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Relation between Legal Work and Grey Economy with the Focus on Labour Migrants

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**Contribution to the EMN summer educational seminar
Bratislava**

21 August 2013

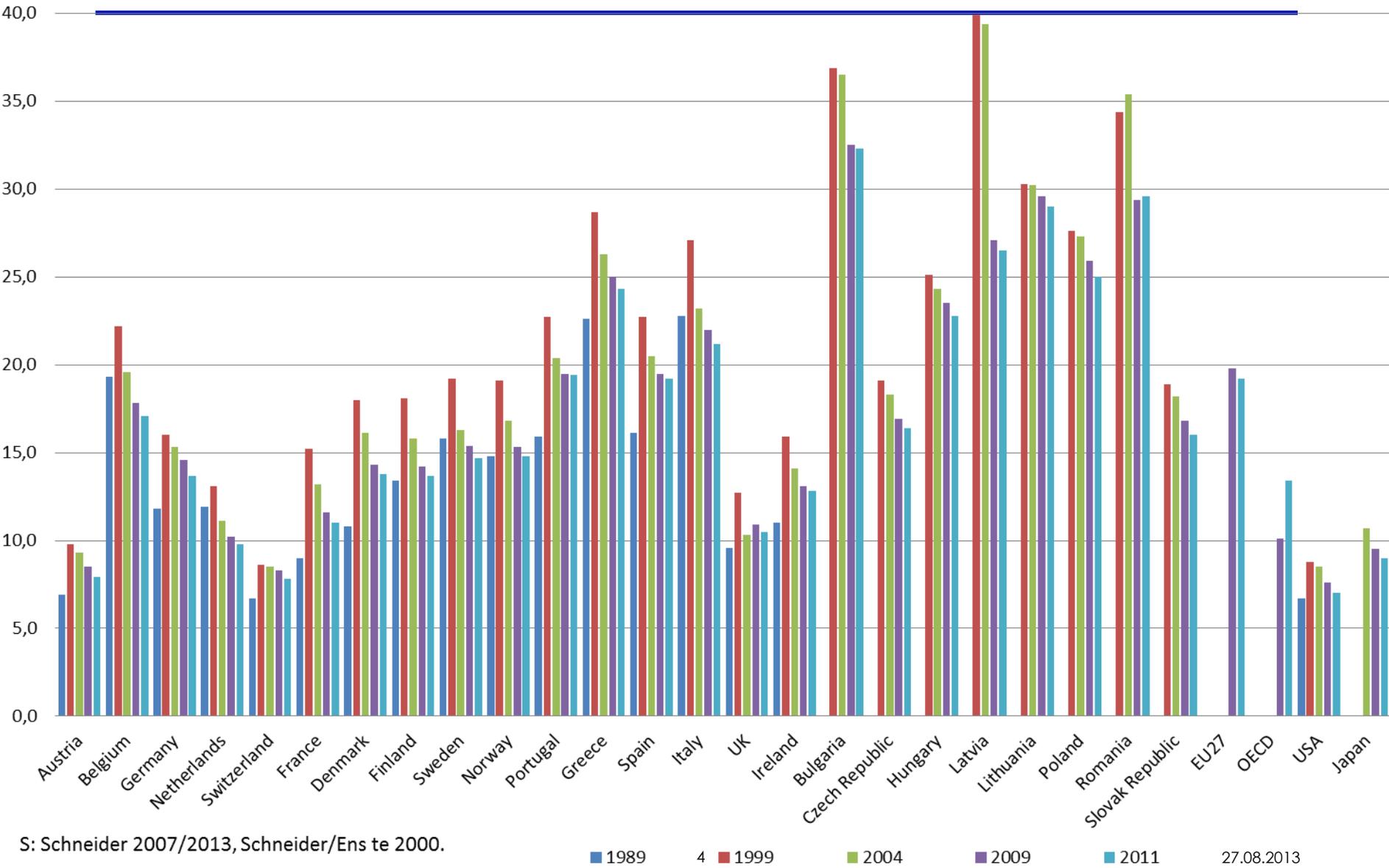
- **1. Economic growth and the role of the grey economy**
- **2. Formal work and clandestine labour**
- **3. Regular and irregular migrants and their integration into work**

Formal and informal economy

- The shadow economy is interlinked with the formal economy in a complex way. It is fluctuating anticyclically and it may be a structural feature of socio-economic organisation .
- In 2011 it amounted to 13,4% of GDP on average in the OECD and to 19.2% in the EU 27.
- The share of the shadow economy in 2011/12 in the EU27 spans from 8% of GDP in Switzerland and Austria to 32.2% in Bulgaria, i.e. difference of 25percentage points.
- Southern and CEECs have the highest shares (19-32% of GDP BIP), followed by the Nordic countries.
- Austria, Switzerland and the UK have the lowest shares in Europe, similar to the levels in USA and Japan.
- The share of the informal economy in GDP has been rising in Europe in the 1990s and is slowly declining since then, with intermittent cyclical fluctuations, in the wake of efforts to achieve a more inclusive economic growth (Europe 2020 strategy)



Development of the Shadow Economy in % of GDP



S: Schneider 2007/2013, Schneider/Ens te 2000.

■ 1989

■ 1999

■ 2004

■ 2009

■ 2011

27.08.2013

Why the CEECs and the Southern European Countries?

- **There is a growing consensus that the legacy of a second economy in the transition countries provides a strong incentive for a large informal sector production in the New EU-MS.**
- **In addition, the large proportion of informal work in GDP is the result of massive impoverishment of large segments of the population in the wake of transition to a market economy.**
- **The Southern EU countries share the tradition of a dual labour market, with jobs in the first labour market being protected from outsiders via stringent job protection and limited flexibility. The strong familial welfare model ensures social security coverage. The large informal economy opens up job opportunities for clandestine workers.**

The role of informal work in the shadow economy

- About 2/3 of the shadow economy is the result of undeclared work – undeclared work is frequent in construction, agriculture, domestic services.
- The remaining 1/3 is the result of underreporting of business, e.g. small shops, tourism, personal services
- The high share of informal labour in total employment is associated with the introduction of measures to raise labour market flexibility, e.g., casual and contract labour.
- These measures are compatible with what already prevails in the informal economy – workers employed by informal enterprises, domestic workers, outworkers, home workers, part-time and casual workers – and thus facilitate the movement from one economy to the other.

- The informal sector may be likened to a sponge, which can soak up labour from the formal sector as well as release labour into the formal sector, depending on the prevailing economic and social forces.
- It is neither a temporary nor a residual phenomenon and the group of workers and enterprises in that sector have diversified in the wake of internationalisation and flexibilisation of labour markets.
- It consists of employers, workers on own-account and wage workers. But unlike their counterparts in the formal sector, they are not subject to legal and social protection.

Informal work as a structural feature of liberal market economies

- There is a growing convergence on the view of the structural nature of informal work in modern, liberal market economies.
- Accordingly, the dualist model, which may have been and possibly still is prevalent in developing economies, is losing ground against the formal-informal continuum model (*MacGaffey, 1991, Kurkchian, 2000*).
- According to the first model, the informal sector is associated with unregistered and unregulated small-scale activities at the margin of the economy which generates income for the poor.
- The second model takes a more comprehensive view. It sees formal and informal activities not as separate and independent segments of the market but as interdependent activities, one feeding into the other, i.e., informal work is subordinate and dependent on developments in the formal sector work.
- According to the ILO the 'formal and informal enterprises and workers coexist along a continuum' (*ILO, 2002:4*)

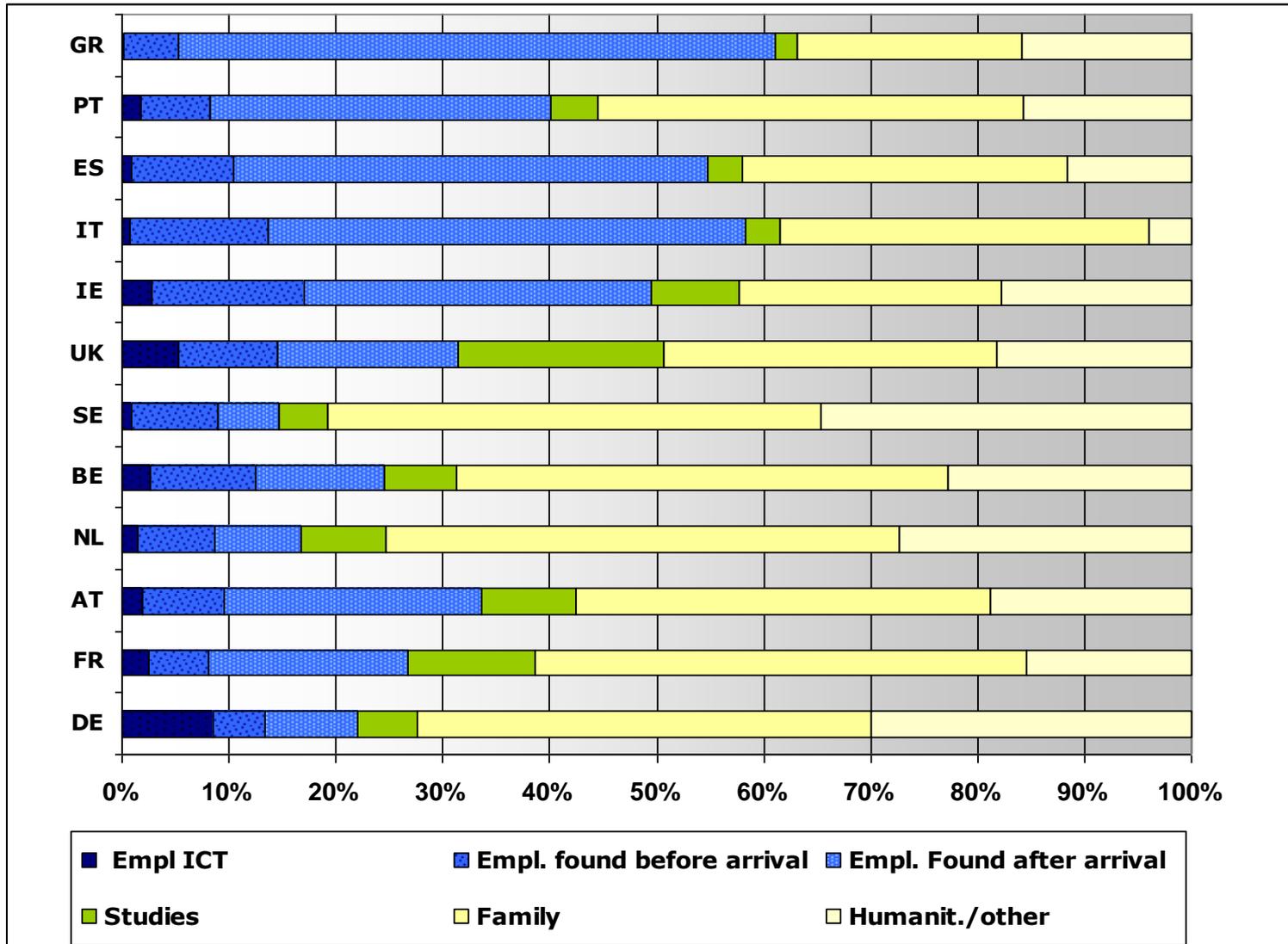
- **The view that informalization of work follows from increased labour market flexibility is also shared by Standing (2008), who sees in it a core element of an emerging global labour system, where the dividing line between an employer and an employee becomes increasingly fuzzy ...”with labour externalization and a global resurgence of labour broking, employment ‘agencies’ and labour sub-contracting. ILO Conventions begin to become inapplicable for a lot of those flexible work statuses involved.”**
- **Data from the European Social Survey (Hazans 2011) indicates that informal work is often irregular and seasonal. The proportion in the EU amounts to on average 11.5% of the population 15+.**
- **The prevalence of informal or clandestine work across Europe conforms to the pattern of the share of the informal economy in the total economy.**

- **The composition of informal workers is diverse, however, the age composition is u-shaped, the skill composition biased towards low-skilled and there are clear concentrations in certain industries.**
- **Migrants play an important role in the informal sector, particularly in countries where access to formal sector jobs is difficult due to quota regulations and other institutional barriers to entry.**
- **According to the OECD a high and rising share of informal work attracts migrants, often also irregular ones.**
- **Large informal sector production tends to employ irregular migrants while irregular migration may in its turn feed on opportunities for clandestine work.**

Interdependence between regular and irregular migration

- ***“What is regular and what is irregular migration depends on each country’s legal context and migration regime”. Anette Brunovskis and Lise Bjerkan (UDI Project 2008)***
- **National migration management wants to convince the population that they are in ‘control’ of migration.**
- **However, only a small proportion of migration is in principle controllable, due to free mobility in the EU, the human right to family and asylum**
- **Sources of irregularity: ‘working tourists’ and seasonal workers who overstay their contract**
- **‘Loss’ of regular residence status due to failure to renew the permit, due to legislative changes.**
- **Failure to leave the country after a negative decision on an asylum application**
- **‘illegal’ entrance, involving clandestine border crossing or entry by ‘means of deception’. The latter involves a wide variety of practices ranging from forged documents to deception about the ‘purpose of stay’. ...**

EU27: Migrants (stocks) by reason of migration (Eurostat 2008 migration module)



Estimate of irregular Migration in Europe (2008)

Countries	Irregular Migrants		In % of Population		In% of Foreigners	
	minimum	maximum	minimum	maximum	minimum	maximum
EU 27	1.900.000	3.800.000	0,4	0,8	6,6	13,9
EU15	1.800.000	3.300.000	0,5	0,8	6,6	12,0
Sweden	8.000	12.000	0,1	0,1	1,4	2,2
Norway	10.500	32.000	0,2	0,7	3,5	10,6
Denmark	1.000	5.000	0,0	0,1	0,3	1,6
Finland	8.000	12.000	0,2	0,2	5,6	8,4
Austria	18.000	54.000	0,2	0,6	2,1	6,2
Germany	196.000	457.000	0,2	0,6	2,9	6,8
Switzerland	80.000	100.000	1,1	1,3	5,3	6,6
France	178.000	354.000	0,3	0,6	4,8	9,6
Ireland	30.000	62.000	0,7	1,4	7,3	15,0
UK	417.000	863.000	0,7	1,4	10,0	20,6
Netherlands	62.000	131.000	0,4	0,8	8,6	18,2
Belgium	88.000	132.000	0,8	1,2	8,7	13,0
Luxembourg	2.000	4.000	0,4	0,8	0,9	1,9
Portugal	80.000	100.000	0,8	0,9	18,1	22,6
Spain	280.000	354.000	0,6	0,8	5,0	6,3
Italy	279.000	461.000	0,5	0,8	7,2	11,8
Greece	172.000	209.000	1,5	1,9	23,4	28,5
Czech Republic	17.000	100.000	0,2	1,0	3,9	22,9
Slovakia	15.000	20.000	0,3	0,4	28,6	38,1
Hungary	10.000	50.000	0,1	0,5	5,4	27,1
Poland	50.000	300.000	0,1	0,8	82,8	496,7
Estonia	5.000	10.000	0,4	0,7	2,2	4,5
Latvia	2.000	11.000	0,1	0,5	0,5	2,8
Lithuania	3.000	17.000	0,1	0,5	8,1	45,9
Slovenia	2.000	10.000	0,1	0,5	2,4	12,2
Romania	7.000	11.000	0,0	0,1	22,3	35,1
Bulgaria	3.000	4.000	0,0	0,1	12,6	16,8

Q: EUROSTAT, OECD, HWWI, Statistics Norway, Bilger—Hollomey (2011).

AusländerInnen: Frankreich 2007, Irland 2006, Bulgarien 2009, Lettland, Litauen & Slovenien 2010, Rumänien 2009.

- **No clear answer:**
- **Labour market flexibility contributes to the competitiveness of Europe and via this mechanism to economic growth and employment growth.**
- **Flexibility reduces employment and contributes to the divergence of income in a society.**
- **Informal work may raise the income of low income earners who are covered by social security (disability pensioners, working poor); it may also ensure the livelihood of irregular migrants thereby contributing to their wellbeing .**
- **Informal work introduces a group of workers into the labour market which is out of the reach of labour rights and which, like any two-tiered system, presents a problem for trade unions.**

Should we combat informal work?

- **Informal sector work may be a rational coping strategy in a world of scarce formal sector jobs.**
- **However, there is a risk of permanent deskilling of workers that are effectively excluded from formal employment.**
- **This may seriously impair the productive potential of a country.**
- **Therefore, in order to devise effective employment policies, it is important to learn about the structure of informal work - the demand side, - and about the characteristics of the workers in the informal sector - the supply side.**
- **In general, a two-pronged strategy to combat informal work tends to be pursued:**
 - **the one is focusing on the demand side for clandestine work, e.g. by raising the status of informal workers, thereby reducing the cost advantage of informal labour.**
 - **the second focusses on the supply of informal work by reducing the incentives to engage in informal work, e.g. raising the fines for clandestine work and/or by reducing the taxes on low wage incomes, thereby reducing the wage advantage of informal work relative to formal low wage jobs.**

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Danke für die Aufmerksamkeit!

