

Envelope Wage Practices: Developed vs Transition Economies

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Policy Round Table:
Tackling Undeclared Work and Hidden Economy in Southeast Europe: Improving
Governance and Prosperity

13 December 2016
Belgrade, Serbia



This event has been organized with the financial assistance of the European Union, the Global Challenges Research Fund (GCRF) and the Economic and Social Research Council (ESRC).



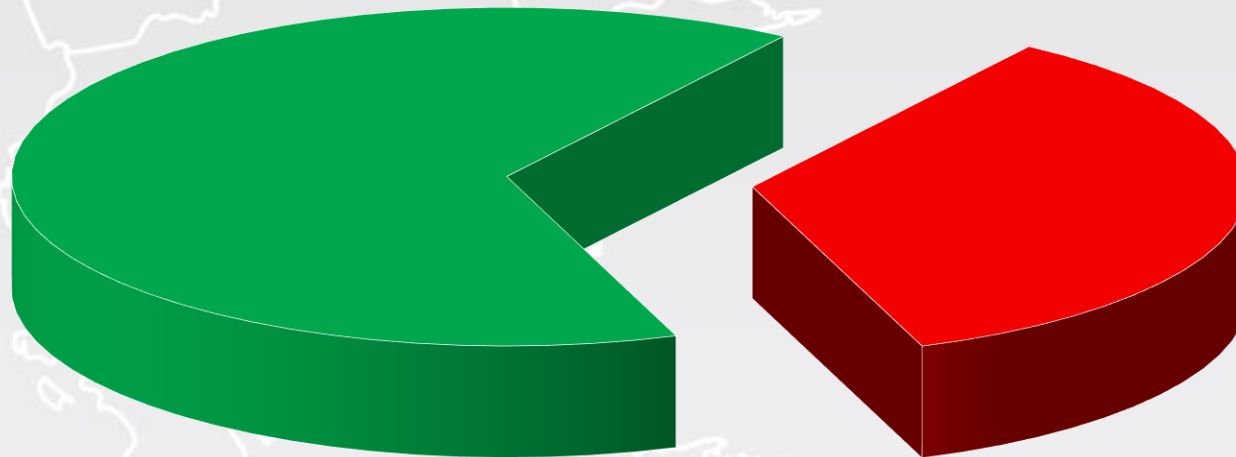
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Under-declared/quasi-formal employment

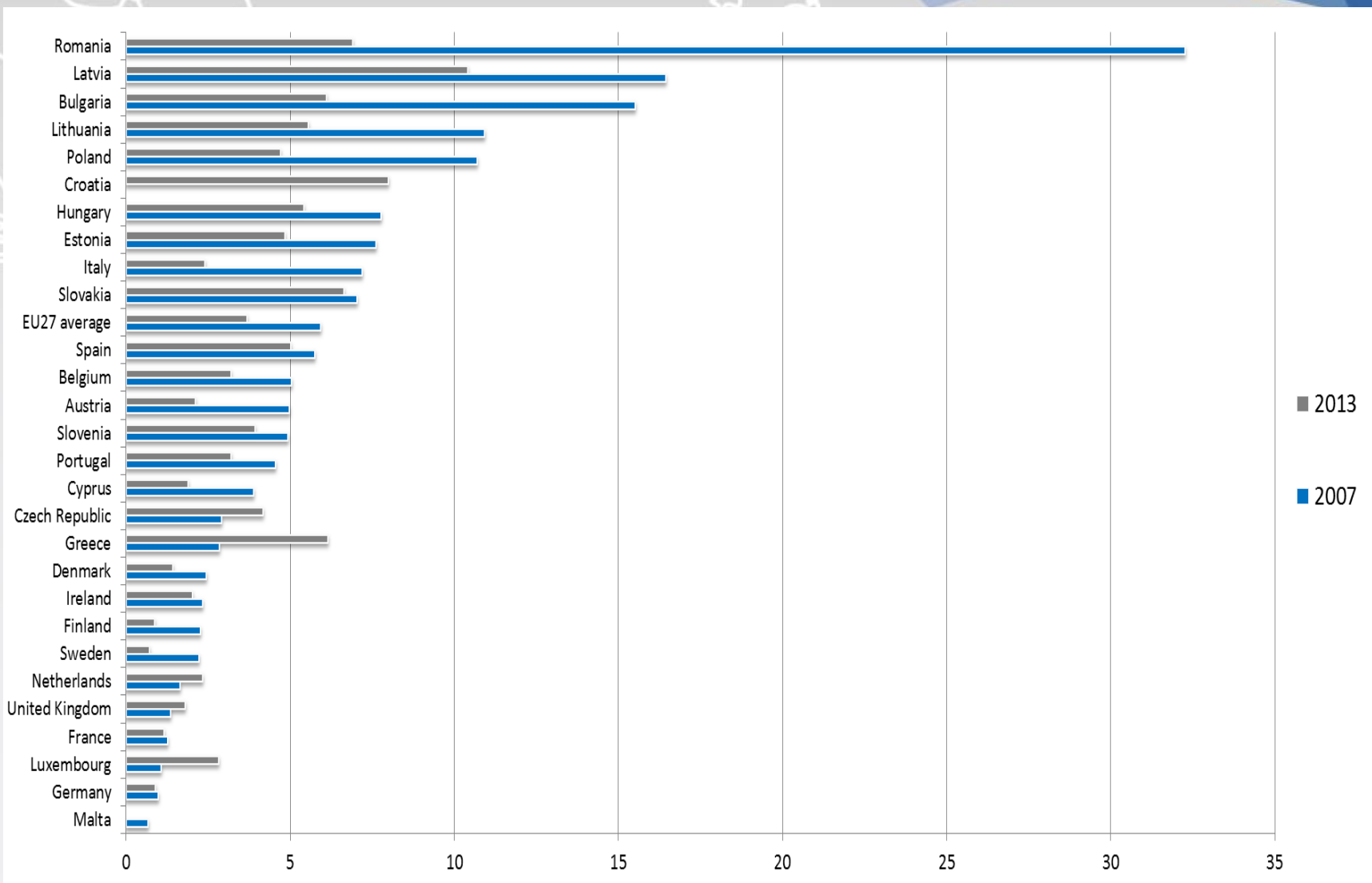
An illegitimate form of employment in which a formal employer conceals from the authorities the actual remuneration of their legally registered employee by declaring only a part of it.



■ Declared wage

■ Envelope wage

Figure 1 Envelope wage practices in the EU, % of formal employees in 2007 and 2013



Source: Special Eurobarometer 284/Wave 67.3 and the Special Eurobarometer 402/Wave 79.2

What explains such differences between countries?

- Two-level logit modelling:

Model 1 – participation

Sometimes employers prefer to pay all or part of the salary or the remuneration (for extra work, overtime hours or the part above a legal minimum) in cash and without declaring it to tax or social security authorities. Has your employer paid you any of your income in the last 12 months in this way?

Model 2 – satisfaction

Were you happy getting part of your salary without having it declared to the tax or social security authorities or would you have preferred to have had your total gross salary declared?

Findings

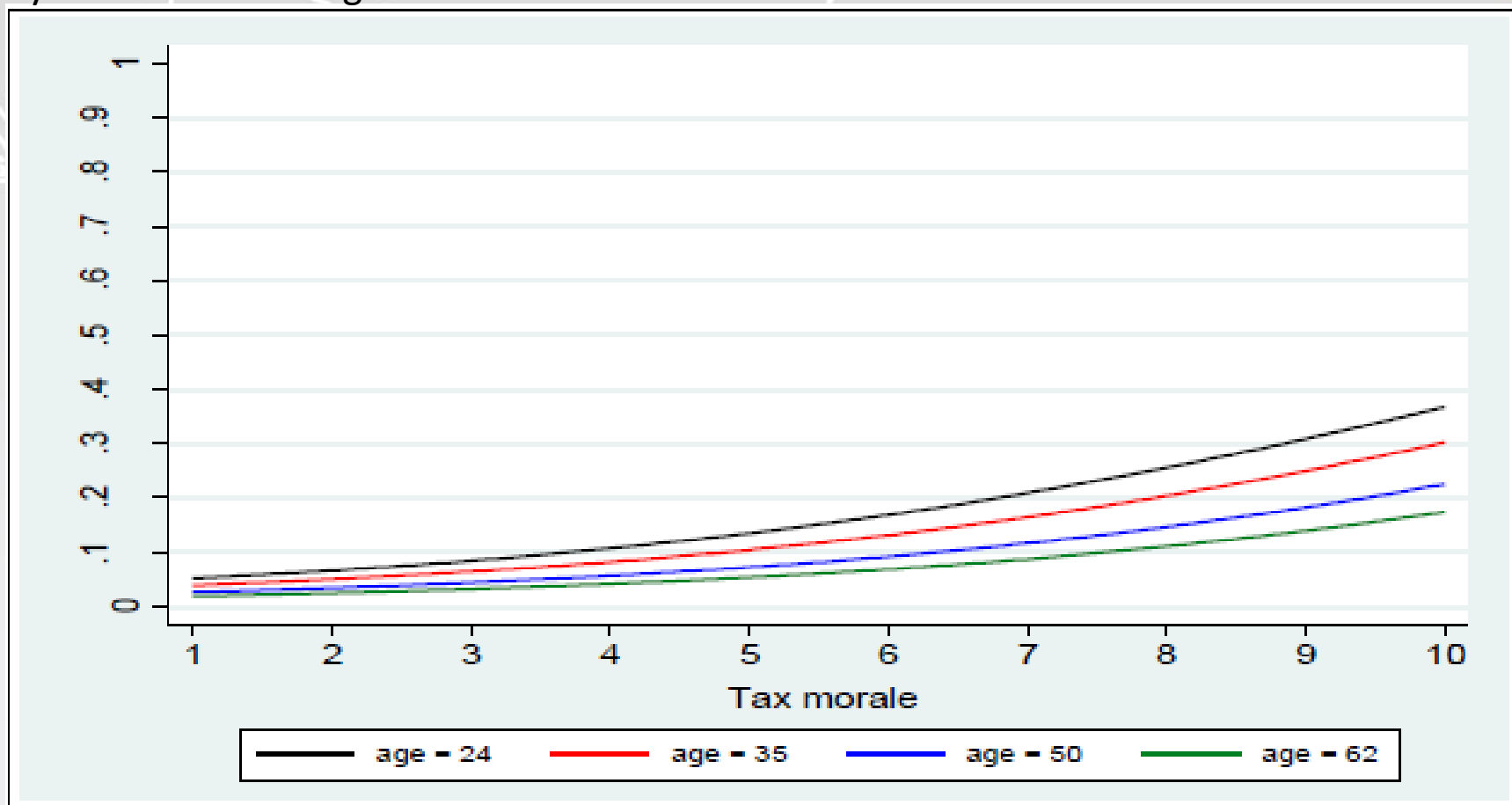
- Micro-level predictors significant for participation: gender, age, size of the company, tax morale, occupation (partially).
- Macro-level predictors significant for participation: employment rate, youth employment rate, at-risk-of-poverty rate, government effectiveness, rule of law, perceived judicial independence, inequality of income distribution, corruption perceptions index, trust in government, tax morale (average).
- **Satisfaction determined only by tax morale and the exact role of envelope wages.**

Table 1 Envelope wages in Croatia, Bulgaria and FYR Macedonia, % of formal employees in 2015

		Overall			Croatia			Bulgaria			FYR Macedonia		
		Yes	No	DK/Refusal	Yes	No	DK/Refusal	Yes	No	DK/Refusal	Yes	No	DK/Refusal
Gender	Male	13.4	81.5	5.1	7.7	89.0	3.3	16.6	77.6	5.8	15.1	79.1	5.8
	Female	9.5	86.7	3.8	5.5	93.2	1.3	12.3	82.8	4.9	10.1	84.9	5.0
Age	15-24	19.0	76.0	5.0	22.3	75.7	2.0	15.5	78.1	6.4	20.1	73.6	6.3
	25-34	14.4	83.2	2.4	8.4	91.2	0.4	18.4	77.8	3.8	16.4	80.6	3.0
	35-44	11.7	82.7	5.6	5.1	90.9	4.0	13.7	80.2	6.1	16.0	77.2	6.8
	45-54	7.8	87.1	5.1	3.5	94.5	2.0	11.7	81.0	7.3	7.4	86.9	5.7
	55-64	10.2	84.7	5.1	2.3	93.2	4.5	16.4	79.2	4.4	6.9	86.1	7.0
Marital status	Single	15.1	82.1	2.8	11.6	87.1	1.3	17.9	76.7	5.4	16.6	81.6	1.8
	Married	9.4	86.2	5.4	3.3	94.6	2.1	11.4	83.6	5.0	12.2	82.2	5.6
	Cohabiting	18.9	75.6	5.5	8.6	87.1	4.3	25.1	68.2	6.7	20.7	79.3	0.0
	Divorced/Separated	15.1	79.8	5.1	11.3	84.5	4.2	18.9	74.9	6.2	16.3	79.1	4.6
	Widowed	16.9	73.5	9.6	16.2	83.8	0.0	18.8	73.5	7.7	12.0	61.3	26.7
Area of economic activity	Construction	22.2	70.6	7.2	16.1	79.4	4.5	21.9	67.6	10.5	27.6	66.3	6.1
	Industry and transport	12.7	83.1	4.2	6.0	89.9	4.1	17.9	76.6	5.5	12.2	85.2	2.6
	Household and repair services	16.1	80.3	3.6	8.6	91.4	0.0	24.9	69.6	5.5	6.3	90.3	3.4
	Hospitality and service sector	11.9	84.4	3.7	6.4	91.4	2.2	14.5	81.1	4.4	15.9	79.6	4.5
	Retail	11.3	85.9	2.8	7.5	90.7	1.8	12.8	84.5	2.7	12.0	83.0	5.0
	Agriculture	14.8	75.4	9.8	28.3	58.2	13.5	9.7	77.8	12.5	22.5	77.5	0.0
	Other	7.3	90.2	2.5	4.2	94.8	1.0	8.8	88.2	3.0	9.8	86.3	3.9
Detection risk	Very small	12.7	84.5	2.8	7.6	89.0	3.4	15.9	80.9	3.2	13.7	85.4	0.9
	Fairly small	10.9	85.3	3.8	7.2	90.8	2.0	11.4	84.2	4.4	16.2	78.3	5.5
	Fairly high	11.6	84.0	4.4	5.4	92.9	1.7	16.6	77.9	5.5	12.5	81.8	5.7
	Very high	14.2	81.9	3.9	7.5	92.5	0.0	28.5	63.9	7.6	11.9	83.8	4.3
Expected sanctions	Tax + social security contributions due	11.4	84.9	3.7	5.2	91.4	3.4	15.0	81.1	3.9	14.0	82.3	3.7
	Tax + contribution + fine	11.2	85.2	3.6	7.9	91.0	1.1	13.8	81.1	5.1	11.4	84.3	4.3
	Prison	11.4	86.7	1.9	0.0	100	0.0	11.6	86.3	2.1	20.2	76.4	3.4
Tax morale	<2	8.5	87.8	3.7	5.7	92.3	2.0	10.9	84.9	4.2	9.0	85.7	5.3
	2-4	13.7	81.9	4.4	7.7	91.6	0.7	15.4	78.3	6.3	17.1	78.4	4.5
	4-6	16.1	78.1	5.8	7.1	83.6	9.3	18.4	77.6	4.0	20.5	73.0	6.5
	6-8	26.2	63.8	10.0	18.4	81.6	0.0	32.9	48.3	18.8	24.5	67.9	7.6
	8-10	42.8	39.1	18.1	0.0	100	0.0	61.7	0.0	38.3	44.1	44.2	11.7

Source: GREY Survey

Figure 2 Predicted probability of receiving envelope wages of a 'representative' worker: by tax morale and age



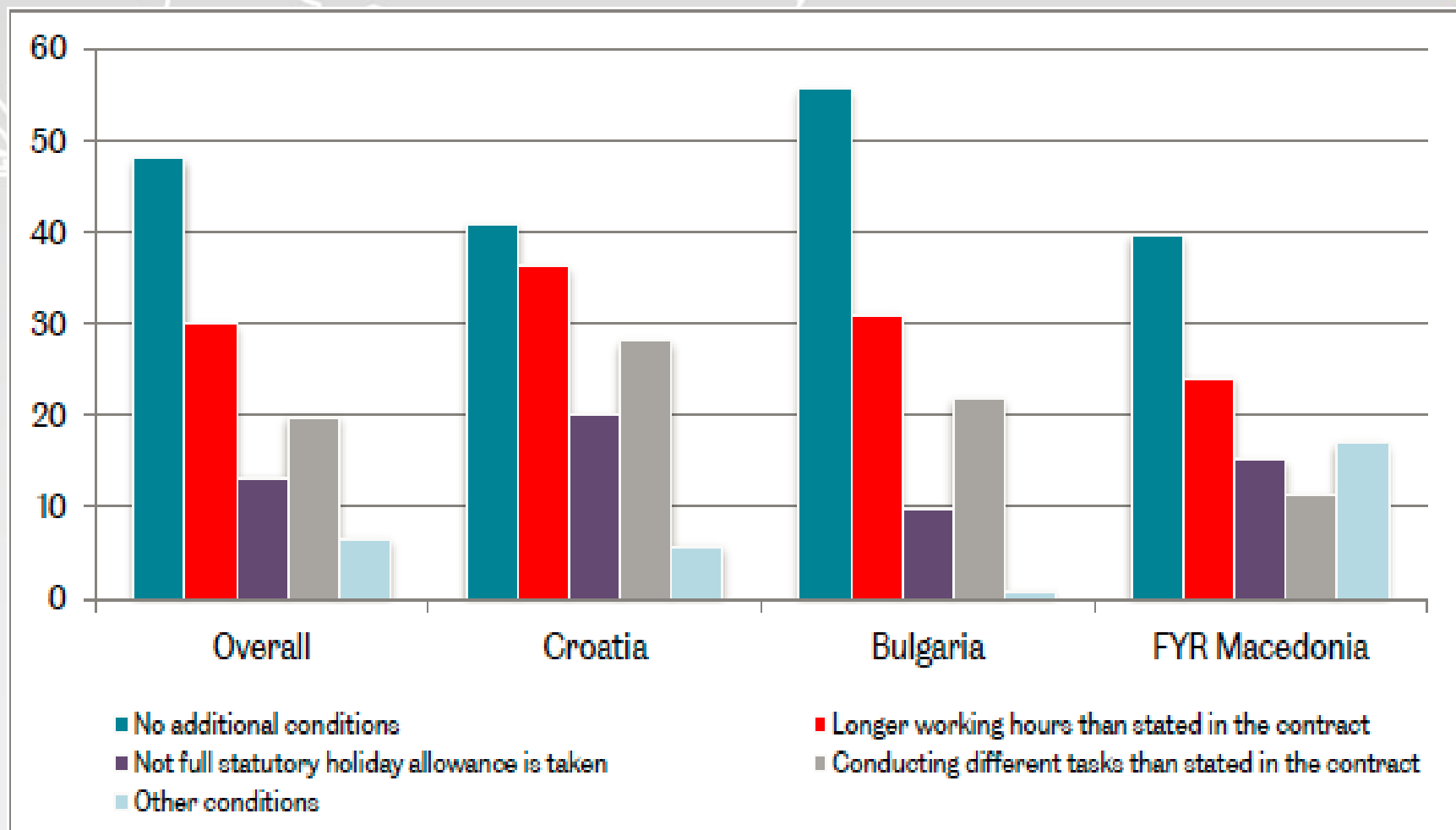
Representative worker: married Croatian male working in the industry sector, who thinks that the risk of being detected by the authorities is fairly small and expects to pay taxes and social security contributions due plus a fine if prosecuted

Table 2 An insight into the structure of quasi-formal workers in SEE, % of total under-declared population

		Overall	Croatia	Bulgaria	FYR Macedonia
Who suggested under-declaration	Worker	8.7	10.1	2.3	18.4
	Joint idea	24.2	20.4	29.0	18.5
	Employer	61.3	69.5	65.3	50.1
	DK/Refusal	5.8	0.0	3.4	13.0
Type of payment	Part of regular work	46.7	46.9	48.1	44.2
	Overtime, extra-work	25.9	28.9	20.4	33.2
	Regular and overtime	23.3	24.2	25.8	18.9
	DK/Refusal	4.1	0.0	5.7	3.7
Size of the declared wage	Below minimum	12.8	18.0	10.2	14.1
	Equals minimum	29.8	47.2	22.3	32.0
	Above minimum	48.0	27.8	59.6	40.7
	DK/Refusal	9.4	7.0	7.9	13.2
Share of net income received in cash	1-20%	30.4	31.4	30.3	30.0
	21-40%	26.3	29.2	34.0	12.2
	41-60%	8.7	10.5	6.7	11.1
	61-80%	1.5	0.0	1.3	2.6
	81-100%	4.4	1.7	2.1	9.6
	DK/Refusal	28.7	27.2	25.6	34.5
Satisfaction	Prefer full declaration	36.7	54.4	27.4	41.5
	It depends	27.0	23.4	33.7	18.4
	Happy with this	29.5	18.9	31.2	32.7
	DK/Refusal	6.8	3.3	7.7	7.4

Source: GREY Survey

Figure 3 Overview of additional conditions that accompanied under-declaration, % of quasi-formal workers



Source: GREY Survey



Thank you for your attention