

**TITLE: AMERICAN ETHNOGRAPHY AND THE UNDERGROUND ECONOMY OF THE URBAN POOR: A CRITICAL REVIEW**

Research on the informal economy has traditionally had a clear urban focus. Even if urban centers of the developing world have primarily drawn the attention of scholars studying informal economic activity, studies on this phenomenon are still very much present in the US where a growing number of economists, demographers and social scientists have been, for the past few years, publishing reports and analyses. As Richard D. Vogel highlights, although they were initially considered a phenomenon of the developing nations, informal economies are now expanding rapidly in the free market nations of the western world, including the United States. (Vogel 2006; Miller 2007)

Although informal economic activity (IEA) in the US, as a percentage of GDP, is less important than those of some other countries – around 10% according to Austrian economist Schneider - (Schneider and Enste 2002), its pace of expansion is nevertheless cause for concern. Some Wall Street analysts even contend that it may now be growing at a markedly faster rate than the legitimate economy, by an average of 5.6% a year since the early 1990s (Mc Tague 2005).

Since the early nineties, several economic reports on IEA in the US have been commissioned by various think tanks and government agencies. Reports, like that of the National Center for Policy Analysis (Barlett 2008) or that of Robert Justich, a senior managing director at Bear Sterans Asset Management quoted in the Wall Street Journal, for example, aimed at measuring the extent of the output of economic activity unrecorded in the gross domestic product figures (around 10% that of what they refer to as the “real” economy, ie. the legitimate economy), at identifying the profile of its participants, and at assessing how

much the federal government (through the IRS) was losing per year in revenue due to the failure of people to report income and pay taxes on it.

If they revealed how IEA was growing, distorting economic statistics and reducing federal revenues, these economic reports focused mostly on the economic implications of the substantial workforce of low-wage undocumented immigrants of the informal sector. Also, some reports contended that an increase in the informal economy raised the competition with legitimate business (Chapin 2009) while others, like those from the IMF argued that such competition actually enhanced the efficiency of both and that about two-third of unreported earnings is spent in the legitimate economy (Schneider and Enste 2002).

However informative and relevant they were, these restrictive approaches failed to factor in other socioeconomic reasons fuelling the growth of the underground economy and other groups heavily engaged in informal economic activity. Worker involvement in the American informal economy is a multifaceted socioeconomic fact. While the immigrant workforce does play an important part in the informal U.S. economy, inborn workers equally participate in the informal sector. They consist of different groups, from licensed workers who take unreported jobs on the side, and craft workers who trade work in kind, to marginalized native workers who, because of cutbacks in welfare programs, must accept any work they can find (Vogel 2006).

On the other hand, several ground-level analyses based on direct observation - as opposed to data obtained from a distance through survey methods deemed unfit to explore in depth the life of marginalized populations - have revealed insightful information on the workings of the informal economy that relevantly supplement conventional research methods such as indirect estimation methods - like currency demand, electricity consumption, labor force statistical

profiles - with more direct estimation measures that would shift macro-level methods to more micro-market analyses.

This paper will review ethnographic research on the world of unregulated, unreported and untaxed work. It will not merely describe what has been or is being done in the US but will also make several critical statements on aspects of the situation of the study of the underground economy that may be found wanting and unsatisfactory.

The definitions given by American scholars who have studied IEA in the US somewhat match those employed by those who have examined its workings in developing countries so there is no need to dwell at length on them. Similarly, the extralegal sectors in the US have an extremely vast span of informal activities, and I will only focus on a small but representative number. I will briefly present some of its specific characteristics, many of which are reminiscent of those usually found in developing countries.

According to Castels and Portes, “the informal economy is characterized by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated.” (Castels and Portes 1989; see also De Soto 1989). It includes activities ranging from narcotics trafficking to self-employed craftsmen who moonlight for some extra cash. As its many names—“shadow economy”, “underground economy”, “black economy”, “grey economy”, “hidden economy”, “unobserved economy” – suggest, much of the focus of scholarship on the informal economy has been on appraising its size, determinants and characteristics. In the US, it involves various kinds of individuals but can be roughly divided into two – sometimes-overlapping – groups: the underclass of the urban sites of social relegation and low-wage undocumented immigrants.

In the 1990s, sociologist William Julius Wilson published seminal books and articles on the theory of the urban poor as an “underclass”. He argued, along with sociologists like Loïc Wacquant, Elijah Anderson or Lawrence M. Mead that the ghetto “underclass” or subproletariat was a separate social stratum that had developed into a group isolated from the rest of society (Wilson 1993). In the wake of their findings, several sociologists conducted detailed ethnographic research on the underground economy that characterized this group. Elijah Anderson, Loïc Wacquant, Phillipe Bourgois, Katherine Newman, Mitchell Duneier and, more recently Sudhir Venkatesh each published highly-documented studies on what ghetto residents commonly call the “hustle”, a field of illegal economic activities that commonly require a particular type of symbolic capital (...) in order to generate immediate financial gain. (Wacquant 282, Venkatesh (a) 17-18). This term, like the term “shadow economy” tends to call to mind images of devious back-alley business deals. But in reality, both terms consist of everything from bucket drummers on the streets to the person selling homemade veggie wraps outside your workplace. Due to socioeconomic isolation, economic transformations and layoffs, a large and growing number of Americans and undocumented immigrants have had no other choice but to try to get by in this informal market.

Their ethnographic research, despite theoretical and methodological divergences, focused on what we might call entrepreneurial, irregular career in the underground trades of America’s poorest neighborhoods, from street vendors to crack dealers (Duneier 1999). Mitchell Duneier, for example, explored the vanishing prospects in the legitimate economy that had led inner-city residents to engage in “irregular occupations and marginal trades” like “occasional street peddlers and vendors”. He also observed, interestingly enough, that informal economic activity is frequently interconnected with various forms of illegal enterprises but also with legitimate activities. In his book *Sidewalk*, Duneier devotes a full chapter on the selling of stolen goods that considers the compatibility of “worthy street

entrepreneurship” and “unlawful pursuits.” (Duneier 217-28). His research, based on thorough fieldwork, reveals how sidewalk vendors otherwise participate in legal entrepreneurial activity, exhibiting that legal and illegal pursuits exist side by side, sometimes in the lives of the same individuals.

Such coexistence of urban formal and informal activity has been brought to light in subsequent urban informal economy research and has helped reshaping the connection between formal and informal economies. Moreover, ground-level approaches like Duneier *et al*'s, while showing how, in the streets of major American cities, street vendors sell a vast selection of products and services produced by unregulated workers in the US or manufacturing companies based in other countries (highlighting the increasingly globalized nature of everyday urban market transactions, even informal, precisely discussed in this workshop) have revealed multiple times how some working poor could at the same time be employed in both the formal and informal economies (*see also* Alderslade, Talmage, and Freeman 2006).

Such ethnographic work also challenged the idea that the inner city and American ghettos were *disorganized* social formations. In his research on the “hustle” of black ghettos, Loïc Wacquant explains that US Blacks are the only group ever to have experienced ghettoization in American society, meaning “involuntary, permanent, and total residential separation premised on caste as basis for the development of a parallel (and inferior) social structure (and economy)” (Wacquant 2004). As Wacquant explains, the ghetto has been typically portrayed as a place of disorder and lack, “a repository of concentrated unruliness, deviance, anomie, replete with behaviors said to offend common precepts of morality and propriety.” Still, based on his significant fieldwork and analyses, he points out that ghettos should be understood as institutional forms, rather than as an accumulation of pathology to realize that what outsiders can consider as social disorganization is in fact another type of

social organization, with rules to be obeyed and codes to be followed (Wacquant 2002; Venkathesh 9). Avoiding the tendency to exoticize the ghetto and its residents, Wacquant managed to highlight the most extreme and unusual aspects of ghetto life as seen from outside and above.

So did anthropologist Philippe Bourgois (like Hart) in his eye-opening scholarly research on informal economies and immigrant communities in East Harlem. In his study on the selling of crack in El Barrio, in which Bourgois lived with his wife and son for three years, the author reveals that the drug dealers' main problem is not lack of skills – they manage a complex system involving marketing, distribution of resources, and human relations, but rather their lack of cultural capital – literacy, know-how in handling city agencies, or the ability to switch between the street and white-collar worlds. Through participant observation, an ethnographic techniques better suited than exclusively quantitative methodologies for documenting the lives of people who live on the margin of a society that is hostile to them, Bourgois managed to document the political economy of inner-city street culture, the entire untaxed economy, from curbside car repairing and baby-sitting to unlicensed off-track betting and drug dealing.

In *Off the Books* Sudhir Venkatesh similarly explored, this time in a Chicago disadvantaged area, alternative income-generating strategies of the enormous uncensused, untaxed underground economy. During his 10-year research in the high-rises Venkatesh discovered and documented the constellation of ghetto dwellers who work off the books to make money, as well as the vastly structured underground economic web that surrounds the neighborhood and weaves its social fabric. His works also importantly reveals that informal transactions are so diverse, spread out, and ordinary that they prevent any attempt at systematic documentation or measurement. In addition, he points out that some activities, he gives the example of snow shoveling or weekend poker games, are so deep-rooted socially

and culturally that they are not always considered as illegal even though participants can make substantial unrecorded earnings from them. Earlier studies conducted in some black urban districts had previously showed how some illegal gambling activities had been operating under the protection of political leaders allied with city hall (Ianni 1974).

This taken-for-granted approach to some illegal activities similarly affects the unreported earnings of undocumented immigrant workers. As Jim McTague explains, employers hiring illegal workers generally have little to fear from the government. Indeed, statistics released by the U.S. Citizenship and Immigration Services demonstrate that enforcement measures hostile to employers and illegal workers have decreased dramatically since 1997. Instead, agents are trying to catch workers at border-crossing points. (McTague 2005)

#### *Conclusion*

The informal economy activity in the US is commonly acknowledged as a criminal world peopled with devious street workers (drug-dealers, pimps, prostitutes, stick-up men...) or with welfare parents not capable, or not willing, to work as a good American would. Yet, as Venkatesh interestingly points out:

*“Most of us would be shocked to find that many local preachers are often intricately involved in this world. Or that the local gang leader may hold the respect of many residents, even as they decry the drugs he brings into the neighbourhood. Or that a member of the underground economy is as likely to be a middle-aged mother who cooks lunches for the local hospital staff as to be a teenage criminal. Indeed, figuring out exactly what is and isn’t “criminal” can be very hard in the ghetto, because it is difficult to find much in people’s day-to-day life that does not involve the underground economy.”* (Venkatesh xviii)

Ethnographic work similar to that quickly overviewed in this paper, combined to economic reports, are fundamental to help policymakers, even investors, to be more familiar with urban informal economic activity, in particular underserved and marginalized inner-city and immigrant markets, where it is likely to be most dynamic. Indeed, methodically appraising its magnitude, its structural causes or its characteristics, as well as neighborhood purchasing power and small business growth generated by the urban informal economy for instance, as some recent research conducted in California has showed (Social Compact 2005; Joassart-Marcelli and Flaming 2003), can help local or federal governments implement constructive economic programs or bring to light adequate household income or customer base to sustain basic financial services and retail businesses (Social Compact 2001).

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