

Evaluating the Prevalence and Distribution of Quasi-formal Employment in Europe
Évaluation de la prévalence et de la distribution de l'emploi quasi formel en Europe
Evaluación de la predominancia y de la distribución del empleo casi formal en Europa

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Volume 68, numéro 1, hiver 2013

URI : <https://id.erudit.org/iderudit/1014742ar>

DOI : <https://doi.org/10.7202/1014742ar>

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Éditeur(s)

Département des relations industrielles de l'Université Laval

ISSN

0034-379X (imprimé)

1703-8138 (numérique)

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Citer cet article

Williams, C. C. & Padmore, J. (2013). Evaluating the Prevalence and Distribution of Quasi-formal Employment in Europe. *Relations industrielles / Industrial Relations*, 68(1), 71–94. <https://doi.org/10.7202/1014742ar>

Résumé de l'article

Afin de démontrer que l'emploi formel et l'emploi informel ne sont pas toujours distincts l'un de l'autre, cet article met en lumière comment des travailleurs occupant des emplois dits formels dans l'Union européenne reçoivent, en fait, de leurs employeurs formels, deux types de salaires, soit un salaire officiellement déclaré et un salaire additionnel non déclaré, permettant aux employeurs d'échapper à leurs pleines obligations en matière fiscale et d'assurance sociale. L'analyse des données d'une enquête Eurobaromètre de 2007, comportant 26 659 entrevues en face à face dans les 27 États membres de l'Union européenne (EU-27), révèle qu'un employé sur 18 se retrouve embauché dans ce type d'emploi quasi formel, recevant en moyenne le quart de son salaire brut sur une base non déclarée. Une analyse de régression logistique à niveau multiple révèle quant à elle que l'emploi quasi formel est davantage prévalent dans les États de l'Europe centrale de l'Est, dans les entreprises de moindre taille et dans le secteur de la construction, ainsi que chez les hommes, les jeunes et les bas salariés.

Le représentation dichotomique de l'emploi, comme étant soit formel soit informel, mérite ainsi d'être revue en faveur d'un continuum plus raffiné de types d'emplois allant de l'emploi pleinement formel à l'emploi pleinement informel, avec toute une gamme d'entre-deux. L'article passe ensuite brièvement en revue ce qui peut être fait pour s'attaquer à cette pratique de travail illégitime. Il ressort clairement que cette forme d'emploi quasi formel doit être davantage intégrée dans les discussions portant sur la lutte au travail non déclaré, étant donné que certaines mesures allant en ce sens, telle une réduction du salaire minimum légal, peuvent avoir pour résultat d'inciter les employeurs formels à simplement accroître la portion non déclarée du salaire de leurs employés formels plutôt que de faciliter la création d'emplois vraiment formels.

Evaluating the Prevalence and Distribution of Quasi-formal Employment in Europe

Colin C. Williams and Jo Padmore

To show how formal and informal jobs are not always discrete, this paper uncovers how many formal employees in the European Union are paid two wages by their formal employers, an official declared salary and an additional undeclared wage, thus allowing employers to evade their full social insurance and tax liabilities. Analyzing a 2007 Eurobarometer survey involving 26,659 face-to-face interviews in the 27 member states of the European Union (EU-27), one in 18 formal employees are found to engage in such quasi-formal employment, receiving on average one-quarter of their gross salary on an undeclared basis. Multi-level logistic regression analysis reveals that quasi-formal employment is significantly more prevalent in East-Central Europe, in smaller businesses and the construction sector, and amongst men, younger persons and the lower paid. The paper then briefly reviews what might be done to tackle this illegitimate wage practice.

KEYWORDS: illegitimate work; informal sector; shadow economy; undeclared work; informal employment; envelope wages; tax compliance; decent work; European Union

Introduction

For many decades, formal and informal employment have been represented as separate realms and hostile worlds each with their own distinct logics (Boeke, 1942; Geertz, 1963; Lewis, 1959). In recent years, however, it has been widely shown that formal and informal employment are not temporally and normatively discrete, and neither can workers, enterprises and populations be universally depicted as either formal or informal (European Commission, 2007; Fortin and Lacroix, 2010; ILO, 2002; Marcelli, 2010; Pfau-Effinger, 2009; Round, Williams and Rodgers, 2008; Slack and Jensen, 2010; Smith, 2010; Venkatesh, 2006;

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Acknowledgements: We would like to thank the Employment Analysis division of DG Employment and Social Affairs at the European Commission for providing access to the database so that the analysis in this paper could be undertaken. The normal disclaimers of course apply.

Williams, 2004). Until now, however, little attention has been paid to evaluating critically whether jobs are either formal or informal. This paper seeks to do so. The starting point is a small stream of literature on employment relations in East-Central Europe that draws attention to how formal employers sometimes pay their formal employees not only an official declared salary but also an additional undeclared wage (Karpuskiene, 2007; Meriküll and Staehr, 2010; Neef, 2002; Sedlenieks, 2003; Williams, 2007, 2008, 2009a, 2009b; Woolfson, 2007; Žabko and Rajevska, 2007). Here termed “quasi-formal employment”, since it is nearly formal employment but not quite due to the presence of undeclared wage payments, the aim is to evaluate the prevalence of this wage arrangement in the 27 members states of the European Union (EU-27) and to assess whether it is statistically more significant in some sectors, firm types, socio-demographic groups and countries than others. The intention in so doing is to challenge the separateness of formal and informal employment by showing how formal employment is, in practice, often infused with illegitimate wage arrangements.

To do this, the first section will review how treating formal and informal employment as separate spheres has come under criticism from those highlighting not only their temporal and normative separateness but also whether workers, enterprises and populations are always either formal or informal. Until now, however, few have evaluated critically the assumption that jobs are either formal or informal. To begin to reveal that a job can be sometimes simultaneously both formal and informal, the second section will outline the methodology used in a 2007 Eurobarometer survey to study the extent and distribution of quasi-formal employment in the EU-27. The third section will then report its extensiveness in the EU-27 and provide a multi-level logistic regression analysis to investigate whether it is more prevalent in some countries, employee groups and types of business than others. In the fourth section, the implications for policy will be discussed whilst the fifth and final section will draw conclusions regarding the implications for theory and policy.

Before commencing, however, what is meant here by quasi-formal employment needs to be clarified. Examining the literature on informal employment, the strong consensus is that while formal employment is paid work declared to the state for tax, social security and labour law purposes, informal employment is, in all respects, the same except that the paid work is hidden from, or unregistered by, the state for tax, social security and/or labour law purposes (European Commission, 2007; ILO, 2002; Williams and Windebank, 1998). Informal employment can therefore take a number of forms. On the one hand, there is wholly undeclared work where the work contract between the employer and employee is totally hidden from, or unregistered by, the state for tax, social security or labour law purposes. On the other hand, and less discussed, there is under-declared work, or quasi-

formal employment, where formal employers pay formal employees not only an official declared salary, but also an additional undeclared wage. The latter has been perhaps ignored, overlooked or simply forgotten because the widespread assumption is that formal and informal jobs are separate and discrete. The idea that formal employees working for formal employers could be engaged in undeclared practices, and that a job could be neither purely formal nor purely informal, has been seldom considered.

Beyond the Formal/Informal Employment Divide: A Literature Review

Across the social sciences, a widely-held assumption has been that there are separate and discrete formal and informal economies. Over the past few decades, however, this “dual economies” thesis has come under increasing scrutiny by those who have questioned not only the temporal and normative separateness of formal and informal employment, but also whether populations, enterprises, workers and jobs can be deemed to be either formal or informal.

In the dual economies thesis, a temporal separateness of these spheres was depicted with the formal economy in the ascendancy and the informal economy a residue or leftover from some past regime of accumulation and disappearing (Boeke, 1942; Geertz, 1963; Lewis, 1959). However, in recent decades, the persistence and growth of informal employment in the modern world has led to this depiction of temporal separateness being challenged by showing how formal and informal employment not only co-exist, but also rise and fall in tandem (Charmes, 2009; ILO, 2002; Jütting and Laiglesia, 2009; Feld and Schneider, 2010). So too has their normative separateness come under assault. Rather than depict these spheres in a binary hierarchical manner, with all formal employment possessing positive attributes and informal employment always displaying negative qualities, it has been shown that not all formal employment is “decent work” (e.g., zero-hours contracts, false self-employment) and that informal employment is sometimes autonomous and rewarding work that is voluntarily chosen (De Soto, 2001; ILO, 2002; Round, Williams and Rodgers, 2008; Williams, 2006).

Similarly, there has been a growing recognition that populations, enterprises and workers are not always either informal or formal, but often simultaneously both (Round, Williams and Rodgers, 2008). Rather than portray populations (e.g., shanty town dwellers and the population of the western world) as either purely informal or purely formal, a growing body of literature has shown that all populations engage in both formal and informal employment. Indeed, rather than view one as a substitute for the other, and therefore one present when the other is absent, a growing literature has revealed that the two are often strongly intertwined and mutually reinforcing (Evans, Syrett and Williams,

2006; Pfau-Effinger, 2009; Renooy, 1990; Smith, 2010; Slack and Jensen, 2010; Williams, 2004, 2006).

Moreover, enterprises were, in the dual economies thesis, portrayed as either formal or informal. Indeed, the ILO (2002) even adopted an enterprise-based definition of informal employment based on the assumption that enterprises were either wholly formal or wholly informal. A growing literature, however, has revealed that many formal businesses conduct some of their trade informally and that the vast majority of informal work is actually conducted by formal businesses rather than by wholly off-the-books enterprises (Gurtoo and Williams, 2009; Llanes and Barbour, 2007; Ram *et al.*, 2002a, 2002b; Small Business Council, 2004; Williams, 2006). The outcome has been a shift away from a dichotomous depiction of enterprises as either formal or informal and towards a representation of enterprises as existing on a continuum from wholly formal to wholly informal. This was recognized by the 17th International Conference of Labour Statisticians (ICLS) in 2003 when it extended the ILO enterprise-based definition adopted by the 15th ICLS in 1993 to include an employment-based definition which recognized, for example, the existence of employees holding informal jobs in formal enterprises (ILO, 2011).

Workers, similarly, have been increasingly shown to be seldom either formal or informal. A dual labour market where one set of individuals engage in formal employment and another set of individuals in informal employment (e.g., Tokman, 2001), has been heavily criticized. A wealth of literature reveals that the vast majority of informal employment is conducted by those in formal employment, such as the formal self-employed who conduct a portion of their trade off-the-books (Fortin and Lacroix, 2010; Ghezzi, 2010; Marcelli, 2010; Pahl, 1984; Pfau-Effinger and Sakac-Magdalenic, 2010; Slack and Jensen, 2010; Smith, 2010; Williams, 2004; Williams and Windebank, 1998). Again, therefore, the depiction of workers as either formal or informal has been transcended.

Until now, however, the assumption that a job is either formal or informal has been subject to far less criticism. There remains a steadfast belief that a job is either formal or informal, and cannot be simultaneously both. Very little consideration has been given to the notion that formal employees might sometimes receive from their formal employer not only an official declared salary, but also an additional undeclared salary. In the past few years, nevertheless, a small emergent literature has begun to document the presence of such under-declared or quasi-formal employment which resembles formal employment but is not because of these undeclared payments. However, such analyses have been so far largely confined to East-Central Europe, with studies conducted in Estonia (Meriküll and Staehr, 2010), Latvia (OECD, 2003; Meriküll and Staehr, 2010; Sedlenieks, 2003; Žabko and Rajevska, 2007), Lithuania (Karpuskiene,

2007; Meriküll and Staehr, 2010; Woolfson, 2007), Romania (Neef, 2002), Russia (Williams and Round, 2007) and Ukraine (Round, Williams and Rodgers, 2008; Williams, 2007).

On the whole, these have been small-scale studies. For instance, the study in Lithuania by Woolfson (2007) is an in-depth case study of one person, albeit a *cause célèbre*, whilst the Latvian study by Sedlenieks (2003) reports 15 face-to-face interviews conducted in Riga. Although the Ukraine survey covers 600 households, it is limited to three localities (Williams, 2007), whilst the evidence from Russia is based on interviews with 313 households in three districts of Moscow (Williams and Round, 2007). Indeed, the only national-level representative surveys have been conducted by Meriküll and Staehr (2010) who report the results of 900 interviews conducted in Estonia, Latvia and Lithuania, albeit from earlier in the transition process in 1998 and 2002.

Nevertheless, and despite their limited scope, such studies provide a strong rationale for pursuing a wider-ranging survey of this illegitimate wage arrangement. Some 30 per cent of formal employees in Ukraine reported receiving an additional undeclared wage alongside their formal salaried wage from their formal employer (Williams, 2007), whilst in Moscow some two-thirds (65 per cent) received such an additional undeclared wage which ranged from 20 to 80 per cent of their total gross wage packet (Williams and Round, 2007). Meanwhile, comparing labour force and employer surveys, the OECD (2003) find that 20 per cent of private sector employees in Latvia receive an additional undeclared wage.

The rationales for its usage by employers, moreover, are fairly straightforward. On the one hand, by paying some of the salary of the formal employee as an additional undeclared wage, the formal employer evades paying their full social insurance and tax liabilities. On the other hand, it also represents a useful device when a formal employer wants to make redundant formal employees. When a formal employer withdraws payment of the undeclared wage, formal employees tend to voluntarily leave, thus allowing formal employers to not incur any social costs in terms of redundancy pay. Indeed, the evidence is that it is actively used by formal employers in this manner in many East-Central European countries (Hazans, 2005; Round, Williams and Rodgers, 2008).

In sum, the existence of such quasi-formal employment directly challenges the long-standing assumption that jobs are either formal or informal. Until now, however, beyond the East-Central European context, this assumption has been seldom challenged. Here, therefore, the intention is to evaluate whether this type of quasi-formal employment is widely prevalent across the EU-27 as well as whether it is statistically more significant in some sectors, firm types, socio-demographic groups and countries than others.

Methodology

In late 2005 the European Commission funded a team (which included this paper's author) to design a survey to evaluate undeclared work and under-declared work in the European Union (TNS Infratest *et al.*, 2006). The fieldwork was undertaken during May and June 2007. Here, the findings with regard to the employer practice of under-declaring the wages of formal employees are reported, the subject matter of one section of the questionnaire.

Some 26,659 face-to-face interviews were conducted in the 27 EU member states, ranging from some 500 interviews in smaller member states to 1,500+ interviews in larger EU countries. In each nation, a multi-stage random (probability) sampling method was employed. A number of sampling points were drawn with probability proportional to population size (for total coverage of the country) and to population density according to the Eurostats NUTS II (or equivalent) and the distribution of the resident population in terms of metropolitan, urban and rural areas. In each of these selected sampling units, a starting address was then randomly drawn. Further addresses (every n^{th} address) were then selected using standard "random route" procedures from the initial address. In each household, meanwhile, the respondent was chosen at random (following the "closest birthday rule"). All interviews were undertaken face-to-face in people's homes and in the appropriate national language with adults aged 15 years and over. The data collected were collated using CAPI (computer assisted personal interview) in countries where this was available.

The face-to-face interview schedule started with attitudinal questions about participation in undeclared work, followed by questions on whether they had received undeclared goods and services, questions to formal employees on whether they had received an additional undeclared wage from their formal employer and, finally, questions on whether they had supplied undeclared work. Given the focus in this paper on quasi-formal employment, discussion here is confined to the questions asked in relation to this issue. Firstly, that is, respondents were asked, "Sometimes employers prefer to pay all or part of the regular salary or the remuneration for extra work or overtime hours cash-in-hand and without declaring it to tax or social security authorities. Did your employer pay you all or part of your income in the last 12 months in this way?". Secondly, and to understand whether the undeclared wage component of their salary was paid for regular work, overtime or both, interviewees were asked "Was this income part of the remuneration for your regular work, was it payment for overtime, or both?" and thirdly, they were asked what percentage of their gross yearly income from their main job is received on such an undeclared basis. The results are reported below.

Before doing so, it should be noted that previous studies reporting this 2007 Eurobarometer survey have analyzed the findings on wholly undeclared work in South-East Europe (Williams, 2010), the construction sector (Williams, Nadin and Windebank, 2011) and in terms of the gender disparities (Williams, 2011). Results on formal employers under-declaring wages, meanwhile, have only reported the findings for specific regions, namely East-Central Europe (Williams, 2008, 2009a), South-East Europe (Williams, 2010) and the Baltic region (Williams, 2009b). In this paper, therefore, for the first time, an analysis of the findings for the EU-27 is reported. To analyze the prevalence and distribution of quasi-formal employment, a multi-level logistic regression analysis, utilizing the hierarchical nature of the data (individuals within countries), has been conducted. This has allowed an investigation of the impact of both individual and country level variables using a random intercept logit model. The binary response variable was whether or not the formal employee had been paid on an under-declared basis over the last 12 months. This enables one to see whether quasi-formal employment is statistically more likely to prevail in some sectors, firm types, socio-demographic groups and countries than others in the EU-27.

Results

Of the 26,659 face-to-face interviews conducted, some 11,135 were with formal employers in employment. Some 5.5 per cent (or one in 18) of these formal employees (616 employees in total) had received an illegitimate undeclared wage in addition to their official declared wage from their formal employer in the past 12 months. If extrapolated to the EU-27 as a whole, this suggests that in absolute terms, some 11 million of the 210 million formal employees in the EU were in quasi-formal employment receiving from their formal employer an official salary as well as an additional undeclared wage. On average, those in receipt of this additional undeclared wage from their formal employer receive one-quarter of their total wage on an undeclared basis. Who, therefore, receives from their formal employer an unofficial undeclared wage in addition to their official salary? Which businesses under-declare the wages of their formal employees? And where, geographically, is such a wage arrangement to be found in the EU-27?

Who Participates in Quasi-formal Employment?

As Table 1 reveals, this illegitimate wage arrangement is ubiquitous across all types of formal employee whatever their occupation, gender, age or income. Few, if any, socio-demographic segments of the formal workforce, therefore, are totally exempt from this employer practice. Nevertheless, some segments of the

formal workforce are more likely than others to receive a portion of their wages on an undeclared basis from their formal employers. This wage arrangement is more prevalent amongst manual workers than among white collar workers. Men are also more likely than women to be paid a portion of their wages on an undeclared basis from their formal employer; indeed, 61 per cent of those receiving under-declared wages are men. It is also a practice that is more common amongst younger employees across all EU regions and amongst those on lower wages.

Table 2 evaluates whether these differences across population groups are significant using a multi-level regression analysis in the form of a random intercept logit model. This reveals that men, younger age groups, those with fewer years in formal education and those on lower wage levels are all significantly more likely to be paid on an under-declared basis than women, older age groups, those with more years in formal education and those on higher incomes ($p < 0.001$ in each case).

TABLE 2
Random Intercept Logit Model with Gender, Age, Education and Income

Fixed Part	β	se(β)	Wald	df	p-value	Exp(β)	
CONSTANT	-2.917	0.25	136.62	1	0.000	0.054	***
GENDER (Female)							
Male	0.807	0.104	60.19	1	0.000	2.241	***
AGE (centred)	-0.030	0.005	45.04	1	0.000	0.970	***
FORMAL EDUCATION (15 and under)							
16-19	-0.226	0.177	1.64	1	0.200	0.798	–
20+	-0.742	0.198	14.11	1	0.000	0.476	***
MONTHLY INCOME (0-500 euros)							
501-1000 euros	-0.486	0.145	11.28	1	0.001	0.615	***
1001-2000 euros	-0.404	0.195	4.28	1	0.039	0.668	*
2001-3000 euros	-1.158	0.294	15.54	1	0.000	0.314	***
3001+ euros	-1.027	0.298	11.89	1	0.001	0.358	***
Random Part	Ω_u	se(Ω_u)	–	–	–	–	–
Level: COUNTRY	0.632	0.203	9.67	1	0.002	–	**
Countries	27	–	–	–	–	–	–
N	7932	–	–	–	–	–	–

Estimated proportion of residual variation due to country: 16.1%

Which Businesses Use Quasi-formal Employment?

Table 3 begins to unpack which types of business pay this additional undeclared wage to their formal employees. This again reveals that, although this wage arrangement is ubiquitous across all business types whatever the size of the business in terms of the number of employees and whatever the sector, this illegitimate wage practice of formal employers is used markedly more by smaller-than larger-sized businesses. It is also more prevalent in some sectors than others, notably the construction industry and repair services.

This is confirmed in the multi-level regression analysis presented in Table 4. When the issue of which businesses engage in this illicit wage arrangement with their formal employees is added to the model, it is found that, although occupation does not in itself appear to have a significant influence on the propensity to receive under-declared wages, there is evidence that sector and business size do have a significant impact. There is evidence ($p < 0.01$) that the prevalence of under-declared wage payments significantly varies with sector and is highest in the construction sector (which has a relatively high proportion of manual workers) and less prevalent in the sectors of industry, household services and personal services. For example, 13% of formal employees in the construction industry are in quasi-formal employment compared with just 2% of those in the household services sector. There is also strong evidence ($p < 0.001$) that this form of illicit wage arrangement is more prevalent in businesses employing 20 or fewer people and that the prevalence of quasi-formal employment decreases as business size increases.

To investigate this relationship between the type of business engaging in this wage arrangement and the socio-demographic profile of those engaged in quasi-formal employment, preliminary cross tabulations were conducted that reveal how a greater proportion of employees educated beyond the age of 20 are located in larger organizations with more than 500 employees. That is, some 50% of employees in these larger organizations were educated to the age of 20 or beyond compared with only 30% of employees in organizations with 1-20 employees. This may, therefore, account for the fact that education is no longer significant in this model. As noted, moreover, occupation did not appear to have a significant effect on whether one engaged in quasi-formal employment and it appears that being a manual worker *per se* is not necessarily associated with the propensity to receive an additional undeclared wage from ones formal employer when this is cross-tabulated with the sector in which these manual workers are employed. For example, of the 668 workers employed in household/gardening services, 495 (74%) classify themselves as manual workers of whom only 14 (3%) report that they receive an additional unofficial wage as well as their official salary from their formal employer. By comparison, of the

TABLE 3
Distribution of Quasi-formal Employment by Firm Size and Sector

	% employees who engaged in quasi-formal employment in last 12 months	% of gross wage received on undeclared basis (median)	% of all those engaged in quasi-formal employment	% off all employees surveyed	Undeclared wage component paid as remuneration for:			
					Regular work	Overtime/extra work	Both regular & overtime work	Refusal + don't know
EU-27	6	25	100	100	33	29	32	6
<i>No. of employees in business:</i>								
1-20	11	21	55	33	31	33	32	4
21-50	8	19	18	15	35	32	28	5
51-100	7	27	11	10	52	24	20	4
101-500	4	30	10	19	40	36	20	4
501+	2	15	6	23	28	24	31	17
<i>Sector:</i>								
Construction	13	29	24	13	35	27	34	4
Industry	5	24	18	23	40	30	25	5
Household services	2	15	3	8	33	20	33	13
Transport	9	27	9	7	24	24	46	7
Personal services	5	20	16	24	29	30	33	8
Retail	7	19	13	13	35	37	24	4
Repair services	11	18	5	3	23	27	43	7
Hotel, restaurant, cafes	9	17	8	6	33	39	21	7
Agriculture	10	43	4	3	50	15	35	0

TABLE 4
Random Intercept with Gender, Age, Education, Income, Occupation, Sector and Size

Fixed Part	β	se(β)	Wald	df	p-value	Exp(β)	
CONSTANT	-1.878	0.376	24.979	1	0.0000	0.1529	***
GENDER (Female)							
Male	0.524	0.142	13.54	1	0.0002	1.6888	***
AGE (centred)	-0.028	0.005	25.839	1	0.0000	0.9724	***
FORMAL EDUCATION (15 and under)							
16-19	-0.07	0.221	0.102	1	0.7494	0.9324	–
20+	-0.22	0.25	0.777	1	0.3781	0.8025	–
MONTHLY INCOME (0-500 euros)							
501-1000 euros	-0.434	0.169	6.557	1	0.0104	0.6479	*
1001-2000 euros	-0.473	0.229	4.283	1	0.0385	0.6231	*
2001-3000 euros	-1.287	0.345	13.938	1	0.0002	0.2761	***
3001+ euros	-1.243	0.403	9.524	1	0.0020	0.2885	**
OCCUPATION (Manager)							
Other white collar	0.204	0.216	0.897	1	0.3436	1.2263	–
Manual	0.161	0.201	0.639	1	0.4241	1.1747	–
SECTOR (Construction)							
Industry	-0.632	0.193	10.687	1	0.0011	0.5315	**
Household/Gardening	-1.708	0.496	11.878	1	0.0006	0.1812	***
Transport	-0.352	0.249	2.004	1	0.1569	0.7033	–
Personal services	-0.728	0.213	11.734	1	0.0006	0.4829	***
Retail	-0.455	0.217	4.381	1	0.0363	0.6344	*
Repair services	-0.355	0.291	1.485	1	0.2230	0.7012	–
Hotel, restaurant, cafes	-0.378	0.25	2.283	1	0.1308	0.6852	–
Agriculture	-0.739	0.365	4.113	1	0.0426	0.4776	*
SIZE (20 or fewer people)							
21-50 people	-0.563	0.167	11.33	1	0.0008	0.5695	***
51-100 people	-0.418	0.199	4.389	1	0.0362	0.6584	*
101-500 people	-1.081	0.202	28.528	1	0.0000	0.3393	***
501+ people	-1.28	0.25	26.238	1	0.0000	0.2780	***
Random Part	Ω_u	se(Ω_u)	–	–	–	–	–
Level: COUNTRY	0.521	0.18	8.36	1	0.0038	–	*
Countries	27	–	–	–	–	–	–
N	4557	–	–	–	–	–	–

Estimated proportion of residual variation due to country:13.7%

1043 workers in the construction industry, 724 (69%) classify themselves to be manual workers and, of these, 108 (15%) are engaged in quasi-formal employment. Overall, 7% of manual workers are engaged in quasi-formal employment compared with around 5% of “other white collar” and 4% of the “professional/managers” group.

Where is Quasi-formal Employment to Be Found?

In order to further investigate the geographies of quasi-formal employment, and given the small numbers of respondents involved, the results from the 27 EU member states are grouped here, in the first instance, into four broad geographical regions:

- Continental Europe, UK and Ireland (Belgium, Germany, France, Ireland, Luxembourg, Netherlands, Austria and the UK);
- Eastern and Central Europe (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia);
- Southern Europe (Cyprus, Greece, Spain, Italy, Malta and Portugal), and
- Nordic countries (Denmark, Finland; Sweden).

When analyzed through the lens of these four regions, Table 5 reveals some clear patterns so far as the geographies of quasi-formal employment are concerned. Such quasi-formal employment is more common as an employment practice in East-Central Europe, with 10 per cent of formal employees in this EU region receiving an additional undeclared wage from their formal employer compared with just 2 per cent of formal employees in Continental European nations, 4 per cent in Southern Europe and 2 per cent in Nordic countries.

There are also marked variations in the character of quasi-formal employment in these four regions. Around one half of those receiving an additional undeclared wage from their formal employer in both Continental Europe and Nordic countries (52 per cent and 50 per cent respectively) receive this unofficial wage for overtime or extra work conducted. In East-Central Europe and Southern Europe, however, this unofficial additional wage is paid by formal employers to formal employees more usually for their regular work or for both regular work and overtime. The outcome is that, although only just over a third (37 per cent) of the formal employees surveyed are in East-Central Europe, well over two-thirds (69 per cent) of those reporting that they engage in quasi-formal employment worked in these countries, and these represent 85 per cent of all employees receiving an additional undeclared wage for their regular employment. As such, quasi-formal employment in the EU-27 is heavily concentrated in East-Central Europe.

It is important, however, to recognize the variations not only between EU regions but also within EU regions. For example, there is a clear segmentation

TABLE 5
Formal Employees Engaging in Quasi-formal Employment in the Past 12 Months, by EU Member State and EU Region

Country	No. of waged employees surveyed	% all employees receiving under-declared wages	% off gross income received on under-declared basis (median)	Undeclared wage component paid as remuneration for:			Refusal + don't know
				Regular work	Overtime/extra work	Both regular & overtime work	
EU-27	11,135	6	25	33	28	32	6
<i>East-Central Europe</i>	<i>4,164</i>	<i>10</i>	<i>38</i>	<i>41</i>	<i>20</i>	<i>36</i>	<i>3</i>
Romania	452	22	86	49	9	41	2
Latvia	492	16	46	44	18	36	1
Bulgaria	415	13	30	48	16	34	2
Lithuania	423	11	43	42	11	47	–
Poland	286	10	49	35	17	48	–
Estonia	399	7	19	38	17	31	14
Hungary	333	7	15	25	46	25	4
Slovakia	506	6	17	45	39	16	–
Slovenia	357	5	15	12	41	29	18
Czech Republic	501	3	14	14	50	36	–
<i>Southern Europe</i>	<i>1,769</i>	<i>4</i>	<i>16</i>	<i>15</i>	<i>35</i>	<i>32</i>	<i>18</i>
Italy	430	6	40	11	18	41	30
Spain	362	5	13	16	42	26	16
Portugal	392	4	30	19	19	31	31
Cyprus	186	4	10	14	57	29	–

TABLE 5 (suite)

Country	No. of waged employees surveyed	% all employees receiving under-declared wages	% off gross income received on under-declared basis (median)	Undeclared wage component paid as remuneration for:			Refusal + don't know
				Regular work	Overtime/extra work	Both regular & overtime work	
Greece	247	3	15	29	57	14	—
Malta	152	1	10	100	—	—	—
<i>Continental Europe</i>	<i>3,726</i>	<i>2</i>	<i>13</i>	<i>13</i>	<i>52</i>	<i>22</i>	<i>13</i>
Belgium	398	5	12	15	70	10	5
Austria	560	5	16	16	44	32	8
Ireland	458	2	13	12	63	—	25
Netherlands	490	2	14	—	75	13	13
Germany	624	1	13	33	67	—	—
France	483	1	40	17	50	33	—
Luxembourg	186	1	10	—	100	—	—
United Kingdom	527	1	10	14	72	14	—
<i>Nordic nations</i>	<i>1,476</i>	<i>2</i>	<i>10</i>	<i>18</i>	<i>50</i>	<i>18</i>	<i>15</i>
Finland	440	2	10	40	30	30	—
Sweden	542	2	11	8	75	8	8
Denmark	494	2	10	8	42	17	33

of the East-Central European nations in relation to this wage practice. On one side are those post-socialist societies in which this practice is extensive, paid to employees more for their regular hours and it amounts to, on average, around one half of formal employees' wages (i.e., Bulgaria, Latvia, Lithuania, Poland and Romania) and, on the other side, those countries in which such a practice is less common, paid more for overtime or extra work and amounts, on average, to around one fifth of employees' wage packets (i.e., Czech Republic, Slovenia, Slovakia, Hungary and Estonia). Indeed, some 50% of all quasi-formal employment in the EU-27, and 70% of instances where an additional unofficial wage is paid for their regular work, are concentrated in just five countries, namely Bulgaria, Latvia, Lithuania, Poland and Romania.

The random intercept logit model with no explanatory variables included indicates that over 20% of the variance in the propensity to be engaged in quasi-formal employment is accounted for at the country level (Wald = 11.036, df = 1, $p < 0.001$), suggesting significant variation between countries. This, therefore, is the first clue that geography is important in determining the prevalence of quasi-formal employment. While the addition of explanatory variables in the models presented in Tables 2 and 4 reduces the proportion of residual variation due to country level variation, it remains significant ($p < 0.01$). The addition of a level 2 explanatory variable, EU region, as Table 6 displays, results in a substantial reduction in the country level variance; the proportion of residual variation due to country level variation drops from 13.7% to 8.2%, indicating differences in the prevalence of quasi-formal employment between regions. Specifically, it displays the greater prevalence of quasi-formal employment among formal employees in East-Central European countries compared with other regions.

What Is to Be Done about Quasi-formal Employment?

It might be assumed that a *laissez-faire* approach towards quasi-formal employment is the most appropriate way forward, especially in the current period of austerity in the European Union. After all, if governments clamp down on formal employers making such additional undeclared wage payments to their formal employees, where at least the employees are officially registered and a portion of their earnings declared, these employers might turn to wholly off-the-books employment contracts. The problem with this policy option, however, is that it allows the situation to continue where formal employees cannot gain full access to social security and pension payments since their official wages are lower than their actual wage and where they cannot gain access to mortgages and credit due to their low official wage. Allowing such a wage practice to continue also perpetuates a climate of unfair competition for wholly legitimate businesses (both on an intra- and inter-national level) and encourages a race to the bottom

TABLE 6
Random Intercept with Gender, Age, Education, Income, Occupation, Sector, Size and EU Region

Fixed Part	β	se(β)	Wald	df	p-value	Exp(β)	
CONSTANT	- 1.363	0.378	13.013	1	0.000	0.256	***
GENDER (Female)							
Male	0.504	0.143	12.428	1	0.000	1.655	***
AGE (centred)	- 0.028	0.005	27.101	1	0.000	0.972	***
FORMAL EDUCATION (15 and under)	–	–	1.514	2	0.469	–	–
16-19	- 0.134	0.222	0.364	1	0.546	0.875	–
20+	- 0.284	0.251	1.274	1	0.259	0.753	–
MONTHLY INCOME (0-500 euros)	–	–	11.300	4	0.023	–	*
501-1000 euros	- 0.354	0.170	4.349	1	0.037	0.702	*
1001-2000 euros	- 0.184	0.248	0.549	1	0.459	0.832	–
2001-3000 euros	- 0.952	0.377	6.364	1	0.012	0.386	*
3001+ euros	- 0.892	0.436	4.193	1	0.041	0.410	*
EUAREA (East-Central Europe)	–	–	15.829	3	0.001	–	***
Nordic nations	- 0.689	0.493	1.947	1	0.163	0.502	–
Continental Europe	- 1.207	0.367	10.823	1	0.001	0.299	***
Southern Europe	- 1.221	0.370	10.873	1	0.001	0.295	***
OCCUPATION (Manager)	–	–	1.369	2	0.504	–	–
Other white collar	0.237	0.216	1.203	1	0.273	1.267	–
Manual	0.218	0.202	1.160	1	0.281	1.244	–
SECTOR (Construction)	–	–	22.070	8	0.005	–	**
Industry	- 0.628	0.194	10.529	1	0.001	0.534	***
Household/Gardening	- 1.659	0.496	11.166	1	0.001	0.190	***
Transport	- 0.337	0.249	1.824	1	0.177	0.714	–
Personal services	- 0.681	0.213	10.190	1	0.001	0.506	***
Retail	- 0.422	0.218	3.766	1	0.052	0.656	–
Repair services	- 0.355	0.291	1.488	1	0.223	0.701	–
Hotel, restaurant, cafes	- 0.340	0.251	1.834	1	0.176	0.712	–
Agriculture	- 0.740	0.363	4.153	1	0.042	0.477	*
SIZE (20 or fewer people)			49.284	4	0.000	–	***
21-50 people	- 0.576	0.167	11.871	1	0.001	0.562	***
51-100 people	- 0.416	0.199	4.367	1	0.037	0.660	*
101-500 people	- 1.099	0.203	29.454	1	0.000	0.333	***
501+ people	- 1.291	0.250	26.674	1	0.000	0.275	***
Random Part	Ωu	se(Ωu)	–	–	–	–	–
Level: COUNTRY	0.295	0.116	6.443	1	0.011	–	*
Countries	27	–	–	–	–	–	–
N	4557	–	–	–	–	–	–

Estimated proportion of residual variation due to country: 8.2%

in terms of employment conditions and standards. Governments, furthermore, are hindered in achieving broader societal goals such as social inclusion since this practice deprives them of the revenue required to finance social protection. For these reasons, therefore, a *laissez-faire* approach is here rejected and intervention advocated. Intervention in this realm, however, can take diverse forms.

One policy intervention is to simply increase the level of fines for those formal employers (and/or formal employees) caught engaged in such an illicit wage arrangement and to increase the probability of detection. The problem is that evaluations of whether increasing penalties and detection methods are effective are not conclusive (for a review, see Kirchner, 2007; Williams, 2006). Another option, therefore, is to provide incentives to prevent employers adopting such a wage arrangement in the first place. These include: simplifying regulatory compliance, such as the procedures to both register and pay declared employees; shifting from direct to indirect taxation systems, and raising the level of the minimum wage. The latter in particular needs serious consideration. In East-Central Europe where quasi-formal employment is concentrated, minimum wage levels have been set cautiously at around half the average wage level (European Commission, 2007). The rationale was to prevent a shift from formal to informal employment. The problem, however, is that low minimum wages might deter wholly informal employment, but they allow formal employers to pay a large portion of their formal employees' earnings as an additional undeclared wage. Raising the minimum wage closer to the average wage would, therefore, reduce the portion of the total wage that could be paid undeclared. The issue of course is that employers might then decide to employ workers on a wholly undeclared basis. This policy measure of increasing the minimum wage level will therefore need to be piloted and critically evaluated, especially with regard to determining the tipping point at which employers shift from employing people on a formal contract to wholly informal employment.

Another option, especially to tackle those already employing people on a quasi-formal basis, is to offer an amnesty for those who pay an additional undeclared wage. Another is to shift from the use of direct to indirect taxes, a proposal currently advocated by the European Commission for tackling undeclared work more widely (European Commission, 2007), in order to reduce employer contributions and therefore their need to seek savings by using undeclared wage arrangements. Finally, there is also the option of providing tax education to raise awareness about the benefits of fully formal employment. Evidence from UK advertising campaigns that extol the benefits of wholly declared work display a return-cost ratio of 19:1 in terms of revenue returns for tax authorities (i.e., £19 return for every £1 spent) while punitive measures have a return-cost ratio of just 5:1 (National Audit Office, 2008). In consequence, such indirect controls could be an effective policy approach for tackling quasi-formal employment.

None of these policy measures, it should be noted, are mutually exclusive. Governments could increase the minimum wage and, at the same time, offer amnesties to formal employers deciding to bring additional undeclared wage payments into the declared realm and then, for those failing to do so, implement higher fines for those subsequently caught using improved detection methods whilst at the same time introducing tax education campaigns.

Conclusions

To display the fallacy of portraying formal and informal employment as discrete forms of work, this paper has highlighted the prevalence of “quasi-formal employment” in the EU-27 by reporting the results of a 2007 Eurobarometer survey involving 26,659 face-to-face interviews. One in every 18 of the formal employees surveyed had received from their formal employer an undeclared wage in addition to their declared salary in the previous year and the undeclared payments on average amounted to around one quarter of their gross wage. Such a wage practice, moreover, is ubiquitous in all countries, sectors, firm sizes and socio-economic groups throughout the EU, even if it is relatively more common in some rather than others. The multi-level logistic regression analysis reveals that this wage arrangement is significantly more prevalent in East-Central Europe, in smaller businesses and the construction sector, and amongst men, younger persons and the lower paid.

These findings have important implications for theorizing employment. Jobs can no longer be seen as either formal or informal. Instead, they are often simultaneously both. A significant minority (some one in 18) of jobs currently portrayed as formal employment in the EU-27 are permeated with illegitimate wage arrangements whereby the formal employer pays a declared official salary as well as an additional unofficial undeclared wage. The dichotomous depiction of employment as either formal or informal, therefore, needs to be transcended and a finer-grained continuum of types of employment depicted from wholly formal to wholly informal with many varieties in-between. Moreover, these findings also have important policy implications. This paper clearly displays that when tackling undeclared work, this quasi-formal form of employment needs to be more fully integrated into discussions since some measures that tackle wholly undeclared work may well just push workers and jobs into this realm of quasi-formal employment rather than fully formal employment. Hopefully, therefore, this paper will stimulate not only a re-theorization of the crude formal/informal employment divide and encourage further studies in other contexts of the extent of quasi-formal employment, but will also encourage discussion of how undeclared work might be tackled to be set within the broader context of their implications for the growth of under-declared work. If it does so, then this paper will have achieved its intentions.

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SUMMARY

Evaluating the Prevalence and Distribution of Quasi-formal Employment in Europe

To show how formal and informal jobs are not always discrete, this paper uncovers how many formal employees in the European Union are paid two wages by their formal employers, an official declared salary and an additional undeclared wage, thus allowing employers to evade their full social insurance and tax liabilities.

Analyzing a 2007 Eurobarometer survey involving 26,659 face-to-face interviews in the 27 member states of the European Union (EU-27), one in 18 formal employees are found to engage in such quasi-formal employment, receiving on average one-quarter of their gross salary on an undeclared basis. Multi-level logistic regression analysis reveals that quasi-formal employment is significantly more prevalent in East-Central Europe, in smaller businesses and the construction sector, and amongst men, younger persons and the lower paid. The dichotomous depiction of employment as either formal or informal therefore needs to be transcended and a finer-grained continuum of types of employment depicted from wholly formal to wholly informal with many varieties in-between. The paper then briefly reviews what might be done to tackle this illegitimate wage practice. This clearly displays that this quasi-formal form of employment needs to be more fully integrated into discussions when discussing how to tackle undeclared work, since some measures that tackle wholly undeclared work, such as reducing the minimum wage, might simply allow formal employers to pay a larger portion of their formal employees' earnings as an additional undeclared wage, rather than facilitate the creation of fully formal employment.

KEYWORDS: illegitimate work; informal sector; shadow economy; undeclared work; informal employment; envelope wages; tax compliance; decent work; European Union

RÉSUMÉ

Évaluation de la prévalence et de la distribution de l'emploi quasi formel en Europe

Afin de démontrer que l'emploi formel et l'emploi informel ne sont pas toujours distincts l'un de l'autre, cet article met en lumière comment des travailleurs occupant des emplois dits formels dans l'Union européenne reçoivent, en fait, de leurs employeurs formels, deux types de salaires, soit un salaire officiellement déclaré et un salaire additionnel non déclaré, permettant aux employeurs d'échapper à leurs pleines obligations en matière fiscale et d'assurance sociale. L'analyse des données d'une enquête Eurobaromètre de 2007, comportant 26 659 entrevues en face à face dans les 27 États membres de l'Union européenne (EU-27), révèle qu'un employé sur 18 se retrouve embauché dans ce type d'emploi quasi formel, recevant en moyenne le quart de son salaire brut sur une base non déclarée. Une analyse de régression logistique à niveau multiple révèle quant à elle que l'emploi quasi formel est davantage prévalent dans les États de l'Europe centrale de l'Est, dans les entreprises de moindre taille et dans le secteur de la construction, ainsi que chez les hommes, les jeunes et les bas salariés.

Le représentation dichotomique de l'emploi, comme étant soit formel soit informel, mérite ainsi d'être revue en faveur d'un continuum plus raffiné de types d'emplois allant de l'emploi pleinement formel à l'emploi pleinement informel, avec toute une gamme d'entre-deux. L'article passe ensuite brièvement en revue

ce qui peut être fait pour s'attaquer à cette pratique de travail illégitime. Il ressort clairement que cette forme d'emploi quasi formel doit être davantage intégrée dans les discussions portant sur la lutte au travail non déclaré, étant donné que certaines mesures allant en ce sens, telle une réduction du salaire minimum légal, peuvent avoir pour résultat d'inciter les employeurs formels à simplement accroître la portion non déclarée du salaire de leurs employés formels plutôt que de faciliter la création d'emplois vraiment formels.

MOTS-CLÉS : travail illégitime, secteur informel, économie souterraine, travail non déclaré, emploi informel, travail au noir, obligation fiscale, Union européenne

RESUMEN

Evaluación de la predominancia y de la distribución del empleo casi formal en Europa

Con el fin de demostrar que el empleo formal y el empleo informal no siempre son entidades distintas, este artículo hace resaltar que los trabajadores que ocupan empleos llamados formales en la Unión Europea reciben, en realidad, dos tipos de salario de sus respectivos empleadores, un salario oficialmente declarado y un salario adicional no declarado, lo que permite a los empleadores de eludir las plenas obligaciones en materia fiscal y de ventajas sociales. El análisis de los datos de una encuesta Eurobaromètre de 2007, incluyendo 26 659 entrevistas cara a cara en los 27 estados miembros de la Unión Europea (EU-27), revela que un empleado sobre 18 ocupa ese tipo de empleo casi formal, recibiendo en promedio el cuarto de su salario bruto bajo una forma no declarada. Un análisis de regresión logística de nivel múltiple revela por su lado que el empleo casi formal es sobre todo predominante en los Estados de la Europa Central del Este, en las empresas de talla menor y en el sector de la construcción, así como entre los hombres, los jóvenes y aquellos con bajo salario.

La representación dicotómica del empleo, es decir, formal o informal, merece de ser revisada en favor de un continuum más refinado de los tipos de empleos que van desde el empleo plenamente formal al empleo plenamente informal, incluyendo una amplia gama entre los dos. El artículo pasa brevemente en revista las estrategias posibles para atacarse a esta práctica de trabajo ilegítima. Resulta claramente que esta forma de empleo casi formal debe ser mejor integrada en las discusiones que abordan la lucha contra el trabajo no declarado, dado que ciertas medidas que van en este sentido, como una reducción del salario mínimo legal, podrían tener como resultado de incitar los empleadores formales a simplemente aumentar la porción no declarada del salario de sus empleados formales en lugar de facilitar la creación de empleos verdaderamente formales.

PALABRAS CLAVES: trabajo ilegítimo, sector informal, economía subterránea, trabajo no declarado