


Monitoring the Hidden Economy and Undeclared Work in Southeast Europe

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Countering Corruption and State Capture in Southeast Europe
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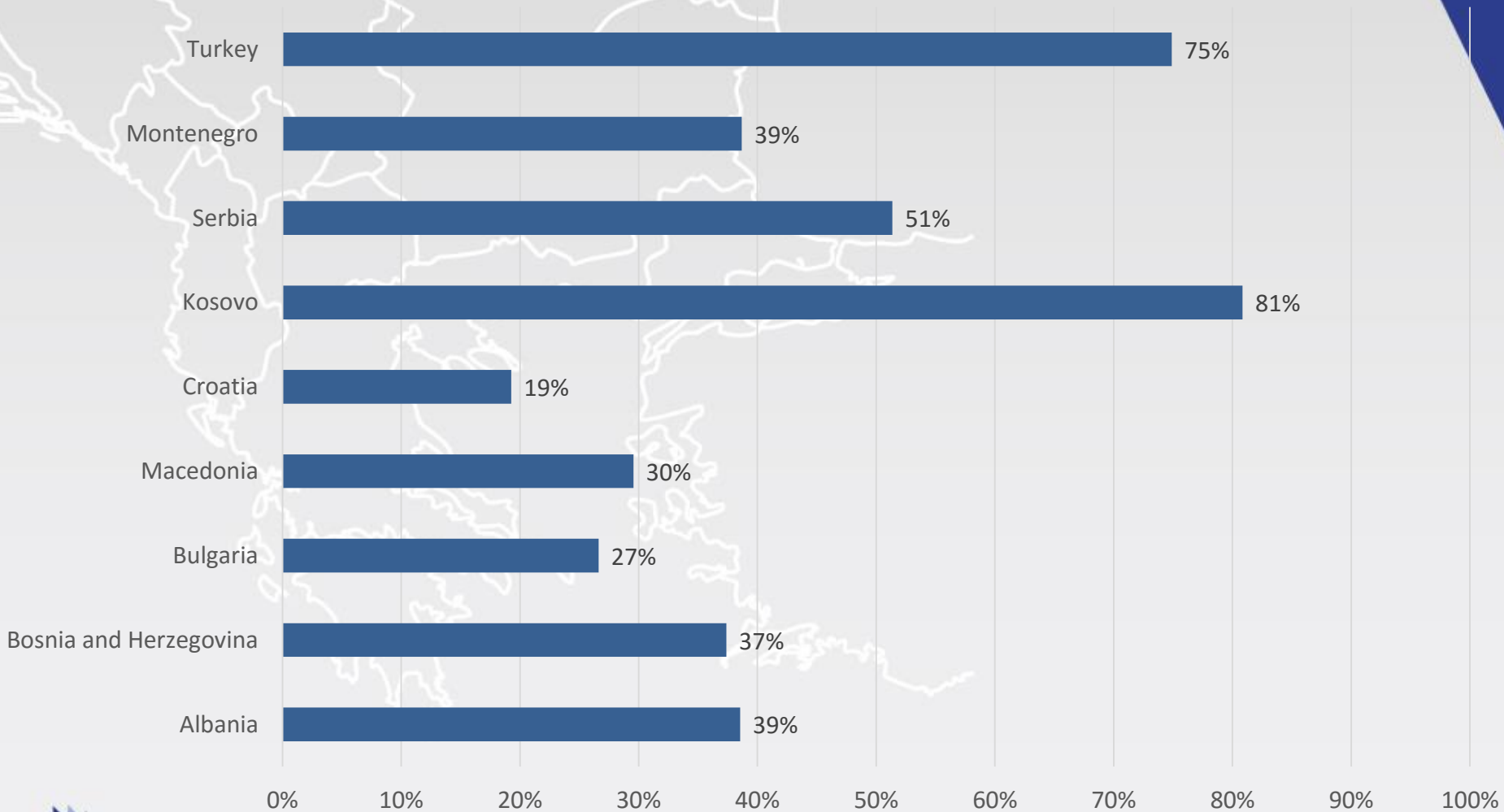
Preliminary findings

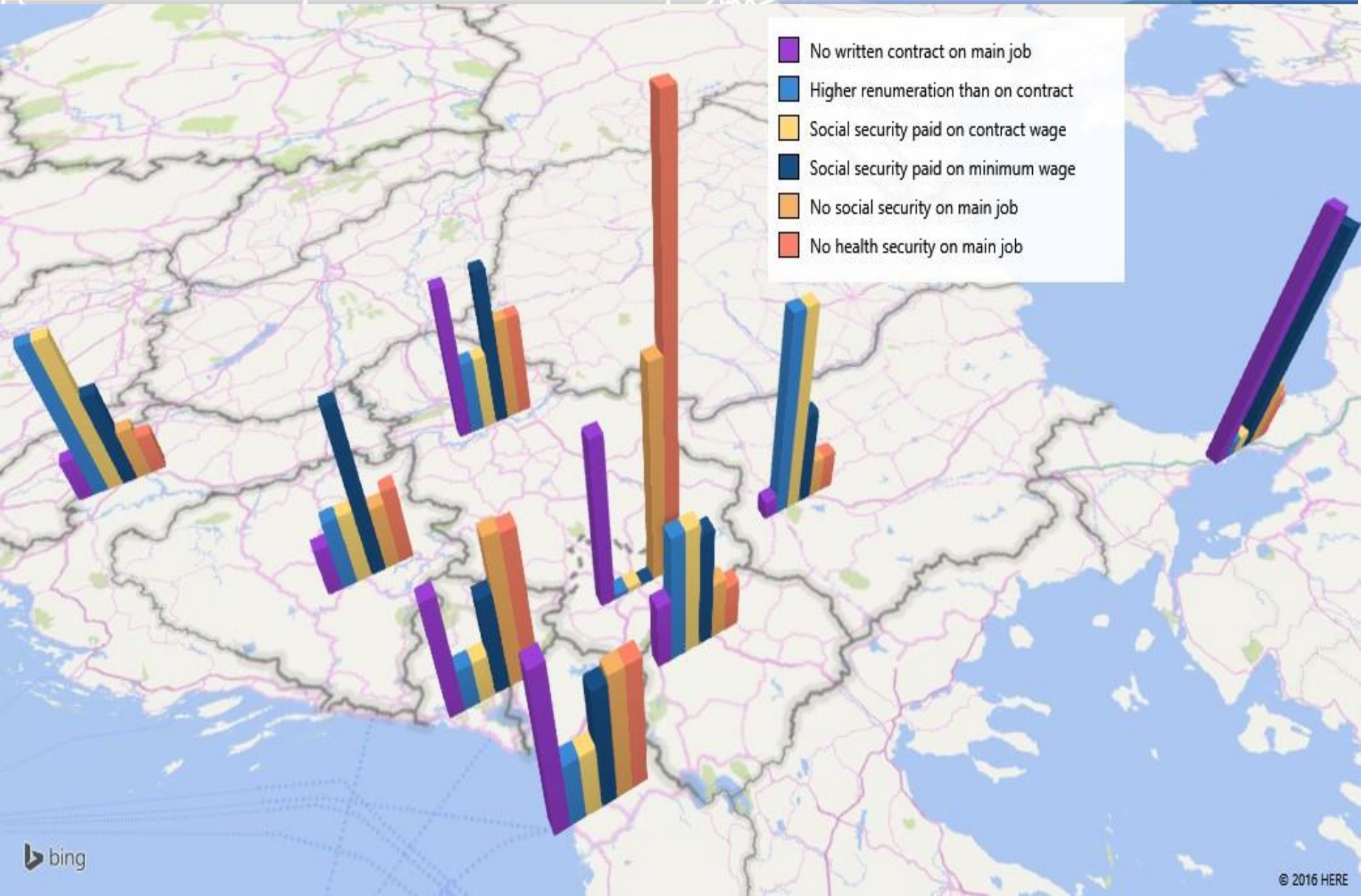
- Immense diversity of scale and patterns
- Wage premium
- Role of minimum wage
- Demographics
- Location of hidden employment
- Choice or trap
- Corruption pressure
- Non-observed economy imputations
- Tax-gaps
- Schneider's Shadow Economy Estimates

Hidden employment

- No written contract with the employer at the main job;
- The actual remuneration received last month was higher than the one written in the contract with the main employer, but was agreed verbally with him/her;
- There is no social security on the main job;
- The base for the social security paid is at the minimum wage, despite the actual salary is higher;
- The base for the social security paid is the amount written in the contract and not the actual received, which is higher;
- There is no health insurance on the main job

Diversity

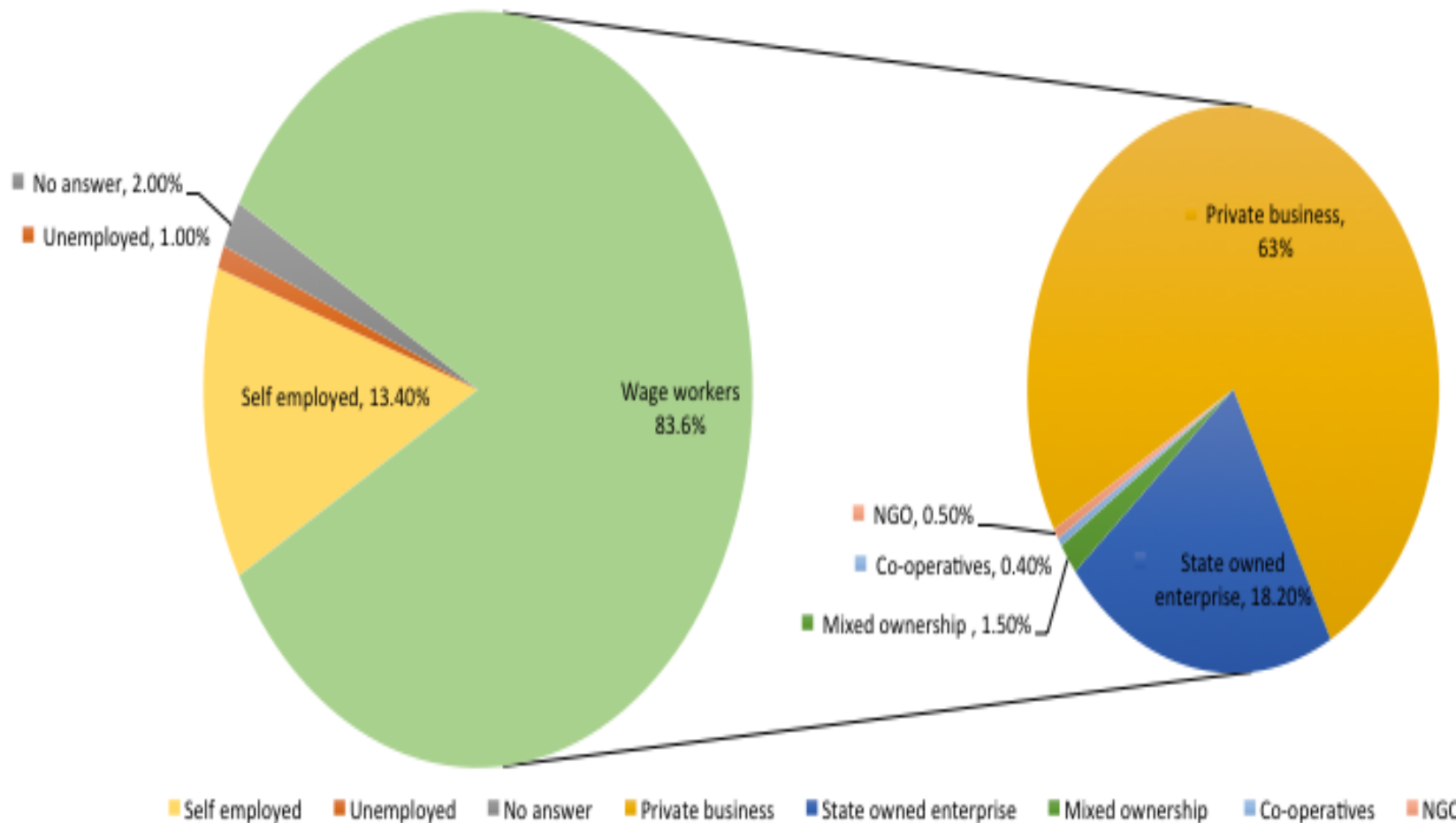




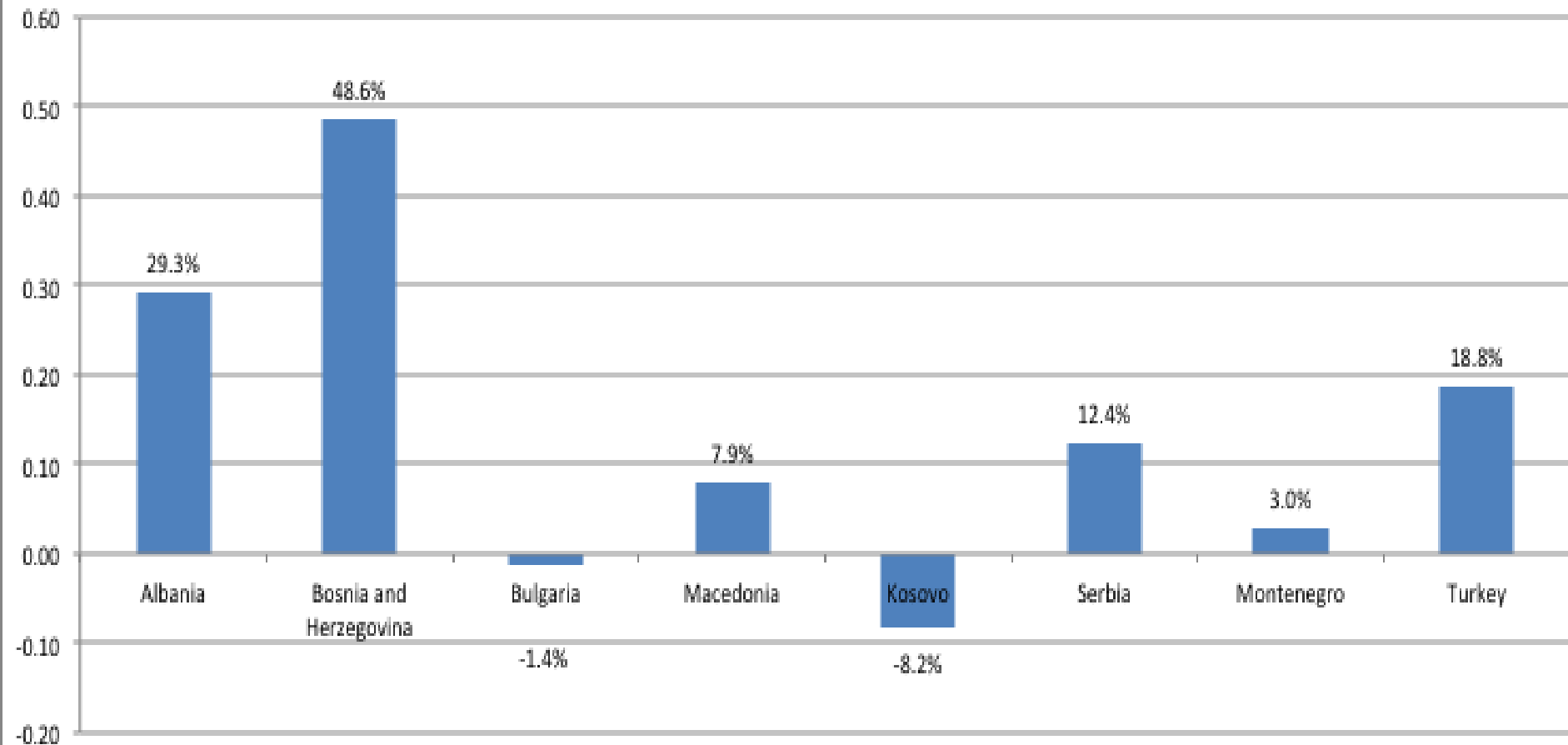
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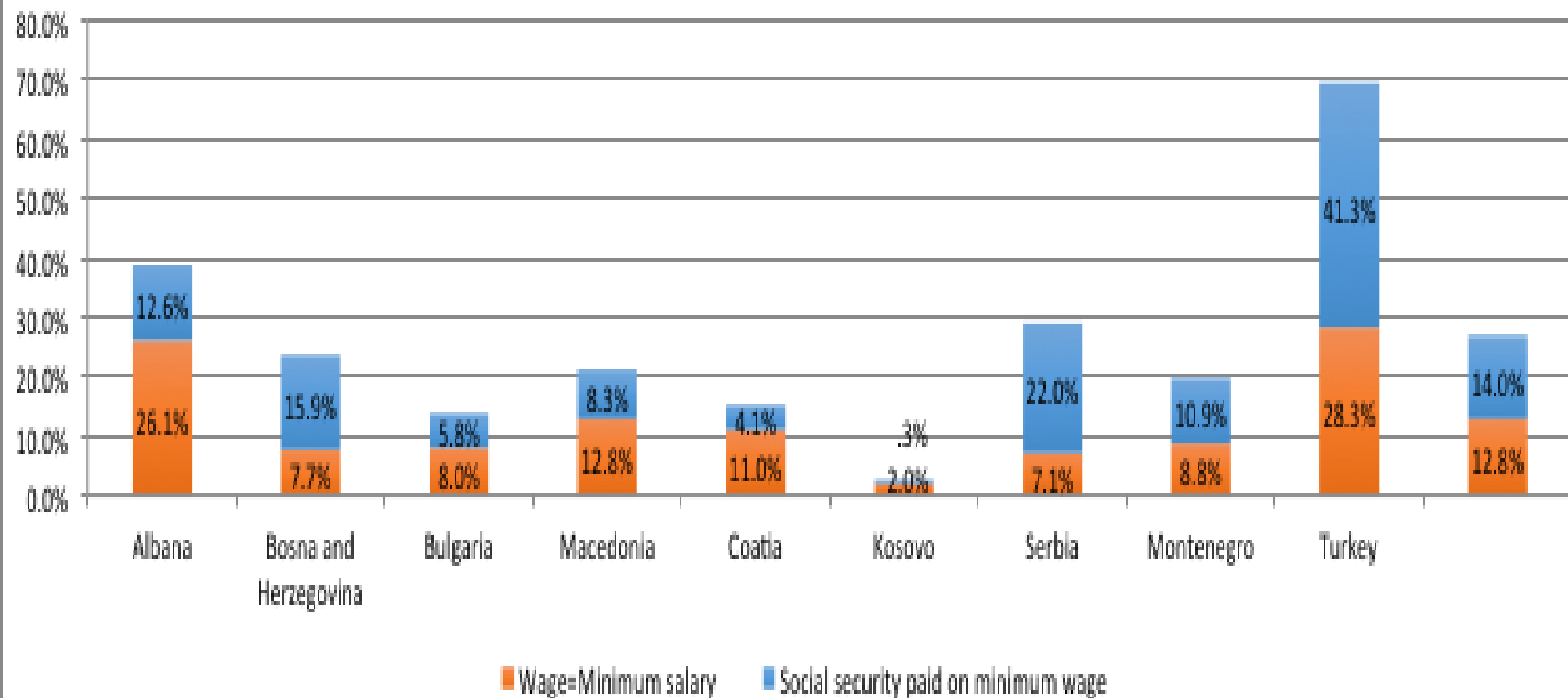
Where Hidden Economy Occurs?



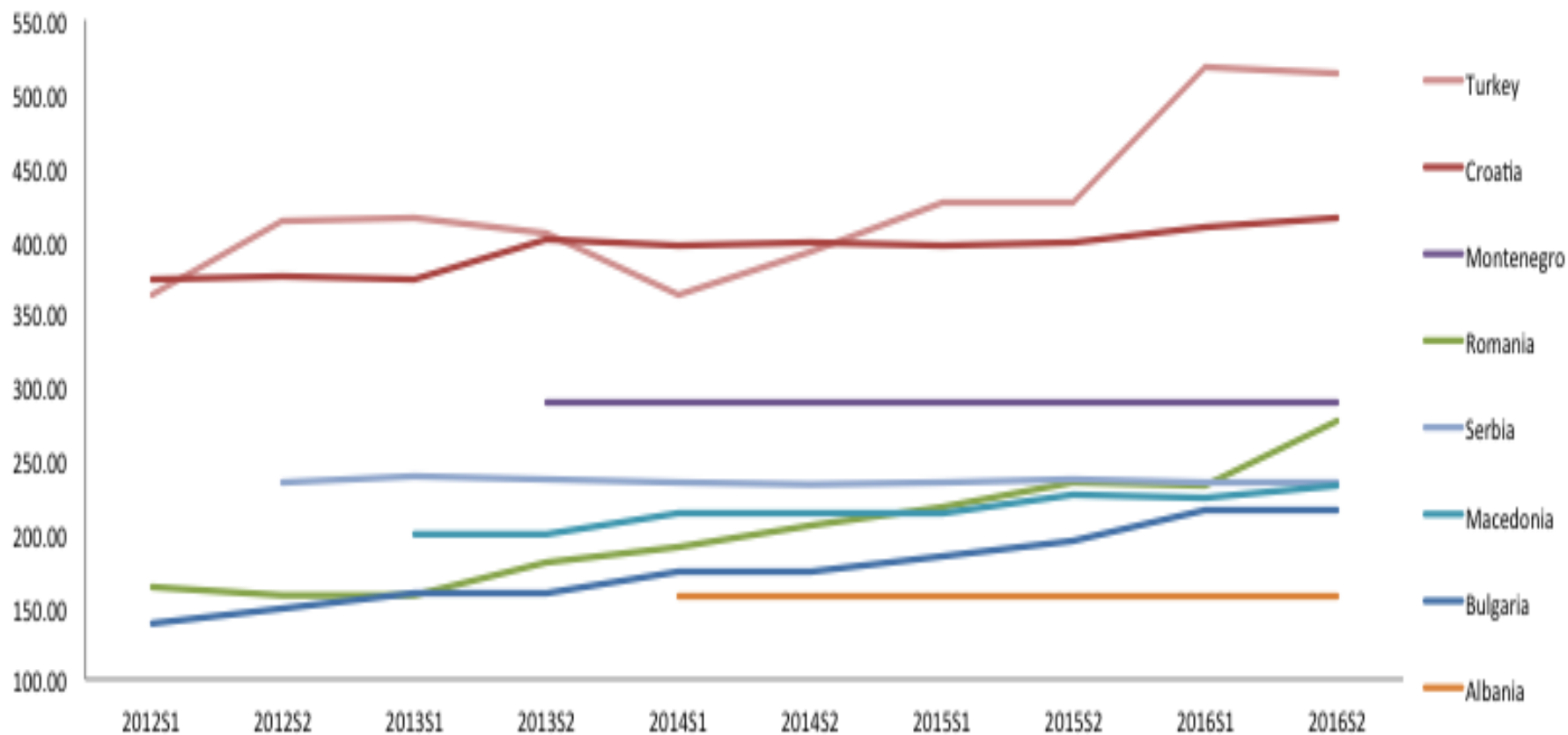
Wage premium of formal vs. hidden economy



Role of minimum wage



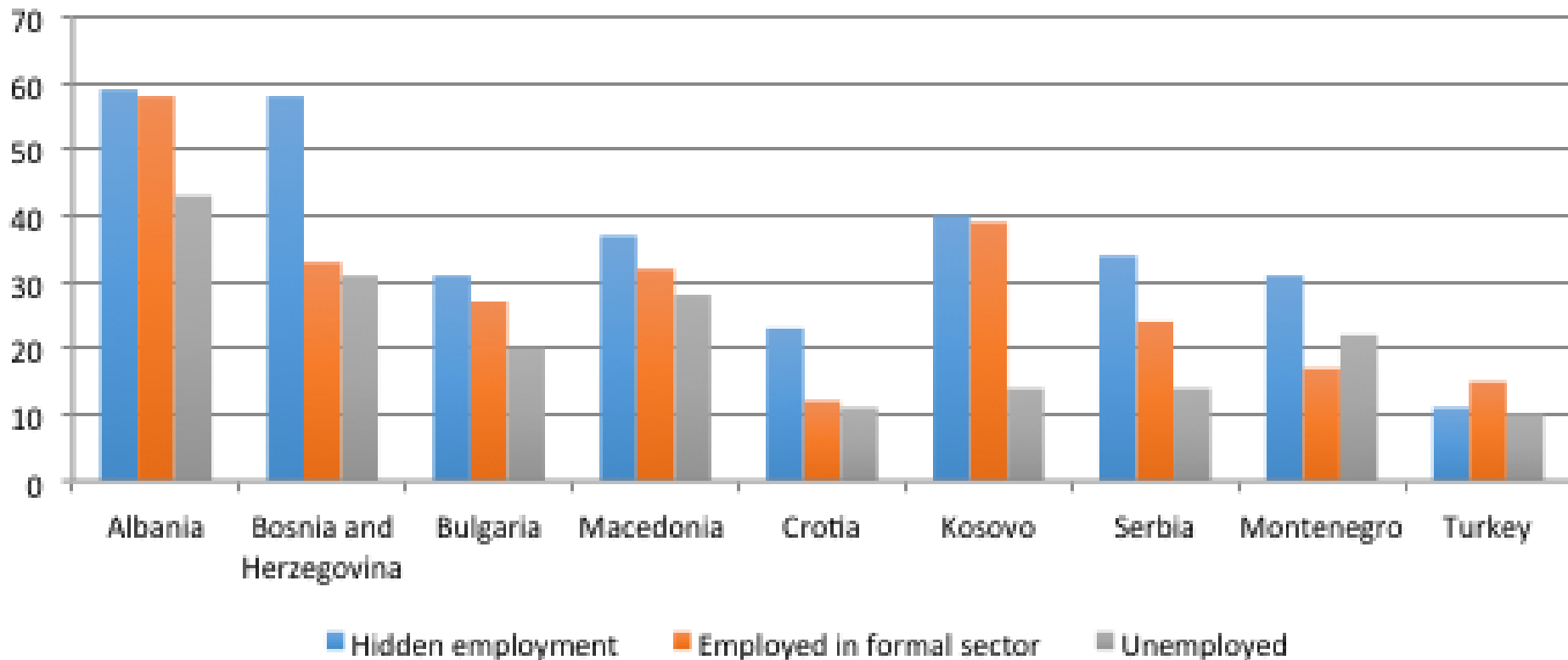
Minimum wage dynamics



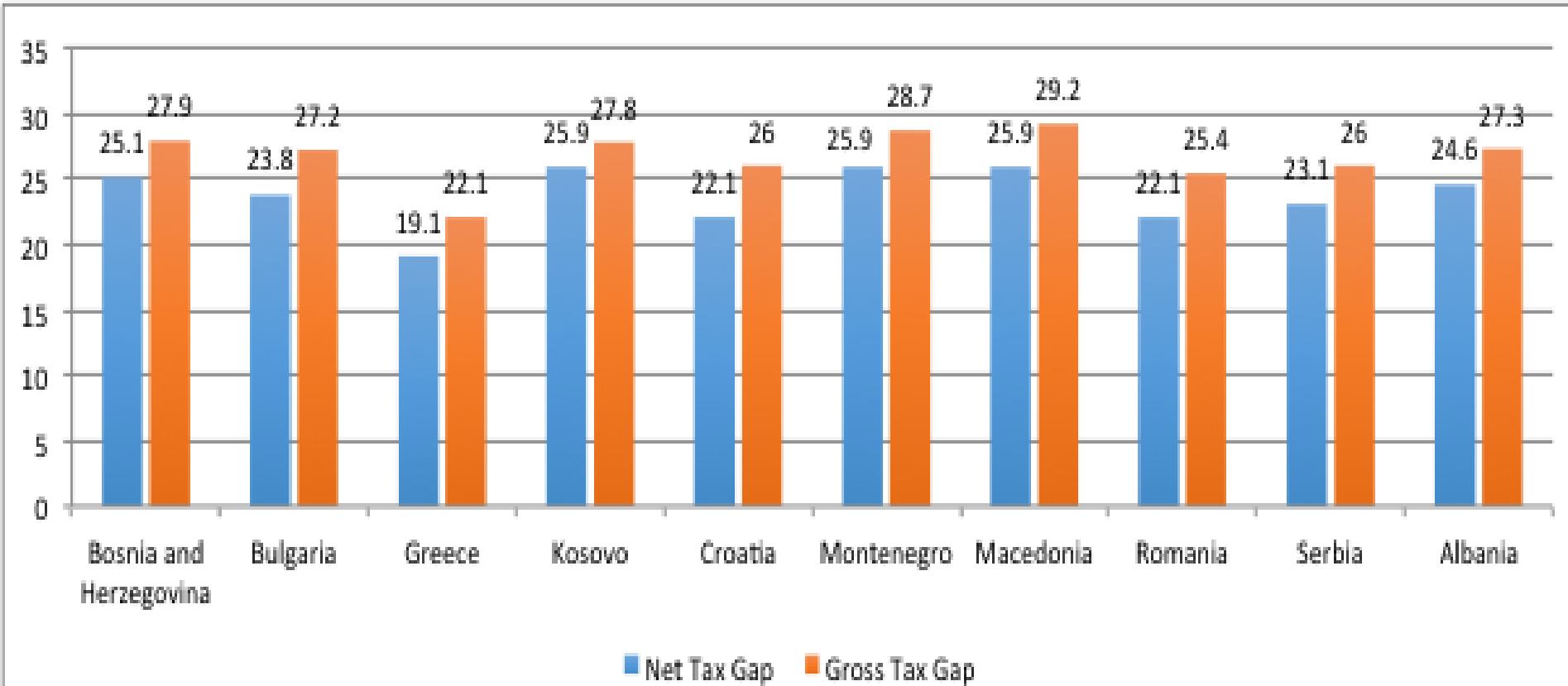
Demographics of hidden employment

- slightly younger (2 years on average),
- male (62%) – more than average employed
- work more (longer) at job and at home (and private farm),
- tend to know more people also part of the hidden economy
- are more relaxed (not judgmental) towards morale in society
- subjective feeling of happiness is slightly lower than the country average, but this does not affect subjective positioning of self in hierarchy of the society.
- The only exception is Macedonia, where hidden employment significantly hinders self-esteem in terms of where one sits in the society

People in hidden employment are subject to higher corruption pressure



Tax gap estimates



Non-observed economy and SSE

- Immense differences also in GDP calculation with respect to hidden economy – between 2 % to 4 % (Turkey and Montenegro) and 31% and 33 % (Albania and Bosnia and Herzegovina) – hence synchronization needed
- Unclear how SSE relates to non-observed economy imputations (if SSE is applied to observed GDP or the whole) – adjustments needed

Policy Recommendations

- **Prioritize and sequence reforms on tax gap areas, which have the strongest negative social impact** (i.e. health care security evasion and quality improvement in Kosovo, missing contracts and social security system in Turkey, excise duty evasion in Bosnia and Herzegovina and Albania). The areas should be **widely consulted** with the businesses and citizens so society at large feels **engaged** in the reforms and has **increased trust in institutions**.

Policy Recommendations

- Design policies, which will **target formalization of whole economic value chain** (or significant long parts of it) and **clusters of economic actors and relationships** as opposed to focusing on case-by-case legalisation by increased penalties and probability of non-compliance detection. Working in hidden economy is socially embedded, culturally and educationally predetermined, and not just a matter of a rational choice maximising personal utility. Effective anti-hidden economy policy would not be a pure economic/fiscal policy, but rather a comprehensive social policy (i.e. in case of child labour).

Policy Recommendations

- In countries, where remittances are important source of investments in hidden economy (Macedonia, Kosovo and Bosnia and Herzegovina), design schemes, which would reduce the cost of transfer of remittances and would match domestic entrepreneurship development schemes and foreign donor programs. Remittances often link hidden economy in Southeast Europe with the hidden economy in Old Member States (where often the senders work). So, both countries might have incentives to resolve the problem in partnership.
- Rely more on technologies (electronic payments, cash registers with fiscal memory, linked in real time with revenue agencies, electronic filing of tax forms, etc.), automation and algorithms (risk profiling and sampling for inspections) than on personal judgements.

Thank you!

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