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# European Experience in monitoring undeclared work

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# Advantages and disadvantages of informal economy

Disadvantages	Advantages
<i>For formal businesses:</i>	
Unfair competition	Test-bed for business start-ups
'Race to the bottom' of regulatory compliance	
For informal businesses:	
Unable to access capital and business support	Test-trade viability of venture
Pressured into exploitative relations with formal businesses	
Difficult to expand business which cannot be openly advertised	



# Advantages and disadvantages of informal economy

Disadvantages	Advantages
<i>For informal workers:</i>	
Lack access to credit & financial services	Source of income to stay out of poverty
No labour rights (e.g., minimum wage, sick pay, working hours, redundancy rights)	Flexibility in where, when and how to work
Inability to provide job history to access formal labour market	Reduces barriers to entry into work because majority with close social relations
Cannot build up rights to pension and benefits	
Lack health and safety standards, bargaining rights & voice	



# Advantages and disadvantages of informal economy

Disadvantages	Advantages
<i>For customers:</i>	
Lack legal recourse if poor job is done, insurance cover, guarantees, etc	More affordable products and services
<i>For governments:</i>	
Loss of state revenue	Stops governments pursuing burdensome regulations
Knock-on effects on creating social integration & mobility by reducing money available	
Leads to loss of regulatory control over quality of jobs and services	
May encourage a more causal attitude towards the law more widely	



# Policy options

- Do nothing
- Eradicate the informal economy
- Move formal work into informal economy
- Move informal work into formal economy

In practice, facilitating formalization being advocated in Europe



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# Typology of policy approaches



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# Sticks: negative reinforcement







# Carrots/positive reinforcement





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# Combining sticks and carrots





# Typology of policy approaches

Approach	Method	Measures (examples)
Direct controls: Deterrents	Improved detection	Data matching & sharing Joined up operations
	Increased penalties	Increased penalties & sanctions
Direct controls: incentives	For businesses	Simplify compliance; tax incentives; support & advice
	For individuals	Supply-side (e.g., amnesties; voluntary disclosure; smooth transition to formality) Demand-side (e.g., service vouchers; tax incentives)
Indirect controls	Fostering culture of commitment/alignment of citizens with state	Change norms, values and beliefs
		Change formal institutions



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# Current policy approaches in Europe



# Relative importance given to different policy measures

<b>% citing</b>	<b>Most important</b>	<b>2<sup>nd</sup> most important</b>	<b>Least important</b>
Direct controls: deterrents	57	17	16
Direct controls: supply-side incentives	19	46	23
Direct controls: demand-side incentives	14	19	32
Indirect controls	10	18	29



# Perception of most/least effective policy approaches

<b>% citing</b>	<b>Most effective</b>	<b>2<sup>nd</sup> most effective</b>	<b>Least effective</b>
Direct controls: deterrents	55	13	12
Direct controls: supply-side incentives	20	41	13
Direct controls: demand-side incentives	15	27	31
Indirect controls	10	19	44



# Ranked most effective: national stakeholder opinion

- 1st Deterrence
- 2nd Preventative measures
- 3rd Curative measures
- 4th Commitment measures
- Same across all European regions (except Nordic nations: Commitment measures ranked 1st)



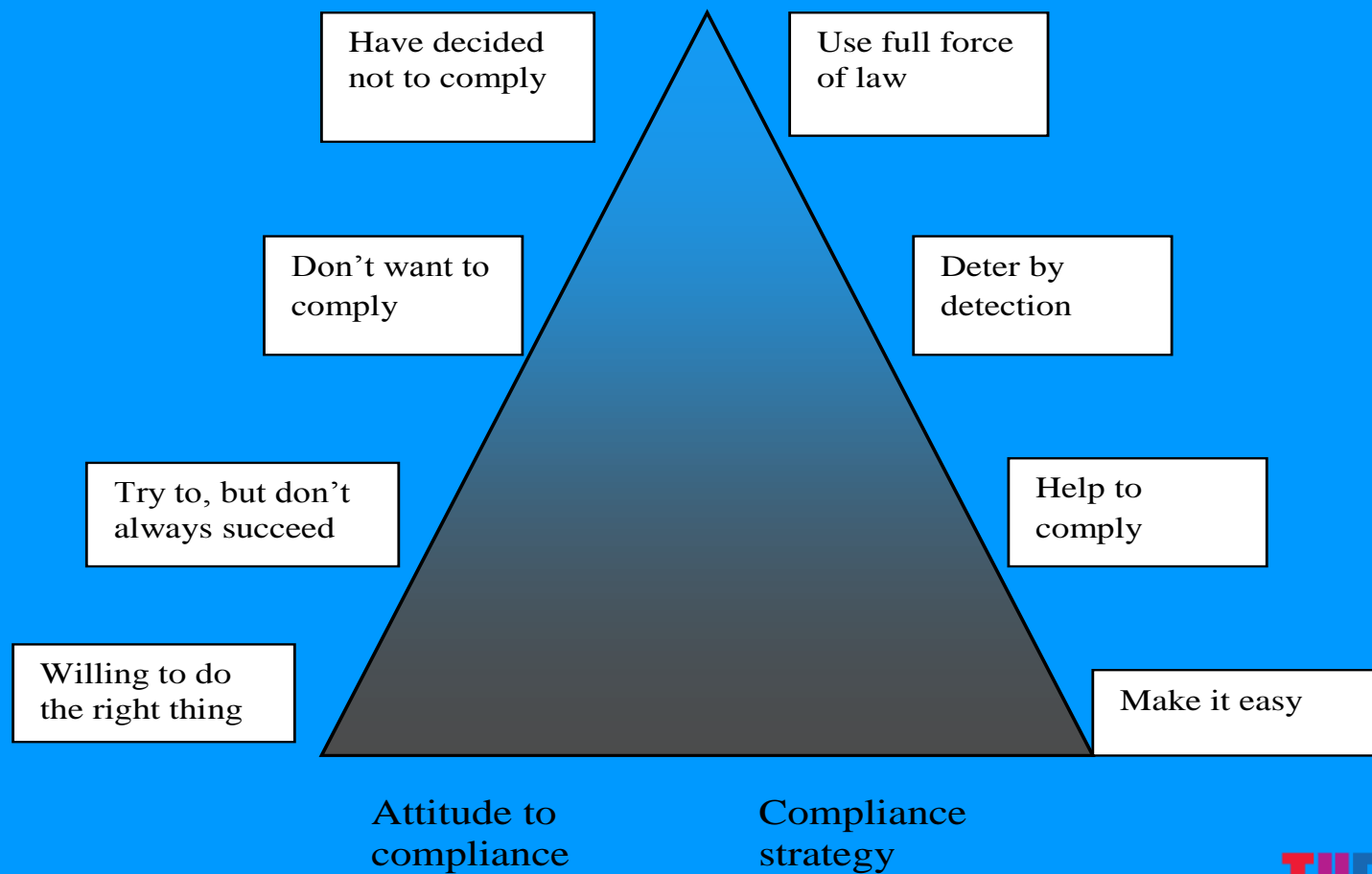
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# Synthesising the policy approaches



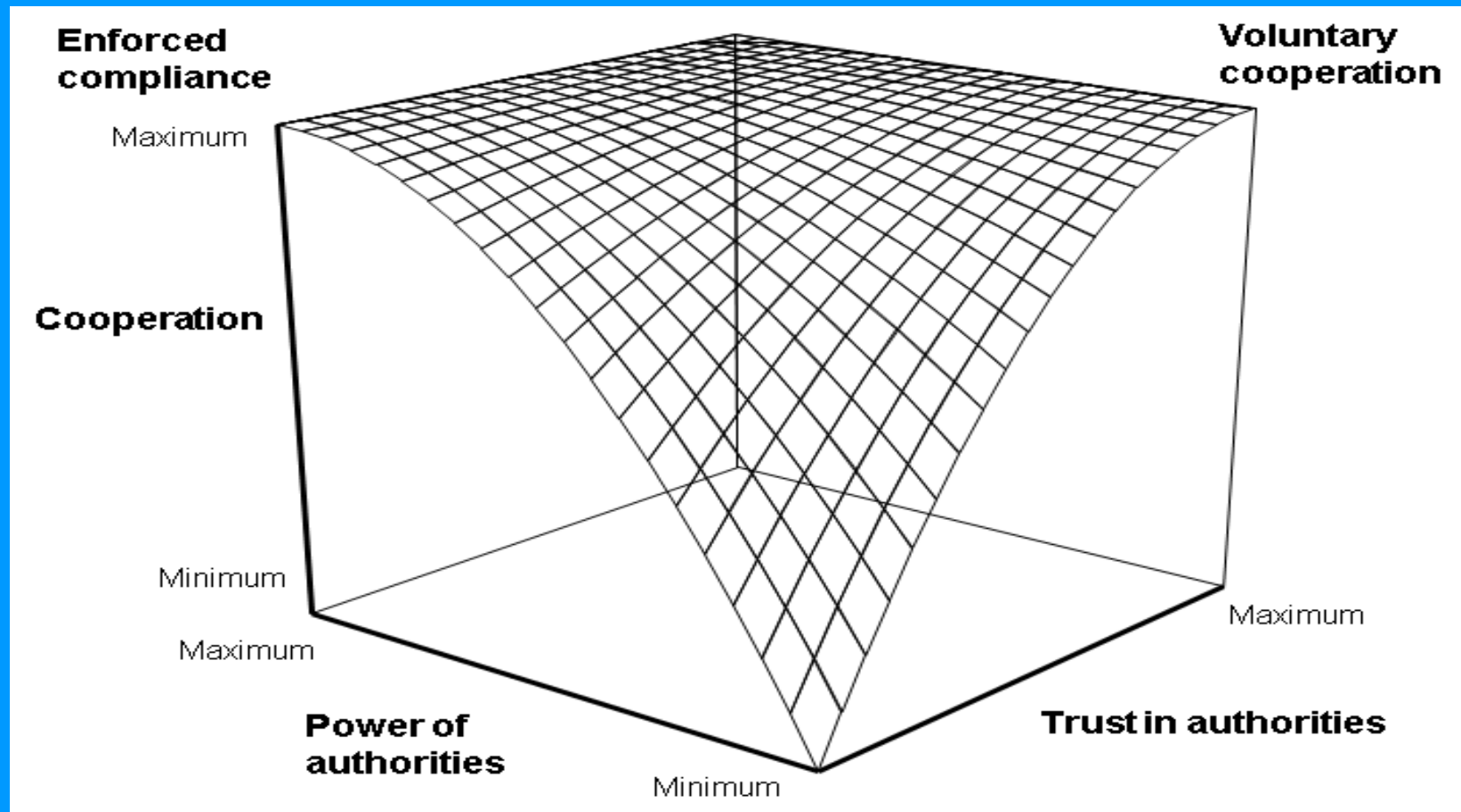


# Responsive regulation





# Slippery slope framework





# Ways forward

1. Little understanding of effectiveness of policy measures. 'Knowledge bank' created:  
<http://www.eurofound.europa.eu/areas/labourmarket/tackling/search.php>
2. Need to evaluate policy measures using common units of evaluation (e.g., return/cost ratio)
3. Need to understand which policy measures are most effective in various contexts



# Ways forward continued

4. Need to understand what combinations and sequences of measures are most effective in various contexts



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Thank you for listening