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TACKLING UNDECLARED WORK IN THE EUROPEAN UNION: AN EVALUATION OF GOVERNMENT POLICY APPROACHES

Colin C. Williams[1]

Abstract
In recent years, it has been increasingly recognised that governments seeking to tackle undeclared work effectively should adopt a holistic approach. This seeks to coordinate strategy across the fields of labour, tax and social security law, and to use the full range of policy measures available. The aim of this paper is to evaluate the extent to which European Union member states adopt such an integrated holistic approach when tackling undeclared work by coordinating strategy across the fields of labour, tax and social security law, and using the full range of policy measures available. Reporting a 2017 survey of the official representatives of the national governments on the European Commission's European Platform Tackling Undeclared Work, the finding is that most national governments continue to adopt an uncoordinated fragmented approach to strategy and use only a limited range of mostly deterrent policy measures. The paper concludes by discussing how a more holistic approach could be achieved across EU member states.

Keywords: informal economy; tax evasion; public policy; European Union.

Jel Classification: H26; J46; K42; O17; P37

INTRODUCTION

It is now widely accepted that undeclared work remains a persistent and often extensive feature of European Union (EU) economies (Dotti et al. 2015; Medina and Schneider 2017; Williams 2014b; Williams and Schneider 2016). Indeed, a recent European Commission report estimates that 9.3% of labour input in the private sector in the EU is undeclared work (Williams et al. 2017). This has negative implications for the workers involved, who have poorer working conditions, lower wages, infringements of their labour rights and reduced protection under labour and social protection law, depriving them of adequate social benefits, pension rights and access to healthcare, as well as skills

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development and lifelong learning opportunities (European Commission 2016; ILO 2015). It also results in unfair competition for businesses operating legitimately, and decreases tax and social security revenues for member states, undermining the financial sustainability of their social protection systems (European Commission 2016; Williams 2014a, 2018).

Tackling undeclared work is therefore high on the agenda in the EU (European Commission 1998, 2007, 2016). Indeed, in 2016, the European Parliament passed legislation establishing the European Platform Tackling Undeclared Work (henceforth referred to as 'the Platform') to improve the cooperation and effectiveness of Member States in tackling undeclared work (European Commission 2016). This recognised the need for a more holistic approach to be adopted, which the first Platform meeting of the member states and social partners defined as a whole government strategic approach which joins-up the fields of labour, tax and social security law, and which uses the full range of direct and indirect policy measures available to enhance the power of, and trust in, authorities respectively (Williams 2016). The aim of this paper is to evaluate the degree to which EU member states currently adopt such a holistic approach towards tackling undeclared work. This is one of the first known assessments of how governments are addressing undeclared work.

To do this, the first section will set the context by briefly reviewing the extant literature which recognises that a more joined-up coordinated approach towards tackling undeclared work is needed if it is to be effectively tackled, followed by how a holistic policy approach is widely recognised as required in order to effectively tackle undeclared work both in the scholarly and practitioner literature. The second section then reports the methodology used to evaluate the degree to which European national governments have adopted this holistic approach, whilst the third section will report the findings. Revealing that most governments do not have a joined-up strategy and only a limited range of measures are used in most member states, with deterrence measures the most commonly used, the fourth and final section will then draw some conclusions about the implications and discuss the future research required.

1. REVIEWING POLICY APPROACHES TOWARDS UNDECLARED WORK IN THE EUROPEAN UNION

Undeclared work is known by many names, with some 45 different nouns and 10 adjectives used to denote this realm, including the 'cash-in-hand', 'shadow', 'informal', 'black' and 'underground' economy/sector/work (Williams 2004). However, despite this array of names, a strong consensus exists over how to define it in both the scholarly and policy-making community. What is here termed 'undeclared work' is defined in terms of what is absent from, or insufficient about, it compared with declared work, and the consensus is that the only absence from, or insufficiency about, undeclared work is that this paid work is not declared to the authorities for tax, social security and/or labour law purposes when it should be declared (European Commission 1998, 2007; OECD 2002; Williams 2004; Williams and Windebank 1998).

Given this definition of undeclared work as paid work not declared to the authorities for tax, social security and/or labour law purposes when it should be declared, three key reasons can be identified why these otherwise lawful activities are not declared:

- To evade payment of income, value added or other taxes;
- To evade payment of social security contributions; and
- To evade certain legal labour standards, such as minimum wages, maximum hours, safety standards, etc.

In most member states, separate government departments take responsibility for each of these three aspects of evasion, namely tax administrations for tax non-compliance, social security institutions for social insurance non-compliance and labour inspectorates and/or ministries for labour law violations. Previous studies intimate that collaboration and joined-up coordinated approaches towards the undeclared economy across such authorities is rare, and that for undeclared work to be effectively tackled, a more joined-up cross-government approach is required (Dekker et al. 2010; Williams 2014a; Williams and Nadin 2012).

The legislative decision of the European Parliament establishing the European Platform Tackling Undeclared Work recognised this and called for a more holistic approach towards tackling undeclared work to be adopted (European Commission 2016). This was subsequently defined at the first Platform meeting of the member states and social partners as a whole government approach that joins-up strategy across the fields of labour, tax and social security law, and uses the full range of direct and indirect policy measures available to enhance the power of, and trust in, authorities respectively (Williams 2016, 2017). Until now, however, no evaluation has been conducted of the degree to which national governments in the European Union have adopted a joined-up and coordinated approach towards undeclared work. This, therefore, is the first issue that needs to be investigated when evaluating the degree to which a holistic approach towards undeclared work has been adopted across the European Union.

The second issue requiring investigation to evaluate the degree to which a holistic approach has been adopted is whether national governments use the full range of direct and indirect policy measures. Conventionally, governments have pursued the eradication of undeclared work by treating participants in undeclared work as 'rational economic actors' who engage in undeclared work when the benefits outweigh the expected costs of being caught and punished (Allingham and Sandmo 1972; Grabiner 2000; Hasseldine and Li 1999; Richardson and Sawyer 2001). As such, a deterrence approach has been used which firstly, raises the perceived or actual likelihood of detection and secondly, increases the penalties and sanctions for those caught (Williams 2014, 2017, 2018).

In recent decades, however, the validity of this deterrence approach has been questioned for three reasons. Firstly, there is the issue of its effectiveness. Although some studies find that increasing fines and the risk of detection reduces undeclared work (Masud et al. 2015; Mazzolini et al. 2017), others find no significant association (Shaw et al. 2008), and yet others that it results in higher levels of undeclared work because it leads to a breakdown in the social contract between the state and its citizens (Hofmann et al. 2017; Kaplanoglou and Rapano 2015; Murphy 2008; Murphy and Harris 2007; Schneider and Enste 2002; Windebank and Horodnic 2017).

Secondly, it has been recognised that much undeclared work is self-employment and that the undeclared economy acts as a seedbed for entrepreneurship and enterprise development (Autio and Fu 2015; Siqueira et al. 2016; Webb et al. 2009, 2013; Williams 2004, 2006, 2018, Williams et al. 2012). This has resulted in an understanding that if national governments try to eradicate such activity using deterrents, they will with one hand eradicate the entrepreneurship and enterprise culture that with other hands they are seeking to foster to achieve economic development and growth (Williams 2006, 2018).

Thirdly, eradicating undeclared work fails to address the long-standing problem of increasing employment participation rates in Europe. In 2017, according to Eurostat, 72.1 per cent of the working age population (aged 20–64 years old) in the EU28 were in jobs.

For these reasons, it has been recognised that governments need to transform undeclared work into declared work rather than simply eradicate it (European Commission 2007, 2016; ILO 2015; SBC 2004; Williams 2006, 2017, 2018). Indeed, ILO Recommendation 204 adopted by United Nations member states explicitly recognises that the objective is to formalise the informal economy (ILO 2015), as does the Platform legislation which explicitly states that the objective should be to transform undeclared work into declared work (European Commission 2016).To do so, there is a need to move beyond conventional deterrence measures which, although useful for eradicating undeclared work, do not facilitate the transformation of undeclared work into declared work. This is the rationale behind the call for a holistic approach which uses the full range of direct and indirect policy measures.

Direct policy measures reduce the costs and increase the benefits of operating on a declared basis as well as increase the costs and reduce the benefits of operating undeclared. Viewing those participants as rational economic actors, the objective is to alter the cost/benefit ratio confronting them. To do this, there are on the one hand deterrence measures that increase the costs of participating in undeclared work by either raising the penalties for those caught and/or increasing the perceived or actual likelihood of detection. On the other hand, there are also incentive measures that make it easier to undertake, and reward, participation in declared work. The intention of direct policy measures is to increase the power of authorities to elicit compliant behaviour by changing the cost/benefit ratio (Kirchler 2007; Williams 2018).

Indirect policy measures, meanwhile, recognise that participants are not just rational economic actors (purely calculating the costs and benefits) because many do not engage in undeclared work even when the benefits of doing so outweigh the costs (Kirchler 2007; Murphy 2005, 2008; Murphy and Harris 2007). Instead, they are viewed as social actors who engage in undeclared work when formal institutional failings lead them to adopt norms and beliefs regarding participation in undeclared work that do not align with the laws and regulations, for example due to a lack of trust in the state and what it is seeking to achieve (Horodnic 2018; Williams and Horodnic 2015). Indirect policy approaches, therefore, seek to either change the norms, values and beliefs regarding the acceptability of participating in undeclared work, so that these are in symmetry with the laws and regulations (e.g. using awareness raising campaigns), and/or to change the formal institutional imperfections that lead to a lack of alignment between the norms, values and beliefs of the population, and the laws and regulations.

Until now, few studies have evaluated the policy approaches used by national governments. One early attempt by Williams (2008) examined 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, the finding is that most measures adopted were repressive. Following the publication of Employment Guideline no. 9 in 2003, when the Commission called for undeclared work to be transformed into declared work, however, although repressive measures remained widely used, mostly West European and Nordic countries began to use some incentive measures. By 2005, this tendency had spread to a wider range of countries. Largely absent, however, was the use of indirect policy measures (Williams 2008).

In 2010, meanwhile, as part of the feasibility study for the establishment of the European Platform Tackling Undeclared Work, Dekker et al. (2010) conducted a web-based survey of government officials in national 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 responded (a 21% response rate). Some 90% of countries had adopted one or more incentive policy measure. The problem with this survey, however, was that the respondents did not possess a good overview of the full range of policy measures used in their country, as witnessed by policy measures being omitted in responses when it was known that they existed in the respondent's country.

2. METHODOLOGY

In 2017, therefore, the decision was taken by the Platform to evaluate the extent to which firstly, there exists a joined-up strategic approach in national governments in the EU, and secondly, the degree to which the full range of direct and indirect policy measures are used. This e-survey was designed by the consortium holding the four-year service contract to provide expert services to the Platform, of which the author of this paper is the lead expert. The survey methodology and questionnaire design went through several rounds of quality assurance by the European Commission's Platform Secretariat, and a pilot survey was also conducted on two Member States. This resulted in changes to the questionnaire design (e.g., advice being given on how to answer questions).

The intention of the survey was firstly, to gather information on the extent to which there is a joined-up coordinated approach in each member state and secondly, the range of policy measures used in each member state, as well as which are the dominant policy measures, and which are considered most effective. To do this, a detailed list was provided of the full range of policy measures (see Table 2 below).

The questionnaire was sent to the national representative of each member state for completion. When the Platform was established in 2016, each member state officially nominated a national representative to act as a liaison or point of contact between the Member State and the Platform. When these national representatives receive requests for information on their Member State, their practice is to circulate the request around the

relevant Ministries and enforcement authorities involved in tackling undeclared work to gather the required information. The same process was used by the national representatives when answering this e-survey.

Responses were received from 23 of the 28 Member States. Of those national representatives coordinating the gathering of the national response to this survey, 15 were from the Labour Inspectorate in their member state, four from their Ministry of Labour, two from their tax administration, two from the Customs Authority, one from a social security institution and three 'other' organisations, namely the professional governance of the labour authority, an occupational safety and health prevention authority, and a Ministry of Social Affairs/Department for OSH. Below, the findings are reported of this first ever evaluation of the policy approaches that national governments adopt towards undeclared work.

3. FINDINGS

To evaluate the extent to which a holistic approach has been adopted to tackle undeclared work by the 23 national governments responding, firstly, whether a joined-up approach is adopted across government is evaluated, and secondly, whether the full range of policy measures available are used.

Table 1 reveals that only a quarter of the 23 Member States responding have a 'joined-up' strategic approach with one set of national targets for tackling undeclared work common across the whole of government, implemented by a single agency or institution which is responsible for tackling all these facets of undeclared work. Examples include the Financial Control of Undeclared Work Unit (FKS) in Germany and the Shadow Economy Combating Board in Latvia.

In three-quarters of Member States, therefore, there is no strategic joined-up common set of targets. Instead, the most frequently adopted structure is a departmental 'silos' approach, with each authority responsible for different legislative aspects of undeclared work, with each having its own separate targets. This fragmentation of responsibilities across different government authorities means that in most Member States, and this is especially the case in Southern Europe, a coordinated strategic approach towards tackling undeclared work is absent.

Table 1. How are the national targets for tackling undeclared work in your Member State best described?

Category	EU	Western Europe	Nordic nations	East-Central Europe	Southern Europe
Common across all relevant departments	26%	29%	33%	33%	0%
Some shared but mostly separate for each department	13%	14%	0%	11%	25%
Separate targets for each department	57%	57%	67%	44%	75%
No response	4%	0%	0%	11%	0%
Total (%)	100%	100%	100%	100%	100%
Total	23	7	3	9	4

Source: author analysis of 2017 European Platform Tackling Undeclared Work survey.

Table 2 reports the results on the range of policy measures used. This reveals that deterrence measures are used in nearly all the Member States responding (especially penalties and workplace inspections) and the only deterrence measures not widely used are mandatory identity cards in the workplace and the use of supply chain responsibility.

However, incentives to make declared work beneficial and easier are less commonly used. More particularly, supply-side incentives (especially the simplification of procedures) are more commonly used than demand-side incentives (which are only used by a quarter to one third of Member States). Meanwhile, indirect measures to raise awareness about the costs of undeclared work and benefits of declared work are common across the EU, although greater emphasis is put on campaigns which highlight the costs of undeclared work whilst fewer campaigns emphasise the benefits of declared work. Measures to modernise enforcement authorities in terms of the degree to which customers believe they have been treated in a respectful, impartial and responsible manner are currently pursued by less than half of all Member States.

Table 2. % of Member States using policy measures: by EU region, 2017

POLICY MEASURE	EU	Western Europe	Nordic	East-Central Europe	Southern Europe
	n=23	n=7	n=3	n=9	n=4
DIRECT DETERRENCE MEASURES					
Penalties					
Use of penalties and fines for companies	96%	100%	100%	89%	100%
Use of penalties and fines for purchasers	43%	71%	67%	33%	0%
Use of 'blacklists'	35%	57%	0%	33%	25%
Measures to improve detection					
Data matching and sharing	96%	100%	100%	89%	100%
Workplace inspections	100%	100%	100%	100%	100%
Registration of workers prior to starting work or on first day/week of work	87%	71%	67%	100%	100%
Coordination of strategy on undeclared work across government departments	83%	86%	100%	89%	50%
Coordination of operations across government departments (e.g., joint operations/workplace inspections)	87%	100%	100%	78%	75%
Coordination of data mining and sharing across government departments	83%	100%	100%	78%	50%
Use of peer-to-peer surveillance (e.g. telephone hotlines to inform about abuses/cases)	87%	86%	100%	100%	50%
Certification of business, certifying payments of social contributions and taxes	74%	86%	67%	78%	50%
Use of mandatory ID in the workplace	48%	71%	67%	44%	0%
Supply chain responsibility	43%	71%	0%	44%	25%
DIRECT INCENTIVES					
Supply-side incentives					
Simplify procedures for complying to existing regulations	78%	86%	100%	56%	100%

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Table 2. (*continued*)

POLICY MEASURE	EU n=23	Western Europe n=7	Nordic n=3	East-Central Europe n=9	Southern Europe n=4
Society-wide amnesties	17%	14%	0%	22%	25%
Individual-level amnesties for voluntarily disclosing undeclared activity	17%	29%	0%	11%	25%
'Formalisation' advice to start-ups	65%	86%	100%	56%	25%
'Formalisation' support services to existing businesses	61%	86%	100%	44%	25%
Direct tax incentives (e.g., exemptions, deductions)	65%	71%	67%	67%	50%
Targeted VAT reductions	43%	43%	67%	44%	25%
Provide free record-keeping software to businesses	9%	14%	33%	0%	0%
Provide fact sheets on record-keeping requirements	43%	43%	100%	44%	0%
Provide free advice/training on record-keeping	48%	57%	33%	44%	50%
Demand-side incentives					
Service vouchers	26%	43%	33%	11%	25%
Targeted direct tax incentives (e.g., income tax reduction/subsidy)	35%	43%	67%	33%	0%
Targeted indirect taxes (e.g., VAT reductions)	30%	43%	33%	22%	25%
Initiatives for customers to request receipts (e.g., Lottery for receipts)	26%	14%	33%	33%	25%
INDIRECT MEASURES					
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared	83%	86%	100%	78%	75%
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	52%	29%	67%	67%	50%
Campaigns to inform users of undeclared work of the problems of purchasing goods and services form the undeclared economy	57%	57%	100%	56%	25%
Campaigns to inform users of undeclared work of the benefits of declared work (e.g., informing citizens of the public goods and services they receive with the taxes collected)	61%	43%	100%	67%	50%
Normative appeals to businesses to operate on a declared basis	48%	57%	67%	33%	50%
Measures to improve the degree to which customers of enforcement agencies believe they have been treated in a respectful, impartial and responsible manner	48%	57%	100%	33%	25%
Measures to improve tax/social contributions/ labour law knowledge	78%	86%	100%	67%	75%

Source: author analysis of 2017 European Platform Tackling Undeclared Work survey.

Comparing the policy measures used in different EU regions, Table 2 reveals that although deterrence measures are widely used across all EU regions, the range of measures used is relatively narrower in Southern Europe. Meanwhile, West European and Nordic nations more commonly use supply- and demand-side incentives than Southern and East-Central European nations. This is exemplified by the widespread use of formalisation advice to start-ups and formalisation support services to existing businesses in Western Europe and Nordic nations but such services are far less common in Southern and East-Central Europe. This suggests that Southern and East-Central European Member States might consider using a wider range of supply- and demand-side incentives.

Indirect measures, meanwhile, are very prevalent in Nordic nations but less common in Southern and Western European countries and when used, they tend to focus upon the costs of undeclared work rather than the benefits of declared work, with only 29% of West European Member States for example informing suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent). Modernising enforcement authorities by treating customers in a respectful, impartial and responsible manner is again more common in Western Europe and Nordic nations than in Southern and East-Central Europe.

However, Table 2 only shows whether each policy measure is used. It does not capture which policy measures are deemed most important when tackling undeclared work and are heavily relied upon with greater resources devoted to them, and which measures are used but are not central and heavily resourced. To do this, respondents were asked to rank the most important measures used to tackle undeclared work in their Member State. Table 3 shows that across the EU, deterrence measures in the form of penalties are ranked the most important measure followed by measures to improve detection. This is then followed by supply-side incentives and awareness raising campaigns, whilst demand-side incentives and measures to change the formal institutions are viewed as least important.

There are, however, differences between EU regions. In Nordic nations, detection measures rather than penalties are ranked as most important, and in Southern Europe as equally most important. In stark contrast, detection measures are ranked the least important measures in East-Central Europe. Instead, far greater emphasis in East-Central Europe is put on indirect measures including both awareness raising campaigns to change norms, values and beliefs and the modernisation of formal institutions.

Table 3. Platform members' views of the relative importance attached to different types of policy measures in their Member State: from most dominant (1st) to least dominant (6th)

Type of policy measure	EU	Western Europe	Nordic nations	East-Central Europe	Southern Europe
Deterrence: Penalties	1	1	2	1	1
Deterrence: Measures to improve detection	2	2	1	6	1
Incentives: supply-side	3	4	3	4	4
Incentives: demand-side	5	5	4	5	5
Indirect measures: awareness raising campaigns	4	3	5	3	3
Indirect measures: changing formal institutions	6	6	6	2	6

Source: 2017 European Platform Tackling Undeclared Work survey.

Not only are deterrence measures deemed the most important type of measure to tackle undeclared work but also the most effective across the EU member states. As Table 4 displays, Western European countries and Nordic nations rank penalties as most effective and measures to improve detection 2nd most effective. Southern European countries rank penalties 2nd most effective and measures to improve detection 1st. East-Central European countries rank penalties 3rd, awareness raising campaigns 1st and indirect measures aimed at changing formal institutions 2nd most effective (which are seen by other Member State groups as the least effective).

Table 4. Type of policy measures viewed as most and least effective by Member State: rank order from most effective (1st) to least effective (6th)

Type of policy measure	EU	Western Europe	Nordic nations	East-Central Europe	Southern Europe
Deterrence: Penalties	1	1	1	3	2
Deterrence: Measures to improve detection	2	2	2	4	1
Incentives: supply-side	4	4	2	5	3
Incentives: demand-side	5	4	4	5	5
Indirect measures: awareness raising campaigns	3	3	5	1	4
Indirect measures: changing formal institutions	6	6	6	2	6

Source: 2017 European Platform Tackling Undeclared Work survey.

4. DISCUSSION AND CONCLUSIONS

This paper has evaluated the extent to which European national governments have adopted a holistic approach towards tackling undeclared work. This holistic approach adopts joined-up strategy across the fields of labour, tax and social security law, and uses the full range of policy measures available. To do so, data was collected in a 2017 survey of the official representatives of the national governments on the Platform. The finding is that only a quarter of Member States responding have a 'joined-up' strategic approach with one set of national targets for tackling undeclared work common across the whole of government. Moreover, only a limited range of policy measures are used, with deterrents used in nearly all the member states responding. However, incentives to make declared work beneficial and easier are less commonly used, with supply-side incentives more commonly used than demand-side incentives (which are only used by a quarter to one third of member states responding). Indirect measures to raise awareness about the costs of undeclared work and benefits of declared work are common across the EU, but measures to modernise enforcement authorities in terms of the degree to which customers believe they have been treated in a respectful, impartial and responsible manner are currently pursued by less than half of all member states. Deterrence, moreover, remains the policy approach accorded the most importance, and is also seen as more effective at tackling undeclared work than other measures which seek to transfer such endeavour into the declared realm.

To achieve a holistic approach in more member states, it will be necessary to give priority to pursuing a more coordinated strategic approach. This is because the limited range of policy measures used is likely to be due to the lack of a strategic coordinated

approach in member states. A fragmented departmental 'silos' approach results in enforcement authorities, such as labour inspectorates and tax administrations, continuing to adopt strategic objectives limited to eradicating undeclared work and therefore relying on deterrents. Consequently, despite article 1 of Decision (EU) 2016/3441 establishing the Platform stating that '"tackling", in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work', most enforcement authorities and Ministries remain narrowly focused upon deterring rather than 'preventing' undeclared work, and 'promoting the declaration of declared work'.

To move beyond the current situation where deterrence measures are assumed to be the most important and effective type of policy measure, therefore, and towards a more evidence-based holistic policy approach, it will be necessary for a strategic coordinated approach to be adopted at the national level so that a more holistic approach can be adopted across government. To further enable this to happen, moreover, there will be a need for further research on the impact of individual policy measures. Until now, one of the main reasons that member states view deterrence measures as more important and effective is due to the lack of ex-ante and ex-post evaluation of not only individual policy measures, but also which sequences most effectively facilitate the transformation of undeclared work into declared work. If this paper therefore encourages governments to pursue a more coordinated strategic whole government approach towards tackling undeclared work, then one of its intentions will have been achieved. If it also encourages greater evaluation of the effectiveness of deterrence and other policy measures in tackling undeclared work, then it will have achieved its wider intention.

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