

# ECONOMIC, FINANCIAL AND SOCIAL CONSEQUENCES OF THE UNDECLARED ECONOMY



The report produced by the ESEC chooses a clear and precise definition which corresponds to a section of the non-observed economy as identified by the OECD, that is «all legal production activities that are deliberately concealed from public authorities [...] to avoid payment of income, value added or other taxes; to avoid payment of social security contributions [or] to avoid having to meet certain legal standards», and which covers all undeclared work and the understatement of declared income.

## EVALUATING THE UNDECLARED ECONOMY

The undeclared economy, by definition, presents a number of problems with regards to its evaluation, but there is no doubt as to the significance of the phenomenon, regardless of the method used. Indeed, some claim that it accounted for 18.4% of the GDP of the EU in 2012, with France doing significantly better than many other countries at 10.8%. On the international front, there is some evidence of a reduction in the weighting of the sector in relation to the GDP as a result of the introduction of more effective tax governance systems and the development of minimum income guarantees. The 2008 crisis, however, marked a turning point, with a notable slowdown in growth triggered by the financial crisis and austerity policies, a sharp increase in unemployment, and a stagnation in buying power. With this in mind, the development of the undeclared economy, an indication of a breakdown in social relations, might appear to be a solution to the financial difficulties encountered by marginal groups of the population who find themselves on the road to impoverishment.

This is something that concerns all sectors, although the finger is certainly pointed more at some, such as the hospitality and catering, construction and retail industries

and sectors offering seasonal work in particular, than others.

## ASSESSING THE CONSEQUENCES

The undeclared economy hinders economic development by distorting competition and increasing the burden on government revenue, for example. Black market labour also deprives workers of certain rights (such as paid leave, a pension, sick pay, etc.), not to mention the fact that they are also generally less well paid and unable to get together and take action as a group. Such labour represents a loss of revenue where the State and financial statements are concerned, with the various URSSAF social security contribution collection offices having to make adjustments amounting to some 291 million euros in 2013. It distorts competition between companies that adhere to the rules and those that do not and exposes the employer to sanctions and the risk of financial ruin in the event of an accident, whilst neither the consumer nor the client has any form of performance guarantee. In more general terms, the very principle of equality before the tax system is flouted and morale among the general public declines.

## ANALYSING THE CAUSES

In micro-economic terms, the undeclared economy is built on

the objective of reducing a direct or indirect cost and optimising one's income by circumventing the relevant legislation; some also cite the fact that regulations have become too complex and the increase in standards. There are also micro-economic reasons, including mass unemployment, the increase in poverty, the level of tax burden and increased competition between companies, resulting notably from the globalisation of trade. Furthermore, the self-employment system and the hiring of workers posted from other countries in the European Union have also given rise to poorly monitored deviations and cases of abuse. Ultimately, there is evidence that the perception of black market labour is relatively kind, offering little resistance to the development of mimetic effects.



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The ESEC is exploring a number of avenues aimed at developing preventive measures and increasing deterrence in order to combat the undeclared economy.

## **IMPROVING PREVENTION AND EDUCATION**

Prevention has become an essential component of the efforts made by developed countries to combat the undeclared economy and will notably involve developing initiatives designed to raise awareness of the guarantees that come with the status of 'declared worker', as well as the importance of taxation and social contributions and boosting tax morale from as early as school age. A number of consultation initiatives involving company and employee representatives could be undertaken prior to any new rules being adopted in order to facilitate their application and avoid any misinterpretation of the relevant texts.

Payment of wages in cash should be limited and the use of the employee voucher system for local jobs made more widespread. The issue of links between methods of payment and the undeclared economy is one avenue worthy of further exploration; companies could then be supported by the public authorities in making the digital transition in order to encourage electronic payments. Payment traceability could also be improved by increasing the monitoring of large cash withdrawals.

## **TARGETING INSPECTIONS**

Developing the use of random investigations or inspections could help improve the analysis of fraudulent operator profiles in order to better target the appropriate initiatives, whilst stepping up inspections has also been proven to have a deterrent effect since it is believed that rectifying the situation of one fraudulent employer results in two to three others ceasing their own fraudulent activity.

## **INCREASING RESOURCES AND PARTNERSHIPS**

The Social Security Code should define the concept of social fraud, just as the Tax Code does for tax fraud, which helps ensure the effectiveness of the recovery.

It is also important to increase the scope of tax administration in order to enable the exchange of information between the various parties concerned (URSSAF, taxes, customs, police force, etc.) and better coordination of the players involved. The URSSAF could be further empowered with regards to recovery, by extending the scope of financial solidarity to include contracting parties or by enabling sums of money to be frozen with the client of the fraudulent company, for example, and cooperation between the URSSAF and the public prosecutor's office could be encouraged through initiatives designed to raise awareness.

Coordination between States should be encouraged at European level, this being a necessity as a result of the fraudulent implementation of texts on the posting of workers.

## **INCREASING SANCTIONS**

The effective implementation of sanctions should make it possible to develop the force of example whereas many cases are currently eventually dismissed without further action; taking steps towards greater discrimination between minor fraud and that organised by Mafia-like organisations is another potential avenue of development. The temporary cessation of a company's activity is a sure-fire way of penalising the fraudulent employer, but it must be used proportionately given the effect it has on employment.