

REVIEWS

Susan Pozo (Ed). Exploring the Underground Economy: Studies of Illegal and Unreported Activity. Kalamazoo, Michigan: W.E. Upjohn Institute of Employment Research, 1996. 172pp. ISBN: 0-88099-165-8

The surprising speed and enthusiasm with which this reviewer grabbed the chance of this assignment says something for the real fascination that this complex and rather shady, but for many compulsive, topic holds for economists and many others. Economists prefer to define areas of enquiry in general terms, but for practical reasons have to work with what can be easily observed and measured; that this is always a subset of the whole economy is a serious disadvantage that adds interest to knowing more about the underground economy, both for analysis and policy implementation. This slim volume makes a small step towards this end and also provides enlightening asides to embellish our appreciation of society's attitude (rich and poor alike show "less acceptance of mainstream morals and ethics" - page 132).

The contents are, in fact, a series of six lectures presented at the Western Michigan University. As often happens, the presentations share more differences than similarities, although the editor is to be congratulated on the uniformity of style, presentation and a useful index. The text is brief at 172 pages and is dominated by the key-note contribution that occupies over a third of the volume. This leading chapter describes a substantial study by the author of estimates of the possible size of all underground activity in the US economy. With 28 detailed footnotes and 25 references, including five by the author, it represents a significant piece of work. The working model is based on the level of cash holdings relative to deposits in the US, a ratio that has steadily increased throughout the period when the so-called cash-less economy has been evolving. The hypothesis is that this increase is due to growth in unrecorded, and so nefarious, activity for which cash is the dominant exchange and storage medium; it is noted with significance that 60 percent of cash is in \$100 bills and that, allowing for the velocity with which cash circulates, the average cash transactions equate to \$72,500 per household of four. It is the implausibility of this that supports the notion that most of the extra cash is for illicit and unrecorded business. The major contribution of the presentation is to extend the well established line of enquiry by establishing that previously ignored overseas US currency holdings are very substantial, perhaps 40 percent, of total US currency. In addition, the paper presents reviews of the range of underground activity, the alternative methods of estimation used, and new estimates of all such activity. Three areas of on-going estimation are described and reported in some detail; an adjusted gross income (AGI) discrepancy gap measures produced by the Bureau of Economic Analysis; the audit-based measures of unreported taxable income produced by the Internal Revenue Service; and various monetary models adapted to focus on unreported income. Although there are no startling conclusions and as many questions are raised as resolved, this is an authoritative contribution and will be appreciated by those with interests in the area. It also offers, for those with a more general interest, an appealing rationale of "seeking to uncover footprints of hidden activity left behind in the sands of observable economic activity" (page 5).

The second paper focuses specifically on illegal drugs, said to be the largest of all unrecorded markets and realistically worth US\$50 billion per annum. The unusual aspect of the paper is its central contention that estimates of the size of the drug trade are notoriously unreliable, inconsistent and grossly overstated. Convincing evidence is advanced in support and an explanation presented as to why such meaningless figures are regularly produced by, among others, the US State Department which has a legal requirement to publish annual global production estimates. It is cogently argued that the situation persists because the figures have no relevance to any single function of policy setting or implementation, so that they "are in fact decorations on the policy process, rhetorical conveniences for official statements without serious consequences." (page 64)

The following two papers deal with two of the most prevalent social problems; tax evasion and criminal activity generally. Richard Freeman's paper "The Supply of Youth to Crime" argues that the persistence of increases in crime rates in the face of ever more law enforcement requires that the supply of criminals must increase systematically. The author uses conventional demand and supply diagrams to demonstrate an equilibrium level of crime between a declining "demand", representing the earnings opportunities diminishing as crime rates rise, and a socially determined supply schedule. If more criminals are incarcerated the number of crimes would fall, and marginal earnings rise, if there was no shift in supply to compensate. A "foraging" behavioural model is used for support, suggesting that youths pick between casual crime and casual employment according to the comparative opportunities from each.

The fourth chapter, "Explaining Tax Compliance" argues that tax evasion would be the rational choice, given the probabilities of detection. A model is developed to explain compliance, making use of several behavioural variables, including varieties of audit-rules and ways of enhancing the social norms to comply.

The final two chapters both attempt to evaluate the underground economy as a whole, drawing largely opposite conclusions. Ann Witte, in "*Beating the System?*", argues that much of the fringe activity is difficult to classify (the same drug can serve as a medicine, or a mild stimulant, or even as the cause of addiction) or, like the oldest profession, is often viewed as involving an exchange between consenting partners, and so difficult to criticize in all cases. However, the author is quite clear in her stated view that the negative externalities always outweigh any possible benefits. This is supported by a remarkable claim that any activity that fails to contribute taxes represents a transfer of the burden to those who do pay taxes, implying that government expenditure is a fixed benefit that must be funded!

Balance is however, restored by the final paper, "The Informal Economy", which examines the considerable role that informal activity has in less developed economies and Latin America in particular. Here the "informal" economy is seen as a foil to the formal, regulated and protected economy. Where economies are enjoying long-awaited growth, it is the diversity and dynamism of the small-scale self-employed informal economy which is to the fore: "an irruption of real market forces into an economy straightjacketed by favouritism and state regulation". This phase, it is suggested, settles into a "structuralist" model in which the informal and formal economies inter-relate beneficially.

For this reviewer, the final paper was the highlight of this volume, which otherwise failed to capture the attention with ease. This reaction is a personal one, naturally, but it does reflect a difficulty in passing judgement on such a collection of different topics and authors. It is aptly titled as "*Exploring the Underground Economy*" but it is really a series of separate forays into that world rather than an exploratory journey through it. Sensitive souls looking for support for the supremacy of pure market forces, the moral justice of Robin Hood, or ways that constrain the tyranny of the powerful, or the majority alike will have to look elsewhere.

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John Storey (ed.) Human Resource Management: a Critical Text. London: Routledge, 1995. xii, 399pp. ISBN 0-415-09150-0.

Keith Sisson (ed.) Personnel Management: a Comprehensive Guide to Theory and Practice in Britain. Oxford: Blackwell, 1994. xv, 747pp. ISBN 0-631-18821-5.

These textbooks on HRM have a number of features in common. They recognise that there are debates in the field, not least over the basic definitions. Both have precursors. Storey's new work is not a new edition of his *New Perspectives on Human Resource Management* (1989) but it does contain updated articles by several contributors to that highly successful volume (such as David Guest, Karen Legge, Peter Armstrong and John Purcell), a book which whets our appetites for more and continues to form an essential part of any challenging reading list in HRM. Sisson's new work is a completely revised, and significantly longer, version of its 1989 predecessor. Both editors eschew the prescriptive tradition with its emphasis on the advocacy of best practice. Their editing shows a concern for identifying what actually happens in practice and for understanding why it happens. They grapple with the complexity of reality and its meanings. They write within the tradition of critical thought exemplified in Karen Legge's (1978) *Power, Innovation and Problem-Solving in Personnel Management*. Finally, both are edited works, allowing the editors to concentrate on the overview while commissioning specialists to write on their particular areas of interest. This is always a difficult process but a realistic one for textbook writing in this field given the range and diversity of HR practice.

The overview chapters paint a very similar picture of the contemporary contours of British employment relations. Storey works from his definition of HRM as a distinctive style of labour management aimed at building a "highly committed and capable workforce". His editorial introduction usefully summarises his research on the extent to which British management may be said to have adopted such an approach. While there is a lot of activity in the realm of new practices, particularly those aimed at increased job flexibility, the

evidence does not imply that change among large organisations has been particularly successful in attaining a higher order of employee relations. Storey also makes the point that the practices associated with HRM are more likely to be adopted in unionised firms rather than their non-union counterparts. Sisson (p.28) sums it up beautifully: "It is the union rather than the non-union workplaces that exhibit the fragments of HRM that are to be found". In my reading of the data, the choice of the word "fragments" is apposite. Much of what Storey and Sisson describe does not imply more than change at the margins of the dominant models of HRM in the UK.

The locus of innovation is a critical observation. As Sisson points out, the British experience is the opposite of the process described by Kochan et al. (1986) in respect of the USA where non-union firms are seen to have been the pace-setters. Such observations underline the importance of approaching the study of HRM in a comparative frame. It is one thing to engage in an international theoretical debate, quite another to borrow practices uncritically from the US context.

After the initial overviews, the designs of the books vary somewhat. The Sisson text adopts the more classical design with sections on "work organizations", "planning and resourcing", "employee development", the "wage-work bargain" and "participation and involvement". I imagine this is useful in terms of the design of the IPM courses in the UK which tend to be structured around this kind of functional segmentation. After the introductory section, the Storey volume has sections on "strategic issues", "key practice areas of HRM" and "international HRM". In effect, this gives it a multi-level framework, covering firm-level, functional and comparative aspects of the subject, at least to some extent. Those looking for a new design for their HRM course could do a lot worse than adopt such a structure, particularly if the framework of the comparative section contained less about practices and more about the analysis of comparative outcomes (the issue that rounds out Sisson's introductory chapter). Both books would benefit from analysis of the way practices cluster into various patterns or what labour economists, such as Osterman (1987), refer to as "employment systems". The danger of any book where there are large numbers of chapters devoted to practice sub-functions is that students fail to see how the parts are typically blended by management into different HR strategies for different workforce segments.

In each book, one could comment on numerous chapters. In both cases, the quality of the ensemble is high and different readers will prefer different authors. All articles are scholarly, well-referenced works which lay the basis for further study. Rather than providing a summary of the 36 chapters in the two books, I will simply pick on one or two favourites.

I still like Brown and (now) Walsh's article in Sisson's volume on "managing pay in Britain" which ought to be compulsory reading for all students of pay theory. The chapter is a concise and elegant analysis of the different perspectives of employer and employed on remuneration, approached through an understanding of the labour market and the problem of effort. Brown and Walsh conclude with the classic lines:

"The sources of productivity growth increasingly lie less in getting employees to work harder, than in getting them to adapt to more productive ways of working. The potency of pay lies in its capacity, if mismanaged, to prevent this (p.461)".

In Storey's volume, Purcell's chapter is very important because of the way his work seeks to locate HRM within the context of corporate strategy and structure in the multidivisional firm. Contrast this with the work of those trying to write about HRM with only a flimsy grasp of the goals and structural problems of large modern businesses. Many refer to the firm as if it were an unproblematic notion. Purcell's objective is to set HRM in the complex context of the layered strategy, divisionalised structure and divergent management philosophies typically found in the M-form organisation. This chapter makes an excellent introduction to issues which are more fully explored in Purcell & Ahlstrand's (1994) *Human Resource Management in the Multidivisional Company*.

As textbooks go, these volumes rank as top quality efforts which encourage analytical and critical study of the subject in the complex contexts of firms, markets and nations. They set a high standard for their competitors.

References

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Martin Perry, Carl Davidson and Roberta Hill. Reform at Work: Workplace Change and the New Industrial Order, Auckland, Longman Paul, 1995. 304 pp. ISBN 0-582-86130-6.

Despite the expansive sub-title, *Reform at Work* is essentially narrower in focus; the bulk of the book being devoted to eight case studies of workplace reform in New Zealand.

The book is divided into three sections. Section one is an easy background to both the concept and history of workplace reform. Western interest in workplace reform, it is argued, was sparked by the success of Japanese business practises such as Total Quality Management, and Just-in-Time production. The final chapter in section one outlines the research methodology used in the case studies and the objectives sought. The authors set themselves six key questions: is there a blue print for "Best Practice"?; what type of firm can make progress with workplace reform?; does workplace reform enhance the quality of working life?; what are the implications of workplace reform for unions?; what are the implications for management?; and finally, how can public policy promote workplace reform? This last question, of course, assumes that public policy should be supportive of workplace reform.

The case studies that are presented in section two are the book's main strength. Each chapter begins with a background of the company and the factors that spurred the initial moves to reform. The authors then follow through the change process, discussing the reforms themselves and the reaction to these.

With one exception, the case studies are of manufacturing and processing organisations. These range in size from the dairy industry, to the large multinational operations of BHP, Toyota, and Du Pont, to medium-sized, New Zealand owned organisations MacPac, Wilderness and Interlock Industries. The Park Royal Christchurch is the single service sector organisation that is studied. Perhaps the most interesting of the case studies is that of Weddel's Tomoana plant. Its inclusion is a salutary reminder that the reform process is not a guaranteed panacea and demonstrates the importance of the external environment as a determinant of the success or otherwise of any change process.

The final section is a brief synthesis of the first two sections. Here, in addressing the key questions posed in section one, the authors sketch an emergent New Zealand model of workplace reform and contrast this with the German skills based model, and the Japanese lean production model.

Overall, the book gives an interesting picture of the state of play in several New Zealand organisations. The case studies are well researched and well presented. The book disappoints, however, in two respects. First, the opening discussion of the concept of workplace reform is under-developed. The shift from a "Just-in-Case" to a "Just-in-Time" approach which is adopted by the authors to denote the basis of the workplace reform movement, cuts across a number of issues (and indeed the authors drop this narrow model at the outset of the concluding section). For example, there is no real distinction between what have been termed the "hard" and "soft" approaches to workplace reform. Greater use could have been made of established typologies to underpin the discussion. Second, the final section of the book is rather too brief given the richness of the material in the case studies. The

emergent New Zealand model of workplace reform is a key finding of the result and begs further development.

Overall *Reform at Work* is a welcome New Zealand perspective on what is an international trend towards reform of the workplace. Notwithstanding the somewhat awkward conceptualisation of this trend, this book would be a useful addition to any undergraduate course looking at changes at the workplace.

Dennis Mortimer and Priscilla Leece, Eds. Workplace Reform and Enterprise Bargaining: Issues, Cases and Trends. Centre for Employment Relations, University of Western Sydney, Nepean, 1995. 350 pp. ISBN 1-86341-198-4.

Workplace Reform and Enterprise Bargaining is a collection of 22 papers offering an Australian perspective on workplace reform. The collection is a mixture of previously published work and articles specially commissioned for this volume, divided into several areas. A brief introduction at the start of the volume attempts to synthesise the issues raised throughout the various sections. Most of the authors (and many of the papers) will be familiar to readers.

The articles are divided into five sections around common themes. The first section "The Reform Agenda" looks at the motivations behind workplace reform. Included in this section is the sole New Zealand entry, Paul Harris' paper comparing three New Zealand models of wage fixing and industrial relations.

The next two sections outline case studies of workplace reform at industry and regional level (section two) and enterprise level (section three). Section four looks at "Issues and Impacts" with papers on the issues for women, small business, employer organisations and unions.

The final section looks at the negotiation of reform. The first paper summarises the research into negotiation behaviour, the other three are more geared to the practice of negotiation, and, although tied to the structures and institutions of the Australian system (itself under threat), contain generalisable lessons.

Many of the papers are by now dated and the likely changes to the industrial relations system in Australia may result in future workplace reform occurring against a much different legislative background than that outlined in this collection. While this volume may contain much of interest as a review of a particular period of change in Australian industrial relations, those wanting to find out about the future of workplace reform in Australia will probably be best looking elsewhere.

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