

Screening Chapter 19 – Employment and Social Policy  
explanatory meeting on the acquis communautaire

# Undeclared Work

Matteo Governatori  
DG EMPL/A1  
9 February 2006

Employment, Social Affairs  
& Equal Opportunities

# Subject

- EU policy strategy on undeclared work
- Data and analysis carried out on UW

# EU and UW: the first steps

- White Paper on Growth, Employment and Competitiveness (1993)
- Mid-Term Social Action Plan (1995-97): debate on UW launched
- **COM 219 (1998)** : main reference on UW

⇒ set of measures to deal with the problem

⇒ debate among MSs on most effective strategy

# The problem

- Common interest: all MSs concerned
- It erodes financing of welfare states
- It distorts competitiveness
- It worsens prospects of workers involved
- It conflicts with goals of solidarity/social justice

# The 1998 Communication

- first difficulty for policy: defining UW  
⇒ *"Any paid activity which is legal per se but not declared to public authorities, taking into account difference in legal systems across MSs"*

(criminal activities, work not covered by the legal framework, activities not due to be legally declared are **excluded**)

# Factors encouraging UW

- economic: to avoid tax/SS contributions
- demand for personal services to families
- firm reorganization: vertical disintegration
- increasing use of ICTs
- institutional factors:
  - ⇒ tax pressure, red tape
  - ⇒ lack of recognition for atypical work
  - ⇒ SME, low competitiveness, culture

# The political approach

- Two pronged strategy:

## 1. Sanctions

- Rigorous rule enforcement
- Welfare benefits tied to contributions
- Awareness campaigns, "stigmatization"

## 2. Prevention (which is now **prevalent**)

⇒ legislation inadequate for new LM reality

## -Cont.ed-

### Market liberalization

- Red tape simplification for set up of SME
- Updating labour law (new forms of work)
- Social protection reforms/modernization
- "Formalization" of supply of certain services (personal assistance, cleaning...)
- Stronger social partners involvement



## -Cont.ed-

- Reduction of taxation on labour
  - lower VAT on labour intensive services
- ⇒ reduction of economic incentives for UW
- Conclusion: broad strategy, wide spectrum of measures
- **Fight against UW part of the EES**

## Next step: UW in the Guidelines

- **EG9 (2003)**: specific on undeclared work
  - ⇒ MSs to put in place measures on
    - simplification of environment for firms, removal of financial disincentives in tax/benefit system, strengthening of sanctions and rule enforcement
    - **Measurement** of size of UW and of progress in fight against it

# Council Resolution 260/1 (2003)

- concerted strategies despite national spec.
- strengthening of the approach in EG9
- legal/administrative environment favourable to economic activity
- reduction of disincentives to "surfacing":
  - cut effective taxation on low paid workers
  - measures to encourage social benefits recipients to move to formal labour market

# Re-launched Lisbon Strategy

- Integrated guidelines (2005-07) ⇒
  - GL21: globalization and technological progress imply flexible labour markets and modern work organization in order to meet both firms' and workers' needs ⇒
  - this would also reduce UW ⇒
- **UW included in a wider context and policy strategy**

# Analysis and Measurement

- COM(1998): weight of UW in the economy vary according to country:
  - 5%GDP (NL, AT, IE, Scand.); >20% in IT, EL, other countries in between.
  - EU15: 7-16%GDP
  - ...but **results vary according to method**
- 2004 Study on "UW in an Enlarged Union"
  - Difficulty of measurement due to

## -Cont.ed-

- different definitions with different criteria
  - UW is not registered by definition: reliable sources of information are hard to find
  - Direct methods preferable (interviews)
- ⇒ Commission launched feasibility study for EU25 and **CC**
- Data on NMS and CC: high and growing incidence in BG and RO (21-22% GDP)