# Shadow Economics of Shame: How Stigma Fuels Black Markets

- Srishti Singh

In contemporary economic sociology and political economy, the phenomenon of hidden or "shadow" markets involve transactions occurring beyond formal regulation, taxation, or oversight. Such markets have been linked not merely to coercive policy instruments, tax burdens or prohibition, but also to the operation of stigma. Stigma is essentially, socially inflicted shame, devaluation, or exclusion of individuals or practices, typically studied in the context of health, race or identity. However, beyond these 'social' conceptions of stigma, it also significantly influences economic behaviour. This article discusses how the factor of stigma shapes both supply and demand in informal and illicit markets.

The term 'shadow economy' refers to economic activities that are concealed from the state for reasons of tax evasion, regulation avoidance, or outright illegality. Such an economy is a product of high tax burdens, excessive regulation, resource scarcity, prohibition of goods and services, and unmet demand arising from the 'legal' or 'formal' market. In essence, this illicit market is a 'shadow' of what we know as the formal market. Stigma begins to play a role within these markets when certain goods, services or persons become socially discredited and are labelled deviant, shameful, or beneath legitimate trade. When formal markets shun these actors, or regulation renders legitimate access difficult, the covert economy provides alternate channels.

One such example arises in markets for services or goods that incur shame, say, gender-nonconforming services, sexual transactions, certain health services, or contraband substances. The consumers avoid formal markets for fear of exposure, stigma or legal sanction and therefore, resort to informal or illicit channels, keeping them underground. As a result, the service providers who are likewise condemned may only operate outside formal regulation. This dynamic creates space for black markets that flourish not merely because of police absence or taxation, but because of social exclusion.

Another aspect of stigma's role in fostering shadow markets arises among individuals who bear such discrimination on account of race, health status, or criminal-mark. They may find access to the formal economy blocked or costly. Glenn C. Loury argues how stigma blocks access to resources mediated by non-market social transactions. Once formal employment or trade channels are closed, alternative, and informal shadow market participation may in some cases be the only route available. Moreover, stigma can raise the cost of participation in regulated markets through monitoring, licensing, or policing and thereby inadvertently push actors into unregulated spheres.

Stigma also affects how black markets function. As Jan Beckert notes in his "In the Shadow" treatise, illegal markets face unique coordination problems including valuation, competition, and cooperation because participants lack formal legitimacy, contract enforcement, or social acceptance. Stigmatized actors are also doubly disadvantaged since not only are their goods or services unregulated, but their market position is also marginalised. At the same time, it is important to note that it is precisely this weak legitimacy that can drive up returns since higher risk corresponds to higher price premiums, making the shadow economy profitable for those willing to engage in it.

The interaction of stigma and black markets continues to be a dynamic area of study and has multiple economic implications. Firstly, tax and regulatory policy alone cannot explain the full size of the shadow economy and the social norms that govern it. For instance, the moral cost of participation in informal work versus formal work may vary substantially across different social backgrounds. Secondly, discrimination can perpetuate structural inequality: marginalized groups may be over-represented in underground economic sectors, thereby evading regulation but consequently forfeiting protections, accumulation opportunities, and recognition. Thirdly, from a policy perspective, combating black markets requires not only enforcement or tax reform, but also destigmatisation of certain practices, populations and, bringing them into formal markets.

The case of informal street-vendors is one such illustrative example. Often prejudiced as disorderly or unlicensed, street-vendors operate outside formal licensing regimes. Recent work shows how stigma of street trading disciplines and marginalizes vendors, effectively pushing them into a shadow economy with less security, higher risk, and weaker rights. Similarly, when entire neighbourhoods bear such stigma (due to race, poverty, or low status), economic transactions within them are constrained and more likely to enter undocumented or informal forms.

In conclusion, stigma plays a critical but under-appreciated role in the formation and persistence of black markets. By rendering certain exchanges socially unfit for the formal economy, and by excluding certain actors from legitimate participation, stigma creates both supply-side pressure and demand-side invisibility that sustain underground markets. Addressing shadow economics therefore demands not only regulatory reform and tax rationalisation, but also social policy that recognises the power of stigma, promotes legitimacy of marginal actors, and incorporates them into formal economic structures.

## References

Beckert, J. (2011). *In the Shadow: Illegal Markets and Economic Sociology*. Max Planck Institute.
https://www.econstor.eu/handle/10419/48646

Besbris, M. (2015). Effect of neighbourhood stigma on economic transactions. *Social Science & Medicine, 126*, 316-323.
https://www.pnas.org/doi/epdf/10.1073/pnas.1414139112

Loury, G. C. (2003). Racial stigma: Toward a new paradigm for discrimination. *American Economic Review, 93*(2), 334-337
https://www.aeaweb.org/articles/pdf/doi/10.1257/000282803321947308

Schneider, F. (2012). The shadow economy and work in the shadow. IZA Discussion Paper No. 6423.
https://docs.iza.org/dp6423.pdf

Van Eck, E. (2024). Stigmatizing street vendors and market traders. *Journal of Consumer Culture.*
https://journals.sagepub.com/doi/full/10.1177/00961442221140889#skipNavigationTo

A Study on Black Marketing of Indian Economy. (2023). *International Journal of Research Publication and Reviews, 4*(10), 487-488
https://ijrpr.com/uploads/V4ISSUE10/JRPR18080.pdf

Sadri, M., Piazza, A., Phung, K., & Helms, W. (2023). The disparate economic outcomes of stigma: Evidence from the arms industry. *Strategic Management Journal, 44*(10), 2489-2533.
https://sms.onlinelibrary.wiley.com/doi/full/10.1002/smj.3503