Tackling undeclared work: a public sector priority

Tackling undeclared work is moving ever closer to the top of public policy agendas. Although traditionally viewed as mainly an issue for third world governments, the past decade or so has seen the issue of tackling undeclared work move further up the public sector agenda both in post-socialist societies, where it is sometimes cited by governments as their top public policy priority, as well as in advanced economies.

Indeed, at the 2003 Lisbon Summit of the European Council, tackling undeclared work was named by the European Union (EU) as one of its top ten priorities for action with regard to employment reform.

Until now, however, and despite the priority being accorded to tackling undeclared work, few if any attempts have been made to critically review how public sector management approaches are seeking to deal with this issue, particularly in the EU where undeclared work has been estimated to constitute some 7-16 per cent of GDP in Western Europe and 25-30 per cent of GDP in the EU member states of Eastern and Central Europe.

Approaches towards undeclared work

In many spheres of public sector management seeking to elicit behaviour change amongst the population, it is now well understood that punishing people for doing something wrong (i.e. negative reinforcement) is relatively ineffective compared with positive reinforcement or rewarding good behaviour. Indeed, a vast body of research supports this conclusion in fields ranging from the effective personal management of diabetes, through how to motivate employees and provide effective leadership in organizations to mitigating anti-social behaviour in schools and classrooms. In all these fields and many others, it is now very rare to find punishments alone used to elicit changes in behaviour.

Is it the same, however, when analyzing the approaches pursued by public sector management when tackling undeclared work? For several decades, and largely due to a widespread reading of undeclared work as low-paid sweatshop-like work conducted by employees for unscrupulous employers, it has been the eradication of such work through its repression using deterrents that has been the dominant public sector management approach in most Western nations.

Deterrents

The overarching intention has been to change the cost/benefit ratio confronting those engaged or thinking of engaging in such work. This has been done by seeking to increase the actual and perceived risks and costs associated with participation. Deterrence measures have sought to increase not only the perceived or actual likelihood of detection but also the penalties for those caught. Policy measures that come under the auspice of this repressive approach that seeks to deter participation thus include the use of sanctions and fines for those caught and the development of a whole manner of measures to improve the likelihood of detection, not least through improving the coordination of strategy, operations and data sharing.

A repressive approach using deterrents, however, is not the only means available through which public sector management can tackle undeclared work. Indeed, one of the principal forces driving the need to rethink whether repression is the appropriate way forward has been recognition that much undeclared work is conducted by the self-employed engaged in entrepreneurial endeavour. This has resulted in more attention being paid to whether it is sufficient to solely seek to punish those engaged in such work or whether greater emphasis needs to be placed on enabling them to move into the formal economy.

Enabling

Enabling approaches, however, can take various forms. On the one hand, and for those of a neo-liberal economic persuasion, the need for an enabling approach directly arises from their reading of entrepreneurs operating in the undeclared sphere as heroes who are casting off the shackles of an over-burdensome state and their view of undeclared work as the "essence of liberalism".
As one of the last bastions of untrammelled enterprise culture in an over-rigid economic system, neo-liberals view in the recent growth of undeclared work evidence of a resurgence of the free market against state regulation and union control and for them, “enabling” means adopting a laissez-faire approach towards undeclared work and a de-regulatory approach towards the formal economy. With fewer regulations, the notion is that the distinction between declared and undeclared work will disappear since all activities would be performed in a manner now called “undeclared”, although such activity would be legitimate since it would not be breaking any rules. In this variant of the enabling approach, therefore, measures to be pursued include a decrease in taxation and a drastic reduction in the regulations attached to formal employment.

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However, a more enabling approach is not only advocated by neo-liberals. There is a strand of social democratic thought that again views undeclared enterprise and entrepreneurship as an asset, but only if this endeavour can be harnessed and moved into the existing declared economy. Such enterprise, if declared, would contribute to the development of an enterprise culture and the achievement of fuller-employment.

Carrots and sticks

Unlike repressive approaches where the objective is solely to eradicate such work and neo-liberal enabling approaches where the intention is to de-regulate the formal economy, this emergent social democratic enabling approach seeks to facilitate the transfer of such work into the existing regulatory environment.

To achieve this, deterrents or push measures (“sticks”) are seen as necessary but insufficient. They need to be combined with “pull” initiatives or “carrots”. This is clearly expressed in the European Commission’s Employment Guideline no. 9 on undeclared work, adopted on 22 July 2003, which asserts that there is a need for not only deterrents (or “sticks”) in the form of “improved law enforcement and the application of sanctions” but also a range of pull initiatives (“carrots”), namely a “simplification of the business environment” and the provision of “appropriate incentives in the tax and benefits system”.

Tackling undeclared work

Although deterrence has been prominent, over time greater attention is starting to be paid to enabling measures to facilitate formalisation by either reducing taxes and regulations or providing incentives to those engaged in undeclared work to legitimise their endeavour. In parallel with public sector management approaches in other realms, therefore, where it is accepted that positive reinforcement of “good” behaviour is more effective at eliciting change than negative reinforcement of “bad” behaviour, the finding is that public sector management in EU member states appears to be belatedly starting to move away from solely a repressive approach and towards an approach that also seeks to stimulate good behaviour by rewarding compliance.

In recent decades there has been a concerted shift in management thought away from direct to indirect control; from compliance to commitment. This has been variously referred to as a shift from “hard” to “soft” human resource management, or from bureaucracy to post-bureaucracy. Analysing the approach of the public sector towards undeclared work through this lens, it appears that despite the shift towards positive reinforcement measures, such organisations remain firmly entrenched in a bureaucratic approach that is using externally imposed direct control systems to generate reactive behaviours, albeit using incentive measures that are more effective at eliciting such behaviour change.

To engender a shift from compliance to commitment, a first step to encourage the advent of a “high commitment” society would be to therefore implement awareness campaigns that seek to persuade people of the benefits of declared work by highlighting the services funded by taxation in order to improve overall tax morality. Although engendering a high commitment approach by encouraging “buy in” to an organisation’s objectives is widely adopted in contemporary management practice, it has been until now seldom applied on a societal level by public sector management to issues such as tackling undeclared work. This perhaps reflects how it is policy-makers rather than managers who are initiating the changes in approach towards this sphere.

If managers were to drive such an agenda, then perhaps this incorporation of a post-bureaucratic approach, so prominent in the internal management practices of both private and public sector organisations, might start to come more to the fore when dealing with undeclared work.

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