European Foundation for the Improvement of Living and Working Conditions

Measures to tackle undeclared work in the European Union

Executive summary

Introduction

Across the 27 Member States of the European Union (EU27) and Norway, considerable effort is being invested in developing and testing policy measures that aim to tackle undeclared work. Although a number of previous attempts have been made to describe the array of measures used in different countries, one feature found to be lacking is a 'knowledge bank', which specifically identifies measures that have been proven to be most effective. In an attempt to bridge this knowledge gap, the European Foundation for the Improvement of Living and Working Conditions (Eurofound) embarked on a project to develop such a resource by commissioning research that would review the effectiveness of policy measures, as well as assess the transferability of such measures.

A report published in 2008 took the first step towards developing such a resource by commissioning a review of the effectiveness of policy measures adopted in five countries: Belgium, Denmark, Italy, Poland and the United Kingdom. The present report expands the scope of the original study by examing policy measures in 28 countries (the EU Member States and Norway). It also presents a new chapter on the nature and extent of undeclared work in the EU27, based on the findings of the 2007 Eurobarometer survey. The result of this initiative is a greatly expanded knowledge bank, which reviews up to three policy measures in each of the 28 countries covered. It therefore represents the first important step in the creation of a comprehensive learning hub or resource bank where social partners can pool and share knowledge on how to tackle undeclared work, review evaluations of policy initiatives, and explore their feasibility and transferability across other sectors, countries and occupations.

Policy context

As undeclared work affects all EU Member States, it is one of the issues of common concern in the employment field and can have a significant impact on public finances, owing to the drain it represents for tax and social contributions. Undeclared work also has a negative impact on individuals as regards social security cover. In order to tackle undeclared work in the EU27 as a whole, as well as in individual countries, it is important to reduce the economic incentives for engaging in undeclared work and to change attitudes. A greater use of both 'carrot' alongside 'stick' type measures has been encouraged by the European Commission's second Communication on undeclared work, *Stepping up the fight against undeclared work*, in 2007. The Commission recognises that although deterrent, curative and preventative measures are being adopted, few countries are pursuing measures to encourage tax morality; therefore, they recommend greater use of awareness-raising initiatives to change attitudes in this regard.

Given the greater experimentation since the turn of the millennium with a variety of different policy approaches and measures, it has become ever more crucial for the social partners to learn from each another about what works and what does not. However, while various policy actions have been taken across Member States, there is an apparent lack of evaluation of results and pooling of expertise. The problem arising from the lack of coordinated mutual learning has also been highlighted in a 2008 European Parliament resolution calling on Member States to step up the fight to combat undeclared work. The resolution called on the Commission to consider establishing a database 'on the various approaches and measures implemented nationally by each Member State, to assess their feasibility and transferability to other sectors and areas of work in other Member States'.

Key findings

Until now, informed discussion about how to tackle undeclared work both in the EU27, as well as in individual countries, has been severely hampered by a lack of understanding of the nature of undeclared work. The study has revealed that undeclared work is not the same everywhere – for instance, in terms of the type of undeclared work, its sectoral distribution and the motives for engaging in such work. Therefore, a policy measure which is important in one country or region for tackling undeclared work may be less effective in another. Thus, a 'one size fits all' approach is not appropriate for tackling undeclared work; instead, policy approaches and measures will need to be tailored to fit the particular circumstances that prevail in different countries or regions.

In order to understand the range of practices currently employed in individual countries, a typology of the potential policy approaches and measures available has been used. This distinguishes between two broad policy approaches: a deterrence approach, which seeks to detect and punish non-compliance and an approach focused on positively encouraging compliant behaviour. The key finding is that across the countries surveyed, the deterrence approach has traditionally been adopted in an effort to increase the actual or perceived likelihood of detection and penalties. However, in more recent years, particularly since Employment Policy Guideline No. 9 was published in 2003, there has been a noticeable increase in the use of a more enabling approach, with measures seeking to facilitate formalisation rather than punish informal employment. These include: preventive measures to stop non-compliance from the start; incentives encouraging undeclared workers to transfer to the declared realm; and measures encouraging an allegiance to tax morality. Notwithstanding these measures, the take-up of initiatives to engender commitment to 'tax morality' has been relatively slow to date.

An evaluation of the wide array of policy approaches and measures being pursued across the EU27 and Norway gives an insight into best practice and presents some practical examples in this field. The initiatives adopted span deterrence measures, prevention measures, 'curative' measures seeking to legitimise undeclared work, and measures aiming to change attitudes and engender commitment to the payment of tax. A key finding is that good practice is not simply about choosing the individual policy measures that are effective at tackling undeclared work, but also about considering the most effective way of putting these policy measures together in various combinations and sequences. Thus, evaluating which combinations and sequences of measures are effective and transferable should be an integral part of the review process.

Policy pointers

- The evaluations of specific measures provide a solid evidence base for countries to decide whether to test an initiative in their own country.
- More research is needed on the effectiveness of specific policy measures at tackling undeclared work as well as their transferability.
- Greater understanding is required of what combinations and sequences of policy measures are most effective and appropriate in various contexts.
- The study shows that it has been more the exception than the rule for countries to learn from the experiences of other countries before implementing policy measures. Therefore, attempts to actively share experiences and learn from others need to be encouraged to implement a cross-country, interregional approach.
- There is also a need to broaden the knowledge on policy measures by gathering data from a wider array of countries, including countries in Australasia, North America and the global 'South'.
- Wider use of awareness-raising initiatives is needed to change attitudes, in particular with a view to encouraging greater tax morality.

Further information

The report, *Measures to tackle undeclared work in the European Union,* is available at http://www.eurofound.europa.eu/publications/htmlfiles/ef0925.htm.The accompanying 'knowledge bank' of case studies on undeclared work is also available online at http://www.eurofound.europa.eu/areas/labourmarket/tackling/search.php.

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