

# Informal employment in the European Union

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## ***Section 1 Introduction: evolution of employment arrangements in the European Union: the EU policy context***

When talking about the different forms of informal and non-standard employment in the European Union, we find a wide variety of forms. This topic poses hence different challenges for different countries. Employment contracts are embedded into national systems and reflect the labour market policies and interventions made by the countries. They also are embedded into a national labour market and social system, with social protection rights and active labour market policies. They are also placed into a national legal context, including labour inspections. They are also placed into a general economic context, which might be different from one country to another.

In the European Union, several policy developments influence the topic which is debated at this conference. The whole reflection on the way employment is organised in countries has to be placed into a more general framework of European policy making, starting from the European Employment Strategy. Member States of the European Union do not agree to have a harmonised policy on employment matters, but keep their own systems. However they agree upon a common strategy to create more and better jobs, better known as the Lisbon Strategy.

The main objective of the Lisbon Strategy, agreed by the heads of state of the member states of the EU in December 2000 at the European Council meeting in Lisbon, was 'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'. To achieve this aim, the member states agree on a strategy with common principles, complemented by indicators, to measure progress. Every year, every member

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state has to send in a national reform programmes to report on measures and progress on policy measures, which they have undertaken and plan to undertake. The indicators provide a way to relate policy efforts with outcome and enhance the transparency of the results of policies. Through peer review member states can also learn from each other. The indicators are agreed in the Employment Committee on an annual basis. The Employment Committee's working group on Indicators assists the EMCO on the selection and development of indicators required to monitor the Employment Guidelines. The Commission (DG Employment) and the Member States work together in this Indicators group. The main task of the group includes developing, revising and improving the set of indicators in light of statistical developments and new policy priorities.

In 2003, a mid-term review of the Lisbon Strategy was undertaken. A report by a task force headed by the former Dutch prime Minister Wim Kok had as title 'jobs, jobs, jobs'. At the European Council summit held in December 2005, under the UK Presidency, it was also stated that an improved regulatory framework is 'key to delivering growth and jobs'. The policy focus shifted mostly to skills development, employability and adaptability of the European workforce. Furthermore, the European Employment Strategy and its indicators process were integrated into a bigger exercise, with an aim to maximise synergies at national and European level. This process led to 'Integrated Guidelines for Growth and Jobs'. The 8 employment guidelines are now part of package of 24 guidelines of the Lisbon strategy in conjunction with macro-economic and micro-economic guidelines (which were formerly called the Broad Economic Guidelines).

The latest European Commission's Communication on a 'Strategic report on the renewed Lisbon strategy for growth and jobs: Launching the new cycle (2008–2010) – Keeping up the pace of change'<sup>2</sup> included the following priorities: 1) concern for citizens, 2) concern for the environment, 3) a more competitive economy, and 4) knowledge and innovation.. The 2008 Spring European Council 2008 endorsed these priorities. The importance of focusing on the quality of jobs was reinforced. The Slovenian Presidency underlined that "economic growth and high-quality jobs are a guarantee of social progress and social cohesion. The new cycle of the Lisbon Strategy ensures a better balance between concern for citizens and the environment on the one hand and efforts for a competitive, knowledge-based market economy on the other".<sup>3</sup>

In the last couple of years, the focus has shifted towards flexicurity. According to the European Commission, flexicurity is a new way of looking at flexibility and security on the labour market. Flexicurity is an attempt to unite these two fundamental needs. Flexicurity promotes a combination of flexible labour markets and a high level of employment and income security and it is thus seen to be the answer to the EU's dilemma of how to maintain and improve competitiveness whilst preserving the European social model. According to the Commission, ' flexicurity can be defined, more precisely, as a

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<sup>2</sup> COM(2007) 803 final

<sup>3</sup> Slovenian Presidency, Ambitious launch of the next cycle of the renewed Lisbon Strategy for Growth and Jobs, 2008-2010: The strategy is working, but implementation of reforms must be more resolute, 14 March 2008, available at [http://www.eu2008.si/en/News\\_and\\_Documents/Press\\_Releases/March/0314EC\\_Lizbona.html](http://www.eu2008.si/en/News_and_Documents/Press_Releases/March/0314EC_Lizbona.html)

policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and labour relations on the one hand, and security – employment security and income security – on the other. The aim is to move away from job security but focus on employability security. Basically, it comes down to policies less geared to protection of jobs but more towards making people more flexible to move on the labour market, with the aim to increase adaptability for companies. Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change, to stay on the job market and make progress in their working life. For this reason, the flexicurity model also includes a strong emphasis on active labour market policies, and motivating lifelong learning and training, improving customized support to jobseekers, supporting equal opportunities for all and equity between women and men. The basic principles behind the flexicurity approach are very much in line with the central elements of the EU strategy for growth and jobs. The revised Lisbon Strategy promotes an active response to the challenge of globalisation. Flexicurity relies on a high level of workforce training, another priority in the updated strategy.’<sup>4</sup> In particular, Guideline 21 of the Employment Guidelines<sup>5</sup> stresses the need

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<sup>4</sup> <http://ec.europa.eu/social/main.jsp?catId=116&langId=en>

<sup>5</sup> **Guideline 21:** Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners, through:

- the adaptation of employment legislation, reviewing where necessary the different contractual and working time arrangements;
- addressing the issue of undeclared work;
- better anticipation and positive management of change, including economic restructuring, notably changes linked to trade opening, so as to minimise their social costs and facilitate adaptation;
- the promotion and dissemination of innovative and adaptable forms of work organisation, with a view to improving quality and productivity at work, including health and safety;
- support for transitions in occupational status, including training, self-employment, business creation and geographic mobility;

**Indicators for monitoring** include among others the following:

- 21.M1 Transitions by type of contract. *Source SILC*  
Transitions between non-employment and employment and within employment by type of contract from year n to year n+1. Sex Q2
- 21.M2 Diversity and reasons for contractual and working arrangements. *Source LFS* annual average and spring data Pt/ft, reason, of which involuntary, sex (Type of contract refers to permanent, fixed-term, education and training (e.g. paid apprenticeship), and self-employed).
- Total employees in part-time and/or fixed-term contracts plus total self-employed as % of persons in employment. Employees in non-standard employment (part-time and/or fixed-term) as % of total employees. (Breakdown by part-time, fixed-term, part-time and fixed-term.) Total self-employed as % of total persons in employment.

**Indicators for analysis** include among other the following:

21.A1 Undeclared work. *National sources*

Size of undeclared work in national economy (e.g. as share of GDP or persons employed)

21.A2 Working time. *Source LFS and NA*

1. Average weekly number of hours usually worked per week defined as the sum of hours worked by full-time employees divided by the number of full-time employees

2. Average effective annual working time per employed person.

Weekly/ annual,sex

to promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the Social Partners. The Danish and Dutch models are the ones who are usually put forward as examples of this.

Complementing this, the European Commission is currently working on a communication on skills. This "new skills for new jobs" initiative aims at Improving the capacity to anticipate and match labour market and skills needs in the EU, reaching the objectives set out in the EU's growth and jobs strategy, making best use of existing initiatives and instruments, gathering results that are comparable at EU level and promoting a truly European labour market for jobs and training that corresponds to citizens' mobility needs and aspirations. This will probably be followed by a set of common objectives and indicators to measure progress in all member states, to be agreed by the Council.

Furthermore, all these initiatives have to be incorporated into national systems. Countries have to report on different measures they have undertaken and on the success of the system. At this stage, the whole flexicurity debate has still very different impacts in the member states<sup>6</sup> and is widely debated and provokes strong reactions from the different actors involved in the debate. There is a fear that the emphasis in some countries might be put much more on flexibility and loosening of the labour market, while the security component might get less attention and might not work equally well for all workers<sup>7</sup>. One of the differences which can be pointed at might be the difference between low and high skilled workers, whereby the impact of more flexibility might have more negative effects on the lower skilled workers with lesser employability.<sup>8</sup> Our current reflection should bear this in mind.

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21.A3 Overtime work and hours of overtime *Source LFS annual average*

Employees for whom overtime is given as the main reason for actual hours worked during the reference week being different from the person's usual hour worked as % of total employees.

Average hours of overtime, Sex

21.A4 Access to flexitime *Source LFS ad hoc modules*

Total employees who have other working time arrangements than fixed start and end of a working day as a % of total employees. Age (Total, 20-49), sex

18.A8 Transitions by pay level. *Source SILC*

Transitions between non-employment and employment and within employment by pay level (gross monthly earnings) from year n to year n+19. Sex

<sup>6</sup> Flexicurity and industrial relations, EIRO comparative analytical report at

<http://www.eurofound.europa.eu/eiro/studies/tn0803038s/index.htm>

<sup>7</sup> Foundation findings - Flexicurity: Issues and challenges, at

<http://www.eurofound.europa.eu/pubdocs/2007/90/en/1/ef0790en.pdf>

<sup>8</sup> Pacelli, Employment security and employability: A contribution to the flexicurity debate at

<http://www.eurofound.europa.eu/publications/htmlfiles/ef0836.htm>

## **Section 2 Different types of informal and non standard employment**

As already indicated, there are huge differences between countries with regard to different types of informal and non standard employment. These are embedded into a national legal, labour market and social system.

A big difference can be made between undeclared work on the one hand and different types of non standard employment. However they should be analysed together in order to understand the picture. While on the one hand undeclared work is something which all the states are trying to abolish in the European Union, with different rates of success, the more 'flexible' forms of work, among which more non standard forms of work, are promoted in the European policy context. This might lead to a revision of the whole employment and social protection system. Both labour markets and social protection systems should be adapted in order to encompass these new non standard forms of work. Their impact should be analysed both at individual, company and societal level. There might also be differences for different types of workers, e.g. between low and high skilled workers. And lastly, they might have an impact on the working conditions of these workers.

A recent study by Eurofound<sup>9</sup> showed that were if we consider all 27 Member States together, more jobs were created at the higher spectrum (ie the relatively well paid and high qualified jobs) in the years 1995-2005. However, a more worrying fact is that for the jobs created in the lower spectrum (i.e. low qualified jobs), there has been a tendency towards the "de-standardization" of the employment relation. For example, part-time and fixed-term employment grew much more at the bottom of the employment structure than at the top. A more complex pattern is observed in relation to self-employment. In most EU15 (especially in Italy and Greece), there was a decline in the incidence of self-employment over the period and most new self-employment was created within relatively high-paid jobs (mainly in liberal independent professions). The NMS follow a different pattern suggesting a process of de-standardization of some types of jobs through the use of self-employment. Hence there is a need to reflect carefully on the developments in each of the countries.

We will give an overview of different types of work which might have

- undeclared work
- non standard employment
- very atypical forms of employment.

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<sup>9</sup> Hurley and Fernandez Macias, More and better jobs: Patterns of employment expansion in Europe at <http://www.eurofound.europa.eu/pubdocs/2008/50/en/1/EF0850EN.pdf>

We will give an analysis of each type in the European Union and link to the consequences on social protection and employment rights. In some cases, some elements related to working conditions might be added to clarify the implications of these informal and/or non standard forms of employment.

### ***Section 3 Undeclared work***

Different definitions are used in countries to name this phenomenon of work. We usually refer to this kind of employed which has no legal protection, nor social rights to the work associated as undeclared work or informal employment

In a feasibility study on measuring undeclared work by a research consortium comprised of TNS Infratest, the Rockwool Foundation and Regioplan, a number of possible terms are listed, which were used by EU countries in the national reform programmes, based on the Lisbon Strategy<sup>10</sup>:

- undeclared work in Austria, Cyprus, Denmark, Estonia, Finland, Greece and Latvia
- undeclared employment in Hungary and Latvia
- illegal work in Lithuania and Slovakia
- informal, non-declared and illegal work in Portugal
- illicit work in Sweden
- unregistered employment in Poland
- underground economy (economie souterraine), illegal work (travail illegal) and informal economy (economie informelle) in France.

They also refer to the one country which gives a definition, Poland, where ‘unregistered employment’ is defined as ‘ Work without a formal labour relationship, i.e. without formal labour contract, commission agreement, work-piece agreement or any other written agreement between employer and an employee regardless of ownership sector (including also natural persons and individual agricultural holding; work cannot be also performed on the basis of call-up, appointment or election. The unregistered employment does not entitle persons performing unregistered jobs to benefits from social security, thus they cannot participate in social security benefits. Moreover, during the period of the unregistered employment, employers do not pay obligatory taxes due to social insurance institutions and labour fund taxes, employees do not pay personal income taxes from incomes gained through the unregistered employment - own account work providing the financial obligations to the state due to maintained economic activities are not fulfilled (e.g. taxes).’

While it is very difficult to measure this kind of employment globally in the European Union, national sources do give some light on the estimations of the size of this form of

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<sup>10</sup> Bielinski, Fischer, Larsen, Renooy, Riedmann and Tranaes, Feasibility study on a direct survey about undeclared work, final report the EU Commission, December 2006

employment. The same report includes an estimate per country and the way it is measured by the national sources.

**Table 1: Size, methods and year of measurement by member state**

Country	Estimated size	Year	Sources/measurement methods
Austria	1.5% of GDP	1995	Statistics Austria, national accounts, ESA95; combining data sources/surveys. <sup>9</sup>
Belgium	3-4% of GDP	1995, confirmed in investigations in 1997 and 1999	National Bank of Belgium, national accounts (NA), ESA95; combining and comparing data sources. <sup>1</sup>
Cyprus	4.2% of GDP	2003	Estimate of Greek Cypriot administration and researchers' own calculations. <sup>1</sup>
Czech Republic	5.3% of total employment <sup>10</sup>	2004 <sup>11</sup>	Data comparisons under/non reporting figures (HBS, LFS <sup>12</sup> and Tax Authorities). <sup>2</sup> In EC study 2004, estimated size 9-10% of GDP (1998). <sup>1</sup>
Denmark	4.3% of GDP <sup>13</sup> (3% black activities +1.3% ordinary tax evasion)	2005	Rockwool Foundation <sup>14</sup> ; Statistics Denmark estimates 1% of GDP in 2001 <sup>15</sup> .
Estonia	6.1% of GDP	2001	Two methods combined: Exhaustiveness of NA and LFS-coverage. <sup>2</sup> In the 2004 research by EC estimated size 8-9% of GDP (2001). <sup>1</sup>
Finland	4.2% of GDP	1992	Finnish Ministry of Finance; combining and comparing data sources and expert assessments. <sup>1</sup>
France	4-6,5 % of GDP	1998	Pedersen 1998 <sup>16</sup> ; statistical corrections, 4% of GDP INSEE 1999. <sup>1</sup>
Germany	4.5% of GDP (3.1% black activities +1.4% ordinary tax evasion)	2004	Rockwool Foundation. <sup>17</sup>
Greece	Over 20% of GDP	1998	Non-confirmed figures in press releases. <sup>1</sup>
Hungary	18% of GDP	1998	Combining various methods (e.g. enterprise surveys and expert interviews). <sup>1</sup>

Ireland	Not available		No reply.
Italy	16-17% of GDP <sup>18</sup>	1998/2001	ISTAT; combining and comparing various statistical sources; using indirect estimation methods. <sup>19</sup>
Latvia	18% of GDP	2000	Latvian Bureau of Statistics, combining various methods (e.g. enterprise accounts and labour surveys). <sup>10</sup>
Lithuania	18.9% of GDP	2002	Methodology of OECD Handbook 'Measuring NOE'. <sup>20</sup>
Luxembourg	Not available		No reply.
The Netherlands	2% of GDP	1995	Netherlands statistics office (CBS), national accounts; combining and comparing data sources. <sup>10</sup>
Malta	5.78% of GDP	2004 <sup>21</sup>	Malta statistical office. Phare project on NOE: exhaustiveness of NA. <sup>11</sup>
Poland	14% of GDP	2001	Central statistical office (2003). Various direct methods (e.g. survey on expenditure, household surveys). <sup>10</sup>
Portugal	5% of GDP	1996	Statistics Portugal, NA; Combining and comparing data sources. <sup>10</sup>
Slovakia	13-15% of GDP	2000	Statistical Office of SR. Combining various methods (e.g. enterprise surveys, household surveys). <sup>10</sup>
Slovenia	17% of GDP	2003	Estimation 2003. <sup>10</sup>
Spain	15-20% of GDP	1985	Unknown. <sup>22</sup>
Sweden	5% of GDP	2004 <sup>12</sup>	Comparison of expenditures versus declared income information of tax authorities <sup>11</sup> ; 1.7 % (2005) of the total working time in Sweden acc. to recent survey based measurement similar to Rockwool concept. <sup>23</sup>
Great Britain	2% of GDP	2000	Rockwool Foundation, study no. 10; questionnaire survey. <sup>24</sup>

(source: *Bielinski, Fischer, Larsen, Renooy, Riedmann and Tranaes, Feasibility study on a direct survey about undeclared work, p 48*)

Eurostat does not have fully reliable exhaustive statistics on the phenomenon in the European Union. So far, no questions are incorporated in the Labour Force Survey. So far, in many countries efforts have been undertaken to achieve exhaustiveness of the phenomenon, clearly supported by Eurostat. However, there are differences between the definition of undeclared work by the Commission and the non-observed economy as captured by the exhaustiveness studies. Part of the non-observed economy does not have to be reported due to legal or administrative reasons. Another way to have reliable statistics for the European Union is a direct survey. Such as survey has been undertaken by Eurostat<sup>11</sup>, and gives a picture of this form of employment in the European Union.

<sup>11</sup> Undeclared work in the European Union, Special Eurobarometer 284/wave 67.3, undertaken in 2007, at [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_284\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_284_en.pdf)

A complementary way would be to try and capture the working conditions of workers who do this form of employment through some extra questions in the European Working Conditions Survey (EWCS). While it would be interesting to be able to assess the working conditions of this particularly vulnerable group of workers – a problem would be the current sample size of the EWCS, which is restricted to 1000 workers per country. It would be impossible to have enough workers of this type in each country to really do some interesting analysis.

However, whatever method is used, one should bear in mind that we are talking about very different things. In the European Union, we usually use an ‘activities-based’ definition when we talk about undeclared work<sup>12</sup>. Undeclared work in that context is then referred to as ‘productive activities that are lawful as regards their nature but are not declared to the public authorities, taking into account the differences in the regulatory systems between member states’. Hence, the only difference between declared and undeclared work is that it is not declared to the authorities for tax, social security and/or labour law purposes. This is also their greatest shortcoming.

However, the effects of these shortcomings might have different impacts in different systems: in some countries, most of the social security provisions are not work-related but citizen’s rights, such as (generous) pension schemes, universal health care provisions, etc. Two factors determine the potential problems with undeclared work and social protection: either the access to the rights (citizen versus worker), and the generosity of these rights (i.e. whether there is a part which is universal and another part which is work-related and the relative weight of each of the elements). Another distinction is that in more and more systems, now these statutory rights are complemented by some ‘second pillar’ which is work-related, i.e. through your employer/employment contract. In the case of undeclared work, the worker would not be part of these systems.

Another big difference and problem is that the undeclared worker does not have any employment rights, i.e. in case of termination of the contract, he or she might not qualify for unemployment benefits. Another problem is that the worker might not be protected against accidents at the workplace or work-related diseases. This might lead to enormous problems in case of such an accident, with immediate dismissal and a different kind of health care provisions. In most systems, you get 100% coverage for accidents/injuries/professional illnesses – and less it is not work-related (or reported as work-related). It might either be insured at a lower rate (usually 80% of the costs) or not reported at all (and not compensated) in the worst cases.

Another element is the building up of pension rights. Again, pension systems vary very much from country to country. In some countries, you have a universal pension, which

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<sup>12</sup> Williams, Horlings and Renooy, Tackling undeclared work in the European Union, p.2 at <http://www.eurofound.europa.eu/pubdocs/2008/13/en/1/ef0813en.pdf>. This activities based definition which is mostly used by the European Commission and in European countries, is in contrast with jobs-based definition as proposed by Ralf Hussmanns (2005), which in its turn replaced an enterprise-based definition.

might be more or less generous. Usually you get a top-up through your employment related pension to this. In other countries, you build up your pension rights through employment and these are calculated on the basis of the contributions which are made during the employment career (by employer and by employee). If one does not build up rights, one does only have the right to some social assistance at the time of retirement. A tertiary layer and difference, is through second pillar pensions, the so-called occupational pensions (funds), which are necessarily employment related. An undeclared workers necessarily does not have access to this fund either.

Other possible negative consequences of undeclared work is the fact that one usually does not have the right to be a member of a trade union or any other employment related rights.

However, one distinction should be made. Undeclared work encompasses a number of different situations and the consequences of doing undeclared work might be very different for different types of workers. We can think of a man on early retirement who does some extra handy work in the house of a friend, and which is already benefitting from more social provisions through his previous work career. The one problem he might have is in case of an accident, for which he will not be protected in the same way as the normal worker. We can think of a regular worker in a company who gets a normal wage, but for part of the job, he might get some extra money for which no taxes are paid. We can also think of someone who takes a full time (or more than one) undeclared job, often in very hard circumstances, no protection, no social security rights, no employment rights and no way out of this kind of employment.

Hence, three different types should be distinguished:

- undeclared work within a formal enterprise – ‘off the books’, envelope wages
- undeclared work for a formal enterprise – the ‘gang-master’
- undeclared work in delivering good and services directly to the consumer – ‘doing odd jobs’.

In this classification, if an activity involves illegal goods/services, they are not included but categorised separately as ‘criminal activities’. Alternatively, if the activities are unpaid, they are defined as ‘unpaid community work’ if they are for someone else than their own household, or ‘self provision’ activities if they are for themselves or another member of their household.

In several member states of the European Union, a series of policies have been established in order to tackle undeclared work<sup>13</sup>. Some examples are given in the report by Williams et al and this work is currently being updated for all countries.

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<sup>13</sup> Williams, Horlings and Renooy, Tackling undeclared work in the European Union, p.4 at <http://www.eurofound.europa.eu/pubdocs/2008/13/en/1/ef0813en.pdf>

Table 1: *Policy approaches for tackling undeclared work, EU27*

This table outlines the main types of approaches used for tackling undeclared work in the EU27.

Approach	Method	Measures
<b>Deterrence</b>	Improve detection	Data matching and sharing Joining up strategy Joining up operations
	Penalties	Increase penalties for evasion
<b>Enabling compliance</b>	Prevention	Simplification of compliance Direct and indirect tax incentives Smooth transition into self-employment Introducing new categories of work Micro-enterprise development
	Legitimising undeclared work	Employer incentives: <ul style="list-style-type: none"> <li>• service vouchers</li> <li>• targeted direct taxes</li> <li>• targeted indirect taxes</li> </ul> Worker incentives: <ul style="list-style-type: none"> <li>• society-wide amnesties</li> <li>• voluntary disclosure</li> <li>• business advisory and support services</li> </ul>
	Changing attitudes	Promoting benefits of declared work Education Peer-to-peer surveillance Tax fairness Procedural justice Redistributive justice

(source: Williams et al, *Tackling undeclared work in the European Union*)

The following measures were undertaken in the different countries:

Table 2: *Measures used to tackle undeclared work in the EU25, 2001–2005*

This table shows the different type of deterrence and enabling approaches used in the EU25 countries in 2001, 2003 and 2005.

Country	Deterrence						Enabling compliance								
	Improve detection			Penalties			Prevention			Legitimising undeclared work			Changing attitudes		
	2001	2003	2005	2001	2003	2005	2001	2003	2005	2001	2003	2005	2001	2003	2005
AT	●	●	○			●	●	●				●			
BE	●	●	○					●	○	●	●	●○			
CY									○						
CZ															
DE	●	●		●	●	○	●		○	●	●	○		●	
DK	●	●	●			●		●			●	○			●
EE			●○						○						
EL	●	●		●			●	●	○			●			
ES		●	●					●	●○			●			
FI	●			●				●	○		●	○			
FR	●							●	○		●	○		●	
HU			●						●			●			
IE	●	●		●	●		●								
IT									○	●	●				
LT			●○						●○			●			
LU															
LV			●						●			●			
MT															
NL	●	●	○	●	●		●	●		●		●○			
PL															
PT		●	●					●			●				
SE		●	●					●	●○						●○
SI			●												
SK			●○						●○						
UK		●	○		●	○		●	○		●	○		●	●
<b>Total (●)</b>	9	11	10	5	4	2	5	11	6	4	8	8		3	3
<b>Total (○)</b>			7			2			13			7			1

Note: ● = Mentioned in the 2001 or 2003 NAP, and the 2005 NRP.

○ = Mentioned in the European Employment Observatory (Autumn 2004) and in EIRO (2005).

(source: Williams et al, *Tackling undeclared work in the European Union*)

However, some more ‘flesh’ should be added to the bone to understand exactly how effective these measures are in tackling undeclared work. Some good practice examples are shown in the report on effective ways of tackling this issue in some countries.

## **Section 4 Non standard forms of employment**

While on the one hand, there is unanimous agreement that undeclared work should be combated, there is a more nuanced picture and rather a push from policy makers for different types of non-standard work in order to push labour market dynamics. The whole debate around flexicurity seems to stress that there might be a cause for employers to be able to use a wider palette of flexible arrangements (contractual, temporal, etc) in order to be able to be more adaptable. The other side of that bargain is to create more security for employees; in the form of employment security. The big question however is in how far these workers are precarious in the short or long run.

Indeed, if we look at developments within the European Union, we see that there are a wide varieties of employment arrangements within the EU.

### **4.1 self employed versus employed workers**

A first difference is between employees and non employees. Self-employed workers as well as family workers usually do not have the same rights as permanent employees. There is usually a different system for self-employed and employed workers. In some countries, some rights are a lot lower, e.g. pension rights, health care provisions (in some countries, self-employed are only covered for 'big risks'), no sick leave nor unemployment benefits, etc. In some countries, there has been a quest for an equalisation of rights between self-employed and employed workers<sup>14</sup>. The other disadvantage is that there is lesser control over working conditions, working time, health and safety regulation in the sense that the self-employed is responsible for it all. This might lead to excessive working times (44 % of the self-employed indicate that they work more than 48 hrs a week) which might be voluntary to a certain extent (they get the fruit of that work) but might also be an economic necessity and/or might have repercussions for work-life balance or health.

The weight of self-employed workers is very different from country to country, as shown in the table underneath.

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<sup>14</sup> One example is the pleas of a Belgian professor in Labour Law, Roger Blanpain who has written extensively about this and who has made several pleas in the media.



*(Pedersini, comparative analytical report on self-employed, EIRO/EWCO CAR, forthcoming)*

One particular group can be singled out in this group of workers, the so-called bogus self-employed or fake /false self-employed / own account workers who work only for one client.<sup>15</sup> This group of workers combines the disadvantages of both groups: they work and depend on one client but have lesser protection than a normal employee. Often this form of self-employment might be imposed upon the worker.

## 4.2 Temporary workers

There are huge differences over countries with regard to non standard forms of employment. Where employment protection legislation means that there is some protection for workers against dismissal, this might have a counter-effect that it is less easy for employers to hire and fire workers, which they might find useful in times of economic insecurity or for business cycle reasons. In those countries, some ‘alternative contracts’ might be a solution, either fixed term contracts or temporary contracts. These contracts, initially foreseen for a particular task of a determined duration or as a replacement of a worker who is temporarily absent, might be used for a wide series of reasons. Indeed, in countries with a high EPL, there is a higher chance of finding higher levels of workers with a non permanent contract. In some countries (notably some Southern European countries such as Italy and Spain) with high level of EPL (employment protection legislation) temporary employment might have been used to

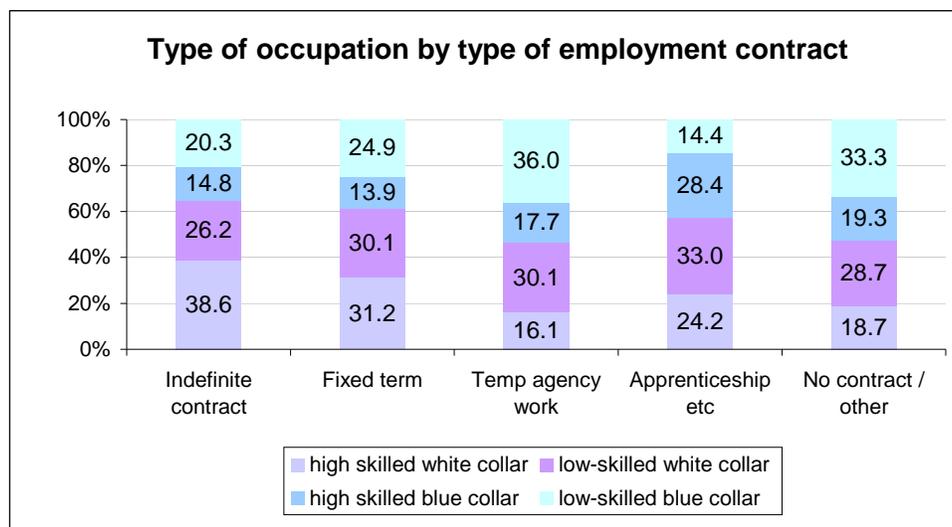
<sup>15</sup>Pedersini, 'Economically dependent workers', employment law and industrial relations, comparative analytical report at <http://www.eurofound.europa.eu/eiro/2002/05/study/tn0205101s.htm>

bypass very strict EPL applied to permanent work. In Spain, Poland and Portugal, we find between 20 and 30 % of the workers on a fixed term contract. Italy is characterized by a high number of different temporary contracts. It should however be noted, that for some workers, it might be a voluntary choice to opt for this kind of employment for private reasons, for instance because it allows them to combine work with another activity. They might not want a permanent contract (yet).

The analysis of EWCS data confirms that temporary employment (fixed-term and temporary agency work) has shown a progression in the majority of the EU countries over the last 15 years. National sources collected through the EIRO Observatory also give an indication of the extent to which successive waves of labour market reforms have introduced new contractual forms with the aim of increasing labour market flexibility.

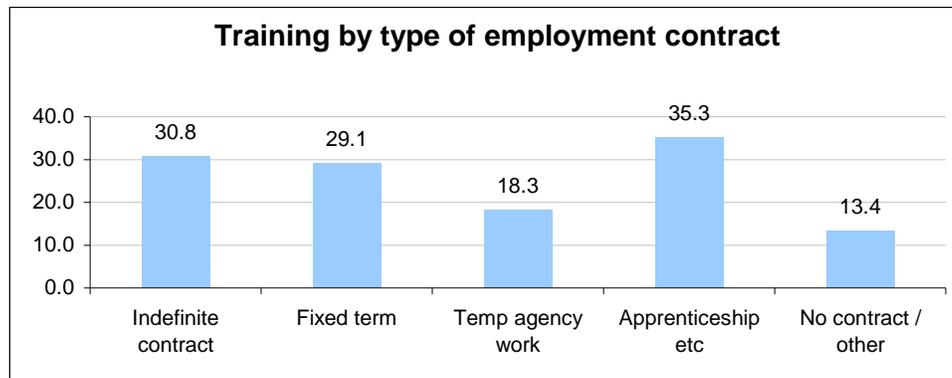
While plenty of literature has identified the specificities and determinants associated with temporary employment, evidence from the 4<sup>th</sup> EWCS suggests that temporary contracts (fixed-term and temporary agency work) are often associated with low-qualified jobs, limited access to training and poor career prospects. This does not mean that all temporary workers are in these jobs, but that there is a greater possibility for low qualified to be in this kind of employment.

As the figure underneath indicates, employees holding a permanent contract are more represented in high-skilled white collar occupations than employees with temporary contracts or no contracts at all. Low-skilled white collar occupations are more equally distributed across all types of employment contracts, albeit to a less extent amongst employees with a permanent contract. Temporary agency workers and employees with no contracts or other contracts are more likely to work in low-skilled blue collar occupations (respectively 36% and 33.3%).



*Source: Fourth European Working Conditions Survey, 2005, taken from Riso, background paper comparative analytical report on very atypical workers, forthcoming*

Shifting the focus to training, a key dimension of ‘employability’, we find that employees on a temporary contract and without contract also appear to be discriminated in terms of access to training. The levels of training provided by the employer in the previous 12-month period are much lower for employees holding a temporary-agency contract (18.3%) and those having no employment contract (13.4%). Levels of training are not high even for apprentices and those holding training contracts (35.3%). In this respect, particular attention should be paid to the category of labour market entrants (including apprentices) who are more likely to move towards marginal and casual employment and, ultimately, informal employment, in the absence of suitable opportunities in the formal economy.



*Source: Fourth European Working Conditions Survey, 2005, taken from Riso, background paper comparative analytical report on very atypical workers, forthcoming*

If we look however at the rights attached to these contracts, one can note that again, there is a difference with permanent workers. The difference is however, not so dramatic as with the former groups which were discussed. One should distinguish between workers who are in a fixed term contract, and who are in a direct relationship with the employer for whom they work, and temporary agency workers, who are in a direct relationship with the temporary workers agency and who indirectly work for a client. Social security rights should be paid for all non permanent workers, however for the duration of the contract. For fixed term workers, this might have very strong implications in some countries where the social security systems are for instance (still) organized at occupational or sectoral level, such as in Greece, in case they change sector or occupation. Furthermore, it might be more difficult to build up pension rights in such a system. Another disadvantage is that these workers usually cannot participate in any occupational system (occupational pension funds, occupational complementary health care). A last inconvenience is that it might be difficult to get access to non-work related provisions, such as a mortgage without a permanent contract. There are therefore still strong hindrances attached to this kind of work.

The question therefore is whether this temporary employment contracts are an entrance into the labour market or whether these form of employment can be a trap for some workers. In order to establish this, one should be able to look at panel data. Not the labour force survey, neither the European Working Conditions Survey are panel surveys. Another possibility would be to link the data of either of them to administrative data which would include job history / social protection records. This is what is done in Italy

where the data from the national working conditions survey (undertaken by ISFOL) will be analysed with the national social security data. In this way one could find out whether there is a way out for different types of workers (high/low qualified) out of temporary contracts. It is extremely complicated to do this linking of data at European level, if one already would get access to this kind of data from the national level, albeit not impossible. Another possibility would be to include more job history questions in the survey, which would allow to undertake this kind of analysis. However, job history questions are very difficult to include in a general working conditions survey as they are recall questions. These should be approached with a lot of caution.

### ***Section 5 very atypical forms of employment*** <sup>16</sup>

Based on a preliminary analysis of the 4<sup>th</sup> EWCS, Riso sketched a tentative typology of very atypical forms of employment can be drawn from a preliminary analysis of the 4<sup>th</sup> EWCS data. This includes three main categories of workers: 1) workers who say they have no contract at all; 2) workers who report working very small number of hours (less than 10 hrs per week); 3) workers who hold a temporary contract lasting less than a year and explored the atypicality in these contracts.

She stressed that it was important to realize that the notion of “atypicality” varies between countries. This applies, in particular, to the “no contract” category. It may be that in countries with a high proportion of workers without a contract the employment legislation foresees such an arrangement, albeit for a short duration (for example in Estonia labour legislation allows employers to use oral contracts if the period is shorter than two weeks). Therefore, it is important to be cautious when interpreting the survey data and take into account country specificities.

Part-time work is frequently associated with the emergence of other 'atypical' forms of employment (fixed-term contracts and temporary agency work). However, regardless of provisions lay out in national employment legislation, working less than 10 hours<sup>17</sup> per week, by all accounts, diverges from both standard and non-standard employment.

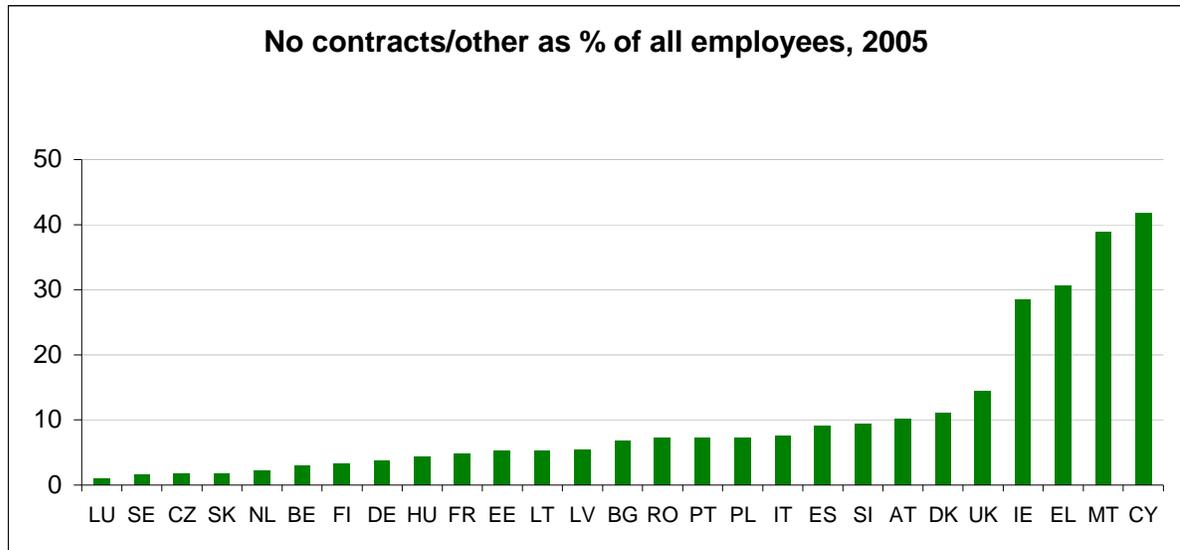
In relation to the category of workers having a contract of less than a year, in some countries a contract of less than a year is not necessarily regarded as very uncommon, while in other countries it may be the case. However, it is interesting to note that the vast majority (over 70%) of these workers have a contract of 6 months or less.

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<sup>16</sup> This section draws heavily on the work of Sara Riso, background paper to the comparative analytical report on very atypical workers, forthcoming

<sup>17</sup> In this paper we use the limit of 10 hrs for short part time contracts. However, sometimes the limit of 15 hrs is used for short part time. The aim is not here to draw strong conclusions, but to show that working conditions for these short part time contracts are usually worse than for people who work longer hours.

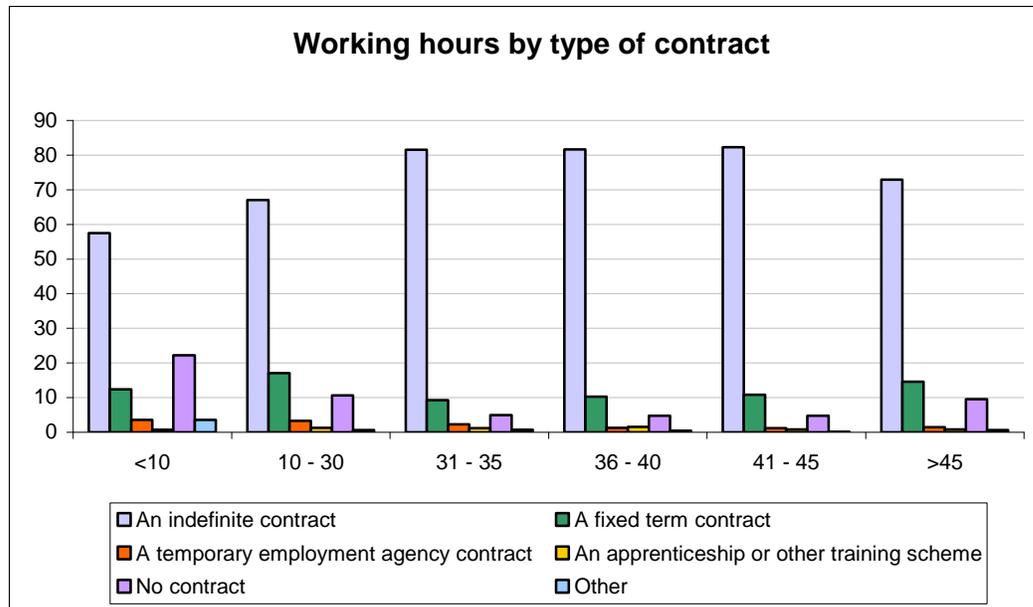
Finally, it should be noted that the above-mentioned categories do not refer to simultaneous conditions for very atypical workers. However, they are neither exclusive as they may coexist in a “very” atypical employment relation.



*Source: Fourth European Working Conditions Survey, 2005, taken from Riso, background paper comparative analytical report on very atypical workers, forthcoming*

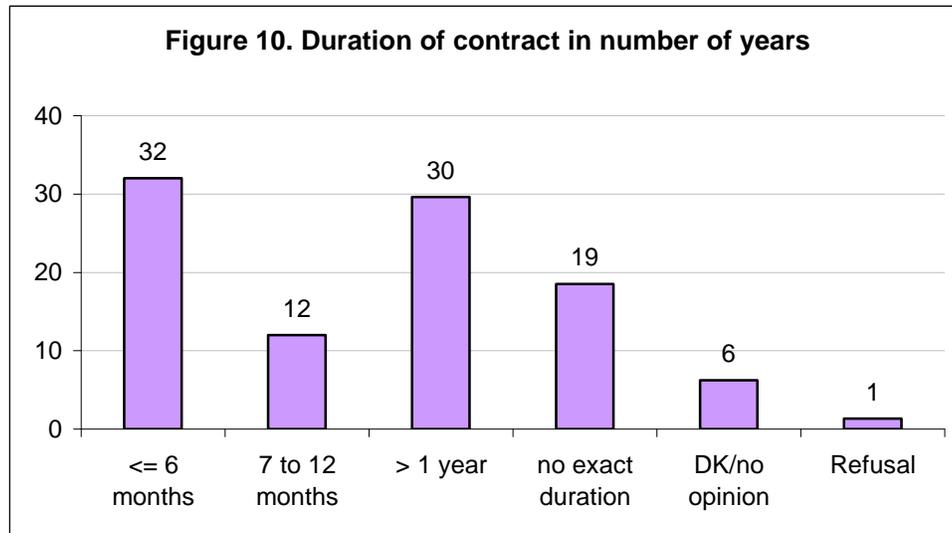
On average in the EU27, employees without contract (and other contracts) account for about 7% of employment. However, this average hides significant variations between countries, as we can see in figure 5. Cyprus has the highest proportion of such employees (42%), followed by Malta (39%), Greece (31%) and Ireland (29%). Of the bigger countries, the UK has also a high proportion of such employees (15%).

If we look at working hours, we find that almost half of European employees (44%) work between 36 and 40 hours per week. At the two extreme ends of the spectrum 19% of employees report working longer than 45 hours per week (and nearly half of the self-employed work longer than 45 hrs a week) and 2% say to work less than 10 hours per week. The group working less than 10 hrs per week is the one which does interest us in this context. We looked at the distribution of working hours by type of contract. It is interesting to note that a significant proportion of employees without contract are present at both ends of the scale: 22.2% of employees without contract report working less than 10 hours per week and another 9.6% of such employees report working longer than 45 hours.



*Source: Fourth European Working Conditions Survey, 2005, taken from Riso, background paper comparative analytical report on very atypical workers, forthcoming*

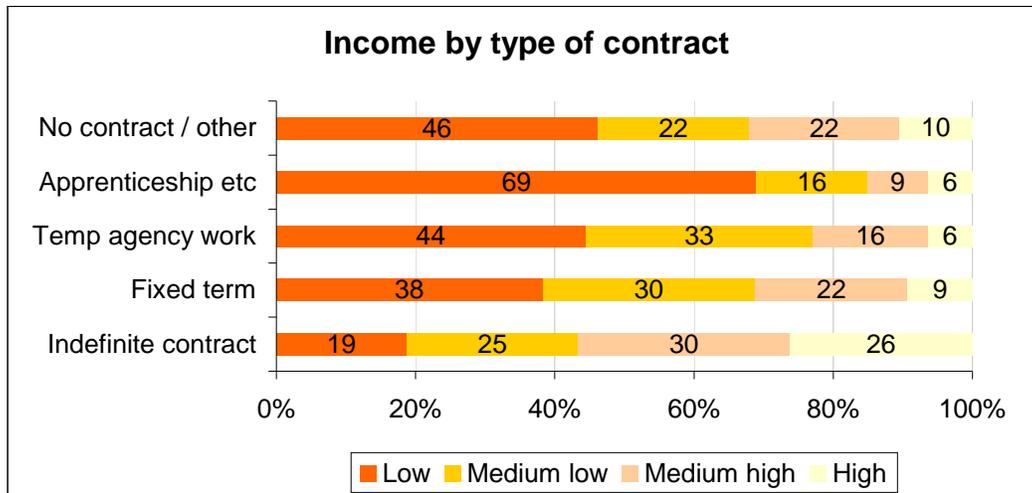
Within temporary employment, a contract for less than one year may be regarded as ‘very’ atypical. Overall in Europe, 44% of employees reports having a contract of less than a year. More specifically, 32% of these employees have a contract of 6 months or less and another 12% have a contract of 7 to 12 months (figure 10). Also while the percentages of “don’t know” (DK) and refusals are often omitted in data analysis, they are, in this case, suggestive and may be an indication of very atypical employment. From the country breakdown, it can be seen that Spain has the highest proportion of employees with a contract lasting less than a year (49.6% of the total workforce on a fixed term contract). However, it is important to note that when using the 4<sup>th</sup> EWCS, the number of observations for respondents reporting having a contract of less than a year is generally too small to allow statistically robust results.



*Source: Fourth European Working Conditions Survey, 2005, taken from Riso, background paper comparative analytical report on very atypical workers, forthcoming*

With regard to rights attached to these contracts, it is clear that these workers are among the more precarious and vulnerable. Some of these might fall under those who do undeclared work. It is also clear that the rights attached to these workers are usually very limited or non-existent. Quite often these workers, such as these in very small part-time do not qualify for social security rights. However, every situation should be analysed carefully and into the national context. The main question is usually the same one as in the above chapter: is there any way out of these contracts? Are these contracts an entry into the labour market and can they move from there to a standard form of employment or are they trapped into precarious employment.

The 4<sup>th</sup> EWCS also found that the employment status of a worker (as well as occupation) appears to be the most important determinant of income level. Workers on temporary contracts are more likely to fall into the lower income categories than workers on indefinite contracts who are overrepresented in the medium-high and high income categories.



*Source: Fourth European Working Conditions Survey, 2005, taken from Riso, background paper comparative analytical report on very atypical workers, forthcoming*

## Conclusions

This paper tried to show that while efforts are undertaken to combat undeclared work, to different degrees of success in the European member states, there is a move towards more non standard employment, based on economic necessity and European or national policies. Statistics should allow for capturing the employment situation of all workers. International efforts should be streamlined in order to be able to allow for comparisons and learning from each other’s experiences with each of the new forms of employments and possible consequences.

While these informal and non standard forms of employment might allow for better adaptability of companies and workers and create the necessary flexibility in a globalised economy, the issue of ‘employment security’ should be taken seriously.

It is clear that there are still implications in most of the countries on employment and social protection rights and this should be taken seriously. There is also a difference between high and low qualified workers, with regard to employability and chances of being in more non-permanent contracts. There is a need to better study and capture these effects into the statistical reports to the necessary authorities to allow for the appropriate measures to be taken.

With regard to the consequences of these informal and non standard forms of employment, there are two issues which have to be discussed seriously in each country:

- whether these forms of work are a trap of precarious employment for some workers and can lead to a new labour market segmentation (hence the need for job history statistics).

- whether the labour market, employment and social protection systems are adapted to these new way of working over the life course with more fragmented careers and a wide variety of different employment contracts (hence the need for information between the link between employment status with information on rights (social protection/employment rights))