
THE 'UNDERGROUND ECONOMY', IMMIGRATION AND ECONOMIC DEVELOPMENT IN THE EUROPEAN UNION: AN AGNOSTIC-SKEPTIC PERSPECTIVE

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Abstract

Is the underground (or informal) economy growing in European countries and to what extent is it related to (illegal) immigration? This paper draws on research primarily from the experiences of European Union countries since the early 1990s, and critically analyses the relationship between the apparent growth of (illegal) immigration, new forms of political economy, and what shall be referred to in this paper as 'underground employment'. By disentangling these complex processes, I provide a fine-grained critical assessment of some of the more hyperbolic statements about the growth of underground employment, especially with respect to (illegal) immigration. That is, without denying the presence of underground employment, or the role of immigration within it, my discussion ranges from the agnostic to the skeptical. I conclude by suggesting what implications my analysis has for economic development policies with respect to underground employment in European countries.

I. INTRODUCTION

In early January 2005, the putatively left-leaning British daily, *The Guardian*, published yet another exposé on ‘illegal workers’ in the UK. To anyone working in the field of immigration or employment in Europe (or anywhere else for that matter) this could hardly be labeled ‘news’, worrying or depressing, as it may have seemed to some. Indeed, for most critical political economists, it is no longer novel to critique the assumption that the world’s economies are on some ineluctable path to ‘modernization’ and ‘formalization’. Most of us can accept this without too much scholarly protest. What chimes as more suspect is the consensus among academics, governments, and the popular press that the ‘underground economy’ *has been growing* over the last three decades across the ‘post-industrial’ economies. In fact, it may come as a surprise that as early as the late 1970s, O’Higgins (1980) believed that the ‘hidden economy’ had peaked in the UK, for example, because of the lack of cash required to redistribute work (Pahl and Wallace, 1985).

While these same observers cite a range of reasons for this growth, they also persistently attach causality (to not use the word blame) to an apparent increase in (‘illegal’)¹ immigration. In this respect, nearly two decades ago, Castells and Portes (1989) questioned the widespread assumption that directly linked the growth of underground activity to an increase in immigration. As they put it:

“...European case studies contradict the view that the underground economy is primarily a consequence of immigration...[..]..Undoubtedly, immigrants provide *one* source of labor for the expansion of these activities, and they may be preferable to domestic workers because of their vulnerability. However, the

underlying causes for the expansion of an informal economy in the advanced countries go well beyond the availability of a tractable foreign labor supply.” (p. 25).

More recently, other observers provide evidence from national case studies which support Castells and Portes’ conclusions, and argue similarly that (illegal) immigration (to the extent that it is increasing) may *facilitate*, but does not create underground activity (Quassoli, 1998; Reyneri, 1998; Sassen, 1996, 1998; Wilpert, 1998). Indeed, it is commonly argued that citizens, rather than immigrants, perform the bulk of underground activity, even if the majority of immigrants are involved in underground activity (Williams and Windebank, 1998). In any case, we need to move beyond the verb ‘facilitate’ however, to elaborate on the precise processes involved, if only because some authors ardently dismiss the availability of an immigrant labor force as a causal explanation, while nonetheless slipping occasionally into such reasoning (compare Sassen, 1991, 1996, and 1998 for example).

In this sense, this paper draws on research primarily from the experiences of European Union countries since the early 1990s, and critically analyses the relationship between the apparent growth of (illegal) immigration, new forms of political economy, and what I shall call ‘underground employment’. By disentangling these complex processes, I provide a fine-grained, critical assessment of some of the more hyperbolic statements about the growth of underground employment, especially with respect to (illegal) immigration. That is, without denying the presence of underground employment, or the role of immigration within it, my discussion ranges from the agnostic to the skeptical. I conclude by suggesting what implications my analysis has for economic development policies with respect to underground employment in European countries.

II. WHAT ARE UNDERGROUND ECONOMIES?

There is no unitary ‘underground economy’, and what might be considered the underground economy is actually a diverse mixture of economic practices that belie a singular definition. Indeed, rather than attach a noun such as ‘economy’ or ‘sector’ to these practices (Williams and Windebank, 1998), what we call the ‘underground’ or ‘informal’ economy might be better thought of as a process that Sassen (1998) prefers to call informalization.² This implies that what is deemed ‘underground’ or ‘informal’ shifts with the contours of regulation. Nonetheless, it is possible to draw loose distinctions between different kinds of activity and to arrive at a working definition that will allow us to critically examine the relationship between the ‘underground economy’ and immigration.

Echoing Castells and Portes (1989), Williams and Windebank define the ‘informal sphere’ as “all productive’ or work’ activities that are hidden from or ignored by the state for tax, social security and/or labour law purposes, but which are legal in all other respects’ (1998: 1). Furthermore, Williams and Windebank prefer to distinguish between informal economic activity that is paid (what they call informal *employment*) and un-paid informal economic activity – what they call un-paid informal *work* (also referred to as mutual aid). This paper is primarily concerned with the former, that is where a wage transaction is involved, and where the product produced is *legal* even if the conditions under which it is produced are not. Consistent with the terminology of this symposium issue, I will call this *underground employment*. I do not consider the relationship between immigration and what might be called illegal employment (that is employment where the product concerned is strictly *illegal*, such as drug production or prostitution)³, even if the two may be

intertwined in some instances. In any case, my working definition of ‘underground activity’ allows us to critically examine its relationship to immigration.

III. IS UNDERGROUND ACTIVITY GROWING IN EU COUNTRIES? SOME EVIDENCE

There seems to be an implicit assumption, whether popular or academic, that ‘underground economies’ are growing (the so-called ‘informalization thesis’) (see Williams and Windebank, 1998). As Castells and Portes (1989) assert, “What is new in the current context is that the informal sector grows, even in highly institutionalized economies, at the expense of already formalized relationships“ (p. 13). In this respect, rather than rely on arguments that rest on convincing theoretical logic (which I discuss further below) or what are called ‘direct methods’ (which have thus far yielded fruitful and critical insights but not systematic evidence), let us review briefly some of the quantitative evidence from ‘*indirect* methods’ of estimation for this apparent growth.⁴

Schneider and Enste (2000) have produced what is probably the most comprehensive review of the various methods used (including their own) to estimate the size of ‘shadow economies’.⁵ Their thorough study also allows them to provide one of the most substantial comparisons of results from different indirect approaches that involve time series, instead of static analyses of shadow economies in different countries in disparate years. Nonetheless, let us begin with a static picture of the relative size of shadow economies in different EU countries. Table 1 shows the approximate size of the shadow economy labor force in 7 EU countries, for the EU as a whole, and in comparison with all OECD countries using the so-called ‘currency demand approach’.

Table 1

Estimates of the size of the ‘shadow economy’ labor force in some OECD countries using a ‘currency demand approach’

Nation	Years	Participants per 1000 people	Participants as a % of labor force	Shadow Economy (as % of GDP) Currency Demand Approach
Austria	1990-91	300	9.6	5.47
	1997-98	500	16.0	8.93
Denmark	1980	-	8.3	8.6
	1986	-	13.0	-
	1991	-	14.3	11.2
	1994	-	15.4	17.6
	1998	-	22.5	18.4
France	1975-82	800-1500	3.0-6.0	6.9
	1997-98	1400-3200	6.0-12.0	14.7
Germany	1974-82	2000-3000	8.8 – 12.0	10.6
	1997-98	5000	22.0	14.7
Italy	1979	4000-7000	20.0-35.0	16.7
	1997-98	6600-11400	30.0-48.0	27.3
Spain	1979-80	1250-3500	9.6-26.5	19.0
	1997-98	1500-4200	11.5-32.3	23.1
Sweden	1978	750	13.0-14.0	13.0
	1997	1150	19.8	19.8
EU	1978	10000	-	14.5

	1997- 20000		
	98		
OECD	1978 16000	-	15.0
	1997- 35000		
	98		

Source: Adapted from Schneider and Enste (2000, 108)

Table 1 shows that the size of the shadow economy in these European countries has varied from 5.47% of GDP in Austria in 1991 to 27.3% of GDP in Italy in 1997-8. However, caution is required in interpreting the results from Table 1 because the ‘currency demand approach’ is but one method among many, and not without its flaws.⁶ In any case, the real value of Schneider and Enste’s study is their focus on the results from time-series data, to which I now turn.

Using the physical input (electricity) method in a selected number of EU countries, namely Austria, Denmark, Germany and Sweden, they calculate that the ‘shadow economy’ has grown by 6.5%, 13%, 11.2%, and 14% respectively between 1960 and 1995 relative to GNP (2000, 81). Yet they note that “until now there has been no consistent comparison of estimates of the size of shadow economies of various countries, for a fixed period, generated by using similar methods” (2000: 99). And as a consequence, we can also presume that comparative time series data on the growth of shadow economies using similar methods for similar time periods also did not exist until the publication of their survey. Nevertheless, Schneider and Enste compare the findings of studies that use the physical input method, the currency demand approach or the model (MIMIC or multiple-indicators/multiple-causes) approach to estimate the size of shadow economies in 71 countries. Let us focus, however,

on EU countries only, and in this case, they rely on results from the first two methods only. That is, they compare findings from a physical input (electricity) analysis in 1990 with the currency demand method of Johnson *et al.* (1998) for the period 1990-1993, and two of their own currency demand-based analyses in 1989-1990 and 1990-1993, for 14 EU countries. In this short period at least, that is from 1989-1993, a pronounced expansion of shadow economies is not visible, and in a few cases the different methods actually found a decrease. Nevertheless, their results support common suppositions about shadow economies in Europe, for example that they are considerably larger in southern Europe than in northern Europe. Furthermore, in a subsequent study using the currency demand approach, Schneider and Enste find a small increase in the size of shadow economies in 13 EU countries between 1994-5 and 1996-7.

Schneider and Enste (2000) find more mixed results using 9 methods for the period 1970-1986 in Germany, Italy, and the UK. The currency demand method shows substantial increases in the size of shadow economies from 4.5% to 11.3% in Germany, 11.3 to 17.5 in Italy, and 4.3 to 9.7 in the UK. However, a cash-deposit ratio and transactions approach found that the size had *decreased* from 14.0 to 6.2 in Germany, and from 17.2 to 15.9 in the UK, between 1970 and 1981. Only in Italy did the cash deposit ratio and transactions analysis reveal substantial increases – from 23.4 to 29.3 and 19.5 to 34.3 for the same period (Schneider and Enste, 2000: 106-107).

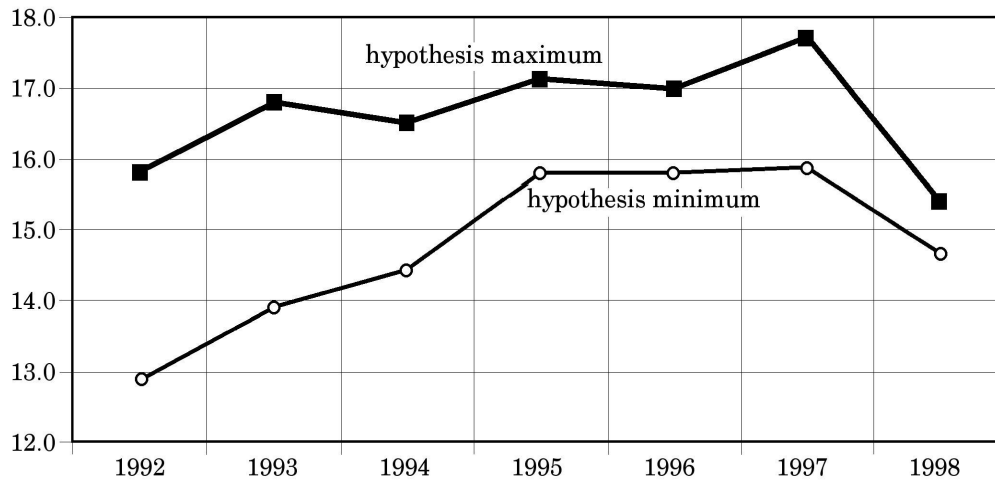
The findings of Schneider and Enste (2000) are generated from indirect methods at the national level, and have become ‘benchmark’ statistics. Yet, other estimates based on different methods (e.g. by Schwarze using micro-economic data - cited in Mateman and Renooy, 2001: 17)

arrive at entirely different figures. That is, in the case of Germany, where Schneider and Enste estimate the amount of 'undeclared labor' to be around 16% of GDP in Germany, Schwarze estimates that it is closer to 1%.

For Italy, the growth of 'shadow economies' is supported by the results of annual studies conducted by The Italian National Statistical Office (ISTAT). ISTAT has used a supply-based/labor input method and its specifically national accounting procedures filtered through European regulations on accounting, to estimate the 'underground economy'.⁷ ISTAT generated a minimum and maximum hypothesis for the share (in percentages) of the underground economy in terms of value added with respect to GDP, in the period 1992 to 1998. Figure 1 (below) displays the results of their analysis and shows an estimated increase from a hypothesis minimum of 13% and hypothesis maximum of 16% in 1992, to a hypothesis minimum of 15.9% and a hypothesis maximum of 17.8% in 1997. However, ISTAT recorded a noteworthy *decrease* in the size of the underground economy from its peak in 1997 to a hypothesis minimum of 14.8% and a hypothesis maximum of 15.5% in 1998.

Figure 1

The percentage share of the underground economy in terms of value added on GDP, minimum and maximum hypotheses, 1992 - 1998



Source: Baldassarini (2002)

With respect to its decrease in 1997-1998 in Figure 1 (evidence from Spain also suggests a decrease)⁸, we should probably expect an ebb and flow of the size of 'shadow economies' in different countries and in different periods, and that particular decrease is no definitive indication that shadow economies are waning. Rather, it probably suggests that the informalization of economic activities will vary with a range of other social processes and regulations..

Furthermore, the above results say nothing about where underground activity may be growing or declining at the sub-national scale (this matters insofar as some sectors are concentrated within particular sub-national regions and may be more prone to higher levels of underground activity, such as agriculture). In other words, these results do not tell

us much about the *character* of this underground activity. Nonetheless, insofar as one believes the macro-economic evidence, there does appear to be grounds for pointing to an increase in underground activity at the national scale. Before I review some of the arguments for why this might be happening, we must turn to a discussion of the various categories of immigration.

IV. CATEGORIES OF IMMIGRATION

An explanation of categories of immigration is necessary for a more fine-grained appreciation of the data on immigration in order to understand how legality shapes the propensity to engage in underground employment. We can begin by identifying five categories of immigration from the perspective of legality (based essentially around residence and work).

The first group of immigrants consists of ‘unskilled’ and ‘skilled’ immigrants who have been recruited by employers legally through a variety of recruitment schemes (e.g. seasonal workers in French agriculture, or construction workers and computer programmers in the UK and Germany). They will therefore have legal residence and the right to work. However, their work contract is often limited to a specified duration of time, which if violated, may in turn affect their residence status.

The second principal category of immigrants includes those that are allowed to enter legally under family reunification programs. In many countries, family members will have the immediate right to work, while in others (as with asylum-seekers), there may be a provisional period (often a year) in which working is not permitted (this is the case in Germany). In other countries, such as Italy, the

parents of a legally settled immigrant are not allowed to work, and in others (Finland, France, and the Netherlands), the right to work for family members depends on the status of the settled person (e.g. student, refugee, citizen, etc.) (SOPEMI, 2000).

A third category of immigrants consists of students. Most students' residence status is limited by the duration of their course, though this can be, and often is extended. Different countries provide different rules on how many hours students can work per week and in some countries students are not permitted to work.

We can think of a fourth category of immigration as composed of asylum-seekers and refugees. The former are persons who (whether or not they have entered clandestinely into a given European country) have requested an application for asylum. And the latter are persons who are either given protected status in advance, or those that are successfully accorded refugee status upon application in a given country. In any case, once an asylum-seeker is given refugee status, this is not necessarily permanent. Furthermore, there are frequently stipulations that prevent both asylum-seekers and refugees from working in the first year or so (sometimes more), depending on the EU country in question. For example, during the 1990s, asylum-seekers could not work for the first two years of their stay in the Netherlands (Koser, 2001).

The fifth category consists of 'illegal immigrants' whose status can be determined either by violations of their residence status and/or work status.⁹ In other words, some immigrants have entered illegally (often referred to as clandestine entry) and therefore have neither legal residence nor the authorization to work. Others have entered legally with or without work authorization, and remain in the

country after their visa expires ('overstaying'). Still others remain legal in terms of residence but have no work authorization, and by accepting employment (formally or in an underground sense) jeopardize their legal residence status.

V. ANALYTICAL SCENARIOS OF UNDERGROUND EMPLOYMENT WITH RESPECT TO IMMIGRATION

In order to facilitate the discussion of the relationship between the various categories of immigration, underground employment, and political economy in the subsequent section, I want to first combine the legal status of immigrants and the nature of underground employment in a series of analytical scenarios. The following scenarios are based on legal status (in terms of residence and work), the legality of the employment situation (e.g. if the employer fails to meet existing labor or workplace regulations), and the nature of the product or service produced (e.g. licit or illicit):

(1) Immigrants (including asylum-seekers and refugees) with legal residence¹⁰ and work authorization employed illegally producing licit goods and services. The process of production or service provision is illegal, although the final product or service, if produced or performed under legal conditions, would not be illegal – e.g. the 'sweatshop' production of garments.

(2) Immigrants (including asylum-seekers and refugees) with legal residence and no work authorization employed illegally producing licit goods (as in 1 above).

(3) Immigrants (including asylum-seekers and refugees) with legal residence and work authorization employed illegally producing illicit goods ('sweatshop' production of banned items, drug trafficking, sex/sexual labor).

(4) Immigrants (including asylum-seekers and refugees) with legal residence and no work authorization employed illegally producing illicit goods (as in 3 above).

(5) Illegal immigrants (that is, they have neither legal residence nor the authorization to work) employed illegally producing licit goods and services (as in 1 above).

(6) Illegal immigrants employed illegally producing illicit goods and services (as in 3 and 4 above).

(7) Illegal immigrants employed legally producing licit goods and services (this is more rare and although it is illegal from the standpoint of residence and work authorization, the employer has hired the person legally based on falsified documents).¹¹

VI. WHY MIGHT UNDERGROUND ACTIVITY BE GROWING? ARGUMENTS AND THEIR LIMITATIONS

The principal theories of economic development, from Marxism to modernization, say very little about the existence and evolution of underground economies (Sassen, 1998), and it has only been in the last few decades that their putative growth has attracted considerable attention. In this respect, we will need to examine more contemporary arguments for their growth, which I divide into demand, supply, regulatory, and 'cultural acceptance' arguments,

recognizing that such arguments often overlap, and are not so easily delineated.

DEMAND-SIDE APPROACHES

From a demand perspective, it is commonly argued that because of ‘globalization’ or more specifically heightened global competition and its attendant economic restructuring, employers are forced to reduce wages or avoid non-wage costs and maintain numerical (and perhaps functional) flexibility by resorting to informally employed workers. This has occurred principally through the new reliance on an endless chain of ‘cascading’ sub-contracted businesses. The result is that employers increasingly hire workers on a ‘cash-in-hand’ basis and/or commit other violations of labor and workplace regulations in the form of ‘sweatshops’ and casualized ‘home-working’ - of the poorly paid sort (e.g. Anderson and Rogaly, 2005; Kesteloot and Meert, 1999; Mingione, 1999; Pelagidis, 1997; Portes, 1994). Flexibility begets more flexibility (Freeman, 2001), which reinforces the process of informalization, hinders labor organization and drives down wages ‘in an endless downward spiral’ (Castells and Portes, 1989, 28) – what Costello (2001) refers to as the ‘Russian doll effect’.

There is little doubt that the proliferation of sub-contracting arrangements and/or *certain kinds of* flexibility are powerful imperatives of late twentieth and early twenty-first century capitalism in Europe, across a range of economic sectors.¹² And that these forces together exert a considerable pressure on employers to resort to various kinds of underground activity. Yet such an argument requires at least five qualifications. To begin with, at the risk of repeating what are well-known features of the economic geography of globalization, different economic

units will operate in different product markets and will therefore compete on a spectrum between price and quality. These unequal spatial frameworks of competition (Schoenberger, 1987) will therefore entail differential cost pressures, levels of sub-contracting, and types and degrees of 'flexibility'. And second, rather than flexibility being a 'given', it would be more appropriate to think of it as a process contested by both employers and workers (Zlolski, 2003). In fact, flexibilizing employment relations can also lead to employer-worker antagonism, which, if the employer seeks to attenuate these conflicts and retain labor, may have to reign-in certain kinds of detrimental flexibilities and offer instead more *worker-favorable* flexibilities (such as time off for child care) (Bradley *et al.*, 2002). Third, the recourse to subcontracting may be as much about shifting development costs onto suppliers and the benefits of specialization through vertical disintegration, as it does with improving labor flexibility (Hancké, 1998). That is, sub-contracting and labor flexibility as forces in contemporary economies are not identical processes, although from the overwhelming statistical and anecdotal evidence, both together seem to entail in many instances, a demand for extremely low-paid and/or precarious labor *apparently* operating under informal conditions. Yet fourth, the relationship between sub-contracting, flexibility imperatives and the growth of underground employment may seem eminently logical because much of the anecdotal and/or sector-specific evidence derives from studies of the agricultural, care, cleaning, clothing, construction and textile sectors (which are notorious in Europe – as elsewhere - for underground entrepreneurship, 'sweating', sub-contracting, labor flexibility and hiring immigrants – legal or otherwise), and so one tends to find what one suspects in the first place. And fifth, in any case, we do not have any reliable internationally comparative (let alone anecdotal) evidence

to support the claims for a growth in ‘sweatshops’ or casualized homeworking in Europe (Samers, 2002a).¹³

Even if underground activity is in fact growing in the European Union, it does not necessarily follow that employers will hire exclusively immigrants, asylum-seekers or refugees. For example, despite Williams and Windebank’s (2001) evidence for a ‘post-formalization’ of work in France, a French government document reported that of the nearly 11,000 firms that were prosecuted for employment infractions in 1995, involving some 22,000 wage earners, only 8.7% were immigrants in an ‘irregular situation’ (*Rapport au Parlement sur la Sécurité Sociale*, 1999). In a similar analysis, Marie (2000) found that the underground activity of illegal immigrants in France had in fact declined (measured in reports of violations) from 13 to 6 percent of the share of employees hired illegally in the period 1992–1997.¹⁴ Certainly, Marie’s aggregate figure tells us little about the concentration of illegal immigrants in specific regions or types of underground activity, but evidence from French agriculture (Marie, 1995), and the Parisian garment industry (Iskander, 2000) seem to replicate this trend. In fact, Iskander shows that in 1992, citations related to the employment of illegal immigrants accounted for 40% of all citations, and what she calls ‘hybrid arrangements’ (that is a mixture of formal/informal arrangements through ever more complex forms of sub-contracting), accounted for 60% of all the citations in the garment industry. However, by 1999, this had changed to 20% and 85% respectively.¹⁵ How does one explain these apparent declines in the use of illegal migrant labor? Iskander provides one explanation:

“...as these hybridized forms of informality become more widespread [i.e. formal/semi-formal/informal employment arrangements], undocumented immigrant workers lose their competitive edge of offering firms

“no-strings-attached employment.” While undocumented immigrants traditionally provided firms with a cheap buffer against economic flux – they could be hired quickly and easily to meet temporary increases in market demand, and then released without consequence when demand contracted – firms are increasingly adopting flexibility strategies that integrate better in their production operations. As a result, being an undocumented immigrant is no longer an advantage. In fact, it has even become something of a liability because it means that they cannot work under semi-formal employment arrangements with one or more facets that are declared and above board” (p. 46).

Nonetheless, certain forms of production will face severe cost-cutting pressures in quasi-global competitive markets, such as the agricultural sector in the UK (Produce Studies Limited, 1999; Anderson and Rogaly, 2005), the cleaning sector in the Paris region (Puech, 2004), the clothing sector in Amsterdam (Raes *et al.*, 2002), the clothing and restaurant sectors in London and the West Midlands (Panayiotopoulos and Dreef, 2002; Ram *et al.*, 2001, 2002), and the construction sectors in Portugal (Baganha, 1998; Malheiros, 1999) or Berlin (Wilpert, 1998). And as a consequence, employers have turned to, or relied heavily upon (illegal) migrant workers.

Moreover, the above discussion does not address the vast number of female domestic workers hired ‘off the books’. Anderson (2001) argues that both demographic and ‘lifestyle and status’ reasons account for the growth in demand for domestic workers. In terms of demographic explanations, one can point to women’s increasing labor market participation and the amount of care work required for a ‘greying’ Europe. Declining public care provision, the

greater unwillingness of younger female citizens to care for the elderly, and/or their spatial distance from older relatives, all contribute to this 'care deficit' and the need for domestic workers. In terms of 'lifestyle and status' reasons, Anderson identifies a growing focus on the interior appearance of homes (namely cleanliness), the unwillingness of men to contribute even more of their time to domestic labor (shopping, cooking, housework, etc.) and perhaps more importantly, the income of the household.

Indeed, while there is no internationally comparative data on either the proportion of domestic workers who are migrants, nor on the number that are employed 'cash-in-hand', evidence from nearly every European country suggests that the number of migrant domestic workers – whether legal or illegal – is substantial¹⁶ (e.g. Anderson, 2000, 2001; Kofman, 1999; Lutz, 2002; Mateman and Renooy, 2001; Reyneri, 2001; Solé *et al.*, 1998, Veiga, 1999). But what explains this widespread use of migrant labor for domestic chores? Anderson (2001) maintains that it is not simply their 'cheapness' that matters. For example, Polish workers in Germany – despite their 'relatively high wages' – account for a large number of domestic workers. Similarly, Filipina workers in Athens are the most highly paid of all domestic workers, while also the most popular. Rather, as live-in domestics, migrant women and especially illegal female migrants (since it is they who depend the most on live-in arrangements) provide a malleable, hyper-productive labor force, averaging more than 12 hours a day, and willing to perform jobs that male or female citizens are unwilling to undertake. It is this forced 'any job', 'always on' condition that employers find desirable. But Anderson insists further that the demand for female migrant domestic workers stems from a 'racial ideology' in which the employer (but particularly a female 'head of household') enjoys a sense of racial superiority over a 'third world women'.¹⁷ It is these

complex processes, summarizes Anderson, which have sustained the demand for female migrant domestic workers.

And such a demand is only likely to abate if household wealth declines, if people's household spending preferences change dramatically; if there are significant changes in the gendered household division of labor; if households focus less on the interior appearances of their homes; if public child care services improve; if stricter legislation is enacted and enforced, or if substantial labor-saving substitutes for domestic work (such as household robots) become more widespread and cheaper. This is, however, not necessarily an argument for the ineluctable growth of illegal immigration and underground activity, since household wealth, in particular, will fluctuate with the fate of the local, regional, national, and indeed the global economy.

A second demand-based perspective argues that the nature of the industrial structure (whether it is a product of economic restructuring or not) is an important determinant of the level of underground activity. That is, on one hand, in local economies dominated by a few large corporate firms, there would be less demand for goods and services produced through underground activity since large firms tend to use a smaller number of informally employed workers than small firms. On the other hand, local economies dominated by smaller firms (or self-employed individuals) would have higher levels of underground activity, since smaller firms have a greater propensity to rely on sub-contractors using less unionized but more informalized workers (for elaboration, see Williams and Windebank, 1998).

Certainly a crude correlation between the amount of underground activity and the economic structure of let us say

Italy with its preponderance of small firms, would convince us that there is a direct link. And certainly, evidence from sectors that rely heavily on sub-contracting in northern European countries, points to the widespread use of labor working informally. However, as I suggested above, not *all* small firms will be competing solely on price and many small firms will have to pay dearly to attract qualified individuals willing to work formally. In sum, the argument that industrial structure *determines* the level of underground activity is spurious and probably derives from focusing on firms that are involved in this sort of activity. In any case, while informality may be a *tendency* of small firms, thus far, there is simply insufficient evidence to support a more deterministic relationship (Arrowsmith *et al.*, 2003).

A third more demand leaning argument (which is related to the above but at times favors a supply-side explanation) is rooted in the ‘global city hypothesis’ (c.f. Sassen, 1991, 1996, 1998). In trying to assess whether ‘Third World’ immigration matters to the growth of underground economies in ‘global cities’, Sassen argues that a combination of economic restructuring (largely from manufacturing to high-wage producer and low-wage service jobs) and increased earnings inequality fragments market demand into higher income and lower-income consumers. In turn, this fragmented demand creates a differential set of producers and service-workers. That is, on one hand the growth of what Sassen calls ‘upgraded nonmass consumer services’ (that is luxury, niche-market small batch goods aimed at more affluent consumers)¹⁸, leads to an increase in labor-intensive, small-scale businesses that rely on low-paid ‘third world’ migrant workers to cut costs because of sharply inflated prices for commercial space, business inputs, and related services in ‘global cities’. And thus the imperative to lower costs has led to ‘informalisation’, which is often manifested in businesses that operate under

‘sweatshop conditions’ – what she refers to as ‘down-graded manufacturing’. On the other hand, the same fragmentation of markets means that immigrants and other ethnic minorities cannot afford the luxury goods that are offered in global cities. They then seek necessary goods from ‘co-ethnic’ producers, and/or from other low-cost immigrant-run shops – what she calls ‘down graded mass consumer services’. This too encourages the growth of the underground activity.

The global city hypothesis is conceptually useful, but despite its very convincing reasoning, is actually rather ‘data light’. Furthermore, beyond the work of Hamnett (1994, 1996) and Hamnett and Cross (1998), no one seems to have taken up the challenge of responding precisely to Sassen’s thesis concerning the polarisation of the production system (down-graded mass consumer services, upgraded non-mass consumer services, downgraded manufacturing, and so forth), which would connect the economic structure of European cities to (illegal) immigration.¹⁹ In short, given the paucity of research from this perspective, it is difficult to assess the validity of Sassen’s argument for explaining the volume of underground activity in European cities (Samers, 2002a).

A fourth and equally intriguing demand-side perspective is the ‘vacancy chain’ argument proposed by Kloosterman *et al.* (1998). They echo the urban focus of Sassen, but maintain that informalised immigrant entrepreneurship has grown in the Netherlands without any change in the ‘basic economic structure’ of the post-Fordist Dutch economy (although they do concede the growth of small firms in general – see also Rath, 2002). Rather immigrants create underground firms or find underground employment in sectors where there are ‘vacancy chains’ (as in bakeries in Amsterdam or Rotterdam). In other words, in

some sectors, high rates of forced shop closure and/or voluntary exit among natives are combined with lower rates of 'start-up', thus offering a space for 'Third world' migrants to literally set up shop. In short, this would imply out-migration of natives from certain economic activities and migrant in-migration without a necessary growth of underground activity. Yet again, despite a growing literature on self-employment among migrants in Europe, the challenge of supporting this argument with further case studies in Europe has not been met (Mingione, 1999).²⁰

A fifth demand-side argument focuses on the degree of affluence, let us say by measuring GDP per capita or employment levels. An overall expansion of the economy, employment, and wealth would therefore create a demand for work performed informally (e.g. Capecchi, 1989; Perugini and Signorelli, 2004). In other words, formal and underground activities are complements, rather than substitutes and an increase in the former will lead to an increase in the latter (Marcelli, 2004, but see Venturini, 1999).

Certainly, I noted earlier that affluence might have a positive correlation with the number of migrant domestic workers employed 'off the books'²¹. Furthermore, in some cities undergoing rapid 'gentrification' and rising property values, the cost of rental space might also force some employers to resort to either hiring illegal migrant workers 'off the books' or to evade paying taxes. This seemed to be the case, for example, in London's garment industry during the 1990s (Panayiotopoulos and Dreef, 2002). But beyond migrant domestic workers and the case of soaring rents in certain urban property markets, the effects of affluence on the employment structure are ambiguous. On one hand, it may actually reflect a particular country or region's move up the technological or productivity ladder, and thus into

different product markets that require highly skilled and highly remunerated employees unwilling to work underground. In this scenario, underground activity might diminish. On the other hand, an increase in GDP per capita may also signal greater inequality and the development of a polarised production system as suggested by Sassen, which would in theory anyway, create a demand for underground activity to service the mass of low-income immigrants in global cities. In any case, if one is to accept Schneider and Enste' data as a believable correlation between GDP and underground activity, there appears to be no relationship at all. In fact, Georgia, Azerbaijan, the Ukraine and Belarus have the highest recorded underground activity in their analysis – hardly the wealthiest economies by comparison. And combining Schneider and Enste' data with EUROSTAT data on total employment levels, Perugini and Signorelli (2004) find a 'significant negative correlation' between total regular employment and the size of the shadow economy.

THE SUPPLY OF WORKERS

With respect to 'supply-side' approaches, one of the most prominent arguments is that the apparent increase in (illegal) immigration (and especially trafficking which involves forced labor) is driving the growth of underground activity. From this perspective, immigrants, both legal and illegal constitute a vulnerable 'reserve army of labor' 'exploited' by unscrupulous employers that in turn allows for the expansion of underground activity (e.g. Kesteloot and Meert, 1999).²² A similar perspective argues that recession and unemployment in the formal economy (especially in low-income neighborhoods which corporations have either neglected or abandoned - Sassen, 1998) leaves the unemployed (whether citizens or not) to

find work in the underground economy (Leonard, 2000).

In order to approximate very roughly the growth of a vulnerable population, let us explore some quantitative evidence for the growth of (illegal) immigration and asylum seeking, as well as some data on the (un-)employment of immigrants. I would admonish, however, that the way in which immigration is measured in different EU countries varies considerably, and we should therefore exercise considerable caution in their interpretation.²³ Furthermore, it will not be possible (because of the inadequacies of the data) to disaggregate some of the data to the categories indicated above (e.g. those entering as family members or students). Nevertheless, my aim is to provide a rough indication of principal trends so as to temper some of the hyperbole concerning the growth of an immigrant labor supply for underground employment.

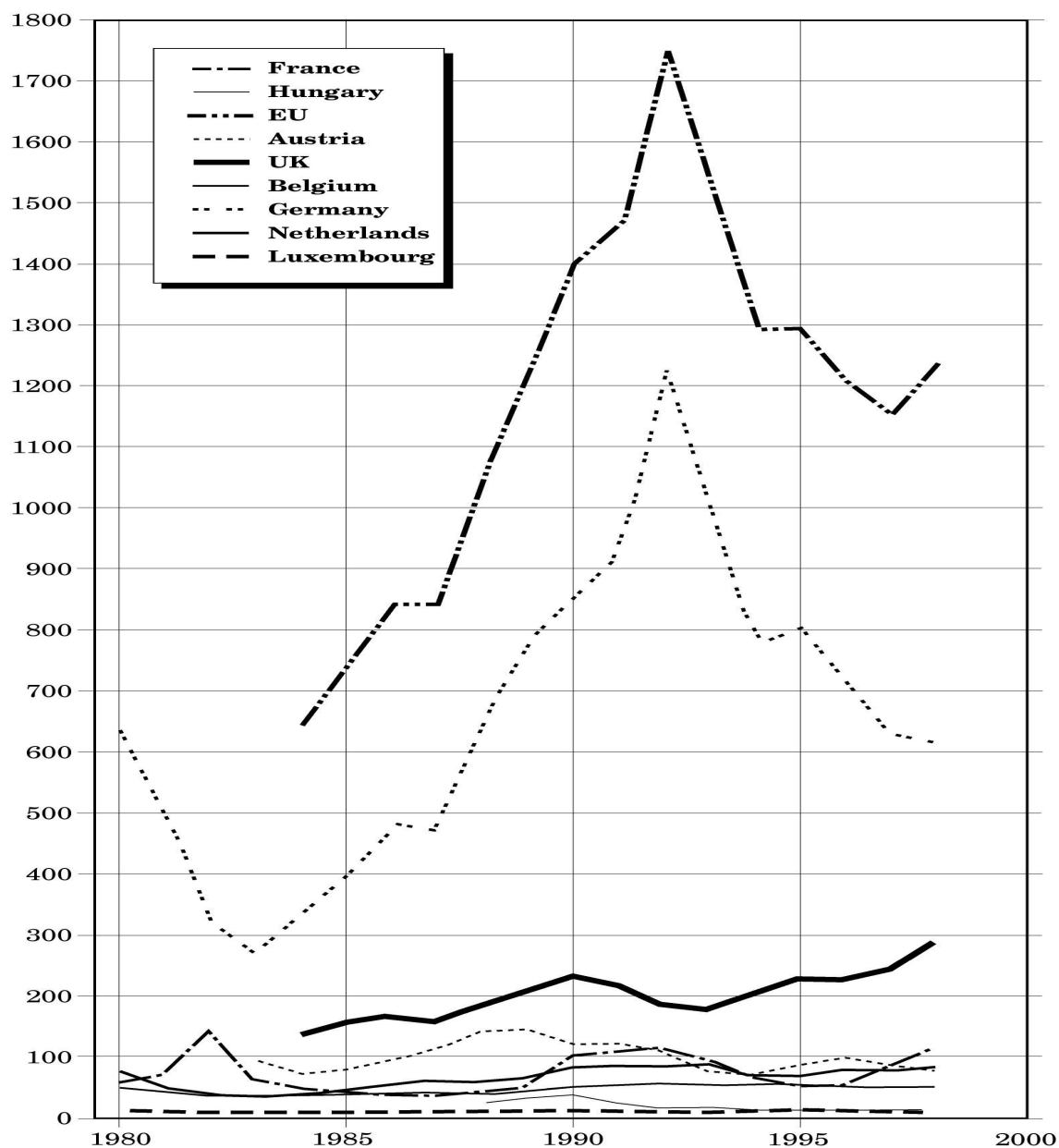
LEGAL ‘UNSKILLED’ AND ‘SKILLED’ IMMIGRATION: QUANTITATIVE EVIDENCE

Since there is ample evidence that not just illegal immigrants, but also legal immigrants work in underground activity, the scale of legal immigration may be just as important as its more unauthorized variant. In that sense, Figure 2 shows the so-called total ‘inflow’ of foreigners to some EU countries, and the EU as a whole, between 1980 and 1998. Figure 3 shows the ‘inflow’ of foreigners to EU countries as a percentage of the total population.

Figure 2

**Total inflows of foreigners in some EU countries, 1980 - 1998,
(in thousands)**

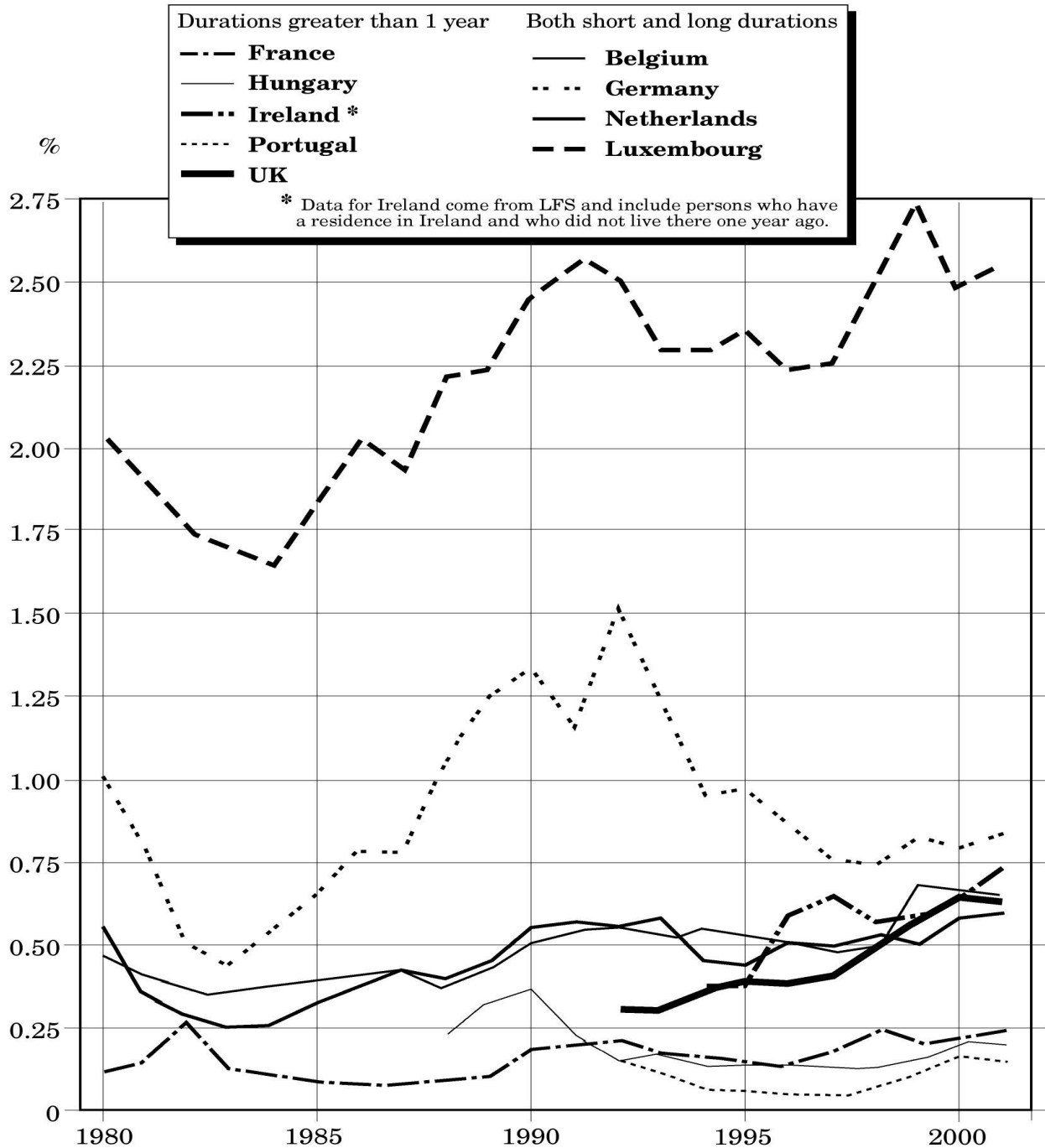
Thousands



Source: Adapted from SOPEMI (2000, chart 1.1 p.20)

Figure 3

**Inflows of foreigners in some EU countries, 1980 - 2001,
as a % of total population**



Source: Adapted from SOPEMI (2003, chart 1.1 p.24)

Yet Figures 2 and 3 only show ‘flows’, and do not indicate the so-called ‘stock’ of ‘foreign residents’. Therefore, Table 2 shows the foreign or foreign-born population in certain EU countries in 1996 and 2001. In most countries, there has been a ‘considerable’ growth of the foreign or foreign-born population, especially Italy, Spain, and the UK, but with noticeable decreases in Belgium, France, and Sweden (this relates partly to slower immigration, but also to higher rates of naturalization)²⁴. In any case, Table 2 provides a *very rough* indication of a *legal* population *potentially* available for work in underground employment.

Table 2

Foreign or Foreign-born population in certain EU countries, 1996 and 2001 (in thousands)

Country	1996	2001	Annual growth over the period (%)
Austria	728	764	0.97
Belgium	912	847	-1.47
Denmark	238	267	2.33
Finland	74	99	5.97
France	3,597	3,263	-0.97
Germany	7,314	7,319	0.01
Ireland	118	151	5.11
Italy	1,096	1,363	4.46
Luxembourg	143	167	3.14
Netherlands	680	690	0.31
Portugal	173	224	5.28
Spain	539	1,109	15.52
Sweden	527	476	-2.00
UK	1,934	2,587	5.99

Source: Adapted from SOPEMI (2003, Table 1.7, p. 44).

Table 3 indicates the number of foreign or foreign-born workers in the labor force in EU countries, and shows that they have increased in virtually every EU country (both absolutely, and relative to the size of the total labor force). France and Sweden remain exceptions here. Nonetheless, even in those countries that show increases, they do appear to be rather 'small' (depending on what one considers 'significant'). For example, in a number of countries (Belgium, Denmark, Germany, Italy, The Netherlands, Portugal, and the UK), these increases were 2% or lower, and only in Austria and Luxembourg did they exceed 3%.

Although clearly Table 3 does not identify the number of workers involved in underground employment (especially those who are illegal), the data in Table 3 are significant for understanding immigrant involvement in underground employment for at least two reasons. First, other processes aside, the presence of legal foreign workers already settled in a particular country seems to attract other workers of the same nationality through immigrant social networks (whether this involves trafficking – often perpetrated by compatriots - or more 'voluntary' kinds of immigration). And anecdotal evidence suggests that some of this 'secondary' immigration will involve working underground (e.g. Ghosh, 1998). Second, while Table 3 only shows those who are formally registered workers, it is certainly possible that many of these workers may also find themselves employed underground.

Table 3

‘Foreign or Foreign-born labor force’ in 17 of 25 EU countries, 1995 and 2002, total numbers and percentages

Country	Percentages			Thousands		
	1987	1995	2002	1987	1995	2002
Austria	326	366	387	5.4	9.7	9.9
Belgium	863	327	357	6.8	7.9	8.2
Denmark	136	84	104	2.1	3.0	3.7
Finland	18	18	38	n.a.	0.8	1.4
France	3714	1,566	1,612	6.3	6.3	6.2
Germany	4241	3,505	3,511	6.9	9.1	8.9
Greece	n.a.	n.a.	413	n.a.	n.a.	9.5*
Hungary	n.a.	21	23	n.a.	0.5	0.6
Ireland	77	42	101	2.5	3.0	5.6
Italy (2001)	572	332	801	1.3	1.6	3.3
Luxembourg	103	65	169	37.6	39.1	43.2
Netherlands	592	281	129	3.0	3.9	3.6
Portugal	95	21	83	1.0	0.5	2.5
Spain	335	121	295	.4	0.8	2.7
Sweden	401	186	80	4.9	4.2	4.6
United Kingdom	1839	1,011	1,406	3.3	3.6	4.8

Source: adapted from SOPEMI (1999, Table I.5, p. 38; and 2003, Table I.8, 50)

* Figures for Greece are for 2001.

Similarly, if we can accept that the condition of unemployment has at least some effect on the propensity to work underground (see the debate in Leonard, 2000), then the number of unemployed ‘foreigners’ in particular European countries might also matter. However, as usual, data comparability problems arise. Nonetheless Ferrieri (2001) has produced one of the few time series analyses of

combined OECD and EUROSTAT data on ‘foreign’ unemployment, although the series ends in 1998 for the EU-15 (i.e. excluding the enlargement countries). This is shown in Table 4. The data indicate increases in the unemployment rate for all ‘foreigners’ in Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, and Sweden. In all other countries, the standardized unemployment rate fell (Austria, Denmark, Ireland, the Netherlands, Portugal, Spain, and the UK).

Again, the evidence is mixed and no direct conclusions can be drawn for the involvement of immigrants in underground employment, not least because it does not disaggregate by gender, nationality, educational level, entry category (e.g. high-skilled, low-skilled, etc.), or regularization status. However, once again, it does provide some indication of the temporal and spatial variability of a population potentially prone to working underground. Certainly, the overall unemployment rate (all categories) in the EU remains high in the twenty-first century, but it has fallen from 10.1% in 1993 to 8.1% in 2004. And there are marked differences in unemployment rates between on one hand Germany (9.8%) and Spain (10.8%), and on the other, Austria, Ireland, Luxembourg, the Netherlands, and the UK, with rates below 5%. (EUROSTAT, 2005). This may damage the argument that underground employment is growing as a response to unemployment in the EU, but since the data registers those actively seeking work, it may also suggest that many workers have exited from the formal labor market.

Table 4**Standardised Unemployment Rates for 'Foreigners' in EU countries, 1988 and 1998**

Country	1988	1998
Austria	4.7	4.5
Belgium	8.9	9.5
Denmark	6.1	5.2
Finland	4.4	11.4
France	9.8	11.8
Germany	6.2	9.3
Greece	7.7	10.9
Ireland	16.1	7.5
Italy	10.0	11.8
Luxembourg	2.0	2.7
Netherlands	7.5	4.0
Portugal	5.5	5.2
Spain	19.5	18.8
Sweden	1.9	8.3
UK	8.7	6.3

Source: Ferrieri (2001)

THE NUMBER OF ASYLUM SEEKERS AND REFUGEES: QUANTITATIVE EVIDENCE

Asylum-seekers – if they are not detained and accepted for (temporary) residence in EU countries - are also prone to work in underground activity. Table 5 below provides data on the number of asylum applications between 1992 and 2001 in the EU-15 countries. With the exception of individuals who are accorded refugee status without depositing an application, Table 5 provides a rough maximum indication of the number of refugees in EU countries ('maximum' because the refusal rate in most EU

countries is high, for example 87% in France in 2000) (*Le Monde*, 17 August, 2001).

Table 5

The number of asylum applications submitted in EU-15 countries, 1992-2001

	1992	1993	1994	1995	1996
Au	16,240	4,750	5,080	5,920	6,990
Be	17,650	26,880	14,350	11,420	12,430
Dnk	13,880	14,350	6,650	5,100	5,890
Finl	3,630	2,020	840	850	710
France	28,870	27,560	25,960	20,420	17,410
Germ	438,190	322,610	127,120	127,940	116,370
Greece	1,850	810	1,300	1,310	1,640
Irel	40	90	360	420	1,180
Italy	6,040	1,650	1,790	1,730	680
Luxem	-	-	-	390	240
Nether	20,350	35,400	52,570	29,260	22,170
Port	690	2,090	770	450	270
Spain	11,710	12,620	11,990	5,680	4,730
Swed	84,020	37,580	18,640	9,050	5,750
UK	32,300	28,000	42,200	55,000	37,000

	1997	1998	1999	2000	2001
Au	6,720	13,810	20,100	18,280	30,140
Be	11,790	21,970	35,780	42,690	24,550
Dnk	5,090	9,370	12,330	12,200	12,400
Finl	970	1,270	3,110	3,170	1,650
France	21,420	22,380	30,910	38,750	47,290
Germ	104,350	98,640	95,110	78,760	88,290
Greec	4,380	2,950	1,530	3,090	5,500
Irel	3,880	4,630	7,720	11,100	10,320
Italy	1,860	11,120	33,360	15,560	9,620
Luxem	430	1,710	2,910	630	690
Nether	34,440	45,220	42,730	43,900	32,580
Port	300	370	270	200	190
Spain	4,980	6,650	8,410	7,930	9,490

Swed	9,660	12,840	11,230	16,300	23,520
UK	41,500	58,490	91,200	98,900	88,300

Source: Adapted from the European Council on Refugees and Exiles (2002) based on UNHCR data

By comparing absolute asylum numbers in 1992 with 2001, we can group countries in Table 5 according to significant increases in the number of asylum applications (Greece, Ireland, Luxembourg, and the UK), significant decreases (Germany, Portugal, and Sweden), moderate increases (Austria, Belgium, France, Italy, and the Netherlands), and moderate decreases (Denmark, Finland, and Spain). The data suggests that in eight European countries, the number of asylum applications (and not even the number of acceptances) decreased during the 1990s. Again, we cannot read off ‘work authorization’ and illegal residence from the number of asylum-seekers, but it does once again provide some raw material for assessing the relationship between the number of asylum-seekers and an available labor supply for underground activity.

ILLEGAL RESIDENTS: QUANTITATIVE EVIDENCE

In the first half of the 1990s, rigorous estimates of either ‘illegally resident migrants’, or ‘illegal’/ ‘irregular’, or ‘clandestine’ entry into EU countries remained few and far between, particularly in northern Europe (Ghosh, 1998). Part of this relates to the reluctance of EU institutions (such as CIREFI) to release potentially relevant data, but also a general failure to produce such estimates. Since the latter half of the 1990s, more believable numbers have surfaced, although again these are mainly for southern rather than

northern EU countries, and my analysis will therefore concentrate on the latter.²⁵

In terms of illegal residence, Reyneri (2001)²⁶ has produced a thorough analysis of southern European countries during the 1990s (namely Greece, Italy, and Spain)²⁷ and compares his findings with his analysis of France. Reyneri claims that most of the immigrants in southern Europe entered the above countries clandestinely or overstayed their visas. And using data from a variety of sources, he presents data on the estimated number of 'unauthorized' immigrants in each of the three countries from the mid-1980s, including evidence from regularization schemes.

Initial evidence of the scale of 'irregularity' can be derived from regularization programs (but it is important to recognize that once a government approves an application, the illegal immigrant can no longer be considered illegal²⁸, thus reducing the number of unauthorized immigrants in any given country. This is equally true of deportations). In any case, Greece undertook its first regularization in 1998-9 and granted 'white cards' to some 373,000 individuals. From this data then, we are unable to ascertain any past increases in the number of illegal immigrants but it does provide a rough indication of those living in Greece without papers in the late 1990s. In Italy, the number of regularizations grew from 118,700 in the first regularization in 1986 to 238,200 in 1995-6 and to some 193,200 in 1998-1999. In Spain, the number grew from 43,800²⁹ in 1985-6; to a peak of 108,300 in 1991, and declined to 21,300 in 1996. In France, the number of regularizations declined from 121,100 in the 1981-1982 regularization to 80,600 in the 1998-9 regularization. Certainly, the number of regularizations does not necessarily represent the total number of illegal immigrants at any given time, but again it

does provide an approximate indication. Thus from regularization data, it would appear that there have been large increases from the 1980s to the 1990s, but with noticeable decreases in Spain and France during the latter half of this period. For Portugal, data from regularization requests in 1992 and 1996 show a small decline in the number of illegal immigrants from a little over 39,000 to a little more than 35,000, though again this certainly does not represent the total number of illegal immigrants living in Portugal during the mid-1990s (Baganha, 1998).³⁰

Leaving aside regularizations as a proxy for the size of the illegally resident population in the recent past, Reyneri then presents estimates of the number of illegal immigrants residing in the four countries. This is presented in Table 6. In Greece, the number of unauthorized immigrants is estimated to have grown from 180,000 in 1992 to 525,000 in 1998 (compare with Droukas, 1998, 352)³¹, and Italy from 190,000 in 1984 to a peak of 272,000 in 1994, and declined to 250,000 in 1998. In Spain, the number of unauthorized immigrants declined from 200,000 in 1990 to 150,000 in 1995, but grew in France from 150,000 in 1990 to 175,000 in 1994. In sum, Reyneri calculates for Greece and Italy that both legal and illegal migrants “are now nearly five times as numerous as they were in the early 1980s” (p. 12).

Table 6

Estimated number of unauthorized immigrants in Greece, Italy, Spain, and France, 1984-1998 (000s)

Year	Greece	Italy	Spain	France
1984	-	190	-	-
1988	-	212	-	-
1990	-	236	200	150
1992	180	-	-	-
1993	220	-	-	-
1994	-	272	-	-
1995	-	-	150	-
1998	525	250	-	-

Source: adapted from Reyneri (2001)

To recapitulate, there is considerable evidence for the growth in the numbers of people migrating, and for the growth of the legally resident population and legally working population in the EU since the early 1990s. For foreign workers, there is variable evidence for an increase in unemployment, and unemployment has fallen in the EU overall, but with substantial increases in countries such as Germany. There is very mixed evidence for the growth of the asylum population with substantial decreases in Germany and substantial increases in Ireland, for example. The evidence for the growth of an illegally resident population shows considerable (estimated) increases in Greece and Italy, but elsewhere statistics remain largely unavailable. With these crude indicators, let us examine more closely how different categories of immigrants might become incorporated into underground employment.

We can begin with the question of legal immigrants with work authorization (and I include those who entered EU countries under family reunification rules but without the immediate right to work).³² Their status does not necessarily imply access to formal employment, since such access also depends on the availability of employment, the networks used to find formal employment³³, the capacities, qualifications, and skills that one brings to the labor market, and the (often racist and sexist) hiring practices of employers. It is therefore quite common for legally resident migrants (even those who are highly educated - the bulk of legal migrants in southern European countries) to experience what one might call 'socio-professional downgrading'. That is, electronic engineers become electricians, doctors become orderlies, or they simply fail to find formal employment (Audit Commission, 2000; Castells and Portes, 1989; Reyneri, 2001). It is also likely that they will be forced to find underground employment if and when they are dismissed from the formal job, when they need to supplement their existing incomes, or when their temporary residence is terminated (which itself may be linked to a formal job contract).³⁴ Furthermore, in the case of those who entered EU countries under family reunification rules but without the immediate right to work, some evidence suggests that the likelihood of remaining in such employment for some time is high regardless of whether or not they are ultimately granted work authorization (Reyneri, 2001).

Asylum-seekers whose claims have been rejected (and who have not been detained) and refugees with or without (immediate) work authorization or those with a temporally limited refugee status face the similar problems as legal immigrants in finding formal employment, and evidence from the UK, France and Greece especially seems to suggest that most asylum-seekers find only underground

employment (e.g. Anderson and Rogaly, 2005; Legoux, 1999; Reyneri, 2001).

Illegal immigration often occurs through trafficking networks, and if we can agree that trafficking (*as a particular form of illegal immigration that by definition combines forced or coerced labor*) grew during the 1990s, then it has served to *stimulate* the development of underground activity in the EU. In other words, the development of trafficking and the availability of an extremely low paid or even forced labor force can be viewed as ‘locking-in’ particular sectors into ‘forced’ or ‘coerced’ labor, which then serves to shape the contours of competition in these sectors. On the other hand, this does not necessarily mean that the number of *illegally* resident migrants and underground activity has also grown on a European-wide scale. For one, the focus on a limited number of sectors in which a process of substitution (migrants for citizens) seems to be the case, can lead us to two questionable conclusions (illegal immigration is growing and underground employment is expanding).

For example, in French agriculture during the 1990s, we would have expected French employers to hire illegal immigrants given that labor ‘costs’ represented approximately 40-60% of production costs. Instead, the number of illegal migrant workers actually decreased while the number of legal migrants and local French citizen workers increased. This can be explained in part by the decline in economic opportunities in rural areas that placed pressure on local French citizen workers and legal migrants to accept more precarious underground work in local agriculture (Marie, 1995). This brief example points to at least two broad implications. First, simply because there is a large pool of illegal immigrants, it does not follow that more illegal immigrants will be hired by employers

operating informally, and conversely, it does not necessarily follow that underground activity will expand since it is quite possible that some immigrants and asylum-seekers will eschew working for an unscrupulous employer and become more involved in non-wage 'mutual aid' strategies or rely on community networks for financial or 'in-kind' support, although the extent to which either can continue indefinitely should be questioned.

Second, it does not mean that the use of illegal immigrants depends simply on the number of citizen or legal migrant workers (in other words the size of the institutionally known labor force). Rather, it depends partly on the number of citizen or legal migrant workers willing to work in particular kinds of jobs at certain wage levels, which itself depends on the nature of sub-national economies and their respective local labor markets. Yet leaving the detailed geography of economic change aside, the number of citizen workers available for certain jobs in particular labor markets have become a critical issue in European Union countries. In fact, by all anecdotal evidence, the lower end of European labor markets, especially in the largest cities, are increasingly numerically dominated by at least legal migrants. One can reasonably argue then - that is, if one subscribes to 'post-Fordist' arguments concerning new employment structures that restrict socio-economic mobility - that a growing pool of *low-paid* migrant workers in Europe's largest cities would in turn negate (to some extent anyway) the need for underground activity.³⁵ This explanation has been used to explain the relatively small scale of underground activity in the United States, and adds to the skepticism surrounding its alleged growth (see e.g. Ihrig and Moe, 2000; Freeman, 2001).³⁶

REGULATION

In terms of approaches that focus on regulation, we can divide these into ‘globalization’, ‘de/re-regulation’, or ‘over-regulation’ arguments. Those who adhere to ‘globalization’ arguments stress the unwillingness, or inability of national states to regulate the transnational flow of people, and so states are heavily implicated in the growth of underground employment because of their failures to control (illegal) immigration. Certainly, the supply of labor ready and willing to work in underground activity is shaped *but not determined by* the vicissitudes of state immigration policies – more specifically the conditions of entry, residence and work. And bearing this in mind, we need to have a more sophisticated understanding of the relationship between immigration (policy) and underground activity (Quassoli, 1999). In other words, any analysis should be sensitive to both the history and geography of immigration policies, whether these policies function at the supra-national, national, or sub-national scales.

In that sense, immigration policies in the EU with regards to the formal recruitment of labor have remained *relatively* tight for ‘less-skilled’ workers from outside the EU since the early 1970s, although with a sporadic relaxation of these regulations from year to year, and from country to country (Jordan *et al.*, 2002; Lowell and Kemper, 2004; SOPEMI, 2003: 27-30). And furthermore, such restrictions on low-skilled labor did not prevent millions of migrants coming to the EU by entering clandestinely, overstaying their visas (especially those on temporary or seasonal work contracts), seeking asylum, and joining their family legally through family reunification channels (Favell and Hanson, 2002). And whatever their reasons for migrating or their channels of recruitment, most migrants need to work. And since many migrants are tied to

their employer by a work permit (which also legalizes their residence), and fear arrest or deportation, and since many – whether legal or illegal experience ‘socio-professional down-grading’, they remain potentially more vulnerable to extremely low-paid underground employment than citizen workers (e.g. Anderson, 2000; Anderson and Rogaly, 2005).

Regularization schemes (which were common during the 1990s in southern European countries) as one element of immigration policy figured centrally in mediating this vulnerability. In fact, the regularization schemes were politically justified in southern European countries on the grounds that they would unlock illegal immigrants from underground employment. If this objective can be considered genuine, then the regularizations largely failed. Indeed, regularizations do not ensure permanent stay, with or without work authorization. In Greece, for example, a ‘white card’ (which entitles one to work) is given to those applications that are approved. But it is only normally given for a few months, and those holding white card must also apply for a green card (by showing proof of employment during the interim) valid for 1-5 years. However, of the 373,000 who were granted ‘white cards’ only 220,000 applied for ‘green cards’ and the period of approval lasted more than a year. This resulted in a return to unauthorized status for many that had succeeded in obtaining the white card. In short, the Greek government (like Italy and Spain) seems to be ignoring the reality that most illegal immigrants (or those that have been recently regularized) often find temporary underground employment (Reyneri, 2001).

In the de- or re-regulation argument, the erosion of welfare entitlements in particular, has served to fuel underground activity, by acting as a substitute for welfare

payments or other forms of social support (Raes *et al.*, 2002; Wilpert, 1998, 271, c.f. Castells and Portes, 1989: 28)³⁷. And as Wilpert (1998) points out, “In many ways the potential supply of undocumented workers could be considered to have appeared at exactly the right point in time to further the deregulation of the economy” (p. 271). Another dimension of this deregulation argument is that states are reinforcing the process of ‘informalization’ by ignoring it. As Talbot (2004) notes, “What is most striking about the growth of the shadow economy is how complacent as has been the reaction of democratic states and public policy-makers to it” (p. 6). Indeed, as Vasta (2004) puts it succinctly: “Some governments have chosen to ignore parts of the informal sector in order to allow some industries or firms to compete in the international markets and to subdue protest about inadequate delivery of services and jobs” (p. 3).

To begin with, while I certainly would not dismiss Wilpert’s argument, it is problematic for several reasons: it does not specify what is meant precisely by welfare; it fails to acknowledge that most illegal immigrants are entitled to at least *some* kinds of welfare and even if they are not, this does not preclude accessing entitlements through ‘street-level bureaucrats’ (though this varies from country to country, are likely to be fairly skeletal, and has witnessed a certain tightening over the last decade) (see e.g. Van der Leun, 2003 on the Netherlands). Furthermore, it does not acknowledge that illegal immigrants find work in the formal economy by falsifying their documents, nor does it take into account ethnically specific forms of intra-community finance such as the *hui* amongst Chinese families in France, which serve to sustain both legal and illegal migrants (e.g. White *et al.*, 1987). Finally, if a pool of citizen workers are increasingly forced into workfare-type jobs, then European labor markets are potentially

converging with US labor markets, and there is, in theory, little need to resort to underground activity.

Another dimension of the de-/re- regulation view is the sense that governments are ignoring the growth of underground activity (Talbot, 2004). And while there is certainly plenty of anecdotal evidence to suggest they are ignoring it, there is also considerable evidence that at least northern European governments are doing everything but ignoring it – or at least certain dimensions of underground activity (Anderson and Rogaly, 2005; CCIP, 2003; Her Majesty's Treasury, 2000; Marie, 2000; OECD, 2000; Panayiotopoulos and Dreef, 2002; Van der Leun, 2003; Wilpert, 1998). Certainly, policy rhetoric, policy, regulation, and enforcement are not the same thing, but enforcement is not absent either, as official scrutiny of the Berlin construction sector, or raids of London's garment industry and French workplaces demonstrate (*Migration News*, various months, 1999; Marie, 2000; Panayiotopoulos and Dreef, 2002). Nonetheless, it appears to be *the lack of* enforcement (rather than 'too much' enforcement) that is driving the expansion of underground activity, or at least sustaining its presence in European countries (Anderson and Rogaly, 2005; Reyneri, 2001; SOPEMI, 1999). In any case, we need to draw a distinction between enforcement of sectors that are prone to hiring predominantly (illegal) migrant workers and those that are not, since immigration policy will intersect with the enforcement of labor and workplace legislation.

The 'over-regulation' view, which is in apparent opposition to the de- (or re-) regulation arguments, can be assessed by considering the perspective of both employers *and* workers, and at the same time, at least five forms of regulation. These five forms include 'social wage' costs, minimum wage legislation, levels of taxation, the

maximum working week (in hours) and the benefits system (for the latter form of regulation, my analysis will be limited to workers only). Let us address these each in turn for both employers and workers. As Schneider and Enste maintain, it is “the *increasing* burden of taxation and social security payments, combined with rising state regulatory activities, ..[that].. are the major driving forces behind the size and growth of the shadow economy” (Schneider and Enste, 1999, 44, emphasis added).

From the perspective of *employers*, Castells and Portes (1989) claim that the advantage of using labor informally is not so much because it reduces wages, but because it reduces the *indirect* wage. And for them, substantial social insurance payments tend to push employers into underground activity. Certainly, employers – especially small business owners – complain of such *indirect* social costs. Yet we can question the continual salience of such a perspective in the context of purportedly decreasing indirect social costs to businesses. In any case, employers are sometimes willing to pay social security costs – even for illegal migrants – if they develop a close working relationship with particular immigrants and wish to retain them, a tendency revealed from the 1996 regularization scheme in Italy (Reyneri, 2001).

In terms of minimum wage legislation, while there is a considerable economics literature that discusses the impacts of such legislation on formal employment, and shows ambiguous, variable effects depending on *inter alia* the sector and European country,³⁸ few studies are available concerning their impact for underground activity in European countries.³⁹ Exceptions are Heyes and Gray’s (2001) study of home-workers in the UK clothing and textile industry, and Ram *et al.*’s (2001) intensive study of five ‘ethnic-minority’ owned firms – again in the UK. In

the former, while they found that the 1999 national minimum legislation (NMW) seems to benefit home-workers overall (primarily women from south Asia) many pieceworkers who had a history of working informally, had not benefited from the new legislation and did not receive a pay rise. In this case, it was not clear whether the generalization of pay increases to piece-rate workers reflected a lack of knowledge of the NMW among workers, or if employers were consciously abusing the regulations. In any case, it is not clear as to the citizenship of the piece rate workers, and how this might shape their vulnerability vis-à-vis their employers.

In Ram *et al.*'s (2001) study, they explore two clothing producers, one 'leading-edge' food manufacturer, one 'leading-edge' restaurant, and one 'middle of the road' restaurant in the UK.⁴⁰ Their findings tell a mixed story. For the larger, 'up-market' food manufacturer and restaurant, the 1999 national minimum wage (NMW) legislation led away from more informal arrangements to greater bureaucratization and rationalization. While for the more 'downmarket' clothing manufacturers, the NMW signaled the death of one clothing firm already operating with for example 'cash-in-hand' paid labor and pushed the other further underground. What can be gathered from this brief discussion is that minimum wage legislation (and other labor/workplace legislation) will have differential effects on 'going underground' depending on a range of attributes (the size of the firm, its product markets, level of international competition). Yet again, Ram *et al.*'s study does not indicate the propensity to hire non-citizen workers, only that they are working under informal conditions. Furthermore, as is the case with other labor regulations (see below), employers routinely violate the NMW in the UK, such as the example of Indian stonemasons working for the equivalent of about US 20 cents per hour constructing a

Hindu Temple in London (Anderson and Rogaly, 2005). The question then becomes whether minimum wage legislation has led to non-compliance and the hiring of especially legal and illegal migrant workers therefore generalizing a ‘race-to-the-bottom’ in terms of wages? If informalization is a growing feature of European countries, then the evidence does not seem to suggest that the implementation of minimum wage legislation is the culprit (at least not by itself), since statutory minimum wages have declined relative to median wages since the 1970s, especially in southern Europe (Feldmann, 2003).

With respect to taxation and underground activity, Schneider and Enste argue that “The bigger the difference between the total cost of labor in the official economy and after-tax earnings (from work), the greater the incentive to avoid this difference and to work in the shadow economy” (2000: 82). While there is a considerable literature on the US, there are once again only limited studies available for European countries (at least in the English language literature). And those that exist primarily involve neo-classical modeling of taxation on individual or firm behavior rather than intensive case studies of firms. In this sense, most international econometric evidence seems to suggest that an ‘increase of tax burden’ leads to an increase in underground activity (Fugazza and Jacques, 2003: 397), but it is far from clear what effect this has on hiring (illegal) migrant workers informally. In any case, Williams and Windebank (1998) add that it may not necessarily be the *level* of taxes for example, but rather the *structure* of the tax system that shapes the *character* of underground activity.

In terms of the effects of limiting weekly working hours on the development of underground employment, it is difficult to see how the 1998 implementation of a 35-hour

week in France, or the 1999 Working Time Regulations (WTR) (implemented by the UK government to bring it in line with other European countries) for a 48 hour week, could be ascribed significant causal power if Castells and Portes (1989) noted the resurgence of underground employment *in the 1980s*. True, other European countries had enacted working time regulations during the 1980s, and the working time regulations of the late 1990s might have *stimulated* the growth of underground employment in the twenty-first century, but it is questionable whether once citizen-dominated sectors such as agriculture, care, cleaning, and construction in Europe were not also marked by very long hours prior to let us say the 1980s.

In any case, if limitations on the working week did have an effect on the behavior of employers, then this is likely to be contradictory. On one hand, the implementation of a 35-hour a week in France, for example, is argued to have created a large number of formal jobs – albeit part-time, which *might* have had the effect on reducing the demand for underground employment (Alis, 2004).⁴¹ In the UK, Ram *et al.* (2001) study of the same five firms (as above) also found mixed results from the 1998 WTR. In the ‘leading edge’ restaurant, the WTR had very little impact, and most workers were unaware of it. Similarly, in the ‘leading edge’ food supplier, few employees worked over 48 hours, so it too seemed to have little effect. However, in the price-competitive, ‘downmarket’, ‘sweatshop’ end of the clothing sector, many of the employees were working more than fifty hours a week without overtime, and the new WTR regulations in conjunction with the NMW seriously threatened the survival of both firms, and some moved ‘further underground’. On the other hand, in cleaning companies in the Paris region, Puech (2004) shows that companies routinely violate the 35-hour per week rule largely by hiring legal immigrants (predominantly from

western Africa) who have only recently arrived in France. Yet because of their inability to read French, they do not realize they are signing contracts in which the number of hours are never stipulated.

From the perspective of *workers*, the same issues (as above) are of concern, but we can also add that the benefits system constitutes an important set of regulations that shape the propensity to engage in underground activity. In any case, these five issues will have differential effects for either legal or illegal immigrants.

With respect to the effects of a minimum wage on increasing the labor supply available for underground employment, it is likely to have precisely the opposite effect. True, employers may reduce their formal workforce, but citizen and migrant workers are more likely – if anything – to be tempted into formal employment with a minimum wage (though this does not preclude employers from paying the minimum wage, and violating other regulations).

In terms of a putatively ‘overburdening’ tax structure, this affects both citizen and migrant workers alike. However, it seems that it is more likely to increase the supply of *citizen* (rather than migrant) workers ready and willing to work in underground activity, who will tend to have a greater knowledge of the opportunity costs of paying a certain level of taxes on formal employment, *together with* a knowledge of the benefits system. It is far less likely to have an impact on the propensity of (especially, but not exclusively *illegal*) migrant workers to work underground because they are likely to have less knowledge of the tax structure (are generally not entitled to benefits), and will find work in particular sectors prone to underground activity through their own social networks

and/or international recruitment schemes – whether these are legal (state-sanctioned) or illegal (such as trafficking).⁴²

With respect to the effects of a reduced working week on the supply of workers for underground activity, again these are likely to be contradictory. In France, wage moderation and wage freezes accompanied the 35-hour rule, which probably encouraged some citizen and migrant workers to accept (additional) underground employment. But since the 35-hour legislation also led to substantial employment growth – albeit of part-time jobs, this *might* have had the effect on reducing the willingness to work in underground activity (Alis, 2003).

With respect to benefits, in an EU where ‘work-fare’/activation policies’ force people into low-wage jobs, and where part-time low-wage jobs are in any case, ubiquitous (e.g. Handler, 2003), it may be more remunerative for a worker to (illegally) claim benefits while working underground, thus providing them with a supplementary income.

CULTURAL ACCEPTANCE ARGUMENTS AND IMMIGRATION

A final argument that seems to bind together, but also transcend demand, supply, and regulatory perspectives is the ‘cultural acceptance’ argument. This is the claim that growing public acceptance for underground activity has encouraged involvement in such activities. As Schneider and Enste (1999) point out, there seems to be a general “decline of civic virtue and loyalty towards public institutions combined with a declining tax morale” (p. 82). For example, Talbot (2004) compares the annual survey of ‘Transparency International’ – a survey of public

perceptions of corruption – with Schneider and Enste's (2000) data, and finds that there is a strong positive (if 'crude') correlation between the countries with the largest 'shadow economies' and those with the greatest perception of graft. Public perception may indeed matter, but the evidence for this, as Talbot himself admits, is rather slim, and of course it completely ignores other arguments for the growth of underground activity. But beyond these tenuous claims, one could compare the views of citizens with various categories of immigrants concerning the development of underground activity – an issue that does not appear to have received any research attention. For example, citizens may perceive that immigrants are contributing to a breakdown of society and thus citizens operate economically as if following rules becomes futile and foolhardy. On the other hand, immigrants, asylum-seekers and refugees may fear racism in formal employment settings, and thus develop their own underground activities or accept work by co-nationals in underground firms. In either case, there is little or no evidence to suggest that underground activity is growing because of such attitudes.

VI. SUMMARY AND IMPLICATIONS FOR ECONOMIC DEVELOPMENT

Talbot (2004) labels 'cynical' those observers who deny the growth of 'shadow economies', although he insists on a more comprehensive view of the phenomenon including tax evasion and strictly illegal production and provision, than my restricted analysis of underground employment. Similarly, a number of academics with hefty reputations such as Lourdes Beneria and Barbara Harriss-White, have proclaimed the growth of 'informalization' or the 'informal economy'. For example, Beneria (2001)

argues that the ‘fastest growing part of the labor force in many areas is to be found in informalized work or temporary and part-time employment” (p. 3). Yet she seems to conflate ‘informal work’ with the flexible nature of employment relations. And simply because work is low-paid, temporary or part-time does not mean it is informal (or informalized), however related they may be. Furthermore, she bases her case largely on the statistical findings of *one* study whose data are rather uneven. Likewise, Harriss-White (2003) pronounces confidently that “there is no evidence whatsoever that the informal economy is doing anything other than expanding in both absolute and relative terms” (p. 460). However, it is not clear how the informal economy is being defined and whether this concerns only India, poorer countries more generally, or the entire globe.

Nevertheless, it is far from the aim of this paper to deny the presence of underground employment in the EU, but our claims should rely *more* on the strengths of particular estimation techniques and qualitative and quantitative evidence, and *less* on theoretical arguments that are seductive because of their internally coherent logic.⁴³ This is why I remain somewhere between agnostic and skeptical about the growth of underground employment in the EU since the early 1990s or so.

Thus, from a demand perspective, the most powerful (but in no way singularly deterministic) argument seems to be rooted in the ‘post-Fordist’ requirements of (increasingly small firm) employers in the EU (numerical and functional flexibility and greater sub-contracting). The labor supply question is far more difficult to answer. I pointed out earlier that immigration has increased at the same time underground employment seems to be expanding. I showed the evidence for a growth of legal

immigration, some evidence for the growth of an asylum population in certain countries, and the patchy statistical evidence for the growth of an illegally resident population. None of these 'categories of people' are restricted to specific kinds of employment, although I noted how illegal immigrants were more likely to work in underground employment. And thus, while most observers maintain that citizen workers perform the bulk of underground *work* (see Williams and Windebank, 1998), it *may be* becoming less true for underground *employment* in the EU since the early 1990s. That is, it would seem that citizen workers are less available (slower demographic replacement of citizen workers) or less willing (because of poor working conditions and/or low pay) to work in *particular sectors* (especially agriculture, care, cleaning, construction, hotels, restaurants, and so forth) because above all citizen workers have found more attractive employment elsewhere. This would point to a process of substitution of (illegal) migrant workers *in certain, but not all sectors*. From a regulatory perspective, despite the intuitively seductive reasoning that highly regulated labor markets or robust social entitlements lead to the apparently higher levels of underground employment in the EU than in the US, the apparently lower levels of underground employment in Scandinavia should give us pause to reflect. Indeed, there does not seem to be any convincing regulatory argument that could explain the alleged growth of underground employment, unless one ascribed causality to immigration policy. That is, unless one blames either overly loose or overly strict immigration policies for *creating* an available pool of vulnerable legal and illegal workers that in turn shapes the production function of firms, and thus the competitive contours of *particular sectors*.

If immigration policy matters (and I would argue that it does insofar as it creates a vulnerable population

forced or coerced into accepting underground employment), then the relationship between underground activity and immigration presents a dilemma for those both on the 'right' and the 'left' in Europe. The 'right' employs cultural and economic arguments against immigration and underground activity. 'Third way' governments (such as the UK) try to balance what they perceive to be the needs of employers on one hand, and on the other, the desire to maintain or increase tax revenues, avoid a complete disorganization of national and sub-national labor markets, and pander to more right-leaning 'culturalist' arguments. More social-democratic governments – whether in France or Germany – remain less convinced by the necessity of underground activity and have pursued vigorous campaigns – both ideological and regulatory against underground activity. In turn, southern European countries employ a variety of measures, including regularization schemes to control the incorporation of illegal immigrants into underground employment. Yet immigration, as I have argued in this paper, can only be considered *one* dimension of underground employment, and thus governments need to pursue a wider strategy.

Indeed, why are the enforcement of labor and workplace regulations and therefore the elimination of underground activity important? To answer this question, I want to point to four issues. The first is humanitarian, and the extent to which both governments and the public should accept extremely low paid jobs with poor working conditions (in absolute if not relative terms). Second, in European countries, as in other planned liberal 'democracies', underground activity is likely to have implications for economic development policies because official indicators are rendered unreliable. Third, if violations of labor and workplace regulations are tolerated, this is likely to lead to the further erosion of standards, and

eventually the complete loss of state or other institutional control of labor markets (a situation hardly desirable if one attaches importance to significant gains won by trade unions). Fourth, the violation of labor and employment standards – especially if they are restricted to the low end of the market, is likely to lead to further inequalities.

For liberal thinkers working in the context of richer countries (such as Sassen, 1998), the answer to attenuating underground activity lies in drawing lessons from the literature, policy proposals, and policy interventions in the global south (for example, the work of de Soto, 1989, 2000). From this perspective, ‘the underground economy’ is viewed as an inevitable reality of the economic trajectory of poorer countries, and should generally be encouraged. Translating these ideas to at least the context of the United States, Sassen (1998) claims that we

“...should instead view the informal economy as a necessary outgrowth of advanced capitalism. Rather than treat its components as isolated deviations from the norm, policy makers should recognize that a new norm has developed; rather than attempt to make this new norm fit the regulations developed decades ago, they should develop new regulations to fit this norm” (p. 155).

And many policy-makers seem to be doing just that (the development by the French government of *cheques services* - now *cheques universels* are gaining favor in other European countries) (see e.g. Finger, 1997). Yet it is not my intent here to review such national and Europe-wide responses to underground activity. This is now covered in a burgeoning literature on the subject. Rather, I wish to point out some of the limitations of what can be broadly understood as ‘go with the grain policies’ (Talbot, 2004)

that have become familiar and increasingly acceptable to academic and policy-makers in poorer, and perhaps increasingly richer countries. ‘Go with the grain’ policies are both well intentioned and intuitively appealing. Yet such policies, I would maintain, warrant critical evaluation. I say this for a number of reasons. First, and notwithstanding the job creation potential of allowing underground activity to flourish, the emphasis on an entrepreneurial, ‘trickle-down’, supply-side economics conveniently ignores the potentially damaging pay and working conditions, which often accompany informality. A second and related reservation is that such a strategy perpetuates these low working standards and perhaps more importantly *neglects redistribution*. If there is either disinvestment or a lack of investment in certain neighborhoods, towns, cities, or regions, then it is the responsibility of states or other quasi-state institutions to redistribute the surplus product, either through substantial Keynesian fiscal transfers (however unimaginable in our times) or through job-creation schemes (under prevailing formalized labor standards). Allowing the violation of labor and safety standards simply legitimates non-redistribution to those whom, for whatever reasons – find themselves without employment. Furthermore, if the EU wishes to pursue the ‘high road’ of economic development (so espoused by thinkers such as Michael Porter), instead of the low-road of low wages and poor working conditions, then not only should EU institutions and individual member states continue with their crusade against the violation of labor and workplace regulations, but develop more (post-) Keynesian strategies for improving the lives of both the employed and the unemployed poor alike.

NOTES

¹ I elaborate upon the use of this term in Section IV.

² Other names for the underground economy include ‘shadow’, ‘illegal’, ‘irregular’, ‘hidden’, ‘undeclared’, or ‘non-observable’ (the latter term is used specifically by the European and other international institutions to measure the size of the ‘underground economy’ in the EU (see especially OECD, 2002). For a fuller discussion of these terms, see Williams and Windebank (1998).

³ A well-known exception to the illegality of prostitution is the Netherlands.

⁴ For more recent discussions of these methods, see Bhattacharya (2004), Fleming, Roman, and Farrell (2000), Schneider and Enste (1999, 2000) and Williams and Windebank (1998).

⁵ By ‘shadow economies’, they are referring to a set of activities that exclude all products and services that are strictly illegal under any conditions, or those that involve un-paid work. In other words, they are working with a definition that is similar to the one I am using in this paper.

⁶ See Schneider and Enste (1999, 2000) for a full discussion of these methods, including their strengths and weaknesses.

⁷ For a lengthy discussion of this particular study and its relevance to other European countries, see Samers (2002b)

⁸ See Reyneri (2001) and Solé *et al.* (1998)

⁹ There are a variety of terms used to describe people residing in Europe without the requisite papers. They include ‘undocumented’, ‘unauthorized’, ‘irregular’, and ‘*sans papiers*’. None of these are unproblematic, including the term ‘illegal’, but I will cease to use quotation marks around the term illegal, from this point onwards (see Samers, 2004, footnote 2 for an assessment of the term ‘illegal’).

¹⁰ In the case of asylum-seekers, legal residence is often very temporary and provisional, whereas the time period may be far more elongated for refugees.

¹¹ In some sectors, such as contract cleaning in the UK, the use of false national insurance numbers is rather common (Anderson

and Rogaly, 2005), and the 1996 regularization scheme in Italy revealed that 11% of those who were regularized had a formal contract, either through false papers, or because the employer simply created a contract so that the illegal migrant could be regularized (Reyneri, 2001).

¹² See for example Allen and Henry (1997); Appay (1998); Boyer (1987); Beck (2000); Bradley *et al.* (2000); Hancké (1998); Nolan (2003); Panayiotopoulos and Dreef (2002); Pelagidis (1997); Puech (2004); Raes *et al.* (2002); Simmons and Kalantaridis (1996); Wilpert (1998)

¹³ However, studies of informalized home-working in the UK for example, suggests a large increase in this kind of activity (Heyes and Gray, 2001).

¹⁴ Nonetheless, it is important to recognize that there are limits to the validity and reliability of using the number of infractions as a proxy for the number of illegal immigrants working underground.

¹⁵ For more recent and comparable data, see Chambre de Commerce et d'industrie de Paris (2003).

¹⁶ Older native women also perform some domestic work, especially in southern Europe, but they tend to work as non-live-in cooks and nannies and are more 'professionalized', in contrast with (illegal) migrants who perform a diversity of tasks and often live-in (Anderson, 2000, 2001).

¹⁷ In a later report on the UK, Anderson and Rogaly (2005) point out that many unscrupulous employers hiring migrant workers underground are themselves foreign.

¹⁸ But this also includes construction in the context of the gentrification of cities, especially historical preservation districts. As Sassen notes "The volume of work, its small scale, its labor intensity and high skill content, and the short-term nature of each project all were conducive to a heavy incidence of informal construction and rehabilitation work" (p. 164).

¹⁹ Which is not to say that no one has conducted research on the relationship between economic change and immigration in European cities, such an assertion would be absurd
I only speak of the English or French language literature here.

²⁰ Again, I am not suggesting that there is no research on self-employed underground entrepreneurs in Europe, but the ‘vacancy chain argument’ has not received adequate attention.

²¹ However, Greece for example, had one of the lowest levels of GDP per capita in the EU in 2000, and apparently one of the highest levels of illegal immigration (Reyneri, 2001).

²² Note that exploitation is never precisely defined, and as such, illegal immigrants in particular are set apart from all workers (who are somehow not exploited).

²³ For a discussion of these data difficulties, see SOPEMI, 2000, Box 1: p. 21.

²⁴ See SOPEMI (2003, Chart I.14: p. 79).

²⁵ I should note above all that the data on ‘illegal’ immigration vary considerably between EU countries, and are based on specific methods of *estimation* (for the most comprehensive review of these methods, see Delauney and Tapinos, 1998, but also Jandl, 2004). We should therefore exercise caution, as ever, in their interpretation.

²⁶ The following discussion is based on Reyneri, unless otherwise noted by the references.

²⁷ There is a clearly a problem in delineating countries in this conventional way. Sure, Greece, Italy, and Spain may have more in common with each other than they do with other northern European countries, in terms of their economic structure, but this needs to be demonstrated rather than assumed.

²⁸ However, often this legality is only temporary, and may be tied to finding formal employment. And it is not uncommon for many immigrants to fall back into illegality.

²⁹ This is the number of applications, rather than necessarily approvals.

³⁰ Ghosh (1998) provides additional estimates of illegality. He cites estimates of 300 to 800,000 in Italy in the early 1990s (depending on who produced the figures), 200,000 illegal residents in Portugal in 1992, anywhere between 72,000 and 350,000 in Spain in 1991 (once again depending on the organization responsible for the estimation); between 200 and

350,000 in France, from 40 to 80,000 in Belgium, and between 50 to 100,000 in the Netherlands.

³¹ These figures clearly exclude those who were regularized, a total of 373 million in Greece's first regularization program (1998-1999). It also excludes those who were deported – some 1,019,000 persons (Droukas, 1998).

³² However, my discussion excludes corporate transferees recruited by businesses in EU countries and highly skilled entrepreneurs and businesspeople entering under special 'point systems' criteria, as they are unlikely to resort to underground employment.

³³ Social networks among immigrants, refugees and asylum-seekers serve not only to sustain the pool of available workers - but the connections between particular employers and migrants. Certainly, it would be difficult for employers, whether or not they were involved in underground activity, to find workers without the requisite social networks, but quite clearly, the presence of dense social networks of migrants does not in any sense signal an increase in underground activity. For a recent critical review of the literature on networks and immigration, see Vasta (2004).

³⁴ Insofar as this is because they are 'desperate', this 'desperation' may be not strictly one of immediate poverty, but rather structural or chronic poverty in the 'global south' and the need to remit their wages home, or because they wish to return home themselves and live a more prosperous life.

³⁵ However, given all the evidence for slow demographic growth across the EU and the generally restrictive nature of immigration policies, the bargaining power of less-skilled migrant workers *may* grow, which paradoxically *might* create a demand for more migrant workers willing to work at 'underground wages'.

³⁶ However, Freeman adds that analysts of underground activity in the US may be not looking in the right places for this kind of economic activity. And he is not necessarily speaking of the underground employment of migrant workers, which again by every piece of anecdotal evidence is a considerable phenomenon, especially in around the largest cities in the US.

³⁷ I do not address the relationship between legal immigrants and

welfare here, since despite the lack of a European-wide welfare system, most long-term legally settled migrants are entitled to more or less the same welfare provision as citizens, although certainly the level of social protection and insurance varies considerably between EU states (Bommes and Geddes, 2000).

³⁸ Compare Adam-Smith, Norris, and Williams (2003), Feldmann (2003), Heyes and Gray (2001), Laroque and Salanie (2002), Machin and Manning (1997); Machin and Wilson (2004); Metcalf (2003), the entire issue of the *Oxford Bulletin of Economics and Statistics* (2002), and Rodgers and Rubery (2003).

³⁹ In this case, I speak only of the English-language literature here.

⁴⁰ See also Ram *et al.* (2003)

⁴¹ Furthermore, many small firms in France – who are often blamed for the growth in underground activity – were not required to reduce their working hours until January 2002 (Alis, 2004).

⁴² However, Reyneri (2001) notes from his study of migrants in southern European countries, that they paid rather close attention to the deductions on their pay slips.

⁴³ At the same time, it is not my intention to denigrate the purpose of theory or theoretical critique.

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