

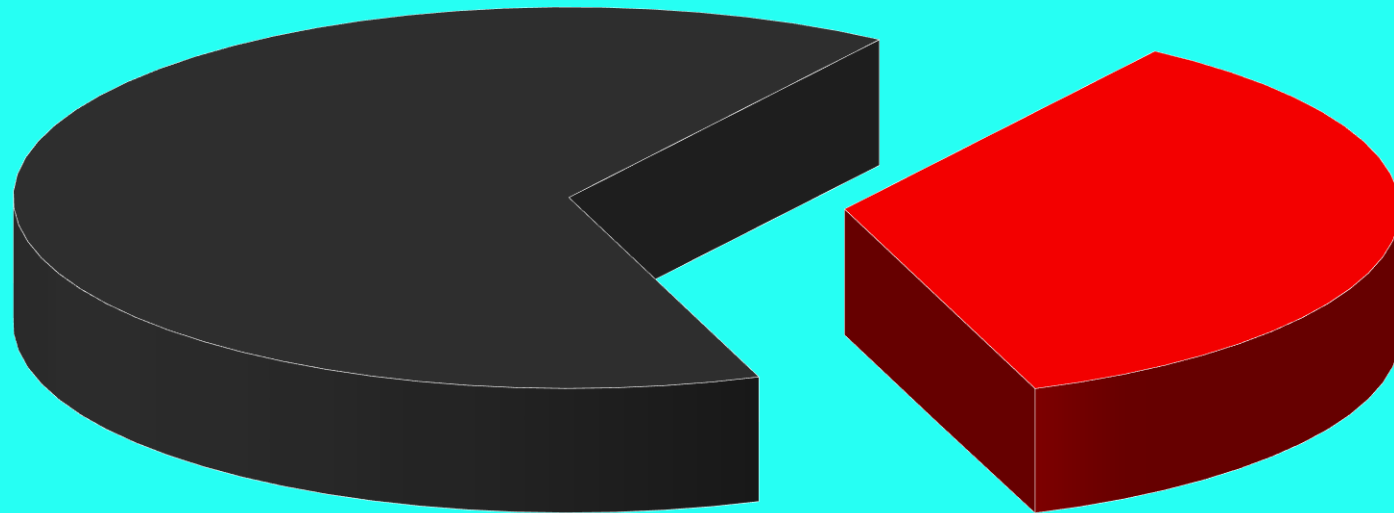
ENVELOPE WAGE PRACTICES: UNDERLYING MOTIVATIONS FROM THE PERSPECTIVE OF WORKERS

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Under-declared/quasi-formal employment

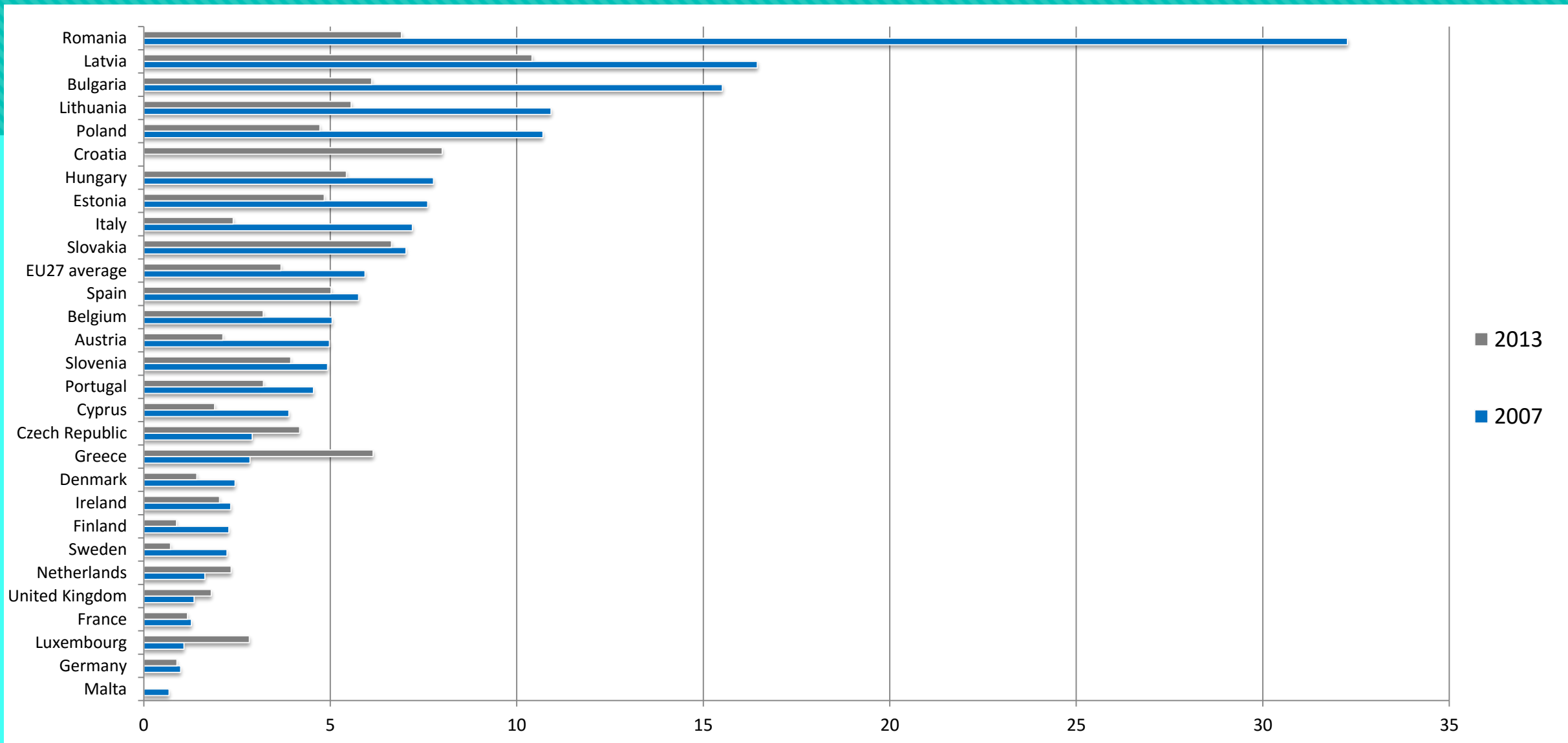
An illegitimate form of employment in which a formal employer conceals from the authorities the actual remuneration of their legally registered employee by declaring only a part of it.



■ Declared wage

■ Envelope wage

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



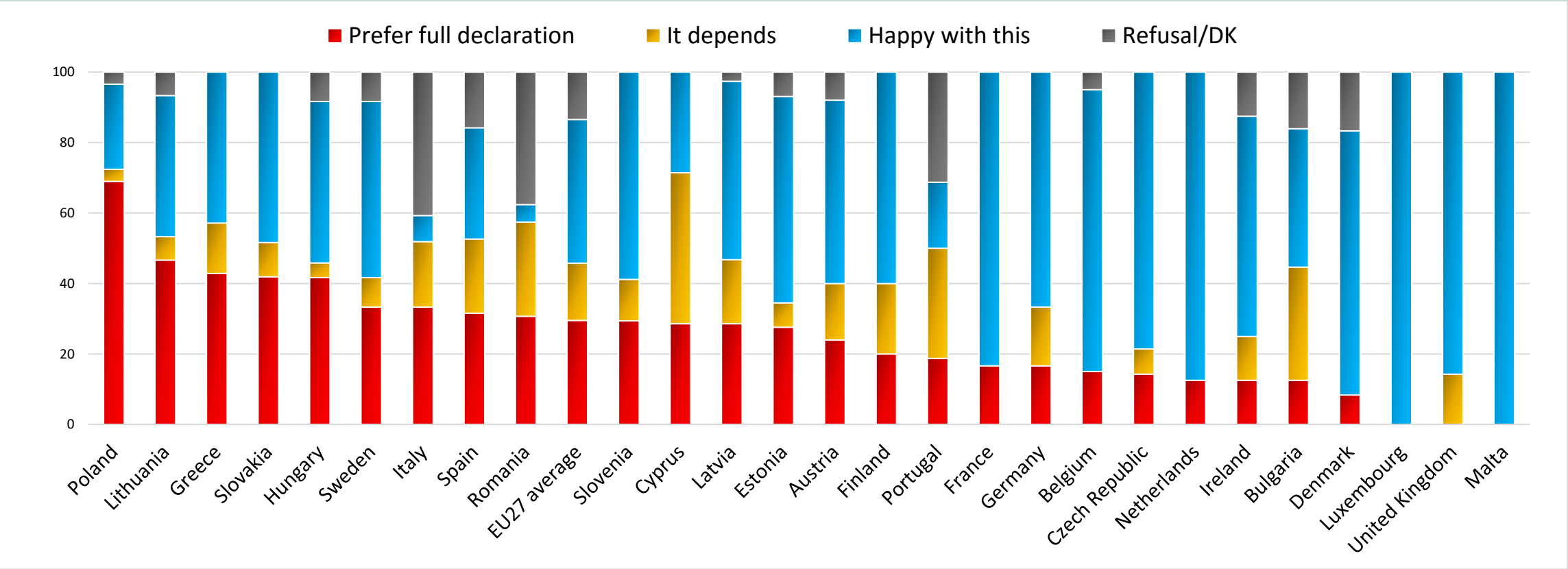
Source: Special Eurobarometer 284/Wave 67.3 and the Special Eurobarometer 402/Wave 79.2

Why workers accept this arrangement?

- Quite under-researched topic
- Under-declaration is believed to be offered and imposed by employers
- The lack of formal employment opportunities and the risk of poverty are believed to be main drivers of this practice from the perspective of workers
- Workers are deemed as hopeless victims trapped inside this practice
- Employers are usually portrayed as abusers who retain the greatest part of the benefits from under-declaration

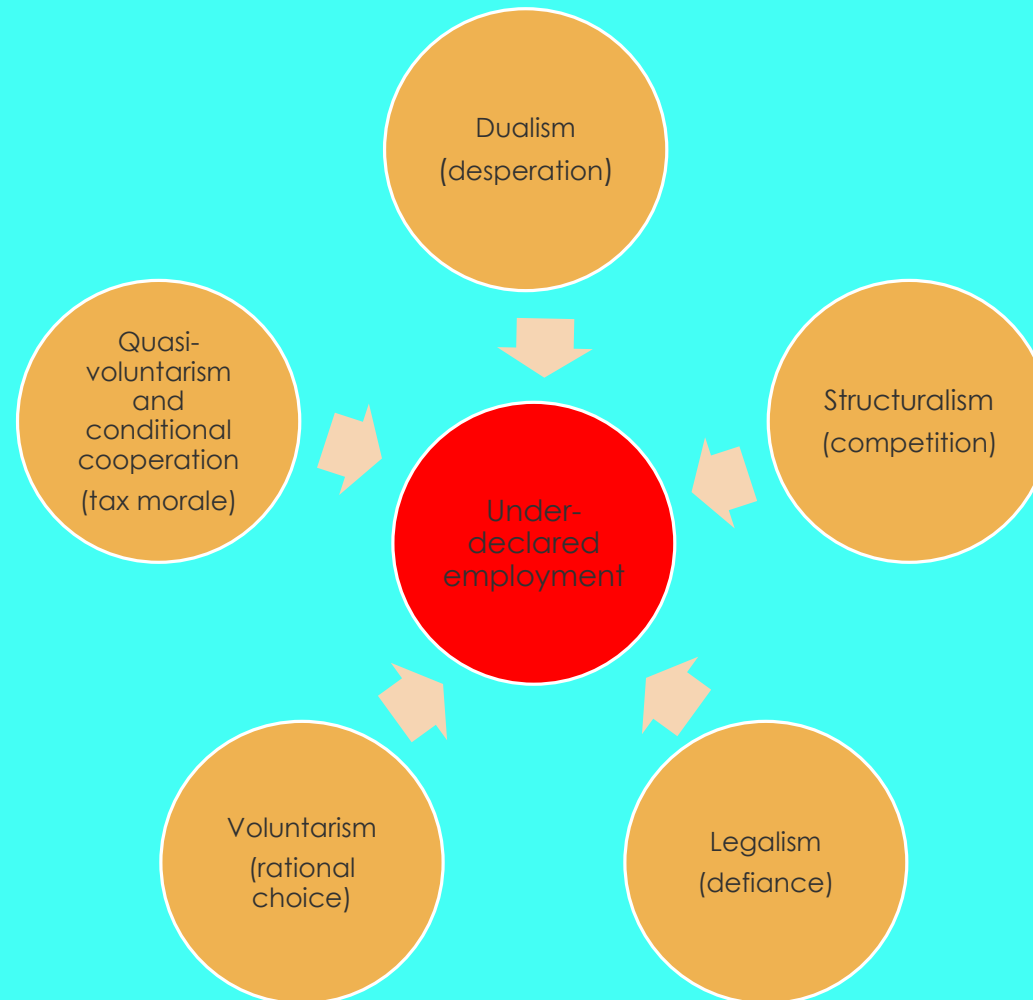
However...

Figure 2 Spatial distribution of attitudes towards envelope wage practices, % of quasi-formal employees in 2007



Source: Special Eurobarometer 284/Wave 67.3

Explaining under-declared employment through the lens of undeclared work



Step one: Two-level random intercept logit modelling

- Individuals nested within countries
- Two models:

- 1) participation

$$\ln\left(\frac{\pi_{ij}}{1-\pi_{ij}}\right) = \beta_{0j} + \sum_{k=1}^K \beta_k X_{ijk} + \sum_{s=1}^S \gamma_s Z_{js}$$
$$\beta_{0j} = \beta_0 + u_j$$

- 2) satisfaction

$$\ln\left(\frac{P(y_i \leq m)}{P(y_i > m)}\right) = \alpha_{mj} + \sum_{k=1}^K \beta_k X_{ijk}, m = 1, 2, C-1$$
$$\alpha_{mj} = \alpha_m + u_j$$

Step one: Two-level random intercept logit modelling (2)

- Micro-level explanatory variables: **gender, age**, marital status, occupation, **size of the company**, detection risk, expected sanctions, **tax morale + type of payment**
- Macro-level explanatory variables: **employment rate, youth employment rate, at-risk-of-poverty rate**, in-work at-risk-of-poverty rate, share of workers with a contract of limited duration, labour market regulations, **government effectiveness, rule of law, perceived judicial independence, inequality of income distribution**, implicit tax rate on employed labour, share of employees having two jobs, pension sustainability index, at-risk-of-poverty rate of older people (65 years or over), **corruption perceptions index, trust in government, tax morale (average)**

Step 2 – Interviews with under-declared workers in Zagreb, Croatia

- Snowball sampling
- 30 interviewees – 14 men and 16 women
- Individuals between 23 and 64 years of age
- all come from the private sector
- commercial travellers, dental technicians, secretaries, gardeners, waiters, cooks, goldsmiths, accountants, teachers, linguists, graphic designers, dentists, lawyers, architects, construction engineers, mathematicians and various managers
- Take-home pay ranging from HRK 3,750 to HRK 16,000

Four groups of under-declared workers

1. Under-declared by deception

2. Reluctant voluntarists

You can either work under-declared or not work at all. The boss says that you are going to receive one part of your wage in cash and you simply accept it. There is not any discussion on that matter. This type of employment is so normal in our country that you do not even think that it could be any different.

(Cook, 23)

Four groups of under-declared workers (2)

3. Monetary rationalists

The most important thing for me is the amount of money I get at the end of the month. It is less important how it will be paid. If for instance I was paid HRK 4,000 officially plus additional HRK 3,000 in cash, and if upon requesting to be completely declared my employer offered full declaration on HRK 5,500, I would not accept it.

(Gardener, 28)

4. Pure voluntarists

Everything was so logical and there was no reason for someone to say: "Wait people, in this way we are cheating the state". Who would even start thinking about that? I mean, that would be silly. For us it would have been a more serious offence if someone inside the firm had stolen an eraser or pencil. How to say - cheating the state is one completely abstract wrongdoing.

(Manager, 67)

The role of envelope wage

- 1. Variable cash payments : a) Percentage of individual's profit-making achievement
b) Payment according to the exact number of working hours
- 2. Fixed take-home pay
- 3. Occasional and extra payments in cash
- 4. Hybrid cases

Some other important findings

- Much less exploitative in its nature (at least in Croatia) than expected
- Tax morale and the size of take-home pay are the central factors
- Deterrence quite irrelevant
- Social conditions in the workplace play quite an important role

Conclusion

- What has been known so far about this illicit practice is probably just one piece of a perplexing puzzle
- Quasi-formal employment is more a complex practice than was suggested by previous studies on the matter (dualism + legalism and quasi-voluntarism)
- Direct policy approach not a viable option
- There is a need to put more emphasis on 'soft' policy measures, which seek to increase credibility of the state institutions on one hand and improve tax morale of citizens on the other

Thank you for your attention