

## TACKLING UNDECLARED WORK IN GREECE



Co- financed by Greece and the European Union

**Achilleas Anagnostopoulos, Aristidis Bitzenis**  
**University of Macedonia, Greece**  
**Panagiotis Kontakos, University of Central Lancashire, Cyprus**

ABSTRACT<sup>1</sup>

In Europe, an estimated €2.1 trillion of income is lost to undeclared work annually. The fight against undeclared work is high on the EU policy agenda since the larger the shadow economy, the more difficult it will be to achieve the employment target (to have 75 per cent of 20-64 year olds in employment by 2020), as set out in the Europe 2020 Strategy. Based on previous studies, researchers estimate that the size of undeclared work in Greece is one of the highest among EU member-countries. This paper analyses the nature and types of informal employment as well as the role of labour market institutions on informal economic activities in Greece. The main factors influencing informal employment, labour and tax regulations will also be presented in depth. As Greece is at a critical juncture and to set the country on a sustainable recovery path, strategies for combating undeclared work will be analyzed.

## 1. INTRODUCTION AND DEFINITIONS OF UNDECLARED WORK

The study is structured as follows: In the first section undeclared employment is defined and how this issue became of concern to developed countries is presented. In the second section, different types of employment are analyzed with a focus given to those found in the Greek economy. Methods of measurement (direct and indirect) are then investigated with particular references to approach and the current situation in Greece. The fourth section investigates the motives that drive not only those who have businesses but also “employees” in undeclared work. The fifth section analyzes the demand and supply dynamics of undeclared work in Greece in comparison with EU27. Moreover, ways of dealing with this issue in Greece, especially following the crisis, are described in the sixth section. Finally, conclusions and proposals of our study are presented.

In this study, we will examine undeclared employment, otherwise known as hidden, black, undeclared, or informal employment. Williams (2004) mentions 35 adjectives and 5 nouns that can be used to describe this particular activity. Some peculiarities were encountered concerning the various approaches and corresponding naming in both international organizations and in the literature (international and Greek).

The OECD initially defined “hidden” employment (or concealed employment) in 1986 as employment which is not illegal in itself, but which has not been declared to one or more public authorities (OECD, 1986). The International Labour Organization (ILO) then regarded the concept of informal employment as an “undeclared” business operating in the informal economy (informal sector) and therefore employing unregistered workers (ILO, 1993). As we shall see below, this topic continued to be of growing interest and on the political agenda of most countries resulting in various definitions.

According to the Commission of European Communities (2007), the definition of undeclared work focuses on “any paid activities that are lawful as regards their nature but not declared to public authorities, taking into account differences in the regulatory system of Member States”. The ILO (2011) harmonized the definition once again and considered undeclared employment as job positions which generally lack basic social and legal protection or

unemployment benefits and which can be found in the formal or informal economy or in households. Finally, Greece has recently (2011) passed a national law on informal employment adopting the EU definition.

This situation deserves further investigation (EC, 1998) as undeclared work contains ambiguities and by definition is extremely difficult to measure to its exact extent (OECD, 2004). Moreover, classification varies from country to country. It is evident that this is a complex and diverse matter influenced by a wide range of economic, social, institutional and cultural factors (EU, 2007 & OECD, 2008).

### *1.1 EU policies on undeclared work*

Undeclared work had already been the subject of a Commission report as far back as 1998 where the causes and impact of the problem were analyzed and applicable policy proposals were presented (EU, 2007). Over the last 20 years the issue has continued to be of concern to EU institutions. The EU Employment Guidelines (9th guideline in 2003-2005 and 20th in 2005-2008 respectively) attempted to transform undeclared unemployment to regular employment within the European Employment Strategy (EC, 2003).

In 2006, the “Green Paper on the modernization of labor law” (EC, 2006) undeclared work was included as one of the most important topics for discussion as it was regarded as “a worrying and enduring feature of today’s labour markets, often associated with labour mobility in foreign countries”. Williams and Padmore (2013) argue that the prevalence and distribution of this hybrid wage agreement in Europe has not been assessed. Recently, however, the European Parliament (CoEU, 2014) has decided to establish a European platform in order to improve cooperation between member states and to prevent and discourage undeclared work.

Finally, the EU tried to tackle the problem on a practical-research level. For this reason, they issued, beyond the EU Directives, the 2004 report (EC, 2004) and the extensive report (2009) on undeclared work measurement methods. Moreover, they proceeded with two pan-European Eurobarometer surveys in 2007 and 2013 (EC, 2007 & 2014) which produced valuable estimates and outcomes. According to the OECD (2009), the proportion of undeclared employment is very high and rising worldwide. It is particularly concentrated in a number of OECD countries where more than 25% of workers outside the agricultural sector are undeclared.

## **2. TYPES OF UNDECLARED WORK**

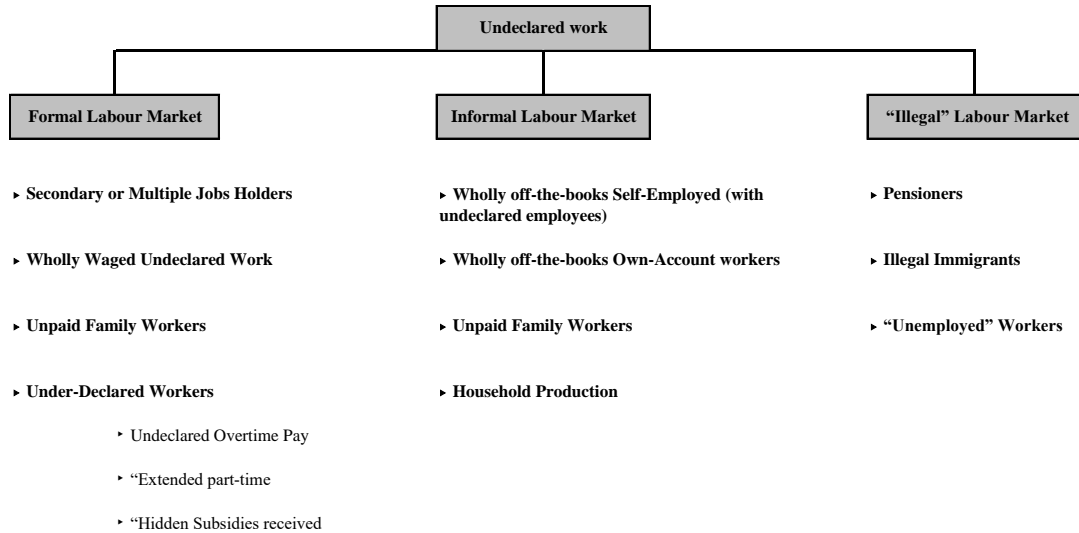
Informal employment has been classified according to its various characteristics by different organizations over time. It can be defined in terms of the employment type, the type of economy (labour market) or by grouping specific individuals together.

According to the EC (EC, 1998) four groups of undeclared workers can be identified: (a) those who have two or more jobs, (b) those from the inactive population (c) the unemployed and (d) illegal immigrants. The OECD further identifies six categories of undeclared workers (2009) as does the ILO (2012) with minor variations: (1) employers in the informal economy, (2) own account workers in the informal economy (3) unregistered workers in the formal or informal economy (4) subcontractors and salaried employees who work in households (5) salaried employees without a contract with a specific employer and (6) unpaid family workers.

Greece has yet another approach. The SEPE (2010) divides undeclared work according to the nationality of the workers. These include: (a) uninsured Greek workers who do not appear in any of the employer’s transactions with the authorities (IKA, SEPE, OAED) and (b) illegal or legal foreigners who do not have the right to work.

Moreover, the IOBE (2011) maintain that undeclared work takes various forms, where people (a) participate in the secondary labour market (wholly or partly, as we see below) or (b) cannot participate in the formal labour market (i.e. illegal immigrants).

Given the aforementioned classifications of the various bodies ILO and OECD and based on the OECD (2009) which states that the categories of undeclared employment could be further analyzed in depth according to the situation found in each country, we propose the separation of the undeclared work in Greece according to the labour market in which they are active (Scheme 1): (a) the formal labour market, consisting of formal enterprises which provide fully or partly informal activities to its salary workers; (b) the shadow labour market, consisting of unregistered firms and any form of work (either own account workers or wage workers), not registered with the authorities; (c) the “illegal” labour market involving categories of citizens who do not have the legal right to work.

**Scheme 1: The Framework of Undeclared Work in Greece**

Source: The Authors

### 2.1. The official labour market

#### 2.1.1. Wholly waged undeclared work

This refers to work entirely hidden from the state for taxation, social insurance and labor law purposes (Schneider, 2011). That is to say, this includes a legitimate business that employs at least one employee on a full-time basis without notifying the official authorities. According to Schneider (2011) the percentage of "workers" without a contract in Greece is the third highest among European countries at 39%. In other words, based on the European Social Survey nearly 4 in 10 employees here are fully informal. According to the OECD (2004) the detection of these workers by the state is relatively easy compared to finding registered workers who also offer undeclared work. It should be noted that such a business may also employ workers who are registered under the current labor and insurance legislation. This form of employment is often more commonly found in small businesses, as those with more employees (over 20) are likely to have some form of trade unionism which would prevent fully undeclared paid work.

#### 2.1.2. Secondary or multiple job holders

In many countries, a large number of informal sector activities/informal jobs are undertaken as secondary jobs (ILO, 2004). Workers with social security coverage in their main job may see little benefit in contributing in their second job, particularly if benefits are capped (OECD, 2008). This is confirmed by existing research which indicates that levels of informality are higher for second jobs than for workers with only one job (OECD, 2008; Averett, 2001; Guariglia and Kim, 2006; Sarzalska and Szydowski, 2007). According to Social Security Organisation (IKA), multiple employment is defined as a situation where a person is employed by more than one employer during the same time period, (i.e. within the same day) with a specific contract with each of his employers. In such cases, workers should be insured in accordance with the provisions and corresponding social security contributions offered by each employer. It should be mentioned that employers and employees do not benefit from less taxes being withheld in the case of second or multiple employment.

#### 2.1.3. Unpaid family workers

According to the Greek Statistical Services (ELSTAT), unpaid family members offer their "free" services to a registered family-owned business without being declared as workers with the official authorities. Sometimes, according to the OECD (2008), unpaid family workers are included alongside own-account workers because they

derive utility (e.g. from profits, in-kind production or future business ownership) from the informal activities of small businesses in much the same way as own-account workers.

Moreover, the OECD (2008) provides us with an example that fits the Greek reality very well: a family business run by two spouses might be considered as own-account work for the husband but unpaid families work for the wife, even though they equally share in the operation and proceeds of the business.

#### *2.1.4. Under-declared employment*

This refers to employees who simultaneously receive two salaries: (a) a legitimate salary from declared and insured work, and (b) an additional remuneration received "under the table" or by "envelope". For various reasons, some of which are described below, the employer, on his own, or in cooperation with the worker, hides the additional part of the fee from the official authorities. Therefore, the employee receives an additional agreed upon amount for the extra activities. However, it is not known whether this amount is reflective of the amount he would legally receive. Therefore, the employer does not pay contributions while the employee, who already has insurance coverage, does not increase his taxable income. "Detection" of this form of undeclared employment by the official authorities is extremely difficult (OECD, 2004).

Williams (2010) – based on the results of 2007 Eurobarometer (EC, 2007) – states that it is unknown to what extent this form of undeclared employment is prevalent. However, he considers that it may be particularly prevalent in south-eastern Europe since sixteen percent of registered employees receive envelope wages more than anywhere else in Europe. He notes that Greece belongs to that group of countries where "under the table" wages are related to overtime.

## *2.2. The informal labour market*

Estimating the percentage of employment in the informal labour market is extremely difficult. In one of the few existing surveys, Williams (2010) based on the Eurobarometer survey (2007), presents Greece with very high rates of people who were own-account workers providing undeclared work to other persons or households at 32% versus the corresponding European average at 20%.

### *2.2.1. Wholly off-the-books own-account workers*

According to the ILO (2004) - this category applies to employees who work in their own unregistered business on their own behalf. In this case these people provide work without being registered as self-employed and receive income which is not wholly stated in any of the official authorities.

### *2.2.2. Wholly off-the-books self-employed with undeclared employees*

In this category are included firms not registered with the official authorities which also employ workers, who in turn are not declared. This, according to the EC web page also applies to undocumented freelancers who 'employ / use' employees or family members on an occasional basis.

### *2.2.3. Household workers*

Another category of undeclared employment in the informal labor market is household workers. The OECD (2004) and ILO (2012) divide this category into activities produced (a) by paid domestic workers employed by households and (b) household production of goods for personal use.

This study will focus its description on the first subcategory. Therefore, according to Greek legislation (INE, 2014) household workers are generally characterized as those not registered with a company or farm who offer dependent labour, by the hour or day, at regular or irregular intervals, primarily to serve the household or personal needs of the employer or the members of their families and are used for household work such as i.e. domestic workers, maids, cooks, gardeners, guards, baby-sitters, home tutors, drivers, etc.

According to the Eurobarometer (2007 and 2013 respectively), in most EU countries undeclared house production is regarded as more tolerable (67%) than the corresponding undeclared work in businesses. In many EU countries, governments provide tax breaks for undeclared employment. Following the precedent in France, payment for this type of work is made by check (OECD, 2004). Moreover, Greece has proceeded to similar changes in the legislation regarding household production with the introduction of the "labour card (ergosimo)" in the last four years. Based on the Labour Inspectorate annual reports and OECD guidelines (OECD, 2004) regarding the high

levels of undeclared work in this form of employment, the labour card is a new means of payment. This payment is made by check. In this method, those employed by different or multiple employers have the opportunity to be paid legitimately while ensuring insurance and pension coverage. The Labour Card can be "used" both in the agricultural sector (via the Agricultural Insurance Organization, the so called OGA) and in paid employment at home (via the Social Security Organization, the so called IKA) with lower contributions than traditional employment.

### 2.3. The 'illegal' labour market

According to the OECD (2004) illegal employment refers to those who cannot work legally in the formal labour market and therefore should not be taken into account with the illegal production as determined in the national accounts.

#### 2.3.1. Illegal immigrants

Estimates regarding the illegal work of immigrants is a controversial topic. The number of immigrants in undeclared work is significant in some countries (OECD, 2004). Moreover, for the original members of the EU the large informal economy in the accession countries, especially insofar as it is associated with illegal migration (OECD, 2004 & Stefanov, 2003).

Based on OECD data (2010), Schneider (2011), states that Greece tops the list of countries that employ illegal immigrants in their labour market with a share of 4.4% of total employment, with the US following in second place. Similar results are presented by the IMEPO (2008) of the Greek Ministry of Interior. Based on extensive research, they estimate that the number of foreigners residing illegally in Greece is between 172 250 and 209 402 people.

The OECD (2004) links illegal immigration to the undeclared economy which is acute in Mediterranean countries such as Greece, Spain and Portugal. As they explicitly mention, migrants themselves choose one of these countries, and not France, as they find a "blooming" underground economy which offers them a wide range of jobs, while not requiring any documents either for work or for residency.

#### 2.3.2. Unemployed "workers"

Another group that is observed in 'the illegal' labour market is that of unemployed people who receive state benefits. These people provide undeclared work while at the same time receiving unemployment benefits. Subsidizing the unemployed with sufficient funds while collaborating with the official authorities for effective controls may reduce the frequency of low-paid undeclared employment. In contrast, when the amount paid in unemployment benefits is low and measures against illegal employment are not sufficient, then unemployment benefits function as a subsidy allowance to those offering undeclared employment (OECD, 2004).

Focusing on the case in Greece, the OECD (1998) indicated that the Public Employment Agency (OAED) has not made any efforts to deal with this issue. Furthermore, the lack of control of the system reduces its viability to some extent. However, as will be seen below, during the recession, both business and those unemployed "workers" who received benefits have been penalized by the state.

#### 2.3.3. Pensioners

According to the Eurobarometer (2007) pensioners who work represent only a small percentage of undeclared employment. Nevertheless, in recent years there have been heavy sanctions for those pensioners who provide work in any form without declaring it to the official authorities. According to laws 3863/2010 and 3996/2011 pensioners who undertake work either as employees or as self-employed in Greece are subject to restrictions. More specifically, (a) pensioners under 55 years of age have their pension suspended while (b) based on some conditions, those aged over 55 years have 70 % of their main pension withheld.

## 3. MEASURING UNDECLARED WORK

Following our investigation of the types of undeclared employment, we will turn our attention in this subsection to the methods of measuring this phenomenon. There are two main methods of measuring undeclared employment: (a) indirect (e.g. discrepancy methods, monetary methods, etc.), through secondary macroeconomic data and (b) direct, through primary (questionnaire) data, which are quite limited in volume.

In the case of direct methods, should be also considered these types of questionnaires such as the Census and the Labour Force Survey (LFS) which are carried out in most countries of the world. According to the ILO (2005) and the Asian Development Bank (ADB, 2011), the Labour Force Survey (LFS) is the world's most suitable and "smart" tool for applying the definition of undeclared employment and obtaining data. Other types of questionnaire are those aimed at citizens (real individuals) and drawn up by international organizations such as the ILO and the EU (Eurobarometer, 2007 & 2013).

### 3.1. Sources and methods of measurement of undeclared work in Greece

In Greece, the LFS, which is conducted by ELSTAT, provides reliable and widely accepted assessment. However, only one of the questions in the questionnaire refers to uninsured work (Kanellopoulos, 2012). Taking the analysis further, the ILO (ILO, 2005), encourages countries to add supplementary questions relating to undeclared employment in the LFS since this consists a very beneficial method and at an extremely low cost. Nonetheless, additional questions that would give a safe and reliable picture via the direct method have yet to be included.

Another source of data collection are bodies (authorities), such as Social Security Organisation (IKA), the Labour Inspectorate (SEPE) and the Public Employment Agency (OAED) which monitor, control and track employment in Greece. The Labour Inspectorate (LI) in particular, has conducted routine or regular inspections, accidental inspections as well as spot checks (recommended inspections) in cooperation with the officials of IKA in recent years to combat undeclared employment (Table 1). Moreover, annual LI reports that are drafted annually and are available to citizens are a good approach. However, (LI Report, 2010 and Kanellopoulos, 2012) spot checks are not random but focus on those economic sectors that are considered to have high rates of undeclared employment. Therefore, although the outcomes are not representative they certainly offer very valuable estimates.

**Table 1: Spot Checks by SEPE and Percentages (%) of Undeclared Work in the period 2010-2013**

Year	Number of Businesses Controlled	Number of Employees	Percentage of Undeclared Employees
2013	21.373	72.960	31,7%
2012	19.083	60.796	36,2%
2011	20.246	66.615	30,0%
2010	27.538	77.766	25,0%

Source: Labour Inspectorate & Institute of Employment

Quantitative estimates of the extent and structure of undeclared employment did not exist in the case of Greece (Karantinos, 2007) until recently. One of the few efforts attempted in 2012 was made by Kanellopoulos who applied the indirect method. In his approach, he focuses on salaried employment during the period 2006-2011 taking into consideration 24 quarters based on IKA personnel records. He compared the registered number of salaried employees insured by IKA, with the number of salaried employees who had declared that they were insured with IKA as shown by the Labour Force Survey (LFS) which is carried out on a quarterly basis. As he characteristically points out: "the LFS number exceeding the IKA number, in relation to the corresponding number given by the IKA itself can be regarded as reflecting the number of undeclared IKA employees."

## 4. REASONS AND MOTIVES OF UNDECLARED WORK

When studying the forms that undeclared employment takes, the question arises as to why businesses either individually or in conjunction with their employees wish to take part in the informal economy. The answer to this question is that, internationally, undeclared employment aims to avoid the taxation of labour and social security legislation. In reference to Greece, Lazaridis (2003) believes that one of the most significant labour market characteristics of this country is the fact that a large proportion of it operates within the informal economy. The large number of small family-run businesses and the tertiarisation of the economy and employment have created the

conditions for flexible and cheap labour. As Table 2 below indicates, this effect combined with the impact of the crisis has resulted in a significant increase of the share of part-time employment in Greece.

**Table 2: Changes on Full-Time and Part-Time Employment (2008-2014)**

Employment Type	2008	2009	2010	2011	2012	2013	2014	Change 2008-2014 (%)
<b>TOTAL</b>	<b>4.567,2</b>	<b>4.545,6</b>	<b>4.446,0</b>	<b>4.165,5</b>	<b>3.785,0</b>	<b>3.504,2</b>	<b>3.483,7</b>	<b>-24</b>
Full-time	4.299,7	4.263,1	4.156,8	3.877,7	3.508,2	3.196,3	3.163,5	-26
Part-time	267,5	282,4	289,2	287,8	276,8	307,9	320,2	20
Part-time (%)	6,2	6,2	6,5	6,9	7,3	8,8	9,2	

Source: Greek Statistical Services & Institute of Employment, LFS 2008-2014 A' Term

Labour-intensive enterprises in an increasingly competitive global market can survive by reducing labour costs. Thus, to meet their needs, they choose to "recruit" members of their family and when this is not possible, migrants, to completely or partially avoid wage and non-wage costs. Moreover, as noted by Tatsios (2001), in the case of Greece, it is clear that the factors internationally recognized as fostering and reinforcing the phenomenon of undeclared work, not only exist, but are structural features of the Greek economy and employment.

#### *4.1. Financial condition of a country or region*

One of the main incentives that could lead to this situation is the generally poor economic condition of a country or region (macro / micro level) being studied. The question is to what extent this poverty is associated with higher levels of unemployment and a weaker social welfare system of a country / region.

Some argue that the higher the unemployment rate is, the larger the pool of unemployed and therefore potentially undeclared workers. Bajada and Schneider's (2009) research has demonstrated that there is a relationship between shifts in the rate of unemployment and activity in the informal economy. According to the EU (2014), the combination of high unemployment and growing poverty appears to increase the acceptance of undeclared employment, a situation faced by Greece in the last six years. Based on the INE's annual report (2014), Greece has presented higher rates (from 23% to 34%) of undeclared work during the last three years. Overall, the results are controversial and this issue needs further research since cultural, political, economic and geographical conditions play a significant role.

#### *4.2. High-wage labour costs (tax rates, employer contributions) and legal and administrative burdens*

The total labour cost plays a major role in making business decisions to hire and maintain personnel. In the official labor market, the costs firms (and individuals) have to pay when 'officially' hiring someone are significantly increased by the burden of tax and social contributions on wages, as well as by the legal administrative regulation to control economic activity (Schneider, 2014). On the other hand, the OECD (2004) and Kikilias (2009) conclude that there is no clear correlation between tax rates and the size of the informal economy and therefore undeclared employment.

According to a study by Anagnostopoulos & Siebert (2015) based on fieldwork before the financial crisis and in years of prosperity (2006-7), Greece was a country with high minimum wages and strict legislation on employment protection. Based on this evidence they argue that firms find it difficult to implement the above restrictions and thus resort to solutions between flexibility and undeclared employment. Furthermore, they put more emphasis on very small firms (under 10 employees) and show that a surprisingly large percentage, 64%, of workers in small workplaces is paid at the national minimum (and hence many are likely to be paid less).

According to Mitsopoulos and Pelagidis (2011), reducing the minimum wage is one part of the solution. They focus on the impacts of the tax wedge which mainly affects the middle and low incomes. As they conclude "a disproportionately large number of salaried employees are squeezed between a narrow income range that spans from

the minimum wage to the point where the wedge starts to increase". They consider then that "below this narrow range the minimum wage rules out legal salaried employment and above this narrow range self-employment is encouraged over salaried employment.

#### 4.3. Small businesses and the percentage of self-employed

According to the European Commission's newsletter regarding the "Small Business Act" initiative (EC, SBA 2014), small and medium-sized enterprises (up to 250 employees) dominate the Greek economy and represent more than 99% of all businesses. They also employ 86% of the Greek labour force as compared to 67% of the total European Union workforce. Moreover, it is widely recognized that the main business model in Greece is the large number of micro enterprises with under 10 employee. These companies represent 96% of all enterprises. They also employ the largest amount of the labour force in the country at more than 55% in contrast to the EU-28 where the rate is below 30% (Table 2). In addition, Greece, has the highest percentage of self-employed people in Europe at a rate of more than 32% (Eurostat, 2014). Considering that the European average (EU-28) is at 14%, it is obvious that the figures are very different. Both these basic characteristics of the Greek economy seem to have a direct relationship with the growth of undeclared employment in the country (Table 3).

**Table 3: SMEs in Greece – Basic Figures & Comparisons with EU28**

	Number of Enterprises			Number of Employees		
	Greece		EU-28	Greece		EU-28
	Number	Proportion (%)	Proportion (%)	Number	Proportion (%)	Proportion (%)
Micro	629,811	96.2	92.4	1,130,794	55.2	29.1
Small	21,669	3.3	6.4	398,503	19.5	20.6
Medium	2,464	0.4	1.0	227,832	11.1	17.2
<b>SMEs</b>	<b>653,944</b>	<b>99.9</b>	<b>99.8</b>	<b>1,757,129</b>	<b>85.8</b>	<b>66.9</b>
Large	423	0.1	0.2	290,547	14.2	33.1
<b>Total</b>	<b>654,367</b>	<b>100.0</b>	<b>100.0</b>	<b>2,047,676</b>	<b>100.0</b>	<b>100.0</b>

Source: EC (2014): SBA in Greece

**Table 4: Percentage (%) of Self-employed in Greece & selected EU-28 countries**

GEO/TIME	2005	2010	2011	2012	2013
<b>European Union (28 countries)</b>	<b>14.9</b>	<b>14.6</b>	<b>14.5</b>	<b>14.6</b>	<b>14.5</b>
Belgium	13.1	13.1	12.9	13.1	13.8
Bulgaria	12.0	11.8	10.8	10.5	10.7
Czech Republic	15.2	16.8	17.5	16.8	17.1
Denmark	:	7.1	8.5	8.4	8.9
Germany (until 1990 former territory of the FRG)	10.8	10.4	10.4	10.5	10.1
Ireland	:	15.4	15.0	14.8	15.5
<b>Greece</b>	<b>29.3</b>	<b>29.7</b>	<b>30.4</b>	<b>31.4</b>	<b>32.0</b>
Spain	16.3	16.0	15.6	16.3	16.9
France	9.8	10.7	10.7	10.6	10.3
Croatia	20.0	18.0	17.6	16.3	15.7
Italy	24.0	22.7	22.5	22.4	22.3
Cyprus	19.7	15.3	14.8	13.7	14.9



Latvia	9.0	9.9	10.1	10.3	10.5
Lithuania	13.9	9.1	9.0	9.6	10.5
Luxembourg	7.7	7.1	7.8	8.0	8.0
Hungary	13.1	11.8	11.4	10.9	10.4
Malta	13.6	13.8	13.2	13.0	13.3
Netherlands	11.8	14.2	14.3	14.7	15.5
Austria	11.7	11.3	11.4	11.1	11.1
Poland	20.0	18.8	18.8	18.5	18.2
Portugal	20.0	17.5	16.6	16.8	16.9
Romania	19.0	19.5	17.9	18.2	18.0
Slovakia	12.6	15.8	15.8	15.4	15.5
Finland	11.7	12.3	12.5	12.6	12.5
Sweden	:	9.4	9.1	8.8	9.0
United Kingdom	12.3	13.3	13.5	13.9	14.0
Turkey	:	24.3	23.4	22.7	22.1

Source: Eurostat (2014): Percentage of self-employed by sex, age groups and household composition

#### 4.3.1. Self-employment

According to Schneider (2011) the rate of self-employment within total employment can be seen as an indicator of undeclared employment. As rates are highly correlated with the size of the shadow economy, it is evident that a large part of the self-employed work in the economy. Similarly, Williams (2006) states that “undeclared work represents a starting point for entrepreneurs launching their enterprises”.

#### 4.4. Administrative duties in the recruitment, retention and dismissal of employees

The loss of work time is of great importance to a company in the recruitment process (Observatory of European SMEs, 2002 / No.7). A significant challenge and also loss of time is that the owner will have to fulfill all the procedures including salary calculation, withholding tax, the payment of taxes on wage labour and social security contributions, etc. while employing workers.

### 5. DEMAND AND SUPPLY DYNAMICS OF UNDECLARED WORK IN GREECE IN COMPARISON WITH EU27

In this section, the demand and supply conditions of undeclared work in Greece are analyzed, based on the finding of the latest Eurobarometer Questionnaire Survey (EC, 2014) carried out in EU27 in 2013 (i.e. excluding Croatia, as joined EU later in the year). To be noted that the previous respective Eurobarometer survey had been published in 2007 (EC, 2007). Particularly, the findings of the survey at European level are compared with the respective answers of respondents in Greece (where available), in order to reveal the dynamics and variations among them.

#### 5.1 The demand side

This subsection refers on the survey findings regarding Europeans’ participation in undeclared work from the demand perspective – buying goods or services which may have concerned undeclared work. It observes the share of the broad public who declare they have purchased undeclared goods or services in 2013. It then analyzes the types of goods and services that have been purchased, the amount of money paid on undeclared work and the sources utilized to obtain the work (i.e. who the suppliers are). It concludes by investigating Europeans’ and Greeks’ motives for acquiring goods or services where they had good grounds to believe that they incorporated undeclared work.

### *5.1.1 Share of people buying undeclared goods or services*

Respondents were interviewed whether they had paid for any goods or services in the year 2013 where they had good grounds to consider that they incorporated undeclared work. Respectively, around 10 percent of Europeans consider they have purchased undeclared goods or services in the reference year. In most countries the share of respondents replying that they have acquired undeclared goods or services is largely parallel to the corresponding result in 2007 survey. However, and despite the variation across EU countries, notable increases were noticed in the cases of Cyprus (+14 percentage points from 2% to 16%) and Greece (+13 points from 17% to 30%).

### *5.1.2 Types of undeclared goods and services purchased*

Europeans, overall, and in spite of the variation across EU, are most probable to have purchased goods or services that may have concerned undeclared work for home repairs or renovations (29% of respondents in EU and 25% in Greece). Buying food is the most widespread type of undeclared purchase in the case of Bulgaria (41%) and relatively significant in Greece (22%). Further, Greece is expected in terms of the type “other” goods or services, to have notable findings with reference to Healthcare services and Home babysitting, although not explicitly mentioned in the report, as these categories are less widely relevant in EU.

### *5.1.3 Amount spent on undeclared work*

Overall, the median amount spent on undeclared goods and services in 2013 was 200 euros, with the respective amounts in Greece (300 euros) and Cyprus (328 euros) to be higher than the EU average, whereas Luxembourg (500 euros) ranked in the top. However, we can argue that if the respective amounts are adjusted by considering the levels of real GDP per capita, this would result in Greece ranking even higher.

### *5.1.4 Sources of undeclared work*

The most popular source of undeclared work across EU is friends, colleagues or acquaintances (45%), although in Greece this source ranks much lower (22%). In contrast, respondents from Greece mention as main sources either purchasing from other private persons or household (45%), or purchasing goods or services that may have included undeclared work from firms or businesses (43%).

### *5.1.5 Reasons for purchasing goods or services involving undeclared work*

Europeans are much more likely to mention lower price as a reason for their purchases of goods and services that might include undeclared work than anything else (60% of respondents). In the case of Greece, the percent of respondents mentioning the same reason is even higher (74%), with the second reason being the receiving of faster service (13%).

## *5.2 The supply side*

Having explored the demand side of undeclared work this subsection focuses on the supply side. It examines the proportion of Europeans and Greeks who were involved in undertaking undeclared work. It then refers to the types of goods and services these people are providing, the level of earnings from such activities and the types of clients to whom they are providing such goods and services. It concludes with an assessment of the reasons according to which Europeans and Greeks are prone to undertake undeclared work and whether those involved experienced any consequences.

### *5.2.1 People supplying undeclared goods and services*

Respondents were asked whether they themselves had performed any undeclared paid activities in the last 12 months, apart from a regular employment. One in twenty five Europeans (i.e. 4%) declare they have undertaken

undeclared paid work in the year 2013 and one in three say they know someone who carries out undeclared work. Despite the widespread national variation, Greek respondents were very close (3%) to the EU average.

### *5.2.2 Types of undeclared goods and services supplied*

Europeans who have undertaken undeclared work are most probable to have done so in the area of repairs or renovations, followed by gardening work and cleaning. No specific figures per country were available in the survey report.

### *5.2.3 Amount earned through undeclared work*

The median annual earnings from any undeclared work carried out in 2013 was 300 euros. Analysis at country group level shows that the median annual amount received from undeclared work is highest in the Nordic countries (465 euros), compared with a median of 300 euros in each of the other three regions.

### *5.3.4 Clients of undeclared work*

Europeans who carry out undeclared paid activities are most likely to be providing goods or services to friends, colleagues or acquaintances. At a country group level, respondents in the Nordic countries are more probable than those in any other region to mention that they have performed undeclared work for friends, colleagues or acquaintances (60%), particularly when compared with those in Southern Europe (34%). Respondents in Southern Europe are notably more likely to have undertaken work for other private persons or households (41%), particularly when compared with those in 'Continental' countries (23%); and work for firms or businesses (21%), particularly when compared with those in Eastern and Central Europe (10%).

### *5.3.5 Reasons for carrying out undeclared work*

Europeans who supply undeclared work are most probable to say that a motive for doing so is that both parties benefit. There are again differences between the four country groups. Respondents in Southern Europe are particularly likely to mention the inability to find a regular job (41%) - the most commonly given reason in this region - and, associated to this, that they have no other form of income (26%). Respondents in Southern Europe are also the most probable of the four country groups to state that undeclared work is a widespread practice in their region or work sector so there is no real alternative (21%).

### *5.3.6 Consequences of carrying out undeclared work*

Around a fifth (i.e. 20%) believed that carrying out undeclared work meant they had no entitlement to social security and that it meant they were not insured against accidents.

## **6. RESTRICTIVE POLICIES ON UNDECLARED WORK**

Since the beginning of the sovereign debt crisis in 2009, Greece undertook to reform its labour market relations based on the Memorandums of Economic and Financial Policies by IMF-EC-ECB. The governmental policies during the last six years have intended to (a) promote an institutional and legal framework with more labour flexibility allowing employers to face the recession (b) tighten the rules and introduce a system of penalties for labour law infringements. In this context the state includes strategies to tackle undeclared work and shift atypical labour transactions into the formal labour market.

### *6.1. Reduction of labour cost*

One of the main reforms that Greek government has introduced is the reduction of gross national minimum wages by 22% (from 751€ to 586€ monthly rate). Moreover, has lowered the minimum wages for young people (below 25 years) by 32% (510€ monthly rate). According to OECD (2013) this "should foster gains in competitiveness, and boost employment especially among young people". In addition, there is a move to

decentralize Greece's system of industrial relations: a new law makes enterprise agreements more powerful than sectoral ones and consequently this type of agreement can be signed by a firm even with a few employees.

### *6.2. Loosening employment protection legislation*

Another measure defined by the Greek government is on labour flexibility. More specifically, in the dismissal procedure, it reduces the length of dismissal notice period (especially to those employees with long tenure) and lowers severance payments for white collar workers. It also redefines collective dismissals increasing the threshold for firms with more than 20 employees.

With regard to temporary employment and fix-term contracts, it has introduced a longer probationary period (from 2 months to 1 year). It has also extended the maximum cumulated duration of fix-term contracts to 36 months (previously 24 months). Furthermore, employers have the permission to extend to three renewals of such contracts during 36 months, but additional contracts automatically give the contract at the open-ended status. Finally, the state has also launched reforms on flexible working arrangements. The employer has the right – in case of a slowdown in activity - to introduce short-time working arrangements on a daily, weekly or other basis, for a period up to 9 months.

### *6.3 Strengthening and upgrading the inspection mechanisms*

Focusing on inspection mechanisms in order to combat undeclared work, the state has reformed the structure of the Labour Inspectorate and allows inspections-visits to firms controlled jointly by the Labour Inspectorate (SEPE), the Social Security Organisation (IKA) and the Financial and Economic Crime Unit (SDOE). Such actions maximize performance through the mutual exchange of information, the better targeting of inspections, resulting to an increase in the number of inspections by reducing the agencies' budgets involved. More specifically, the "participation" of the Financial and Economic Crime Unit in the prevention of undeclared employment and contribution evasion, emphasizes the seriousness with which the state is facing this issue.

### *6.4 Introducing a new electronic information system*

The Ministry of Labour recently (March 2013) launched a joint information system called Ergani. All employers - after a trial period – are obliged by law to submit online forms required by labour market management organisations (SEPE, IKA, OAED). Following that, the state has succeeded in reducing bureaucratic procedures and administrative burdens for employers, issues which as discussed above push firms to the informal labour market.

On the other hand, the Ministry of Labour has an overall picture of the salaried employment flows in the private sector since the information system provides all detailed information for employees (notifications of hiring, dismissals and any change that may occur, notifications regarding the type of employment: full-time, part-time, fixed-term etc) (UN report, 2015).

## **7. CONCLUSIONS**

In this research we have studied many aspects of undeclared work. We have analyzed the forms of informal employment and emphasized the Greek labour framework. We also saw that the empirical analysis is indeed difficult. This obstacle can be overcome by studying specific geographic regions combining both direct and indirect methods. Further, the demand and supply dynamics of undeclared work in Greece in comparison with EU27 country members are parallelized.

We explain that Greece had high labour regulations in the years of prosperity (before the crisis) which protects permanently employed insiders at the expense of outsiders. More specifically, the main difference is that insiders have protected jobs while outsiders have temporary positions in formal or informal employment or are unemployed. Thus, we accept that the Greek labour market has a dual character. Moreover, issues like the high tax wedge, the complexity of labor law, legal and administrative barriers and bureaucracy create significant obstacles to employers leading them to a large extent to the "grey" labour market. Although mixed views have mentioned the incentives that lead to undeclared work, the combination of the two main characteristics of the Greek economy (a) the large number of micro enterprises and (b) the high rate of self-employment play an extremely important role in our issue.

During the crisis, a shift from full-time workers to flexible employment (mainly to part-time) or probably to informal employment has taken place, as firms found this as an escape to survive. However, this time employers have to deal with the overregulated labour environment but also with the recession. The state strongly interferes with general reforms in the context of labour relations. They reduce minimum wages, loosening the employment protection legislation and reduce bureaucracy. Thus, the firm has the opportunity to adopt flexible human resource practices in its workplace in order to avoid downsizing; however, under these conditions it is required that firms have to obey the labour laws otherwise they have to deal with stricter inspections and pay extremely high fines.

All the measures mentioned above create a better business environment, and “unlock the economy from its low level of development” (OECD, 2004). “Typical” firms - those dealing with official transactions - which suffered unfair competition in the past, can now develop and produce more formal jobs. Moreover, formal employment protects the viability of pension funds which are particularly burdened during the crisis.

It seems that the measures that have been taken are in the right direction. The next steps should be geared towards the development of businesses; this is the only way businesses can survive and grow, by creating new jobs and shifting back many “flexible” and “grey” jobs to full time status. The state has to be focused on reducing the tax rates of firms and workers. Therefore, businesses will find a fiscal framework that respects the needs of a firm to develop / establish and to know in advance and to be able to “formalize” their profits respectively. Within a new labour framework we may reduce or even eliminate the dual labour market, along with the reduction of undeclared employment.

#### ENDNOTES

1. The paper was drafted under the auspices of the THALES Research Programme. THALES Programme has been co-financed by the European Union (European Social Fund - ESF) and Greek national funds through the Operational Program “Education and Lifelong Learning” of the National Strategic Reference Framework (NSRF).

#### REFERENCES

ADB (2011). “A Handbook on Using the Mixed Survey for Measuring Informal Employment and the Informal Sector” Asian Development Bank ISBN 978-92-9092-267-4

Anagnostopoulos A. and Siebert S.W. (2015). “The impact of Greek labour market regulation on temporary employment – evidence from a survey in Thessaly, Greece”, *The International Journal of Human Resource Management*, DOI:10.1080/09585192.2015.1011190

Averett, S. (2001). “Moonlighting: Multiple Motives and Gender Differences”, *Applied Economics*, Vol. 33, No. 11, pp. 1391-1410.

CoEU (2014): “*Employment, Social Policy, Health and Consumer Affairs*”, 3339<sup>th</sup> Meeting, Oct, 2014, Council of the European Union.

EC (1998). “Communication from the Commission on undeclared work” (COM/98/0219 final) - <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:51998DC0219>

EC (2003). “578/EC/Council Decision of 22 July 2003 on guidelines for the employment policies of the Member States”, *Official Journal L 197. 05/08/2003 P. 0013 – 0021*, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003D0578>

EC (2004). “*Undeclared Work in an Enlarged Union - An analysis of undeclared Work: An in-depth study of Specific items*”, European Commission Directorate-General for Employment and Social Affairs

EC (2006). “*Green Paper - Modernising labour law to meet the challenges of the 21st century*”, Brussels, COM(2006) 708 final, Commission of the European Communities.

EC (2007). “Undeclared Work in the European Union” Special Eurobarometer 284, October 2007, European Commission Directorate-General for Employment and Social Affairs.

EC (2009). “Study on indirect measurement methods for undeclared work in the EU”(VC/2008/0305), Final Report submitted by GHK and Fondazione G. Brodolini, European Commission, Directorate-General Employment, Social Affairs and Equal Opportunities

EC (2014). “Undeclared Work in the European Union” Special Eurobarometer 402, March 2014, European Commission Directorate-General for Employment and Social Affairs.

EC (2014). “Enterprise and Industry-2014 SBA Fact Sheet: Greece”,  
[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/greece\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/greece_en.pdf)

EC (2014). “Undeclared Work in the European Union” Special Eurobarometer 402, March 2014, European Commission Directorate-General for Employment and Social Affairs

Guariglia, A. and B. Kim (2006). “The Dynamics of Moonlighting in Russia: What is Happening in the Russian Informal Economy?”, *Economics of Transition*, Vol. 14, No. 1, pp. 1-45.

ILO (2004). “Defining and Measuring Informal Employment”, Ralf Hussmans, Bureau of Statistics, International Labor Office

ILO (2005). “Measuring the informal economy: From employment in the informal sector to informal employment” Working Paper No. 53, Ralf Hussmans, International Labor Organisation, ISBN 92-2-116986-3.

ILO (2012). “Statistical update on employment in the informal economy”, Geneva, International Labour Organisation, Department of Statistics.

Karantinos D. (2007). Undeclared Work in Greece, European Employment Observatory, from SYSDem, Update of EEO Review: Autumn 2004).

Lazaridis G. & Koumandraki M.(2003). “Survival Ethnic Entrepreneurs in Greece: A Mosaic of Informal & Formal Business Activities” *Sociological Research Online*, vol. 8, no.2 <http://www.socresonline.org.uk/8/2/lazaridis.html>

Mitsopoulos M. & Pelagidis T: “The Real Cause of Greek Debt: Taxation and Labour Market Distortions in Greece”, *Intereconomics : Review of European Economic Policy*- Springer, ISSN 1613-964X, ZDB-ID 2066476X. - Vol. 46.2011, 2, p. 112-120 - DOI: 10.1007/s10272-011-0372-9

OECD (1986). “Employment Outlook: Chapter III, Concealed Employment”, p. 66, Organisation For Economic Cooperation And Development, Paris.

OECD (1998). “The Public Employment Service: Greece, Ireland, Portugal” Organisation For Economic Cooperation And Development, Paris.

OECD (2004). “Employment Outlook: Chapter 5: Informal Employment and Promoting the Transition to a Salaried Economy” Organisation For Economic Cooperation And Development, Paris.

OECD (2008). “Employment Outlook: Chapter 2: Declaring Work or Staying Underground: Informal Employment in Seven OECD Countries - Annex 2.A3” Organisation For Economic Cooperation And Development, Paris.

OECD, (2009). “Promoting Pro-Poor Growth: Employment” - by the DAC Network on Poverty Reduction (POVNET), Organisation For Economic Cooperation And Development, Paris.

OECD (2014). Self-employment rates. in *OECD Factbook 2014*, OECD Publishing, Paris.  
DOI: <http://dx.doi.org/10.1787/factbook-2014-table125-en>

Sarzalska, A. and A. Szydlowsky (2007). “Labor in non-Observed Economy”, in A. Baranowska, M. Bukowski, M. Bober, P. Lewandowski, I. Magda, M. Sarzalska, A., A. Szydlowsky and J. Zawistowski, *Employment in Poland*

2006: *Productivity For Jobs*, Institute for Structural Research, Ministry of Labour and Social Policy of Poland, pp. 163-199

Schneider F. (2011). "Handbook of the Shadow Economy", Edward Elgar Publishing, ISBN 978 1 84844 335 8

Schneider F. (2014). "Work in the Shadow: Micro and Macro Results" *International Economic Journal*, Vol. 28, No.3, pp. 365-379.

Williams C.C. (2004). "Tackling undeclared work in advanced economies", *Policy Studies*, Vol. 25, Iss. 4. doi:[10.1080/0144287042000288442](https://doi.org/10.1080/0144287042000288442)

Williams C.C (2006). "The undeclared sector, self-employment and public policy" *International Journal of Entrepreneurial Behaviour & Research* Vol. 11 No. 4, 2005 pp. 244-257. <http://dx.doi.org/10.1108/13552550510603289>

Williams C.C (2010). "Tackling undeclared work in southeast Europe: lessons from a 2007 Eurobarometer survey" *Southeast European and Black Sea Studies*, Vol. 10, No.2, June 2010, 123-145. DOI: 10.1080/14683857.2010.486944

Williams C.C. and Padmore J. (2013). "'Envelope wages' in the European Union", *International Labour Review*, 2013, vol. 152, issue 3-4, pages 411-430. DOI:10.1080/09585192.2010.523573

### Greek references

Kanellopoulos K. (2012). «Megetios kai Diartirosi tis Anasfalistic Ergasias», *Oikonomiko Deltio*, Teyxos 37, Trapeza tis Ellados s. 25-44, Dekembrios 2012.

Tatsios N. (2001). «Paraoikonomia kai forodiatygi stin Ellada» ekd. IOBE-Papazisi.