

TACKLING THE HIDDEN ECONOMY IN THE FYR OF MACEDONIA: STRENGTHENING THE PUBLIC-PRIVATE DIALOGUE

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Some Theoretical Issues about the Hidden Economy

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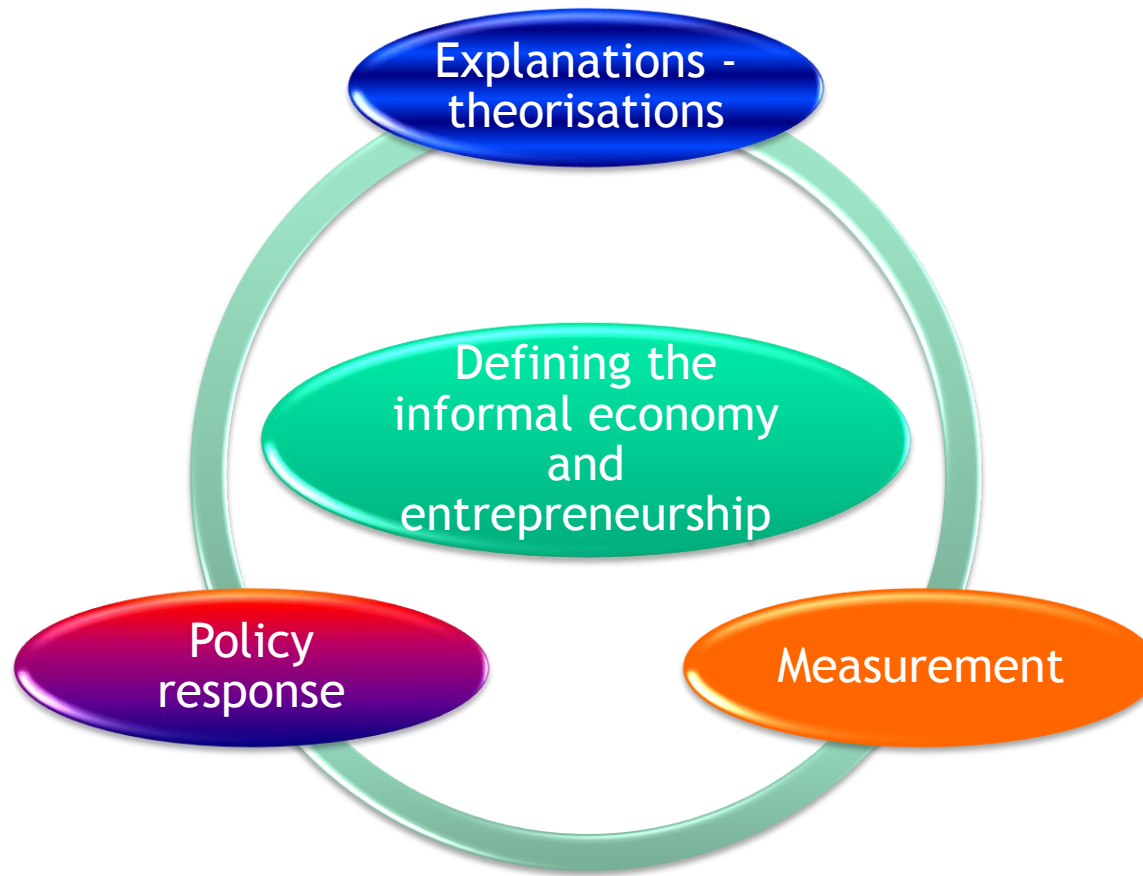
PRESENTATION



Content

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- Defining the hidden economy – an international literature review.
- Defining the hidden economy – popular definitions.
- Definitions – Some useful conclusions, so far.
- Competing theorisations of the informal/hidden economy.
- Tackling undeclared work in 27 EU Member States and Norway: Approaches and measures since 2008.
- Policy measures to tackle undeclared work in 31 European countries 2010.
- Policy assumptions.

The Problem of Definition



Defining the Hidden Economy - an international literature review

- Tackling the informal economy is a challenge, which requires efforts at multiple levels but most importantly solid theoretical and practical understanding of the phenomenon.
- Reviewing the international literature (with systematic literature protocol) on definitions of the informal (hidden, grey, shadow, irregular, black, underground) economy, one could find quite an audible lack of consensus on the subject.
- Without having a clear and locally relevant definition of the informal economy, it is impossible to determine what the main drivers are, to measure at least methodologically correctly, or to develop adequate policy responses.
- **The latest literature consensus about defining the informal economy is that there is necessity for developing local definitions, which account for particular regional characteristics.** Universal definitions do not tend to work in various geographic areas, particularly if they have socio-economic and cultural differences.

Defining the Hidden Economy - popular definitions

Williams and Schneider (2013, p. 23-27)

“includes all market-based production of legal goods and services that are deliberately concealed from public authorities for the following reasons:

- to avoid payment of income, value added or other taxes;
- to avoid payment of social security contributions;
- to avoid having to meet certain legal labour market standards, such as minimum wages, maximum working hours, safety standards, etc.; and
- to avoid complying with certain administrative obligations”

According to CSD (Center for Study of Democracy, 2011) there are four different economic sectors:

- “official economy (legal and reported);
- informal economy (legal, yet unreported). It includes home-made produce and domestic labor, unpaid voluntary work, some of the activities of the self-employed and small businesses with no obligation to declare their activities, etc.;
- illegal (black) economy (illegal and unreported). It includes illegal activities or unlawful production of commodities, as well as economic activities carried out by illegal economic entities;
- undeclared (grey) economy (legal, yet unreported). It includes underreporting the activities of legally-operating businesses, not registering the entire staff, as well as underreporting income. This concept also covers tax evasion and the avoidance of social and healthcare security payments.”

Definitions - Some useful conclusions, so far.

Based on the literature debate about defining the informal economy, there are some important remarks to be made:

- There is no consensus on a single definition of the informal economy, but there are more widely accepted definitions, which are supported by the majority of authors.
- It could be argued that the best way in defining the informal economy and entrepreneurship is to employ a modular principle.
- In general, certain set of definitions of the informal economy would be more appropriate for developed countries in comparison with other definitions, which are more suitable for less developed countries.
- Tax avoidance and evasion. Designing and undertaking economic activities for the purpose of tax avoidance could be legal in one country and illegal in another.
- The informal economy is not a separate phenomenon – it is not just another economy. It is rather part of the socio-economic dynamics of a given country.

Competing theorisations of the Informal Economy

➤ Modernisation perspective.

It was widely accepted that the formal economic configuration and organisation of labour specialisation will take over the traditional production of goods and services.

➤ Structuralist perspective.

This is the first school of thought to recognise that the informal sector and entrepreneurship are fostering and expanding in the conditions of open unregulated economy.

➤ Neo-liberal perspective.

Burdensome and expensive bureaucratic framework of existence for entrepreneurs and their logical wish to exit the over-regulated economy.

➤ Post-structuralist perspective.

It has been identified (Williams & Nadin, 2010a, p. 361) that “different theorisations of informal entrepreneurship apply more in some populations than others”. In their future development the post-structuralist theorisations will need to account not only for the more refined economic and social stratification, but for the micro motives of the informal entrepreneurs in that regard.

Policy approach	Countries using measure (%)	% stakeholders stating measure is:		
		Effective	Neutral	Ineffective
2. Enabling compliance				
<i>Curative measures</i>				
	64	61	35	40
<i>Stimulate purchasers to buy declared goods and services</i>				
Service vouchers	26	58	42	0
Targeted direct tax incentives	61	65	29	6
Targeted indirect taxes	17	63	25	13
<i>Stimulate suppliers to formalise their operations</i>				
Society-wide amnesties	9	10	0	0
Individual-level amnesties for voluntary disclosure	17	75	25	0
Formalisation advice to business	30	44	56	0
Formalisation support services to businesses	30	57	29	14
Targeted VAT reductions	17	43	43	14
Free record-keeping software to businesses	13	50	50	0
Factsheets on record-keeping	22	57	43	0
Free advice/training on record-keeping	22	57	43	0
Gradual formalisation schemes	13	67	33	0
<i>Fostering commitment to declared work</i>				
Campaigns to inform undeclared workers of risks and costs of working undeclared	61	64	36	0
Campaigns to inform undeclared workers of benefits of formalising their work	57	43	47	10
Campaigns to inform users of undeclared work of the risks and costs	61	50	40	10
Campaigns to inform users of undeclared work of the benefits of declared work	52	35	59	6
Use of normative appeals to people to declare their activities	52	33	67	0
Measures to change perceived fairness of the system	26	25	75	0
Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner)	17	60	40	0
Measures to improve tax/social security/labour law knowledge	65	50	50	0
Adoption of commitment rather than compliance approach (e.g. 'responsive regulation')	30	50	40	10
Campaigns to encourage a culture of commitment to declaration	39	29	64	7

Tackling undeclared work in 27 EU Member States and Norway: Approaches and measures since 2008

(Adapted from Eurofound, 2013 according to Regioplan, 2010)

Policy approach	Countries using measure (%)	% stakeholders stating measure is:		
		Effective	Neutral	Ineffective
1. Deterrence				
<i>Penalties</i>	93	50	45	5
Administrative sanctions for purchasers/companies	87	46	49	6
Administrative sanctions for suppliers/employees	83	41	59	0
Penal sanctions for purchasers/companies	74	59	33	8
Penal sanctions for suppliers/employees	52	53	42	5
<i>Measures to improve detection</i>	100	64	34	2
Data matching and sharing	83	72	25	2
Workplace inspections	100	75	17	8
Registration of workers prior to starting work or on first day of work	74	74	23	3
Coordinating strategy across government	57	56	44	0
Certification of business, certifying payments of social contribution and taxes	65	62	33	5
Use of peer-to-peer surveillance (e.g. telephone hotlines)	39	20	80	0
Coordination of operations across government	61	64	36	0
Coordination of data sharing across government	65	82	19	0
Mandatory ID in the workplace	65	70	30	0
2. Enabling compliance				
<i>Preventative measures</i>	90	45	43	12
Reduce regulations	48	56	38	6
Simplify compliance procedures	87	62	38	0
Technological innovations (e.g. certified cash registers)	43	73	27	0
New categories of work (e.g. for small or mini-jobs)	35	59	33	8
Direct tax incentives (e.g. exemptions, deductions)	61	57	33	10
Social security incentives	35	62	15	23
Ease transition from unemployment into self-employment	65	29	63	8
Ease transition from employment into self-employment	44	15	77	8
Changing minimum wage upwards	48	24	59	18
Changing minimum wage downwards	9	0	50	50
Training and support to business start-ups	61	50	46	4
Micro-finance to business start-ups	52	48	52	0
Advice on how to formalise	61	33	67	0
Connecting pension schemes to formal labour	61	47	41	12
Introducing supply chain responsibility	17	78	0	22
Restricting free movement of (foreign) workers	43	29	53	18

Policy measures to tackle undeclared work in 31 European countries 2010

(Adapted from Eurofound, 2013 according to Regioplan, 2010)

Policy Assumptions

- By 2010, 90% of the EU countries adopted one or more preventative policy measures, but fewer stakeholders (45%) in the countries in which they had been implemented viewed them as effective compared with deterrence measures¹.
 - Similarly, 64% of countries were by 2010 using one or more curative measures to tackle undeclared work although where implemented, just 61% of stakeholders saw them as effective².
 - Finally, 69% of the countries had by 2010 adopted commitment measures, although again just 44% of stakeholders viewed them as effective in tackling undeclared work³.
- Underestimating the problem with motives behind undeclared work, informal entrepreneurship, tax evasion and avoidance. Emerging consequences for policy making.

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Thank you for your attention.

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