Beyond competing theories of the hidden economy

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Beyond competing theories of the hidden economy
Some lessons from Moscow

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Abstract
Purpose – This paper aims to evaluate critically the validity of rival theorisations of the hidden economy that variously read this sphere as a leftover from a previous era, a by-product of a new emergent form of capitalism, a complement to formal employment or an alternative to the formal economy. Until now, the common tendency among economic theorists has been to either universally privilege one theorisation over others, or to represent each theory as valid in different places.

Design/methodology/approach – To evaluate their validity to the city of Moscow, a survey is reported involving 313 face-to-face interviews with inhabitants conducted during 2005/2006.

Findings – The finding is that, although each theory is a valid representation of particular types of hidden work in Moscow, no one theory fully captures the diverse nature of the hidden economy in this city, and that only by combining all of them can a finer-grained understanding of the multifarious character of the hidden economy in this city be achieved. How these theories can be synthesised in order to develop this fuller and more nuanced understanding of the hidden economy is then outlined.

Research limitations/implications – This study reveals that all these theories are needed to more fully understand the hidden economy of Moscow. Whether this is similarly the case elsewhere now needs to be investigated.

Practical implications – The recognition of multifarious types of hidden work, each with different economic implications, reveals that different policy approaches are perhaps required towards various forms of hidden work.

Originality/value – The paper re-theorises the hidden economy as a sphere composed of heterogeneous types of work.

Keywords Economics, Taxes, Russia, Economic sectors, Economic theory

Paper type Research paper

Introduction
A recurring belief across the social sciences is that economic activity has gradually shifted into the formal economy (Geertz, 1963; Lewis, 1959). The outcome is that the hidden economy is viewed as a residue or leftover from a previous era that is gradually disappearing from view. However, in recent decades, there has been a recognition that the hidden economy is extensive in many societies and growing relative to the formal economy.
economy (ILO, 2002a, b; OECD, 2002; Schneider and Enste, 2002). This has resulted in the emergence of a range of alternative theories of the hidden economy.

The aim of this paper is to evaluate critically these contrasting theorisations of the hidden economy that have emerged to replace the residue thesis. To do this, first, both the conventional residue thesis along with the emergent theories that variously represent it as a by-product, complement or alternative to the formal economy are presented. Second, a survey which evaluates the validity of these rival theories with reference to Moscow will be introduced followed in the third section by the findings. This will reveal that although each is relevant when discussing particular types of hidden work in Moscow, no one theory fully captures the diverse nature of the hidden economy in this city. The fourth and final section therefore transcends both the conventional tendency to privilege one theory and reject the others, as well as the notion that each applies to different places, by arguing that each is valid for particular types of hidden work and exploring how to join them together to achieve a finer-grained and fuller understanding of the diverse nature of the hidden economy.

At the outset, however, the hidden economy needs to be defined, or what is variously called the “cash-in-hand”, “undeclared”, “black”, “underground”, “off-the-books”, “informal” or “shadow” economy/sector (Barros, 2005; Bahmani-Oskooee, 1999; Dessing, 2004; Gang and Gangopadhyay, 1990; Jones et al., 2006; McCrohan and Sugrue, 2001; Odedokun, 1996; Pena, 2000; Renooy, 2007; Williams, 2005; Williams and Round, 2007; Williams and Windebank, 2005). Reflecting a strong consensus, hidden work here refers to paid work that is not declared to the authorities for tax, social security and/or labour law purposes when it should be declared (European Commission, 1998; OECD, 2002; Renooy et al., 2004; Sepulveda and Syrett, 2007; Williams, 2006; Williams and Windebank, 1998). This is the only difference between hidden and formal work. If other differences prevail, then the economic activity is not defined as hidden work. If the goods and/or services are illegal (e.g. drug-trafficking), for example, it is “criminal” activity. If the activity is not remunerated, similarly, it is part of the unpaid economy. Of course, in practice, the boundaries sometimes blur. Those engaged in hidden and criminal activities can overlap and hidden work is sometimes rewarded with gifts or in-kind rather than with payments.

Theories of the hidden economy

Here, the traditional but now largely rejected residue theory is briefly reviewed followed by three theories that currently have widespread purchase in the literature and which directly arise out of their rejection of various tenets of the residue theory.

The hidden economy as a residue

Grounded in the belief that goods and services are increasingly produced and delivered via the formal economy, hidden work was traditionally read as a leftover from an earlier era and a sign of “under-development”, “traditionalism” and “backwardness”, while the formal economy was viewed as representing “progress”, “development”, “modernity” and “advancement” (Geertz, 1963; Lewis, 1959). The formal/hidden economy dichotomy was therefore read as what Derrida (1967) calls a “binary hierarchy” in which first, the two sides are read as stable, bounded and constituted via negation and second, the resultant dualism is hierarchically ordered with the
superordinate (formal employment) endowed with positive attributes and the subordinate or subservient “other” (hidden work) with negative features.

The result was a temporal and normative sequencing of the formal and hidden economies. It was temporally sequenced by viewing the formal economy as in the ascendancy and the hidden economy as “the mere vestige of a disappearing past [or as] transitory or provisional” (Latouche, 1993, p. 49). It was normatively sequenced, meanwhile, in that the hidden economy was deemed “regressive” and formal economy “progressive”. In recent decades, however, a burgeoning literature has contested various tenets of this traditional theory.

The hidden economy as a by-product of the formal economy
One such re-theorisation questions the temporal sequencing by theorising hidden work as a new form of work emerging as a direct by-product of the advent of a de-regulated open world economy, which is encouraging a race-to-the-bottom in terms of labour standards (Amin et al., 2002; Castells and Portes, 1989; Gallin, 2001; Hudson, 2005; Portes, 1994; Sassen, 1997).

In this view, hidden work is a direct result of employers seeking to reduce costs, such as by devolving stages of production to those working under degrading, low-paid and exploitative “sweatshop-like” conditions. Hidden work is also seen as a by-product of the demise of the full-employment/comprehensive formal welfare state regime characteristic of the Fordist regime (Amin et al., 2002; Hudson, 2005). Those of little use to capitalism are no longer maintained as a reserve army of labour and socially reproduced by the formal welfare state but, instead, are now off-loaded, witnessed in the reduction in social spending in western nations, resulting in their increasing dependence on the hidden economy as a survival strategy. Hidden work is thus extensive in marginalised populations where the formal economy is weak, since its role is to act as a substitute for the formal economy in its absence (Amin et al., 2002; Castells and Portes, 1989; Sassen, 1997).

Akin to residue theory, however, the same normative sequencing is retained, depicting the hidden economy as negative and formal economy as progressive, albeit as a prescription of the required socially constructed trajectory of economies rather than as an inevitability. Indeed, this is the view of the International Labour Office (ILO) which asserts that “formalization and transition to the mainstream economy are desired goals” (ILO, 2007, p 18).

The hidden economy as a complement to the formal economy
Rather than theorise hidden work as a substitute for formal work, as in the residue and by-product approaches, another perspective reads the relationship as complementary with the two spheres growing or declining in tandem (Dzvinka, 2002; Williams and Windebank, 1998). At the macro level, this “reinforcement thesis” is argued by Dzvinka (2002) who views both spheres as growing or declining in tandem in Ukraine. At the micro-level, meanwhile, it finds expression in the assertion that deprived households engage in less hidden work than affluent households (Jensen et al., 1995; Renooy, 1990; Williams, 2004), meaning that the hidden economy consolidates, rather than reduces, the disparities produced by the formal economy (e.g. Pahl, 1984; Williams, 2004).

Akin to the by-product approach, both spheres are again seen as intertwined with each other, albeit in a mutually iterative relationship rather than one arising as a
consequence of the other. Moreover, although formalisation is normatively retained as a “path to progress”, hidden work is viewed more positively than in the residue and by-product approaches. Either it is read as potentially positive if it can be harnessed and moved into the formal economy (Small Business Council, 2004; Williams, 2006) or as possessing positive attributes in its own right and something to be developed alongside the formal economy (Cornuel and Duriez, 1985; Evans et al., 2006; Williams, 2004).

The hidden economy as an alternative to the formal economy
The final re-theorisation, advocated mostly by neo-liberals, views over-regulation of the market as the cause of many problems (Minc, 1982; Sauvy, 1984; De Soto, 1989), the hidden economy as an alternative to the over-regulated formal economy, and hidden workers as heroes casting off the shackles of a burdensome state. As De Soto (1989, p. 255) argues, “the real problem is not so much informality as formality”. Reading hidden work as the last bastion of untrammelled enterprise culture in an over-rigid economic system, its growth is taken as evidence of a resurgence of the free market against state regulation. Hidden work therefore exemplifies how formal employment could be organised if it were de-regulated. This sphere is the people’s “spontaneous and creative response to the state’s incapacity to satisfy the basic needs of the impoverished masses” (De Soto, 1989, pp. xiv-xv).

Here, the normative sequencing of the residue and by-product discourses is inverted; hidden work is the route to progress. Informalisation via de-regulation, rather than formalisation, is the route to progress and advancement.

Examining the hidden economy in Moscow
To evaluate critically the validity of these contrasting theorisations of the hidden economy, a survey was conducted in Moscow during late 2005 and early 2006, a global city of some 10.4 million inhabitants where previous surveys reveal not only some marked cultural differences to the rest of Russia but also a long legacy of the use of hidden work (Brooke, 2006; Clarke, 2002; Caldwell, 2004; Ledeneva, 2006; Shevchenko, 2009). During the Soviet period, Clarke (2002) details how there were a wide range of services that no state enterprise provided and which were delivered privately by individuals to one another, such as small construction and decorating jobs, repair of radios, televisions and washing machines, clothing repairs, care for the elderly and sick, private transport and private tuition. Indeed, until 1987, doing such odd jobs for financial reward was illegal. This meant that hidden work (the so-called “second economy”) was “illegitimate” per se (Ledeneva, 1998). Great care should be taken, therefore, not to extrapolate the findings from this survey, such as on its size, to either Russia more generally, post-socialist societies or other regions of the world.

Furthermore, it is important to understand the context in which household employment decisions are made, especially Russian labour market legislation and the tax and benefits regimes. Superficially, taxation is extremely straightforward, with a uniform rate of 13 per cent on personal income and a corporation tax level of 20 per cent. In practice, however, it is more complex. As Round et al. (2008) outline, many formal employees receive two wages from their formal employer, one formal and the other in cash at the end of the month. This allows employers to evade payroll taxes, and state pension contributions, and makes wage payments very uncertain for
employees as they have no guarantee that their unofficial wage will be paid. If it is not, they have no recompense because if they complain to the state, they will be open to accusations of tax evasion on previously paid informal payments. Labour legislation is also extremely problematic in Russia. Although a myriad of labour regulations exist to protect workers, few are adhere to in practice (see Round et al., 2008). As Clarke (2002) displays, many people rely on contact networks to obtain employment, as opposed to applying for posts in open competition, and in some instances bribes are required to obtain employment (Round et al. 2008). In sum, great care is needed not to extrapolate the findings from this survey to either Russia more generally, post-socialist societies or other regions of the world. Instead, the intention here is solely to use this study of Moscow to begin to raise questions about whether all these theories, rather than one, should be used when explaining the nature of the hidden economy.

In consequence, in late 2005 and early 2006, face-to-face interviews were conducted with 313 inhabitants of the Moscow city region. Given that previous studies in Moscow (Pavlovskaya, 2004), Russia (Clarke, 2002; Kim, 2002), East-Central Europe (Wallace and Haerpfer, 2002; Wallace and Latcheva, 2006; Williams, 2005) and western nations (Leonard, 1998; Renooy, 1990) identify significant variations in hidden work across affluent and deprived populations, maximum variation sampling was used to select three contrasting districts. First, an affluent district in the west of Moscow okrug, namely Krylatskoe, was chosen, second, one of the most deprived districts located in the South-East okrug of Moscow and third and finally, a mixed area to the west of the Moscow region, about 25 km out from the Moscow ring road (which is the Moscow city border), namely Leshkovo, where “new Russians” live in large expensive houses alongside benefit-dependent pensioners and the “working poor”. In each district, a spatially stratified sampling methodology was used to select households for interview (Kitchin and Tate, 2001). If there were some 1,000 households in the district and 100 interviews were sought, that is, the researcher called at every 10th household. If there was no response and/or an interview was refused, then the 11th household was visited, then the 9th, 12th, 8th and so on. This provided a spatially stratified sample of each district. In total, 313 face-to-face interviews were conducted in the three districts. Although these findings are not representative of Moscow as a whole, they do unravel the heterogeneous forms of hidden work in this city and avoid the pitfall of analysing only one population segment which might engage in a narrow range of types of hidden work.

To identify the nature of the hidden economy, previous studies indicate that when open-ended relatively unstructured interviews are employed, respondents find it difficult to recall when such work was used or supplied (e.g. Leonard, 1994; Williams, 2004). At the outset, therefore, the decision was taken to use structured interviews, which elsewhere have been shown not to result in the problem of respondents not reporting their hidden work to interviewers (Leonard, 1994; Pahl, 1984; Williams, 2004). Besides gathering background data on gross household income, the employment status of household members, their employment histories, ages and gender, first, respondents were asked about the forms of work that they most rely on to maintain their living standard, second, the sources of labour that the household last used to complete 25 common domestic services, third, whether they had undertaken any of these 25 tasks for others (either in a paid or unpaid informal basis) during the past year, fourth, open-ended questions about other informal employment conducted and its
relative importance to their household income and fifth and finally, and using five-point likert scaling, attitudinal questions concerning their ability to draw on help from others and their views of the economy, politics, everyday life and their future prospects. This paper focuses on the responses related to the nature of the hidden economy.

An evaluation of Moscow’s hidden economy

Is the hidden economy a residue? Asking respondents what form of work was most important to them for securing their livelihood, along with what is second most important, Table I reveals that one in three (32 per cent) households primarily rely on hidden work for their livelihood and a further one in nine (11 per cent) assert that hidden work is the second most important contributor. Given that 43 per cent of Moscow households thus cite this sphere as either the principal or secondary contributor to their living standard, hidden work is not a residue or leftover. It is a core livelihood practice, as previously identified elsewhere in East-Central Europe (Wallace and Haerpfer, 2002; Wallace and Latcheva, 2006).

Who, therefore, relies on the hidden economy? In both the residue and by-product theses, the belief is that it is marginalised populations excluded from the formal economy. Table II, however, reveals that just 25 per cent of working-age households with nobody in formal employment cited hidden work as their primary strategy, but 40 per cent of households with one formal wage earner and 35 per cent of households with multiple formal wage earners. Indeed, of all households chiefly relying on hidden work for their livelihood, just 20 per cent had nobody in formal employment (22 per cent of

<table>
<thead>
<tr>
<th>Primary strategy</th>
<th>Self-provisioning</th>
<th>Mutual aid</th>
<th>Hidden work</th>
<th>Employment</th>
<th>Benefits</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-provisioning</td>
<td>&lt; 1</td>
<td>1</td>
<td>1</td>
<td>&lt; 1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Mutual aid</td>
<td>&lt; 1</td>
<td>&lt; 1</td>
<td>&lt; 1</td>
<td>1</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Hidden work</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>8</td>
<td>13</td>
<td>32</td>
</tr>
<tr>
<td>Formal employment</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Pension/benefits</td>
<td>2</td>
<td>17</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: 2005/2006 Moscow survey

### Table I.
Primary and second most important form of work for living standard: percentage of households

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Self-provisioning</th>
<th>Per cent of households primarily reliant on:</th>
<th>Pension/benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Unpaid community exchange</td>
<td>Hidden work</td>
</tr>
<tr>
<td>Multiple earner</td>
<td>0</td>
<td>5</td>
<td>35</td>
</tr>
<tr>
<td>Single earner</td>
<td>2</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>No earner – working age</td>
<td>8</td>
<td>19</td>
<td>25</td>
</tr>
<tr>
<td>No-earner – retired</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>All households</td>
<td>4</td>
<td>17</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: 2005/2006 Moscow survey
all households surveyed), 25 per cent were multiple-earner households (35 per cent of households surveyed) and 55 per cent single-earner households (43 per cent). In consequence, to depict the hidden economy in Moscow as relied on largely by marginalised populations excluded from the formal labour market is erroneous, as previously identified in other countries (Williams, 2004).

Is it the case, therefore, that the by-product theory that assigns such work to marginalised populations is not relevant in Moscow and that hidden work is more an alternative or complement to formal employment? To evaluate this, different forms of hidden work are here analysed in turn. Until now, hidden work has usually been divided into two types: waged work and self-employment (Hussmanns, 2005; ILO, 2002a, b; Neef, 2002; Williams and Windebank, 1998). However, the findings of this Moscow survey reveal the need for a richer more textured understanding that recognises a continuum of kinds ranging from at one end hidden employees engaged in work close to formal employment to at the other end, kinds more akin to unpaid community exchange. To start to unpack the varieties along this spectrum, three broad types are here distinguished that in practice blur into each other, namely hidden salaried employment, hidden self-employment and more socially embedded hidden work conducted for kin, friends and neighbours. Each is considered in turn.

**Hidden salaried employment**

Some 25 per cent of all hidden work identified in this survey involved people working as salaried employees. Although the literature has heavily emphasised one particular type of hidden waged work, namely low-paid “sweatshop-like” work conducted by marginalised populations (e.g. Castree et al., 2004; Ross, 2004), and work was identified of this variety in Moscow, it was not the most common form of hidden waged work.

The most prominent type of hidden salaried employment (some 80 per cent of all hidden waged work) involved formal employees receiving cash-in-hand payments (often called “envelope wages”) from the business in which they are formally employed, as Neef (2002) has also identified in Romania and Sedlenieks (2003) in Latvia. These “envelope wages” are not largely for overtime worked but, rather, are part of their core wage for regular hours worked. Such “envelope wages” are a widespread practice in Moscow. Some 76 per cent of full-time employees and 61 per cent of part-time employees received part of their wage as envelope wages and this practice exists across the income spectrum, with some 45 per cent of their total wage being received in such a manner. This, therefore, is an intrinsic feature of the formal labour market in Moscow. Very few, it should be added, stated that they were happy receiving such wages because it affected their social security, pension entitlements and ability to get credit. Indeed, many stated that they had encountered difficulties when seeking a mortgage or loans due to having no official record of their “real” wage. Moreover, it is perhaps a shrewd decision of banks not to recognise such “envelope wages”. Some 25 per cent of workers had witnessed problems in receiving these payments. This practice is important, therefore, because it displays how the hidden and formal economies are inextricably inter-twined in that hidden work is part and parcel of contemporary capitalism with employers reducing costs by paying their formal workers off-the-books, blurring the very distinction between formal and hidden work.

Beyond “envelope wages” paid by formal employers to formal employees, the remaining 20 per cent of hidden salaried employment involved people working as
employees in businesses where they do not have a formal job. Some 30 per cent of this was in wholly off-the-books businesses. More prevalent, however, was hidden salaried employment in registered businesses. In just 25 per cent of cases were these hidden employees working full-time and on a permanent basis. In three-quarters of instances it was part-time, temporary or occasional.

A final group of hidden employees are those working for affluent Russian families (known as “new Russians” in Russia). These are largely senior citizens working as cleaners, babysitters, cooks and gardeners. Respondents spoke of exploitative working conditions in this personal services sector, including beatings and mistreatment by employers and failures to pay, mirroring the conditions regarding domestic service elsewhere in the world (Cox, 2006). Again, however, it needs to be recognised that this is but one segment of hidden waged work, albeit one that portrays well the poor conditions in this sphere.

Hidden waged work, therefore, is not a residue. Neither is it a complement or alternative to capitalism since it is not separate from the formal economy. Rather, the by-product thesis perhaps most accurately represents most of this work. This waged work does indeed appear largely to be an inherent component of, and embedded within, contemporary capitalism and to arise as a direct result of employers seeking to reduce costs by adopting off-the-books arrangements.

Hidden self-employment

Some three-quarters of reported instances of hidden work involved own-account work. Breaking this down, some 24 per cent (18 per cent of all hidden work) is self-employment conducted for clients previously unknown to, or only vaguely known by, the supplier, while the remaining 76 per cent (57 per cent of all hidden work) is for closer social relations and often involves a wider range of rationales than purely economic gain, such as helping out others.

Starting with those engaged in hidden self-employment for clients previously unknown to the supplier, a view has emerged that this hidden enterprise culture constitutes an important seedbed for enterprise creation and development (Baculo, 2006; De Soto, 1989; Guariglia and Kim, 2006; Harney, 2006; ILO, 2002a; Small Business Council, 2004; Williams, 2004, 2006). Examining the Moscow data, this is reinforced. Of the 81 self-employed respondents, just three (3.7 per cent) had registered their business. The remaining 78 (96.3 per cent) had no licence to trade, were not registered and conducted all of their transactions off-the-books. Although only a small sample, the only conclusion is that most self-employed in Moscow start-up in the hidden economy and continue to do so when they become more established. Even the three who had registered their businesses conducted a portion of their trade off-the-books.

Who, therefore, are these self-employed who start-up in the hidden economy and continue to wholly operate in this sphere? Table III reveals that they are clustered at the two ends of the income spectrum. In the lowest quartile of households surveyed in terms of gross income, one finds clustered 35 per cent of the hidden self-employed, while in the highest quartile of households one finds 40 per cent of all hidden self-employed.

Those in the lowest quartile largely do not have a formal job (80 per cent of them) and therefore most engage in hidden own-account work as a survival strategy. This is mostly poorly paid work, such as selling flowers outside street markets, cigarettes
outside stations or providing routine domestic services. Most would prefer a formal job so as to minimize their risks of being cheated, robbed and to be able to have paid leave, and did this hidden work as a last resort in the absence of alternatives. As such, these necessity-oriented hidden self-employed adhere to the by-product depiction of hidden workers as forced to eke out a living in this sphere.

The hidden self-employed in the highest quartile in terms of gross household income, however, usually engage in relatively well-paid hidden self-employment which in 45 per cent of cases directly arise out of opportunities from their formal employment or self-employment. This includes not only university teachers who provide preparation for the university entrance examinations and school teachers providing after-school additional lessons, but also software engineers providing off-the-books services for the clients of the business where they are formally employed, and self-employed plumbers, electricians and builders conducting a portion or all of their business off-the-books. Nearly all did so in order to avoid the “bribe taxes”, administrative corruption and “informal taxation” rife in public life (Hanson, 2006; Wallace and Latcheva, 2006). Their motives, therefore, very much reflect the “alternative” thesis that depicts hidden work as a chosen alternative to a harmful formal economy.

**Socially embedded hidden work**

This Moscow study finds that some hidden work is conducted for closer social relations and is more akin to unpaid mutual aid than formal employment, but unlike previous work, it does not find that it is all conducted for not-for-profit rationales (Cornuel and Duriez, 1985; Williams, 2004). Instead, such socially embedded hidden work exists on a continuum ranging from work conducted for closer social relations more for profit-oriented reasons to paid favours where the profit-motive is largely absent, with many combinations in between. Even if conducted primarily to help out others, strong economic motives can also exist. Similarly, when customers employ people they know, although the intention is often to help them out financially, there frequently remain strong economic motives; quite simply, to get the job done cheaper. The motives for socially embedded hidden work, therefore, stretch from mostly financial gain at the end nearest to profit-motivated hidden self-employment to mostly wishing to help the other person out at the other end.

Of the 57 per cent of hidden work conducted for closer social relations, 33 per cent was undertaken for friends and 24 per cent for neighbours. No instances were identified of paid favours being conducted for kin. This is in stark contrast to England where it is relatively common to do so (Williams, 2004). In Moscow, in contrast, kinship exchange is either unpaid or alternatively, gifts (but not money) are given and

<table>
<thead>
<tr>
<th>Gross household income</th>
<th>Lowest quartile</th>
<th>Lower quartile</th>
<th>Upper quartile</th>
<th>Highest quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of sample</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Percentage of hidden self-employed</td>
<td>35</td>
<td>10</td>
<td>15</td>
<td>40</td>
</tr>
</tbody>
</table>

**Source:** 2005/2006 Moscow survey
accepted, as Ledeneva (1998) has shown in her in-depth discussions of blat, networking and informal exchange.

Among neighbours and friends, however, paying for favours is more common. Some two-thirds of favours for friends and neighbours involve monetary payments; 65 per cent of exchanges between neighbours and 62 per cent of exchanges between friends, displaying that such paid favours are a key mechanism for the delivery of community self-help. This form of hidden work thus supports theorisations attributing more positive characteristics to hidden work since it represents one of the principal mechanisms for the delivery of active citizenship and social support in Moscow. More particularly, this kind of work supports the theorisation of hidden work as a “complement” to formal employment since higher-income households give and receive some three times more paid favours than the average household, not least because they have the money to engage in such reciprocity, while the lowest-income households receive and provide just one-fifth of the paid favours as the average household, displaying how this hidden work reinforces the disparities produced in the formal economy.

**Evaluating the theories of the hidden economy**

This Moscow survey reveals that different theories are valid for different types of hidden work. When evaluating hidden salaried employment, it is the by-product thesis of a new emergent form of capitalism that is using off-the-books working arrangements to compete and off-loading onto the hidden economy those no longer of use to it that is most appropriate. Analysing hidden self-employment, although the by-product perspective is again relevant when examining necessity-oriented own-account workers in lower-income households, it is the thesis that depicts hidden work as a chosen alternative which is more appropriate when representing many in higher-income populations engaged in hidden self-employment. In the realm of socially embedded hidden work, meanwhile, it is the theorisation of hidden work as a complement to formal employment that seems valid since such favours reinforce, rather than reduce, the disparities produced by the formal economy.

Consequently, varying theories are appropriate for different types of hidden work. No one theory fully captures the diverse nature of the hidden economy. Here, therefore, the conventional view that these are competing theories which can be universally applied to a country, or that they apply to different regions of the world, is transcended. It is recognised that each is relevant to particular types of hidden work, and that only by incorporating all of them will a fuller understanding of the complex and diverse nature of the hidden economy in Moscow be achieved.

How, therefore, can these theories be coupled together? Superficially, these theories seem mutually exclusive. On the one hand, in the residue and alternative theories, the formal and hidden economies are discrete and separate, while in the theories of hidden work as a complement to, and by-product of, formal work, they are viewed as inextricably inter-related (e.g. Olmedo and Murray, 2002; Smith, 2004; Smith and Stenning, 2006). As this Moscow survey displays, however, in lived practice a spectrum of types of hidden work exists, ranging from varieties relatively separate from the formal sphere (e.g. wholly hidden self-employed) to those relatively inter-twinned with formal work (e.g. “envelope wages”). On the other hand, while the residue and by-product theories universally attribute hidden work with negative features, the complementary and alternative theories promulgate the inverse. However,
this Moscow study again reveals a continuum of types of hidden work ranging from those with largely positive features (e.g. paid favours) to those with largely negative attributes (e.g. low-paid sweatshop-like hidden waged work).

These theories can be therefore integrated by conceptualising first, a spectrum that ranges from forms of hidden work relatively separate from, to types heavily embedded in, the formal economy, and second, a spectrum ranging from those with largely negative attributes to those with largely potentially positive features (see Figure 1). Given that where each form of hidden work sits in this grid might vary from one socio-spatial context to another and from one time to another, Figure 1 depicts only the position of different types of hidden work in contemporary Moscow.

Adopting this more integrative holistic understanding helps stop the currently futile debates between those portraying the theories as rival representations despite each theory talking about very different forms of hidden work (e.g. neo-liberals largely discuss hidden self-employment while by-product theorists discuss hidden waged work). It also facilitates a more nuanced approach towards tackling the hidden economy, helping identify those types that might be eradicated (e.g. sweatshop-like hidden waged work), those that might be helped to make the transition into the formal economy (voluntarily chosen self-employment) and those that might be tacitly condoned (e.g. paid favours), rather than adopting a “one size fits all” approach which treats all types the same. Perhaps most importantly, it also enables the long-standing simplistic debate about whether formalisation or informalisation is the route to progress to be replaced by finer-grained nuanced discussions based on a more “pick and mix” approach so far as various types of hidden (and formal) work are concerned.

Conclusions
Evaluating the theories of hidden work as a by-product, complement or alternative to formal employment through a study of the hidden economy in Moscow, this paper has revealed that although evidence can be found to support nearly all these theories by
looking at specific types of hidden work, no one theory accurately depicts the hidden
economy in Moscow as a whole. To more fully capture the diverse nature of the hidden
economy in this city, this paper has therefore drawn on the finding that each theory
applies to particular types of hidden work to argue that only by incorporating all these
theories will a finer-grained and more comprehensive understanding be achieved.

The outcome has been to show that the hidden economy is not always either
separate from, or inter-twined with, formal employment, and neither does it always
possess either solely positive or negative attributes. Instead, a spectrum of types of
hidden work exist, some of which are relatively separate from the formal economy and
others more inter-twined, and some of which possess on balance largely positive
features and others largely negative attributes. By adopting this more multi-layered
finer-grained articulation of the nature of hidden work, the contention has been that a
fuller understanding of this sphere can be achieved and that a more refined and
nuanced discussion about the way forward for policy-making can occur whereby the
eradication of some forms might be pursued such as hidden waged work, but a
laissez-faire approach towards others such as paid favours and a more preventative
approach towards yet others, such as hidden self-employment, by either putting in
place welfare mechanisms to negate the need to engage in such work as a survival
strategy, or initiatives to facilitate its formalisation and deal with the structural
features of informal taxes, bribes and bureaucracy that lead many to opt for hidden
self-employment as a chosen alternative. Having shown this in Moscow, what is now
required is to evaluate whether similar arguments can be made about the hidden
economy elsewhere and also to understand how the hidden economy might be
differently configured in other places. If this paper helps engender further studies and
also greater consideration of the different ways in which public policy needs to respond
to the multifarious types of this work, then it will have achieved its objectives.

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