

Underground in America

OFF THE BOOKS — THE UNDERGROUND ECONOMY OF THE URBAN POOR

BY SUDHIR ALLADI VENKATESH

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REVIEWED BY DOUG CAMPBELL

It's been almost two decades since Peruvian economists Hernando de Soto and Enrique Ghersi published *The Other Path*, considered by many to be the seminal work on the underground economy. De Soto and Ghersi described how entrepreneurial Peruvians, in response to the rise of the radical "Shining Path" movement and burdensome regulations that made doing business according to the letter of the law very hard, cultivated an alternative marketplace. They worked as vendors, home builders, and drove most of the buses in Lima.

Eventually, this "informal" economy was estimated to encompass 38 percent of gross domestic product (GDP). Such entrepreneurialism showed the in consequence of the government's centrally planned, overregulated economy, ultimately weakening the ideology and guerrilla movement behind it.

Now comes what's being hailed as the next landmark narrative on the underground economy. This time, the author is an American of South Asian descent, a sociologist made semi-famous in Chapter Three of *Freakonomics*, the surprise best-seller by economist Steven Levitt and journalist Stephen Dubner, as the enterprising grad student who got his mitts on the ledger of a Chicago drug dealer.

In his first book, *American Project: The Rise and Fall of a Modern Ghetto*, Sudhir Alladi Venkatesh, now an associate professor at Columbia, focused on Chicago's failed subsidized urban housing. In his latest, *Off the Books: The Underground Economy of the Urban Poor*, Venkatesh looks at a single urban neighborhood — a South Side quarter that the author pseudonymously calls "Maquis Park" — and delivers an authoritative account of the current underground economy at work in a major American city.

Though they are not burdened by hurdles as severe as the Peruvian entrepreneurs chronicled in *The Other Path*, the residents of urban Maquis Park, nonetheless, face their own barriers to entry in the formal economy. The neighborhood's physical infrastructure is eviscerated, basic public services

are often substandard, human capital is generally low, and official joblessness is rampant. So the people of Maquis Park build their own economy.

This is no ivory tower view. Venkatesh spent parts of eight years, from 1995 to 2003, "hanging out" in Maquis Park. He thinks that his South Asian lineage was an asset; the black residents didn't view him as white or black, but more of a mediator who could be occasionally called upon to settle a transactional dispute. This role helped him get close to his sources. The result is a close-up study of inner-city life that rings authentic.

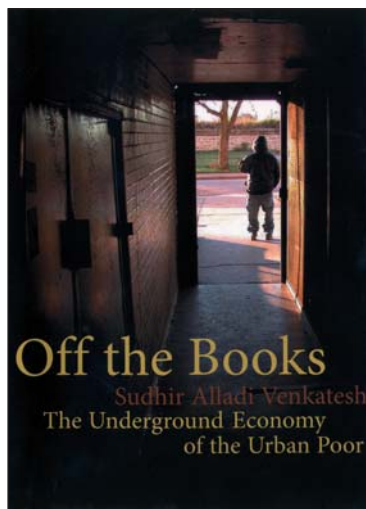
There is Leroy, the auto mechanic who gets paid for oil changes with trades — a used microwave, sometimes cell phones. "Soccer Mom" Baby "Bird" earns a living as a prostitute, while her neighbor Eunice cleans offices for minimum wage and supplements by selling home-cooked soul food. Even the clergy get wrapped up in the underground economy. Sometimes the pastors negotiate conflicts between pimps and prostitutes; other times they help settle contracts between underground traders. They serve as

liaisons between the police and street gangs. They also receive direct benefits for their roles, with cash donations often following the recovery of stolen property, for example. "Like their flock, pastors must also contend with the complexities of life where the underground may be the only available resource," Venkatesh writes.

To be sure, there is no shortage of "legitimate" business. It's just that many of these licit trades get mixed up with illicit ones. The diner owner also vends pirated CDs at the register. The hair stylist subleases a back room to sex workers. They do it for survival because they see no other way. Here's Eunice, the office cleaner who also doesn't report

income on food she sells: "Oh, the Lord sees that. Yes, I do live an illegal life in the eyes of God. But he also sees I ain't selling no drugs. I take care of my grandchildren. All that money? It goes to my babies, keeps them in school. I mean, you always going to take care of your children."

The underground economy of Maquis Park is not a political statement. It is, as Eunice describes, a matter of economic necessity. And it is a fairly robust, if not at first obvious, sort of activity. "Beneath the closed storefronts, burned-out buildings, potholed boulevards, and empty lots, there is an intricate, fertile web of exchange, tied together by people with tremendous human capital and craftsmanship," Venkatesh



writes. Yes, Maquis Park is brimming with homeless hustlers and barely-scraping-by merchants. But every single one of them is working to make ends meet. They operate in the shadow economy because the official one is both harder to access and provides insufficient income. Venkatesh explains:

Simply put, it is nearly impossible for residents in Maquis Park to avoid underground economic activity: it is an ever-present threat on the streets, in parks, and other public places; and for the working and poor families, it is always a temptation, given the hardships of living near the poverty line. Recall that, at any point in time, nearly half of the community is out of the labor force, so poverty by itself will force people to seek work outside the mainstream.

Five main types of players operate in Maquis Park, and Venkatesh devotes a chapter to each of them: the domestics, the entrepreneurs, the street hustlers, the clergy, and, finally, the gangs. The aptly named Big Cat is leader of the dominant Maquis Park street gang, the Black Kings, through whom seemingly all underground transactions eventually pass.

Big Cat is keenly aware of his shady status. He yearns to rise in social standing, to be so successful in the underground economy as to be catapulted up to the legitimate one. “He believed the black urban poor must use the underground to amass the necessary political and economic capital to improve their social standing and become influential actors in the wider city.” Recognizing that his own welfare depends on his relationship with the community, Big Cat even backs off on some of his most profitable drug-dealing operations. But he is doomed from the start. It’s not giving anything away to note that Big Cat never realized his goal. News of his death opens Chapter One; his funeral serves as the book’s conclusion.

The portrait that emerges of Maquis Park is one of shaky, tense alliances, risk, and the ever-looming possibility of death. Bargaining is a way of life between the groups — not just bargaining over goods and services but bargaining to keep the underground economy afloat. Marlene, the nanny and sometimes community watchdog, meets with Big Cat and Pastor Wilkins to hammer out a sort of peace pact. Their agreement allows unfettered drug and prostitution activity in their park while children are in school or in the late-night hours. But when kids are playing, illicit activity is to cease.

In such cases, the underground economy of Maquis Park works, but it’s safe to say residents would eagerly give it up for the certainty of the official economy. Venkatesh is mostly sympathetic to his sources, and he devotes many passages to their resourcefulness. But he has no illusions about their plight. The further Maquis Park residents burrow into the “shady” economy, the less likely they are to build credit and human capital that would propel them into the official economy.

Unlike Peru of the 1980s, the regular economy of the United States is a far more desirable place to be. The tragedy is that some Americans find it hard to move into that world. The informal economy can be more lucrative and the barriers to entry often lower. One might not find the underground economy worthy of celebration, but its existence is imperative to understand. Not only is the American underground economy significant in size — some estimates put it at roughly 10 percent of official GDP —

studying it can tell us much about how markets, both legal and illegal, work.

How accurately *Off the Books* renders these events remains somewhat unclear. This is a minor quibble, but because Venkatesh has changed names of people and locations, his reporting is impossible to verify. In a footnote, Venkatesh explains that Columbia University guidelines require

that “risks to human subjects” are minimized, a practice that has become standard at research universities around the country. There is otherwise no reason to doubt that all the people and places he describes are genuine, but readers are justified in approaching the text with a healthy amount of skepticism.

Off the Books undoubtedly will show up on social science syllabuses in campuses across the country. Many economists already have placed it on their recommended reading lists. Venkatesh’s work is not quite an academic text, yet it is much more than a simple community snapshot. He may get a bit ham-fisted in repeating his theme: that activities in the underground and over-ground economy are inextricably intertwined. But it’s an important point. *Off the Books* lucidly describes the urban underground in all its interlocking alliances and complicated angles. Perhaps next we can begin to deal with the problem at a level equivalent to its complexity.

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