

*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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Table of Contents

1. Introduction
2. Hidden Economy - Theoretical Overview
3. Reader of Best European Practice in Tackling Hidden
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 correlate 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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