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## Determinants of undeclared work in the EU Member States

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### Abstract

In the context of European economic recovery, undeclared work has become a true challenge for the labour market policies, mainly because it affects tax revenue, social security and labour standards. Without better understanding of the main determinants of undeclared work, little can be done to prevent it. Having these in mind and based on the Eurobarometer survey, the paper aims to find the main factors that trigger undeclared work. Our findings suggest that after the economic crisis, the trust in national authorities has dropped and generated more undeclared payments, especially for the case of small and medium firms.

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### 1. Introduction

In the context of European economic recovery, undeclared work has become a true challenge for the labour market policy implementation, mainly because of its negative influence upon economy. At EU level, the concept of undeclared work is generally understood as any paid activity carried out in a formal undertaking, partially or fully undeclared to public authorities. Self-employed work could also meet the basic definition, when a self-employed person provides services either to a formal enterprise or to other clients, such as households. Clearly, undeclared work primarily affects tax revenues and implicitly, it also affects social security, labour standards and workers' safety. In an increasing number of EU member states, hard work has already been done towards reducing and

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preventing undeclared work. Most papers focused on developing and testing policy measures that aim to tackle undeclared work around all 28 EU member states and feasible measures for different nations were taken under discussion (EIRO, 2005; European Employment Observatory, 2007; Renooy et al, 2004; Williams, Horlings and Renooy, 2008).

Most findings suggest that undeclared work is often carried out in sectors like construction, renovation or repair works, cleaning, babysitting or care for the elderly. Regarding the regional particularities at EU level, Hazans (2011) found for a set of 30 European countries that the informal sector is mostly present in the Southern Europe and less in the North, while the difference between West and East is almost insignificant. The findings of the "European Social Survey" conducted in 2008-2009 indicated that the proportion of workers without contracts vary from 2.7% in the Nordic countries up to 9.5% in southern Europe, while being approximately 5% in East and West alike. Based on the proportion of the informal employed workforce out of total employed, Hazans (2011) classified Greece, Spain, Cyprus, Italy, Portugal, UK, Poland and Austria as countries with a high degree of informal employment (20 to 57% of the workforce being informal), while at the opposite point were Lithuania, Latvia, Sweden, Hungary, Estonia, France and Belgium, with low percentages between 6.4% and 10%.

Moreover, the growing interest in the issues of tax reform, fiscal sustainability and wage differentials (Hurduzeu et al. 2014; Lazar, 2014; Matei et al., 2014; Zamfir, et al., 2015), has rapidly increased the discussions about how to tackle undeclared work in order to prevent unregistered or hidden income or unregistered taxes and social insurances (Davidescu, 2015; 2014; European Commission, 2007; Grabiner, 2000).

However, without better understanding the main determinants of undeclared work, little can be done to prevent it. For instance, current socio-economic context is characterized by a number of elements that somehow encourages undeclared work - long-term unemployment, the existence of vulnerable groups (youth, migrants, etc.) who have difficulties in finding a job, as well as the pressure for higher earnings and minimum wages as a social support measure. Hence, the paper will attempt to find the main determinants of undeclared work and based on the 2013 Eurobarometer survey we will try to highlight several particularities at EU level, by considering both employers' and employees' perspectives.

## 2. Eurobarometer survey analysis

In this paper, a research study was conducted in an attempt to identify the main factors that trigger undeclared work at the EU level, based on the Eurobarometer survey conducted on the 28 EU countries in 2013. Regarding the reasons given by respondents as crucial in carrying out undeclared work, we note that too low salaries for declared work is one of the main reasons (18.9%), indicating that employers would rather keep wages at a low level, possibly as closest to the minimum wage.

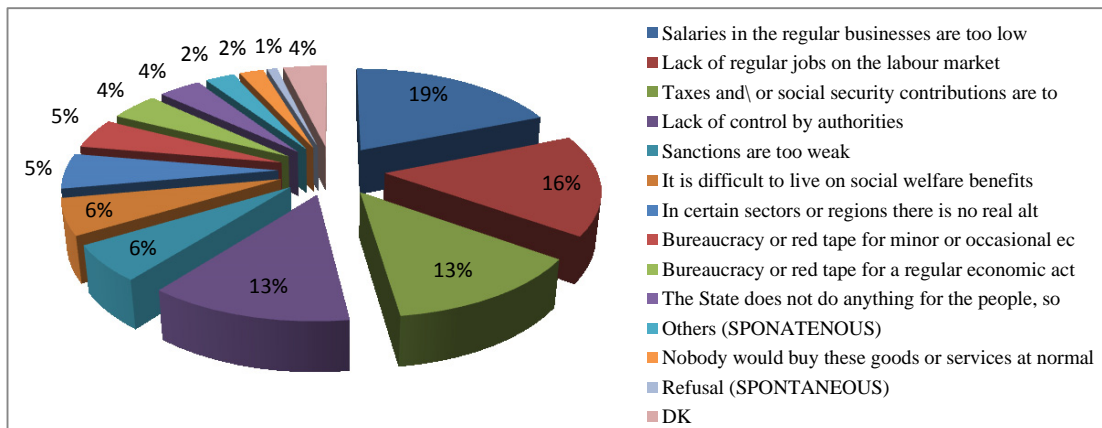


Fig. 1. Main reasons for undeclared payments

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