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# **Reconceptualising undeclared work as paid favours: implications for community economic development**

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## **Abstract**

The dominant depiction of undeclared work as exploitative low-paid employment has been contested by several locality studies which portray undeclared work to be mainly paid favours conducted voluntarily for close social relations to help them out. Reporting data from 28 European countries to evaluate its wider validity, the finding is that most undeclared work is composed of paid favours and conducted voluntarily, especially in Western Europe and Nordic nations. The outcome is a call to shift away from seeking its eradication and for recognition that such work is predominantly a form of active citizenship that needs to be fostered.

## **Introduction**

Throughout the twentieth century, work in the undeclared economy was conceptualised as exploitative low-paid employment conducted as a survival strategy and last resort by deprived populations excluded from the formal labour market (Castells and Portes, 1989; Sassen, 1997; Slavnic, 2010). The resultant policy approach was to seek to eradicate such work by increasing the penalties and risks of detection (Allingham and Sandmo, 1972). In recent decades, however, in-depth locality studies of the nature of the undeclared economy and participants' motives have begun to reveal that much undeclared work is conducted as paid favours for and by close social relations, such as kin, friends, neighbours and acquaintances, in order to help each other out (e.g., Larsen, 2013a,b; White, 2009, 2011; White and Williams, 2010; Williams, 2004, 2009; Williams and Windebank, 2001). The resultant argument has been that undeclared work should not always be eradicated since to do so would be for government to eradicate precisely the active citizenship and mutual aid that it is otherwise seeking to nurture in community economies. The few studies so far undertaken nevertheless, have been relatively small-scale studies undertaken largely in communities in Western Europe in general and the UK more particularly. Whether such paid favours are more widely prevalent is therefore unknown.

To fill this lacuna, the aim of this paper is to evaluate for the first time whether it is more widely the case that undeclared work is predominantly composed of paid favours and, if so, the implications for community economic development. The intention, therefore, is to seek answers to the following questions. What proportion of undeclared work in the 28 member states of the European Union (EU28) is conducted as paid favours for and by close social relations? Does this proportion vary across EU regions and member states? Who engages in this type of undeclared work? Why do they undertake undeclared paid favours? And what are the implications for tackling undeclared work and for community economic development?

To commence, therefore, section 2 briefly reviews the conventional conceptualisation of undeclared work as exploitative employment and the small number of studies that have led to the emergent recognition that undeclared work is sometimes predominantly composed of paid favours. Section 3 then presents the data used to evaluate whether this new depiction is more widely applicable, namely a 2013 Eurobarometer survey involving 27,563 face-to-face interviews on the nature of undeclared work across the 28 member states of the European Union (EU28). Section 4 reports the results. Revealing that undeclared work is commonly composed of paid favours, but that this is more the case in West European and Nordic communities, and less the case in Southern and East-Central European communities, the outcome in section 5 is a call for a recognition that undeclared work is mainly a form of active citizenship that needs to be harnessed, rather than eradicated, and for the adoption of a more geographically variegated conceptualisation of the overall nature and motives of undeclared work and its role in community economies across the EU28.

At the outset, however, undeclared work needs to be defined. Following the strong consensus, undeclared work here refers to paid work that is not declared to the authorities for tax, social security and/or labour law purposes when it should be (European Commission, 2007; OECD, 2012; Williams, 2004, 2014a). If it is not legal in all other respects, it is not part of the undeclared economy. For instance, if the good and services traded are illegal (e.g., illegal drugs), then this is part of the wider criminal economy, and if unpaid, it is part of the unpaid informal economy. There are of course blurred edges to this definition, such as when in-kind labour or gifts are provided rather than money. Here, we consider only exchanges where money changes hands.

### **Conceptualising undeclared work in community economies**

For many decades, undeclared work was widely assumed to be a form of exploitative low-paid employment conducted by marginalised populations out of necessity as a survival strategy (e.g., Castells and Portes, 1989; Davis, 2006; Sassen, 1997). Jobs in the undeclared economy were thus viewed as existing at the bottom of a hierarchy of types of employment akin to “downgraded labour”, with workers receiving low wages, few benefits, and with poor working conditions (Castells and Portes, 1989; Gallin, 2001). The consequent belief was that the undeclared economy had largely negative consequences for governments, workers, businesses and consumers. Governments lose tax revenue that could provide citizens with better social protection, health and educational services. Workers lose their entitlement to loans, pensions and social protection, while legitimate businesses witness unfair competition, and consumers lack any guarantees that health and safety regulations have been followed (Eurofound, 2013; Williams, 2014b). Based on this, the overarching belief was that the undeclared economy should be eradicated. The conventional means of achieving this has been to increase the costs of operating in the undeclared economy by either increasing the actual or perceived penalties for those caught, and/or by increasing the risks of detection (Allingham and Sandmo, 1972; Williams, 2014a).

Since the turn of the millennium, however, there has been an emergent recognition that there is a continuum of forms of undeclared work ranging from waged undeclared employment conducted by employees for a business at one end, to forms of undeclared self-employment at the other (Williams, 2004). This recognition that undeclared work can be conducted on a self-employed basis has resulted in a more positive depiction of the undeclared economy as a hidden enterprise culture and test-bed where new business ventures can explore the viability of their venture before registering (Williams, 2006; Williams et al., 2016). Rather than eradicate the undeclared economy, the argument was that if tax administrations eradicated it, they would stifle precisely the entrepreneurship and enterprise culture that other government ministries wished to nurture (Small Business Council, 2004). As such, calls were made to harness the activity in the undeclared economy by seeking to bring it into the declared realm (European Commission, 2007; ILO, 2015; OECD, 2012).

A small sub-set of literature, furthermore, has highlighted how such self-employment or own-account undeclared work covers a spectrum of activities ranging from profit-motivated entrepreneurial endeavour, through social entrepreneurship, to smaller-scale, often one-off, paid favours conducted for close social relations such as a neighbour, friend or kin (Cornuel and Duriez, 1985; Jensen et al., 1996; Williams, 2004). In a study of incomers to new towns in France for example, Cornuel and Duriez (1985) find that participants often engaged in paid favours for their neighbours not for the purpose of making money but so as to develop their social networks in order to forge greater trust and the opportunity for reciprocity. Similarly, in a study in rural Pennsylvania, Jensen *et al* (1996) discover that many participating in undeclared work voiced reasons for doing so that had little or nothing to do with profit. By far the most extensive research on this issue, however, is in lower- and higher-income urban and rural neighbourhoods in England (Williams, 2004, 2009; Williams and Windebank, 2001). Not only is it found that 70 per cent of all undeclared work is conducted by close social relations (i.e., friends, neighbours and kin) but economic gain hardly figured in their rationales. For example, a person may employ their cousin who is unemployed and in need of money to redecorate their living room in order to be able to give them some money so as to avoid any connotation that ‘charity’ is involved which would result in the cousin refusing to accept the money. Similarly, a plumber or electrician may do some work for an elderly person or somebody ‘hard up’ known to them who would otherwise be unable to afford to get some necessary repair work done at greatly reduced ‘mate’s rates’ in order to help them out. These redistributive and social network rationales are reinforced in a study of women’s undeclared work in Salford in the UK (Brill, 2010), and also a study of 134 persons in the small city of Limninge in Sweden which came to a similar conclusion that most undeclared work is composed of paid favours for and by close social relations to help others out (Larsen, 2013b), such as when getting the car repaired (Larsen, 2013a).

The resultant argument has been that any attempt to deter or eradicate such paid favours will result in tax administrations eradicating precisely the active citizenship that other parts of government wish to nurture. Indeed, the finding is that paid favours are not only a significant proportion of all undeclared work but also that a large proportion of community exchange is now conducted on a monetised basis as ‘paid favours’ (Williams and Windebank, 2001). Indeed, in the late 1990s English Localities Survey, over half of all community exchange in lower-income urban neighbourhoods was conducted as paid favours, meaning that to deter undeclared work would be to eradicate the majority of active citizenship in such neighbourhoods (Williams and Windebank, 2001).

There has also been a rethinking of the motivations underpinning undeclared work. When undeclared work was conceptualised as exploitative low-paid employment, the overwhelming view was that it was necessity-driven endeavour conducted as a last resort due to the ‘exclusion’ of deprived populations from the formal labour market (Castells and Portes,

1989). However, with the recognition that a large proportion of all undeclared work is conducted by and for close social relations as paid favours for redistributive and community-building purposes, a view has emerged that this is commonly undertaken as a voluntarily choice to help others out (Boels, 2014; Brill, 2010; Hodosi, 2015; Purdam and Tranmer, 2014; Ramas, 2016; Spandler et al., 2014; Williams, 2014a,b).

Until now, however, the few studies identifying that undeclared work is largely composed of paid favours have tended to be small-scale qualitative locality studies conducted largely in West European and Nordic nations. Whether undeclared work is more widely composed of paid favours, and thus whether a different approach is required towards such endeavour in community economic development, is currently unknown. The aim of this paper, therefore, is to evaluate for the first time whether paid favours is a widespread phenomenon and, if so, the implications for community economic development.

## **Methodology**

To evaluate whether paid favours is a predominant form of undeclared work and the motives for engaging in such activity, along with who engages in such activity, we here report the results of special Eurobarometer survey no. 402, which involved 27,563 face-to-face interviews conducted in April and May 2013 across the 28 member states of the European Union (EU-28). Respondents were interviewed who were aged over 15 years old in their national language, with the number of interviews varying from 500 in smaller countries to 1,500 in larger nations. A multi-stage random (probability) sampling methodology was used to select respondents. This ensured that on the issues of gender, age, region and locality size, each country as well as each level of sample is representative in proportion to its population size. Therefore, for the univariate analysis we employed sample weighting, as recommended in both the wider literature (Solon *et al.*, 2013; Winship and Radbill, 1994) and the Eurobarometer methodology, to obtain meaningful descriptive results. For the multivariate analysis however, debate exists over whether a weighting scheme should be used (Pfeffermann, 1993; Solon *et al.*, 2013; Winship and Radbill, 1994). Reflecting the dominant viewpoint, we decided not to use the weighting scheme.

The face-to-face interview schedule adopted a gradual approach to the more sensitive questions, firstly asking questions about the respondents' attitudes towards the undeclared economy and having established a rapport, questions regarding their purchase of goods and services in the undeclared economy in the last 12 months along with their reasons for doing so and finally, questions regarding their engagement in undeclared work. Here, the focus is upon their responses as workers in undeclared economy for friends, relatives and neighbours. Participants were first asked 'Apart from a regular employment, have you yourself carried out any undeclared paid activities in the last 12 months?'. If so, they were asked for whom they carried out this activities (friends, relatives, neighbours, other private persons or households or for firms or businesses) and the reason for conducting these activities using the following question, 'What were the reasons for doing these activities undeclared?' among the following: the person(s) who acquired it insisted on the non-declaration; bureaucracy or red tape for a regular economic activity is too complicated; bureaucracy or red tape for minor or occasional activities is too complicated; you could not find a regular job; you were able to ask for a higher fee for your work; both parties benefited from it; taxes and/or social security contributions are too high; working undeclared is common practice in your region or sector of activity so there is no real alternative; the state does not do anything for you, so why should you pay taxes; it is difficult to live on social welfare benefits; you have no other means of income.

To analyse first, who is more likely to provide paid favours to close social relations and second, the individual characteristics of those selecting different motives for explaining their engagement in paid favours, a logistic regression analysis provides a suitable technique. The following variables are analysed.

*Dependent variables:*

- *Paid favours:* a dichotomous variable with recorded value 1 for persons who answered “yes” to the question “Apart from a regular employment, have you yourself carried out any undeclared paid activities in the last 12 months?” for friends, relatives or neighbours and with recorded value 0 otherwise.
- *‘Voluntary’ motives for doing paid favours:* a dichotomous variable with recorded value 1 for persons who reported at least one “exit” motive for doing undeclared work (bureaucracy or red tape for a regular economic activity is too complicated; bureaucracy or red tape for minor or occasional activities is too complicated; you were able to ask for a higher fee for your work; both parties benefited from it; taxes and/or social security contributions are too high; the state does not do anything for you, so why should you pay taxes) and none of the ‘exclusion’ motives, and with recorded value 0 otherwise.
- *‘Necessity-oriented’ motives for doing paid favours:* a dichotomous variable with recorded value 1 for persons who reported at least one “necessity-driven” motive for doing paid favours (the person(s) who acquired it insisted on the non-declaration; you could not find a regular job; working undeclared is common practice in your region or sector of activity so there is no real alternative; it is difficult to live on social welfare benefits; you have no other means of income) and none of the ‘voluntary’ motives and with recorded value 0 otherwise.
- *‘Mixed’ motives for doing paid favours:* a dichotomous variable with recorded value 1 for persons who reported at least one “necessity” motive and at least one “voluntary” motive for doing undeclared work, and with recorded value 0 otherwise.

*Independent variables:*

- *Tax morality:* constructed index of self-reported tolerance towards tax non-compliance, where 1 represents higher tax morale and 10 lower tax morale.
- *Gender:* a dummy variable with value 0 for females and 1 for males.
- *Age:* a categorical variable indicating the age of a respondent with value 1 for 15 - 24 years, value 2 for 25 - 39 years, value 3 for 40 - 54 years, and value 4 for 55 years and older.
- *Marital status:* a categorical variable for the marital status of the respondent with value 1 for married/ remarried individuals, value 2 for single living with partners, value 3 for those single, and value 4 for those separated, divorced, widowed and for other form of marital status.
- *Occupation:* a categorical variable grouping respondents by their occupation with value 1 for not working, value 2 for self-employed and value 3 for employed persons.
- *Difficulties paying bills:* a categorical variable for the respondent difficulties in paying bills with value 1 for having difficulties most of the time, value 2 for occasionally, and value 3 for almost never/ never.
- *People 15+ years in own household:* a categorical variable for people 15+ years in respondent`s household (including the respondent) with value 1 for one person, value 2 for two persons, value 3 for three persons or more.
- *Children:* a dummy variable for the presence of children up to 14 years old in the household with value 0 for individuals with no children and value 1 for those having children.

- *Area*: a categorical variable for the area where the respondent lives with value 1 for rural area or village, value 2 for small or middle sized town, and value 3 for large town.
- *Region*: a categorical variable for the region where the respondent lives with value 1 for East-Central Europe, value 2 for Western Europe, value 3 for Southern Europe, and value 4 for Nordic nations.

We kept in the analysis the individuals for which data on each and every independent variable is available.

Before reporting the results, nevertheless, three issues need to be briefly highlighted. Firstly, some caution is urged when reading the results because it is well-established that there is both response bias and social desirability bias in responses to sensitive questions (Fisher, 1993). Secondly, there is also a literature that surveys are unable to fully capture informal support between close social relations, not least because respondents do not remember such instances of community help (Spandler et al., 2014). Third and following on from the first two issues, there is a need for caution regarding the reliability of the data collected, especially given the sensitive subject matter involved. In 94 per cent of the interviews conducted, nevertheless, the interviewers reported good or excellent cooperation from the participant and in 5 per cent of the cases the cooperation was average. Cooperation was asserted to be bad in less than 1 per cent of cases. Given this, attention can turn to an analysis of the results.

## Results

Of the 27,563 face-to-face interviews conducted in the EU28, some 3% reported participating in undeclared work in the last 12 months. Of these, more than two-thirds (67.5%) reported that this undeclared work had been supplied as paid favours to friends, relatives or neighbours (see Table 1). Across the EU-28 as a whole, therefore, the majority (over two-thirds) of undeclared work is conducted for close social relations, suggesting the need for a reconceptualization of the undeclared economy.

INSERT TABLE 1 ABOUT HERE

However, the proportion of undeclared work conducted for close social relations is not the same across all EU populations. Although 77.8% of undeclared work is for close social relations in Western Europe and 76.4% in Nordic nations, this falls to 63.3% in East-Central Europe and 47.2% in Southern Europe where undeclared work is more likely to be conducted as waged employment. This suggests, therefore, that undeclared work is more commonly paid favours in West European and Nordic nations. It is also the case that the undeclared work of men is more likely to be for close social relations (perhaps because women conduct such community exchange on an unpaid basis), as is the undeclared work of younger and older age groups compared with prime age workers, those living in rural areas, those in employment compared with the unemployed, and those who almost never have difficulties paying the household bills. This suggests, therefore, that doing paid favours is not largely the province of marginalised or vulnerable populations.

This is further reinforced when examining the motives for conducting paid favours for others. Across the EU28 as a whole, just 16% of those providing paid favours assert that they are driven out of necessity into doing such activities. Some 53% voluntarily choose to do so and the remaining 31% for a mixture of necessity-driven and voluntary rationales. However, although primarily a voluntary chosen endeavour, there are again variations across the EU regions. For example, the rationale of necessity was more common in Southern Europe in

particular and also in East-Central Europe. Purely voluntary rationales, meanwhile, were particularly prevalent in Nordic nations but also in West European countries.

INSERT TABLE 2 ABOUT HERE

To evaluate whether these descriptive findings about the likelihood of undeclared work being conducted as paid favours, and the reasons for doing paid favours, are statistically significant when other variables are introduced and held constant, Table 3 reports the results of a logistic regression analysis. Examining the likelihood of undeclared work being conducted as paid favours for close social relations for different groups, the finding is that those who hold a higher tax morality and those living in Western Europe compared with those living in East-Central Europe are significantly more likely to do so. Meanwhile, those living in Southern Europe are significantly less likely than those in East-Central Europe to engage in a favour for a friend, relative or neighbour when they conduct undeclared work.

INSERT TABLE 3 ABOUT HERE

Examining the populations more likely to state that they do paid favours as a matter of choice rather than out of necessity, the finding is that the employed are significantly more likely than the unemployed to do so, as are those who never or almost never have difficulties in paying bills and those living in Nordic nations.

Analysing the populations more likely to state that their conduct of paid favours for close social relations is necessity-driven, meanwhile, the finding is that the employed persons and those living in urban areas are significantly less likely to cite purely necessity-driven rationales, as are those living in Nordic nations significantly less likely to carry out paid favours as a necessity-driven endeavour, whilst those living in Southern Europe are more likely to cite necessity rationales.

The individuals carrying out paid favours due to a combination of rationales, meanwhile, reveals that employed persons, those never or almost never facing difficulties in paying bills and those living in Southern Europe significantly less likely to cite mixed reasons. Those aged between 25 and 35 years are more likely to cite these mixed reasons compared with those aged between 15 and 25 years old.

## **Discussion and Conclusions**

This paper has revealed that over two-thirds (67.8%) of all undeclared work conducted in the EU28 is undertaken for close social relations (e.g., kin, neighbours, friends, acquaintances), although a greater proportion of undeclared work is paid favours in Nordic nations (76.4% of all reported undeclared work) and Western Europe (77.8%) than in East-Central Europe (63.3%) and Southern Europe (47.2%). When examining their motives for doing so, moreover, there appears to exist what can be viewed as an “upper tier” of participants engaging in such community endeavour as a matter of choice, which is significantly more likely to be populated by the employed, those with few financial difficulties and living in Nordic nations, and a “lower tier” of necessity-driven participants doing so as a coping strategy, significantly more likely to be populated by the unemployed and those living in Southern Europe. In the European Union as a whole, the number of participants in the “upper tier” is more than triple the number in the “lower-tier”. However, this ratio significantly varies across European regions. Southern Europe has a 1.3:1 ratio of those purely necessity-driven compared with those doing so more as a matter of choice. Conversely, Nordic nations and

Western Europe have a 15:1 ratio and 5.8:1 ratio respectively between those doing so out of choice and those who are necessity-driven.

The theoretical implication therefore, is that undeclared work in the EU28 needs to be reconceptualised as predominantly involving paid favours between close social relations, although the degree to which it predominates varies regionally, with paid favours far more predominant in Western Europe and the Nordic nations than in East-Central and Southern Europe. The longstanding view that this work contributes little to community economies and has largely negative consequences for citizens, workers, consumers, businesses and governments thus needs to be questioned. The recognition that it is largely conducted for close social relations, and usually out of choice such as to help somebody out, suggests that much of this is a form of active citizenship. In other words, it is community exchange, which refers to the provision of material help on a one-to-one basis within the extended family and social or neighbourhood networks (Williams and Windebank, 2000). Although the recurring assumption has been that community exchanges do not involve monetary payment (e.g., Komter, 1996; Leonard, 1994; Pahl, 1984; Renooy, 1990) and that making monetary payments shifts such community exchange from the non-market sphere of reciprocity into the profit-motivated market realm, this is not always the case. The result is that the formalist anthropology approach and economic discourses that adopt a 'thin' understanding of monetary exchange need replacing by a 'substantivist' anthropological position and institutional economics approach that adopts a 'thicker' understanding of monetary exchange in which transactions are viewed in terms of social norms and values and as being socially, culturally and geographically embedded (Bourdieu, 2001; Comelieau, 2002; Lee, 2000; Slater and Tonkiss, 2001; Zelizer, 1994).

What is now required is to build on this 'thicker' understanding of monetary exchange and to identify why community help has been monetized in some countries. Future research, therefore, could usefully examine the associations between cross-national variations in the prevalence of paid favours and various country-level economic and social conditions. Is it the case, for example, that this is purely a product of economic development, and thus significantly associated with the level of GDP per capita? Or is it the case that other social and welfare conditions are also determinants? For example, are paid favours significantly associated with some types of welfare regime (e.g., commodified Liberal welfare regimes) and not others (e.g. Southern European family-oriented varieties), with low levels of social expenditure, the demise of voluntarism, higher levels of commodification, and so forth? Mapping the association between institutional arrangements and the prevalence of paid favours cross-nationally will enable tentative explanations to start to be developed. It is not just re-theorising undeclared work as predominantly involving paid favours, and explaining the institutional arrangements which lead to its prevalence, that is important. So too are the policy consequences.

Given that undeclared work is mostly composed of paid favours, the policy implication is that the conventional approach of seeking its eradication should no longer be pursued. This would eradicate precisely the active citizenship that governments wish to foster. Instead, two options are available. Firstly, a laissez-faire approach could be adopted, which would entail that the government would refrain from interfering in this type of undeclared work. However, if adopted, state actors would find it subsequently difficult to differentiate between undeclared work conducted for purely profit-motivated rationales, which they would wish to actively tackle, and paid favours conducted for reasons akin to mutual aid, which they would wish to do nothing about. Although businesses working undeclared are easily categorised, it would become more difficult when examining individuals conducting undeclared work on an autonomous basis. Whether they are the self-employed doing so for financial gain or individuals engaged in mutual aid to help others would be difficult to

decipher. For this reason alone, adopting a laissez-faire or do nothing approach is inappropriate.

Secondly, therefore, and rather than eradicate it, government might choose to facilitate its formalisation. This could be achieved by either developing mechanisms through which such work can be conducted in a legitimate manner, or changing the rules so as to make this activity no longer illegal. The former could include initiatives such as Local Exchange and Trading Schemes (LETS) or time banks which siphon off activity from the realm of illegitimate undeclared work into a sphere of legitimate mutual aid. These local bodies publish a list of tasks that citizens need doing, and a list of tasks that citizens wish to undertake for others, for which they are then paid in a local currency or one hour of time. They have not only been implemented in many countries but also shown to act as an effective substitute for acquiring goods and services in the undeclared economy (Williams, 1996; Williams et al., 2001a,b). The latter issue of changing the rules so as to make this activity no longer illegal, meanwhile, might simply entail a change to the law in order to allow citizens to earn a fixed amount each year tax free from own account work. In the UK, for example, the initiative to allow citizens to earn up to £1,000 per annum in the 'sharing economy' from 2017 could be easily extended to include earnings from paid favours (see Davidson, 2016).

In sum, this paper has sought to transcend the negative depiction of undeclared work as exploitative low-paid waged employment that needs to be eradicated. Instead, it has shown that in the EU28, a view has emerged of undeclared work as predominantly composed of paid favours conducted for close social relations to help them out. If this paper thus stimulates a shift towards reconceptualising undeclared work as often predominantly a form of active citizenship that needs to be harnessed rather than eradicated, then one of its intentions will have been achieved. If this then stimulates further research to evaluate whether this is also the case elsewhere in the world, then its fuller intention will have been attained. What is certain, however, is that undeclared work can no longer be negatively viewed as always harmful to community economies and universally in need of eradication.

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Table 1. Participation in undeclared paid favours in the past 12 months, by EU region and socio-demographic characteristics (N=1,048)

|                                   |                                     | Number of respondents conducting undeclared work | % of undeclared work that is conducted for close social relations |
|-----------------------------------|-------------------------------------|--|---|
| All EU28                          |                                     | 1,048  | 67.5  |
|                                   | East-Central Europe                 |  | 63.3  |
|                                   | Western Europe                      |  | 77.8  |
|                                   | Southern Europe                     |  | 47.2  |
|                                   | Nordic nations                      |  | 76.4  |
| Tax morality                      | Above mean                          |  | 65.6  |
|                                   | Below mean                          |  | 70.0  |
| Gender                            | Men                                 |  | 71.5  |
|                                   | Women                               |  | 61.2  |
| Age                               | 15 - 24 years                       |  | 70.7  |
|                                   | 25 - 39 years                       |  | 64.1  |
|                                   | 40 - 54 years                       |  | 65.6  |
|                                   | 55 years and older                  |  | 73.5  |
| Marital status                    | Married/ remarried                  |  | 65.1  |
|                                   | Single living with partners         |  | 65  |
|                                   | Single                              |  | 67.3  |
|                                   | Divorced/ Separated/ Widowed/ Other |  | 77.5  |
| Occupation                        | Not working                         |  | 65.8  |
|                                   | Self-employed                       |  | 67.2  |
|                                   | Employed                            |  | 69.9  |
| Difficulties paying bills         | Most of the time                    |  | 63.3  |
|                                   | From time to time                   |  | 58.5  |
|                                   | Almost never/ never                 |  | 77.2  |
| People 15+ years in own household | One person                          |  | 68.9  |
|                                   | Two persons                         |  | 70.1  |
|                                   | Three persons or more               |  | 63.5  |
| Children                          | Yes                                 |  | 67.9  |
|                                   | No                                  |  | 66.8  |
| Area                              | Rural area or village               |  | 69.2  |
|                                   | Small or middle sized town          |  | 68.0  |
|                                   | Large town                          |  | 64.5  |

Note: We kept in the analysis the individuals for which data on each and every independent variable is available.

Table 2. Reasons for engaging in undeclared paid favours in the European Union, by region (N=722)

| Region              | Number of respondents | Motives (%) |           |       |
|---------------------|-----------------------|-------------|-----------|-------|
|                     |                       | Necessity   | Voluntary | Mixed |
| EU28                | 722                   | 16          | 53        | 31    |
| East-Central Europe | Xx                    | 17          | 47        | 36    |
| Western Europe      | Xx                    | 10          | 58        | 32    |
| Southern Europe     | Xx                    | 42          | 32        | 26    |
| Nordic nations      | xx                    | 5           | 76        | 19    |

Note: We kept in the analysis the individuals for which data on each and every independent variable is available.

Table 3. Logistic regression of the odds of, and reasons for, conducting undeclared paid favours in the European Union

|  | Paid favours       | Reasons           |                  |                   |
|--|--------------------|-------------------|------------------|-------------------|
|  |                    | Necessity         | Voluntary        | Mixed             |
| <b>Tax morality</b> (i.e., acceptability of undeclared work) | -0.0662** (0.0300) | -0.0116 (0.0802)  | 0.0327 (0.0528)  | -0.0255 (0.0396)  |
| <b>Gender (Female)</b>                                       |                    |                   |                  |                   |
| Male   | 0.291* (0.169)     | -0.0924 (0.206)   | 0.150 (0.204)    | -0.105 (0.169)    |
| <b>Age (15-24)</b>   |                    |                   |                  |                   |
| 25-39  | 0.0135 (0.250)     | -0.607* (0.336)   | -0.401 (0.276)   | 0.705*** (0.227)  |
| 40-54  | -0.156 (0.267)     | 0.230 (0.377)     | -0.404 (0.320)   | 0.288 (0.276)     |
| 55+  | 0.255 (0.321)      | 0.312 (0.397)     | 0.0451 (0.411)   | -0.219 (0.397)    |
| <b>Marital status ([Re-]Married)</b>                         |                    |                   |                  |                   |
| Single with partner  | -0.0314 (0.215)    | 0.123 (0.549)     | -0.517** (0.238) | 0.486 (0.303)     |
| Single   | 0.225 (0.229)      | 0.310 (0.380)     | -0.293 (0.279)   | 0.191 (0.253)     |
| Divorced/ Separated/ Widowed/ Other                          | 0.333* (0.174)     | 0.00788 (0.386)   | -0.107 (0.304)   | 0.141 (0.263)     |
| <b>Occupation (Not working)</b>                              |                    |                   |                  |                   |
| Self-employed  | 0.0656 (0.256)     | -0.774 (0.515)    | 0.331 (0.242)    | 0.152 (0.236)     |
| Employed   | -0.0380 (0.139)    | -0.821** (0.405)  | 1.132*** (0.223) | -0.778*** (0.166) |
| <b>Difficulties paying bills (Most of the time)</b>          |                    |                   |                  |                   |
| From time to time  | 0.0326 (0.202)     | -0.303 (0.246)    | 0.694*** (0.267) | -0.444* (0.262)   |
| Almost never/ never  | 0.259 (0.170)      | -0.498 (0.323)    | 1.487*** (0.277) | -1.264*** (0.274) |
| <b>People 15+ years in own household (One)</b>               |                    |                   |                  |                   |
| Two  | 0.318 (0.237)      | -0.295 (0.279)    | 0.161 (0.265)    | 0.00521 (0.252)   |
| Three or more  | 0.198 (0.201)      | -0.283 (0.334)    | -0.0275 (0.322)  | 0.201 (0.289)     |
| <b>Children (No children)</b>                                |                    |                   |                  |                   |
| Having children  | 0.179 (0.174)      | 0.310 (0.346)     | 0.199 (0.218)    | -0.400 (0.247)    |
| <b>Area (Rural area or village)</b>                          |                    |                   |                  |                   |
| Small or middle sized town                                   | -0.140 (0.227)     | -0.689*** (0.262) | 0.269 (0.230)    | 0.148 (0.240)     |
| Large town   | -0.171 (0.211)     | -0.824*** (0.281) | 0.454* (0.260)   | 0.0157 (0.269)    |
| <b>Region (E-C Europe)</b>                                   |                    |                   |                  |                   |
| Western Europe   | 0.487*** (0.172)   | -0.241 (0.373)    | -0.156 (0.274)   | 0.318 (0.274)     |
| Southern Europe  | -0.754*** (0.193)  | 1.099*** (0.329)  | -0.0141 (0.315)  | -0.976*** (0.309) |
| Nordic nations   | 0.317 (0.302)      | -1.762** (0.783)  | 0.716*** (0.211) | -0.124 (0.201)    |
| Constant   | 0.429 (0.499)      | -0.411 (0.608)    | -1.383** (0.569) | -0.181 (0.499)    |
| N  | 1,048              | 722               | 722              | 722               |
| Pseudo R <sup>2</sup>  | 0.0428             | 0.1247            | 0.1363           | 0.0904            |
| Log pseudolikelihood   | -621.87133         | -268.20738        | -430.07579       | -405.25101        |
| $\chi^2$   | 338.83             | 769.99            | 513.10           | 338.95            |
| p>   | 0.0000             | 0.0000            | 0.0000           | 0.0000            |

Notes:

Significant at \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Robust standard errors in parentheses.

All coefficients are compared to the benchmark category, shown in brackets.

We kept in the analysis the individuals for which data on each and every independent variable is available.

## Appendix

Table A1. Variables used in the analysis: definitions and descriptive statistics

| Variables                         | Definition   | Mode or mean                           |  | Min/<br>Max |
|-----------------------------------|--|--|--|-------------|
|                                   |  | N = 1,048                              | N = 722                                |             |
| <i>Dependent variables</i>        |  |  |  |             |
| Paid favours                      | Dummy variable of undeclared paid favours carry out in the last 12 months, apart from a regular employment | Making undeclared paid favours (67.5%) | -                                      | 0 / 1       |
| Voluntary                         | Dummy variable of “voluntary” motive which led to undeclared paid favours                                  | -                                      | “Voluntary” motive mentioned (53%)     | 0 / 1       |
| Necessity                         | Dummy variable of “necessity” motive which led to undeclared paid favours                                  | -                                      | “Necessity” motive not mentioned (84%) | 0 / 1       |
| Mixed                             | Dummy variable of “mixed” motives which led to undeclared paid favours                                     | -                                      | “Mixed” motives not mentioned (69%)    | 0 / 1       |
| <i>Independent variables</i>      |  |  |  |             |
| Tax morality                      | Constructed index of self-reported tolerance towards tax non-compliance                                    | 3.6                                    | 3.6                                    | 1 / 10      |
| Gender                            | Dummy for the gender of the respondent   | Male (61%)                             | Male (65%)                             | 0 / 1       |
| Age                               | Respondent age in categories   | 25-39 years (34%)                      | 25-39 years (32%)                      | 1 / 4       |
| Marital status                    | Respondent marital status in categories  | Single (34%)                           | Single (34%)                           | 1 / 4       |
| Occupation                        | Respondent occupation in categories  | Not working (51%)                      | Not working (50%)                      | 1 / 3       |
| Difficulties paying bills         | Respondent difficulties in paying bills in categories  | Almost never/ never (41%)              | Almost never/ never (47%)              | 1 / 3       |
| People 15+ years in own household | People 15+ years in respondent`s household (including the respondent) in categories                        | Three or more (38%)                    | Two (38%)                              | 1 / 3       |
| Children                          | Dummy for the presence of children (up to 14 years old) in the household                                   | No children (67%)                      | No children (67%)                      | 0 / 1       |
| Area                              | Size of the area where the respondent lives in categories  | Small or middle sized town (39%)       | Small or middle sized town (40%)       | 1 / 3       |
| Region                            | Region where the respondent lives in categories  | Western Europe (46%)                   | Western Europe (53%)                   | 1 / 4       |