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PUBLIC POLICY APPROACHES TOWARDS THE UNDECLARED ECONOMY IN EUROPEAN COUNTRIES: A CRITICAL OVERVIEW

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Abstract

The aim of this paper is to evaluate critically the extent to which the conventional eradication approach towards undeclared work has been transcended and replaced by an approach which seeks to shift undeclared work into the declared economy. Reporting the results of a 2010 survey of 104 senior stakeholders from government departments, trade unions and employer organisations in 31 European countries, and 24 follow-up in-depth interviews, the finding is that although there is a move towards adopting policy measures that shift undeclared work into the declared economy, a deterrence approach that simply seeks to eliminate undeclared work remains the principal approach in most nations and the approach viewed as the most effective way of tackling undeclared work. Given this intransigence on the part of European national governments, the paper concludes by setting out a future research agenda to bridge this gap.

Keywords: European Union; informal sector; labour law; public policy; shadow economy

1. INTRODUCTION

Following the 2003 Lisbon Summit of the European Council, when tackling undeclared work was named as one of the top ten priorities for action with regard to employment reform (European Commission, 2003a, 2003b and 2003c), the European Commission recognised that the conventional approach that sought to deter engagement in undeclared work needed to be transcended. Instead, a new approach was advocated that seeks to move undeclared work into the declared realm (European Commission, 2007a). This paper evaluates the degree to which this has been adopted by European national governments.

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To achieve this, the first section commences by providing a brief review of the extent and nature of the undeclared economy in the 27 Member States of the European Union (EU-27), followed in the second section by an analysis of the various possible policy approaches available for tackling undeclared work. Revealing that the European Commission has recently called for a new approach that seeks to shift undeclared work into the declared economy rather than simply eliminate it using deterrence measures, the third section then evaluates the degree to which European national governments have adopted this policy approach. Reporting a 2010 survey of 104 senior stakeholders from government departments, trade unions and employer organisations in 31 European countries, and 24 follow-up in-depth interviews, the finding is that although national governments are adopting an array of policy measures to shift undeclared work into the declared economy, deterring undeclared work remains the principal approach in most nations. The fourth and final section then draws some conclusions and sets out a future research agenda for improving understanding of how undeclared work can be shifted into the declared economy.

Before commencing, however, undeclared work needs to be defined. Ever since Hart (1973) first introduced the concept of the 'informal sector' in his study of Ghana 40 years ago, how to define this undeclared economy and distinguish it from the declared economy has been an on-going debate. Reviewing the vast subsequent literature on defining this sphere, it becomes quickly apparent that all of this literature has sought to define undeclared work in terms of what is absent from or insufficient about it relative to the declared economy (Williams and Lansky, 2013). This is similarly the case with the working definition adopted by the European Commission (2007a: 2), which defines the undeclared economy as 'any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account the differences in the regulatory system of Member States'. What is deemed missing or absent from undeclared work, therefore, is that these paid activities are not declared to the public authorities for either tax, social security and/or labour law purposes (European Commission 2007a, 2014; OECD 2002, 2012; Williams and Renooy 2013). If paid activities possess additional absences or insufficiencies, they are not defined as undeclared work. For instance, if paid activities involve illegal goods and/or services, such as in the case of drug trafficking, they are deemed 'criminal' activities, and if unpaid, they are deemed part of the 'unpaid' economy rather than the undeclared economy. With this definition of the undeclared economy in hand, attention now turns to a brief review of the extent and nature of the undeclared economy in the EU-27.

2. EXTENT AND NATURE OF THE UNDECLARED ECONOMY

Measuring the undeclared economy is difficult because this paid activity is by definition hidden from the public authorities for tax, social security and/or labour law purposes.

For this reason, indirect measurement methods have been employed which use proxy indicators and/or seek statistical traces of such work found in data collected for other purposes. These range from methods using monetary indicators as proxies, such as the currency demand method which takes the use of cash as an indicator of undeclared work, through those using non-monetary indicators, such as discrepancies in the labour supply figures across different surveys, and those using discrepancies between income and expenditure either at the aggregate or household level, to measurement methods using multiple indirect indicators (GHK and Fondazione Brodolini 2009; Ram and Williams 2008). However, other scholars have claimed that even if participants hide this work from the authorities, they do not hide it from researchers and openly discuss such activity with them (MacDonald 1994; Pahl 1984; Williams 2001). As such, undeclared work has been directly investigated using qualitative, quantitative or mixed method surveys (Leonard 1994; Neef 2002; Pahl 1984; Round *et al.* 2008; Williams 2001; Williams and Round, 2007a,b, 2008, 2009; Williams and Windebank 1994). These direct surveys, however, have tended to produce lower estimates of its size than indirect methods, causing proponents of indirect measurement methods to argue that participants do indeed conceal their undeclared work from researchers (Schneider 2005). Although there is no way of knowing whether direct surveys produce underestimates or indirect methods inflated estimates of its size, the consensus that has emerged across the practitioner and academic communities has been to use indirect measurement methods to measure its size and direct survey methods to evaluate its nature (European Commission 1998, 2007b; OECD 2012; Thomas 1988; Ram and Williams 2008; Schneider 2008; Williams 2009a,b).

Here, this consensus is followed by using an indirect measurement method to evaluate cross-national variations in its size in the EU-27 and a direct survey method to evaluate its varying nature across the EU-27. To do this, the most widely cited indirect measurement method is selected, namely the DYMIMIC (dynamic multiple-indicators multiple-causes) method, to evaluate its variable size (for a detailed description of how this method calculates the size of the undeclared economy, see Schneider 2005). Rather than rely on one indicator to measure its size, the advantage of this method is that multiple monetary and non-monetary indicators, related to the money in circulation, level of tax morality and labour supply, are used. Although the detailed methodology used to estimate its magnitude is not necessarily as clear as many scholars would desire, the distinct advantage of using this method here is that data is readily available for the EU-27 (see Schneider *et al.* 2013).

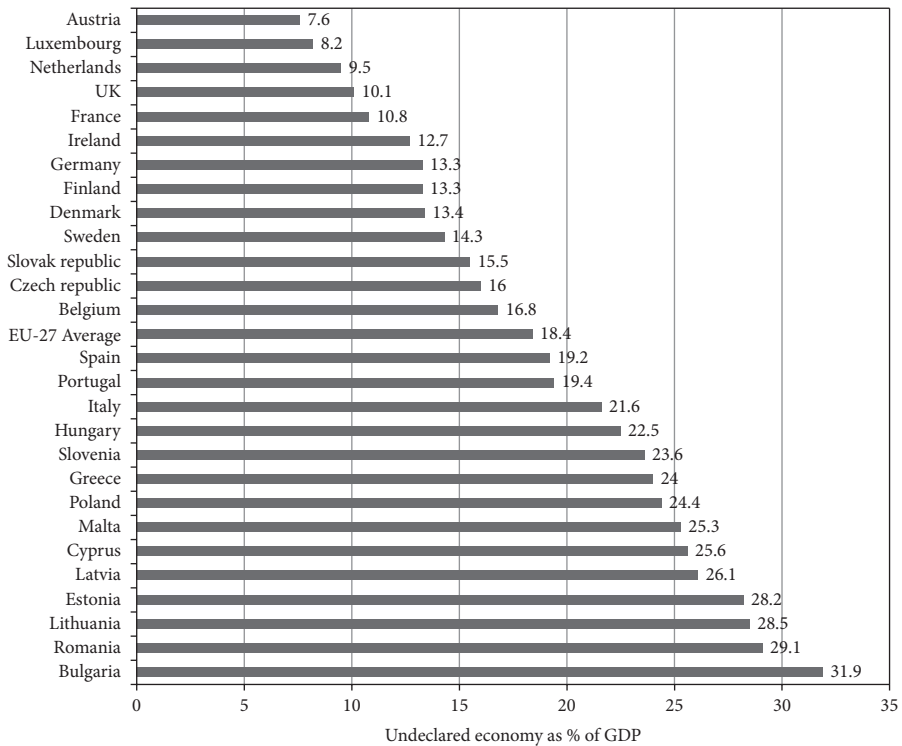
The direct survey used to evaluate the nature of the undeclared economy, meanwhile, is the extensive cross-national survey on the character of undeclared work conducted in 2007 as part of wave 67.3 of Eurobarometer (European Commission 2007b; TNS Infratest *et al.* 2006). Indeed, this is the only EU-wide cross-national dataset currently available on the character of the undeclared economy (the 2013 Eurobarometer is not available at the time of writing). Replicating the sampling method of other Eurobarometer surveys, 26,659 face-to-face interviews were conducted in the EU-27,

ranging from some 500 interviews in smaller nations to more than 1,500 interviews in larger EU countries conducted in a manner that provides a representative sample of the population in each country (European Commission 2007b).

2.1. SIZE OF THE UNDECLARED ECONOMY

Figure 1 displays the magnitude of the undeclared economy in the EU-27. This reveals that in 2012 the unweighted average size of the undeclared economy in the EU-27 was 18.4 per cent of GDP. Such work, therefore, is not some small residual sphere. It is a prominent feature of the contemporary European economic landscape. However, there are marked variations in its size across Member States, ranging from 7.6 per cent in Austria to 31.9 per cent in Bulgaria. Indeed, a clear geographical divide exists with regard to the variations in the size of the undeclared economy across the EU. In Northern and Western European Member States, the undeclared economy is on average smaller than in East-Central and Southern European Member States.

Figure 1. Size of undeclared economy as % of GDP, 2012: by country

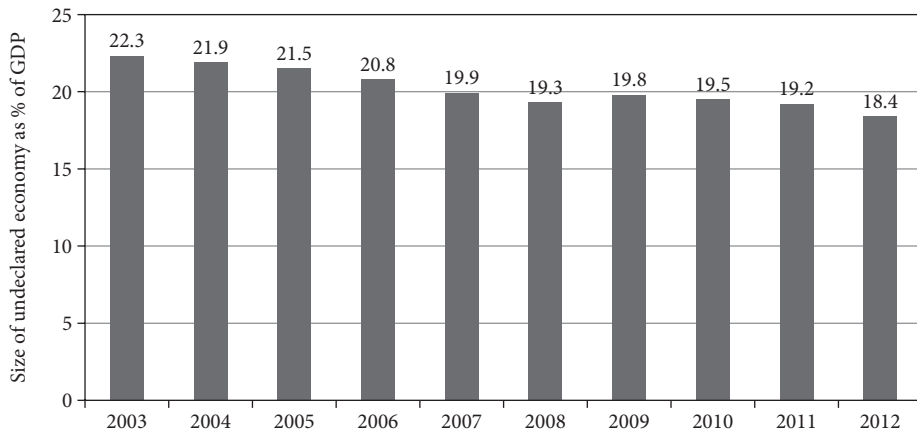


Source: derived from Schneider (2012: Table 1.1)

Turning to whether the undeclared economy is growing or declining in the current period of economic crisis, two contrasting perspectives exist. One perspective argues that the undeclared economy is growing. The rationale is that: firms and households will seek to save on costs in the face of falling profit and income by substituting declared work with undeclared work, and unemployed workers will be more willing to engage in undeclared work as a coping practice. The alternative viewpoint is that the undeclared economy is declining because of: the lower demand for undeclared labour due to less money being available; traditional sectors where undeclared work is concentrated (e.g., construction, hotels and restaurants) being harder hit in times of economic crisis, and undeclared work being substituted by 'flexible' and cheaper declared labour, leading to greater in-work poverty (Williams and Renooy 2013).

As Figure 2 displays, the evidence appears to support the latter perspective. Although a slight rise occurred in the size of the undeclared economy between 2008 and 2009, there has been an on-going decline in the size of the undeclared economy in the European Union as a whole between 2003 and 2012. Indeed, Schneider (2013) shows that this is the trend across each and every EU Member State. Over the past decade and particularly during the current period of economic crisis, therefore, the undeclared economy has been declining, displaying how it is not a substitute for the declared economy that grows when the declared economy declines, but rather, that it rises and falls in tandem with the declared economy.

Figure 2. Size of undeclared economy in EU-27 as % of GDP, 2003-2012



Source: derived from Schneider (2012: Table 1.1)

2.2. NATURE OF THE UNDECLARED ECONOMY

For many decades, the dominant depiction of undeclared work was that it was low-paid waged employment conducted under degrading 'sweatshop-like' conditions for unscrupulous employers (Castells and Portes 1989; Davis 2006; Sassen 1996). This led

governments to view this undeclared sphere as something to be stamped out. However, the findings of small-scale studies conducted in localities and nations throughout the EU-27 have challenged this dominant depiction (Leonard 1994; Neef 2002; Pahl 1984; Round *et al.* 2008; Williams 2001; Williams and Round 2007a,b, 2008, 2009; Williams and Windebank 1994; Williams *et al.* 2013).

Firstly, a range of additional types of undeclared waged employment have been identified. There has been growing recognition of a continuum of undeclared wage levels, just as there is a continuum of declared wage levels, and although the mean undeclared wage is lower than the mean declared wage, these two spectrums overlap meaning that some undeclared waged work is higher paid than declared waged work (Jütting and Laiglesia 2009; Krstić and Sanfey 2011). Not only has well-paid undeclared waged work been recognised, but it has been also found that besides wholly undeclared jobs hidden from the state for tax, social security and labour law purposes, there are also 'under-declared' formal jobs where declared employees receive two wages from their declared employer, one declared and one undeclared 'envelope wage' (Meriküll and Staehr 2010; Neef 2002; Žabko and Rajevska 2007; Williams 2007; Williams and Round 2007; Woolfson 2007). Such envelope wages can be paid by formal employers either for overtime and/or for the regular work conducted by their declared employees (Williams 2009a,b).

Secondly, it has been revealed that undeclared work is often conducted on an own-account or self-employed basis (Neef 2002; Round *et al.* 2008; Smith and Stenning 2006; Williams 2005; Williams and Round 2007). This ranges from 'false self-employment', where a person works for one employer but is self-employed and pays no wage tax, has no rights such as dismissal protection and no vacation entitlements, through to various forms of proper self-employment conducted either by the declared self-employed conducting various portions of their trade undeclared or by the self-employed working on a wholly undeclared basis. Indeed, this has subsequently led to the undeclared economy being viewed more positively as a 'hidden enterprise culture' and breeding ground for new business ventures (Bureau and Fendt 2011; Williams 2007, 2008b; Williams and Nadin 2013; Williams and Round 2007a). After all, people do not have an idea for a business venture and then create a wholly legitimate enterprise the next day; they instead often test-trade the business idea to test its viability before deciding whether to create a legitimate enterprise. Indeed, evidence has begun to emerge not only that a significant proportion of nascent entrepreneurs start-up trading in the undeclared economy (Williams and Martinez 2014) but also that many established entrepreneurs trade partially or fully in the undeclared economy (Williams and Nadin 2013). The response has been a burgeoning new sub-field of entrepreneurship termed 'informal sector entrepreneurship' (Adom and Williams 2012; Aidis *et al.* 2006; Antonopoulos and Mitra 2009; Copisarow and Barbour 2004; Dana 2013; Dellot 2012; Gurtoo and Williams 2010; Hudson *et al.* 2012; Katungi *et al.* 2004; Ram *et al.* 2007; Small Business Council 2004; Webb *et al.* 2009).

Thirdly, it has also been recognised that much of this own-account undeclared work is undertaken for closer social relations such as kin, neighbours, friends and acquaintances, for the purposes of redistribution and helping out (Morris 2011; Onoschenko and Williams 2013; Persson and Malmer 2006; White and Williams 2010). For example, a person may pay their cousin 200 euros for decorating their living room to give him some money when he is unemployed. This is done because it is known that they will not accept charity but will accept the money for doing the decorating. In practice, of course, undeclared self-employment and paid favours overlap since own-account work is composed of many varieties along a spectrum from purely market-like profit-motivated undeclared self-employment, through forms of social entrepreneurship where ‘mate’s rates’ (i.e., friends’ rates) are charged for a job (Williams *et al.* 2013), to purely solidarity-oriented familial and community-based paid favours. As a general rule, the finding has been that the closer are the social relations, the less market-like are the transactions (White 2009; White and Williams 2010).

In recent years, the prevalence of these different forms of undeclared work across the EU-27 has started to be understood. In 2007, an extensive Eurobarometer survey of undeclared work involving 26,659 face-to-face interviews in 27 European countries was conducted (TNS Infratest *et al.* 2007; Williams and Renooy 2013). This finds that just under one in ten (9 per cent) of the surveyed population participated in either undeclared or under-declared (‘envelope wage’) work in the 12 months prior to interview, of which 4 per cent engaged solely in undeclared work, a further 4 per cent solely in under-declared ‘envelope wage’ work and 1 per cent in both undeclared and under-declared work. However, marked geographical variations are identified in the propensity to engage in the undeclared economy. Whilst in East-Central Europe nearly one in five (18 per cent) of the surveyed population had participated in undeclared or under-declared work in the previous 12 months and 12 per cent in Nordic nations, this figure was just 8 per cent in Southern Europe and 5 per cent in Western Europe (Williams and Renooy 2013).

Examining the nature of the wholly undeclared work across the EU-27, just 22 per cent was waged employment and 78 per cent conducted on a self-employed basis; with 57 per cent being carried out on an own-account basis for closer social relations and 21 per cent on a self-employed basis for other private individuals, households and businesses. Analysing under-declared work, meanwhile, 1 in 20 (5 per cent) of all declared employees received envelope wages from their formal employer in the previous year amounting on average to over two-fifths (43 per cent) of their gross total wage. Of these, 29 per cent received such payments for their regular work, 27 per cent for extra work or overtime and 36 per cent for both their regular and overtime work (Williams and Renooy 2013). Extrapolating to the EU as a whole, this intimates that some 11 million of the 210 million employees in the EU might be in receipt of envelope wages: some 3 million for their regular work (mostly in East-Central European nations), 3 million for overtime or extra work (which is the most common

type of envelope wage work in Western and Northern EU Member States), and 4 million for both their regular and overtime work (Williams 2009b, 2013b; Williams and Padmore 2013a,b).

The composition of the undeclared economy, however, markedly varies across the EU-27. In East-Central Europe and Southern Europe, undeclared work is composed more of envelope wages (61 per cent and 70 per cent respectively of all undeclared work) whilst in Nordic nations and Western Europe, such work is largely wholly undeclared work (60 per cent and 83 per cent of all undeclared work). Examining wholly undeclared work, undeclared waged employment is a higher proportion of all undeclared work in East-Central Europe and Southern Europe whilst undeclared self-employment is a greater proportion of undeclared work in Western Europe and the Nordic nations. Paid favours for close social relations, furthermore, are far more prominent in Western Europe and Nordic nations than in East-Central and Southern Europe (European Commission 2007a; Williams and Renooy 2013).

Although each type of undeclared work exists in all populations, the precise configuration of the undeclared economy varies geographically across the European Union. These variations are important when seeking policy measures to tackle undeclared work in different European regions. Some policy approaches and measures may be more important in some European regions than others.

3. POLICY APPROACHES TOWARDS UNDECLARED WORK

Public policy towards the undeclared economy has been traditionally dominated by a deterrence approach that seeks to eradicate it. Viewing undeclared workers as 'rational economic actors' who engage in undeclared work when the benefits are greater than the expected cost of being caught and punished (Allingham and Sandmo 1972), the goal has been to change the cost/benefit ratio confronting those engaged or thinking about engaging in this realm (e.g., Grabiner 2000; Hasseldine and Li 1999; Richardson and Sawyer 2001). This is achieved by increasing the actual and perceived risks and costs associated with participation in undeclared work by firstly, improving the perceived or actual likelihood of detection and secondly, increasing the penalties and sanctions for those caught.

Over the past decade or so, however, the validity of this public policy approach has been questioned for three reasons. Firstly, there is the issue of its effectiveness. Although some find that increasing the probability of detection reduces participation in undeclared work at least for some income groups (Slemerod et al. 2001), others find that it leads to a growth in undeclared work (Varma and Doob 1998; Bergman and Nevarez 2006). Similarly, although some find that increasing penalties reduces such work (Klepper and Nagin 1989; De Juan et al. 1994), others identify that increasing penalties leads to a growth in such work (Varma and Doob 1998; Murphy 2005). As

Murphy (2005) asserts, the use of threat and legal authority can produce the opposite behaviour from that sought. Indeed, some even conclude that ‘it is not sensible to penalize illicit work with intensified controls and higher fines’ (Schneider and Enste 2002: 192).

Secondly, the recognition that a large proportion of undeclared work is undertaken on an own-account basis raises further questions about the validity of simply eradicating such activity. It is now widely recognized that undeclared self-employment is often a seedbed for entrepreneurship and enterprise development (Evans et al. 2006; ILO 2002a,b; SBC 2004; Williams and Martinez 2014). If national governments therefore seek to eradicate such work, they will stamp out through their policies towards undeclared work precisely the enterprise and entrepreneurship that their enterprise culture policies are seeking to nurture. Stamping out undeclared work also has implications for active citizenship, by which is here meant the provision of services to others living outside one’s household in order to help them out. Given that over half of all undeclared work is embedded in relations of familial and community solidarity, eradicating such activity results in governments preventing engagement in precisely the type of endeavour that its policies on promoting active citizenship are seeking to foster.

Third and finally, eliminating it fails to contribute to tackling the long-standing problem of increasing employment participation rates, which has recently got worse due to the global economic recession. In 2007, some 65.4 per cent of the EU working population were in jobs and by 2011 this had fallen to 64.3 per cent (European Commission 2014). Over one in three working-age people in Europe were therefore jobless. To achieve full participation, one new job for every two currently in existence is thus needed (a 50 per cent increase in the number of jobs).

For these reasons, calls have been made for governments to transform undeclared work into declared work rather than simply eradicate it (European Commission 2003a,b,c, 2007a; Small Business Council 2004; Williams and Renooy 2013). Indeed, at the 2003 Lisbon Summit of the European Council, Employment Policy Guideline no. 9 was published on ‘transforming undeclared work into regular work’, which states:

Member States should develop and implement broad actions and measures ... which combine simplification of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions (European Commission 2003b: 9).

Further calls to move in this direction were provided by the European Commission (2007a) in its second communication on undeclared work that explicitly called for Member States to transform undeclared work into declared work. Increasingly, therefore, the demand has been for deterrence measures to be complemented by a range of new policy measures that help transform undeclared work into declared work.

Table 1 provides a typology of the various policy approaches and measures available for shifting undeclared work into the declared economy, distinguishing between a ‘hard’ compliance approach based on the rational economic actor model which uses either deterrence measures and/or measures that make declared work beneficial and easier, and a ‘soft’ approach that engenders a culture of commitment to acting lawfully. As can be seen, the hard compliance approach can be pursued by simply seeking to increase the costs of operating undeclared so as to elicit behaviour change, which is a ‘negative reinforcement’ approach that detects and punishes those engaged in non-compliant or ‘bad’ behaviour. However, this is not the only way of eliciting changes in behaviour.

Table 1. A typology of policy approaches for shifting undeclared work into the declared economy

Approach	Method	Measures (examples)
‘Hard’: compliance through deterrence	Improved detection	Data matching and sharing Joined up strategy Joint operations
	Increased penalties	Increased penalties for evasion
	Increase perception of risk	Advertising the penalties for informal working Advertising the effectiveness of detection procedures.
‘Hard’: compliance through incentives to be declared	Prevention	Simplification of compliance Direct and indirect tax incentives Smooth transition to self-employment Introducing new categories of work Micro-enterprise development
	Curative	Demand-side incentives (e.g. service vouchers; targeted direct taxes; targeted indirect taxes) Supply-side incentives (e.g. society-wide amnesties; voluntary disclosure; formalisation services)
‘Soft’: engendering commitment	Fostering culture of commitment	Awareness raising Promoting benefits of declared work Changing perception of tax fairness

On the one hand, the hard compliance approach can also focus on making it easier and more beneficial to operate in the declared economy (OECD 2012; Williams and Renooy 2013). This represents a ‘positive reinforcement’ approach that rewards ‘good’ behaviour rather than punishing ‘bad’ behaviour; it uses ‘carrots’ rather than ‘sticks’ to elicit behaviour change. Such policy measures can be either preventative measures that stop non-compliance in the first place, or remedial/curative measures that encourage people to shift their undeclared work into the declared economy.

This ‘hard’ compliance approach, grounded in a view of participants in the undeclared economy as ‘rational economic actors’, assumes that tackling undeclared work is simply a case of changing the cost/benefit ratio confronting them. The problem, however, is that this fails to explain why so many businesses and workers

are compliant even in the absence of an appropriate cost/benefit ratio confronting them (Wood and Bischoff 2013). In other words, it ignores the role morality has to play in human behaviour. Recognising this, a 'soft' approach has emerged. Rather than alter either the costs of undeclared work and/or benefits of declared work so as to encourage compliance, the intention of the 'soft' tax morality approach is to engender commitment to working declared so that 'sticks' and 'carrots' are not needed. Put another way, there is a shift from the use of direct controls to engender compliance to indirect controls to foster the commitment of citizens to acting in a lawful manner by improving the psychological contract between the state and its citizens. This is achieved by educating people about the benefits of declared work and not evading tax, social security and labour laws, such as through awareness campaigns as well as by promoting procedural justice and fairness amongst tax and social security offices and labour inspectorates (Braithwaite 2007; Braithwaite and Reinhart 2000; Torgler 2007; Williams and Renooy 2013).

These policy approaches, of course, are not mutually exclusive. A government for example, might use incentives to shift undeclared work into the declared realm (e.g., simplifying regulatory compliance) at the same time as using soft measures (e.g., awareness raising campaigns), and, for those failing to comply, implement tougher sanctions for those caught. As such, a continuum of possible policy approaches can be envisaged with a wholly deterrence approach at one end and a wholly soft approach at the other. Until now, few studies have sought to evaluate where governments sit on this spectrum and more particularly, the extent to which governments have shifted away from a largely deterrence approach.

One of the few notable exceptions is a study by Williams (2008), which examines the 2001 and 2003 National Action Plans for Employment (NAPs) and the National Reform Programmes 2005–2008 (NRPs) of each Member State, along with two international reviews of the initiatives being pursued in different countries (European Employment Observatory 2004; European Industrial Relations Observatory 2005). In 2001, before the European Commission called for undeclared work to be transformed into declared employment, this finds that deterrence measures dominated. Following the publication of Employment Guideline No. 9 in 2003, however, although deterrence measures remained widely used, a number of mostly west European and Nordic countries began to develop incentives to operate in the declared realm, mostly in the form of preventative measures although a few adopted curative measures. By 2005, this tendency had spread, albeit again mostly in the form of preventative rather than curative measures. Largely absent, however, was the use of a soft approach.

However, this evaluation had two shortcomings. Firstly, documents such as the NAPs are written to show how each Member State has positively responded to European Commission requests. Secondly, simply documenting whether a measure exists in a country means that small-scale and piecemeal pilot experiments are accorded the same importance as large-scale mainstream initiatives and there is no way of evaluating the relative importance accorded to different types of policy.

The consequence may well be that the degree of the shift away from the deterrence approach will be exaggerated. Here, therefore, the aim is to seek a more nuanced and up-to-date evaluation of the degree to which European national governments have shifted away from an eradication approach and pursued innovative measures to shift undeclared work into the declared economy.

4. EVALUATING PUBLIC POLICY APPROACHES TOWARDS UNDECLARED WORK IN EUROPEAN COUNTRIES

To evaluate the degree to which this European Commission call to move beyond an eradication approach and towards an approach which seeks to shift undeclared work into the declared realm has been adopted by European national governments, a web-based survey was conducted during 2010 of senior officials responsible for tackling undeclared work in European countries in labour inspectorates, revenue administrations, social security administrations, trade unions, employer organisations and other relevant agencies (e.g. customs, border police, immigration). Of the 499 invitations to participate, 104 responses were received (a 21 percent response rate). In all 31 countries (27 EU Member States, along with Iceland, Liechtenstein, Norway and Switzerland), at least one high-ranking representative of the authority who takes the lead on tackling undeclared work was surveyed. The issues covered by this survey included: the characteristics of the current national institutional framework in each country; the existing policy measures used; their perceptions of the importance of each policy measure in the overall approach adopted; their perceptions of its effectiveness at tackling undeclared work; and perceived best practices in this field. Secondly, and following this web survey, 24 in-depth semi-structured interviews were held with a selection of these stakeholders. The intention was firstly to provide additional information to fill in any gaps on existing national institutional frameworks and policy measures adopted in different countries following the web survey, and secondly, to seek richer in-depth understanding of the various approaches being adopted and the perceived effectiveness and importance of them (for details, see Dekker *et al.* 2010).

To evaluate the degree to which this European Commission call to move beyond an eradication approach and towards an approach which seeks to shift undeclared work into the declared realm has been adopted by European national governments, Table 2 reports the findings regarding the range of policy measures used by these 31 countries in 2010, as well as the perceived effectiveness of each policy measure by stakeholders in the countries where each measure had been implemented. This reveals that in 2010, although every country continued to use deterrence policy measures ('sticks') to tackle the undeclared economy, a large proportion of countries also used incentives ('carrots') to encourage participation in the declared economy. These incentives, however, largely comprised preventative measures (used in 90 per cent of countries), with curative measures used in only 64 per cent of countries. Moreover,

the soft commitment approach had begun to take hold with 69 per cent of countries now using measures associated with this approach.

Table 2. Prevalence and perceived effectiveness of policy measures in 31 European countries

Policy	% of nations	% stakeholders stating measure is:		
		Effective	Neutral	Ineffective
<i>Hard compliance: deterrence measures</i>				
<i>Penalties:</i>	93	50	45	5
Administrative sanctions for purchasers/companies	87	46	49	6
Administrative sanctions for suppliers/employees	83	41	59	0
Penal sanctions for purchasers/companies	74	59	33	8
Penal sanctions for suppliers/employees	52	53	42	5
<i>Measures to improve detection:</i>	100	64	34	2
Workplace inspections	100	75	17	8
Data matching and sharing	83	72	25	2
Registration of workers prior to starting work or on first day of work	74	74	23	3
Coordination of data sharing across government	65	82	19	0
Mandatory ID in the workplace	65	70	30	0
Certification of business, certifying payments of social contribution and taxes	65	62	33	5
Coordination of operations across government	61	64	36	0
Coordinating strategy across government	57	56	44	0
Use of peer-to-peer surveillance (e.g. telephone hotlines)	39	20	80	0
<i>Hard Compliance: incentive measures</i>	90	45	43	12
<i>Preventative incentive measures:</i>				
Simplify compliance procedures	87	62	38	0
Ease transition from unemployment into self-employment	65	29	63	8
Direct tax incentives (e.g., exemptions, deductions)	61	57	33	10
Training & support to business start-ups	61	50	46	4
Advice on how to formalise	61	33	67	0
Connecting pension schemes to formal labour	61	47	41	12
Micro-finance to business start-ups	52	48	52	0
Reduce regulations	48	56	38	6
Changing minimum wage upwards	48	24	59	18
Ease transition from employment into self-employment	44	15	77	8
Restricting free movement of (foreign) workers	43	29	53	18
Technological innovations (e.g. certified cash registers)	43	73	27	0

Policy	% of nations	% stakeholders stating measure is:		
		Effective	Neutral	Ineffective
New categories of work (e.g., for small or mini-jobs)	35	59	33	8
Social security incentives	35	62	15	23
Introducing supply chain responsibility	17	78	0	22
Changing minimum wage downwards	9	0	50	50
Curative incentive measures:	64	61	35	4
Stimulate <i>purchasers</i> to buy declared:				
Targeted direct tax incentives	61	65	29	6
Service vouchers	26	58	42	0
Targeted indirect taxes	17	63	25	13
Stimulate <i>suppliers</i> to formalise:				
Formalisation advice to business	30	44	56	0
Formalisation support services to businesses	30	57	29	14
Free advice/training on record-keeping	22	57	43	0
Fact sheets on record-keeping	22	57	43	0
Targeted VAT reductions	17	43	43	14
Individual-level amnesties for voluntary disclosure	17	75	25	0
Free record-keeping software to businesses	13	50	50	0
Gradual formalisation schemes	13	67	33	0
Society-wide amnesties	9	10	0	0
Soft approach: commitment to declared work measures:	69	44	52	4
Measures to improve tax/social security/labour law knowledge	65	50	50	0
Campaigns to inform undeclared workers of risks and costs of working undeclared	61	64	36	0
Campaigns to inform users of undeclared work of the risks and costs	61	50	40	10
Campaigns to inform undeclared workers of benefits of formalising their work	57	43	47	10
Campaigns to inform users of undeclared work of the benefits of declared work	52	35	59	6
Use of normative appeals to people to declare their activities	52	33	67	0
Campaigns to encourage a culture of commitment to declaration	39	29	64	7
Adoption of commitment rather than compliance approach (e.g., 'responsive regulation')	30	50	40	10
Measures to change perceived fairness of the system	26	25	75	0
Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner)	17	60	40	0

Examining the measures to shift undeclared work into the declared realm, the finding is that although such policy measures have been employed, as called for by the European Commission, the range of measures adopted has been relatively narrow. Starting with incentives to prevent entry into the undeclared realm, the finding is that 90 percent of countries adopted one or more preventative policy measure. However, beyond the simplification of compliance, only a limited number of countries have adopted other preventative policy measures. It is similarly the case that curative or remedial measures which seek to shift undeclared work into the declared realm have not been widely adopted. Just 64 percent of countries use one or more curative measure to tackle undeclared work, and again, the range of curative measures used is narrow. Beyond targeted direct tax incentives (e.g., income tax relief/reduction/subsidy schemes), less than one-third of countries have adopted any other curative policy measure. Finally, 69 per cent of the countries have adopted soft commitment measures and in the countries in which they have been adopted, these have so far mostly involved campaigns targeting various groups involved in undeclared work. Few countries have pursued policy measures to improve either procedural justice or the perceived fairness of the system.

These data on the proportion of countries that have adopted different policy measures, however, fails to assess which is the dominant approach. To resolve this shortcoming, this 2010 survey asked stakeholders to rank four different approaches from the one accorded the most importance to the least importance in their country when tackling undeclared work. As Table 3 displays, 57 per cent stated that the hard compliance approach based on increasing the costs of non-compliance (i.e., the deterrence approach) was the most important in their country, with 33 per cent citing the hard compliance approach based on the use of incentives to improve the ease and benefits of engaging in declared work (19 per cent citing the preventative approach and 14 per cent the curative approach), and 10 per cent citing the soft approach as the most important. Analysing the policy approach accorded the least importance, meanwhile, 84 per cent cited those that seek to transform undeclared work into declared employment; only 16 percent cited the deterrence approach. The clear message, therefore, is that the vast bulk of countries remain entrenched in a deterrence approach and transforming undeclared work into declared employment is neither widely accepted nor adopted.

Table 3. Social partner opinion of the relative importance accorded to different types of policy approach in their country, 2010

% citing:	Most important	2nd Important	Least important
Hard compliance: deterrence	57	17	16
Hard compliance: preventative incentives	19	46	23
Hard compliance: curative incentives	14	19	32
Soft commitment approach	10	18	29

Turning to the effectiveness of different approaches, Table 2 above provides a considerable amount of detailed information on the perceived effectiveness of different policy measures in tackling undeclared work. Rather than here review these findings regarding each and every policy measure in detail, the perceived effectiveness of the different policy approaches is evaluated by examining the answers stakeholders gave when asked to rank what type of policy approach they view as most effective, second most effective and least effective at tackling undeclared work. Table 4 reports the results. It reveals that the majority (55 per cent) of stakeholders see the deterrence ('sticks') side of the hard compliance approach as the most effective means of tackling undeclared work, whilst 35 per cent view the incentives side of the hard compliance approach as most effective (20 per cent viewing preventative measures and 15 per cent curative measures as most effective), and just 10 per cent view the soft commitment approach as the most effective approach. Overall, therefore, there persists throughout Europe a view that increasing the costs of undeclared work by raising the penalties and improving detection rates is the most effective means of tackling undeclared work. Stakeholders across Europe remain entrenched in a view that deterrence is more effective.

Table 4. Type of policy measures stakeholders view as most and least effective in Europe

% citing:	Most effective	2 nd most effective	Least effective
Hard compliance: deterrence	55	13	12
Hard compliance: preventative incentives	20	41	13
Hard compliance: curative incentives	15	27	31
Soft commitment approach	10	19	44

In sum, despite a wider array of policy measures now being used to tackle the undeclared economy, the overarching finding of this 2010 survey is not only that the deterrence approach is ranked the most important policy approach in the majority of European countries but also that it is seen as the most effective approach for tackling the undeclared economy.

5. CONCLUSIONS

The aim of this paper has been to evaluate the extent to which the conventional eradication approach towards undeclared work has been transcended and replaced by an approach that seeks to transform undeclared work into the declared economy. Reporting the results of a 2010 survey of 104 senior stakeholders from government departments, trade unions and employer organisations in 31 European countries, and 24 follow-up in-depth interviews, the finding has been that although there is a move towards adopting policy measures to shift undeclared work into the declared economy,

a deterrence approach that seeks to eliminate undeclared work remains the principal approach in the majority of European countries and also the approach viewed as the most effective way of tackling undeclared work in most countries. Despite the calls by the European Commission to shift away from an eradication approach and towards shifting undeclared work into the declared economy, therefore, this approach has not been widely accepted or adopted.

This has important implications. Unless this approach of shifting undeclared work into the declared realm becomes more widely accepted and adopted, then European governments will continue not only to hinder employment creation and social inclusion, but will also unintentionally prevent precisely the entrepreneurship and active citizenship that they are so desperately seeking to nurture through their enterprise culture and active citizenship policies through their deterrence approach towards undeclared work. These contradictions can only be resolved by putting greater emphasis on seeking to legitimise undeclared work using incentives to make working on a declared basis easier and more beneficial and/or by pursuing soft commitment policy measures.

Having here identified for the first time the gap between the European Commission's desire to transfer undeclared work into the declared realm and the dominant approach of European national governments, which deters such work rather than transforms it into declared work, action to bridge this gap is needed. Here, therefore, a research agenda is set out to do so.

The first issue that needs to be addressed is that policy measures need to be evaluated to a far greater extent than is currently the case. Although some policy initiatives have been evaluated in considerable depth, such as service vouchers (Gerard *et al.* 2012; Peeters *et al.* 2008), the vast majority of policy measures have not. The consequence is that there is little understanding of the effectiveness of different policy measures and certainly no comparative studies that judge the relative effectiveness of different measures. These evaluations are badly required. The problem confronting evaluation studies, however, is whether policy measures should be evaluated solely in terms of the objectives they set themselves, or whether they should be evaluated in terms of other objectives such as their ability to shift work into the declared economy. If the latter is the case, a common unit of evaluation will be required to compare policy measures. Whether this should be a return/cost ratio, such as the cost of transferring an undeclared worker/job into the declared economy, is open to debate.

Future research does not simply need to evaluate the comparative effectiveness of individual policy measures at tackling undeclared work. It also needs to evaluate the most effective way of putting these policy measures together in various combinations and sequences. After all, the array of contrasting policy approaches and measures are not mutually exclusive. A key policy issue, therefore, is deciding which combinations of policy measures are most effective. At present, for example, measures to improve detection through inspections are often combined with campaigns seeking to raise awareness or warn customers that inspections are about to occur. There are also various ways of temporally sequencing policy measures, some of which might be more

effective than others. Amnesty and voluntary disclosure schemes, for instance, are frequently followed by tougher sanctions. The Australian government in its 'responsive regulation' approach, for example, uses soft commitment measures in the first instance to facilitate compliance, followed by persuasion and only then punitive measures to tackle non-compliance (Braithwaite 2007; Job *et al.* 2007). However, whether this temporal sequencing is more effective than other sequences has not been evaluated. Thus, in the future, evaluations will need to be conducted of which combinations of measures ordered in what sequence are most effective. Indeed, evaluating which combinations and sequences of measures are effective, therefore, is just as important as evaluating the effectiveness of individual policy measures.

Once this is known, then the transferability of individual policy measures, as well as various combinations and sequences from one context to another, can be evaluated. At present, however, few evaluations even exist of the effectiveness of individual policy measures, not to mention their effectiveness when used in conjunction with other measures. Only when such evaluations have been conducted, however, will it be possible to consider whether these policy measures could be transferable across sectors and countries, as well as which combinations and sequences of policy measures could be used in different contexts. After all, tackling an undeclared economy dominated by a system of envelope wage payments will require a different approach than trying to reduce an undeclared economy dominated by small-scale paid favours between close social relations for redistributive rationales in the domestic services realm. In future, in consequence, evaluations will need to be conducted of which measures ordered in what sequence are most effective in which contexts and in conjunction with other measures.

In sum, this paper has highlighted the intransigence of European national governments in shifting from a deterrence approach based on a desire to eliminate undeclared work to a public policy approach that seeks to shift undeclared work into the declared economy. It is to be hoped, therefore, that this finding will now elicit greater discussion of how to encourage such a policy approach amongst national governments, and greater debate across European countries about the unintended consequences for economic inclusion, entrepreneurship and active citizenship of continuing to pursue their deterrence approach. If it does so, then this paper will have achieved its objective.

6. REFERENCES

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