Tackling Undeclared Work: an evaluation of alternative approaches

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Definition of undeclared work

- 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 (European Commission, 2007: 2)
  - Not declared to the public authorities for:
    - Tax purposes
    - Social security purposes
    - Labour law purposes

More Refined Definition:

Socially legitimate paid work that is legal in all respects other than it is not declared to the authorities for tax, social security or labour law purposes

European Platform Tackling Undeclared Work

EU-level forum, bringing together MS and social partners, to enable undeclared work to be tackled more effectively and efficiently.

Priority axes:

- exchange information and good practices.
- learn from each other and together.
- develop knowledge and evidence.
- engage in closer cross-border cooperation and joint activities.

Holistic Approach

"Tackling the complex problem of undeclared work … requires a holistic approach".

- [*Source*: Decision 2016/344, *Establishing a European Platform to Enhance Cooperation in Tackling Undeclared Work*]

A whole government approach joining-up on the level of both strategy and operations the policy fields of labour, tax and social security law, and involving social partners. It uses the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively. The objective is to transform undeclared work into declared work in an effective manner.

Typology of policy approaches

Approach	Method	Measures (examples)
Direct controls: Deterrents	Improved detection	Data matching & sharing Joined up operations
	Increased penalties	Increased penalties & sanctions
Direct controls: incentives	Preventative	Simplify compliance; tax incentives; support & advice
	Curative	Supply-side (e.g., amnesties; voluntary disclosure; smooth transition to formality) Demand-side (e.g., service vouchers; tax incentives)
Indirect controls	Fostering culture of commitment/alignment of citizens with state	Change norms, values and beliefs
		Change formal institutions

Direct policy approach and measures: rational economic actor approach

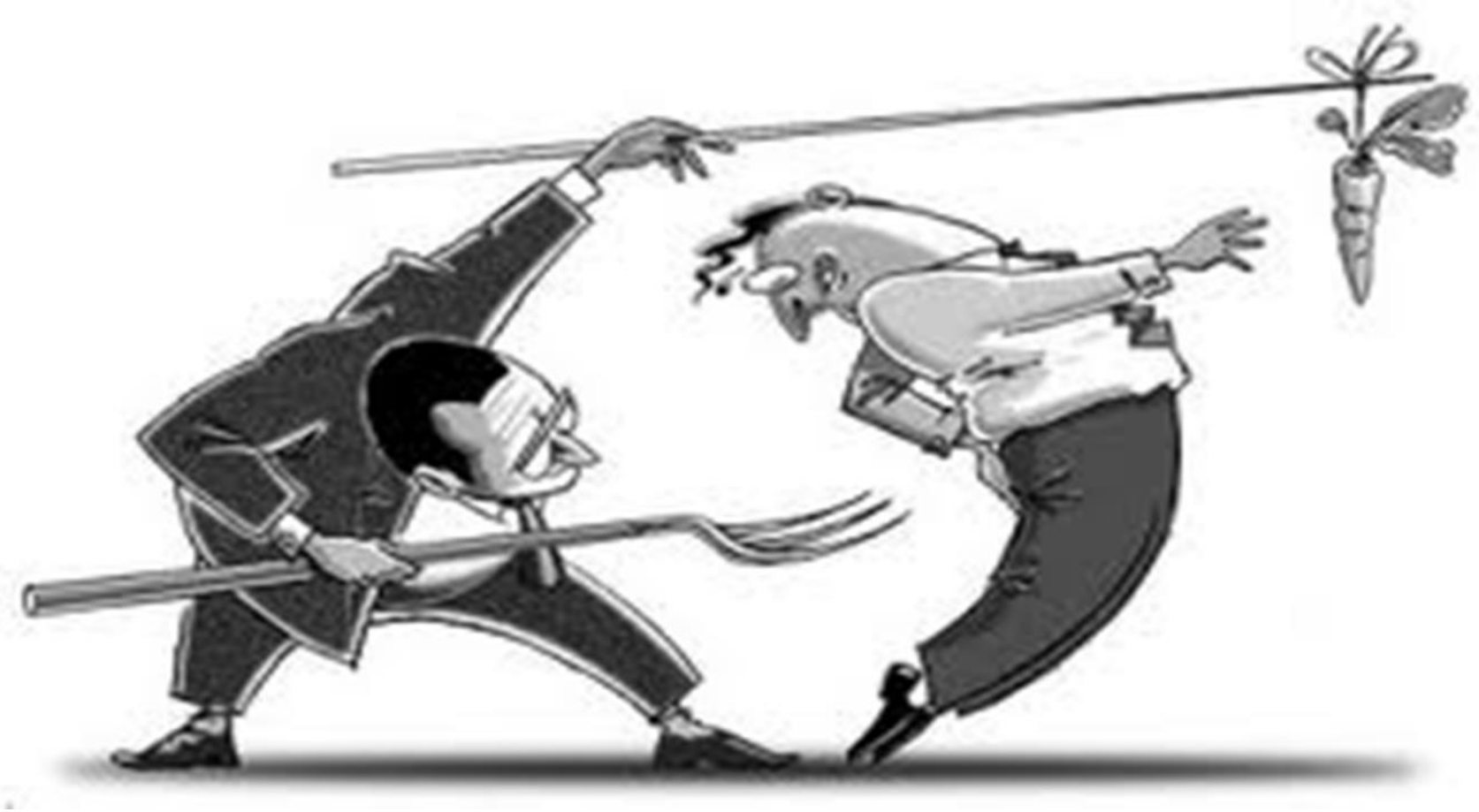
Rational economic actor: origins

- Current focus on detecting and punishing non-compliance has its origins in classic utilitarian theory.
- Engage in undeclared work when the perceived benefits outweigh the perceived costs.
- Non-compliant viewed as rational actors to be deterred by making the costs outweigh the benefits.

Sticks: negative reinforcement

Carrots: positive reinforcement

Combining sticks and carrots



Indirect policy approach and measures: social actor approach

Social actor: origins

- Alternative is to view non-compliant as a product of their ‘social environment’ (social actors).
- Argues that the breakdown of the social (tax) contract (cf. Rousseau) between the state and its citizens is the cause of non-compliance.
- In 1950s, popularised by the German ‘Cologne school of tax psychology’.

Institutional theory

- Institutions are ‘the rules of the game’; prescribed norms regarding the acceptability of activities
- Formal institutions – laws and regulations (state morality)
- Informal institutions – norms, values & beliefs of citizens (civic morality)

- Undeclared work arises when the formal and informal institutions are not aligned
- To tackle undeclared work, need to align the formal and informal institutions by:
  - Changing the informal institutions
  - Changing the formal institutions

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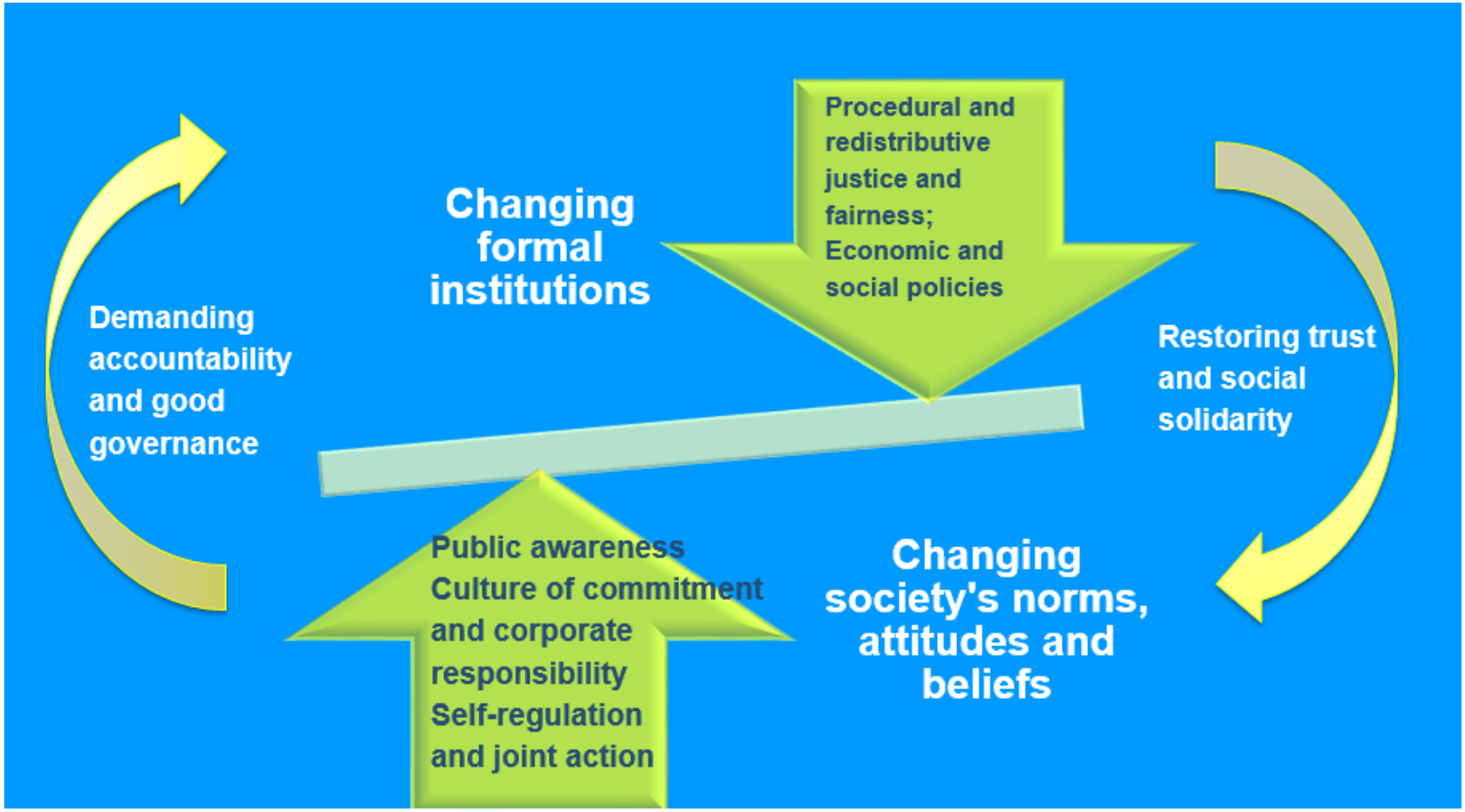
Changing citizens' norms, values & beliefs

Changing the formal institutions

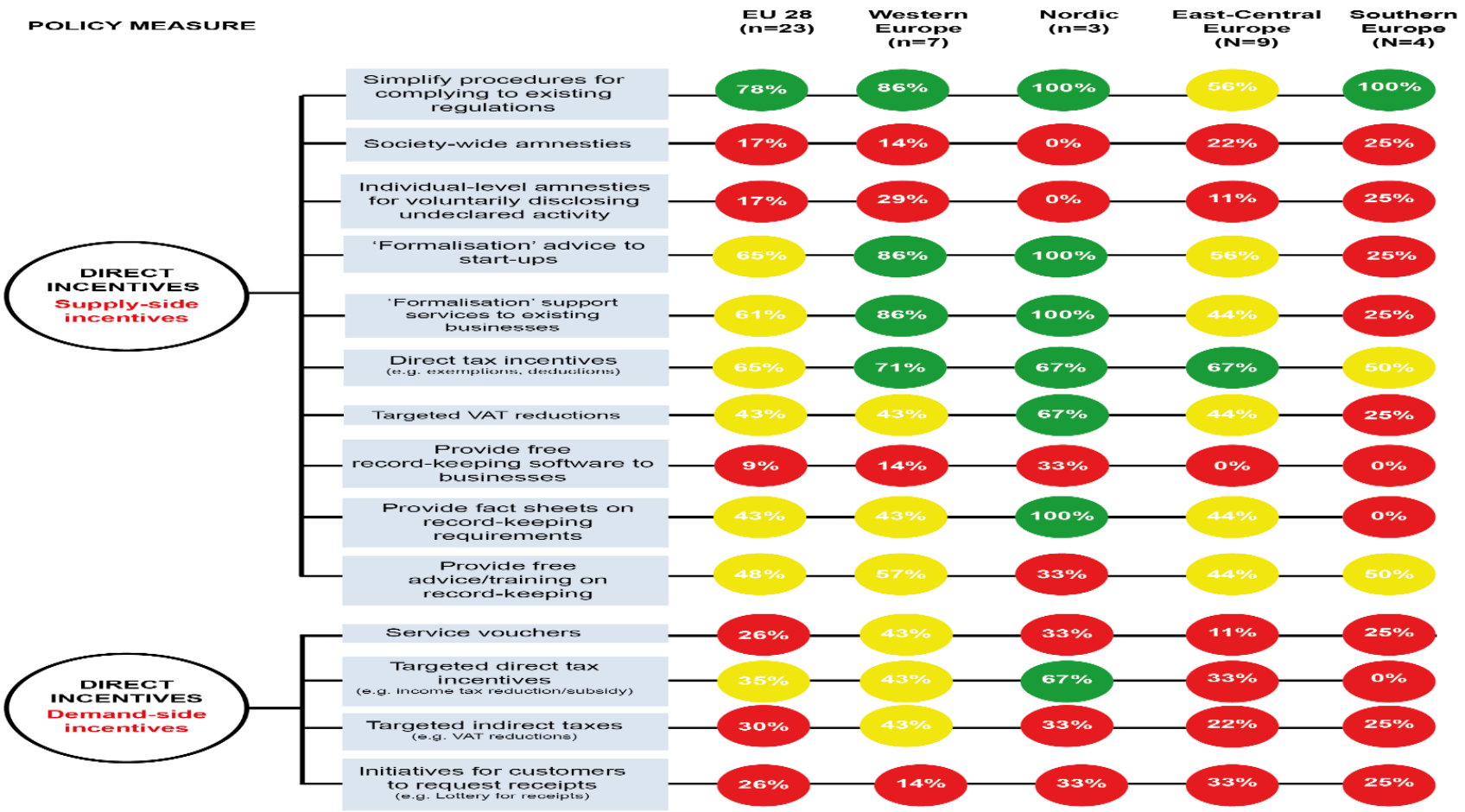
Developing symmetry between formal and informal institutions



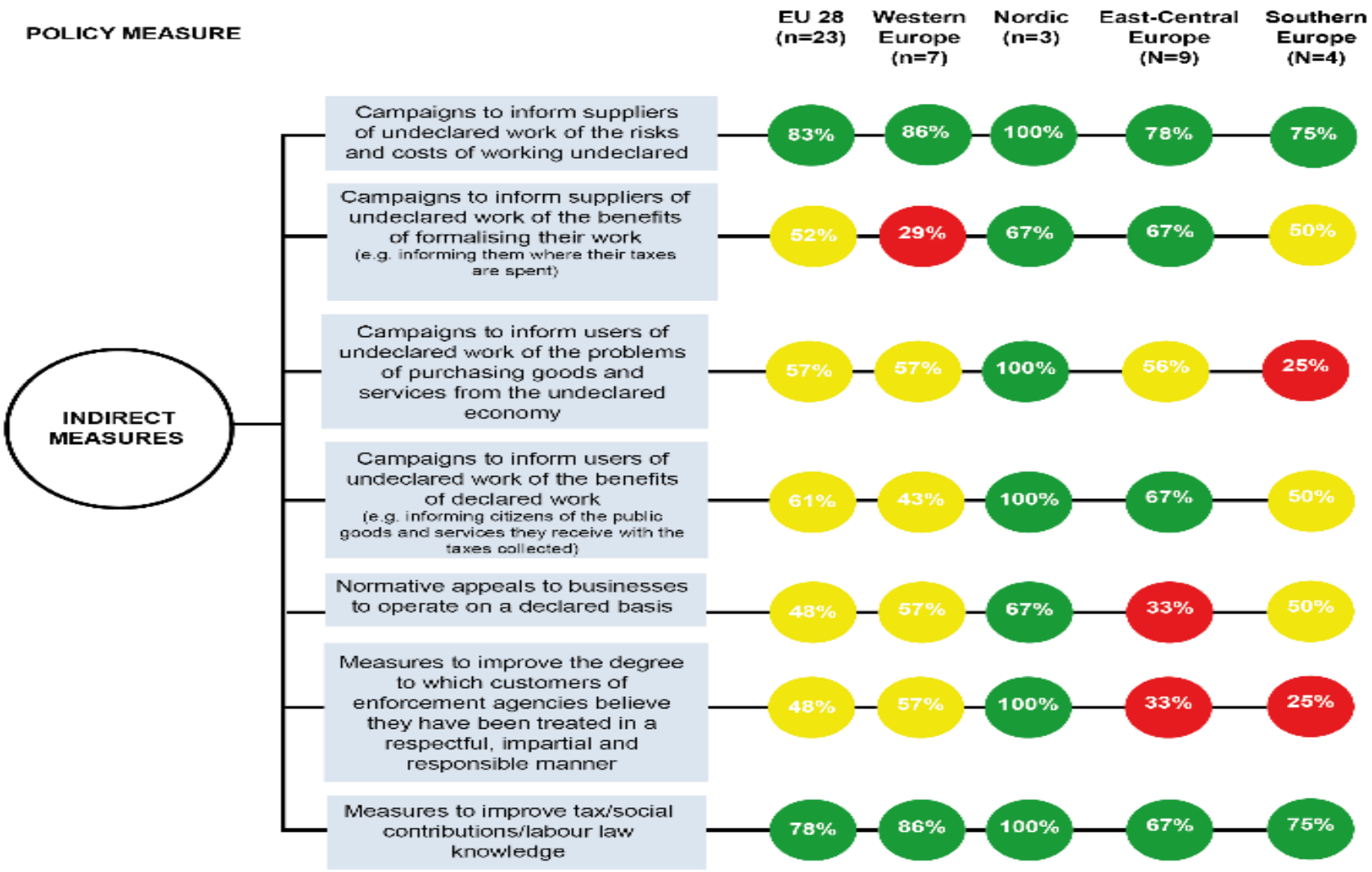
Current policy approach in Europe

Detecting and punishing non-compliance heavily used

Improving benefits to alter cost/benefit ratio less used



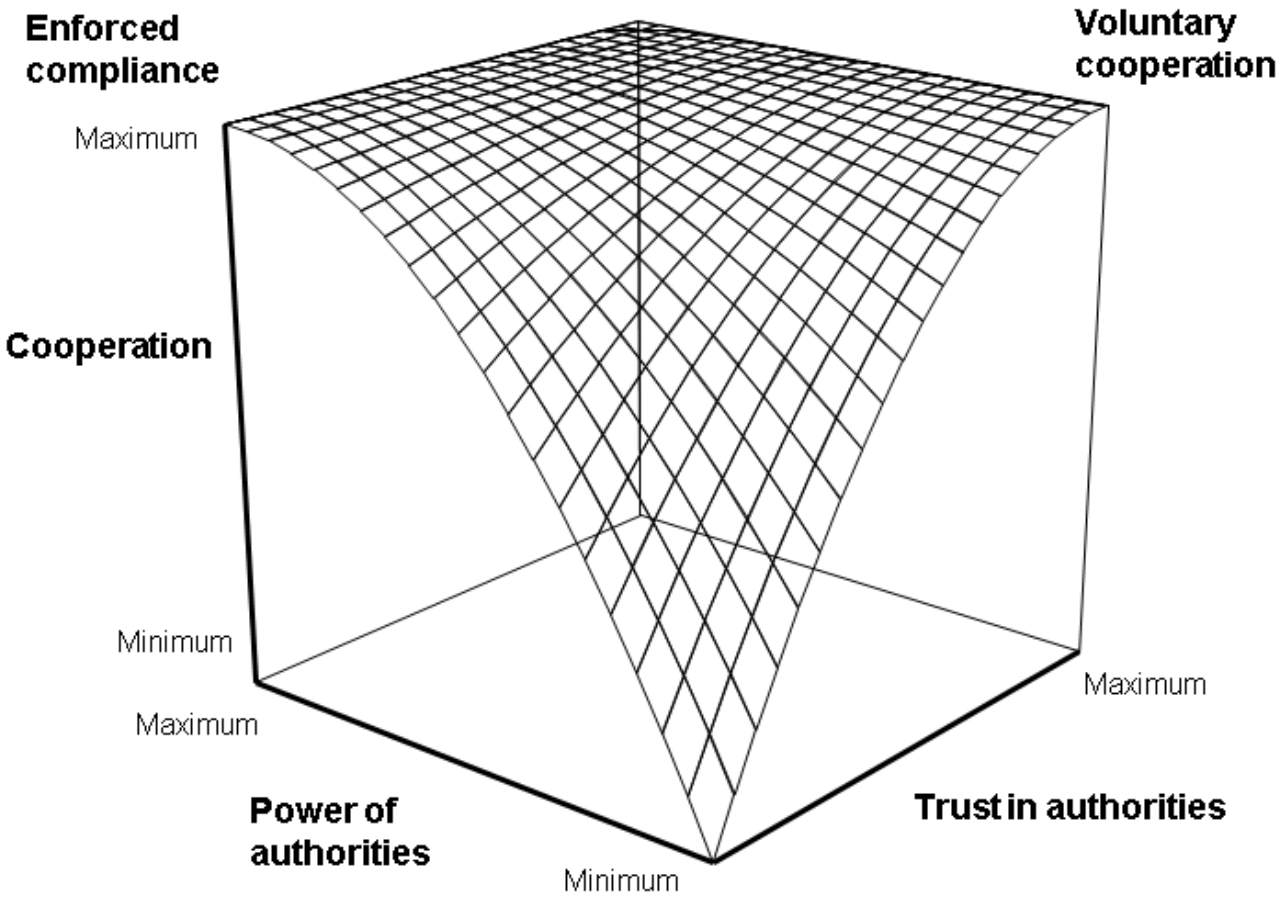
Social contract approach starting to be used



Present-day EU approach

- Re-emergence of ‘social actor’/social contract approach (e.g., lack of trust in formal institutions, education and awareness raising campaigns)
- Recognising that they are not mutually exclusive
- Growing focus upon combining both approaches

Slippery slope framework



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Platform full policy operationalisation model

- The most effective approach is to concurrently implement direct measures (e.g., workplace inspections) to enhance the power of authorities AND indirect measures (e.g., awareness raising) to enhance trust in authorities.
- It is based on evidence that a high trust high power approach is the most effective in tackling undeclared work.

Thank you for listening