

Highlighting the Hustle:
Exploring the Underground Economy in Detroit

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Abstract

Economic development initiatives targeting entrepreneurs have found Detroit a ripe breeding ground for talent. For participating entrepreneurs, this is a time of great fortune. However, these programs are not open to all who desire to ascend to the entrepreneurial ranks. This research will focus on the definition of the underground economy, identification of susceptible participants, barriers of entry preventing participants of the underground economy from engaging in standardized entrepreneurial development and recommendations on how economic development organizations can be more inclusive in funding guidelines.

Keywords: underground economy, economic development, Detroit, entrepreneurs

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Background

The city of Detroit is in the midst of another period of revitalization. Individuals who are familiar with the illustrious past of this formidable city know that this isn't its first proverbial rodeo. Its motto speaks to its innate ability to survive and even thrive post-traumatic incidents in its boast of rising from the ashes of a great fire that nearly eradicated it entirely in 1805. Hence, the bankruptcy of 2013 was no exception. Despite the national and international news stories that have blanketed the media since this most recent fiscal challenge, within the Detroit community there has been a sense of this being yet another opportunity for the city to demonstrate its tremendous capacity to rebuild. The inherent ability to survive is part of the collective consciousness of the citizens of Detroit. Research has revealed that resilience and resourcefulness are two vastly underrated components of sustained success (Myler, 2014). Many of the residents have earned veritable street PhDs in survival as a consequence of a historical and systemic lack of connection to opportunity juxtaposed with the fact that survival remains a paramount concern. This paper will examine the presence of the underground economy in the city of Detroit.

Some have characterized the current economic environment in Detroit as being a 'tale of two cities.' Further, some argue that instead of adding value, ongoing economic development efforts are exacerbating division and diminishing opportunity for city residents. One of the common ways to describe this is to utilize the phraseology of New Detroit vs. Old Detroit. There are millions of dollars pouring into the city at the time of this writing; organizations such as W.K.Kellogg, JP Morgan Chase, and Google are investing heavily in the city, in addition to

notable entrepreneurs such as Dan Gilbert purchasing and repurposing property (Reindl, 2017). The housing market in the city has skyrocketed, with downtown apartment prices rivaling that of affluent suburbs and enjoying nearly 100% occupancy rates (Runyan, 2018). Detroit is quite an attractive option for investors who are interested in connecting to a compelling comeback story. This level of attractiveness naturally extends to economic development.

While big business is vitally essential for sustainable communities, the watering and feeding of promising entrepreneurial ideas is indeed the backbone of economic strength in our country. This fact is equally true in the city of Detroit, but more challenging based on several factors. The median income of the average Detroiter is much less than the national average (U.S. Census Bureau, 2017). Access to reliable mass transportation remains a significant hurdle the city has yet to overcome (Runyan, 2017). The educational attainment in Detroit is also lower than the national average (Stebbins, 2017). Still, there is a plethora of individuals who have great ideas, great products, and have endeavored to monetize these things in order to carve out a place for themselves in the world of commerce. Economic development initiatives targeting entrepreneurs have found Detroit to be a ripe breeding ground for talent, and for those entrepreneurs who can take advantage of these programs, this has been a time of considerable growth.

The reality, though, is that these programs have requirements that make them inaccessible to some who desire to ascend to the entrepreneurial ranks. One of the most significant reasons concerns the condition of the filing of business taxes. This requirement is impossible to meet if an entrepreneur has a cash-only business and has not filed for taxes. There is significant difficulty present in transitioning from a cash-only business to one that is capable of producing historical financial records and includes a history of business paying taxes. For some

entrepreneurs, transitioning from being an ‘underground’ business to a traditional business would result in significant hardship.

Most economic development professionals are focused on (and incentivized) to spread awareness and assist in the matching of entrepreneurs with programs. If individuals cannot produce the necessary documentation, then they just aren’t eligible to participate. Consequently, entrepreneurial development in the region is gauged by participation in these standardized programs. To truly understand the advancement of entrepreneurial efforts in the city of Detroit, it is necessary to begin to attempt to define how widespread underground entrepreneurial efforts are and how standardized funding programs could be examined and potentially even reconfigured to better service this reality. This is important to understand for several reasons; not the least of which is an altruistic one – a commitment to invite all budding entrepreneurs to engage in economic revitalization in the city of Detroit.

This paper reflects an exploratory study of this topic. This initial research focuses on the following elements:

- A definition of the phrase ‘underground economy’
- Identification of industries particularly susceptible to the underground economy
- A review of some of the barriers of entry that have prevented participants of the underground economy from engaging in standardized entrepreneurial development initiatives
- A review of why it is difficult to quantify the potential economic impact of the underground economy in the region
- A review of current entrepreneurial economic development initiatives in the metro Detroit area, with a comparison and contrast of qualifications for participation

- Proposed recommendations on how funders can be more inclusive in their funding guidelines for entrepreneurial economic development

Literature Review

The underground economy is a widely accepted economic reality in most countries. It is estimated to be a little more than a third of GDP in developing countries and a bit more than 10% of GDP in developed countries (Restrepo-Echavarria, 2015). The estimated size of the underground economy in the United States in the mid-1990s was 8-10% juxtaposed by Europe's high of approximately 30% in countries like Italy and Greece (Frey & Schneider, 2000).

Perhaps not surprisingly, it is difficult to quantify the impact of the underground economy. Several years ago, however, two researchers entered into an agreement with the Internal Revenue Service to attempt to do just that. At that time, a painstaking process revealed an estimated amount of nearly \$42 billion in informal underground earnings in the United States (McCrohan & Smith, 1984). Further muddying the waters was the fact that approximately one-sixth of that amount was reported on tax returns. The aforementioned number was determined based on the number of expenses submitted for some of the most commonly reported sectors in the informal economy. The report identifies the largest segment of the underground economy as being goods and services (similar to the examples provided previously and also including auto maintenance, cosmetic services, and tutoring services). Even within the underground entrepreneur sector, there is variance. Some underground entrepreneurs choose to not report any of their business income, and some underreport. Individuals who don't report any income certainly would have taxable expenses that could be written off, thus reducing their tax liability. This is the slippery slope that is the reason it is so difficult to assess the impact of the underground economy accurately.

The history of income tax in the United States is younger than many realize. The practice of taxation on income began with the Civil War in 1861, when extra funds were needed to fight the war. The practice ended in 1872. It returned in 1894 as the Revenue Act, which levied a 2% income tax on, “income over \$4000 (equivalent to \$95,000 today) [which] meant most Americans (over 90%) would not pay any income tax (Hur, 2017). The next year the Revenue Act was declared unconstitutional (Bennett, 2018) and remained dormant until it was codified into law as the sixteenth amendment of the US Constitution. By 1918, individual income tax revenue surpassed \$1 billion (Internal Revenue Service, 2010) and by 2017 exceeded more than \$1.58 trillion (Bennett, 2018). It is a significant source of revenue for the federal government.

For many underground entrepreneurs, the initiation of the business was in direct response to financial distress. The city of Detroit is no stranger to financial distress. Detroit’s unemployment rate is 4.4%, which is slightly above the national unemployment average of 4.2% (Bureau of Labor Statistics, 2018). There is concern about who is benefitting from the current economic revitalization in Detroit; particularly among those who are long-term residents. 70% of participants in a recent survey from the Institute for Policy Studies expressed feeling disconnected from the current economic revival in the city of Detroit (Freeman Brown & Bayard, 2017). Although millions of dollars are available within the city, the distribution of those funds has not been as broadly distributed as many deem necessary.

The city of Detroit still fights against sustained poverty within its city limits – the kind that distinguishes it as one of the most impoverished communities in the country (Witsil, 2018). Sustained poverty is an instigator of new ways to make additional income. Many individuals turn to side jobs to assist with this financial pressure – some are side gigs that allow individuals to work for someone else in their spare time. An example of popular side gigs is the surge in ride-sharing services that enable the drivers to set their schedules. The practice of the gig economy is

extensive; it is estimated that these jobs supplement the incomes of up to 40% of the workforce (Molla, 2018). Side gigs are a reliable option for those who have the means to take advantage of them. For those who don't, but have a talent or service they can provide, the call to start a business is significant. Microbusinesses typically employ less than five employees and provide nearly 40% of their owners' incomes (Roberts & Wortham, 2018). Many start their businesses in their homes as a response to local needs. Many of these business owners don't envision themselves as entrepreneurs.

Detroit's opportunities for budding entrepreneurs are plentiful. There are dozens of organizations within the city limits poised to assist entrepreneurs at every stage of entrepreneurial development. A few of the larger organizations include the Michigan Minority Supplier Development Council, Great Lakes WBC, Detroit Economic Growth Corporation, Motor City Match, ProsperUs Detroit, Tech Town Detroit, Detroit Development Fund, Build Detroit and the National Business League. Several organizations include language inviting home-based businesses to apply for programming and funding assistance such as Build Detroit, Motor City Match, ProsperUs and TechTown Detroit.

Many Detroit based organizations recognize the challenge inherent in starting a business by allowing some level of flexibility with their requirements such as accepting personal taxes in place of business taxes (however, taxes are required). Others request that applicants be in good standing with local and federal tax agencies, which may be a hardship for some for a myriad of reasons. A high number of programs require that businesses be an established entity, which means that they have to have at least completed the process to codify their business legally. A particularly useful tool is the BizGrid (2018), which is a collaborative endeavor among several local economic development engines such as the Detroit Economic Growth Corporation, TechTown Detroit, and New Economy Initiative.

The BizGrid identifies local partners that are available to assist budding entrepreneurs with funding, physical space for either co-working or business locations and business strategy and execution. These services are available for entrepreneurs from the ideation through established business stages. Many of the organizations identified on the BizGrid assist budding entrepreneurs with things like codifying an idea via a business plan, creating an entity and setting up a chart of accounts and identifying a tool to use for financial transactions. Each of these elements is an assumed step in the business development process. Further, several of the entities identified in this research assist entrepreneurs who are ‘underground.’ However, the services are limited in the fact that at some point, all entrepreneurs will need to be able to produce not only historical financial records of the business but also at least 1-3 years of personal or business taxes and proof of all applicable licensing and permits. In fact, the BizGrid states this explicitly in the section designated for funding in the document. This is where many underground entrepreneurs get stuck; particularly those who have been operating their business ‘off the grid’ for some time.

Existing research helps to define certain characteristics of the underground economy. One of the most significant descriptors of individuals within the underground economy is a single word – poor. Poor people tend to rely less on traditional financial institutions due to the propensity of most those financial institutions charge an array of fees. This is why conducting business on a cash basis is so attractive – it’s much more straightforward and reliable in its fluidity (Spross, 2018). Still, while most transactions in the underground economy are in cash, its prominence is consistently being challenged by payment via a bank or in-kind exchange. The underground economy is expanding with the advent of technology that readily facilitates smooth financial transactions such as the use of Square, products that allow for quick payment such as the Cash app, Apple Pay, and credit cards.

Existing research also indicates that the motivations of individuals who occupy the underground economy vary widely. One of the most compelling incentives to enter the underground economy include the benefits of not paying taxes or social security contributions (Frey & Schneider, 2000). Additional incentives to join the underground economy include the lack of the need to abide by regulatory requirements such as licensing, permits, and insurance and recertification processes and fees associated with these endeavors.

The significant disincentives of involvement in the underground economy are punishment for tax evasion, lack of ability to expand the business beyond a certain point, lack of franchise opportunities, and the inability to make legal partnerships with established companies. While many individuals view participation in the underground economy negatively, some argue that its continual presence, “limits [the] governments’ tendency to continually raise the fiscal burden, [thus imposing] more and more restrictions on the economy and society” (Frey & Schneider, 2000).

This research will aim to add more definition around specific steps that economic developers can make to be inclusive of members of the underground economy in their programs. Traditional business models include a trail of information regarding expenses, revenue, financial transactions and the payment of taxes. These elements typically serve as measures utilized to determine the viability of a business. It costs money to start a business – nearly everything from the initial filing of an entity name to the purchasing of accounting software to the purchasing of necessary equipment to the payment of employees – has a financial price tag attached to it. For many budding entrepreneurs, these seemingly simple price tags are cost prohibitive. The ability to assign a value to the price of doing business is only possible through awareness of the entrepreneurial process. To be aware of those steps, individuals must be able to dedicate the time

and the vision to formulate their business methodically. There are a lot of assumptions existing in traditional business models.

This research also aims to highlight the fact that many budding entrepreneurs don't have the resources to commit to a traditional business model. For any one of many reasons, some individuals find themselves in a scenario where they experience a sudden loss of income and need to pay the rent. Perhaps there is a unique event that requires more than the current household budget allows. For these individuals, it is a lot quicker to merely advertise the availability of their service or product among friends and locally in their communities. Other individuals may have the means to develop a traditional business but tend to deal with cash and either can't or won't pay taxes on some or all of the taxable income. Yet other individuals are unable to commit to a traditional business model nor maintain the requirement of paying taxes on their income because of challenging personal circumstances such as not having legal status. Each of these scenarios is an example of underground entrepreneurs.

The phrase 'underground entrepreneur' is polarizing. For some, it conjures more nefarious images – gambling, prostitution, the dark web, illegal arms, etc. Some of the other descriptors commonly utilized in describing the underground economy include the following terms: informal, unofficial, irregular, parallel, subterranean, hidden, invisible, unrecorded, shadow or moonlighting with regards to income. Consequently, the 'profile' of an underground entrepreneur is relatively flexible. While technically, underground income includes that of children who desire to supplement their allowance but the income isn't claimed by their parents (DuPaix, 2018), this is not the focus of this research.

An underground entrepreneur is a woman who cleans houses as a side business to make ends meet. An underground entrepreneur is a friend or neighbor who is a full-time public accountant but does tax prep for friends and family for a fee and doesn't declare the income on

his or her taxes. An underground entrepreneur is an individual who waits in the parking lot of a major home improvement store to solicit customers for day laborer work. An underground entrepreneur may be selling his or her baked goods or providing a lunch service to customers at a nail or beauty salon. Consequently, if one has ever paid cash for services like these and others, one has either knowingly or unknowingly contributed to the underground economy. For the purpose of this research, an underground entrepreneur is an adult who is engaged in business and is either unable to utilize a traditional business model due to financial constraints that do not allow them to overcome the standard barriers of entry for entrepreneurs (Rabb, 2010) or who are unwilling to or do not pay taxes on some or all of earned income that meets and exceeds minimum filing requirements (McCrohan & Smith, 1984).

Ultimately, the underground economy reflects the reality that supply for goods and services has increased demand that needs to be met outside of the traditional purchasing paradigm. As long as this demand continues to exist, it is safe to assume that the underground economy will as well.

Method

Participants

The original vision for this research was to interview members of the underground economy for their perspectives and experiences. Due to the sensitivity of this research, this idea was amended. Consequently, the principal investigator decided to gather views from individuals who are on the economic development resource provider side of the equation. These individuals were employed within some of the most significant economic development organizations in the city of Detroit. The organizations were chosen by developing a list of organizations that specialized in providing support to entrepreneurs through both the ideation and startup stages of entrepreneurial development as defined via the BizGrid. A total of 30 organizations were identified, and each of

them received an email from the primary investigator explaining the research and inviting participation in a qualitative interview regarding their thoughts on the underground economy in the city of Detroit. Participants were not promised an incentive to participate. Ultimately, five organizations responded back and agreed to participate. Others responded and expressed trepidation in participating, but were very interested in the outcome of the study

Materials

All potential interview participants received an email introducing the principal researcher, explaining the research and expressing the intent to conduct a qualitative interview with individuals who worked directly with local entrepreneurs. Potential interview participants were offered the option of either meeting in person or connecting via phone and were asked to respond back to indicate interest in participating. Interview participants were asked questions from an interview protocol developed by the principal researcher. The interview questions were reviewed with an independent data analyst to determine appropriateness for this particular study. The protocol was divided into two sections; demographic questions and business research questions. The demographic questions included the following prompts:

- *Name*
- *Organization*
- *Gender*
- *Race*
- *Generational Affiliation*
- *Highest level of education*
- *Born in Detroit?*

- *Singularly employed or multiply employed?*
- *Married?*
- *Have you ever applied for a business loan?*
- *Zip code of your residence?*

The business research questions included the following prompts:

- *Have you ever been an entrepreneur? If so, what?*
- *What characteristics are important for entrepreneurs to possess to successfully navigate the current economic climate for funding in metropolitan Detroit?*
- *Do you have any experience engaging entrepreneurs who operate businesses that are “off the books” and/or have been doing business and haven’t filed taxes?*
- *What kinds of businesses are included in the underground economy demographic?*
- *What are the barriers to your ability to assist this type of business?*
- *What comes to your mind when you think of the phrase ‘underground entrepreneurs’?*
- *What would you estimate to be the percentage of clients in an ‘underground’ scenario that successfully transitions over to traditional entrepreneurial business models?*
- *What are some of the barriers to entry for underground entrepreneurs?*
- *Do you know anyone who operates an underground business?*
- *Do you know of any other businesses that have successfully worked with underground entrepreneurs?*

Design

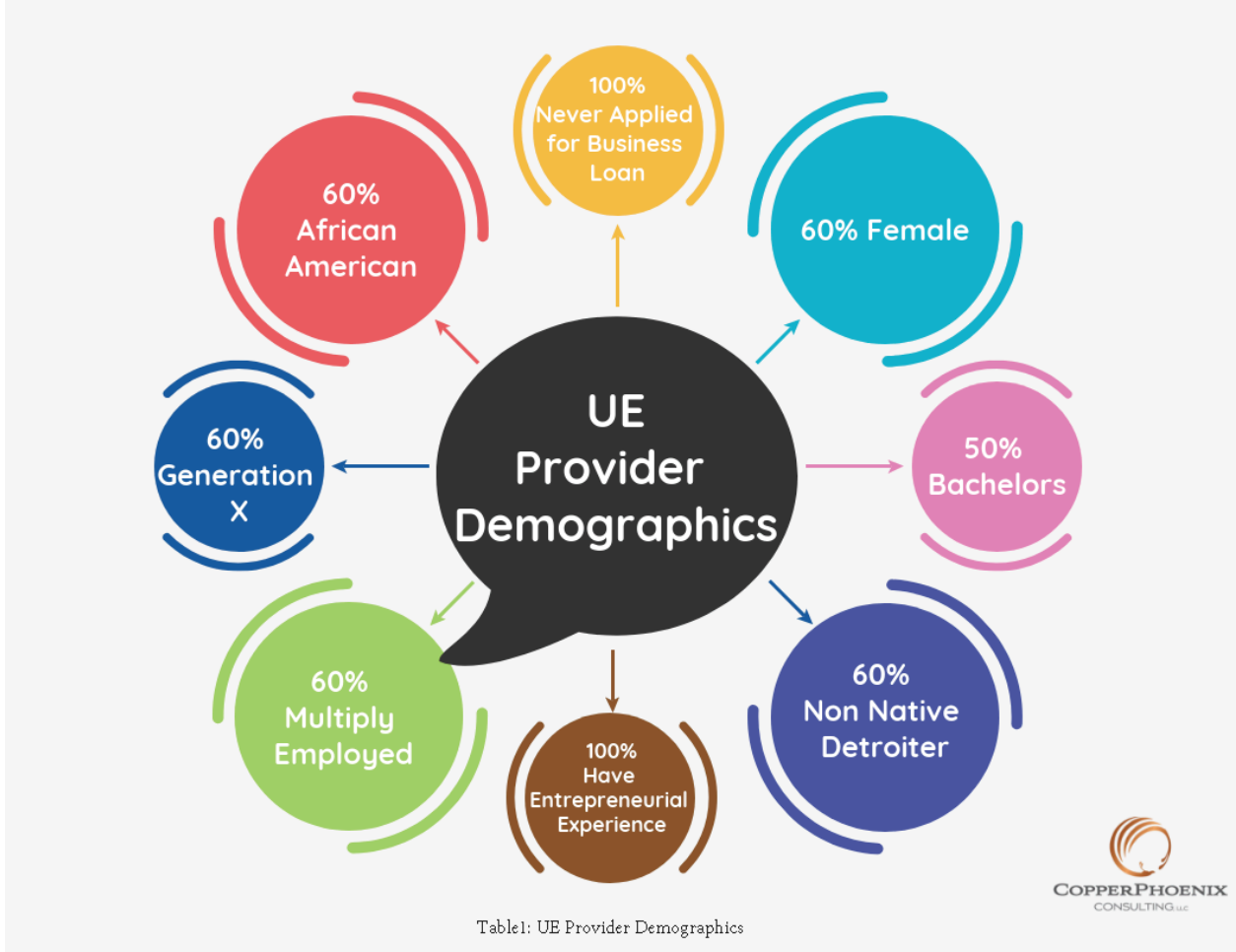
This was an exploratory study. While there is research on this topic from both national and international perspectives that were designed to estimate aggregate impact, there has not been a significant amount of research on this topic from a specific metropolitan perspective. This study was specifically designed to explore this topic locally and potentially gain insights into how to develop future research.

Procedure

All potential interview participants received an email introducing the principal researcher, explaining the research and expressing the desire to conduct a qualitative interview with individuals who worked directly with local entrepreneurs. The principal investigator thanked individuals who expressed interest in participation in the qualitative research. The participant chose whether the interview was to be conducted in person or via a telephone call. The principal investigator read through the protocol above for each of the meetings and recorded responses. Interviews lasted 45 minutes to an hour. The data was reviewed and analyzed by the principal researcher. Each interview response form was coded and assigned a random number to maintain the anonymity of the interview participant.

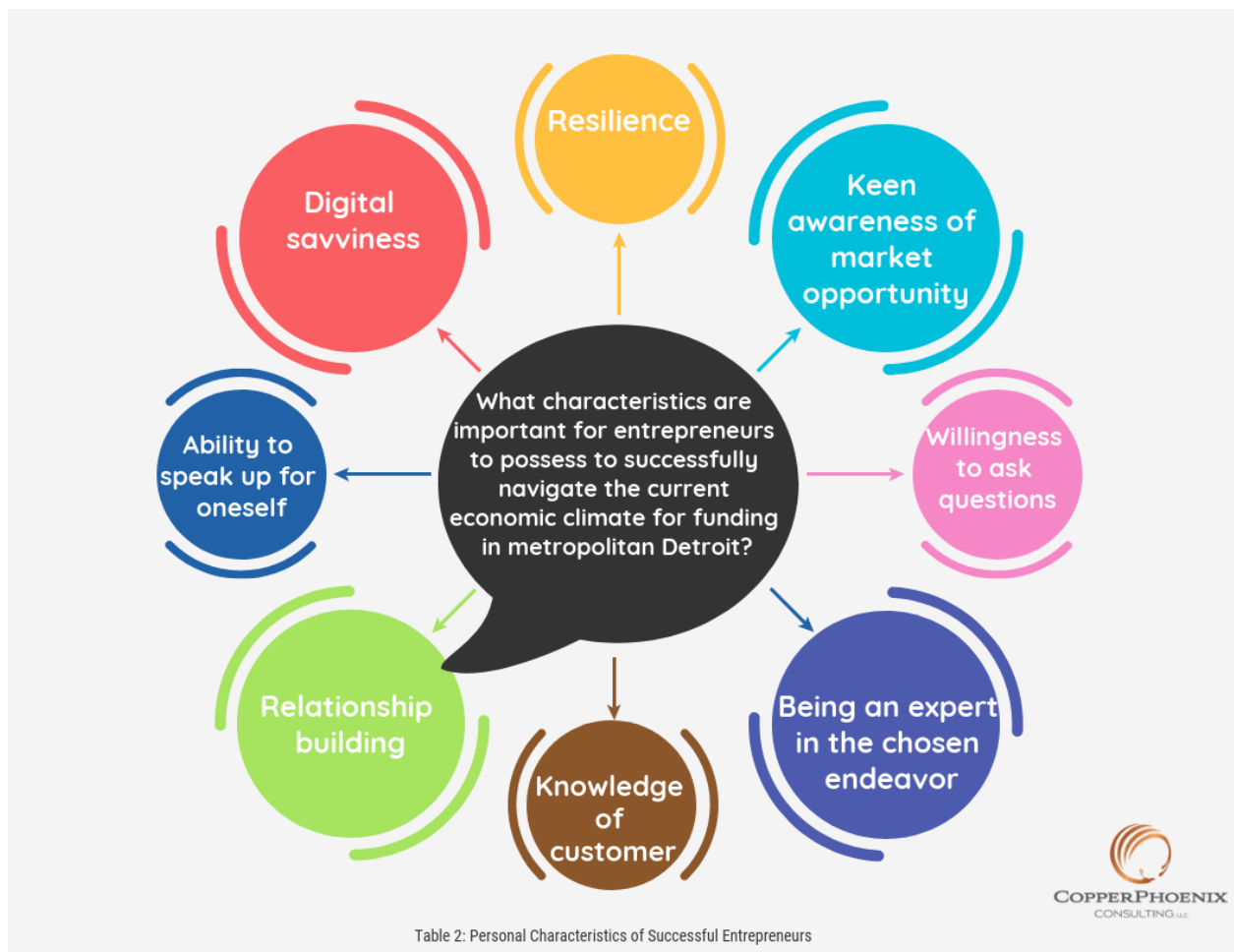
Results

In Table 1, the demographic information was requested in order to learn more about a subset of the individuals who are in the position to coach and advise other entrepreneurs in Detroit. The questions were designed to determine the potential insights (or lack, thereof) that economic providers may have when it comes to the experience of creating businesses:



When each of the economic development providers was asked if he or she had worked with entrepreneurs and if they knew of underground entrepreneurs, the answer was affirmative for both questions across the board. One of the providers stated knowledge of a private Facebook group of an underground entrepreneur network comprised of mostly women that has more than 1000 members.

Table 2 asked participants about the necessary personal skills to be successful as an entrepreneur in the Detroit area. Each economic provider offered differing perspectives on this question. One provider noted the additional difficulty present when budding entrepreneurs do not speak English as their first language. Another expressed concern that many aspiring entrepreneurs only seek to develop relationships when they want money when they should be established before entrepreneurs need the money so that they know what they will need when the time comes to request it. A third spoke of a strong need for understanding financial statements while another individual expressed that, “passions don’t always equal profits” so budding entrepreneurs need conduct a careful analysis of the marketplace to ensure a successful business endeavor. Additional responses are reflected below:



The economic development providers added additional perspective to the types of businesses within the underground economy, as evidenced in Table 3:



Table 4 indicates the responses of the interview participants when asked what comes to their mind when they thought of the phrase ‘underground entrepreneurs’:



When asked about barriers to assisting underground entrepreneurs with current economic development initiatives, the responses were again diverse among the providers. Interview participants responded that tangible barriers include the lack of email addresses (which means that an underground entrepreneur would only be able to meet in person and/or speak on the telephone), lack of patents, no records of transactions, no tax records, no startup costs (also noted by a second participant as ‘having no skin in the game’), no business plans, no prototypes (as required for certain industries) and no licenses and/or permits. Intangible barriers cited by interview participants included poor credit scores, not being coachable, lack of education, lack of ability to network, lack of financial acumen.

One provider mentioned experience with underground entrepreneurs who were already underpaid and needed additional income, so the time necessary to convert said business from an underground one to a traditional business took so long that the process itself became cost prohibitive when it meant the inability to earn money. One provider talked about the circular challenge of not being ‘bankable,’ which meant that the entrepreneur was unable to open a bank account and therefore unable to write checks. This scenario occurs when an individual also has barriers of entry to the opening of a banking account, which means that they don’t have the amount required to open the account and also potentially they don’t have identification.

Another provider talked about an underground entrepreneur who had operated a restaurant within the city limits for 25 years and attempted to apply for a program specially designated to help with façade improvements. The individual was ultimately unable to participate because even though he was paying taxes, he had no accurate financial records and was paying his employees under the table. There was no record of cash flow, and he couldn’t provide at least two years of receipts.

Barriers to entry for some underground entrepreneurs can even present themselves in the entrepreneurial environment itself, according to the interview participants. Specifically, issues with price fixing, loyalty schemes, and the practice of taking advantage of budding entrepreneurs who have no legal status were noted. Several of the interview participants emphasized the proliferation of policies that seem to exclude people from economic advancement as opposed to being inclusive.

Interview participants were somewhat more aligned with their answers to the question regarding the estimated percentage of underground entrepreneurs who successfully transition over to a traditional business model. Three-fifths of the participants responded with an answer closer to 5%. One participant expressed that 75% of the underground entrepreneurs she has dealt with have successfully transitioned into traditional businesses.

When asked about local resources to assist underground entrepreneurs, interview participants recommended local businesses such as ProsperUs (which received an endorsement from 3/5 of participants), local chambers and trade organizations, SWOT City and Motor City Match. There were a couple of additional insights from the interview participants that further illuminated this topic. One individual expressed the need for economic development providers to be thoughtful about the language that they use around entrepreneurship by using simple terms to describe the activity; an example of this would be to ask if an individual has ever created something or delivered a service to someone and received payment for it as opposed to questioning whether or not someone is an entrepreneur outright. Another participant shared an insight that if an underground entrepreneur is doing particularly well without having indulged in the necessary permit and licensing processes, he or she is less incentivized to do so to 'legitimize' the business.

Conclusion

This research aimed to address the following elements:

- A definition of the phrase ‘underground economy’
- Identification of industries particularly susceptible to the underground economy
- A review of some of the barriers of entry that have prevented participants of the underground economy from engaging in standardized entrepreneurial development initiatives
- A review of why it is difficult to quantify the potential economic impact of the underground economy in the region
- A review of current entrepreneurial economic development initiatives in the metro Detroit area, with a comparison and contrast of qualifications for participation
- Proposed recommendations on how funders can be more inclusive in their funding guidelines for entrepreneurial economic development

Each element has been addressed to some degree as a result of this research, as evidenced by the brief summaries below:

A definition of the phrase ‘underground economy’

An underground entrepreneur is an adult who is either unable to start their own business due to financial constraints that do not allow them to overcome the standard barriers of entry for entrepreneurs (Rabb, 2010) or who are unwilling to or does not pay taxes on some or all of earned income that meets and exceeds minimum filing requirements (McCrohan & Smith, 1984).

Identification of industries particularly susceptible to the underground economy

The vast proliferation of businesses in the underground economy include those in the personal goods and services segment of the economy (McCrohan & Smith, 1984). The research specifically identified the following areas: creative industries such as painters, writers, craft workers and graphic designers, landscaping and home repair, maintenance, hair stylists, home cooks, radio station workers, janitorial companies, hot dog vendors, child care, barbers, accountants, massage therapists, exotic dancers and lawyers.

A review of some of the barriers of entry that have prevented participants of the underground economy from engaging in standardized entrepreneurial development initiatives

The exploratory interviews revealed even more complexity to the phenomenon of the underground economy than previously realized. It is a complicated issue, rife with challenges both personally to individuals who are members of this demographic and structurally in the entrepreneurial ecosystem. At least preliminarily, it appears that economic developers recognize the underground economy, and it also seems that some economic developers at least attempt to assist underground entrepreneurs as much as they can within their organizational constraints. The challenge lies in the fact that each underground scenario is different, and to truly effectuate sustainable change, one must be committed to a partnership that is more in depth and is much longer than the typical experience with a more traditional entrepreneur. One of the most enduring challenges of engagement with the underground economy is the perception of nefarious intent. Even among some service providers, it appears that there is a level of assumption that frames interactions. This is natural – it is impossible for humans to be without bias. It seems that the more a service provider has encountered underground entrepreneurs, the more sensitive he or she

becomes to this demographic. It also appears that the more they engage with underground entrepreneurs, the better they become at recognizing the need for enhanced sensitivity and attention. This assumption is not unflawed – there are still assumptions that underground entrepreneurs are ‘illegal’ and ‘sometimes know-it-alls’ even by service providers. These perceptions undoubtedly impact the level of service they receive.

A review of why it is difficult to quantify the potential economic impact of the underground economy in the region

Some underground entrepreneurs choose not to report any of their business income, and some underreport. Individuals who don't report any income would likely have taxable expenses that could be written off, thus reducing their tax liability. The very nature of underreporting of taxes and the potential negative consequences renders a concise quantification of the economic impact of underground entrepreneurs to be inconclusive, at best.

A review of current entrepreneurial economic development initiatives in the metro Detroit area, with a comparison and contrast of qualifications for participation

There are a plethora of initiatives within the region currently. The majority of these programs appear to at least acknowledge the presence of the underground economy. While requirements for programs differ slightly from one to the other, for all services beyond general business development assistance (which includes real estate, financing, and many grant programs), budding entrepreneurs will need to demonstrate evidence of having a codified business via the establishment of an entity, financial and tax records either for themselves or for the business.

Proposed recommendations on how funders can be more inclusive in their funding guidelines for entrepreneurial economic development

In his book *Invisible Capital* (2000), Chris Rabb makes a compelling argument for the need for economic development professionals to recognize the pre-eminent role of invisible capital to the overall success of a budding entrepreneur. He defines invisible capital as the, “toolkit of our skills, knowledge, language, networks and experiences, along with a set of assets we were born with: our race and gender, our family’s wealth and status, the type of community in which we were raised, and the education we had as children” (p.6). Both Rabb (2000) and Shane (2010) assert that the effort of service providers often isn’t as effective as it could be because of the inherent over the assumption of an equal playing field for all participants and the lack of acknowledgment of how success should genuinely be defined. The interviews with the economic development providers very much seem to substantiate his claim. Each of them identified differing elements of invisible capital that they’ve identified as being beneficial to the journey towards success. A recommendation for service providers would be to create additional supportive services for underground entrepreneurs that don’t assume the same level of knowledge and savviness that more traditional entrepreneurs may possess.

An example of this would be not to assume that all entrepreneurs can open a bank account, as expressed by an interview participant. An additional example would be not to assume that entrepreneurs have already ‘counted the cost’ regarding how long it really takes to get a business off the ground. The expanded level of supportive services could potentially even be identified globally within the entrepreneurial ecosystem as a best practice provider of a particular service. For instance, if an economic development professional encounters an underground entrepreneur who needs ESL services, a recognized leader in this space could be identified as a ‘best practice provider’ and the individual could be referred to them as part of a more deliberate

‘triage’ process. The city of Detroit is rich in the presence of nonprofit organizations that are uniquely positioned to assist individuals with socially sensitive challenges. One of those organizations is Kiva Detroit. Budding entrepreneurs who need capital may be capital of raising in less traditional ways. This is the general concept of most microloan entities such as Kiva. Instead of relying on solely traditional financing mechanisms, value is acknowledged for invisible capital in the way of social media. Funding campaigns are seeded as a result of the public’s belief and interest in the viability of a particular product or service. Business validity is not solely proven by the owner’s credit score or even the presence of three years of QuickBooks records. If an entrepreneur has been in business and also has paper receipts and a loyal customer base, these facts are indicative of a viable business.

Rabb’s notion of invisible capital (2010) also does not turn a blind eye to the prevalence of discrimination against minority entrepreneurs. Invisible capital can be obtained and lost by merely residing in a particular racial or gender category. The fact that this is 2018 just shines a spotlight on the continual practice of discrimination in business. In a recent report conducted by the Center for Analysis and Research (2018) on the current economic development climate in the city of Detroit, the following was noted with regards to this challenge: “Economic development initiatives aimed at cutting costs and increasing entrepreneurship opportunities cannot fall short of advancing efforts of racial inclusion and empowerment to promote a vibrant economic metropolis that was once Detroit. Minority access to capital must find sustainable mechanisms to overcome limited financial, human and social capital deemed primarily responsible for the disparities in minority business performance ...” (p.14). A heightened level of awareness in the economic development community of the sustained presence of discrimination in many entrepreneurial processes is key to ensuring that opportunities for advancement are as inclusive as possible.

Another recommendation to service providers moving forward is framed in recognition of the inherent initial bias many people seem to have towards underground entrepreneurs. It is important to be thoughtful in the use of words both personally and professionally when discussing this issue. The reality is that underground entrepreneurs would not exist if there were no customers who patronized them. Based on the estimates provided during empirical research in this area of our economy, it appears that those customers are numbered in the millions. There is a level of comfort in assigning a sense of disapproval to the single father who may be a handyman on the side to take care of his family but doesn't declare the income. Paradoxically, the individual who could undoubtedly pay a traditional handyperson to repair their roof, but recognizes that the underground entrepreneur will provide the service at a steep discount is not necessarily included in the disdain. As the proverb states, "it takes two to tango."

The final recommendation may be viewed as idealistic. There could be a level of amnesty for underground entrepreneurs in specific scenarios. Amnesty would address the most significant negative consequence of all – tax evasion. In our country, tax evasion is parallel identified with moral deficiency. The only entities that have comfortably and reliably escaped the moral responsibility assigned to payment proportionate to income are the corporate entity and the extremely wealthy, ironically. It is for this reason that a theoretical argument can be made that individual taxation is not universally applied and hence should not be unilaterally punished without more in-depth consideration. It is not inconceivable to envision amnesty for individuals who have not paid income taxes who self-identify under certain conditions within a defined timeframe as long as they agree to a legal commitment to maintain regular tax reporting going forward. This would certainly encourage some underground entrepreneurs to come forward, and perhaps we would

approach a time when this long existent segment of the economy would come closer to emergence from the shadows.

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