



# EIRO thematic feature

## Industrial relations and undeclared work

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# Introduction

By its very nature, undeclared work is difficult to evaluate, and therefore it is not easy to eradicate the phenomenon. Research on this topic has been carried out in only a few countries and statistical data is scarce and unreliable. Nevertheless, it is a significant phenomenon, and evidence that a proportion of work performed in the EU does not comply with existing labour and fiscal laws has made undeclared work a topical issue in relation to economic and employment policies.

One reason for the complexity of this topic is the level of uncertainty regarding the terminology and the variety of definitions involved in relation to undeclared work. At international level, the terms ‘illegal employment’, ‘hidden employment’ and ‘undeclared work’ are used to characterise part of the ‘informal economy’. In the 1980s, the International Labour Organisation (ILO)<sup>1</sup> defined illegal employment as ‘employment which does not comply with the requirements of national laws, regulations and practice’. The OECD<sup>2</sup> meanwhile proposes a definition of hidden employment as ‘that which although not illegal in itself, has not been declared to one or more administrative authorities’. This definition seems to suggest that not all concealment can be qualified as illegal. At European level, a similar definition is used for undeclared work, which includes ‘any paid activities that are lawful as regards their nature but not declared to public authorities’.<sup>3</sup> More recently, the ILO promoted the concept of the informal economy,<sup>4</sup> as workers and employers who share one important characteristic: ‘they are not recognised or protected under the legal and regulatory Frameworks...[and their situations] are characterised by a high degree of vulnerability’.

Given its principal characteristic – being hidden – the phenomenon of undeclared work is difficult to quantify. Studies estimate the size of the informal economy as being, on average, between 7% and 16% of the EU’s GDP. Various research studies have been considering the quantitative aspect of undeclared work, assessing indirect and direct methods of evaluation. The Commission has launched a number of studies on the topic, addressing issues such as measuring undeclared work, the latter in collaboration with Eurostat.<sup>5</sup>

Besides definition problems, there is also the issue of the controversial nature of the topic, given that sensitive issues, such as immigration and unemployment benefits, are liable to come under greater scrutiny in the search for answers.

Moreover, with further enlargement of the EU, the topic of undeclared work has fuelled widespread public debate in the old Member States. Most of the former EU15 countries<sup>6</sup> have adopted measures to limit the European right of free mobility of workers, considering that a transition period is needed to integrate workers from the new Member States. In this debate, arguments on immigration, cheap labour and undeclared work have been mixed.

In contrast, most of the central and eastern European (CEE) countries show a low level of awareness of this phenomenon. However, it appears that many employees in CEE countries perform work that does not comply with the existing labour and fiscal legislation.

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<sup>1</sup> International Labour Organisation, *The Employment Policy (Supplementary Provisions) Recommendation*, 1984 (No. 169).

<sup>2</sup> Organisation for Economic Cooperation and Development, *OECD Employment Outlook*, 2004.

<sup>3</sup> European Commission, *Communication of the Commission on undeclared work*, COM (98) 219, Brussels, 1998, p. 5, available at: [http://europa.eu.int/comm/employment\\_social/employment\\_analysis/work/com98\\_219\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_analysis/work/com98_219_en.pdf)

<sup>4</sup> International Labour Conference, *Decent work and the informal economy*, 90th Session 2002, Report VI, International Labour Office, Geneva II, first published 2002.

<sup>5</sup> See [http://europa.eu.int/comm/employment\\_social/employment\\_analysis/work/undecl\\_work\\_final\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_analysis/work/undecl_work_final_en.pdf)

<sup>6</sup> Except for the UK, Ireland and Sweden

Since the early 1990s, the question of undeclared work has been considered at European level, specifically in the White Paper on Growth, Competitiveness and Employment (1993). In 2003, the Council of the European Union adopted a Resolution on undeclared work<sup>7</sup> calling on Member States to address this issue and to work together to improve the situation. The 2004 EU employment guidelines<sup>8</sup> include recommendations to the Member States to transform undeclared work into regular employment, by developing and implementing broad actions and measures to eliminate such work. They recommend that such measures should also encourage simplification of the business environment, a removal of disincentives and the creation of more appropriate incentives in the tax and benefit system, as well as improved law enforcement and the application of sanctions.

As several parties have a stake in engaging and using undeclared work, this phenomenon cannot be addressed without the involvement of all relevant parties. According to a 1998 European Commission Communication,<sup>9</sup> economic reasons provide the main motivation for employers, employees and the self-employed to participate in the undeclared economy. For example, working in the informal economy offers opportunities for increasing earnings and evading taxation on income and social contributions. For employers, the primary incentive is to reduce costs.

The role of the social partners is particularly important in the fight against undeclared work, as the 2003 Council Resolution on undeclared work<sup>10</sup> has outlined. Social partners at European level are invited to address this issue within the context of their current multi-annual work programme. Indeed, the partners plan to hold a seminar on the issue in 2005, with the aim of reaching joint agreement and of dealing with it in the context of the sectoral social dialogue committees. The Council also calls on the social partners at national level to promote the declaration of economic activity, to engage in awareness-raising and to promote the simplification of the business environment, particularly in relation to small- and medium-sized enterprises (SMEs).

The aim of this overview, which is based on the national contributions of 23 European countries<sup>11</sup>, is to create a picture of undeclared work in Europe, taking into account the regulatory framework, as well as the impacts, role and actions of public authorities and social partners. Thus, the focus is on a qualitative rather than a quantitative approach to the phenomenon of undeclared work.

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<sup>7</sup> Council of the European Union, *Resolution on transforming undeclared work into regular employment*, Official Journal of the European Union, C260, October 2003, available at:

[http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c\\_260/c\\_26020031029en00010003.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c_260/c_26020031029en00010003.pdf)

<sup>8</sup> Available at [http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l\\_197/l\\_19720030805en00130021.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_197/l_19720030805en00130021.pdf)

<sup>9</sup> European Commission, *Communication on undeclared work*, COM (98) 219, Brussels, 1998, available at:

[http://europa.eu.int/comm/employment\\_social/employment\\_analysis/work/com98\\_219\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_analysis/work/com98_219_en.pdf)

<sup>10</sup> Council of the European Union, *Resolution on transforming undeclared work into regular employment*, Official Journal of the European Union, C260, October 2003, available at:

[http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c\\_260/c\\_26020031029en00010003.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c_260/c_26020031029en00010003.pdf)

<sup>11</sup> The 23 countries are: Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, the Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, Sweden, Romania, the UK. National thematic features on 'Industrial relations and undeclared work', published on the EIRO website in 2004.

# National positions on undeclared work

Significantly, national legislations do not actively deal with the issue of undeclared work. One exception is the case of Germany, where it adopted an Act to combat undeclared work (Gesetz zur Bekämpfung von Schwarzarbeit) in 2002.

Table 1: *Legislation applying to undeclared work*

<b>Austria</b>	<ul style="list-style-type: none"> <li>• Undeclared working time (tax fraud)</li> <li>• Unlawful foreign employment</li> <li>• Paid work carried out beyond a threshold of simple 'neighbourly' help</li> <li>• Not considered as a criminal offence</li> </ul>
<b>Belgium</b>	Any work not declared to tax and social security authorities
<b>Bulgaria</b>	Statistically hidden activities ('unobserved work')
<b>Cyprus</b>	Any work not declared to tax and social security authorities
<b>Denmark</b>	Any work not declared to tax authorities
<b>Estonia</b>	Any work not declared to tax authorities
<b>Finland</b>	<ul style="list-style-type: none"> <li>• Any work not declared to tax authorities</li> <li>• Any form of 'exploitative' work discrimination (employer taking advantage of employees' financial or other distress)</li> </ul>
<b>France</b>	Any type of economic, social and public order fraud covered by the Labour Code
<b>Germany</b>	<ul style="list-style-type: none"> <li>• Act to combat undeclared work</li> <li>• Any work not declared to tax and social security authorities</li> <li>• Unlawful foreign employment</li> </ul>
<b>Greece</b>	Any work not declared to social security authorities
<b>Hungary</b>	Any work not declared to tax and social security authorities
<b>Ireland</b>	Any work not declared to tax and social security authorities
<b>Italy</b>	Any work not declared to tax and social security authorities
<b>Latvia</b>	Any work performed without an employment contract
<b>Netherlands</b>	<ul style="list-style-type: none"> <li>• Unlawful foreign employment</li> <li>• Any work not declared to tax and social security authorities</li> </ul>
<b>Norway</b>	Any work not declared to tax and social security authorities
<b>Poland</b>	<ul style="list-style-type: none"> <li>• Any work performed without an employment contract</li> <li>• Any work not declared to tax and social security authorities</li> </ul>
<b>Romania</b>	Any work not declared to tax authorities
<b>Slovakia</b>	Any work not declared to tax and social security authorities
<b>Slovenia</b>	<ul style="list-style-type: none"> <li>• Any business that is not registered in the register of companies</li> <li>• Any work that is not declared to the health insurance institute</li> </ul>
<b>Spain</b>	<ul style="list-style-type: none"> <li>• Activity while receiving unemployment benefits</li> <li>• Violation of the tax and social security provisions</li> </ul>
<b>Sweden</b>	<ul style="list-style-type: none"> <li>• Remuneration that the workers do not declare to the tax authorities</li> <li>• Business income that is not declared to the tax authorities</li> </ul>
<b>UK</b>	<ul style="list-style-type: none"> <li>• Activity not declared to the tax authorities</li> <li>• Activity that evades the minimum wage rules</li> <li>• Activity undeclared while in receipt of state unemployment benefits</li> <li>• Child labour</li> <li>• Work by those not entitled to be in the country</li> </ul>

Usually, undeclared work, also referred to as ‘illegal employment’, ‘illicit work’ or ‘moonlighting’, is negatively defined as infringement of tax and social security provisions. Austria, however, reports that it does not consider undeclared work to be a criminal offence. Finland and France, on the other hand, take a wider view of the phenomenon, in so far as infringements to labour code provisions are taken into account. Moreover, Finland includes a paragraph dealing with ‘exploitative’ work discrimination in its penal code, according to which sanctions apply if employers take advantage of their employees’ financial or other distress, position of dependence, or lack of understanding. More generally, the legal provisions applying to undeclared work reflect specific national problems. Whereas legislation applying to undeclared work in Austria, Germany and the Netherlands is encompassed in its immigration laws, the UK legislation addresses, among other things, the issue of child labour.

# Nature and extent of undeclared work

One reason why it is difficult to define undeclared work is due to the variety of forms and practices it covers, such as undeclared hours of work, trafficking of foreign labour, unlawful lending of staff, bogus self-employment, multiple employment exceeding the statutory thresholds set for specific occupations and jobs, benefit fraud (pension, sickness, unemployment), the fraudulent use of foreign companies, ‘envelope wages’, etc.

## Sectors

Unsurprisingly, in all the countries examined, the bulk of undeclared work takes place in agriculture, construction, hotels and restaurants and other service sectors. Beyond these common features, national specificities can be observed, reflecting the relative importance of sectors in a given national economy. Textiles (France, Romania, Spain), entertainment (France), shipbuilding (Finland) and fish-processing (the Netherlands) are other sectors that appear to be affected by undeclared work. One common feature of all these sectors is that they are labour intensive. Maintaining lower costs is a key priority in such sectors, which have a high share of low-paid jobs that are often of a seasonal nature and are carried out by unskilled labour. Moreover, these sectors are characterised by the presence of a significant proportion of SMEs.

Table 2: *Sectors most likely to be affected by undeclared work*

<b>Austria</b>	Construction, hotels and restaurants, entertainment, private services, transport
<b>Belgium</b>	Construction, hotels and restaurants, cleaning, agriculture, domestic services
<b>Cyprus</b>	Construction, hotels and restaurants, services
<b>Denmark</b>	Hotels and restaurants, construction, cleaning, agriculture, services
<b>Estonia</b>	Construction, transport, services
<b>Finland</b>	Construction, hotels and restaurants, cleaning, shipyard industry, transport
<b>France</b>	Construction, hotels and restaurants, agriculture, clothing industry, entertainment
<b>Germany</b>	Construction, hotels and restaurant, transport, cleaning
<b>Greece</b>	Construction, retail, hotels and restaurants
<b>Hungary</b>	Agriculture, construction, services
<b>Ireland</b>	Construction, hotels and restaurants, agriculture
<b>Italy</b>	Construction, agriculture, hotels and restaurants, domestic services
<b>Latvia</b>	Health care, construction, agriculture, hotels and restaurants, retail
<b>Netherlands</b>	Construction, agriculture, hotels and restaurants, cleaning, meat- and fish-processing
<b>Norway</b>	Construction, transport, hotels and restaurants
<b>Poland</b>	Commerce, hotels and restaurants, construction, real estate
<b>Romania</b>	Agriculture, construction, food industry, textiles
<b>Slovakia</b>	Construction, retail, hotels and restaurants, agriculture
<b>Slovenia</b>	Construction, transport, retail, cleaning, hotels and restaurants
<b>Spain</b>	Textile and footwear industry, agriculture, construction, hotels and restaurants, cleaning
<b>Sweden</b>	Cleaning, construction, transport, restaurants, hairdressers
<b>UK</b>	Agriculture, food processing, construction, service sectors

### Categories of workers

The majority of workers involved in undeclared activities belong to the most vulnerable categories of the labour market: unemployed people, the self-employed, seasonal workers, students, children and migrant workers.

Foreign labour is a traditional source of undeclared work, especially in agriculture and construction. However, the service sector is also beginning to attract increasing numbers of migrant workers. Since the fall of the Berlin Wall, a considerable number of workers from the former Soviet countries work in western Europe on a regular, but also illegal, basis. CEE countries face an even more complex situation, in so far as they are both recipients and suppliers of foreign labour. For example, immigrants from the less developed post-Soviet countries come to work, often illegally, in CEE countries, while labour migrants from Poland, for instance, look for jobs in the neighbouring western European countries, like Austria, Germany and Greece.

The employment of minors appears to be another problem in relation to undeclared work. Interestingly, reports from Italy and the UK highlight the significance of child labour as a form of undeclared work. According to a 2001 survey published by the Trade Union Congress (TUC), nearly half a million (480,000) schoolchildren are working illegally in England and Wales. In Italy, the number of children and young people working undeclared varies according to the sources. A recent survey by Istat has estimated the number of economically active children to be at 144,000. However, according to another recent survey by the Institute of Economic and Social Research (Istituto di Ricerche Economiche e Sociali, Ires), 400,000 children are working illegally, some of whom are illegal immigrants.

It should also be highlighted that undeclared work involves men as well as women. Even if the gender dimension of the phenomenon has not been explored, it can be assumed that undeclared work for men will mainly take place in construction and transport; for women, undeclared work will mainly occur in services, including medical services, cleaning and domestic services, along with some manufacturing industries, like textiles and leather production.

### Estimated size

As already mentioned, it is only possible to speculate on the quantitative extent of undeclared work. As a result, huge discrepancies in measurements appear according to the various sources and methods used<sup>12</sup> both between countries and within countries. Discrepancies observed in measuring undeclared work also depend on whether it is deemed to be a result of 'social fraud' and tax evasion, or whether it arises, more generally, from growth in various sectors of the informal economy.

Despite all the uncertainties about the data, some interesting comments can be made. With an undeclared work rate of 5% of their GDP, Finland, Sweden and the UK appear to have the lowest rate of undeclared work among European countries, while Austria and Ireland are still below the EU average of 11%–16% of GDP. In contrast, Belgium, France, Germany, Italy, Romania and Slovakia are above the EU average, while Bulgaria, Greece, Hungary and Slovenia have the highest rates (25%–40% of GDP).

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<sup>12</sup> See European Commission, *Undeclared work in an enlarged Union: An analysis of undeclared work*, DG for Employment and Social Affairs, May 2004, available at:

[http://europa.eu.int/comm/employment\\_social/employment\\_analysis/work/undecl\\_work\\_final\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_analysis/work/undecl_work_final_en.pdf)

Table 3: *Estimated size of undeclared work in GDP %*

	Data reported to EIRO			Data reported to the Commission		
	Estimated size	Year	Source	Size	Year	Source
<b>Austria</b>	10%	2003	University of Linz	1.5%	1995	Statistics Austria
<b>Belgium</b>	20%	2004	Government	3%–4%	1999	National Bank of Belgium
<b>Bulgaria</b>	25%		Centre for the Study of Democracy (CSD)	22% 30%	2003	National Statistical Institute, Institute for Market Economy
<b>Cyprus</b>	Not indicated			4.2%	2003	Greek Cypriot Administration
<b>Denmark</b>	Not indicated			5.5%	2001	Rockwool Foundation
<b>Estonia</b>	Not indicated			8%–9%	2001	Eurostat
<b>Finland</b>	4.2%	Not indicated	Not indicated	4.2%	1992	Finnish Ministry of Finance
<b>France</b>	10%–20%	2003	Agence Centrale des Organisations de Sécurité Sociale	4%–6.5%	1998	Rockwool Foundation
<b>Germany</b>	17%	2004	Government	6%	2001	Rockwool Foundation
<b>Greece</b>	25%–40%	Not indicated	Not indicated	Over 20%	1998	Unconfirmed figures in press releases
<b>Hungary</b>	25%–35%	2004	Ecostat	18%	1998	Borboly
<b>Ireland</b>	5%–10%	1998	Not indicated	Not available		
<b>Italy</b>	17%	2000	Not indicated	16%–17%	2001	ISTAT
<b>Latvia</b>	Not indicated			18%	2000	Latvian Bureau of Statistics
<b>Netherlands</b>	13.8%	2002	EU	2%	1995	CBS
<b>Norway</b>	Not indicated					
<b>Poland</b>	27.4%	2000	Institute for the Study of Labour (IZA)	14%	2003	Central Statistical Office
<b>Romania</b>	20%	2003	Alliance for Economic Development	21%	2000	National Institute for Statistics
<b>Slovakia</b>	18%	2003	Friedrich-Ebert-Stiftung	13%–15%	2000	Statistical Office Estonia
<b>Slovenia</b>	17%–25%	1997	Governmental Commission for discovering and preventing undeclared work	17%	2003	Government
<b>Spain</b>	Not available			Not available		
<b>Sweden</b>	4.6%	1998	National Audit Office	3%	1997	Rockwool Foundation
<b>UK</b>	1.5%	2003	Data reported in the NAP	2%	2000	Rockwool Foundation

Sources: *European Commission report CE-V/1-04-021-EN-C; EIRO Thematic feature, Industrial Relations and undeclared work, available at: <http://www.eiro.eurofound.eu.int/thematicfeature8.html>*



# Factors contributing to the rise in undeclared work

## Economic and institutional factors

One factor that accounts for differences in the extent of undeclared work between countries is the economic context. In western Europe, the economic crisis has led to an increase in undeclared work, whereas in Estonia, the share of undeclared work has dropped with improvements in the average standard of living. In the same way, geographic disparities in undeclared work within a country reflect economic inequalities. In Italy, for instance, undeclared work is particularly widespread in the south, where it accounts for 25% of GDP.

A key factor contributing to the rise in undeclared work is often the potential cost savings that it allows to employers, as well as to workers, such as savings on tax and social security contributions. Thus, both employers and workers share a short-term interest in not declaring economic activities.

In addition, new trends in work organisation and a liberalisation of employment conditions are likely to lead to an increase in undeclared work. These generate new opportunities for more flexible types of work arrangements, such as the use of part-time contracts by full-time employees, illegal employment at the end of a subcontracting period, or combinations of various forms of temporary employment, which combine periods of declared and undeclared employment. Furthermore, employers often attribute tax burdens, alongside rigid bureaucracy, as reasons for influencing an increase in undeclared work.

These factors, among others – such as inadequate frequency and extent of controls of the implementation of tax, labour and social security provisions – appear to create opportunities for the development of undeclared work.

## Societal factors

Beyond institutional factors, societal factors also appear to influence the increase in undeclared work. In some countries (CEE countries, Greece), regions (southern Italy) and sectors (construction, agriculture), undeclared work constitutes a structural feature of the national, regional or sectoral economy and employment. In some cases, therefore, undeclared work is almost an accepted and approved social practice. It is also related to the level of trust in and reliability of the government. A negative perception of the government, lack of trust in public institutions, and a lack of understanding about the link between paid taxes and receipt of social services, are particularly significant factors. Post-Soviet countries, in particular, state that lack of identification with the government, or with society as a whole, is one of the main explanations for a rise in undeclared work.<sup>13</sup>

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<sup>13</sup> See European Commission, *Undeclared work in an enlarged Union: An analysis of undeclared work*, DG for Employment and Social Affairs, May 2004, available at:

[http://europa.eu.int/comm/employment\\_social/employment\\_analysis/work/undecl\\_work\\_final\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_analysis/work/undecl_work_final_en.pdf)

# Measures taken to address the problem

Due to the negative effects of undeclared work on the economy, as well as on working conditions, governments, employer organisations and trade unions are trying to address the problem through various measures.

Overall, the variety of measures reflects the different national contexts, which not only encompass varying definitions of undeclared work, but also differences in relation to awareness of the phenomenon and of its root causes. Despite national differences, two particular trends can be identified in relation to the measures implemented: one set of measures is aimed at transforming undeclared activities into formal work policies, the other at controlling undeclared work.

## Initiatives to encourage regular employment

Current EU employment guidelines call on Member States to transform undeclared work into regular employment, by developing and implementing broad actions and measures to eliminate such work. These actions should combine simplification of the business environment, removal of disincentives and the creation of appropriate incentives in the tax and benefit system, as well as an improvement in law enforcement and the implementation of sanctions.

The complex interplay between these various factors is a measure of how difficult it is to properly address the problem of undeclared work. It reflects the large scope of measures taken, as well as the variety of actors involved, in combating undeclared work.

Much emphasis has been put on measures aimed at liberalising the labour market and at reducing the administrative burden for employers. In addition, control has been tightened in most countries in relation to undeclared work, and new controlling bodies have been set up, or old ones strengthened. In a few countries, new institutional arrangements have been developed to help deter the growth of undeclared work in certain economic sectors.

There has also been an emphasis placed on measures designed to remove incentives to engage in undeclared work, such as reducing the administrative burden (Denmark, Germany, Slovenia), tax reduction (Denmark, Italy, Slovenia, Spain, Sweden) and the creation of new business schemes (Germany).

Other measures aim to enhance access to the formal economy, through initiatives such as tax credits for the employed (UK), subsidised 'service vouchers' for customers (Belgium, France), or support to small businesses to gradually 'go formal' (Italy). Nevertheless, the impact of these measures is considered to be relatively low.

Figure 1: *German 'mini-jobs', French 'service vouchers' and Italian 'alignment agreements'*

'Mini-jobs' are jobs that pay up to €400 a month and that lead to reduced social security contributions. A major change introduced in 2003 was the lifting of the working time restriction of 15 hours per week. Now, 'mini-jobs' can be held without any working time restrictions. Critics highlight that the increasing flexibility for employers could actually undermine the wages set by collective agreements. Success has nevertheless been registered in the increasing number of private households that are now declaring jobs.

'Service vouchers' (cheques emploi service) – introduced in 1994, they allow anyone to legally employ a domestic worker without requiring extended administrative procedures and labour contracts; instead the salary can be paid using these cheques. Cheques can be purchased at the local bank and can be calculated by half of its value from the income tax. A similar measure was introduced in Belgium in 2003. Little use has been made of these service vouchers, however, and the real impact of this measure has not met with original expectations.

'Alignment agreements' (contratti di riallineamento) were introduced to help target businesses that previously operated in the irregular economy, and to assist them in gradually adjusting to sectoral wage rates. They were first launched in small companies in southern Italy working on behalf of larger enterprises. However, since the 2000s, this strategy has been replaced by fiscal measures, including labour cost reductions.

Changes in policies regarding undeclared work reflect the shift in priorities. In Italy, for example, policies to combat undeclared work reflect the trend of introducing permanent rather than gradual tax incentives for employers. At the same time, measures aimed at regularising employees' and customers' situations have been abandoned. Thus, the focus tends to be on measures aimed at creating incentives for employers, rather than on the development of integrative policies.

Nevertheless, a more integrative approach in the fight against undeclared work can be observed in several countries where governments have tried to change attitudes and behaviours through public awareness-raising campaigns. Denmark and Hungary have launched campaigns for the criminalisation of undeclared work; Norway has initiated a campaign targeted at newly arrived immigrants to inform them about the dangers of working in the informal economy; and Romania has launched a comprehensive campaign aimed at raising awareness, which includes advice to SMEs and e-learning projects for trade unions and employer organisations, as well as initiatives in conjunction with the media.

### Control and monitoring measures

In general, there is an emphasis not so much on new legislation pertaining to undeclared work, but on the enforcement of existing legislation. There is also a notable trend in relation to extending (or planning to extend) the resources and powers of labour inspectorates. In fact, in most of the countries examined, labour inspectorates are in charge of controls. Nevertheless, in seven countries, the control has been taken over by authorities not only or directly related to the employment field: Social security Authorities (Cyprus), Federal Custom Authorities (Germany), Economic Crime Bureau (Sweden), Tax Authorities (Spain), Immigration Authorities (UK).

Interestingly, German trade unions have complained about the lack of labour inspectorates. As a result, the German construction trade union (Industrie Gewerkschaft Bauen-Agrar-Umwelt), for example, has recently set up a hotline where fraudulent cases can be reported. This move, however, has been seen as highly controversial and has divided trade unionists. On the one hand, trade unions feel they have no choice but to address the lack of labour controlling authorities. On the other hand, by encouraging the reporting of fraudulent practices, trade unions run the risk of playing workers off against each other rather than uniting them. Meanwhile, in order to avoid the stigmatisation of illegal workers, British and Dutch trade unions have launched initiatives to unionise categories of workers who are likely to work undeclared, such as self-employed or migrant workers.

Another popular measure aimed at limiting undeclared work is to foster greater cooperation among controlling authorities. For instance, the French National Committee on Combating Undeclared Work (Commission Nationale de Lutte Contre le Travail Illégal) has been set up to include the labour inspectorate, police, tax, social security and custom authorities, and social partners. In the Netherlands and Poland, similar joint controlling bodies have also been established.

In addition, most national legislation includes sanctions applying to undeclared work, which can be of a financial (Austria, Denmark, France, Germany, Greece, Hungary, Italy, Latvia, Norway, Poland, Slovakia, Sweden, the UK) and/or penal (Denmark, Finland, Greece, Norway, Sweden, the UK) nature. It is worth noting the national discrepancies regarding the targets of these sanctions. Though responsibility for most of the sanctions is shared by employers and workers, Poland holds workers responsible for undeclared work. Danish employers want to make customers responsible as well. Moreover, Danish social partners have raised the possibility of excluding members from their organisations if they engage in undeclared work.

The question of responsibility has become a topical issue in relation to combating undeclared work. New business practices like subcontracting, which are particularly widespread in the construction industry, have made it increasingly difficult to assign responsibility in a long chain of employers. For instance, large registered businesses are likely to

sometimes rely on subcontractors from the informal economy. In order to prevent this kind of association between legal and illegal business sectors, Germany and Norway have introduced main contractor responsibility, whereby the general contractor is deemed responsible for any infringement to the law and can be fined up to €500,000 for doing so. Similarly, Denmark obliges insurance companies to ensure that all work carried out in relation to insurance claims is declared.

Depending on the factors identified by each country, other additional measures have been taken to combat undeclared work. One significant set of measures aims at regulating immigration. This can include efforts to legalise immigrants (Greece) or conversely, to tighten rules for asylum seekers. In the context of EU enlargement, Germany and Spain have signed bilateral agreements with new Member States to try to limit the influx of migrant workers. Similarly, France has planned to set up liaison offices in the new Member States. In fact, Member States are required by EU Directive 96/71/EC, concerning provisions for the posting of workers, to improve administrative cooperation with the new Member States.

However, considering the different standards of labour provisions and controls, this cooperation is not likely to be easy. Because of a lowly institutionalised labour market, CEE countries have focused their efforts on controlling the extent of employment relationships. Among the most common measures used, are obligations on employers to provide a written contract and to register contracts, as well as the computerisation of data.

Table 4: *Monitoring and control measures: Actors and policies*

	Control authorities	Policies	
		Sanction	Prevention
<b>Austria</b>	Intervention force monitoring illegal employment of foreign workers	<ul style="list-style-type: none"> <li>– Financial sanctions</li> <li>– Plans to extend powers of ‘intervention force’</li> </ul>	Tax reduction (planned)
<b>Belgium</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Plans to extend their powers</li> <li>– Computerisation of data</li> </ul>	Service vouchers
<b>Bulgaria</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Regulation of illegal emigration</li> <li>– Obligation to register employees</li> </ul>	<ul style="list-style-type: none"> <li>– Subsidised employment (National Action Plan on employment)</li> <li>– Obligation to have a written contract</li> <li>– Social security threshold reviewed to oblige employers to pay contributions on employees’ actual pay and not on the basis of the national minimum wage</li> </ul>
<b>Cyprus</b>			Compulsory health care insurance for migrant workers
<b>Denmark</b>	<ul style="list-style-type: none"> <li>– Public authorities</li> <li>– Trade associations</li> <li>– Trade unions</li> <li>– Employer organisations</li> </ul>	<ul style="list-style-type: none"> <li>– Financial and penal sanctions</li> <li>– Employees must be registered from their first working day</li> <li>– Insurance companies must ensure that works carried out in the context of insurance claims are declared</li> </ul>	<ul style="list-style-type: none"> <li>– Campaign for criminalising undeclared work</li> <li>– Tax reduction</li> <li>– Simplification of administration (data submission, easier operation of enterprises, etc)</li> </ul>
<b>Estonia</b>	Labour inspectorate		<ul style="list-style-type: none"> <li>– National minimum wage</li> <li>– Tax sharing (planned)</li> </ul>
<b>Finland</b>	<ul style="list-style-type: none"> <li>– Tax authorities</li> <li>– Police</li> <li>– Customs authorities</li> <li>– Trade unions</li> <li>– Trade associations</li> </ul>	<ul style="list-style-type: none"> <li>– Fine or imprisonment in case of ‘exploitative’ work discrimination and illicit foreign labour</li> <li>– Right to receive a payslip</li> </ul>	<ul style="list-style-type: none"> <li>– Obligation to inform authorities about foreign workers</li> <li>– Main contractors are made responsible for subcontractors</li> </ul>

Table 4: *Monitoring and control measures: Actors and policies (cont.)*

	Control authorities	Policies	
		Sanction	Prevention
<b>France</b>	<ul style="list-style-type: none"> <li>– Labour inspectorate</li> <li>– National, regional and departmental committees on combating undeclared work (labour inspectorates, police, customs and tax authorities, social security funds, social partners)</li> </ul>	<ul style="list-style-type: none"> <li>– Financial penalties</li> <li>– Strict government monitoring through information exchange</li> </ul>	<ul style="list-style-type: none"> <li>– Taxation and social security cuts (2004–2005 ‘undeclared work plan’)</li> <li>– Setting up of liaison offices in the new Member States</li> </ul>
<b>Germany</b>	Federal customs authorities	<ul style="list-style-type: none"> <li>– General contractor responsibility (fines up to €500,000)</li> <li>– Financial sanctions (up to €300,000)</li> <li>– Enlarged powers for the federal customs authorities</li> <li>– Administrative agreement with France to combat illicit employment</li> </ul>	<ul style="list-style-type: none"> <li>– Mini-jobs</li> <li>– Abolition of the obligation to register in the Register of Craftworkers</li> </ul>
<b>Greece</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Penal and financial sanctions</li> <li>– Computerisation of social security data</li> </ul>	<ul style="list-style-type: none"> <li>– Incentives to legalise immigrants</li> </ul>
<b>Hungary</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Financial sanctions</li> <li>– Mandatory registration of employees</li> </ul>	<ul style="list-style-type: none"> <li>– Obligation of a written employment contract</li> <li>– Awareness-raising of citizens concerning compliance with the law</li> <li>– Tax reduction</li> <li>– Making labour regulations more flexible</li> </ul>
<b>Ireland</b>	Labour inspectorate		
<b>Italy</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Financial sanctions</li> <li>– Stricter rules for subcontracting</li> </ul>	<ul style="list-style-type: none"> <li>– ‘Alignment agreements’</li> <li>– Fiscal incentives</li> <li>– Regularisation of immigrant workers</li> <li>– National funding of local ‘emergence plans’</li> <li>– Reduction in labour costs</li> <li>– Greater involvement of social partners (‘joint undertakings’)</li> </ul>
<b>Latvia</b>	Labour inspectorate	Financial sanctions	
<b>Netherlands</b>	<ul style="list-style-type: none"> <li>– Labour inspectorate</li> <li>– Intervention teams consisting of representatives from the labour inspectorate and the tax and social security authorities</li> </ul>	<ul style="list-style-type: none"> <li>– Stricter policies towards asylum seekers</li> <li>– Monitoring of temporary work agencies</li> </ul>	
<b>Norway</b>	<ul style="list-style-type: none"> <li>– Labour inspectorate</li> <li>– Tax authorities</li> </ul>	<ul style="list-style-type: none"> <li>– Mandatory registration of all employment relationships</li> <li>– Financial and penal (up to six years’ imprisonment) sanctions</li> <li>– Main contractor responsibility</li> </ul>	Information campaign for newly arrived immigrants about the dangers of working in the informal economy

Table 4: *Monitoring and control measures: Actors and policies (cont.)*

	Control authorities	Policies	
		Sanction	Prevention
<b>Poland</b>	<ul style="list-style-type: none"> <li>– Labour inspectorate</li> <li>– Police</li> <li>– Social security authorities</li> <li>– Border police</li> <li>– Internal revenue authorities</li> <li>– Trade unions</li> <li>– Employer organisations</li> </ul>	Financial sanctions	Liberalisation of the economy
<b>Romania</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Financial sanctions</li> <li>– Creation of a special post-box to notify of any case of undeclared work</li> </ul>	<ul style="list-style-type: none"> <li>– Employment subsidies</li> <li>– Reduced social security contributions</li> <li>– Non-reimbursable loans</li> <li>– Information and consulting for SMEs, e-learning for trade unions and employer organisations, awareness-raising through contracts with the media</li> </ul>
<b>Slovakia</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Financial sanctions</li> <li>– Risk of losing the operating licence</li> <li>– Stricter conditions to obtain unemployment benefits</li> </ul>	
<b>Slovenia</b>	Labour inspectorate	<ul style="list-style-type: none"> <li>– Financial sanctions (€212–€21,000)</li> <li>– Mobile inspections, anonymous telephone calls</li> </ul>	<ul style="list-style-type: none"> <li>– Tax incentives</li> <li>– Easier registration for companies</li> </ul>
<b>Spain</b>	Tax authorities	<ul style="list-style-type: none"> <li>– Sanctions only for people engaging in undeclared work while receiving unemployment benefits</li> <li>– Bilateral agreements on migrant seasonal work in the agricultural sector</li> </ul>	<ul style="list-style-type: none"> <li>– Tax incentives</li> <li>– Differentiated social security system for domestic services</li> </ul>
<b>Sweden</b>	National Economic Crimes Bureau	Financial and penal (imprisonment up to two years) sanctions	Tax incentives in the construction industry
<b>UK</b>	Immigration authorities	<ul style="list-style-type: none"> <li>– Financial (up to GBP 5,000) and penal (imprisonment up to six months) sanctions on foreigners in illegal employment</li> <li>– Financial penalties on employers (up to GBP 5,000)</li> </ul>	<ul style="list-style-type: none"> <li>– National Minimum Wage</li> <li>– Working Tax Credit</li> <li>– Licence system for the ‘gangmasters’</li> </ul>

# Involvement of the social partners

Although their role varies according to country and sectors, the social partners play a role in the majority of initiatives aimed at combating undeclared work. Type of sector is a key factor in relation to this level of involvement. Interestingly, trade unions and employer organisations in the construction and agricultural sectors are among the most active social partners regarding this issue.

Most collective bargaining agenda raise concerns in relation to the issue of undeclared work. Nevertheless, it must be underlined that measures to address these concerns are rarely implemented. Therefore, one significant feature of industrial relations regarding undeclared work is the high degree of goodwill contrasted with the low level of action.

More integrated approaches have been reported in Belgium, Germany, the Netherlands and Norway, where undeclared work is a prominent issue among social partners. Employer organisations believe that undeclared work harms the economy and has negative impacts on competition, whereas trade unions hold the view that working conditions and industrial relations are threatened by undeclared work. Against this background, social partners have built up joint interests, resulting in collective agreements (Belgium, Finland, Germany, the Netherlands) and social dialogue (Belgium, Finland, Hungary, Germany, the Netherlands, Norway, Poland). Moreover, several joint initiatives have been reported, relating to measures such as information campaigns (Belgium, Finland, Latvia, Norway, Sweden), training (Belgium), monitoring (Denmark) and protests (the Netherlands).

It is, however, significant to observe that the state plays an active role in the social dialogue on undeclared work. Therefore, a majority of collective agreements are of a tripartite nature (e.g. in Belgium, Ireland, Italy, Norway and Romania).

Table 5: *Social partners' involvement*

	Social dialogue on undeclared work	Collective agreements		Social partners' initiatives regarding undeclared work	
		Bipartite	Tripartite	Joint	Unilateral
<b>Austria</b>					Trade union information campaign
<b>Belgium</b>	- Sectoral - Tripartite	Food, security, construction	Transport	Information training	
<b>Denmark</b>				Monitoring action in the construction sector	
<b>Finland</b>	Tripartite programme	Main contractor's responsibility		Information campaign in the construction sector	
<b>Germany</b>		Hotels and restaurants in northern Germany			Trade union in the construction industry: - Campaign for the implementation of the minimum wage - Hotline for reporting cases of undeclared work
<b>Hungary</b>	- Bipartite in banking, food industry and construction sectors				
<b>Ireland</b>			Agreement on 'Sustaining Progress', including a Hidden Economy Monitoring Group		Trade union campaign for more inspectors and against the exploitation of foreign workers
<b>Italy</b>			- 'Alignment agreements' - 'Joint undertakings' in construction and agricultural sector		Trade union information campaign against illegal employment



Table 5: *Social partners' involvement (cont.)*

	Social dialogue on undeclared work	Collective agreements		Social partners' initiatives regarding undeclared work	
		Bipartite	Tripartite	Joint	Unilateral
<b>Latvia</b>	Tripartite working group to devise a framework			Information campaigns	
<b>Netherlands</b>		Agreements in the horticulture, glass, transport and agricultural sectors, including a clause obliging employers to ensure that the temporary work agencies they use are legitimate		- Action directed against subcontractors in the docks of Amsterdam and Rotterdam - Certification system for agricultural businesses that abide by the rules introduced by employers	- Trade union in the agricultural sector devised a framework agreement - Unionisation of illegal workers
<b>Norway</b>	Tripartite 'cooperative forum' against the black economy		Agreement in the cleaning and renovation sectors on a certification system	Tripartite project in the construction sector with the aim of raising awareness against undeclared work	Trade union campaign in the construction sector (focused on shop stewards)
<b>Poland</b>	Construction industry				
<b>Romania</b>			NAP for employment introduces preventive measures, as well as sanctions		
<b>Slovenia</b>				Information sharing	Some trade unions include seminars on undeclared work in their training programmes
<b>Sweden</b>				-Tripartite project of a certification system of bona fide hairdressers -Information campaign in the hotel and restaurant sector	
<b>UK</b>					Trade union initiatives: - Campaign to protect 'gangworkers' in the transport sector - Organisation of migrant workers in the construction sector - Support to migrant workers in the private care sector ('overseas nurses network')



Only in France and Greece is there an absence of social dialogue, or at least of social partner initiatives, in relation to the issue of undeclared work. The reasons for this appear to differ considerably. In France, the lack of initiative on the part of social partners in this respect can be attributed to their reliability on the government. The same view is shared by social partners in Slovakia and Sweden, whose involvement in the fight against undeclared work is limited. Greece, on the other hand, lacks public debate on the issue of undeclared work in general.

## Targeting undeclared work through other policies

In Greece, as in Latvia, parts of Spain and southern Italy, undeclared work is considered to be a ‘quasi-institution’, in so far as it has the support of society. Against this background, measures taken to combat undeclared work in those countries focus on increased awareness-raising. While other countries, like Bulgaria, Cyprus, Estonia, Slovakia and Spain, do not explicitly deal with the issue of undeclared work, they have launched initiatives on corollary topics, such as unpaid wages, implementation of agreements, and health and safety.

Table 6: *Initiatives regarding corollary topics*

<b>Belgium</b>	Bipartite dialogue on bogus self-employment
<b>Bulgaria</b>	- Trade union campaign for the protection of basic working conditions - Trade union protest against unpaid wages
<b>Cyprus</b>	Implementation provisions of collective agreements in the construction industry
<b>Estonia</b>	National minimum wage
<b>Hungary</b>	Health and safety measures
<b>Latvia</b>	Implementation provisions of collective agreements
<b>Poland</b>	Social dialogue on unemployment and employment of foreign workers
<b>Slovakia</b>	Agreement in the construction industry obliges employers to inform local trade unions about newly hired and dismissed workers
<b>Spain</b>	Plan to prevent industrial accidents in the Catalan construction industry

These initiatives reflect the fact that undeclared work not only represents a financial problem for the government, but may also be a significant problem in relation to the issue of working conditions. Few countries, however, address the problem from this perspective. CEE countries may be the exception in this case, but this is more of a reflection of the lack of an institutionalised system of industrial relations, rather than a specific concern regarding undeclared work. In western European countries, there are many types of tripartite initiatives aimed at combating undeclared work, which establish links between employer representatives, trade unions and governments; however, it is difficult to secure more permanent, reliable arrangements that are conducive to a sustainable regulatory environment.

It is significant that social partners in the construction industry are particularly committed to combating undeclared work. In contrast to the agriculture or service sector, there is a long history of industrial relations in this sector. In addition, ongoing structural economic change in the sector has encouraged social partners to deal with the issue of undeclared work. Social partners are usually in agreement about the need to combat undeclared work, but disagree about the means – whereas employer organisations look for tax reductions and a relief of administrative burdens, trade unions recommend a stricter implementation of existing agreements. An exception is the CEE countries, where social partners share the view that undeclared work can only be avoided by liberalising the economy. Moreover, undeclared work is considered to be a temporary problem that will disappear once the transition to the market economy has been completed.

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## Passivity of actors

Overall, there appears to be a lack of determination in the fight against undeclared work. Beyond a declaration of goodwill, actors seem to be reluctant to engage in any real activity. Employers condemn the unfavourable effects of undeclared work on competition, but in practice, welcome undeclared work because of the flexibility and savings in labour costs that it allows for. Trade unions blame undeclared work for undermining working conditions but on the other hand, tend to stigmatise those who work undeclared, as they also represent a potential loss of members. Lastly, governments are concerned by the financial implications of undeclared work, but at the same time are afraid of losing the votes of employers and workers. In Latvia, there are even reports of corrupt practices, whereby political parties are partly funded by companies that engage in undeclared work practices.

This combination of difficult situations has led to a degree of passivity in the fight against undeclared work, as identified by the reports. Against this background, moves to increase labour market flexibility cannot be considered as a necessarily efficient means of reducing undeclared work. This is particularly evident in Italy, where the first liberalisation measures go back to the 1980s. Moreover, concerns need to be raised about the quality of new jobs created through the legalisation of undeclared work.

It is worth noting that most innovative initiatives are unilateral and non-binding in this respect. Trade unions in Belgium, Denmark, Finland, the Netherlands and the UK have tried to overcome this dilemma by attempting to organise people who are likely to work undeclared. Finland has led the most far-reaching initiative by asking for the right to initiate legal proceedings on behalf of foreign workers, without their authorisation. So far, however, these initiatives have failed to have any significant impact in practice. In the Netherlands, Norway and Sweden, employers have introduced certification systems for bona fide companies, i.e. businesses that comply with tax and social security obligations. Again, however, these initiatives have failed to have any real impact, as control resources remain scarce.

# Conclusion

The range of measures devised to combat undeclared work, as well as the multiplicity of actors involved, reflects the complexity of this problem and differences in the national contexts. In addition to the challenge it poses for policymakers and researchers, it also makes any cross-national comparison and action more difficult.

It appears that despite efforts made, the phenomenon of undeclared work is far from being brought under control. Moreover, the issue of undeclared work, whether underestimated or overestimated, tends to be a matter of discourse rather than one of effective and efficient policies. Such difficulties should not, however, deter governments and social partners from facing the challenge of combating undeclared work.

In fact, there are good economic reasons for increasing efforts to address the problem. It is significant that most of the countries report a common trend of increasing undeclared work. It is also significant that in Italy, a decrease in partially undeclared work, and an increase in entirely undeclared work, has been reported. In this sense, there is a risk that not only the extent but also the quality of undeclared work is changing. It is worth highlighting, therefore, that the presence of a parallel, secondary labour market poses serious risks for the safeguarding of workers' labour and social insurance rights. It also has the potential to increase existing social inequalities.

Against this background, a recent ILO report on the 'informal economy'<sup>14</sup> focuses on the human, rather than the economic dimension, by stressing the impact that undeclared work can have on people's working conditions. A comprehensive approach to the problem of undeclared work should, therefore, equally address both the economic and the social problems raised by this issue.

**Isabella Biletta and Marie Meixner**, European Foundation for the Improvement of Living and Working Conditions, Dublin

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<sup>14</sup> Daza, J.L., *Informal economy, undeclared work and labour administration*, International Labour Office, DIALOGUE Paper No. 9, Geneva, 2005.