Undeclared work

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PURPOSE : This document is a Commission communication to the Member States, European institutions and the social partners concerning the issue of undeclared work. CONTENT : The concept of 'undeclared work' is taken to mean any paid activities that are lawful as regards their nature but not declared to the public authorities, bearing in mind that the differences in the regulatory system of Member States must be taken into account. Applying this definition, criminal activities would be excluded, as would work which does not have to be declared. Working in the undeclared economy offers the opportunity to increase earnings and to avoid taxation and social contributions or to reduce costs. There are three contributing factors : - a growing demand for 'personalised' services; - the re-organisation of industry into long lines of vertical disintegration and chains of sub-contracting; - the spread of light technology which opens up new working opportunities and new areas of service activities. Undeclared work is generally present in sectors which are labour-intensive and with low profits, such as agriculture, construction, retail trade, catering or domestic services; manufacturing and business services where costs are the major factor of competition; and modern innovative sectors. Four main groups of participants in the undeclared economy can be identified : 1) second and multiple job holders; 2) the 'economically inactive' population; 3) the unemployed; and 4) third country nationals illegally resident in the EU. The age and gender of undeclared workers depend to a large extent on the sectors affected. Undeclared work risks undermining the foundations of financing and delivery of social protection and public services. The curtailment of receipts means a reduction in the level of services the State can offer, and this creates a vicious circle, as the government raises taxes to continue to provide the services, thus creating more incentives to undeclared work. In countries where social protection coverage is universal or where individuals have rights derived from their partners, undeclared work may not affect health or pension rights. The same is true for second job holders. However, undeclared workers who are normally inactive forego all the benefits derived from working with a formal contract, such as training, a specific career profile, pay rises, a sense of belonging to the enterprise. These people will also have difficulty in moving to other jobs. The impact on enterprises is felt through the distortion of competitive conditions, especially at the micro-level. There are two dimensions to the problem of undeclared work : it can be viewed as an issue of individuals taking advantage of a system and undermining solidarity in the process, or as the outcome of greater flexibility in the labour market and slower adaptation of existing legislation. In the first case, intervention should be oriented towards sanctions and awareness campaigns; in the second case, policy should concentrate on prevention through adapting inappropriate legislation to reflect new labour market realities and reducing burdens and obstacles. The two dimensions are often difficult to separate. The establishment of a comprehensive targeted strategy is essential, according to the Commission, if combating undeclaredwork is to be effective. A strategy which is to have any effect on reducing undeclared work should involve a mix of elements. This policy mix will inevitably vary from one Member State to another. Effective implementation and enforcement remain an important part of the overall strategy whatever the measures chosen. This Communication aims to launch a debate on the causes of undeclared work and the policy options for combatting it. It suggests that there is, firstly, a need to identify correctly the causes and extent of the problem and, secondly, to regard combating undeclared work as part of the overall employment strategy. The Commission hopes and expects that the Member States, Community institutions and social partners will participate vigorously in this debate. An increased awareness of the causes and extent of undeclared work, the identification of best practices in combating it and the possibility of co-ordinated EU action should be considered in this context. Implementation of several of the 1998 employment guidelines, such as those on developing entrepreneurship and encouraging adaptability, will help to discourage undeclared work. If the outcome of this debate indicates that further action at EU level would be appropriate, it could be considered in the context of the 1998 Joint Report and the Employment Guidelines for 1999.