



# **INFLUENCE OF THE INFORMAL ECONOMY ON THE ECONOMIC DEVELOPMENT**

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Sofia, 13-14 March 2013

# INFORMAL ECONOMY

Global phenomenon, at smaller or larger scale, present in all the countries, regardless of level of socio-economic development.

The literature in English language uses the following terms:

„informal economy”

„unformal economy”

„grey economy”

„hidden economy”

„shadow economy”

# DEFINITION

- „Grey economy”- a collection of all activities carries out outside the institutional, legitimate economic environment, which, by undertaking other actions, may be legalized (e.g. Payment of tax);
- „White economy”- legitimate economic environment;
- „Black economy”- it cannot be legalized (e.g. drugs trafficking).

# „THREE PILLARS” OF INFORMAL ECONOMY

- 1) Black economic profit (illegitimate business entities),
- 2) Unregistered work (unregistered workers) and
- 3) Money laundering and financial mismanagement (illegal transactions, tax evasion, etc.).

# UNREGISTERED WORK

- Employment in unregistered company;
- Employment in registered company, without labor contract;
- Employment in registered company, whose part of business is not registered;
- Employment in registered company, with labor contract, without payment of social security contributions, and payment of part of income in hand;
- Self-employment;
- Unpaid supported family members;

# UNREGISTERED WORK

„Unregistered work“ for workers means that they

- Do not have labor contracts, which guarantee regular and defined income, safety and health at work, legitimate working hours, absence of leave, holidays, etc.;
- Are not registered and they do not have mandatory social insurance (health insurance, pension and disability insurance, and insurance in case of unemployment);
- Are exploited by their employers;
- Incur damage for themselves and others by unregistered work.

# CAUSES

There are numerous **causes for unregistered work**, and they should be primarily searched in:

- High level of unemployment, and particularly high level of youth unemployment;
- Low income and decline of living standard;
- Incomplete tax system and poor tax control;
- Mild sanctions and/or small risk compared to the expected profit;
- Undeveloped market mechanisms, institutions and ineffective public administration;
- Domination of politics over economy, and other.

# UNREGISTERED WORK

„social valve”

Competent state authorities do not sanction unregistered work, given that the unregistered work is a sort of „social valve” for the regulation of growing tensions in society caused by long economic and social crisis.



# AREAS IN WHICH IT APPEARS

- Tourism and catering;
- Civil engineering;
- Trade;
- Transport;
- Entrepreneurship and other services;
- Agriculture;

# NEGATIVE EFFECTS

Unregistered work has ample negative effects on:

- 1) employees;
- 2) employers (those who do and those who do not register their employees);
- 3) state and the entire society.

# NEGATIVE EFFECTS (on employees)

- Unregistered workers do not exercise, in full or in part, their rights guaranteed by labor and social legislation, collective agreement (general, special, and collective agreement executed with the employer) and labor contract.
- Unregistered worker does not exercise the rights guaranteed in labor relations such as limited working hours, holidays and absence of leave, protection of life and health at work, and the pension and health insurance is not paid, etc.

# NEGATIVE EFFECTS (on employers)

- Legitimate employers compared to those who employ the unregistered workers are subjected to unfair competition, as they have large expenditures for tax and contributions, which are secured with a lot of difficulties in a legitimate business operation. These employers are in this way punished for abiding by the law and respecting their obligations.
- Companies which do not register their employees also in a way suffer consequences of unregistered work given that unregistered work usually means low productivity that results in long lasting damage.

# NEGATIVE EFFECTS (on the state)

- The state suffers ample negative effects from unregistered work due to the fact that the Republic and municipal budgets, including the funds of mandatory social insurance do not produce huge reserves as the result of unpaid tax and contributions.
- Due to the increased social expenditures, the state burdens the economy by maintaining the high tax and contribution rates, which mainly burden the employers who operate within the legal framework.
- By failing to collect tax and contribution, the budgets and funds do not produce necessary revenues for funding the rights of employees and other citizens, which usually results in indebtedness of the state and shifting of the burden onto the future generations.

# EXTENT (Serbia)

- In Serbia, „grey economy“ covers between 700,000 and 800,000 workers;
- Grey economy makes 35 to 40% GDP;
- Damage for the budget is evaluated to three to four billion euro annually;
- Annual turnover in „grey economy“ goes up to 10 billion euro.

# EXTENT

(Serbia – rate of informal employment)

- April 2011..... 19.9 %
- October 2011..... 17.8 %
- April 2012..... 17.0 %
- October 2012..... 17.9 %

The decrease of informal employment rate is the result of economic crisis

# EXTENT

(world - % GDP)

- North America.....13 %
- Western Europe.....18 %
- Asia.....29 %
- Eastern Europe.....36 %
- Central and South America....41%
- Africa.....42%



# HOW TO MEASURE EXTENT?

There are several methods to measure the extent of grey economy in a country, which according to common features can be categorized in the three groups

- direct methods (survey and tax audit);
- indirect methods (difference between tax statistics and national accounts; difference between revenues and expenditures – macro-approach; difference between revenues and expenditures – micro-approach; labor market; amount of cash; comparison of data about the physical inputs);
- Causal models (demand for cash; determinants/indicators).

# HOW TO MEASURE EXTENT?

- As for the countries in transition, two approaches are characteristic in terms of measurement of the extent of grey economy: method of input (consumption of electrical energy) and Eurostat Exhaustiveness program designed for the candidate countries, of which 10 became EU members on 1 June 2004.
- Exhaustiveness program can be described as program which defines the exhaustiveness of the statistic extent and harmonization with internationally acceptable methodology for the calculation of national accounts.

# HOW TO COMBAT?

There are numerous measures that can be taken to suppress the grey economy, and we could classify them in three groups:

- Preventive;
- Stimulating, and
- Penal.

# HOW TO COMBAT?

- **Preventive measures**, primarily include measures that aim at the development of social awareness about the long-lasting negative effects of the unregistered work. This group of measures also include campaigning about the detrimental effect of grey economy and its consequences for the employees, the budgets of the Republic and local communities, thus the entire society. It is clear that the holders of preventive actions have to be government, local self-management authorities, trade unions, employers, and employees.

# HOW TO COMBAT?

**Stimulating measures** include:

- 1) Encouraging entrepreneurs and employers to organize legitimate work (reduction of the burden on the economy based on tax, and contributions, financial incentives for registering the employees, granting the credit benefits and other),
- 2) Creating stimulating environment for making the payment of tax and contributions (by publishing „white“ and „black“ lists of entrepreneurs and employers, gradual reduction of tax and contributions, etc.),
- 3) Adoption of simple and transparent fiscal laws,
- 4) Simplification of legislation for keeping bookkeeping, accounting, and business books, and other measures.

# HOW TO COMBAT?

In addition to preventive and stimulating measures, the application of relevant **penal measures** is also necessary, and they include:

- 1) Increasing sanctions for cases of evasion of payment of tax and contributions, and failure to respect the Labor law, which define the legal and labor status of the employees,
- 2) Intensification of labor inspection activities, and
- 3) Other measures.

It does not suffice only to adopt relevant regulations to combat grey economy, it is necessary to systematically apply them, adjust them and monitor their effects.

# ROLE OF TRADE UNIONS

Activities of trade unions relative to combating unregistered work consist also of:

- 1) Organizing campaigns (Stop unregistered work);
- 2) Initiating amendments of the relevant legislation;
- 3) Education about the negative effects of unregistered work (organizing lectures, round tables, seminars, conferences and issuance of appropriate brochures).
- 4) Adoption of national action plans,

# CONCLUSIONS

The effect of informal economy on the economic development is reflected in the following:

- 1) Republic and municipal budgets have limited revenues due to the evasion of tax payment;
- 2) Funds of the organizations of mandatory social insurance have limited revenues due to the evasion of tax payment;
- 3) Covering of deficit in the funds of organizations of mandatory social insurance from the budgets;
- 4) Lower share of capital expenditures in public spending;



# CONCLUSIONS

- 5) Increasing of tax and contributions to cover uncollected revenue in the budgets and funds;
- 6) Deterioration of business environment due to the increased tax and contributions;
- 7) „escaping” to informal economy due to the increased tax and contributions;
- 8) The employers in formal economy are subjected to unfair competition of the employers in the informal economy;
- 9) Reduced productivity due to the dissatisfaction of the employees.
- 10) The increase of public debt.

THANK YOU