The underground economy casts an ever-longer shadow

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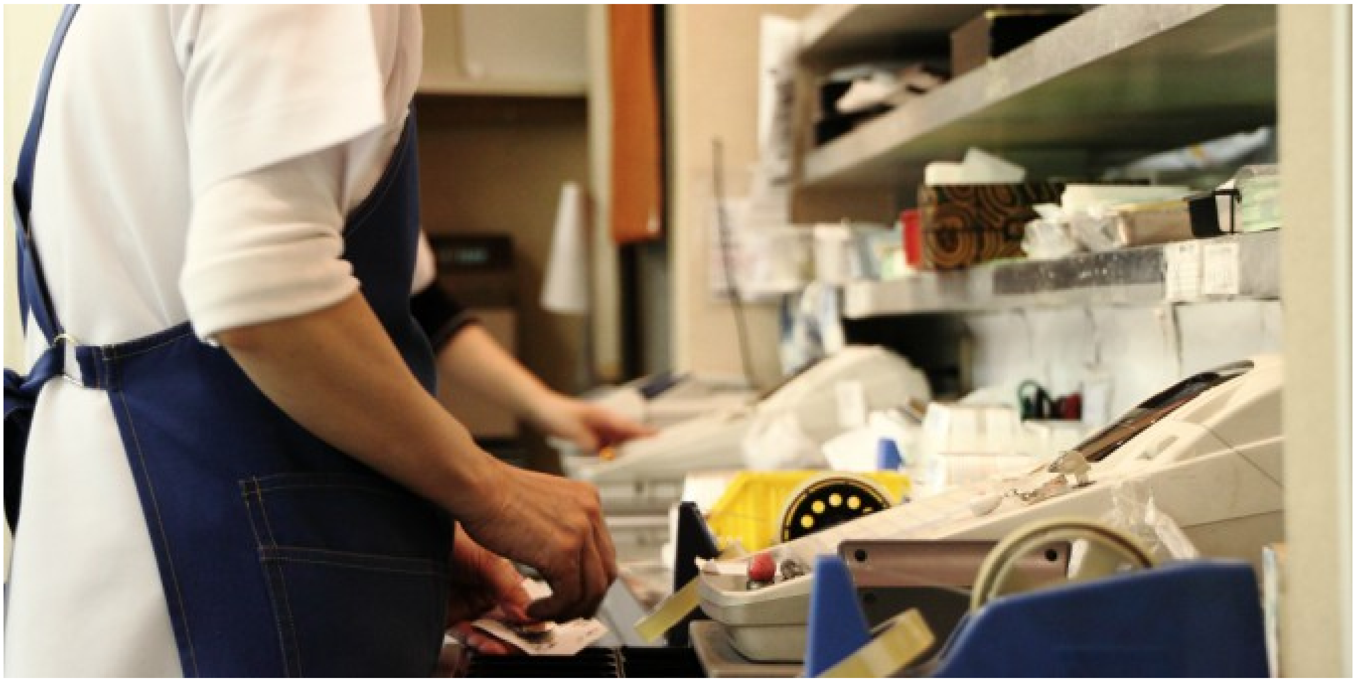

Megan may not know it, or even care, but she's become part of a trend. The 27-year-old mother of two works two jobs; one aboveground as a marketing and development employee in Tallahassee, Fla., and a second deep in the shadow economy. After she leaves her day job, she cleans an Airbnb condo and gets paid under the table, using the extra money to pay for day care.

"It almost feels shameful," says Megan, who didn't want her full name used. "But I know a lot of people doing similar things. It's like this dirty little secret that has somehow become the norm."

Indeed it has, writes SAGE Business Researcher freelance correspondent Kathleen Murray in her recent report on the U.S. underground economy. It has grown to comprise as much as $2 trillion of the nation's $19 trillion economy, according to recent estimates by economists. The population of this twilight world ranges from dishwashers and domestics who take their pay in cash to attorneys, accountants and other professionals who do some quiet work on the side, Murray writes.

As some economists measure the size of the U.S. underground economy, others debate its impact. On the negative side, it may hamper economic growth by depressing tax revenues, dampening competition and distorting the economic data upon which policy makers, business executives and investors base decisions.

A worker who is paid off the books is also a worker who is vulnerable to exploitation. These laborers often receive lower wages than above-the-line employees and go without benefits such as Social Security, unemployment insurance or workers' compensation. "The underground economy is not a victimless crime," California Insurance Commissioner Dave Jones observed in 2015 after state investigators found $78.5 million of unreported payroll at two Los Angeles garment manufacturers.

In Jones' state, the most populous in the country, the underground economy employs an estimated 15 to 17 percent of the labor force and totals as much as $140 billion, costing the state as much as $28 billion in lost revenue annually, according to the Employment Development Department.

There is, however, another view, Murray writes. Some economists argue that the shadow economy does ultimately spur overall economic growth, because most of the wages paid under the table are spent on consumer goods or services and thus pumped back into gross domestic product.

In addition, there are researchers who portray the underground economy as a facilitator for younger workers and an incubator for innovative startups. Informal work offers an easy entry path into the economy for new job-seekers and greater independence for those who value work flexibility above all else, Demetra Smith Nightingale, a fellow at the Urban Institute in Washington, told Murray.

Smith Nightingale added that for many entrepreneurs and home businesses, working below the line may be the only way to get their enterprise going. A 2012 International Monetary Fund report called the underground sector "the nursery of future economic growth within the formal economy." And Colin C. Williams, a professor of management at Sheffield University, has done extensive research on how many entrepreneurs in the West often do most or all of their business off the books until they are established – and sometimes even after that.

"To deter underground work is often to stifle precisely the enterprise culture that governments wish to foster," Williams wrote in his book "The Hidden Enterprise Culture." A more viable policy option, he argued, would be to adopt measures that make it easier to for these businesses to move into the formal economy. That may require adopting "a deregulatory approach to startups in some cases to allow this sector to act as an incubator to new business ventures."

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Notes:

- *This blog post is based on the report Underground Economy,SAGE Business Researcher, by Kathleen Murray.*
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