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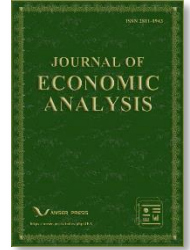
A 'White Lie' of Business Informality: An Exploration of Non-Registered White-owned Businesses in the United States of America

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ABSTRACT

Utilizing a 2021 nationally representative sample of 7,504 White-owned employer businesses (WOBs) in the United States of America (USA), the extent, and the determinants of WOB business registration are estimated. Business registration is employed as a proxy for business in/formality. Approximately one-fifth (22.5%) of all employer WOBs are unregistered or informal business concerns hidden from government purview. The primary determinants of employer WOB informality are business size (annual revenues under $500,000 and few paid employees), a business owner with less than a four-year college degree, and an upbringing in a lower- or middle-class environment, among other findings. Notably, this research reveals the white lie of the magnitude of White-owned employer business informality in the USA.

KEYWORDS

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1. Introduction

My neighbor "Joe Smith" is a shade tree auto mechanic in the United States (US) Midwest.[1] Joe works on cars after returning home from his fulltime factory job, usually in the evenings and on most weekends. Neighbors, friends, and acquaintances have been coming by my neighbor's house for decades seeking his services— from routine auto maintenance to engine rebuilds. Occasionally, Joe might add a paid helper if he gets behind on his mechanic work. When times are slow, my neighbor builds from scratch small trailers that hitch to pickups useful for hauling yard waste or light equipment (such as a riding lawn mower or a snow mobile). Once completed, Joe positions the trailer on the side of our busy road with a for sale sign on it. His work is well-known, and the trailers sell quickly enough. Through an empirical and nationally representative focus on businesses such as Joe Smith's, this article contributes to the existing informality literature by analyzing the widespread but often overlooked unregistered US employer enterprise.

While my neighbor Joe Smith enjoys fixing cars and building things, this work is more than a hobby. It is an important second income. Yet, all this work for pay or for sale is done outside the scope of government oversight or purview. Colloquially, it is money earned "under the table" or "off the books". In academic parlance, the income earned is informal income. The work activity is considered informal because it is unregulated and unreported by choice, whereas my neighbor could just as easily have reported this income to governmental authorities within a legally regulated work and retail environment. My neighbor is an informal entrepreneur.

Joe Smith is a military veteran in his 60s with strong roots in the community. His small unassuming "side hustle" business is well-hidden in his off-street garage and even his "for sale" signs for his trailers are not much different from others up and down the road. My neighbor is White matching the race of 93% of residents in this rural Midwestern county. Those that seek Joe's services and those who live around him find his work ethic and second and informal income acceptable, perhaps even laudable.

Is my neighbor concerned about government detection? Not in the least. Joe's second income earnings would not be of much value to a government audit and his fulltime reported income is around $40,000[2] a year. This formal salary is roughly enhanced by 25% from his informal shade tree mechanic activities. My neighbor's informal business evades regulatory detection and enforcement and will most likely continue to do so unless a disgruntled customer or community member exposes his side business to public authorities or some catastrophic mechanical failure results from his work and becomes public.

Joe Smith's informal business is unlawful. Within the United States, informality is more stereotypically associated with ethnic, immigrant, and minority enterprises. Scholars studying ethnic, immigrant, and minority enterprises in the United States often confront the challenge of addressing extralegal business activities. Such presumed activities may include tax evasion, hiring unauthorized workers, regulatory noncompliance, and shadow business operations. In essence, a tacit assumption of extra-legality connected to ethnic, immigrant, and minority enterprises somehow permeates popular discourse (Richardson and Pisani, 2017, 2012; Pisani, 2022). White-owned businesses such as my neighbor's, on the other hand, are often given a free pass as to their legal origins and lawful business operations. Legality is often just assumed. This is *the white lie* of business formality whereby the unassuming White entrepreneur may remain hidden and unbothered.

Many admired US entrepreneurs began informally. Phil Knight (Nike) began his shoe business from his bedroom in his parents' house in Oregon. Steve Jobs began his computer enterprise (Apple) in his parents' garage in Northern California. It is not the garage that highlights the story here, but that many White-owned businesses begin and continue without formal registration at startup. Often, this early-stage story of business informality is

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[1] Joe Smith is a pseudonym.
[2] All monetary figures are in US dollars.

whitewashed, extolling the virtues of the White entrepreneur and entrepreneurship, sidestepping the unlawfulness of informality. Not all businesses move up the informality-formality continuum. Some remain informal, such as my neighbor's; others such as Nike and Apple emerge as formidable and exceptional formal enterprises.

The present research focuses on the study of informality and White-owned businesses in the United States. White-owned businesses (WOBs) are often overlooked in the informality literature and deserve greater scrutiny. As such, the present research is structured around two exploratory research questions. 1) What is the extent of informal business activities of WOBs? And 2) what are the determinants of WOB informality? The data to answer these research questions come from the summer of 2021, a time influenced by Covid-19, widespread vaccine availability, and business reactivation in the US. The next section contextualizes and reviews the pertinent informality literature. Section three details the data, descriptive statistics, and methodology. Section four reports the results followed by a discussion of the results in section five. The last section concludes the article.

2. Literature Review

The term informal economy entered the academy with the writings of Keith Hart (1973; 1970) from his studies in West Africa. Since Hart's earliest work in the early 1970s, there has been an explosion of academic interest in informal economic activities most prominent in developing economies (e.g., Latin America, Africa, South and Southeast Asia, and Eastern Europe in the post-communist era).   Social scientists, anthropologists, policymakers, and many more have devoted careers to the study of informality.

Informal economic activity corresponds to work undertaken outside the purview of governmental oversight (Portes and Schauffler, 1993). Nonetheless, this same economic activity may be accomplished within the regulatory frameworks established by government (Richardson and Pisani, 2017). More broadly, the informal economy consists of market transactions that avoid government detection or "off the books" economic exchanges. A common and public form of informal activity is itinerant street vending.

Conversely, formal economic activities abide by all government rules and regulations. However, the informal-formal dichotomy may be better described as a continuum (Pisani and Morales, 2020; Pisani, Richardson, and Patrick 2008). For example, Joe Smith, the shade tree mechanic previously mentioned in the introduction, may legally purchase his automotive repair supplies from a formal auto parts dealer, but his mechanic services and income derived from utilizing these formal goods are unregulated and unrecorded with any government authority. Blending of the formal and the informal is commonplace and such activities may be better understood either as more informal or more formal (i.e., a continuum of activities) noting that a mix of in/formal activities is a most likely scenario. Also, movement along the continuum may occur in both directions (Pisani, 2019a; Pisani, 2019b). While the study of in/formality is often dichotomous as is presented empirically in this article, the reader should view this nomenclature as a shortcut for mostly formal or mostly informal in the following discussion.

A very robust literature review of informality in the United States is offered by Losby et al. (2002). They highlight the who, what, where, and why of US informality, though this study is now more than 20 years old. Key findings include a) informality is connected to microenterprise entrepreneurship where smaller businesses more easily evade detection and are hard to superficially distinguish from their small formal enterprise counterparts, b) informality is not an inconsequential contributor to economic activity, perhaps comprising upwards of 10% of GDP, and c) informal enterprises thrive in environments where demand is high, be it from price-sensitive or affluent consumers (Losby et al., 2002). Indeed, developed economies are not devoid of informal economic activities (Portes et al., 1989). Medina and Schneider (2018) have estimated the informal economy in the US at 8.34% of GDP, an average from 1991 to 2015.

The "when" of informality is continuous since the founding of the American colonies until today (Andreas, 2013; De Soto, 2000). De Soto, a chronicler of informality in Peru (1989) and the developing world (2000), sought to

unlock the secrets of US economic growth through the invention of property titles as a form of debt collateral. De Soto describes some of the earliest forms on informality in the US. In doing so, De Soto focused on the transformation of informal property claims to publicly available formalized property titles as America grew westward (from the middle 1600s to early 1900s).

Tangentially, other studies have estimated the recent participation rates of informality in the US. In a study of urban fathers and mothers, Gunter (2017) found that 53% of fathers and 32% of mothers have participated in the informal economy at one time or another.   Pisani (2021) found in his national study of data from the Federal Reserve's 2015 Enterprising and Informal Work Activities survey that 35.1% of Whites and 36.0% of all Americans engaged in "off the books" earnings in the 6 months prior to the survey administration. It is clear that a large subgroup of Americans participates in informal activities, including White Americans. Less clear is the specific extent and determinants of business informality among White-owned businesses.

3. Data, descriptive statistics, and methodology

3.1. Data

The Stanford Latino Entrepreneurship Initiative (SLEI) collected the data for the present research. SLEI is housed in the Stanford Graduate School of Business at Stanford University and works in coordination with the Latino Business Action Network (Orozco et al., 2020). Between June 1 and September 2, 2021, SLEI conducted a nationally representative cross-sectional survey of employer firms across the United States that included 7,504 White-owned businesses. An employer-firm has at least one paid employee and annual sales of $10,000 or more. Own-account enterprises (owner-operated businesses with no paid employees) are excluded as are firms with annual sales less than $10,000. To ensure majority White business ownership in the sample, survey respondents were screened at the start of the survey.

The 2021 survey was administered and completed online through Qualtrics and took about 15 minutes to finish. Questions from the survey pertained to business owner characteristics and demographics and enterprise characteristics and operations. Respondents were chosen from proprietary business panels (Qualtrics) and SLEI outreach efforts (Orozco et al., 2022). While survey respondents are generally representative of WOBs nationally, the data are adjusted (weighted) for sample differences using US Census data applying the 2018 Annual Business Survey as the base. As the data only includes employer-owner firms with annual sales of $10,000 or more, it is important to note that the empirical findings that follow are conservative and most likely undercounts the number of informal enterprises as informal firms are often own-account enterprises with modest annual revenues (Pisani and Morales, 2020; Richardson and Pisani, 2012).

3.2. Descriptive statistics

The descriptive statistics for the sample are divided into two subsections, business owner characteristics and firm characteristics. These descriptive statistics are reported among all White-owned businesses in the sample. Additionally, descriptive statistics for registered or formal firms and not registered or informal firms are shown. Just over three-quarters (77.5%) of the firms acknowledge that their firms are formally registered. About one-fifth of firms are unregistered (18.3%) or are unsure if they are registered (4.2%). Firm registration is the proxy for firm formality or informality. As firm registration is a basic requirement of business operations (Pisani, 2022), those respondents indicating that they are usure as to their registration are grouped with the unregistered in the following analyses after Pisani and Morales (2020). Hence, if the firm is registered, then the firm is considered formal and known to the government. If the firm is not registered, then the firm is considered informal and hidden from

government purview.

3.2.1. Business owners

Several demographic variables comprise the descriptive statistics for White business owners in this study. These include respondent age, gender, nativity, acculturation, education, residence, parental self-employment, and socio-economic class upbringing. White business owners are generally middle aged (see Table 1). Formal business owners are about four years older on average than informal business owners. By gender, approximately 60% of all, formal, and informal White business owners are male and 40% are female. As a nation with a strong immigration history, respondent nativity and acculturation are included as variables. Just more than one in ten (11%) are immigrants born outside the United States, slightly higher for informal WOBs. Acculturation considers the ongoing adjustment of immigrants and their descendants adopting the new culture over time and generations (Gordon, 1964; Portes and Rumbaut, 2014). Derived from the sociological literature, this study uses the generation score measure as a proxy for acculturation. This parsimonious measure of acculturation tracks the country of birth of three generations and is a robust proxy used in the business literature (Pisani, 2023).

The generation score (GS) is calculated by allotting a total of four points to each generation born in the United States, from respondent to grandparent. If a respondent is born in the United States, for example, he/she is assigned four points (zero if born outside the United States). Two points are allocated for each parent born in the United States (zero otherwise), and one point for each grandparent born in the United States (zero otherwise). This produces a GS range of 0 (all foreign born) to 12 (all US born) with 0-4 points possible per generation level (respondent, parents, and grandparents). A higher score indicates a closer birth connection to the US and a higher level of acculturation. The mean GS score for all White business owners is 10.6 reflecting strong, but not absolute birth ties to the US. This average is somewhat higher for formal WOBs as compared to informal WOBs.

Just more than half of the respondents have earned a four-year degree or graduate degree and White business owners as a whole are well educated with more than 80% possessing some college-level experience. College degreed WOBs have a higher incidence of formality as compared to informal WOBs. The geographic distribution of respondent business owners across the US is widespread with formal and informal enterprises also widespread.

Parental self-employment is often a harbinger for self-employment or business ownership in the next generation (Blanchflower and Oswald, 1998). Half of the respondents in this study come from families where one or both parents owned their own businesses. This is similar across formal and informal WOBs with the father as self-employed reporting the largest gap in business registration. A broad range of socio-economic class upbringing is present in the respondent sample where middle-class roots predominate. Informal WOBs have a slightly higher reported incidence of coming from the lower rungs of childhood class backgrounds than formal WOBs.

3.2.1. Business enterprises

They are five variables related to the business enterprise that are reported in Table 2 for all WOBs, registered (formal) WOBs and not registered (informal) WOBs. These are firm age, business revenue over the past 12 months, profitability, number of employees, and industry classification. The average firm age of White-owned businesses in the sample is 15.9 years, 16.8 years for formal enterprises and 12.6 years for informal enterprises. Annual business revenues are reported by revenue range with 17.0% reporting revenues under $100,000, 43.5% reporting revenues between $100,000 and $499,999, 17.6% indicating revenues between $500,000 and one million dollars, and 21.9% reporting revenues above one million dollars. Formal WOBs report higher annual revenues than informal WOBs. A plurality of firms reported that their business was profitable with close to a quarter reporting loss or breakeven status. These percentages are similar for formal and informal WOBs with slightly fewer informal WOBs reporting profitability. Three-quarters of the businesses employ fewer than ten employees, the remainder more than ten

Table 1. Business Owner Descriptive Statistics for White-owned Employer Firms, 2021.

Variable	All	Registered (Formal)	Not Registered+ (Informal)
Mean Age in Years (std. dev.)	47.5 (13.7)	48.4 (13.6)	44.5 (13.8)
Gender (%)			
Male	59.4	59.4	59.6
Female	40.6	40.6	40.4
Immigrant (%)			
Immigrant	11.0	10.5	12.6
Not Immigrant (US born)	89.0	89.5	87.4
Mean Generation Score (std. dev.)	10.1 (2.7)	10.1 (2.7)	9.9 (2.7)
Education* (%)			
Less than High School Degree	0.8	0.6	1.2
High School Degree or Equivalent	11.2	9.8	15.7
Technical, Trade or Vocational School	5.7	5.8	5.3
Some College, No Degree	17.7	16.1	23.0
Associate's Degree	13.2	12.2	16.7
Bachelor's Degree	30.3	32.5	22.5
Master's, Doctorate or Professional Degree	21.3	22.9	15.5
Regional Residence^ (%)			
Northeast	2.2	2.3	1.8
Mid-Atlantic	11.6	12.5	8.5
East North Central	6.9	6.6	7.8
West North Central	1.5	1.5	1.4
South Atlantic	27.9	27.4	29.8
East South Central	1.2	1.2	1.4
West South Central	17.4	17.2	18.3
Mountain	9.4	9.6	8.7
Pacific	21.9	21.7	22.5
Parental Business Ownership (%)			
Mother Owns/Owned Her Own Business	6.4	6.0	7.9
Father Owns/Owned His Own Business	27.4	28.6	23.4
Both Mother/Father Owns/Owned Their Own Businesses	16.8	16.6	17.6
Neither Parent Owns/Owned a Business	49.3	48.8	51.1
Childhood Class Background (%)			
Low-income/Working Class	10.5	9.8	13.0
Lower Middle Class	17.7	17.1	19.7
Middle Class	47.3	48.5	43.5
Upper-middle Class	21.2	21.0	22.1
Upper Class	3.3	3.7	1.6
N	7,504	5,817	1,687

Notes: +Includes those responding not registered and unsure. *Before the establishment of current enterprise. ^Region definition: Northeast (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, Vermont), Middle-Atlantic (New Jersey, New York, Pennsylvania), East North Central (Illinois, Indiana, Michigan, Ohio, Wisconsin), West North Central (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota), South Atlantic (Delaware, Florida, Georgia, Maryland, North Carolina, Puerto Rico, South Carolina, Virginia, Washington, D.C., West Virginia), East South Central (Alabama, Kentucky, Mississippi, Tennessee), West South Central (Arkansas, Louisiana, Oklahoma, Texas), Mountain (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming), Pacific (Alaska, California, Hawaii, Oregon, Washington). Italics: Registered and not-registered firms significantly different at p= .10 ≤ (ANOVA or Chi-Square). Source: SLEI 2021 Survey, Author's calculation (weighted). Some rounding errors.

employees. Informal firms are clearly smaller than formal firms regarding paid employee count.   Industry sectors with the largest number of firms include other services (22.9%), construction (16.4%), trade (16.1%), and

professional services (16.1%). The order of representation for the top three industries for informal firms is other services, trade, and construction, and for formal firms the order is other services, professional services, and construction.

3.3. Methodology

Uncovering the determinants of business informality for White business owners is the focus of the second research question. Business registration is utilized as the proxy for specifying formality (business is registered) and informality (business in not registered). As a business is either formal or informal in this analysis, the decision to register the business is a dichotomous one. Binomial logistic regression is designed to estimate dichotomous choices. Binomial logistic regression is a robust multivariate statistical tool with few assumption requirements and is effective in predicting the odds or likelihood of group membership (Pampel, 2000). Firm registration represents the dependent variable in the logistical analysis. A registered or formal enterprise is coded as 1 and an unregistered or informal enterprise is coded as 0.

To uncover the determinants of enterprise in/formality, a set of independent or predictor variables are drawn from entrepreneur demographics and firm characteristics listed in Tables 1 and 2. These independent variables were chosen, a priori, based upon extensive experience researching informality in the Western Hemisphere and variable availability in the SLEI data set. The variables are defined as follows, first for the owner characteristics and then followed by the business characteristics.

Age is the age of the business owner in years at the time of the survey. Gender is coded as 1 = male and 0 = female. Immigrant relates to foreign birth and is coded as 1 if the respondent was born in the US or coded as 0 if born outside the US. The generation score is calculated as a range between 0 and 12 as described above in Section 3.2.1 and serves as a proxy for acculturation. Education is grouped categorically by educational attainment from less than high school to graduate training. The master's, doctorate, or professional degree subgroup serves as the reference category as variables with more than two categorical variables require one of the subgroups to serve as the reference subgroup in the empirical logistic regression analysis. The reference category functions as the base in which the other same subgroup categories are compared, ceteris paribus. Regional residence signifies where the respondent lives with the East North Central region serving as the reference category (see the bottom of Table 1 for states included in each region). Parental business ownership is delineated into four categories, mom as self-employed, father as self-employed, both parents as self-employed, and neither parent as self-employed with the latter being the reference category. Lastly, the childhood socio-economic status of the respondent is included, and the categories range from low-income and working class to upper class with the upper class subgroup as the reference category.

Business age is coded in number of years the enterprise has been in existence at the time of the survey. Business revenues are reported as firm revenues over the preceding 12 months. Annual revenues were categorized and coded in five subgroups, beginning with $10,000 to $49,999 at the lowest level (1) and over $1 million at the highest level (5). The highest level also serves as the reference group. The number of employees is divided into two levels, one to nine employees coded as 0 and ten or more employees coded as 1. Firm level profitability is presented in three categories, yes (profitable) coded as 1, no (unprofitable) coded as 2, and breakeven (neither profitable nor unprofitable) coded as 3. Breakeven is the reference category for firm profitability. Lastly, the industry sector of each enterprise is coded into subgroups in the order presented, construction coded as 1, trade coded as two, professional services coded as 3, other services coded as 4, finance, insurance, and real estate coded as 5, entertainment coded as 6, health care coded as 7, and other (combining the remaining areas) coded as 8. Construction serves as the reference subgroup for the industry category.

Table 2. Enterprise Demographics for White-owned Employer Firms, 2021.

Variable	All	Registered (Formal)	Not Registered+ (Informal)
Mean Age of Business in Years (std. dev.)	15.9 (14.3)	16.8 (14.7)	12.6 (11.7)
Business Revenue Last 12 Months (%)			
$10,000-$49,999	6.4	4.1	14.3
$50,000-$99,999	10.6	8.6	17.4
$100,000-$499,999	43.5	43.9	42.6
$500,000-$999,999	17.6	19.5	11.0
$1,000,000+	21.9	23.9	14.8
Profitability (%)			
Yes	48.7	49.5	46.4
No	27.1	26.8	28.0
Breakeven	24.2	23.7	25.6
Current Number of Employees			
One to Nine	75.6	73.3	84.1
Ten or More	24.4	26.7	15.9
Industry (%)			
Construction	16.4	16.2	17.1
Trade	16.1	15.3	18.5
Professional Services	16.1	18.2	9.1
Other Services	22.9	22.6	23.8
Finance, Insurance, Real Estate	7.8	7.5	8.8
Entertainment	6.9	6.2	9.7
Health Care	6.1	6.4	5.2
Other	7.6	7.6	7.9
N	7,504	5,817	1,687

Notes: +Includes those responding not registered and unsure. Italics: Registered and not-registered firms significantly different at p=.10 ≤ (ANOVA or Chi-Square). Source: SLEI 2021 Survey, Author's calculation (weighted). Some rounding errors.

4. Results

Table 3 reports the binomial logistic regression that estimates the determinants of firm registration of US White-owned businesses in 2021 (see Table 3). The significant variables in the analysis are reported below in the order they appear in the table. The first set of significant determinants are related to the business owner characteristics. These are age, gender, generation score, education, residence, parental business ownership, and childhood socio-economic class background.

For each additional year of age, the business owner is 1.4% more likely to operate a formal enterprise.[3] Male business owners are 47.0% more likely to operate a formally registered enterprise as compared to female business owners. The more acculturated the business owner (i.e., greater birth-tie to the US), the more likely the business owner runs a formal business. That is, for every one-point increase in the generation score, the odds of formal business ownership increase by 5.7%.

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[3] This is calculated as $|1 - Exp(\beta)|$. For example, the calculation for age is $|1-1.014|$ or 0.014 or 1.4 percent (see column 2, line 4 of Table 3). Since this count variable is in years, the odds of firm registration (i.e., formality) is estimated by age in years, ceteris paribus. Since the odds are greater than 1 (1.014 for owner age), this means the odds of the event occurring is positive.

Table 3. Binomial Logistic Regression for Firm Registration (=1) Among WOBs, 2021.

Variable	β	S.E.	Wald	Exp(β)^
Constant	.891	.313	8.116	2.437‡
Owner Characteristics				
Age (years)	.014	.003	26.396	1.014‡
Gender (male=1)	.385	.066	34.081	1.470‡
Immigrant (yes=1)	-.053	.127	.177	.948
Generation Score	.055	.015	13.718	1.057‡
Education			49.887‡	
Less than High School Degree	-.337	.323	1.084	.714
High School Degree or Equivalent	-.303	.123	6.084	.738†
Technical, Trade or Vocational School	-.042	.153	.076	.959
Some College, No Degree	-.396	.105	14.283	.673‡
Associate's Degree	-.389	.110	12.481	.678‡
Bachelor's Degree	.144	.096	2.225	1.154
Master's, Doctorate or Professional Degree	Ref#	Ref	Ref	Ref
Regional Residence			25.740‡	
East North Central	Ref	Ref	Ref	Ref
East South Central	.216	.284	.578	1.241
Mid-Atlantic	.533	.150	12.663	1.704‡
Mountain	.460	.150	9.399	1.584‡
Northeast	.404	.241	2.818	1.497*
Pacific	.127	.129	.965	1.136
South Atlantic	.122	.125	.967	1.130
West North Central	.275	.278	.978	1.317
West South Central	.272	.133	4.177	1.313†
Parental Business Ownership			10.640†	
Mother was a Business Owner	-.088	.122	.519	.916
Father was a Business Owner	.170	.077	4.939	1.186†
Both Parents were Business Owners	-.115	.087	1.737	.892
Neither Parent Business Owners	Ref	Ref	Ref	Ref
Childhood Class Background			24.400‡	
Low-income/Working Class	-.756	.244	9.624	.469‡
Lower Middle Class	-.596	.236	6.368	.551†
Middle Class	-.563	.228	6.091	.570†
Upper-middle Class	-.851	.230	13.755	.427‡
Upper Class	Ref	Ref	Ref	Ref
Firm Characteristics				
Firm Age – Years	.010	.003	14.412	1.011‡
Annual Firm Revenue (last 12 months)			205.617‡	
$10,000-$49,999	-1.532	.140	120.397	.216‡
$50,000-$99,999	-1.016	.121	70.044	.362‡
$100,000-$499,999	-.313	.094	11.058	.732‡
$500,000-$999,999	.116	.113	1.051	1.123
$1,000,000+	Ref	Ref	Ref	Ref
Number of Employees (10 or more = 1)	-.460	.088	27.531	.631‡
Profitability			4.105	
Yes	.111	.075	2.171	1.118
No	.166	.084	3.932	1.181†
Breakeven	Ref	Ref	Ref	Ref
Industry			71.183‡	
Construction	Ref	Ref	Ref	Ref
Trade	-.148	.106	1.941	.863
Professional Services	.637	.123	26.970	1.891‡
Other Services	.039	.100	.155	1.040
Finance, Insurance, Real Estate	-.422	.131	10.325	.656‡
Entertainment	-.121	.133	.824	.886
Health Care	.209	.154	1.840	1.232
Other	-.041	.131	.099	.960

Diagnostics

-2 Log Likelihood	6882.968‡
Cox and Snell R² | Nagelkerke R²	.098|.149
Hit Ratio (% Correct): Yes (Formal)| No (Informal)| Overall	96.7| 14.4| 78.0

Notes: PPC Proportional Chance Criterion (PPC) = a² + (1-a)² or (.773)² + (1-.773)² = 0.650. The model predicts 78.0%, or 1.20 times better than chance. ^ Represents significance at the *P≤0.10; †P≤0.05; and ‡P≤0.01 levels. #Ref denotes the reference category for variables with more than two categories. Source: SLEI 2021 Survey, Author's calculation (weighted).

The highest level of educational attainment—a master's degree, doctorate, of professional degree—serves as the refence category for education. In relation to this highest level of education, the high school or less educated, those with some college education, and business owners a with an associate degree, are less likely to operate formal businesses by 26.2%, 32.7%, and 32.2%, respectively. By residence, the East North Central region (Illinois, Indiana, Michigan, Ohio, Wisconsin) is the reference category. Business owners in the Mid-Atlantic, Mountain, Northeast, and West South Central regions, more likely to be formal by 70.4%, 58.4%, 49.7%, and 31.3%, respectively, than business owners in the East North Central region. A business owner with a self-employed father is 18.6% more likely to run a formal enterprise in reference to business owners without self-employed parents. Lastly, business owners who grew up in upper class households are more likely to operate formal enterprises in relation to all other childhood income households. Socio-economic backgrounds from low-income/working class households, lower middle-class households, middle class households, and upper-middle class households are 53.1%, 44.9%, 43.0%, and 6.3%, are less likely, respectively, to operate formally in relation to business owners who grew up in upper class households.[4]

The significant results of firm-level business characteristics are reported for firm age, firm revenues, number of employees, profitability, and industry. Each additional year of business operation increases the odds of business formality by 1.1%. Smaller enterprises by annual revenues and number of employees are less likely to be formal enterprises in relation to the largest business revenue subgroup. Firms with annual sales of $10,000 to $49,999, $50,000 to $99,999, and $100,000 to $499,999, are 78.4%, 63.8%, and 16.8% less likely, respectively, to be formal than firms with annuals revenues surpassing $1 million. Firms with fewer employees (1-9) are 36.9% less likely to be formal than firms with more employees (10 or more). Firms that post a loss are 18.1% more likely to be formal than those firms indicating a breakeven profitability status. Construction serves as the reference category for industry. In relation to construction, professional services are 89.1% more likely to be formal businesses, and finance, insurance, and real estate 34.4% less likely to be formal enterprises.

The binomial logistic regression diagnostics are all acceptable and appear at the bottom of Table 3. The model is significant with a Nagelkerke R^2 of .149. The model predicts reasonably well at 78.0% (or 1.2 times better than chance) and predicts formal (i.e., registered) enterprises especially well (96.7%).

5. Discussion

The first research question considered the extent of informality among White-owned businesses (WOBs). Survey results suggest more than one-fifth (22.5%) of all WOBs are unregistered and hence informal (see Tables 1 and 2). Informal WOBs are widespread across gender, birthplace and family immigration history, educational attainment, and household backgrounds of parental self-employment and socio-economics class upbringing. Informal enterprises are found among a range of business characteristics, young and old businesses, small and large businesses, profitable and unprofitable businesses, and across various industries. In short, there are many, many informal WOBs, perhaps more than 1.3 million informal WOBs across the US.[5] This is not an inconsequential phenomenon where many WOBs, like that of Joe Smith's in the introduction, fly under government radar. Simply stated, the big white lie of WOB informality is hidden in plain view.

The second research question focused on the determinants of WOB business registration or business formality. Section 4 above detailed the results of the binomial logistic regression estimating the determinants of White-owned business in/formality. A discussion of these results follows. Increased age for both the owner and the business are associated with increased odds of formality via business registration. This finding suggests it is more difficult over time (but not impossible)

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[4] Complete logistic regression estimations are available from the author by request.

[5] In 2020, there were about 5.78 million White owned employer businesses in the US according to the US Census. Using 22.5% as the rate of WOB informality, upwards of 1.3 million WOBs may be informal.

to remain hidden from government oversight. Nevertheless, it is striking that more than one-fifth of WOBs can continue to hide from government authorities.

To remain hidden, in part, involves smallness in annual revenues and the number of paid employees. Low levels of business activity and movement is less likely to draw public attention. Smallness allows for smaller monetary transactions and fewer paid helpers. Annual revenues above $500,000 and ten or more paid employees appears to be an enterprise watershed between more formal than more informal. This also applies to gender, as male WOBs are significantly more likely to have greater revenues than female WOBs making it much harder for male WOBs to remain informal vis-à-vis their female counterparts.[6] Education and income chances are highly correlated, and this is also true of business ownership. It comes as no surprise, then, that business owners with more education engage in a greater degree of business formality. Plainly, higher levels of educational attainment and investment increase the opportunity cost of operating informally and vice-versa.

The findings for industry are mostly insignificant or mixed, not shedding much light of informality. Perhaps this is a result of the various sectoral combinations, though the construction sector is notorious for being partly informal. In terms of profitability, or rather losses, negative earnings may provide a positive tax allowance beneficial enough to formalize or maintain formality whereas firms with positive earnings may seek to remain hidden to avoid taxation. The agglomeration of states by region in the SLEI dataset make it difficult to provide a discussion by region, though it appears there are some variations across regions (and states).[7]

While most White business owners are highly connected to the US, those with fewer birth connections or less acculturated White business owners are more likely to operate informal business enterprises than their fully acculturated counterparts. Relative newness to America does not prohibit informality. Being White does allow for greater freedom to engage in informal business activity unavailable to the same degree as immigrants of color or the less acculturated entrepreneurs of color (Pisani, 2022). One's upbringing also matters. If one is raised in a household with self-employed parents, then the likelihood of children following into self-employment is very high compared to the general population. More specifically for the present research, growing up in a household with a self-employed father leads to higher levels of business formality for children owning businesses. Socio-economic class is also influential. Compared to growing up in an upper-class household, all other socio-classes that produce White business owners are more likely to engage in informal business operations. In essence, inter-generational wealth bestows greater levels of formality, an expected outcome of affluence.

The above findings suggest that Informality Is widespread among White business owners. If business registration Is to be required and honored, then enforcement of business registration rules is a public policy concern. As public resources are scarce, targeted enforcement may yield greater public benefits (e.g., tax collection, public safety and health, worker social benefits, etc.). WOBs with annual revenues of $500,000 or more, ten or more paid employees, and a longer hidden presence, are worthwhile targets of limited enforcement resources. It is this group of WOBs that has the greatest capacity to formalize and reap the largest public returns.

Beyond public policy, business and economic implications may consider enterprise formalization from the firm's point of view. Often, informal businesses remain informal because they find the costs of formalization (e.g., registration fees, taxes, regulatory compliance) outweigh the benefits (e.g., access to financial institutions, access to government services and contracts) of formalization (Prahalad, 2010). It is with firm size, growth, and public stature that formalization follows. For the smallest of informal enterprises, the status quo may be the most economically efficient.

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[6] This is measured by a cross-tabulation of gender and revenues (Chi-square = 377.378, p=.001) for WOBs.

[7] While sample counts by state are uneven to provide more definitive assessments, tentatively states with elevated levels (30% or more) of WOB informality include Arizona, Iowa, Montana, New Mexico, North Carolina, Ohio, South Carolina, and West Virginia. States with lower levels of WOB informality (10% or less) are Alaska, Delaware, Hawaii, Idaho, Minnesota, North Dakota, and Rhode Island.

6. Conclusion

This article began with the story of Joe Smith, a White business owner operating a small informal shade trade mechanic enterprise in the US Midwest. Mr. Smith has operated his evening and weekend informal business as a side hustle for decades without interference or detection from the government. He is confident that he will continue to do so without fear or consequence in a community that is supportive, friendly, and suspicious of government. Entrepreneurs are generally esteemed, be they formal or informal. Mr. Smith is an informal entrepreneur operating in plain sight, part of the white lie of business formality. That is, just because a business is White owned does not make it always formal or legal. Indeed, the research presented in this study based upon a nationally representative sample of 7,504 White-owned employer businesses collected by the Stanford Latino Research Initiative in 2021 suggests that more than one-fifth of White-owned businesses (WOBs) may operate informally or without proper business registration. Extrapolating to the White business population as a whole, perhaps as many as 1.3 million employer WOBs may be operating informally, and thus outside the purview of government oversight.

This study also focused on the determinants of WOB in/formality in the United States of America. Most important in remaining hidden from authorities is business size where not too big means annual revenues under $500,000 with few paid employees and the ability to blend into the community. Public policy may address formalizing the largest informal WOBs as an act of fairness in the general business landscape. The primary limitation of this study is the one-year snapshot sample of business registration among WOBs. Additionally, the Covid-19 pandemic was still present, though somewhat muted, in the US during the study time frame which may have impacted the results. Further research may move beyond a single year cross sectional survey sample, use longitudinal and panel data, triangulate with qualitative ethnographic entrepreneurial histories, and compare across racial, ethnic, national groups.

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Conflict of interest

The author claims that the manuscript is completely original. The author also declares no conflict of interest.

Author contribution

The author is the sole-author of this article and completed the conceptualization, investigation, formal analysis, methodology, and writing (original draft and review and editing).

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