

Reducing illicit work done by unemployed by promoting small business start-ups - A Feasibility Study

Carsten Weiß, University of Siegen

Keywords:

Entrepreneurship

Ethics/Social Issues

Government Policy/Regulation

Illicit Work

JEL J68 M13 H43 D63

Abstract

Searching for moonlighting entrepreneurs by methods of social science can be successful. But new terms of descriptions are needed and the complexity of clandestine employment as a social phenomenon increases. Based on trigonometrical survey in social science, a new typology of "clandestine entrepreneurs" is presented to make the dark side of employment with its complex phenomena manageable.

Preface

This article is based on a study of the University of Siegen's Department of Social Policy Research by order of the Institute for Employment Research in Nuremberg. Field studies were located in the employment office area of Duesseldorf in the time frame from autumn 2004 until summer 2005. Research focuses on four key issues:

- (1) Summary of terms and definitions of clandestine employment – especially dealing with the boundary between work off the books and the underground economy
- (2) Evaluating the relevance of the phenomenon of "clandestine employment" for issues of empirical and social-political research
- (3) Critical policy-analysis of the implicit connection between the methodology of measurement and the theoretical explanation of clandestine work
- (4) Presenting an innovative way of covering clandestine employment together with instruments of measurement proven by specific experience in explorative research of a feasibility study called "The New Entrepreneurship"

Due to this research, empirically reliable methods are to lead to a more differentiated view on the phenomenon of "clandestine employment". Aiming to put research in deviant labour market processes on a higher methodical and substantial level, this paper is to raise social political awareness on this topic in times of workfare state, too.

Research question

In 2002 the Red-Green coalition - coalition of the two German political parties SPD (the Social Democratic Party) and Buendnis 90/Die Gruenen ("the Greens") installed a commission to examine labour market reform. One subject of the commission was the promotion of small business start-ups by the Federal Employment Agency to change unemployed into self-employed entrepreneurs. This instrument of business start-up subsidy by local employment agency was called "Me Inc." Proposal of the commission's report called "New Labour Market Services" were made into

Acknowledgements

I am grateful to Mr. Frank Wießner at the Institute for Employment Research for the cooperation in the research project presented in this paper.

law of the Social Code III in article 421 li (“Small Business Start-up Subsidy”). The article on the “Me Inc.” came into effect in 2003 and was replaced by a different support scheme for start-ups out of unemployment in mid-2006. The political requirements of this article were multi-dimensional and to some extent congruent with prior concepts for the unemployed. Identical aspects refer to parts like improvement of employment flexibility, enhancement of the services sector and last but not least increasing dynamics of labour market processes. These objectives can be called start-up schemes to reduce unemployment. But there is a new point added to this classical pattern of assistance to self-employment: the reduction of clandestine work, especially among persons who are claiming unemployment benefit. The idea of reducing clandestine employment by measures of self-employment appears in an answer to a minor interpellation in 2003. A literature review in the printed papers of the library of the German Bundestag demonstrates that in 2000 schemes of reducing the number of clandestine workers by start-up subsidy of the unemployed was not mentioned in a governmental reply to a similar minor

interpellation referring to the governmental actions taken in reducing the underground economy. Combating unemployment and reducing illicit work were linked by naming the “Me inc.” and the “Mini-Jobs” – minor job or sideline job without obligatory contributions to social insurance – as instruments of fighting against clandestine employment for the first time.

In doing so, the causal connection implied is very interesting: Due to the fact that the “Me inc.” is such an attractive offer, unemployed people start their own small-businesses and become legally self-employed instead of working illicitly while claiming unemployment benefit. This causal relation proclaimed by the government leads to two research questions:

(1) Is the decision to become self-employed caused by the attractiveness of that financial offer or is there rather an effective influence on the intention to establish a small-business by the start-up subsidy?

(2) Is there a notable amount of illicit work done by unemployed which can be legalized by implementing that financial assistance towards self-employment?

So the feasibility study “The New Entrepreneurship” deals partly with the entrepreneurship-boom, namely the self-employment subsidy. Thereby it is exploring the black box of work which is done beyond regular employment.

Methods used and triangulated

The adjacent table gives a review of the methods used for the field-studies including the number of subjects examined with full details.

A Combination of different responsive and non-responsive methods leads to a sample of 57 subjects who are surveyed by triangulated methods. The triangulation is composed of standardized surveys, narrative interviews,

List of methods together with the quantity of subjects surveyed

No.	Method	n
1	Expert interview	6
2	Standardized survey	75
3	Field-study	33
4	Face-to-face interview	52
5	Participant observation during information events for interested unemployed	3x50
6	Focus group (workshop)	7
7	Telephone assisted interview	150
8	Destination analysis	44
9	Secondary data analysis	1235

focus-groups and field-studies. Experience and findings are used to explore the feasibilities and to analyse the data.

Findings

Who are the self-employed polled?

For further research in terms of demographical parameters the sample of 57 people was divided into two subsamples. The division was based on the triangulation of different responsive and non-responsive methods. A group of 54 subjects was split into people deemed to be experienced in illicit work before their self-employment and those who do not. For 3 people a clear distinction regarding experience with illegal employment was not possible. One group labelled as rather experienced with illegal work quantifies with a number of 18 people (=33%); 36 people belong to the second group of unemployed who are non-experienced with illicit work. Summing up the result regarding demographic parameters of the comparison between the two subsamples, it can be said that the illicit workers of the survey are rather male, single, a little bit younger and they have a comparatively lower education. Their former job status is rather low and the average duration of unemployment is more likely long.

What attitudes have the subjects?

In the context of standardized survey, my study especially deals with attitudes and opinions towards undeclared work, anomy in society and confidence in social policies. Items regarding attitudes towards undeclared work were operationalized such as:

"At such high taxes and social contributions it is no wonder that illegal employment emerges."

Or:

"Undeclared work harms the community and the social security system. Therefore more rigorous action is indicated."

Items on the socio-political anomy or on confidence in politics and society were expressed, for example, as follows:

"Top leading politicians and governmental authorities do what they want. Anyway, people like me cannot change the situation."

Another item is put like this:

"In Germany, social justice is still a value on which you can rely, even nowadays."

Besides the usual descriptive statistics including crosstab analysis to detect causal relationships between various factors, I pursued the question whether the two subsamples differ in their response styles depending on the existence of experience with illicit work before becoming self-employed. Findings are very complex and can be summarized by two trends: Firstly, it is obvious that from the point of damaging the social security system illicit work resented in all subjects. Tendentially, this aspect of illegal employment meets with a square refusal by people of the whole sample regardless form their status as illicit or non-illicit working subjects perceived. Secondly, it can be shown that items like: "Especially the unemployed and welfare recipients get so little benefits that it is justified to earn some money with an illegal, undeclared sideline-job." are approved by at least 60 percent of illicit *and* legal workers.

In my view, these results include extremely important implications for the research on clandestine work: The idea of a causal relation between undeclared work and tax as well as social charges is widespread among the self-employed. Consequently, it is impossible to separate those people as having experience with clandestine employment from the others by their response styles. The simple equation "social anomy = clandestine employment" does not correspond with the response styles of the subject. Furthermore that idea would be rather naive, since the methodological findings regarding the connection between attitudes and action were not considered. Here again, the limits of standardized survey interviews in the context of research on clandestine employment become obvious. Conversely, the disillusioning findings come along with the insight that a high approval of fiscal policy topics is not directly related to the actual amount of clandestine employment. It is obvious that attitude and specific behaviour towards illicit work can vary widely and a simple conclusion about views on action is not appropriate.

What does the specific experience background of a clandestine worker look like?

In contrast to polling general attitude statements, a more promising approach to detect hints on people perceived to be experienced with clandestine employment before becoming self-employed is to ask detailed questions referring to kind of activity, industry, customer types and demands in the field of the respective start up. However, it is still not possible to draw definite conclusions as to indicate experience with illegal employment by asking about customer types and demands. This is the moment when triangulation methods come into play. Specifically, this means a between-method triangulation of the questionnaire's verbal data with qualitative methods of the field survey. As a result of this project, I answered the research questions by making up a typology of "small-business start-up entrepreneurs", which is the subject of the next section.

Categorization of the subjects together with their start-up situation

The simple question of legalization of illegal work was not easy to answer, because the transition from undeclared work to legal self-employment turned out to be fluent, and the background of the illegal activities was highly heterogeneous. In particular the qualitative methods showed an alteration in severity of the delict. Clandestine employment changed from intentionally and sustainably illegal activity to semi-legal activities like trying out a business idea with friends, in exchange for money being paid for taking over tasks that would be rather seen as a way of helping out in a neighborly way. With regard to the complexity of the situation, one could therefore reject the main question of the feasibility study to be inadequate and unanswerable. Nevertheless, the study indicates that certain patterns or regularities in the comparison of the individual case profiles can be found. Although it is not a complete and exhaustive typology of entrepreneurs, the categorization presented here is a more nuanced one than a binary division into clandestine and non-clandestine self-employed. My

analysis identified a total of eight typical case constellations, which I would like to introduce successively as the focus of research questions. By naming it "case constellation" I want to emphasize the fact that relevant criteria of small start-ups are not only rooted in the personality of the founder but also in the entire surroundings of the start-up-project like potential clients and customers of the activities and the services offered.

The hardcore-clandestine-employed

This category consists of persons who are suspected to do illicit work on a long-term and systematic scale, and may also keep on doing so after applying for the self-employment subsidy. Previously done illicit work can be described in those cases as being premeditatedly and lasting. Among these people there are only men who have a low school qualification and have had a low occupational status in their previous jobs. They are primarily occupied in crafts, transportation and logistics. In addition to technical skills, the subjects refer to well-developed contacts with business partners and clients. This ranges from the local integration in a rather rural community with friends and acquaintances that not only provide the illicit workers with jobs, but also with tools and materials. In other words: A key indicator of identifying this group as massive clandestine workers is the fact that they are involved in an opportunity structure that allows them to start up illegal activities. This finding confirmed my assumption that the decision to do illegal work is not based on moral or rational choice but rather on taking an opportunity. Afterwards there are, of course, statements of self-justification found, like "keen competition" or "this is usual in a line of business – the others do the same". But the main incentive for illegal employment is to use the opportunity of earning money. Respondents in the interviews said that a regular job currently does not appear attractive. By looking at their previous occupational status it can be assumed that they normally would be employed in the low-pay sector. So it is no wonder that one of the persons surveyed said:

"I have two kids and a car. I would scratch a living."

People who legalize

This group of people correspond to the intention of the small business start-up subsidy namely to facilitate the opportunity of becoming self-employed in a legal way by the support scheme. Interestingly, they chose the legal way of going self-employed due to moral reasons and a need for security. But I should qualify that statement by saying that the percentage of people categorized this way is very low and that there are subjects who say that they would do illegal jobs again in case of destitution. Nevertheless, people of this group decided to start up a "Me inc." to end up illegal activities. And they did it on purpose.

Self-employed in transition

This group may also be called "testers" or "people who try out". It is for people who have tested their start up idea on friends and acquaintances in the first run. After that they continued on a larger scale by founding a "Me inc." Basically, experiences arose within the context of hobby or community-oriented work. Partially there are illicit workers found in this group, but the amount of illegal work done is negligible. In this category the boundaries between doing someone a favor, community-oriented work and clandestine employment are fluid.

Handyman

Without having a specific business idea, the handyman provides menial jobs. In the survey only males can be found in this category, and they have barely received any schooling. Even though there are persons found in this group who have worked illicitly before applying for the start-up-scheme, this category is defined by a lack of social and human capital resources, which prevents them from doing clandestine work in a more comprehensive way. Together with an advanced age and a low qualification, the people of the "Handyman" category are confronted with high barriers in finding regular jobs. In view of that fact, the handyman takes advantage of the situ-

ation by choosing a way between clandestine work and regular employment by getting self-employed in a diffuse professional field.

Precarious

In this category there are several cases of "Me-inc." which already ended after a relatively short time by preferring a regular job. These self-employed persons said that their decision for a start-up was motivated by an unemployment push. The reasons for their predicament are mainly a bad work-life balance and a non-sustainable business idea. Due to the fact that their services are not demanded by informal economy, there are only little opportunities for people of this category to do illicit work. For example, unlike some crafts activities services, in the private IT sector they are not paid adequately according to their temporal labor intensity. While for some kinds of craftsmanship the client is willing to pay for illicit work, things like setting up a computer are considered a favor which cannot be charged. As far as the project was not already given up in favor of a regular job, the subjects of the field study said that their economic plight had changed only a little since starting up. An analysis of the occupational destination after the start-up scheme was very difficult in the category "Precarious". I got the impression that the availability in the tapi survey and willingness of the subjects to provide information about their actual status is highly dependent on their start-up success.

Freelancer

The freelancers are mostly well qualified and active in the media, design and IT sectors. They are often associated to working groups and agencies where they work on behalf of the client. In some cases they are tied to certain clients who help them secure a sufficient level of orders. It is characteristic of the freelancers that in addition to their well developed network of clients and colleagues their perception of being self-employed is very positive. The majority of interviewees stressed the freedom as an independent entrepreneur. At the same time they use this freedom for work-life balance or for home care, for example.

Small business owners

The small business owners start self-employment with a specific business idea, and they already have a well developed and sustainable business plan. Especially in this category there are cases of taking over existing small businesses. As a classical form of being self-employed, the people of this category are thoroughly versed commercially or economically. Partially these experiences are based on previous start-up projects which were given up. People of this category can be characterized as classical entrepreneurs who have the soft skills and the strength of purpose to realize their idea of professional independence by using the small business start-up scheme.

Young professionals and women returners

The feasibility study "The New Entrepreneurship" showed that most of the "Me inc." were temporally restricted. The start-up scheme is just one step to entrepreneurship and not a permanent status (cp. Trube/Weiß 2005: 37). This is typical for the group of young professionals and women returners, since these subjects have seen the "Me inc." only as an introduction or as an intermediate station and less as a long-term form of work. Lawyers can be found more often than average in this group, as they are using the start-up scheme to build up a firm of lawyers. So it is not surprising that the two lawyers of this category have already given up their start-up schemes. Now they are working in their own firms or as partners in a major law company. This last of the eight categories of cases consists exclusively of women. Without further verification, I assume that the choice of this form of start-up scheme is based on a need for security. These enterprises are characterized by less capital intensity, less risk-taking and less ambitions to grow. Due to the fact of a studies-related selection, it can be said about this categorization that there may be a number of cases not found in the study. Namely these are persons who take the subsidy in the sense of an arbitrage effect to secure their subsidy title without really becoming self-employed.

In this regard one can therefore expect a few cases of arbitrage effects which do not appear in the sample. This is particularly the case with the subsequent telephone survey. The attribute "experienced in illicit work" is not tied to a specific constellation of cases. Partially the backgrounds and shapes of illicit workers differ very much from each other. Nonetheless, there are few main points to be mentioned: First, extensive moonlighting seems to be very strongly associated with the involvement in opportunity structures. It becomes also obvious that certain services like crafts, household services and transport are more illicitly demanded and suitably paid than others. Second, the criminal intent varies from case to case. In some cases subjects take illicit work as an option after having become self-employed due to severe economic hardship. Third, if tax relief through depreciation allowance is possible and severely defects liabilities, then illicit work is inappropriate according to reports by freelancers and small business owners, otherwise it is assumed as a win-win situation. This latter aspect highly depends on the actual taxation laws.

Trigonometrical survey as a method of detecting illicit work

Above all, my empirical work is based on a combination of different methods. In consideration of the various sub-populations, a stand-alone standardized questionnaire would not have led to substantial results. Evaluating this procedure, one might put it in a positive way by saying:

"A combination of quantitative-narrative and qualitative-standardized ways of proceeding completed by methodological triangulation procedures allows to reconcile findings and, in terms of cross-validation, to validate results. Qualitative methods were used, both the exploration of the research object and the fine analysis of the data obtained by standard procedures. By doing so, the process quality of the study was significantly optimized" (Trube/Weiß 2005: 80f).

On the other hand, this process required a high degree of reflexivity and scientific care. Inter alia, this meant a promising amount of new insights, there again this does

not automatically lead to a higher level of positive, proven results. For example: Regarding the division into the two subsamples "experienced in illicit work" and "not experienced in illicit work" as a conclusion of the quantitative standardized survey is highly dependent on the perception of the scientist in the field. This makes the study vulnerable because of a constant danger of false perception of the project team member. A wrong assignment of subjects into the subsamples would be the result. This way result of the standardized survey would be invalid. Audits were made in workshops to compare the perceptions of the scientists and to counteract and to prevent this kind of errors. As a result, all of the participating scientists came independently to the same conclusions regarding the perception of the subjects' experience in illicit work. In addition to this operation, another safety measure was taken by recording the individual results of the perception in an anonymous form. That made it possible to open the survey for plausibility checks. Despite these obvious disadvantages of the trigonometrical survey, the process of investigation led to some new insights. Especially in the case of ambivalent response behavior in the questionnaire, qualitative data helped to understand contradictive attitudes and statements of the subjects. In particular, the focus on the situational start-up context generated an easily interpreted perspective of the legalization of illegal work. Last but not least, the ongoing trigonometrical survey helped modifying the instruments and made them more adequate to the feasibility study.

Final summary of main results

Doing exploratory studies - especially if they are intended as a feasibility study –means to be indistinct about the research subject: Naturally, expected results do not occur and unexpected insights come to light: In terms of my research question regarding the legalization of illegal work by becoming self-employed I have found very little. Referring to my qualitative classification of the case constellations, in my survey I have only six people interviewed who might be really called illegal workers. They have done illicit work to a considerable high extent. The

intention of legalizing illicit work by taking the start-up scheme was evident only in three trigonometrical examined cases. Eighteen out of fifty-four persons were noticed as illicit workers before becoming self-employed. This group is very heterogeneous in nature, scope and background of their clandestine work.

The word "moonlighting" is not adequate to describe the cases examined. Accordingly, it does not make sense to search for new or better definitions of "moonlighting". In my case studies I rather dealt with violations of trade law, reporting obligation and the like. The term "moonlighting" is only used to stigmatize people. It lumps all subjects together. Therefore it is not helpful. This name does not represent gradations in the severity of the offense in a useful way. Even the labeling "illicit work" is way too vague and general to make the individual violations, intentions and stakeholders examinable for social science. I rather suggest a differentiation of illicit work into kind of stakeholders, severity of offense and criminal intent.

The common ground of all examined cases is rather a precarious work situation than illicit work. Consequently, illicit work should be examined from the standpoint of increasing precariousness of labor. For the most part, the social policy implications of shadow economy and precarious work are congruent. In both ways, questions arouse referring topics as follows:

- Social security
- Responsibility to the community of insured people
- Maintenance of labor standards and quality of work
- Ensuring an income which is sufficient to make a living
- Tax justice.

A detailed study of these aspects of the phenomenon "illicit work" would be more appropriate than a normative global debate on the moral constitution of society. It is also important to point out that a start-up with an unemployment-push could become a success story. For example, the advantages of being self-employed could be work-family balance and the opportunity to realize a satisfying occupational individuality. In this con-

text, previous experience from illegal activities should also be interpreted as an important resource for a sustainable and successful start-up. The question that arises here is: How can we adapt the existing resources to legal market conditions?

Because of the sanctions dilemma, a pragmatic view at entrepreneurship out of moonlighting makes sense: The punishment of illegal activities in combination with social assistance leads to prolonged dependency of the unemployed on state care.

The chances of exploratory methods of social research include, inter alia, the ability to make certain social phenomena accessible to a social policy debate. However, the voluntary nature of the survey and related selection effects limit the scope of the research results. Thus, there was a discrepancy between the intended survey course and the real opportunities in the field work. In other words, people who have a significant benefit fraud by moonlighting could be included only selectively and rather randomly into the sample. Whether this clientele could have been reached by a stronger, more official contact remains questionable. To sanction the serious criminal abuse cases of transfers, the state's financial control institutions have the appropriate remedy. In my view, this area cannot be sufficiently screened by voluntary methods of Social Research.

Carsten Weiß Ph.D.
Senior Research Fellow

University of Siegen
Dep. I – Social Science
Germany NRW
57068 Siegen

Phone: +49 271 740 2824
carsten.weiss@uni-siegen.de

References / Literature on the research project

Trube, Achim / Weiß, Carsten (2005): Machbarkeitsstudie "Die Neue Selbstständigkeit", Siegen: ZPE (=ZPE Schriftenreihe; No. 17)

Trube, Achim / Weiß, Carsten / Wießner, Frank (2006): Wo Licht ist, ist auch Schatten. In: Gesundheits- u. Sozialpolitik, 60 Jhg., Heft 7/8, p. 39-43

Weiß, Carsten (2008): Auf der Suche nach Schwarzarbeit. Baden-Baden: NOMOS