rather than continue with a deterrence approach, new institutions of accumulation are required to provide an alternative to participating in the underground sector in deprived areas. Given the way in which payment is involved when favors occur between friends, neighbors and kin, the argument has been that any initiative developed to provide a substitute for this underground work will need to involve some form of payment or tally-system whenever reciprocal exchange occurs. To initiatives have been thus proposed, namely local exchange and trading schemes and time banks. Whether these are, or might be, effective initiatives in providing a substitute for underground work is perhaps beyond the scope of this paper. The key point that needs to be made here is that unless such substitutes are sought and developed, deprived populations may well find themselves ever more deterred from engaging in mutual aid with

friends, kin and neighbors by a government intent on eradicating what it erroneously views as an exploitative low-paid form of employment.

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Biographical Sketch

Colin C. Williams is Professor of Work Organization and Director of the Center for Alternative Organization Studies (CAOS) in the Management Center at the University of Leicester in the United Kingdom. His research interests are in rethinking the organization of work and formulating public policy with regard to alternative work practices. His recent books include *Informal Employment in the Advanced Economies* (1998, Routledge), *Community Self-Help* [2004, Palgrave Macmillan) and *Cash-in-Hand Work* (2004, Palgrave Macmillan).