

DECLARED ADVANTAGE

Denis Pennel, managing director of Ciett argues that ending undeclared work will boost inclusive labour markets.



Estimates suggest that among the global working population of three billion people, almost two-thirds – some 1.8 billion people – are working in the undeclared economy. In a country like India, around 90 per cent of workers do not have a formal employment relationship, but even in more advanced economies between levels range from 6.6 per cent (USA) to 13 per cent (Germany) or 21.1 per cent (Italy). Undeclared work poses a number of macro-economic challenges. It undermines business and the economy and impacts workers and citizens.

For governments, undeclared work obstructs revenues from taxes, VAT and national insurance which undermines the very sustainability of social protection systems. It also weakens the power of trade unions and collective bargaining. For business it places legitimate business at a competitive disadvantage in comparison to businesses operating in the black and forces hitherto law-abiding firms away from regulatory compliance. Customers of the undeclared economy also suffer as they have little legal recourse if a job is badly done and no insurance or guarantees that health and safety regulations were followed. The impact on workers is profound. Undeclared employment effectively places them outside of the system. They have no job security, no rights and no career progression. As a result, undeclared workers tend to experience a lower quality of work and working conditions.

The most effective way to stamp out undeclared work is not to just restrict it, but to turn it into regular work which appeals to both workers and employers while also providing financial support within the economy. Research shows a strong correlation between labour market efficiency and the size of the undeclared economy. Those countries which enjoy efficient labour markets are the ones where levels of undeclared work are lowest. Creating optimal conditions to deter and prevent the undeclared economy is a question of balanced policies and regulation. Over-burdensome regulation and high taxes can drive businesses into the undeclared economy in order to simply survive, while at the other extreme, inefficient

regulation and a lack of labour market intervention and social protection can equally result in the growth of undeclared work. By contrast, appropriate levels of regulation which encourage open, inclusive labour markets will result in a natural reduction of undeclared work.

Agency influence

Agency work has been shown to help reduce undeclared work as it supports businesses in accessing flexible labour supply in order to meet fluctuations in market demand. Economies which have appropriately regulated labour markets where agency work is accessible and with no unjustified restrictions, have been found to have smaller undeclared economies. When for example Italy changed its labour market regulation in the 1990's, removing restrictions on agency work, agency work penetration went up simultaneously with the size of the undeclared economy going down. This is because agency work provides workers with employment incentives such as social protection, training and unemployment benefit which helps them to enter the formal labour market. Once in the market private employment agencies continue to meet supply with demand and to transition workers within sectors and jobs, ensuring that they are constantly in work.

Economies with mature social protection systems and labour market policy interventions which protect and support vulnerable workers are more flexible and more inclusive. By creating an environment that is conducive for both workers and employers they reduce the supply and demand of undeclared work.

Despite recognition of the damage that it does, it is a fact that the undeclared economy is growing relative to the declared economy in many regions of the world. The good news is that there has been increasing focus of late from bodies such as the European Commission and the Organisation for Economic Development (OECD) and International Labour Organisation (ILO). They have been looking more closely at what drives undeclared work and what policies are most effective in addressing it and seeking to prevent it in the future.

In Europe, the European Commission has recently established a platform on the prevention and deterrence of undeclared work. Its initial work will be the sharing of information and exchange of best practice between member states in order to start to address the challenges faced. This will be particularly important in some of the newer member states where labour markets have yet to be reformed and undeclared work is proportionally higher than the EU average.

As the global labour market grows and employment supply and demand moves across borders, so labour market efficiency and international cooperation to stamp out undeclared work will become ever more important. ■