An Empirical Study of the Underground Economy in the Kingdom of Belgium

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Available at: https://works.bepress.com/dana/11/
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Abstract: This article investigates the underground economy in Belgium. Although several government initiatives are attempting to combat underground economic activities, we found illegal foreign workers identifying opportunities and fulfilling market needs. Underground employment thus thrives in a variety of sectors, including the building sector, cleaning houses, delivery jobs, garage business horticulture, hotels, industrial cleaning, and social work.

Keywords: Belgium; migrant workers; underground economy; illegal economy; illegal immigrants; illegal employment; undocumented employment.


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## 1 Introduction

Becker (1968) suggested that people engage in shadow economic activity for economic gain, and weigh expected gains with expected costs – factoring in risk – in ways not inconsistent with the predictions of traditional economic theory. Feige and Ott (1999) provided a rich overview of shadow economies. As noted by Schneider and Enste (2000, p.77), “Shadow or underground economic activity is a fact around the world, and there are strong indications that it is increasing”.

With globalisation, the world has witnessed increasing numbers of migrant workers, often illegal immigrants whose immigration status prompts them to work in the underground economy, and this has been attracting academic attention (Rezaei et al., 2013). The focus of our present article is the underground economy in Belgium.

Adam and Ginsburgh (1985) focused on the implications of the shadow economy on official growth in Belgium; their study identified a positive relationship between the growth of the shadow economy and the formal economy, and under certain assumptions (i.e., very low entry costs into the shadow economy because of a low probability of law enforcement) the authors concluded that an expansionary fiscal policy was correlated with a positive stimulus for Belgium’s informal economy.

Pestieau (1985) reported on a questionnaire administered in 1983 in Liege. This showed that time use in the black economy in Liege amounted to 14% of work time in the formal economy.

Zhelyazkova (2008) interviewed one African, nine Latin Americans, and three Poles in Belgium. Only one had a university degree; this was an interviewee from Latin America who worked as a cleaner as did all the other Latin Americans. The Polish respondents all worked in horticulture. That study discussed one illegal worker who “believed that, upon her arrival in Belgium she was going to work as secretary or saleswoman in a store. But like many interviewees, she was only able to do domestic work for families, which had no respect for her” (2008, p.21). Zhelyazkova (2008) also noted that 140 of 200 prostitutes who work at the Brussels-Nord railway station were Bulgarian.
For an overview of Belgium, its history, entrepreneurship policy and small business sector, see Dana (2006). Belgium is believed to have a shadow economy worth between 20 to 24 % of official GNP.

Focusing on underground economic activities in Belgium, the objective of our study was to bring about empirical insight on two questions:

1. What circumstances and factors characterise specific sectors in which undocumented immigrants participate in underground economic activities? We are interested in the role of market clearance (balances or imbalances between actual supply and demand curves) on the one hand, and the available opportunity structure to immigrants due to their operational capability within the country specific contexts on the other.

2. Is underground economy a pull factor for irregular/undocumented migration? We are concerned with experiences with the informal opportunity structure and the impact of the informal opportunity structure on choices.

2 Definitions

In using the term *migrant worker* our aim is to describe individuals who have left their countries of origin primarily to seek work in a destination country. While there is no set period after which such a worker is no longer categorised as a migrant, we use the term to describe individuals for whom migration is a relatively recent experience; the reason for this is because we do not subscribe to the view that individuals who have migrated and who have settled in the destination country should continue throughout their working lives to be automatically identified within the destination country as migrants.

While *compliant migrants* are legally resident and working in full compliance with the conditions of their immigration status (Anderson and Ruhs, 2007), we define *illegal immigrants* as foreign nationals who are not able to legitimise their residence or work or both in accordance with the rules of law of (in this paper), Belgium.

We understand the *underground economy* as constituted by irregular production and/or labour by *illegal immigrants* that is integrated into the formal economy representing that ensemble of activities which contribute to the formation of the revenue and of the wealth of a nation without, however, being reported in official statistics (Lucifora, 2004). We distinguish between the *underground economy* and the *illegal economy*: The *underground economy* includes the production of legal goods and service, but unofficially. In contrast, the *illegal economy* consists of the production of illegal goods and services; it can operate within the formal economy, but does so covertly within the circle of criminal activities.

A status of *illegal immigrant* often leads to *illegal employment*, which establishes and addresses a situation characterised by an illegal contractual relationship. This situation occurs where the employment contract – involving documented as well as undocumented immigrants or citizens – is tainted by illegality, in other words where the parties have agreed to perform all or part of the contract in breach of the collective agreements or the labour law. This can include working where there is no legal authority to do so, but can also include working under an arrangement in breach of the law, for example, avoiding the payment of taxes or social security contributions, avoiding declarations to public authorities, not paying income taxes etc.
We distinguish between non-compliant migrants who are undocumented without the rights to reside or work in the Kingdom of Belgium, and semi-compliant ones; semi-compliance indicates a situation where a migrant is under-documented and therefore a legally resident working in violation of some or all of the conditions attached to their immigration status. Relevant examples of semi-compliance are students working over the limit specified in their permit, au pairs working and earning more than allowed, migrants with a residence permit but no work permit working undeclared. Undocumented work involves undeclared and non-documentated economic remunerated activities, often carried out by non-nationals.

The new word allochtone refers to foreigners or Belgian citizens born in a family of certain foreign origins. Unlike in Denmark, the category may not be used in official documents in Belgium, but it does appear in media and political discourses.

The informal economy (see Dana, 2010) refers to activities, involving the paid production or sale of goods or services that are unregistered or hidden from the state for tax and employment law purposes, and are not registered by the official statistics and authorities when calculating the GDP. The informally produced and purchased goods and services are then part of the market economy and contain firstly undeclared and non-documentated economic remunerated activities which therefore do not appear in national accounts and statistics. Secondly, the informal economy contains economic activities that avoid the payment of taxes and social insurance contributions. Thirdly, the informal economy supports working relations not in compliance with ruling labour law (duration of employment, conditions of payment, occupational health and security).

The term informal employment is often more useful in describing the range of work situations of irregular migrants, as the informal economy suggests that it is separate from the formal economy, while many believe that they are closely linked. Informal employment, on the other hand can range from employment by a business that conducts some or all of its activities informally to unpaid or underpaid work in a family business, and may cover work that is not declared by the employer.

We suggest that the underground economy should be understood as a product of the business structure of the environment that provides an opportunity structure. It should emphasised that the underground economy involves not only immigrants, whether compliant, semi-compliant or non-compliant immigrants. Saying this we must be aware that the kind of available openings in the actual opportunity structure in a specific country – in this case Belgium – respond to the status of the individual immigrants. The illegality –together with many other factors including the level and the kind of human capital, social capital, and gender – is an institutional circumstance, dominating the individual and collectives immigrant’s possibilities to participate in the economic activities available within the opportunity structure.

3 Governmental initiatives and market needs

A new Belgian government measure was introduced to create domestic service jobs (emplois de proximité) in order to integrate long-term women unemployed into the labour market (titres services). Yet, Belgium has been experiencing a downward pressure on domestic worker wages because of the massive presence of Polish women, who have caused a supply surplus, in this niche.
The low cost of work, the fact that employment is declared and the tax incentives given to the users of the services have led to the disappearance of a great number of un-declared jobs. In addition, the sector also includes living-in domestic employment, which is still open to non-declared women, but office and industrial cleaning jobs are more often jobs reserved for men.

4 Methodology

Our article is based on findings obtained from conducting in-depth interviews with illegal immigrants and also with experts and stakeholders about the subject. The search for interviewees used the snowball method (Goodman, 1961). It was mostly restricted to Brussels (see Exhibit 1), but also included horticulture and trade-union contacts outside the capital city.

Exhibit 1 Brussels, in 2013 (see online version for colours)

Source: Photograph by Léo-Paul Dana

Our empirical findings were not intended to be representative of illegal activities in all of Belgium. Sectors frequently employing illegal labour are not represented in our study. Except for the final component of door-to-door delivery service, our study excludes transport (e.g., taxis, trucks), industrial manufacturing (e.g., clothing industry workshops,
processing meat and other foodstuffs), pubs and restaurants (except one hotel), retail trade (e.g., food and car trade), health (in particular, care or convalescent homes), and personal and beauty care (e.g., hairdressing).

5 Findings

We identified opportunities for underground employment in: the building sector, cleaning houses, delivery jobs, garage business horticulture, hotels, industrial cleaning, and social work. Our results revealed the following characteristics of the underground economy in Belgium:

- the dominance of the demand side of the market
- a specific form of organisation of underground activities, including underground subcontracting
- governmental initiatives to combat the underground economy have had limited success
- in specific sectors, we observed a surplus on the supply side of the labour
- government response has included creating domestic service jobs in order to integrate long-term unemployed women into the labour market to lower the cost of labour
- tax incentives given to the users of the services have led to the disappearance of a great number of undeclared jobs
- the presence of foreigners, refugees, asylum seekers and undocumented residents offer a large pool of workers ready to accept such jobs and often employed without any contract
- respondents told us that what is important to them is earning money, not the country or the sector of employment
- Belgian semi- and non-compliant immigrant workers do not perceive themselves as immigrants, but as utility maximisers helping the Belgian market to fulfil existing needs
- the existence of the underground economy makes it possible for semi- and non-compliant, and even fully compliant immigrants to make a living
- our findings indicate that there is a rather well developed understanding of the needs of the labour market, and that information is circulated within mono-ethnic networks, cross-ethnic networks and national boundaries
- certain sectors are more suitable for underground economic activities than are others, especially if they are not easy to control and monitor by authorities
- control costs can deter implementation of policies.

For years Flemish and Walloon enterprises have called on foreign labour for fruit picking and mushroom gathering and for woodcutting in the fir tree forests of Ardennes. These
sectors are particularly supervised by labour inspections – as are all seasonal activities, which often give rise to breaches of labour law. Although exemptions have been granted to employers, work in horticulture is part legal, part illegal, including apple, mushroom, and strawberry picking in summer and maintenance of fir trees during winters. Fields are located in Wallonia (largely in the Namur-Luxembourg area an hour drive south-east from Brussels) and in the Limburg area of Flanders (an hour north-east of the capital).

Casual workers employed for apple and strawberry picking work in an irregular way, *i.e.*, in infringement of the law. The law favours the employee over the employer; only employers are liable in the event of labour law infringement. Whatever is the status of the worker (legal, illegal, with or without work permit), it is the employer that contravenes the law, not the employee.

In arboriculture and horticulture there are at least two ways in which foreign labour is used:

1. regular employment for the season
2. occasional employment.

However, not all the regular seasonal workers are legal; likewise, not all the occasional ones are illegal.

A temporary shortage of workers prompts employers to resort to casual workers. The presence of foreigners, refugees and illegal residents offer a large pool of workers ready to accept such jobs and often employed without any contract. Our interviewees – independently of each other – reported to us similar patterns and conditions of work; they worked as casual labour, with no contracts in the plantations. One is a young man of Guinean origin who lives on social aid and his small business; another is a Congolese adult, university graduate and former civil servant. What is similar is the organisational model of recruitment, not the individuals.

In Brussels, as is quite usual for Africans, the manner of recruitment is not individual hiring but that of a group. Meetings take place in African pubs, in churches and other community places. Certain sectors are more suitable for immigrants to work in, than others. Usually transport is organised for a group. The group meets for instance at the Brussels Midi train station at 6am and the employer takes the workers to the orchard; they are driven back to the station in the evening. According to our interviewees, transportation and housing present problems, in particular when the work-sites are far from the city.

In the past, in the countryside, entrepreneurs housed employees. Today, employee lodging has become an income-generating activity: buildings have been converted into hostels by the employers themselves or by intermediaries who are part of the network involved in the horticultural activities. That network includes, in particular, recruiters and agencies. Casual labourers thus pay rent to the intermediary or employer for lodgings.

It is not always the case that the employee has contact with his real employer; contact is often limited beyond the team leader. Work is led by a foreman, sometimes himself a seasonal worker. Interviewees told us that they never know how much they will be paid. Wages are based on productivity, which is measured by distance: paid according to the length of a line of trees (500 m, or 1 km). Others are paid by the weight of an apple/strawberry crate. Wages are paid daily or weekly. But participants in our study claim not know how the wages were calculated or whether everyone had the same wages. **BE 11** received 43 € a day, but another one in his group had 56 € for the same work.
the strawberries, not all illegal, there are even Belgians, not all illegal ones, and some believe the Belgians are paid more. Some appear rather fatalistic:

- “to keep your job, you mustn’t complain”
- “everybody knows how precarious the job is but it’s the only one you’ve got”
- “it does depend on you, when you find a temporary job, they tell you if you want to work 10 hours or more, you can’t insist, but in the black, you can insist”.

Group interviews with Polish workers indicate that in the Belgian situation in horticulture is not new. In this field, Belgium’s practice is similar to that of Germany and the Netherlands. Other countries, too, have supplied workers for those jobs, such as India. As already mentioned, legal employment with a C temporary work permit and irregular jobs go side by side.

At present, access to the C permit has been facilitated for the European Union countries and the system of posting has been widely developed, despite its blurred legal status. Theoretically, employees working for the whole season (three months maximum; here mostly eight weeks), in summer or in the winter, have legal authorisation and a statutory framework. It is nevertheless difficult to confirm with certainty the legality of the situations of certain interviewees, in particular those of posted workers. According to the law, they were recruited in Poland and employed by a Polish firm, then made available to Belgian horticulturists. In short, the legal employer is the Polish firm, and it is the one that pays the salaries and social taxes. On the ground, however, one finds that the Polish firm is a temporary job agency and we cannot tell if it has received approval or not. But it is known that it was set up especially for the Belgian employers who use it in order to remain legal. The Polish employer in this case relieves the Belgian employers of the tasks of selecting candidates and from administrative procedures with the control authorities of both countries.

According to our empirical findings, the demand for work is strong. We were told that a quarter or a third of the adult population of a certain region in Poland leaves every year to work in Belgium, and other host economies. One woman (Interviewee 5) told us: “Last year in the bus, out of 46 places, about half came from my town. Previously, all the young people left also. They go to Belgium, Germany and Italy. In Italy, it is women, mainly, that go to work as cleaners, babysitters or domestic helps. In Germany it’s practically everyone to pick fruit and vegetables, asparagus, strawberries, and in Belgium also for the fruit”. The important issue is earning money, not the country or the work.

Only the less experienced persons complained to us about the working conditions in strawberry picking, given the uncomfortable position kneeling. One of our respondents told us that she is satisfied working with strawberries, by comparison with the job she did before, picking mushrooms in Germany: “Right at the start there is a difference. When you pick the mushrooms, you don’t have to be on the ground. Here you are on the ground, confined, and it is hot inside. But I prefer to cut strawberries because I love it. But in the mushrooms, it was a lot of hours to work. Sometimes 18 or 20 hours a day. But they gave us ten minutes rest every two hours (...) I worked on an elevator because the mushrooms, you cut them on several levels. No, no, I am much better here than there…Myself, I’m fine, for example, here in the house, thanks to the fact that they are Poles, because as I do not speak another language well; it could be difficult for example with Belgians or Turks or with someone else. So, like that, if we are together in the evenings and everything, we can talk. That’s good too. Everything is fine. There are no
conflicts. Well, we speak to each other just a little. They speak a lot. Now there are many Turkish women working, and sometimes they speak a lot. But with us not everyone can understand. We’re really together, you see, we all work here and all, its fine” (Strawberry-picker interviewee 6).

Respondents are grateful to the Polish firm for facilitating their employment, but not to Belgians. Many workers do not consider themselves to be migrants, not even as the temporary migrants, but as foreigners needed by Belgium, a country in a subordinate position.

The construction sector is an example of the operation of an illegal labour market that adapts itself to the evolution of societies (migratory phenomena), to the evolution of working and organisational techniques (craft to industrial manufacturing and assembling components, development of technical specialisations and subcontracting) and to the evolution of regulations (liberalisation, internationalisation, competition). Its effect is the constant lowering of social norms for workers. With regards to the construction sector, here illegal work is tradition, either by Belgian citizens or illegal foreign workers. The work most often described to us was ceiling and wall plastering, a quickly learned job which is done indoors and is therefore hidden from outside. There is also initial demolition work and work-site cleaning, which are jobs not requiring any qualification and are often heavy and unhealthy. But not all the segments of the sector are affected in the same way. Illegal work reported by our interviewees – except one – concerns only the renovation sector, not shell work or work requiring security devices, such as electric installations.

In Belgium, there are many prevention and control measures, the main one being DIMONA, which requires the immediate declaration of hiring, as well as the system of trickle-down responsibility, which also makes it possible to incriminate the principal who treats with sub-contractors using illegal work.

We learned that Brazilians are currently attracting the special attention of social fraud control authorities, in particular in Brussels. The reason is the recent increase in numbers, which has made them more visible. This very visibility led us to our special interest in this group. We also learned that the special interest on the part of the control administration and of the police arose mainly because the Brazilians are generally recruited into networks trafficking in illegal workers. This is this aspect of the fraud that interests the inspections at the moment. The latter try to reduce it and to eliminate those responsible from the system. The first objective is therefore not necessarily to arrest the individuals. The inspection wants to establish whether the current traffic relies on the system, which emerged before Portugal entered the European Community. At the time, there were a large number of Portuguese nationals among the illegal construction workers in Belgium. When Portugal joined the European Union, the Portuguese workers were regularised and some set up their own companies, which now do sub-contractual work for the big groups in the building sector. In Brussels, Brazilians try to pass for Portuguese, if need be with forged papers.

6 Discussion

The Belgian case is characterised by the dominance of demand side of the market, the specific form of organising of the underground activities, subcontracting, and governmental initiatives to combat the underground economy, also in specific sectors a
surplus on the supply side of the labour has been observed. Government measures include creating domestic service jobs in order to integrate long-term women unemployed into the labour market, to lower the cost of work. Tax incentives given to the users of the services have led to the disappearance of a great number of un-declared jobs.

Market needs remain as the dominant factor with regard to the form and the content of the underground economy, binding together suppliers and demanders of labour around common interests. Governmental initiatives do not seem to resolve the situation completely, specifically in sectors that are dominated by seasonal needs for labour. Many flexibility exemptions have been granted to these employers but they are never enough. Casual workers employed for strawberry and apple picking worked in an irregular way, *i.e.*, in infringement of the law, even if they were legal residents in the country. In horticulture and arboriculture, there are at least two ways in which foreign labour is used: regular employment for the season and occasional employment. However, not all the regular seasonal workers are legal; in the same way, not all the occasional ones are illegal. Faced with a temporary shortage of workers, for climatic, administrative and other reasons, employers resort to casual work. The presence of foreigners, refugees and illegal residents offer a large pool of workers ready to accept such jobs and often employed without any contract.

What is similar is the organisational model of recruitment, and subcontracting that goes together with a self identification among individuals involved in the underground economy, not as immigrants, but as those fulfilling needs of the market. The important issue, according to empirical data from Belgium is earning money, not the country or the work.

7 Conclusions

The aim of the study has been to bring about empirical insight on two questions:

- What circumstances and factors characterises specific sectors or breaches to the ones in which undocumented immigrants participate in underground economic activities?
- Is underground economy a pull factor for irregular/undocumented migration?

Answering these empirical questions, we have departed from theoretical insight where the opportunity structure, formal as well as informal, has been emphasised as a dominant factor, influencing the individual and collective actions.

Looking at the perspectives and development in the underground economy in Belgium, this study departs from an understanding of the phenomenon as a sociological one, highlighting the following features:

1. The underground economy in Belgium is contextual; its form, content and dynamic are specific to the national and other contexts in which it is used and understood.

2. The form, the content and the dynamic of the phenomenon is situational. It refers to the experiences of those people who are subject to those definitional and operational categories, in this case specifically undocumented migrants themselves.

3. The occurrence and development of the phenomenon is gradual, influenced by many factors such as migrants’ length of residency, year of entry, gender, capitals, government policies, political and public discourse etc.
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4 The phenomenon is conditional, referring to the character of the residency as being understood and dealt with by migrants themselves, and by the actual practice of formal intuitions as a formal and/or informal response to the structural need of the national economy in the era of globalisation.

As is the case elsewhere, the very existence of the underground economy makes it possible for semi- and non-compliant, and even fully compliant immigrants (i.e., with regard to status) to make a living. All other things equal they would have been much more stocked in fixed positions. Our data from Belgium indicates several governmental initiatives to combat underground economic activities, but also a situation where semi- and non-compliant immigrant workers see themselves as helping the Belgian market to fulfil existing needs.

Data indicates that there is a rather well developed understanding of the needs of the labour market, and that information are circulated within and cross ethnic and national boundaries, also involving locals. Certain breaches are more suitable for underground economic activities. They are primarily characterised by not being easy to control and monitor by authorities. Considering control costs, and the fact that control also creates social externalities, it is always a choice to be made by politicians whether a harder line could be purposeful. Some countries have introduced control measures. Others have chosen laissez-faire style of treating the underground economy. None has succeeded completely to erode underground economic activities. It seems that the demand for labour play the pivotal role under both circumstances.

Taking the terms undocumented or non-compliant as examples, within the context of the English language these are relatively recent terms and are the outcome of political controversies and debates, involving a reflection of the impact of the terms that are used on the perceptions held of migrant workers. So if one looked at the literature in the UK ten years ago the commonly used term would have been illegal. Thus, the terms we adopt are politically loaded: they are not just terms of definition; they tell us what we should think and how we should organise categories of status, rights and duties of people sharing specific features that have different values dependent on the body of legislation they are subject to.

Acknowledgements

The authors are thankful for financial support from the European Commission for the Undocumented Worker Transitions (UWT) project. The authors also owe many thanks to their UWT colleagues for their comments, as well as to three anonymous referees.

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