Introduction

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The political and public debate increasingly perceives shadow economies both as a symptom and a problem of modern European economy and society. Economists assume that the size of shadow economies has been growing in all European countries during the last decades. The European governments moan about tax evasion and the illegal employment of foreign migrants as serious problems for the European Community. Therefore, shadow economy seems to be at the heart of three interwoven topics: first, the transformation of the welfare state, second, the role of the state in general, especially regarding taxation and the regulation of labour markets and, third, the transformation of labour and the perceptions of work in modern Western societies. Shadow economy is therefore assumed to play an important role for some of the most important recent developments although most commentators do not agree on the impact of underground economies. Rather, we can find very diverse interpretations: the economist Milton Friedman in an interview some years ago referred to shadow economy as freedom’s last resort\(^1\), while Jeremy Rifkin in his bestseller “The End of Work” describes the underground economy as endangering social stability in the world\(^2\). If we leave aside these perceptions and have a closer look at the activities that are usually referred to as shadow economies, we can find many phenomena somehow familiar to historians working on economic and social history: artisans who offer services beyond legal

\(^1\) See: [http://www.kpm.unibe.ch/ladner/dokumente/artikel/Weltwoche_17_11_2003_Interview_Friedman.html](http://www.kpm.unibe.ch/ladner/dokumente/artikel/Weltwoche_17_11_2003_Interview_Friedman.html)

regulations or foreign migrants who work illegally and are being blamed for working at any rate of wages.

This was more or less the starting point for us to believe that historians can contribute an important dimension to the ongoing debate on shadow economies and that they should think about this topic more thoroughly than they have done by now. The original idea of this panel is mainly based on three observations:

1. Many of those phenomena that are nowadays being called shadow economy or illicit work show similarities to phenomena in past societies. Probably, each European society, both past and present, is familiar with perceptions of illicit work. Many sources we are used to work with were produced as a result of conflicts related to different perceptions of work or as a result of offences of regulations determining the legal status of certain activities. It is intriguing how many arguments used in early modern cities are similar to arguments used in 21st century newspapers. For example, to denounce a competitor as a foreigner who rakes in money and ruins the tax paying urban community was a well known strategy both in early modern as well as in post-modern Viennese trades.

2. We have only little evidence of the size of the shadow economy in past societies, but some studies reveal fascinating insights: again, I want to point out to the early modern Viennese trades, where some contemporary estimations conclude that only one out of three artisans was a member of a guild while an important part of the rest worked completely outside legal regulations. These estimations are confirmed by a number of inquiries that were ordered for some trades in the 18th century. According to an investigation from the 1770s, for example, only half of the Viennese gold- and silversmiths worked legally. These results correspond to Evan Jones’s research on the role of smuggling for Bristol’s early modern economy. Jones shows that a substantial illicit trade had been in existence since at least the mid-sixteenth century and declined as late as after the 1840s. Smugglers were usually regular merchants who conducted their illicit trade alongside their legal activities and recorded both in their standard account books. According to these records, the value of Bristol’s continental export trade could have been up to twice of that recorded in the customs accounts. Jones concludes that “smuggling was a regularized activity at this time (…). The illicit trade should not

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therefore be thought of as sideline or peripheral activity; it was an integral component of the city’s international commerce. According to Jones, we must assume that illicit trade was of comparable importance for the whole country and he concludes: “If smuggling represented an important component of that country’s international trade during the whole of the early modern period, England’s commercial history would require radical revision”.  

3. Notwithstanding the similarities and the major role of non-regular or illegal economic activities in history, change is highly visible. When speaking of shadow economy or illicit work, we usually think of tax evasion or the social security system, and these institutions are clearly dating from the late 19th and 20th centuries. Our modern understanding of shadow economies is therefore only partially compatible to early modern contexts. On the other hand, many of those activities perceived as illicit work by early modern contemporaries are nowadays part of regular economy or household activities. Furthermore, the clear dividing line we are used to draw between legal and illegal, formal and informal economic activities is probably a quite modern notion although we should not underestimate perceptions of a well ordered society in early modern Europe.

Thus, we should not simply construct European history as a history of formalization. Rather, we should bear in mind what Jonathan Gershuny noted in 1988. According to Gershuny, European history can be perceived as a culturally and socially determined history of transformations that change the relationships between formal economy, household economy and underground economy and transfer activities from one sector to the other. Starting out from this notion, we should understand economic history as an ongoing and often contradictory process of formalisation, informalisation and criminalisation.

The papers presented at this panel discuss examples from European towns and cities from the 16th to the early 20th centuries. Concentrating on towns is primarily a pragmatic decision. For the time being, most research on illicit work in history has been done on urban contexts although recent examples – Sheilagh Ogilvie’s studies on the Wurttemberg Black Forest, for example - change our notion of how markets worked in rural regions. The same is true for the period discussed here: for most European regions the sources on the Middle Ages are much scarcer than on the modern period. Furthermore, some authors argue that at least in

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6 Jones, p. 33.
7 Jones, pp. 33-4.
Central Europe the 16th century was the century when perceptions of illicit work gained a new dimension, as the paper by Philip Hoffmann will show. The early 20th century was the period when the notion of illicit work again underwent major changes, due to the imposition of modern tax and social security systems crucial for our modern understanding of shadow economies, although, as Sigrid Wadauer’s paper will show, the early 20th century is not necessarily a watershed in the European history of illicit work. Most papers presented in this panel concentrate on examples from the 16th to the 18th centuries. We believe that the early modern period is crucial for some aspects of our modern understanding of shadow economies. Both our modern notion of illicit work as well as work practices that are in breach of laws or regulations and therefore seem to antedate freedom of trade can be traced back to the early modern period.

Until now I have used the term “shadow economy” both for the 16th and the 21st centuries without discussing the problem of transferring terms from one context to a completely different one. In fact, the crucial question is if this makes sense and what the notion of “shadow economy” means for past societies. Even sociological and economic studies on the topic face the problem of defining the object of their study. There is a wide variety of terms used to name phenomena associated with illicit work: shadow economy, underground economy, undeclared work, illicit work, hidden economy, third sector, fourth sector, grey market, moonlighting, tax evasion and so on. Although there is no clearly defined generic term, the perceptions of illicit work show a common denominator. As already mentioned, our modern understanding of illicit work is closely related to the modern tax and social security system. Therefore, most studies on contemporary shadow economy focus on gainful activities, for which no taxes or social security taxes are being paid and/or which are conducted beyond legal regulations. Starting out from this definition, many economists understand shadow economies to be resulting from heavy tax burden, overregulation and high costs of establishing a perfect monitoring system. Within this context, illicit work is performed by the rational actor who consciously decides on the basis of economic incentives and who knows about the alternatives and the opportunity costs of his decision. More recent developments in economic theory, like the new institutional economy, argue on the basis of transaction costs: if the risk of being fined is calculable due to lack of control it can be the rational choice to opt for the illicit variant because, as we all know, illicit work is often based on a contract among friends or neighbours, which means that, for example, the costs of

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gaining information on your partner and his qualities are supposed to be lower than in the formal sector.

This perception of shadow economy is based on viewing at market and state as antagonistic institutions in modern society. Similar arguments are popular in historical studies as well: for example, the dominant view at guilds in European history has long assumed that the reason for the existence of illicit work in the trades must be seen in restrictive politics of guilds – or as in German historiography: the so called “closing” of the guilds in the 16th century – concerning the incorporation of new members. Although this kind of explanation is of course not necessarily wrong, it is surely insufficient to help us understand the existence and the forms of illicit work in European history. Explaining illicit work by pointing out to overregulation does not provide an insight into the practices of non-regular work and the actors’ perceptions. Furthermore, we would face major problems to define overregulation in history.

Therefore, we should take into account that economic anthropology and economic sociology can make substantial contributions to a more distinctive historical explanation. The roots of the modern debate on shadow economies can be traced back to studies on developing countries in the late 1960s and early 1970s. When investigating the survival strategies of the urban poor in Ghana, the social anthropologist Keith Hart was quite surprised to find a wide variety of gainful activities that were performed beyond legal regulations. In two articles from the early 1970s he described this phenomenon and called it “informal economy”11. His original idea was quite simple and proposed an explanation many economists still refer to: “informal economy”, as Hart originally defined it, comprises gainful activities that are neither taxed nor subject to social security systems or employment law. Informal activities are therefore not counted for the official GNP. Informal economy consists of micro-businesses that make use of family labour. Furthermore, the informal sector is not capital-intensive and characterized by ease of entry and low productivity.

In 1992 Keith Hart published a reconsideration of this concept and he clearly pointed out that the construction of an informal sector as the antipode of the formal sector “reflected the cold war ideology of a frozen opposition between the state and the market”12. The simplicity of the concept contributed to its success: as soon as 1972, the International Labour Organisation

(ILO) adopted the concept, soon followed by the World Bank, the International Monetary Fund and similar international organisations.

Meanwhile, the concept has been further developed and refined, but its great success has also lead to its use as a generic term for all kinds of activities. Keith Hart originally restricted the meaning of “informal economy” to developing countries, while in the meantime the term has been used in studies on Western societies and especially on transition economies like countries from the former Eastern Bloc or Asian economies as well. The original notion restricted the meaning of “informal economy” to gainful activities while many sociologists now use the term to describe all kinds of work including unpaid activities.\(^\text{13}\)

Due to the history of the concept and its widespread use, a more precise definition of our understanding of informal activities or shadow economies is indispensable. The term “non-regular” or “irregular economy”, as proposed by Bruno Dallago in 1990, may serve as a starting point. Unlike most social scientists, Dallago assumes that “the irregular economy has been present ever since regulated economic activity existed”\(^\text{14}\). He uses the term “to denote a complex of phenomena and activities engaged in for economic ends. These share the common characteristic of being deliberate attempts to evade or avoid the rules (laws, regulations, contracts and agreements) that apply to a particular context, the purpose being to achieve a goal that is permitted, tolerated or at any rate not explicitly condemned in the economic system concerned”\(^\text{15}\). Crucial for an understanding of shadow economy as an irregular economy is its distinction both from activities that are usually not considered gainful activities as well as from the criminal sector, although in some cases the boundaries appear to be blurred.

The concept of “irregular economy” may provide a notion of how concepts which have been developed to study recent activities could be adopted to historical contexts.

I cannot go into detail here, but there are two major theoretical perspectives to which empirical studies on the non-regular sector usually refer. The first perspective might be called the liberal one, represented by authors like Hernando de Soto, Milton Friedman and others.

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\(^{15}\) Dallago, p. XVIII.
who perceive informal economy as “the other path”, a term used by de Soto as the title of his well known book on shadow economies in Peru\textsuperscript{16}. He as well as many other mainstream economists take for granted that the informal sector is the home of the free market in the strict meaning of the word: unregulated competition, no bad effects from laws or social security systems, in a word the ideal playground for the quasi-natural capitalist spirit and therefore the basis for economic growth.

A different perspective interprets the distinction between formal and informal economy as a hierarchy of economic sectors. The informal sector is therefore being perceived as the underprivileged part of world economy where the marginalized groups of society must work in order to earn their living. Informal economy is the home of migrants and women and therefore serves as a means of exclusion. While de Soto and others tend to interpret state regulation as something that causes harm to economy and society, feminist and Marxist social scientists are in favour of formalization.

Within this very basic distinction a number of empirical studies, most of them micro studies, have been published in the recent years. Most of them cast doubt on a clear distinction between the market and the state to be dominant in both theoretical perspectives and focus on practices of non-regular work. These studies usually do not rely upon crude distinctions between formal and informal sectors of economy and therewith offer suggestions for historical studies. I want to single out some important points:

Most studies confirm what also some historical studies suggest and emphasize as the close relationship between regular and non-regular activities. Those persons who are active in non-regular economy are usually able to do this because they can use resources provided by regular economy. These resources include qualification, social networks, but also tools or commodities. On the other hand, much of what is being obtained by a non-regular activity is again invested in regular economy. Non-regular economy is therefore not a self-sufficient sector that is characterized by rules of its own. Even the “ethnic economy” of migrant communities, frequently defined as closed circuits in modern Western cities, relies on close relations to regular economy.

The same is true for the question of norms and regulations. As already mentioned, one perspective perceives non-regular economy as being free from interfering interventions like laws or taxation. Nevertheless, it would be wrong to assume that non-regular or informal is a by-word for unregulated. Numerous studies rather suggest that non-regular activities are

enabled by informal norms and rules and are structured by social networks that again refer to norms and regulations predominant in regular economy. But the question that necessarily occurs is if this is specific and if regular economy really works in such a different way. The “embedded economy” which Polanyi once applied to non-industrial societies and which is now frequently used to describe modern non-regular economy as well is more and more applied to modern regular economies either. Historical studies can contribute much to this ongoing debate.

The close relationship between regular and non-regular implies as a further dimension that both are characterized by discriminating elements. The ease of entry which Keith Hart postulated for the informal economy does not hold true for most of what we know by now. Rather we should assume that both regular and non-regular economy show similarly though not necessarily the same mechanisms of inclusion and exclusion. Illicit work, therefore, does not necessarily serve as the last resource for those who do not fit into formal economy. For example, the gender specific division of labour within non-regular economy is similar to what we know about regular economy.

Here again, the crucial question is if non-regular is a by-word for deviant and regular economy is in fact a powerful means of predominance. Some studies on the ethnic economy of Black communities in inter-war America reveal that this perception of shadow economies was not unknown to the actors themselves\(^{17}\). Illicit work could therefore be interpreted as an act of resistance against an economic system that excluded parts of the population from equal rights on the labour market.

If we take this argument seriously, we must find answers to the following questions: who shapes the regular and by what? How do regulations work and what kind of functions do they fulfil?

A part or maybe even the bulk of illicit activities is not being persecuted. There is a certain degree of tolerance that seems to differ from case to case. This has to do both with the problem of control and with problems of drawing a clear dividing line between shadow economies and community services, gainful activities and unpaid work. But on the other hand, illicit work can also signify unequal market relations. From this perspective tolerance can be interpreted as reproduction or enforcement of subordination. For a specific historical explanation of tolerance we must act on the assumption that the historical context of non-regular economy is frequently characterized by competing legal and social perceptions of illicit work. These perceptions are permanently articulated and changed through conflicts and

practices and therefore constitute the framework which the economic actors must take into account, make use of, reproduce and change.

We may conclude that illicit work must be understood to be a relational practice that refers to questions of inclusion and exclusion. The discussion of shadow economies and non-regular work practices sheds light on categories of economic, social and cultural history that seem to be stable but nevertheless appear to be fragile.