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Beating the System?

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What is the Underground Economy?

The underground economy is a pervasive entity. It will always be with us. The formal or recorded economy is the new kid on the block. The formal economy only came into existence as we began to try to measure, broadly tax, and regulate economic activity. It is a creature by and large of the post-World War II period. We began to have broad-based taxes and benefits systems (during the 1930s and World War II), extensive regulations (mainly a post-World War II phenomenon) and national statistical systems (beginning in the late 1920s and picking up speed after World War II) mainly during the 1930s and 1940s.

It is the formal economy, the recorded, taxed, and regulated economy, that is the recent arrival—not the unrecorded or underground economy. This said, why are we concerned about this economy?

When and Why Did We Become Concerned with the Underground Economy?

There have been two periods of concern about the underground economy. The first period of concern occurred during and shortly after World War II and was largely confined to the United States and Canada. The large increases in taxes and regulations needed for the war effort drove much activity underground.

The second period of concern began in the late 1970s and spread from the United States to most of the developed world. By and large the underground economy has been of little concern in Third World countries (other than to the taxing authorities). Many developing countries (e.g., Brazil) even make government loans to enterprises that operate largely underground. As a source of employment and entrepre-
neurial activity, the underground economy is more often cultivated than criticized in Third World countries.

The most recent period of concern about the underground economy in the developed world began with a series of articles in the popular press during the late 1970s claiming that there was a large and rapidly growing underground economy. Politicians quickly picked up on this because it appeared to provide a "painless" method of dealing with the deficit (annual deficits in the United States averaging over $50 billion a year began in 1975 and deficits of over $100 billion began in 1982). The existence and claimed rapid growth of the underground economy provided support for deregulation and lowering of marginal tax rates—politically popular policies during the late 1970s and early 1980s.

My own saga with the underground economy illustrates the source and nature of concern. In 1978, I was sitting quietly in my office at the University of North Carolina when I received a call from the Chief Economist of the Joint Economic Committee. He requested that I write a monograph on the "underground economy" for the Committee's Special Study on Economic Change. I replied that I would have to know what this economy was before I could respond. His description suggested a diverse and complicated set of activities that appeared to have little in common other than that they were somehow hidden from governmental agencies. The task seemed overwhelming and he wanted a first draft in six months. It was a hot topic and the monograph needed to be completed yesterday if not sooner. I asked for time to consider his request. I was strongly inclined to say no, since it sounded like a topic that would require a couple of years to deal with adequately.

As it happened, I was meeting with a mathematical economist, Carl Simon (Department of Economics, University of Michigan), for lunch to discuss a saddle point problem. Since I was late, I provided a detailed description of the phone call by way of apology. To my amazement, Carl indicated that he would love to undertake such a project with me. He solved my saddle point problem and I agreed to do the monograph jointly with him.

Substantial Interest by Other Agencies

At the same time that the Joint Economic Committee was commissioning our study, other congressional committees (e.g., the House
Committee on Ways and Means) asked for a study of nonfiling by the General Accounting Office (GAO) and pressured the Internal Revenue Service (IRS) into providing an estimate of unreported taxable income. The IRS did not wish to undertake estimates but was required to do so by Congress. These reports resulted in numerous congressional hearings during the early 1980s which provided valuable support for the deregulation and detaxation movements that accompanied the Reagan presidency.

A Dispassionate Look at the Underground Economy Today

It has now been over fifteen years since the rediscovery of the underground economy. There has been much research on the topic. The political passions that originally inspired renewed interest in the underground economy have cooled, at least somewhat. We are now at a point to step back and consider the nature and importance of this economy. In 1982, Carl Simon and I published a book, an expanded and updated version of our study for the Joint Economic Committee, on the underground economy (Simon and Witte 1982). The editor gave the book the title Beating the System. With the advantage of hind sight and an additional fifteen years of research, I would like to consider whether those in the underground economy are beating the system. I will discuss the impact of the underground economy on those who participate little, if at all, in its activities, as well as on those who are members of this underground.

What Kind of Activity Occurs in the Underground Economy?

Activities in the underground economy can usefully be divided into three categories: (1) “pure” tax evasion, (2) the irregular economy, and (3) illegal activities. The nature of these activities and the reasons for our concern are quite different for the three types of activity, and so I will discuss each type of activity separately before trying to reach general conclusions concerning the underground economy.
Pure Tax Evasion

Pure tax evasion, which is far from pure, occurs when individuals and businesses fail to fully report earnings from perfectly legal activities carried out in businesses that are properly registered and recorded in our national statistics. It also occurs when individuals and businesses overstate the deductions to which they are entitled.

Perhaps half of all Americans engage in "pure" tax evasion. However, most evasion is rather small scale. We are a nation of tax-evasion nibblers, although some individuals do take large gulps.

The level of evasion is very unequally spread throughout the population. The amount varies with type of income, amount of income, and with attitudes toward laws and government.

Type of income

Wage and salary income is reported most accurately. We don’t know whether this stems from the law-abidingness of the middle class or from the extensive system of withholding and information reporting. "Paper trailed" income and income from which taxes are withheld are far more fully reported than income that generates no information for the IRS. Small businesses report a smaller proportion of their income than do large corporations. Rent and royalty income is less fully reported than dividend and interest income. (See U.S. Department of the Treasury 1990 or U.S. General Accounting Office 1990 for details.)

Amount of income

The relationship between the proportion of true tax liability reported and income is U-shaped. Tax compliance is highest for the middle class and lower for both poorer and richer individuals. We do not know the reason for the U-shaped relationship. People with high and low incomes have more opportunities to underreport income than do the vast middle class of wage and salary workers. For example, the poor are often involved in the irregular economy which keeps few written records. The better-off often have complex transactions which make overstating deductions and understating income more difficult to detect. The poor and the rich are often less accepting of mainstream morals and ethics. This may make tax evasion more acceptable, at least for some members of these groups.
Attitudes toward laws and the government

There are large geographic differences in tax compliance, with the Southwest and Southeast being least compliant and the Midwest and Northeast most compliant. It is not clear why these geographic differences exist. However, audit rates have traditionally been lower in the Southwest, particularly southern California, so the tax gamble has a larger expected return in this area. Research indicates that areas of rapid growth are more noncompliant than stable areas. For example, see Beron, Tauchen, and Witte (1992).

A consistent finding in the tax compliance literature is that women are more compliant than men. We do not know whether this stems from greater socialization of women, their greater aversion to risk, or the nature of their incomes.

Why are we concerned with pure tax evasion?

The most obvious answer is that we want everyone to “pay their fair share.” When some members of society pay less than their full tax liability, the rest of us suffer. Government can respond to decreased tax revenue in one of three ways. First, it can increase taxes so the rest of us pay more. Second, it can cut expenditures so that everyone has fewer publicly provided goods and services. Finally, it can finance government expenditures by running large deficits. All of these potential responses to tax evasion hurt those of us who are struggling to survive in the formal economy.

The Irregular Economy

The irregular economy generally encompasses the production of legal goods and services in unregistered and, hence, largely untaxed and unrecorded, small businesses. Activities in the irregular economy are an important form of underground activity.

What goods and services are produced in the irregular economy?

Production in the irregular economy consists mostly of personal and household services. Typical personal services produced in the irregular economy are child care, nursing services, legal, and accounting services. Household services such as gardening, remodeling, and auto
repair also are frequently provided in the irregular economy rather than by registered and licensed individuals.

Some goods and services are also produced in the irregular economy. Examples include food, clothing, jewelry, recreation, and tourism. Evasion of taxes on petroleum products is quite large. Organized crime, particularly the “Russian mafia,” is heavily involved in tax evasion on gasoline and other fuels.

Firms producing in the irregular economy tend to be small. Hence, production tends to occur in areas where economies of scale are limited. The irregular economy also provides a gateway for some new immigrants, legal and illegal, and for some new entrepreneurs.

While tales of sweatshops employing hundreds of illegal aliens appear in the press, the more typical employment setting is an individual moonlighting in the irregular economy.\(^1\) The labor force for the irregular economy comes largely from people who work full time in the formal economy.

\textit{Costs and benefits of the irregular economy}

\textit{To those in the formal economy.} The confirmation hearings of early Clinton nominees point up the prevalence of purchases from the irregular economy by all strata of U.S. society. We would be hard-pressed to run our households and provide for our personal needs without the irregular economy. This economy provides us with more convenient and often less expensive (both in terms of time and money) goods than the formal economy. The quality of goods and services provided by the irregular economy tends to be highly variable, since the only quality controls are word-of-mouth reports. Regulation and government information provide important quality control that is missing from the irregular economy.

Irregular economic activity pays little if any tax. This means that governments must tax the rest of us more, provide fewer services or run large deficits—a privilege only allowed the federal government and selected state and local governments.

\textit{To those working in the irregular economy.} Jobs in the irregular economy have advantages and disadvantages. For those moonlighting in the irregular economy (the majority of this economy’s labor force), the economy has primarily benefits. Income is free of taxation, and
work methods are left to the individual's discretion. Work may be more informal and better integrated with the family and communal elements of the individual's life than is possible with much formal employment.

Individuals working exclusively in the irregular economy are of two basic types—those there by choice (e.g., retirees, welfare recipients, mothers with small children, "free spirits") and those there for lack of alternatives (e.g., illegal aliens, the unemployed without unemployment benefits, new entrants to the labor force).

For individuals working exclusively in the irregular economy by choice, the irregular economy provides an entrepot or a more agreeable combination of work conditions and wages. Take for example the individual with small children. She may choose to work at home because of an ability to combine child care with her work activities. Similarly, the handicapped individual may find the home environment with its familiarity or convenience more congenial than the more rigid and structured work environments typical of the formal economy.

For those working in the irregular economy for lack of known alternative, the irregular economy provides sustenance, but at a cost. The cost is the foregone benefits available in the formal economy such as health benefits. Work conditions can be harsh and benefits nonexistent.

**Illegal Activities**

To this point, we have considered mainly activities that run afoul of our regulatory and tax laws, but not our criminal law. To close on what might be considered a low note, I will now turn to activities that violate our criminal laws. In spite of declining crime rates, crime is still one of the topic of most serious current concern to the U.S. public. It also provides the titillation of the forbidden.

In terms of economic activity, crime comes in two forms—illegal transfers of goods and income, and production of illegal goods and services.

**Illegal transfers of goods and services**

The illegal sector has developed complex ways of transferring income and goods among individuals just as our legal economy has. Lacking the power to tax, the illegal economy transfers by means of
force (e.g., "your money or your life"), or subterfuge (e.g., fraud, counterfeiting).

Like the irregular economy, the illegal transfer economy seems to provide mainly part-time employment. Further, illegal transfers of the "blue-collar" variety provide surprisingly low returns (see Reuter, MacCoun, and Murphy 1990). Illegal transfers by subterfuge, such as the notorious financial dealings of the 1980s, provide far larger returns but to very few individuals. Economists are split on whether or not activities such as "insider trading" increase or decrease market efficiency.

Production and distribution of illegal goods and services

The major goods produced and distributed illegally in our country are illegal drugs. Illegal drugs run the gamut from substances believed to have large-scale debilitating effects (e.g., heroin, crack) to those considered by many to have relatively minor effects (e.g., marijuana). As Reuter, MacCoun, and Murphy (1990) have recently documented, illegal drug sales provide good income for mainly part-time work. However, drug dealing is a very risky endeavor with substantial chances of arrests (over 1 in 5 per year) and death or injury (1 in 10 per year).

As Reuter and his colleagues have described it, selling illegal drugs is the preferred illegal form of "moonlighting" for many urban males, particularly minority males. Drug dealing provides sporadic (mainly nights and weekends), high-paying, part-time employment. Individuals selling drugs daily in Washington, D.C. in the late 1980s typically earned about $2,000 per month while individuals selling one day a week or less had income supplements of $50 or less. The typical dealer in Washington, D.C. is a black male between 18 and 29 years of age. (See Pozo (1996) for a further discussion of drug markets.)

Our attitude toward drugs tends to be both emotional and schizophrenic. We have a spectrum of rules governing the sale and use of various drugs. Some drugs (e.g., generic drugs) are sold in mainly unregulated spot markets (i.e., you can buy them freely at your local supermarket or drugstore). Others, such as tobacco and alcohol, are singled out for special taxation (i.e., excise taxation) and purchase is restricted to individuals who have reached a specified age. Prescription drugs require that a medical doctor authorize use. Finally, there are a
whole series of drugs (e.g., marijuana, cocaine, heroin) that we generally make illegal either to sell or use.

Consider the two spectrums—one spectrum of regulation possibilities and one spectrum of taxation possibilities. Generic drugs would fall at one end of the regulation spectrum and illegal drugs at the other. Oddly, generic and illegal drugs both fall on the untaxed end of the tax spectrum and alcohol and tobacco at the high end of this spectrum. If one considers the placement of various drugs on these two spectrums, it is very difficult to see a consistent set of priorities.

The debate about illegal drugs has mainly centered on the two extremes of the regulation spectrum—legalization versus criminalization. This seems to narrow our options unnecessarily. For various drugs that we currently make illegal, we may want to consider a number of different positionings on the regulatory and tax spectrums. For example, one could imagine making marijuana a prescription drug and placing an excise tax on use. For a compilation of recent papers on drug laws, see Krauss and Lazear (1991).

Perhaps we need to think more carefully about the use of drugs and the benefits that they provide users. Some drugs are designed purely to treat disease. It is hard to imagine someone taking an antibiotic for the fun of it. Others serve both treatment and sensory needs (e.g., pain relief, relaxation). Valium is used by some as a tranquilizer, by some as a muscle relaxant, and by some to produce a euphoric state. Still other drugs seem to have mainly recreational or psychological benefits (e.g., alcohol, tobacco).

We also need to consider the external effect that drug use entails. Consumption of some drugs imposes costs on society as a whole in the form of higher medical expenditures, increased crime, or decreased productivity. Consumption of others provides external benefits by lowering medical costs, making people more psychologically healthy (e.g., less depressed, less aggressive), and more productive. Economists would suggest that you encourage use of the drugs with positive external effects and discourage use of those with negative external effects. Encouragement can come in the form of subsidies (e.g., government-financed medical research or subsidized prescriptions such as under Medicaid or Medicare). Discouragement can come in the form of taxation, information campaigns (very effective for tobacco), restrictive
access (e.g., age restrictions on purchase, requiring prescriptions), or making the substance illegal either under the civil or criminal code.

If we placed all drugs on the regulatory and tax spectrums described above and considered how the net benefits of each drug relates to its position on the spectrums, we might find some surprising locations. Such an exercise might also suggest innovative policies in an area where thinking has been impacted for some time.

The major services produced in the illegal economy are gambling (increasingly preempted by legal forms), prostitution, and loan sharking. While these industries are still quite large, all are believed to have declined in recent years. Prostitution has been hard hit by AIDS and more liberal social mores regarding premarital sex. The estimated number of individuals working as prostitutes is believed to have declined since 1980. Legalization of gambling and low interest rates have taken a similar toll on the gambling and loan sharking industries. (See Carlson 1990 for details.)

**Costs and Benefits of the Illegal Economy**

It is not hard to make the argument that the illegal economy as a whole has costs that substantially outweigh the benefits that flow from this economy. There is even a debate in economics regarding whether or not we should count any benefits that result from infringement of our criminal law. The issue is whether, when breaking the social contract, the individual has lost his or her right to be counted in the "social welfare function." For a discussion of whose benefits should be included in the social welfare function, see Trumbull (1990).

Even if we assume that the gains of individuals who break the social contract are to be counted, it is hard to justify the illegal economy on economic grounds. The transfer payments of the illegal economy are quixotic at best and worsen the income distribution in many cases. Further, these transfers, on balance, lower productivity in the formal economy.

The costs and benefits of the production of illegal goods and services are more difficult to assess. If we accept the proposition that our criminal laws reflect strongly held moral beliefs, then the costs to society of illegal markets are substantial. However, it may be that at least some current laws reflect the moral beliefs of previous generations. If
so, these laws may no longer be justified on efficiency grounds. For example, it may be that many citizens no longer support the sodomy laws or adultery laws that remain on the books in many states.

From an economist's perspective, the relevant question might be: Do the total costs of the activity outweigh the total benefits? This is, of course, the traditional criterion of benefit-cost analysis. In some cases the benefit/cost ratio seems clear. Most citizens would agree that child prostitution imposes more costs than benefits on society and that it has a high moral cost as well. Transactions between consenting adults are more difficult to evaluate. When an adult prostitute makes a deal with an adult client, the deal is clearly utility-enhancing for the parties to the transaction. Most negative externalities from this transaction flow from the fact that prostitution is illegal, not from the transaction per se.

There are clearly transactions between adults that yield sufficient negative externalities that we wish to outlaw them. For example, it is hard to justify legalizing without severely taxing or requiring prescriptions for such drugs as heroin. However, it seems wise to carefully consider the full spectrum of options (i.e., regulations and taxation) before deciding that making something illegal is a reasonable thing to do. It is also wise to consider the degree to which criminal prohibitions can be enforced. Activities between consenting adults are notoriously difficult to enforce. Making laws that are unenforceable may make us feel better. However, they have substantial hidden costs. They tend to decrease respect for law and, hence, make other laws more difficult to enforce.

**Beating the System?**

Returning to the question with which we began the paper: Is the underground economy beating the system?

**Benefits and Costs to the Nibblers and Nonparticipants**

Those of us who are only peripherally touched by the underground economy are, I would contend, harmed more than we are benefited by it.
We all bitch and moan about taxes, but pay a substantial amount of what we owe. Some tax revenue is wasted or spent on things we would rather not have, but much tax revenue is spent for things we value very highly—e.g., law enforcement, water and sewers, education. Tax evaders lower the amount of tax revenue that our tax system would otherwise be able to produce. The public sector can respond in one of three ways: (1) lower the level of goods and services provided, (2) raise taxes on the rest of us, (3) in the case of the federal government, increase the deficit.

Tax increases enacted to raise revenue lost to evasion tend to fall disproportionately on the wage and salary earnings of the middle class. Tax evasion tends to redistribute income to low-income and high-income groups willing to falsify tax returns. This is an odd and rather unpalatable form of redistribution. Tax evasion imposes an implicit tax on honesty, a characteristic we would be better off subsidizing than taxing.

Many tax evaders do truly beat the system, but their gain is at our cost. While audit rates have fallen dramatically during the last two decades from 10 percent in the late 1960s to under 1 percent today, the amount of information-matching has gone up considerably and will increase further with the IRS systems-modernization effort. The level of penalties for evasion and the frequency of their imposition has gone up dramatically as well.

Decreasing the current level of tax evasion appears to be a socially desirable goal. How can we most cost-effectively achieve this goal? Tax simplification and increased information-reporting coupled with systems modernization seem most promising at this point. The Tax Reform Act of 1986 (TRA86) simplified our tax laws at least in some ways. Tax laws passed since 1986 have, on balance, made our tax code more complicated. They have also raised nominal tax rates on better-off individuals. The last time this happened, both evasion and avoidance increased. Nominal tax rates were progressive, but the tax burden did not fall disproportionately on the rich.

We need to have realistic expectations regarding the amount of tax evasion that can be cost-beneficially combated, given our present tax code. The amount is probably less than 20 percent. It would never be
cost beneficial to uncover and punish most tax evasion. As with taxes and death, we need to learn to live with a certain level of tax evasion.

*The Irregular Economy*

The irregular economy appears to be the least virulent or relevantly most beneficial sector of the underground economy. This economy provides goods and services as well as jobs that might not otherwise be available. However, both the goods and services and the jobs tend to be of highly variable quality.

This economy may be most successfully attacked by providing alternative entrepot for new immigrants and new labor market entrants. It may also be combated by providing lower levels of regulation and increased benefits for participating in the formal economy. For example, the extensive reference and referral system of Massachusetts, which provides customers, training, and services (e.g., accounting services) to child care providers, has led most child care providers, including providers of child care in their home, to obtain state licenses as required by state law. Only approximately 5 percent of family day care providers are unlicensed in Massachusetts. Other states that require family day care providers to be licensed but don’t provide benefits to licensees have as much as 50 percent of providers failing to comply with the law.

Some workers in the irregular economy beat the system. Others are beaten by it. The general public may, on balance, benefit from the existence of this economy, but the balance is a delicate one.

*The Illegal Economy*

This is largely an economy employing young males. It provides an exciting alternative to the low-wage jobs currently available to young males with high school educations or less. However, these jobs come at high cost to the rest of us. The transfers of the illegal economy are very costly in terms of lifestyle, antitheft devices, and fear. Goods generally lose, not gain, value as a result of illegal transfers. This is reflected in the low prices available from fences.

While illegal goods and services often provide net benefits to those who purchase, the benefits may be short-lived and may come at sub-
stantial cost to the general public. Effective policy to combat the illegal economy may combine legalization of some goods and services (e.g., gambling, prostitution, marijuana) with stricter enforcement of others.

Conclusions

Everyone wants a fast buck. It is the American way. We are a nation that began its existence with a revolt against government. We didn’t like taxation when the British imposed it upon us and we don’t like it much better now that we impose it upon ourselves.

We are a society of individualists who resent government interference in either our work or consumption choices. However, it has been a long while since we have been a frontier society. We have come to rely on government to provide goods and services, to regulate behavior, and to enforce a commonly agreed upon social code. The underground economy points up gaps in government enforcement and shows us the limits of government.

Through our representatives, we make decisions regarding the goods and services we wish our federal, state, and local governments to provide. To finance these expenditures, we agree to a set of user charges and taxes. Evasion of taxes is often in the individual’s narrow self-interest. He or she can enjoy publicly provided goods and services without paying for them. In the jargon of economics, the individual can be a “free rider.” The tax evader is beating the system, but at the expense of the rest of us.

As citizens, we require licenses to undertake certain types of businesses (e.g., medicine, plumbing) and we regulate the way in which businesses are allowed to operate (e.g., through environmental and health and safety regulations). We do this to enforce minimum standards. Individuals and firms operating in the irregular economy avoid both licensing and regulatory requirements. In some cases this evasion of regulatory requirements has no external costs. For some goods and services, consumers may obtain adequate information regarding the quality of products informally. In other cases, irregular activity has high external costs and information regarding quality may be both hard to obtain and unreliable. Unregulated firms may dispose of hazardous
materials in ways that cause substantial social harm. Sweatshops may provide hazardous and unhealthy work environments. Some unregistered child care providers may damage young children in ways that have serious social consequences.

Some producers and consumers of the goods and services of the irregular economy are beating the system and at little or no cost to the rest of us. Others are beating the system, but imposing substantial costs on the rest of us. We need to think carefully about what we license and what we regulate. We should impose mandatory licensing only in areas where informal information regarding quality is either likely to be unreliable or costly to obtain. In other areas we may be better served by allowing consumers to choose whether they purchase from licensed or unlicensed providers. We should only regulate in areas where external effects are large or where there are substantial asymmetries in power (e.g., the sweatshop situation) or information (e.g., pharmaceuticals).

Our criminal laws reflect our society's generally held beliefs about what behaviors are acceptable. We condemn certain types of transfers (e.g., theft, fraud) because they offend our sense of fairness and because they lower the productivity of our formal economy. We outlaw the sale and consumption of certain goods and services because they offend our moral sensibilities and/or because they have substantial negative externalities.

The mores of our society have changed quite rapidly since the 1960s, with each generation developing its own sense of what is socially acceptable. Our criminal laws change much more slowly. It is hard to say if the rigidity of what Bagehot called the "cake of custom" is, on balance, good or bad. Most violations of most of our criminal laws, on balance, hurt us as a society. It is not even clear that many of the participants in illegal activities (e.g., the young drug dealer or prostitute) are in the long run beating the system.

Are those who participate in the underground economy beating the system? From a short-run, narrowly individual perspective, they by and large are. However, the system they are beating is a system that we set up because we believed that it was by and large beneficial to society. The tax laws, regulations, and criminal code evolve slowly and can be affected by special interests. The underground economy will grow in those areas where existing laws and regulations are inefficient or most at odds with current mores. The underground provides an escape valve.
It can also provide valuable information regarding rules and regulations that need to be reassessed.

Tax evasion peaked in the early 1980s because our tax laws had rates and provisions that made evasion both relatively easy and very beneficial. Since TRA86, levels of evasion have declined. TRA86 broadened the base of taxation by limiting loopholes. It also lowered tax rates. The growth of the tax evasion component of the underground economy during the late 1970s and early 1980s warned us that something was wrong with our tax laws. Our response was to alter the tax code, not to increase enforcement.

As a society, we would be wise to look closely at areas of rapid growth in the underground economy. These growth areas may need to be attacked by increased enforcement. For example, the growth of crack use during the 1980s was effectively dealt with by a combination of enforcement and education. However, rapid growth may warn us that it is time to revise outdated and inefficient rules. For example, the failure of many upper middle income nominees for federal posts to pay nanny taxes did not lead to greater enforcement. It led to changes in tax laws and regulations.

NOTE

1. A Michigan study found that 50 percent of illegal vendors of goods and services had regular jobs, and that only 5 percent were working off-the-books full time. It is estimated that over half of all illegal aliens had income tax withheld and, hence, were working in the regular as opposed to the irregular economy.
References