CENTER FOR THE STUDY OF DEMOCRACY

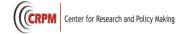


PROMOTING GOOD GOVERNANCE AND ECONOMIC RIGHTS THROUGH EMPOWERING CIVIL SOCIETY TO MONITOR AND TACKLE THE HIDDEN ECONOMY IN THE FYR OF MACEDONIA

Best European Practice in Tackling Hidden Economy

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Economy



1. Introduction



Introduction - Hidden economy

Signs for problems in public-private relations such as:

- Overregulation
- > Lack of adequate control
- > Lack of acceptance of formal rules
- > Emerging new forms of business and social relations



Negative Consequences

- Underfunding of public services
- Social exclusion
- Corruption
- Lack of trust in institutions
- Undermining of the social order
- Hidden economy can be a camouflage to criminal activities



Purpose of the Project

- To aid policy-makers in FYR Macedonia to better tackle hidden economy and its negative consequences (in particular on the most vulnerable groups)
- To bring together the best recent academic knowledge on the hidden to address the needs of the local constituency
- As a reference tool as well as a source of ideas and recommendations for action



2. Theoretical Overview



Definitions of Hidden Economy

- No single definition exists dependent on particular regional particularities
- Basic definition of informal sector activities Keith Hart/International Labour Office - 1972/1973
- Table of "Sample activities and the shadow economy" Schneider and Williams 2013
- Working Definition by Center for the Study of Democracy



Methods of Observing Hidden Economy

- Direct Approaches (micro-level)
- Representative studies
- Studies of time budgeting
- > Tax audits
 - Indirect Approaches (macro-level)
- Monitoring power consumption
- Monetary approaches
- Econometric models



Schools of Thought about Hidden Economy

- Modernist
- Structuralist
- Neo-liberal
- Post-structuralist



EU Practice

- Policy relevance of tackling hidden economy
- EU focus on undeclared work working definition
- European strategy: surveys on undeclared work
- (Eurobarometer, study of European Commission)
- More recently: money laundering and tax avoidance



Main Types of Measures for Countering Hidden Economy

- Deterrence
- Prevention
- Curative
- Commitment



The Informal Economy: Definitions, Theories and Policies

Main points:

- The link between informal economy and the formal economy and the formal economy setting
- How do we "formalize" the informal economy?
- Offers four directions for action:
 - Increase in the supply of formal jobs
 - > Regulation of informal enterprises
 - Extending social and legal protection for informal workers
 - Increase in informal enterprises' productivity

Source: Chen (2012)



Evaluating Cross-National Variations in Under-Declared Wages in the EU

Main points:

- Emphasis on the social characteristics of the economic environment and its influence on informal economy
- > There is no "Single perspective" on informal economy
- ➤ Establishing the right economic parameters for a country would enable reverse conclusions for the type of informal economy prevailing in the country

Source: Williams (2013)



Does Formal Work Pay?

Main points:

- Examines the role of labour taxation and social benefit design in regards to formal/informal work
- The analysis is implemented using data about six Eastern European Countries
- The Study introduces an innovative measurement called "Formalisation Tax Rate" (FTR)

Source: Koettl and Weber (2012)



Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment

Main Points:

- A comparative study targeting labour inspectorates and policy makers
- ➤ The study addresses the aspect of cooperation between labour inspectorates and other national institutions such as tax administration, social security office, immigration office, etc.

Source: International Labour Organization (2012)



Shadow Economy and Undeclared Work

Main Points of the Report:

- Describes the effectiveness of policy measures which the EU 27 and Norway have adopted to tackle the problem of undeclared economy
- Concludes that austerity measures corelate with large undeclared economies, whereas social democratic austerity measures are reversely correlated with the size of the undeclared work

Source: Eurofound (2013)



Social Protection and the Informal Economy: Linkages and Good Practices for Poverty Reduction and Empowerment

Main Points:

- Contains an examination of the relationship between poverty and growth in the informal economy
- Ex-ante social protection has a pro-poor character and functions as a long-term investment in people, not only in developed but also in developing countries
- Contains good-practice examples in providing social protection and empowerment of informal (female) workers

Source: Lund (2009)



Thank you for your attention!

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