Informal Opportunity among SMEs: an Empirical Study of Denmark’s Underground Economy

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Abstract: Based on interviews with (legal and illegal) immigrants to Denmark, meetings with stakeholders and with experts in the field, this article addresses issues regarding the underground economy. Our findings show that, in Denmark, the existence of an underground economy makes it possible for semi-compliant and non-compliant immigrants to make a living. We suggest that the underground economy in Denmark will continue to provide networks of illegal residents with opportunities for informal economic activities as trust allows entrepreneurs to function below the radar, by owning enterprises registered using the names of people who are legally in this country.

Keywords: opportunity; informal economy; immigrant networks; Denmark; trust.


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Professor at several universities in Canada and recently at the University of Canterbury, College of Business and Economics, Department of Management in Christchurch, New Zealand. His research has focused on global entrepreneurship and globally born SMEs, ethnic and transnational entrepreneurship, entrepreneur and informal economic activities, economic consequences of migration, comparative welfare state analysis and labour market analysis. Recently, he has focused on transnational entrepreneurship dealing with a comparative research project analysing entrepreneurship policies in China and Denmark, return migration and returnees.

Marco Goli is an Associate Professor at Metropol University College, Copenhagen and is involved in comparative research programmes at the national and international (EU) level. The very main focus of his comparative empirical and theoretical research is: ‘The relationship between the market, the welfare state, the civic society and the available alternative strategies towards socioeconomic mobility in different discursive and institutional settings’.

Léo-Paul Dana earned his BA and MBA at McGill University and his PhD from the Ecole des Hautes Etudes Commerciales HEC-Montréal. He is currently at Groupe Sup de Co GSCM Montpellier Business School, in France. He was formerly Deputy Director of the International Business MBA Programme at NTU in Singapore, and has served on the faculties of McGill University, INSEAD and the University of Canterbury; he also holds the honourary title of Adjunct Professor at the University of Regina, in Canada. He has published extensively in a variety of journals including the British Food Journal, Cornell Quarterly, Entrepreneurship: Theory & Practice, Journal of Small Business Management, Journal of World Business and Small Business Economics.

1 Introduction

Since Kirzner (1973) pioneered the concept of entrepreneurial alertness, there has been considerable interest in opportunity for entrepreneurship (Timmons et al., 1987). Dana (1995) identified that in a heterogeneous environment, one’s culture greatly influenced the perception of opportunity for entrepreneurship; that which is an opportunity for some is not perceived as an opportunity for others.

Whereas Servais et al. (2008) focused on legitimate SMEs in Denmark’s firm-type sector, in the present article we shall focus on this country’s underground economy, where ethnic minorities often find opportunities. Ethnic minorities in business have long been a subject of academic research (Glazer and Moynihan, 1963; Light, 1972; Light and Bonacich, 1988; Ward and Jenkins, 1984), and continue to be important (Dana, 2007; Dana and Morris, 2011).

Focusing on Denmark’s underground economy, we see its character and its impacts as a sociological phenomenon which is contextual, situational, gradual and conditional. By contextual, we mean specific to the national and other contexts in which it is used and understood. By situational we refer to the experiences of those people who are subject to those definitional and operational categories, in this case specifically non-compliant migrants themselves. By gradual, we emphasise the importance of migrants’ length of residency, year of entry, etc. By conditional, we mean 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.

In this paper we will refer to the legal status of individuals and their permission to work in Denmark and for this we shall adopt the categorisation proposed by Ruhs and Anderson (2007):

1. compliant migrants are legally resident and working in full compliance with the conditions of their immigration status
2. non-compliant migrants are those without the rights to reside or work in the host country which in this case is Denmark
3. semi-compliance indicates a situation where a migrant is legally resident but working in violation of some or all of the conditions attached to their immigration status.

We propose that the underground economy should be understood as a product of a nation’s business structure, and we would like to underline the fact that the underground economy involves not only immigrants – whether compliant, semi-compliant or non-compliant immigrants – but all categories of individuals; these people operate within the specific dominant socioeconomic system that by nature allocates benefits and endowments asymmetrically and yet actors are bound together by interdependence, with a mutually dependent economic and social interest as the core axis. This said, we must remain aware that the genre of activities, i.e., the kind of available openings in the actual opportunity structure of a specific country, responds also to the status of the individual immigrants. Illegality – together with many other factors such as the level and the type of human capital, social capital, and gender – is in this terms an institutional circumstance, dominating the individual immigrant’s possibilities in the strife to participate in the economic activities available within the opportunity structure. Our interest revolves around the following research question: What causal variables explain informal activities by non-compliant immigrants, and which sectors offer the most attractive opportunities to these people? We are specifically interested in the role of market clearance as independent to the political and societal discourse – 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 Findings

Our interviews with the 30 migrants listed in Table 1 indicate that although Denmark is a well-developed and progressive welfare state, people who are marginalised from the mainstream labour market are motivated to participate in the underground economy in order to maximise their earnings.
Table 1  List of interviewees engaged in Danish underground economy

<table>
<thead>
<tr>
<th>#</th>
<th>Nationality</th>
<th>Age</th>
<th>Gender</th>
<th>Education</th>
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Table 1  List of interviewees engaged in Danish underground economy (continued)

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Danish law distinguishes among the following:

1. asylum seekers
2. individuals of the age under 24 who are married to Danes, who are not allowed to stay in the country or work
3. individuals from former non-EU countries, which now are members of the EU
4. students with a limited work permit
5. au-pair girls
6. individuals who live in neighbouring countries and work in Denmark illegally
7. trans-nationals who commute to Denmark for seasonal work, in accordance with the needs of the parallel economy.

The Danish situation is characterised by an ‘either-or’ situation; either one has legal status giving the right of abode in Denmark, or not (Column 6 in Table 1). A person who is not in Denmark legally does not have rights to be in this country, and could be a target for the police to capture and have deported. As a result, migrants who reside in Denmark illegally tend not to have relations with official authorities; these illegal residents are somewhat on their own, cultivating relationships among a network beyond and beside the law, in the parallel economy.

The unique opportunity structure created by the specific relationship between status and right in the Danish context fuels the underground economy. Many non-compliant activities take place among enterprises that are formally registered taxpayers. The underground economy is the arena where common economic interests between individuals of different legal and illegal status meet each other. Everybody here, be it buyer, seller, entrepreneur or employee, takes a risk dealing in the underground economy; we found that mutual trust is the factor that makes this possible, and our research supports findings by Goli and Rezaei (2008).

Experience and perspectives among compliant, semi-compliant and non-compliant migrants, be they EU-citizens, au-pairs, students who have overstayed their visa rights, asylum seekers, individuals with expired residence permits or asylum seekers whose applications has been turned down, are quite different. What they have in common is that they provide services for which there is demand.
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Some are fluent in English and plan to leave the country to settle down in Canada or the USA. Some told us that they have relatives overseas and are therefore more motivated to leave Denmark. It appears that non-compliant immigrants who have relatives with a certain degree of socioeconomic resources and success are more motivated to plan for leaving the country.

An important feature of being an entrepreneur with no legal right of abode is the need for trustworthy connections, in order to be a business owner without this showing in a formal manner. For example, we were told,

“I have established a trade company in the name of someone else – a family member in Sweden who has legitimate permission to stay in Sweden. We import all kind of food and Middle Eastern products and have a shop and a distribution channel in different cities in Sweden as well as in Denmark. We also export a number of products to Dubai and Iran and from there sending them to Iraq. I travel almost every day to Sweden and work in the office and sometimes at the shop.”

Migrants working outside the law indicated to us that migrants earn respect by accumulating wealth and when this happens then Danes appear more accepting of them, without concern for one’s lack of cultural or linguistic competence. This creates a hierarchy, building on economic success. One interviewee told us of an uncle who is an entrepreneur,

“migrant, in Denmark has his own business, a chain of restaurants all in all he has six different restaurants and I, in spite of being illegal, have been helping him around his restaurants. I do both management, watering, purchasing at the wholesalers and practically everything I even go to the tax department with him and sometimes translate for him from our mother tongue to English at the tax office cause his Danish is not that fluent but when you have money and you are a … tax payer no one question you anything at all they only focus on getting more and more tax out of you.”

It seems that many migrants work illegally for – or with – close relatives or friends. We identified a pattern with regards to the distribution of migrants among business lines that closely follows the status of the migrants.

Migrant interviewees indicated to us that they are aware of the advantages and the rather easy movement that the Schengen area creates for them, such that they can shift from country to country without taking great risks. They are at the same time aware of risks outside the Schengen area. Many try their best not to attract police attention – or that of other authorities – for fear that contact may damage chances to move upward socioeconomically.

Migrants on fixed temporary terms of residence are usually involved in professions corresponding to their educational merits. Yet, Respondent 14 in Table 1 is a prostitute, although she has a college education. This confirms that there are people over-qualified for the work that they are doing, as had been suggested by Tranæs (2008).

One interviewee is an entrepreneur posing as a student to avoid taxation and the law:

“I’ve been student in the beginning of my stay in Denmark, and had different student jobs. I have now been living in Denmark in three years. And in the recent time I have been involved with import business, mainly import of furniture to Denmark. We import from China to Denmark, with plans to go to Holland or Belgium.”
Individuals from eastern European countries follow a certain pattern, specific to their situation. They work mostly in construction, and they enjoy the possibility of travelling between countries.

It appears that au-pair individuals work as such legally, as per their residence permit, but simultaneously develop relationships that might help them stay when their legal period expires. Others, whose status is not completely legal, accept employment and claimed to us that they do not have priorities beyond that of making money; individuals work as builders, cleaners, clerks, taxi-drivers, or in eating establishments, without contracts of any type.

Women in entertainment and prostitution work unlawfully with no contracts or legal protection, and no guarantee as to a certain revenue. One interview explained to us,

“I make different wage depending on how busy we are but have no contract – they only make contract with people who has their paper ok. I make about 2000 to 2500 DKK during a good night and about 500 or 600 when it’s a bad night normally toward the end of the month. When there is a big exhibition of fare or international conference or big football game then we make a lot of money.”

People who cannot work legally rely on informal networks to learn about opportunities. We were told,

“Information on these vacancies and needs circulate in the network, and I’m not the only one who do have this specific sort of work life. There is no other way. I’m not in a situation where I can have any wishes on what sort of job I want to do. I have to help the family and our own life and therefore I am forced to, that is by my own consciences, to make a contribution.”

For those who find jobs – as opposed to becoming entrepreneurs – the collaboration between business owners, usually relatives and friends on the one hand and employers on the other hand is characterised by linked fates.

“I work illegally in countryman’s businesses such as restaurants, caterings, flower shop, bakery etc. If there is a job and a reasonable payment I will do the job, without making any noise. It is good for the business owner and for me. It is a closed situation where two unlucky people’s fates are linked together.”

Some people are very mobile and shift locations as a function of opportunities identified. They observe national differences, and they use this information to manage their preferences with regard to maximising their upward socioeconomic mobility. We were told that an illegal employee earns more in Germany or Norway than in Denmark. An interviewee explained that in Denmark people do not tip,

“You don’t get any extra thing for being specially nice or good or gentle or friendly. In other countries tips in restaurants ... are very high and make up a considerable share of your earning. Even when you don’t get wage you can live of the tips in restaurants or bars. In Denmark they don’t have the tradition for tips, and the tips are included in the price you pay, so is rather difficult to be nicer to get more money...”

An Algerian man who participated in our study comes to Denmark on a regular basis and works on and off for two to three months with Algerian entrepreneurs in Denmark. Working in a variety of enterprises, he makes money during peak retail season, from May to August and then again from October to January, and then goes home. Anytime anything happens he can be back home within a few hours and take care of things and if there is a need for him in Denmark he can be back just as quickly. He does not declare
his Danish income and thus does not pay tax on this, and has no incentive to work outside the underground economy; he told us, “I work and pay a lot of money for plane ticket so I have no desire to change my situation.”

Working illegally in Denmark results in not having the same rhythm of work as have the majority of Danes. This can be, at the same time, advantageous and disadvantageous. In the specific circumstances that non-compliant workers experience, it is, in a comparative manner, experienced as an advantageous condition:

“I have been working for some Danish companies with catering at nights, making sandwich and other fast food, cleaning hotels... It’s much better for me that I don’t follow the ordinary peoples work time, so I work primarily when others sleep, or are home. It’s quiet and you are not stressed, and the risk of being caught is much lesser. On the other hand you can in a bigger degree be your own boss when it comes to the tempo of working, you can take breaks and so on, and the most important thing is to get the job done properly and satisfy the owner or the foreman.”

Illegal residents who opt to be employees are not union members and do not have the bargaining power afforded to those who are legally in Denmark. The unlawful employee is not in a position to make demanding conditions; the parameter is whether one gets paid, and how much. All other issues are more or less irrelevant, and one does not trust formal authorities such as police, tax authorities, municipal governments, or social workers. A concern brought to our attention is that it is difficult to get formal education and qualifications when working illegally. An individual working illegally as an erotic dancer told us,

“My financial situation was not that good and I was studying at the university but saw all people around me even those with top educations and they all had very little amount of money to live for and they struggled to even have enough food for their children every day. I studied English literature and art and in the best option I would have got a job as translator or such a job in an international company and could never ever have money to survive and could never ever get a family.”

For some who consider cash more important than formal skills, working legally is not an objective. One interviewee explained,

“I want to stay here another two or three years and make more money then get home and get marry and have my own family. I have a younger sister who also works here and we try to get as much as money as possible so our third sister does not need to come and work here.”

Another interviewee told us,

“I work with anything that can give me money. All my work is in the field of personal entertainment and my services are to the rich people who enjoy the life. But I don’t get much of that for myself because to be able to give high class service it cost you a lot in maintenance of yourself and your body. It costs you to have nice cloth, nice bag, nice shoes – pedicure, manicure, hair dress etc. and on the top you have to compensate a lot to people who let you work. As I said I work in personal entertainment business and in the luxury end of it in different clubs as personal dancer and personal accompanied – I have been doing the same thing in Italy, Belgium, and Germany and now in Denmark. There is no specific working hour; they call you when they want to. You are on hold all the time and when they call you then you should be there. But when I work in the club it is from 5 p.m. to 5 a.m. But most of the time you have one client to take care of and nurse so you do that. This is the ideal way of work but
you can be less privileged and have to work and have to have 24 hours shift. Well it is risky because they cheat you with your money, they can beat you, they can give you a lot of nasty things but there is risk in every business – But I have no fear – Who pays my bills if I don’t take the risk, ha? You tell me!”

One interviewee from Poland explained that he did not use Danes as a reference point, but rather compared himself to other Poles,

“I work within construction business; I work both illegal and legal. I have a contract but I am underpaid compared to Dane colleagues. I start working here to build some summer houses in the northern part of Copenhagen and then I had no permission to work here and I did it very cheap but it was still a lot of money compared to the same work in Poland.”

The situation of au pair individuals appears to be a function of the host family, as explained by another interviewee:

“I came here to be au pair girl. In the beginning I got visa for three years but it could not be prolonged after the period and my host was very bad. They borrowed me to all their friends and family any time that the others needed someone to work for them. During the first three years at the time I worked at five different houses and I had never time off. Every time I complained they told me that they will not help me with extending my papers. I applied for an au pair job and based on that I got visa at Danish embassy in Latvia. Then I got here and my host family turned to be a very bad family and they abused me in four years.”

A paradox experienced by migrants who are not compliant in Denmark is that they know that the economy need them and they know that they can get any job because of their willingness to work, but at the same time they know that regulations do not necessarily serve the needs of the market. They know that they have to get by somehow.

“She has a work contract, stating that she can stay in Denmark for the maximum of 18 months which is also the length of the arrangement with the host family. The pay is 2500 DKK a month. Accommodation and food is included.”

Another quote that we found interesting is,

“We are not interested in the benefits that the government has provided for au pairs and stipulated in the work contract, such as the right to attend Danish lessons but mainly interested in more time to work.”

We also heard,

“Let me tell you what happens if I am not here … my sister goes bankrupt and her kids (she has four children) will be raised on Danish tax payers’ money. They will not have someone who cooks food for them at home and in the end they have to hang around with other Arab kids in the neighbourhood, making trouble, burdening the welfare state that they are so concerned about. We foreigner sacrifice our life and own happiness for the family. I had a nice life in France but got here to help my sister and her families cause my mother and father and uncle asked me to do so. I am sure that if I get caught by police and sent back to France or Morocco they will help me out so that’s the way we do it. Rest of my family are in Morocco and my kids and wife are also there, I send money to them so everybody is happy.”

Another interviewee told us,
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“So our activities are all through underground, and it of course have major impacts on not only the kind of job we can get, but also on working condition, work-time, leisure timer and so on, everything is mixed together, and you live a pretty stressing life, but that is exactly how it is.”

We also observed trans-nationalism:

“I operate cross border, between Sweden, Denmark and Germany, and of course the whole thing is illegal and part of underground economy. Otherwise it wouldn’t be possible to do this. Especially in countries like Sweden where it is illegal for ordinary people to visit my business. It pays well and I am satisfied. But at the same I know that I am doing this for a short period of time.” Another respondent told us, “I have my own business in France and my staff takes care of that and while it’s running. I come here and work as well.”

Individuals from Eastern Europe explained to us that once their status is changed from illegal to legal, the motivation for doing underground economic activities decreases. An interviewee who was illegally in Denmark but whose stay became legal when Poland joined the European Union explained it this way,

“As the situation has changed we do more or less exactly the same job, but now it is legal. The difference for us who do the work is poor… I have my own company and making contracts by myself for many people. All my contracts are legitimate and have no problems with tax authorities. Have planned to expand my businesses and when I get big enough I want to go back to Poland and led the Danish branch from Poland.”

The Danish situation is characterised by immigrants relying on their networks, acting on the basis of bounded rationality and seemingly shared understanding of legitimacy of underground activities as a human condition. Being dependent on the underground economy requires having and developing good relations with people, usually Danes, and also immigrant entrepreneurs. Understanding each other’s condition and status creates a situation of mutual trust and need, where nobody would benefit from being better off to break the rules of mutual trust. We were told,

“The form and character of my job is of course informal and underground if you like. But it is not criminal in any ways. On the contrary I feel that I help people when they need me, and if they don’t, well they wouldn’t hire me anymore. If I can get the same amount of money by the owner pays tax it will be all right for me, because I am not going to stay or get old here or to get education or any other welfare aid, I feel it is completely all right what I do. All that is back is a mutual trust between the two people, the man who wants a job done, and the man who will do it.” We also heard, “The lesser you know, the better it is… It is a big night club but I don’t know the owner they say it is someone in Monaco but we never see him he has his managers and I don’t know them either cause its different persons almost every night. I know the person who helped me to know these guys and he knows the managers. My friend never comes to the club but I have a girlfriend from Malaysia and she says that she has seen my friend in another club and my friend has been manager in my girlfriends club two or three years ago. But I don’t ask and I don’t want to know – the less you know the better.”

Another concept we learned is the idea of a so-called alternative tax,

“I am not stupid I know when you don’t have permission to stay and work in a country then you don’t pay tax but it costs you in another way you pay to other people who let you work without permission. You don’t pay tax to the
government but you pay the same money to the one who secures your life. That’s why they protect you otherwise why should they give you job.”

3 Discussion

The engagement of semi-compliant and non-compliant immigrants in Denmark’s underground economy is closely related to status. Yet, the lack of legal status and the lack of possibility to attain it, being once illegal, does not seem to hinder development of the underground economy.

While studies by Rezaei and Goli (2006, 2007a, 2007b), and Rockwool (2007) showed that activities in the informal economy are not exclusively dependent on illegal immigrants, our present study revealed that immigrants who reside legally in Denmark do not seek to work exclusively in the informal economy. This said, illegal workers accept lower wages and worse working conditions than do their legal counterparts. Due to their vulnerable situation, illegal migrants often end up in firms and positions with inferior working conditions and pay, and where all or many labour market regulations may be ignored. Of course, this is not always the case, as some people do well because of their human capital and social capital, or simply because of market demands.

For rejected asylum seekers, and others in illegal situations, who are involved in non-compliant economic activities and transactions, what helps more, human or social capital? The specific Danish context described above, is an example of two phenomena:

1 The contradictions between the political and probably also societal discourse on the one hand and the needs of the market on the other, as it is rather obvious that the politically correct equilibrium is completely different from the equilibrium created between supply and demand with regards to labour force, thus giving the situation a rather schizophrenic character.

2 The contradiction between the formal aims of integration policy, that is more integration in the Danish society and institutions on the one hand, and at the same time creating a situation, where the crucial importance of the social capital and immigrant network is crucial for the individual immigrant, in order to make a living.

A person who is not in Denmark legally has no rights as an employee or entrepreneur. One has to build up trustworthy relations, create and expand network relations and perform in a trustworthy manner within a network. Without excluding the importance of human capital, we stress that human capital can almost exclusively be exploited in the underground economy, due to the fact that it is against the law to hire individuals who are not supposed to be on Danish soil. Even one gets a contract within mainstream economy, it will be legally non-compliant work, sometimes done in businesses that otherwise are operating lawfully. Interviews show that migrant workers are very aware of this fact, and they try to manage to navigate through. The character of human capital among interviewees is different depending on educational merits, some with university degrees, others with almost no education, and they have different professional skills to.

Another important feature is the development of the skills obtained due to one’s involvement in the underground economy. The underground economy, like any other, has its own character, principles, norms of behaviour, and values. Learning these roles
and rules, and taking advantage of them is the pivotal factor in differentiating between winners and losers.

4 Conclusions

Our objective, in this paper, was to bring about empirical insight on the underground economy in Denmark. In doing so, 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. Our findings indicate that even Denmark’s highly regulated, monitored and organised labour market cannot avoid the occurrence and development of underground economic activities. The consequence seems to be the growing importance of immigrant networks as a forum of reliance, which is the opposite of the declared policies towards greater degrees of integration of immigrants into the mainstream society.

In Denmark, the very existence of the underground economy makes it possible for semi-compliant and non-compliant immigrants, as well as fully compliant immigrants to make a living. Our findings indicate that there is a well developed understanding of the needs of the labour market, and that this information is circulated within and across ethnic and national boundaries. Specific sectors are more suitable than others for underground economic activities; they are primarily characterised by not being easy to control and monitor by authorities. Considering costs of control, and that control itself creates social externalities, politicians are faced with the difficult and unanswered question of whether a harder line would be a viable option.

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Notes

1 For a discussion of trust and entrepreneurship, see Rezaei (2011) and Welter (2011).