

Contribution by Malta Group
The Future of Employment and the Informal Economy
Working Paper

Introduction

Work is “probably the essential key...to the whole social question”¹. It is our contribution to the co-creation of God’s world, allowing us to transform nature and to achieve human fulfilment. Catholic Social Teaching calls on us to undertake work in a responsible manner and to treat workers well, and reminds us that failure to respect the dignity of human work too often results in poverty and insecurity². In this context, the call to solidarity, that “firm and persevering determination to commit oneself to the common good”³, requires us to examine the world of work and to identify and help address those conditions which do not enable people to “more fully and readily achieve their own perfection”⁴.

Changing nature of employment

It has long been accepted that we are living in a post-industrial age, where the importance of services, knowledge and information have overtaken that of manufacturing. Though globalisation is not new, the speed of change enabled particularly by ICTs has brought its own challenges, such as outsourcing to lower-cost economies and a polarisation of the skills base in developed countries. The organisation of work, too, has undergone significant change, with greater flexibility and networking than ever before. The financial crisis has hit employment hard, especially the young and the low-skilled. Youth unemployment remains unacceptably high in many countries, especially in Southern Europe. It inhibits access to the housing ladder, threatens the concept of the traditional family as well as social stability in the medium term.

In the aftermath of the financial crisis, the imperatives to create good quality jobs, to invest in human capital and to provide active social protection are stronger than ever. GDP growth in Europe remains sluggish, if helped somewhat by lower oil prices, and unemployment has seen only a marginal decline. Job creation is expected to remain a challenge in the near future. Long-term unemployment has doubled since the onset of the crisis, especially – but not only - among the low-skilled, and the risk of poverty and social exclusion has risen in two-thirds of EU member states. The rise in inequality has widened the gap between rich and poor, providing cause for social unrest and easy prey for populist ideologies which are on the rise in Europe. Reducing poverty rates, particularly among single mothers, requires *inter alia* well-designed employment policies and family-friendly measures which facilitate both the entry into and retention of work as well as the completion of education and retraining where applicable.

In this context, the need for social investment in both formative and vocational education at all stages of the lifecourse remains paramount. As the growing interest in social capital has shown, lifelong learning and a responsible work ethic are best nurtured by strong families and inclusive communities. However, job quality and skills are important not only to social inclusion but also to competitiveness. Europe’s most competitive economies have higher investment in education and training, both by government and business, and the stronger European labour markets score more highly on indicators of job quality.

¹ Saint John Paul II, *Laborem Exercens*, 1981

² Pope Benedict XVI, *Caritas in Veritate*, 2005

³ Saint John Paul II, *Sollicitudo rei socialis*, 1987

⁴ Saint John XXIII, *Mater et Magistra*, 1961

Undeclared Work

The informal economy varies in its size and composition across countries and is a complex phenomenon. In Europe, for instance, its size is estimated to vary from 4% of GDP at the lowest, and 26% at the highest. Undeclared work – those paid activities that are lawful but not declared to public authorities - is a key feature of the informal economy, and is typically carried out in sectors like construction and related trades, cleaning, care and catering. Its impact on employees is very negative, as it keeps them outside the protection and regulation of the State. These persons are typically deprived of public pension rights, injury or unemployment benefits. They have poorer working conditions, poor health and safety conditions, conditions of employment that do not meet legal minima, and little or no access to training.

In this context, one group that merits special mention are migrants, particularly those from the developing world. Migrants in general, and particularly irregular immigrants, are most vulnerable to being exploited, underpaid and unprotected. Too often, migrants are seen as a source of cheap, submissive and expendable labour ready to take on the unsavoury, dangerous or degrading jobs that nationals refuse to do. Language barriers, a lack of familiarity with the legal system, lack of any formal claim to payment, and the lack of access to representation make these situations particularly difficult to address. Failure to assist these vulnerable strangers in our midst, however, can only be a source of shame for any civilised community.

It is not only employees who bear the brunt of undeclared work. Employers who are not declaring the work done by their workers are creating unfair competition as they can provide cheaper goods and services than companies respecting the rules, such as health and safety obligations, payment of social security contributions and working conditions. For the State, too, undeclared work means unpaid taxes and social security contributions, leaving less money to provide essential services. The labour force as a whole also suffers, as people whose work is undeclared rarely have opportunities to upgrade their skills or participate in life-long learning.

Various drivers of undeclared work have been identified. Economic drivers are said to include the direct and indirect level of perceived high levels of taxation; the 'cost' of complying with tax and labour regulations; and the penalties (or lack of them) related to enforcement. Social drivers include the difficulty (especially among youth, migrants and the low-skilled) to find decent work; the difficulty to balance the demands of a full-time job with family life (especially among lone parents); and the growing needs for care services (for the elderly or working parents) which often become prohibitively expensive for the persons buying care, when statutory requirements are taken into consideration.

Recessions, too, are often thought to be a driver of undeclared work. However, the jury is still out as to how undeclared work responds in a crisis. On the one hand, it is argued that in recession, employment opportunities, wages and working conditions all come under pressure, encouraging some to seek to compensate for income losses from the formal economy through activities in the informal economy. On the other hand, it is argued that the undeclared economy declines in recession because of lower demand for both declared and undeclared labour, especially because traditional 'undeclared work' sectors tend to be hardest hit by crisis.

While bearing all the above in mind, one cannot overlook the fact that undeclared work is clearly functional in some respects. With few barriers to access, undeclared work can offer marginalised groups a first step back onto the employment ladder. Undeclared work may allow budding entrepreneurs to test their business idea and skill, serving as a seedbed of dynamic economic growth. It can also provide a critical breathing space for small businesses struggling to stay afloat.

That said, undeclared work cannot be passively accepted as a state of fact and an authentic political ethic cannot condone the informal economy. The only value in recognising its possible functions lies in helping to inform policy measures that effectively enable the transformation of undeclared into declared work. Thus, undeclared work can only be appreciated as a step towards full membership in the regulatory framework of a society, and policy measures should be geared towards incentivising employers and employees to make this transition.

Policy Options

Further policy action is needed to promote decent work for all who work, where such employment is productive, offers protection against major risks and renders a decent livelihood.

Both general and specific observations can be made. On a general level, and on the demand side, efforts to create more and better jobs are essential, requiring the attraction of FDI, the promotion of SME investment, support for innovation and improved tax design and administrative simplification. On the supply side, further investment in education and training across the lifecycle, in combination with active employment policies and family-friendly measures, are also necessary, as is the ongoing modernisation of benefit systems. Support for responsible social dialogue is also an important means to ensuring the enjoyment of a range of rights at work. Public perception of the fairness and justice of the tax system are also important, as tax morality is highest where people believe that they pay a relatively fair share of tax, are satisfied with the public goods they receive and are treated in a respectful and impartial way by tax authorities. Adequate social protection in times of loss of livelihood, such as unemployment, injury, illness, maternity and old age is also essential.

More specific measures are also needed to prevent undeclared work and to enable its transformation:

- Awareness raising campaigns may be targeted to strengthen tax morality and employers' social responsibilities towards their employees. They may also be targeted at workers, informing them of their rights and obligations and the benefits of declared employment; and to the general public, in terms of the risks and costs of undeclared work to society.
- Incentives for employers to transform undeclared jobs may be devised, such as temporary wage subsidies, or lowering or accrediting social insurance payments (or even exempting employers from paying them) for a given period of time, in respect of certain vulnerable groups such as youth, single parents and refugees.
- Address tax and social security distortions to avoid fiscal burdens on low skilled employees; to prevent the poverty trap where social security recipients have little to gain by entering employment; and also to facilitate entry into formal self-employment.
- Simplify legal and administrative compliance, providing advice to businesses seeking help to transform undeclared work and assisting new businesses to set up in a formal manner.
- Consider the creation of a service voucher system in a range of personal services, to bring these services into the regular economy in situations where it is not feasible for the consumer to hire an employee to provide such services.
- Design sector-specific approaches to transform undeclared work, especially in low skilled sectors such as cleaning, construction, care and catering.
- Deter undeclared work, including stronger inspectorates and better detection through cooperation between tax and labour authorities. Though the strengthening of social norms is generally more effective, increasing penalties for undeclared work may be considered.

- Increase trans-national cooperation between countries, particularly between their enforcement authorities, as well as the sharing of best practices.