

Diagnostic report on undeclared work in Greece



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DIAGNOSTIC REPORT ON UNDECLARED WORK IN GREECE

INTERNATIONAL LABOUR ORGANIZATION



Project
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FOREWORD

In August 2015, the European Stability Mechanism support programme for Greece was approved by the Greek authorities and the European Commission. Its Memorandum of Understanding included the following key deliverable: “the authorities will adopt an integrated action plan to fight undeclared and under-declared work in order to strengthen the competitiveness of legal companies and protect workers as well as raise tax and social security revenues”.

Addressing undeclared work is a complex and difficult challenge, especially when a country faces a difficult socioeconomic situation marked by high unemployment, a poor business environment and the lack of fiscal space. In Greece, like many other European countries, undeclared work remains a significant feature of the economy, despite measures taken in recent years to address the issue, including imposing stricter sanctions, reducing non-wage costs and reducing bureaucratic obligations and the administrative burden.

In this context, the ILO, in close collaboration with the Greek Government and the social partners, has formulated a project funded by the European Commission, on “Supporting the transition from informal to formal economy and addressing undeclared work in Greece”.

A first and unique result of this project was the preparation, through a participative and consultative process, of the present Diagnosis of Undeclared Work in Greece. The Diagnostic Report was endorsed by the Greek Government and the social partners in a high level tripartite validation meeting held on 6 July 2016. It also provides a set of policy recommendations that reflects the ILO’s vision of a balanced approach combining incentives with compliance measures, as enshrined in the ILO Recommendation n. 204 on the transition from the informal to the formal economy, adopted at the International Labour Conference in June 2015.

This Recommendation affirms that the transition to the formal economy is essential to achieve inclusive development and to realize decent work for all. It is therefore essential to improve working and living conditions, to promote sustainable small and medium enterprises and to achieve fair competition and fiscal consolidation at national level. Thus it aims to achieve greater inclusiveness and cohesion in our societies, and to better design the “Future of Work” that we wish to shape for our *societies*.

Reaching a tripartite agreement on the main characteristics and drivers of informality in Greece was an important step. The next challenging step is to design, through tripartite dialogue, a road map for addressing undeclared work in Greece. This road map should contain a balanced regulatory and policy framework for preventive and appropriate corrective measures that will facilitate the transition to the formal economy and tackle undeclared work. The Greek Government and the social partners, with the support of the ILO and of the Structural Reform Support Service/EU, will be working jointly to achieve these results.

We would like to express our special thanks to the high level team of experts that prepared this *comprehensive Diagnostic Report*: Professor CoJin WiJiams from Sheffield University, Dr. Stavroula Demetriades from EUROFOUND and Professor Eleni Patra from the American College of Greece, made a remarkable analysis of the situation and a key contribution to the national policy debate on undeclared work.

We would also like to thank the ILO technical team in charge of the project: Frederic Lapeyre, Head of the Informal Economy Unit; Philippe Marcadent, Chief of INWORK Branch; Maria Luz Vega Ruiz, Special Advisor of the Europe and Central Asia Regional Office; Joaquin Nunes Pintado, Senior Specialist in Labour Administration; and Athina Malagardi, National Officer in Athens.



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ACRONYMS

AUEB: Athens University of Economics and Business
EDEKA: Society of Labor Law and Social Security
EFKA: United Body of Social Insurance
EKPA: National and Kapodistrian University of Athens
ELSTAT: Hellenic Statistical Authority
ESEE: Hellenic Confederation of Commerce and Entrepreneurship
ESYKA: National Council of Social Insurance
EVEA: Athens Chamber of Commerce and Industry
GDP: Gross Domestic Product
GSEE: Greek General Confederation Labour
GSEVEE: Hellenic Confederation of Professionals, Craftsmen & Merchants
GSIS: General Secretariat for Information Systems
HHL: Hellenic Federation of Hoteliers
IKA: Social Insurance Fund for Employees
IME-GSEVEE: Small Enterprises' Institute
INE-GSEE: Labor Institute of GSEE
INEMY-ESEE: Institute of Commerce and Services
IOBE: Foundation for Economic and Industrial Research
KEPE: Centre of Planning and Economic Research
OAED: Public Employment Agency
OAEE: Organization for Social Insurance of the Self-Employed
OGA: Agricultural Insurance Organization
OKE: Economic and Social Committee of Greece
OMED: Organization for Mediation and Arbitration
SDOE: Financial and Economic Crime Unit
SEPE: Labour Inspectorate
SETE: Association of Greek Tourism Enterprises
SEV: Hellenic Federation of Enterprises

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EXECUTIVE SUMMARY

This diagnostic report evaluates the extent, nature and drivers of the undeclared economy in Greece followed by recommendations regarding how this sphere can be tackled.

Extent and nature of the undeclared economy in Greece

The size of the undeclared economy is commonly estimated to be equivalent to some 25% of GDP in Greece. A catalyst for its prevalence is the relatively high level of self-employment and large share of micro- and small enterprises. Micro enterprises with 1-9 employees represent 96% of all enterprises in Greece, employing 55% of the labour force (compared with less than 30% in the EU-28). Greece also has the highest percentage of self-employed people in the EU28 at a rate of more than 32% (14% in the EU-28).

According to the 2013 Eurobarometer survey, of all undeclared work in Greece, 67.3% was waged employment (with 13.3% wholly undeclared waged employment and 54% under-declared employment), 10.2% was undeclared self-employment and 22.5% was paid favours for close social relations.

Undeclared work is undertaken by all social groups. However, there appears to exist a necessity-driven ‘lower tier’ populated by younger people and those with financial difficulties, and a more voluntary-oriented ‘upper tier’ occupied by professional groups such as lawyers, doctors and accountants, who not only appear to gain greater rewards from their undeclared work but also from using undeclared labour such as for domestic cleaning and home maintenance (just 24% of unemployed people but 40% of self-employed and 34% of employed people purchase undeclared goods and services). It would thus be a mistake to adopt a laissez-faire approach towards the undeclared economy based on the belief that it is a survival strategy for populations excluded from the declared economy. What interventions are required, therefore, to tackle the undeclared economy?

Drivers of the undeclared economy in Greece

In the past few years, significant advances have been made in understanding the determinants of undeclared work by a new institutional approach. To explain undeclared work, this asserts that every society possesses institutions which prescribe, monitor and enforce the ‘rules of the game’ regarding what is socially acceptable. In all societies, these institutions are of two types: formal institutions that prescribe ‘state morality’ about what is socially acceptable (i.e., laws and regulations), and informal institutions which prescribe ‘citizen morality’ (i.e., socially shared rules, usually unwritten).

Undeclared work, from this institutional perspective, is explained as arising when the failings of formal institutions lead to state morality being different to citizen morality. These formal institutional failings are of four types: (i) formal institutional voids, such as a weak welfare ‘safety net’ which forces citizens into undeclared work to survive; (ii) formal institutional inefficiencies, or resource misallocations by formal institutions; (iii) formal institutional uncertainty, and/or (iv) formal institutional weaknesses and instability. These failings result in citizens viewing as socially acceptable what is deemed illegal by the state. Undeclared work arises, therefore, due to the failings of formal institutions which leads citizen morality to not be aligned with state morality.

Analysing the evidence on which formal institutional failings are significantly associated with the growth of undeclared work, the last few years have seen multiple studies which reveal that undeclared work is more extensive in those nations when there is: lower GDP per capita; higher public sector corruption and lower quality governance; lower expenditure on labour market interventions to help the most vulnerable groups; lower social expenditure, and social transfer systems that are ineffective in reducing the level of inequality and severe material deprivation.

To tackle the undeclared economy in Greece, therefore, there will be a need to address the following formal institutional failings:

- Redressing the falls since 2008 in GDP per capita;
- Improving governance and further reducing public sector corruption, which although gradually improving, is still poor with Greece ranked 58th out of 167 countries globally on public sector corruption;
- Pursuing greater expenditure on labour market interventions to help the most vulnerable groups, which has witnessed reductions in recent years;
- Persisting with increasing social expenditure, although to be successful in tackling undeclared work, this needs to be coupled with
- Developing more effective and targeted social transfer systems that reduce the widening levels of income inequality and ever increasing levels of severe material deprivation (from 11% of the population in 2009 to 21.5% in 2014). Although social expenditures are 31.2% of GDP in Greece (29.5% in the EU), social transfers (other than pensions) only reduced poverty by 17.5% in 2013 (36% in the EU).

Unless these failings of formal institutions are addressed, then the asymmetry between state and civic morality will persist, and consequently so too will the prevalence of undeclared work. How, therefore, can these failings and imperfections in formal institutions that lead to an extensive undeclared economy be addressed?

Organisation of the fight against undeclared work: institutional framework

Greece has neither a single agency responsible for the fight against undeclared work, nor a central body responsible for ensuring coordinated action by the multifarious departments involved in tackling undeclared work. Instead, there is a more fragmented approach. Tackling the undeclared economy is primarily viewed as a social protection issue, meaning that the Ministry of Labour, Social Security and Solidarity takes the lead role. There is, however, a ‘silos’ approach adopted, with different departments taking responsibility for different segments of the undeclared economy. Whilst labour law violations are the responsibility of the Ministry of Labour, Social Security and Solidarity, tax non-compliance responsibility lies with the Ministry of Finance and social security and insurance fraud violations with the social insurance bodies. There is currently little coordination in the fight against undeclared work across these agencies in strategic, operational or data-sharing terms, and no common cross-cutting targets. The quality of government, therefore, needs to be improved. A more coordinated response is required by pursuing an integrated and holistic strategic response via a single national independent body responsible for tackling undeclared work. At a minimum, this should be responsible for developing the integrated holistic strategy towards the undeclared economy, and might also house an information unit to coordinate data mining and sharing on this issue.

The involvement of social partners in relation to tackling undeclared work remains relatively weak, with little involvement in decision making. Given that tackling the undeclared economy requires the involvement of all social partners, their involvement is much recommended.

Current policy approach and measures: an evaluation

Greece currently uses a relatively narrow approach and range of measures to tackle the undeclared economy. An enforced compliance approach, rather than a voluntary cooperation approach, is pursued, and the policy measures heavily focus upon deterring engagement in undeclared work by increasing the penalties and risks of detection. Little emphasis is given to on the one hand, improving the benefits of and incentives for declared work, and on the other hand, more indirect tools to deal with the formal institutional failings so as to reduce the asymmetry between state morality and civic morality, such as awareness raising campaigns and dealing with the imperfections and failings of formal institutions (e.g., by facilitating procedural and redistributive justice and fairness, and pursuing wider economic and social policies). The result is a lack of transfer of good practice from elsewhere in the world in terms of both the shift from the use of solely deterrence measures to the broader use of incentives, as well as the use of a wider more integrated holistic approach that targets and tackles the major drivers of the undeclared economy.

A National Action Plan: policy recommendations and sequencing

Based on a multi-stakeholder diagnostic of the causes, circumstances and forms of undeclared work in Greece, and the experience of the International Labour Organization (ILO) that the transition to the declared economy can best be facilitated through an integrated strategy, a policy mix and institutional coordination, a comprehensive national action plan is proposed to tackle the undeclared economy. A coordinated and evidence-based approach is recommended based on a package of policies that involve: more effective deterrence measures; simplifying compliance to help individuals operate on a declared basis; the provision of various incentives to businesses to operate on a declared basis, suppliers of labour to make their work known, and purchasers of goods and services to hire declared work; as well as a range of indirect tools to resolve the failings of formal institutions so as to engender a culture of trust and commitment among the population to operate on a declared basis.

If undeclared work is to be transformed into declared work, the current rift between state morality and citizen morality that results in macro-level failings and imperfections of the formal institutions must be addressed. These include:

- Redressing the falls in GDP per capita;
- Improving the quality of government and further reducing public sector corruption;
- Increasing expenditure on labour market interventions to help vulnerable groups; and
- Persisting with increasing social expenditure but developing more effective and targeted social transfer systems that reduce the widening levels of income inequality and ever increasing levels of severe material deprivation.

Running alongside these broad macro-level policies, each ministry responsible for different aspects of the fight against undeclared work should seek to implement the following policy recommendations that broaden the range of approaches and measures used, and draw upon international good practice in what is considered an effective and efficient approach.

On the one hand, and reflecting the need for a cross-government approach, there are a range of measures that all ministries involved in tackling the undeclared economy should implement. These policy measures that cross-cut all ministries include:

- Implementing a holistic integrated strategic approach towards tackling undeclared work;

- Improving the effectiveness of electronic systems for data mining, the inter-operability of data bases and data sharing;
- Improve the targeting of inspections;
- Improving the training of tax, labour and social security inspectors;
- Introduce supply chain responsibility in all public works contracts;
- Introducing a ‘white list’ of legitimate employers for public procurement contracts;
- Simplifying compliance on tax, labour and social security law;
- Improve the provision of formalisation advice;
- Make greater use of normative notification letters;
- Increase the use of electronic payments across the population;
- Use service vouchers in sectors where undeclared work is rife whilst evaluating whether these are substituting for declared or undeclared employment;
- Launch public awareness campaigns on the benefits of declared work;
- Reform public services to become customer-friendly agencies that are perceived as promoting procedural and distributive justice and fairness;
- Increasing social dialogue;
- Re-introducing collective agreements, and
- Increasing evidence-based evaluations of the impact of policy approaches and measures.

On the other hand, there are a range of additional policy measures specific to the following stakeholders:

- Ministry of Finance:
 - improve the collectability of taxes owed and the process of imposing sanctions and penalties;
 - improve formalisation advice services in cooperation with social partners;
 - introduce a tax rebate incentive scheme in the domestic services and home repair and renovation sectors;
 - educate citizens about the tax system; and
 - run a national competition on why pay your taxes.
- Ministry of Education:
 - educate children of the benefits of paying taxes and working declared in the civics curriculum.
- Social partners:
 - introduce a voluntary supply chain responsibility initiative;
 - provide incentives for business to formalise by extending the INEMY-ESEE ‘business walking routes’ initiative;
 - work with ministries to improve formalisation advice services; and
 - cooperate with government on public awareness campaigns on the benefits of declared work among both citizens and businesses.

Specification of a Pilot Programme for a sector and/or region

To support the transition to declared work, it is recommended that a pilot study is conducted to assess this integrated policy framework. Rather than select a specific economic sector and/or region, specific population groups, sectors and/or regions could be carefully chosen for each of

the above policy measures through tripartite consultation. This will enable the effectiveness and efficiency of this multi-stakeholder holistic integrated policy approach to be evaluated in practice, and for any teething problems to be resolved with each measure before their wider implementation.

1 INTRODUCTION: BACKGROUND CONTEXT

In August 2015, a three-year European Stability Mechanism (ESM) support programme for Greece was approved by the ESM Board of Governors and co-signed by the Greek authorities and the European Commission. This includes a Memorandum of Understanding (MoU) that spells out the detailed policy conditions attached to the financial assistance to Greece (European Commission, 2015a). A key deliverable of the MoU is that ‘the authorities will adopt an integrated action plan to fight undeclared and under-declared work in order to strengthen the competitiveness of legal companies and protect workers as well as raise tax and social security revenues. This will include improved governance of the labour inspectorate and specify technical assistance. As a first step, the authorities will link the tax, ERGANI and social security fund reporting framework to detect undeclared work’ (European Commission, 2015a: 22).

This diagnostic report seeks to facilitate the delivery of a national action plan by setting out an integrated and holistic approach, as advocated by ILO Recommendation 204 (ILO, 2015b). Tackling the undeclared economy remains a significant challenge despite the efforts made in recent years, including imposing stricter sanctions, reducing non-wage costs and reducing bureaucratic obligations and the administrative burden. The current business climate in Greece is characterized by relatively high under-reporting rates, as well as a relatively high share of undeclared work. This, along with high unemployment, has undermined the collection of tax revenue and social security contributions. As a result, Greece risks being trapped in a vicious downward cycle – in 2014 gross government debt reached 177.1% of GDP, up from 175% in 2013 and 115.1% in 2010 when Greece entered the MoU (Eurostat, 2010). Moreover, if low tax revenues were to induce higher corporate and labour taxation, this might further push firms and individuals to exit the declared economy, worsening further the fiscal position and limiting the ability of the government to stimulate investment, economic activity and job creation. Apart from significant negative impacts on the economy and social institutions, undeclared work implies risks for the individual workers, including lack of social security, protection of rights and possibilities for career advancement.

In a context marked by a high level of undeclared work (including a widespread practice of under-declared work), tackling the undeclared economy is increasingly seen as a major economic and social challenge in Greece. There is consequently an urgent need to reformulate questions of policy intervention in a way that can enable Greece to tackle this realm. Taking fully into consideration ILO Recommendation 204, the aim of this report is therefore to investigate the main determinants of the undeclared economy and to provide appropriate and efficiently integrated policy frameworks and the associated policy guidelines to introduce incentives to enable the transition from undeclared to declared work. To achieve this, the objectives of this report are to:

- identify the most recurrent forms of undeclared work in the country;
- identify the categories of workers, enterprises or sectors warranting priority action to tackle undeclared work and the specific forms of undeclared work in which they are engaged;
- identify the main incentives and drivers of undeclared work in Greece;
- review the legal, policy or strategic frameworks to inform the design and implementation of laws and regulations, policies and other measures aiming to facilitate the transition to the declared economy;

- identify priority measures and sequencing to facilitating the transition from undeclared to declared work;
- enable the identification of a possible and feasible sector and/or region to launch the pilot programme to reduce undeclared work in Greece, and
- provide a set of policy recommendations and a sequencing to formulate the road map.

On the one hand, therefore, this report provides support to the Greek Government and social partners in tackling undeclared work by identifying the causes, circumstances and forms of undeclared work in Greece. This has been achieved through a multi-stakeholders diagnostic of the situation involving the meetings listed in Annex A, along with a desk-based review of the current situation. On the other hand, the information generated has been used to formulate a comprehensive policy action plan, with a view to enabling the transformation of undeclared work into declared work. The program set out to facilitate the transition from undeclared to declared work in Greece provides an integrated regulatory and policy framework based on a combination of deterrence, preventive and curative policies, and is based on good practice being developed elsewhere in the European Union and beyond, including ILO recommendation 204 (ILO, 2015b). As part of this, some pilot activities are recommended to enable the resultant integrated policy framework to be implemented and its impact assessed in terms of declared work.

Although there is no official universal definition of ‘undeclared work’, it is widely accepted across the European Union that this covers ‘*productive activities that are lawful as regards their nature, but are not declared to the public authorities, taking into account the differences in their regulatory systems between Member States*’ (European Commission, 2007a: 2). Indeed, in Greece, it is this definition which is used. Article 32 of Law 3996/2011 entitled ‘terminology’ in paragraph 7 states: ‘Wherever in this Act, the term “undeclared work” means any paid activities that are lawful as regards their nature but not declared to the public authorities, in breach of the rules.’ Despite some 45 different adjectives and 10 nouns currently used to denote this activity (e.g., ‘informal’, ‘shadow’, ‘black’ and ‘underground’ sector/economy/work), we use the undeclared economy throughout this report. Indeed, the definition used aligns closely with the definition of the ‘shadow economy’ adopted by Schneider and Enste (2000, 79), which views it as including all legal production and provision of goods and services that are deliberately concealed from public authorities for the following four reasons: (i) to avoid payment of income, value added or other taxes; (ii) to avoid payment of social security contributions; (iii) to avoid having to meet certain legal standards, such as minimum wages, maximum hours, safety standards, etc.; and (iv) to avoid compliance with certain administrative procedures, such as completing statistical questionnaires or other administrative forms. Although such a definition intimates that undeclared work might be a voluntary decision not to comply with legal obligations, to assume this would be to ignore how economic units and individuals may not be able to abide by the law, for instance, due to inappropriate legislation or lack of awareness. This has been taken on board in this report and its action plan. The definition adopted, moreover, directly addresses the concern of Greek labour organisations that only work avoiding social security contributions is sometimes treated as undeclared work (INE-GSEE, 2016, p. 5). The ILO (2015a: 6) Recommendation 204, moreover, provides a broader concept of informal economy of which undeclared work is part, which (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and (b) does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms,

trafficking in persons, and money laundering, as defined in the relevant international treaties. As such, the only difference between declared and undeclared work in this report is that it is not declared to the authorities for tax, social security and labour law purposes when it should be. If other differences exist, it is not undeclared work. For example, if the goods and services provided are illegal, it is part of the wider criminal economy, whilst if there is no monetary payment, it is part of the unpaid sphere.

2 UNDECLARED WORK: AN ANALYTICAL AND POLICY FRAMEWORK

2.1 Analytical framework

Undeclared work by definition is not declared to the authorities. This makes it difficult to obtain reliable estimates of its magnitude and characteristics, with various methods used to estimate its size and characteristics. Evaluating the different measurement methods available, the European Commission (2007a: 4) state:

‘Undeclared work can be measured both directly and indirectly. Indirect methods are based on the comparison of macroeconomic aggregates (such as national accounts, electricity consumption, cash transactions). Indirect (especially monetary) methods often over-estimate the level of undeclared work and say little about its socio-economic characteristics. Direct methods, on the contrary, are based on statistical surveys and have advantages in terms of comparability and detail, but tend to under-report the extent of undeclared work.’

The resultant consensus has been to use indirect methods to measure the size of the undeclared economy and direct methods to identify its characteristics in terms of who engages in it, what they do and why, so as to inform policy development (Eurofound, 2013; Williams and Schneider, 2016). This will be the approach adopted in this report.

To identify the drivers of the undeclared economy is important because it is these that need to be tackled to reduce the undeclared economy. Recently, significant advances have been made in understanding the determinants of undeclared work by adopting an institutional perspective which transcends the previous competing debates about the varying causes of undeclared work (Godfrey, 2015; Webb et al, 2009, 2013; Williams and Franic, 2016; Williams and Horodnic, 2015a,b,c; Williams et al, 2015a). Institutions, or governance mechanisms, which prescribe, monitor and enforce the ‘rules of the game’ regarding what is socially acceptable, are seen to exist in every society (Baumol and Blinder, 2008; North, 1990; Scott, 1995). In all societies, these institutions are of two types: formal institutions that prescribe ‘state morality’ about what is socially acceptable (i.e., laws and regulations), and informal institutions which prescribe ‘citizen morality’ (i.e., socially shared rules, usually unwritten) (Helmke and Levitsky, 2004).

Undeclared work, from this institutional perspective, is explained as arising when the failings of formal institutions lead to state morality being different to citizen morality. As Webb and Ireland (2015) outline, these formal institutional failings are of four types:

- (i) formal institutional voids, such as no social protection or a welfare ‘safety net’ which forces citizens into undeclared work to survive;
- (ii) formal institutional inefficiencies, or resource misallocations by formal institutions, such as when formal institutions seek to protect or maximize economic rents for elites, or when state capture occurs by such elites, resulting in the majority not

- receiving a fair share in return for their contributions, or suffering from overly burdensome taxes, registration and licensing regulations and costs;
- (iii) formal institutional uncertainty, such as when there is fear regarding the future of specific formal institutions, or when technology and socio-cultural change outpaces the ability of formal institutions to accommodate new domains of activity (e.g., ‘the sharing economy’), and/or
 - (iv) formal institutional weaknesses and instability, manifested in their lack of capacity and capability to enforce legislation (Webb *et al.*, 2009) and/or there are continuous changes in the formal ‘rules of the game’ about what is acceptable, which leads citizens to reject the continuously changing formal rules in favour of their own more stable unwritten socially shared rules.

Undeclared work arises, therefore, due to these failings of formal institutions producing a situation in which the formal ‘rules of the game’ (state morality) differ to what citizens view as socially acceptable (citizen morality). Indeed, the greater is the non-alignment of state morality and citizen morality, the greater is the prevalence of the undeclared economy.

Which specific formal institutional failings, therefore, result in the non-alignment of citizen morality with state morality, and thus the prevalence of undeclared work? Until now, there have been three competing theories which each identify different formal institutional failings as the cause of more extensive undeclared economies. Firstly, *modernization theory* has argued that undeclared work is rife in societies which are under-developed economically (i.e., with lower levels of GDP per capita) and where the formal institutions of governance are not modernised, displayed by the existence for example of higher levels of public sector corruption and lower qualities of governance. Secondly, ‘*state over-interference*’ theory has argued that undeclared work is a resistance practice voluntarily pursued and a rational economic response to high tax rates and too much state interference such as over-burdensome rules and regulations (e.g., Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Sauvy, 1984; Small Business Council, 2004). Third and finally, ‘*state under-intervention*’ theory views undeclared work as a direct by-product of too little, rather than too much, state intervention in work and welfare arrangements. In this approach, undeclared work is viewed as an inherent and integral component of contemporary capitalism and a key facet of the sub-contracting, downsizing and outsourcing arrangements that are emerging in advanced capitalism and enable enterprises to achieve profit through flexible production and cost reduction (Meagher, 2010; Taiwo, 2013). Consequently, undeclared work is depicted as unregulated, insecure and low paid employment conducted out of necessity by marginalized populations excluded from the declared economy and conducted as a last resort when no other options are available to them (Ahmad, 2008; Castells and Portes, 1989). As such, undeclared work is seen to result from a lack of social protection for workers and the remedy is greater state intervention in work and welfare provision to protect workers from poverty (Davis, 2006; Gallin, 2001; Slavnic, 2010).

Reviewing the studies that evaluate these theories by examining the cross-national variations in these economic and social conditions, and cross-national variations in the size of the undeclared economy, the same findings continuously emerge. Whether one measures the size of the undeclared economy using Schneider’s MIMIC estimates (Williams, 2014d) or using direct surveys (Williams, 2014a,b,c, 2015a,b, 2016; Williams and Martinez-Perez, 2014) and whether one compares the 28 member states of the European Union (Williams, 2014c; 2016; Williams and Horodnic, 2016), post-socialist transition economies (Williams, 2014a, 2015b) or countries across the developing world (Williams, 2014b, 2015a,c,d), the finding is that there is no evidence

to support the state over-interference thesis. Instead, the prevalence of the undeclared economy is positively associated with the tenets of the modernisation and state under-intervention theses. To tackle the undeclared economy, therefore, these multiple studies reveal a need to focus upon:

- increasing GDP per capita;
- improving the quality of governance and reducing corruption;
- increasing expenditure on labour market interventions to help the most vulnerable groups;
- increasing social expenditure, and
- developing more effective social transfer systems so as to reduce the level of inequality and severe material deprivation, which includes improving the efficiency of collection.

Indeed, unless these formal institutional failings are tackled that result in an asymmetry between state morality and citizen morality, undeclared work will persist.

For example, Williams and Horodnic (2016) examine the formal institutional failings that are associated with higher level of under-declared work (i.e., the illegal employer practice of under-reporting employees' salaries) in the EU-28 using data from the 2013 Eurobarometer survey of 11,025 employees. Rather than an individual criminal act that increasing the risk of detection can tackle, they reveal that this is a symptom of systemic problems. They show that under-declared work is concentrated in countries with:

- lower levels of economic development and less modernised state bureaucracies;
- greater income inequality;
- higher rates of severe material deprivation;
- less effective redistribution via social transfers, and
- lower levels of labour market interventions to protect vulnerable groups in the labour market.

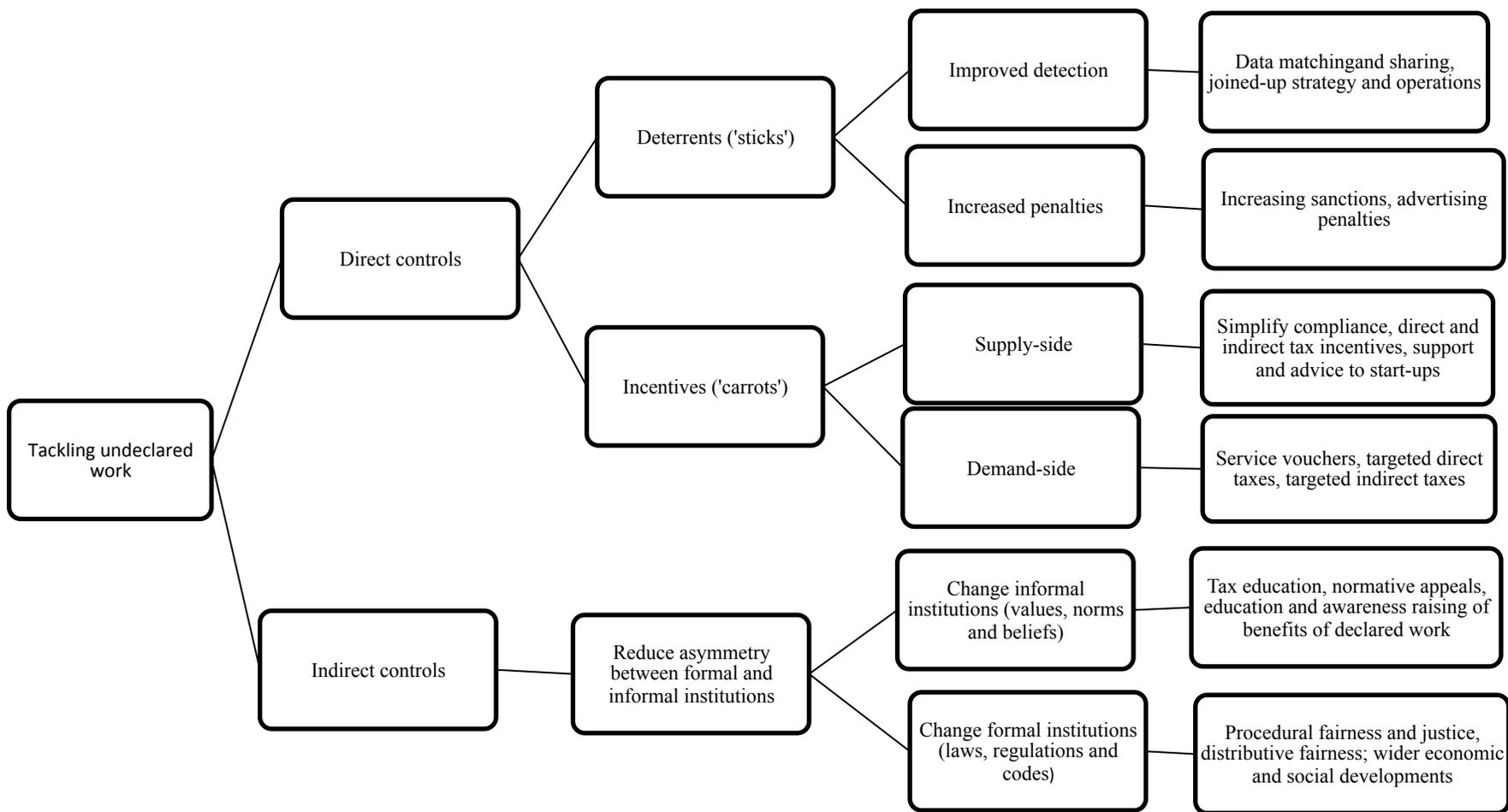
They also importantly reveal no significant association between increasing the perceived risk of detection and the likelihood of participating in under-declared work, when other variables are held constant. Under-declared work is nevertheless significantly associated with the non-alignment of state morality and citizen morality. To reduce under-declared work, therefore, the conventional approach of improving detection seems ineffective. Instead, if under-declared work is to be resolved, policy measures are required that tackle the formal institutional failings that lead to an asymmetry between the formal 'rules of the game' and citizen morality.

2.2 Policy approaches towards undeclared work

It is now widely accepted across the developed, transition and developing world, that the aim of governments is not to eradicate the undeclared economy, but to move undeclared work into the declared economy (Dekker *et al.*, 2010; Eurofound, 2013; European Commission, 2007a; ILO, 2015b; Small Business Council, 2004; Williams, 2014; Williams and Nadin, 2012a,b, 2013, 2014).

Figure 1 displays the full range of tools available for transforming undeclared work into declared work. On the one hand, there are direct tools. These transform undeclared into declared work by ensuring that benefits of operating in the declared economy outweigh the costs of working in the undeclared economy. This is accomplished either by using deterrence measures to increase the costs of non-compliance ('sticks') and/or by making the conduct of declared work more beneficial and easier ('carrots'). On the other hand, there are indirect tools. These shift away from using 'sticks' and 'carrots', and instead focus on dealing with the formal institutional failings so as to repair the social contract between the state and its citizens in order to foster a high trust high commitment culture.

Figure 1. Policy approaches and measures for tackling undeclared work



Direct controls, therefore, seek to reduce the costs and increase the benefits of operating on a declared basis (OECD, 2008). Viewing the non-compliant as rational economic actors who engage in undeclared work when the pay-off is greater than the expected cost of detection and punishment, the objective is to change the cost/benefit ratio facing those participating or considering participation in undeclared work (e.g., Allingham and Sandmo, 1972; Hasseldine and Li, 1999; Richardson and Sawyer, 2001). This can be achieved in two ways:

- *Deterrence measures* seek to detect and punish non-compliant ('bad') behaviour (i.e., undeclared work). This is achieved by firstly, raising the perceived or actual likelihood of detection and/or secondly, increasing the penalties and sanctions for those caught. This 'negative reinforcement' approach thus seeks behaviour change by using 'sticks' to punish non-compliant ('bad') behaviour.
- *Incentive measures* seek to make it easier to undertake, and reward, compliant ('good') behaviour (i.e., declared work). To achieve this, one can use either:
 - Preventative measures to stop people moving into the undeclared economy in the first place (e.g., by simplifying compliance, using direct and indirect tax incentives to make it beneficial to operate on a declared basis, and providing support and advice about how to start-up legitimately); or
 - Curative measures to incentivise workers and businesses to make the transition to the declared realm. These can be either (a) supply-side incentives targeting businesses and workers in the undeclared economy or (b) demand-side incentives targeting their customers with rewards for using declared goods and services.

The problem with using these direct tools is that those operating on an undeclared basis are not always rational economic actors purely calculating the costs and benefits. They can be also social actors who engage in undeclared work because there is lack of alignment between their own morality and the laws and regulations, such as due to a lack of trust in the state and what it is seeking to achieve.

Indirect controls, therefore, seek to deal with the formal institutional failings and repair the social contract between the state and its citizens so as to create a high trust high commitment culture (Alm et al., 1995; Torgler, 2003; Wenzel, 2002). The intention is to seek a voluntary commitment to compliant behaviour rather than force citizens to comply using threats, harassment and/or incentives (Kirchler, 2007; Torgler, 2007, 2011). Undeclared work occurs where formal institutional failings lead to citizens' norms, values and beliefs differing to the laws and regulations, meaning that what formal institutions deem illegal activities are seen as socially legitimate in the eyes of citizens. To tackle undeclared work therefore, there is a need to address the formal institutional failings and repair the social contract. To align citizen morality with state morality, one can either:

- *Change the informal institutions* - to change the norms, values and beliefs of citizens regarding the acceptability of undeclared work, so that these are in symmetry with the laws and regulations, one can use awareness raising campaigns and educational initiatives about the costs of undeclared work and benefits of declared work.
- *Change the formal institutions* – this is particularly important in societies in which there is a lack of trust in government, such as due to public sector corruption (European Commission, 2014) or in societies where citizens do not believe that they receive back from government what they expect. This can involve either:
 - Changes in the internal *processes* of the formal institutions to improve the perception amongst citizens that there is procedural and distributive fairness and justice, and/or

- Change in the *products* of formal institutions by pursuing wider economic and social developments (e.g., increased social expenditure levels, more effective social transfers).

The emerging evidence-base is that the ‘best practice’ when tackling undeclared work is to **combine direct and indirect tools** (Williams, 2014a; Williams and Renooy, 2013). For example, governments may pursue greater social expenditure to provide a welfare ‘safety net’ and culture changes in government departments towards a more customer-oriented approach, and introduce publicity campaigns to elicit greater commitment to compliance, but may also simplify regulatory compliance and introduce incentives (e.g., amnesties, tax deductions) to enable undeclared labour to move into the declared realm. At the same time, and in relation to those failing to comply, they may also pursue improvements in the probability of detection and tougher sanctions for those subsequently caught. The debate therefore is not over whether it is best to use either indirect tools or direct tools. The emergent evidence-base is that both are required to effectively tackle undeclared work. Rather than debate is over how to combine and sequence the various direct and indirect measures. Two contrasting approaches exist for doing this:

- *Responsive regulation* - this envisages a regulatory pyramid, sequenced from the least intrusive indirect controls at the bottom and used first, to the most intrusive direct controls at the top. The idea is that an authority does not need in most cases to pursue the coercion option at the top of the pyramid to win compliance. Instead, it can start with the commitment measures at the bottom of the pyramid and if these fail to elicit behaviour change with some groups, then the level of intrusiveness escalates up the pyramid until it reaches the intervention that elicits the desired response. The outcome is recognition of a continuum of attitudes towards compliance and different policy responses that can be temporally sequenced starting with commitment measures, then incentives and only after these fail are sanctions used (Braithwaite, 2002, 2009). The Australian government for example has adopted this ‘responsive regulation’ approach. In the first instance, indirect controls facilitate voluntary self-regulated compliance, followed by persuasion and only then punitive measures to tackle non-compliance (Braithwaite, 2009; Job et al., 2007).
- *Slippery slope framework* - this argues that citizens abide by the law either because they fear detection and fines due to the power of authorities (**enforced compliance**) or because they feel a commitment to be honest because they have trust in the authorities (**voluntary cooperation**). When there is effective enforced compliance as well as high voluntary cooperation (i.e., both power and trust), undeclared work is absent. When there is ineffective enforced compliance and little voluntary cooperation, undeclared work is extensive (Alm and Torgler, 2011; Alm et al., 2012; Kastlunger et al., 2013; Khurana and Diwan, 2014; Kirchler et al., 2008; Kogler et al., 2015; Muehlbacher et al., 2011a,b; Prinz et al., 2013).

This recognition that both effective enforced compliance and high voluntary cooperation are essential for tackling undeclared work is now being seriously considered by authorities in various countries (OECD, 2013). Indeed, it is this analytical framework and policy approach that is the basis for this report. With this analytical framework and policy approach in hand, attention now turns to an analysis of Greece and what needs to be done.

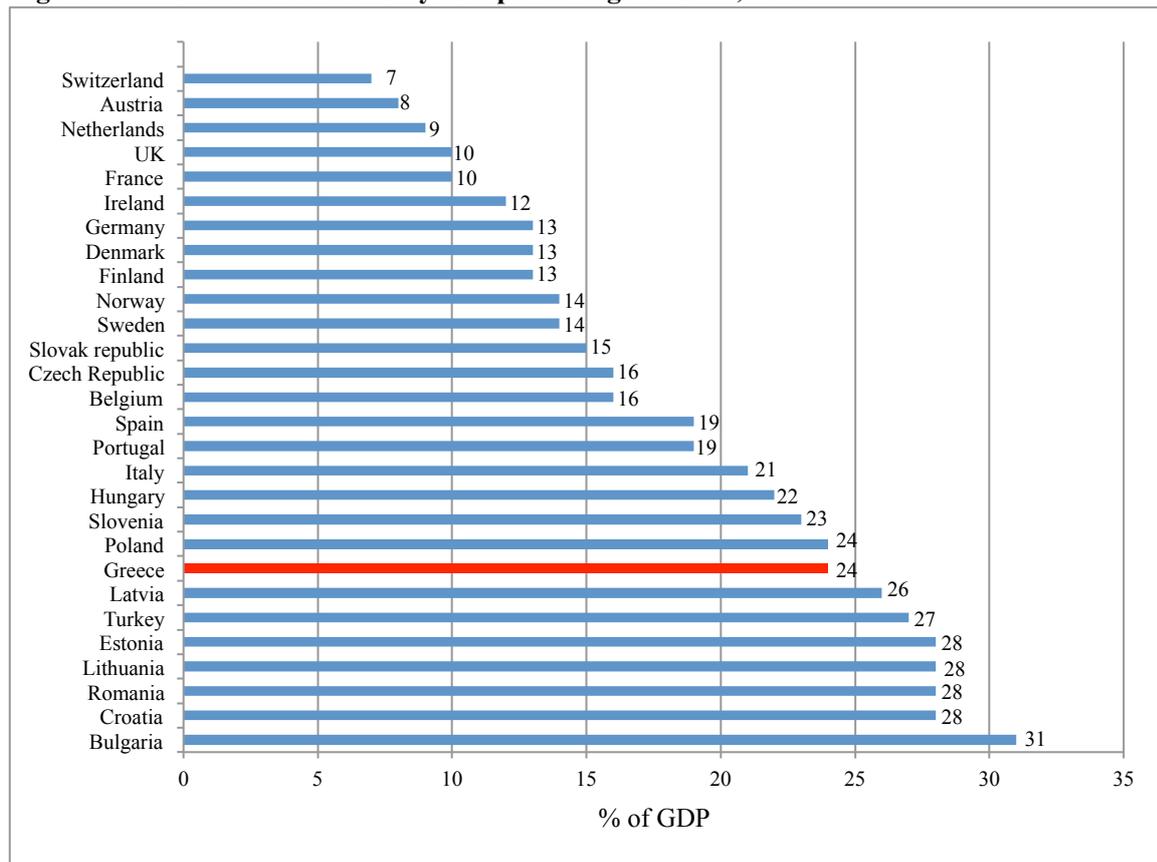
3 EXTENT AND NATURE OF UNDECLARED WORK IN GREECE

3.1 Magnitude of the undeclared economy

There has been a long history of disagreeing about the size of the Greek undeclared economy, not least between the Greek statistical authorities and Eurostat. This has been partly because if the undeclared economy was included in the GDP figures, this would enable Greece to better meet deficit standards by shrinking its budget deficit as a percentage of GDP (see Bitzenis and Makedos, 2013, 2014). Estimating the size of the undeclared economy in Greece, therefore, has been hotly contested. Recognising this, it needs to be explicitly stated that the various figures reported here are not firm figures, but a range of estimates derived using various measurement methods commonly used by academics and policy-makers to develop approximations of the relative size of the undeclared economy and how its magnitude varies cross-nationally.

Figure 2 provides an estimate of the size of the Greek undeclared economy relative to the EU-28 using the Multiple Indicators Multiple Causes (MIMIC) method, developed by Schneider (2013). This reveals that the undeclared economy in Greece in 2013 was the equivalent of 24% of GDP, which puts Greece among the countries with one of the largest undeclared economies in Europe. Turning to whether the undeclared economy is growing or declining over time in both the EU-27 (excluding Croatia) and Greece using the MIMIC method, Table 1 reveals that between 2008 and 2013, there were declines in the size of the undeclared economy in both the EU-27 and Greece. Indeed, according to this MIMIC method, Greece is not alone in witnessing a small but steady decline in recent years.

Figure 2. Undeclared economy as a percentage of GDP, 2013



Source: derived from Schneider (2013: Figure 1)

Table 1 Size of undeclared economy in EU-27 and Greece, 2008-2013, % of official GDP

Year	EU-27	Greece
2008	19.3	24.3
2009	19.8	25.0
2010	19.5	25.4
2011	19.2	24.3
2012	18.9	24.0
2013	18.4	23.6

Source: Schneider (2013)

The MIMIC method, however, is not the only measurement method. Although the earlier European Employment Observatory Reviews arrive at a similar conclusion that the undeclared economy is around a quarter of official GDP in Greece, Eurofound (2013) finds it to be over one-third of official GDP, whilst the direct survey approach examining the percentage of employees without a contract by Hazans (2011) reveals that 46.7% of the labour force are in the undeclared economy in Greece.

Moreover, many studies estimate the size of the undeclared economy based on the results of tax, social security and/or labour inspections. Between September 2013 and January 2016, for example, SEPE undertook labour inspections of 68,209 businesses, of which 9,966 (14.6%) had undeclared employees totalling 17,058, for which fines were imposed totalling €178.8 million (an average of €2,622 per business). Kanellopoulos (2012), meanwhile, using 2009 social insurance data finds that 4.5 million were insured for pensions and 1 million were uninsured. Both IOBE (The Foundation of Economic and Industrial Research), and INE-GSEE (The Institute of Labour) measure undeclared work based on inspections conducted by the labour inspectorate (SEPE) and the Special Service of Insurance Inspections of IKA (EYPEA). IOBE (2012) reports that the percentage of undeclared work in inspected enterprises in 2011 was 30%, while INE-GSEE (Kapsalis, 2015) reports the percentage of undeclared work in inspected enterprises in 2013 as 40.5%. Another study examining the firms inspected found that in 2008, 10% of all firms inspected by the IKA social insurance body failed to pay social contributions, while 27% of their employees were unregistered for insurance (Matsaganis and Flevotomou, 2010). Artavanis et al (2012) estimate that in 2009, foregone revenues due to tax evasion amounted to 31% of the deficit. Matsaganis et al (2012) comparing the levels and effects of tax evasion before and during the Greek crisis, meanwhile, find that the average rate of under-reporting in 2006 was 11.8% (of total tax reports), resulting in a shortfall in tax receipts of 27.8% (of total tax receipts), whilst in 2010, the average rate of under-reporting was 12% and the shortfall in tax receipts was 30.3%. However, the problem with all these studies is that data on inspections cannot be used to estimate the size of the undeclared economy because they are not based on a random or representative sample. The SEPE inspections are rightly targeted to sectors more likely to occupy undeclared workers. Therefore, from a methodological point of view, it is wrong to extrapolate from the SEPE sample to the population. A more accurate picture of the incidence would be obtained if a random sample was selected for regular inspections. However, this is not to be recommended as the mandate of SEPE and other inspection services is to target sectors and activities likely to be violating labour, tax and insurance legislation.

Other studies therefore use methods which examine the discrepancies between one source of data and another. Matsaganis and Flevotomou (2010) compare the discrepancies between income reported on individual tax returns and income reported in the Household Budget Survey. They estimate that personal income tax under-reporting for the entire taxpayer

population is 10%, resulting in revenue losses of 26% (due to progressive taxation), with a weighted average income under-reporting of the self-employed of 33%. Analysing the self-employed, Artavanis et al (2016) use microdata on household credit from a Greek bank, and replicate the bank underwriting model to infer the banks estimate of individuals' true income. They estimate that 43%-45% of self-employed income goes unreported and thus untaxed. For 2009, this implies €28.2 billion of unreported income, implying foregone tax revenues of over €11 billion or 30% of the deficit. All these discrepancy methods, however, suffer from the problem that the discrepancies are also due to other factors besides undeclared work.

3.2 Nature of the undeclared economy

3.2.1 Varieties of undeclared work

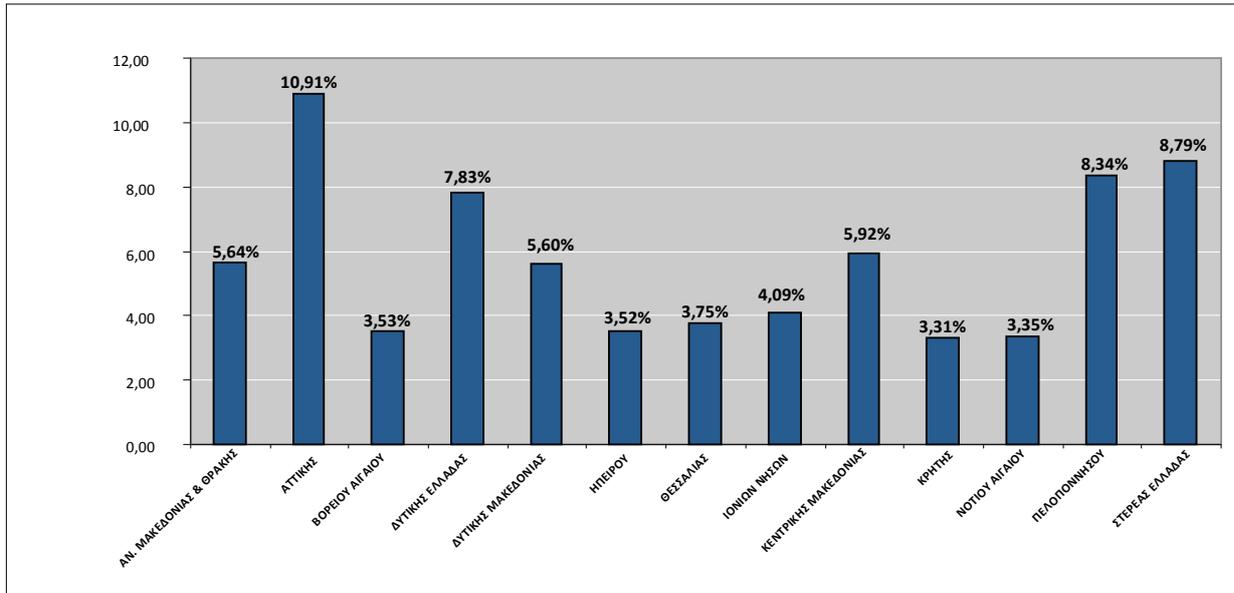
The relatively high level of self-employment and large share of micro- and small enterprises in Greece is frequently seen as the catalyst for the prevalence of the undeclared economy. According to the European Commission's newsletter regarding the Small Business Act initiative (European Commission Small Business Act 2014), small and medium-sized enterprises (up to 250 employees) dominate the Greek economy and represent more than 99% of all businesses. They also employ 86% of the Greek labour force compared with 67% of the total European Union workforce. Indeed, micro enterprises with 1-9 employees represent 96% of all enterprises in Greece, employing 55% of the labour force (whilst in the EU-28 this is below 30%). Greece also has the highest percentage of self-employed people in Europe at a rate of more than 32%, compared with 14% across the EU-28 (Eurostat, 2014). This structural feature of the Greek economy certainly helps understand the prevalence of undeclared work. Other features exist, however, that need to be also recognised.

The undeclared economy includes both wholly undeclared work and under-declared work. *Undeclared work* refers to work entirely undeclared to the state for taxation, social insurance and/or labour law purposes. This includes unregistered employees without a contract who work for a business, for a household, as family members, private tutors, or as farm workers. They may be Greek citizens, legal immigrants or immigrants with an irregular status. These workers might be secondary or multiple job holders who have social security coverage in their main job but do not contribute in their second job, or they may be pensioners, students, or others not in additional forms of declared employment. Besides undeclared wage work, there is also undeclared own-account work conducted on a self-employed basis where all or some of their transactions are not declared. Many of these self-employed in Greece may well be 'bogus self-employed'. *Under-declared work*, meanwhile, here refers to the illegal employer practice of salary under-reporting, including the practice of declared employers paying declared employees two salaries: (a) an official salary declared for tax, social security and labour law purposes, and (b) an additional undeclared remuneration received 'under the table' or by 'envelope'. Another variant of under-declared work in Greece is where larger businesses such as supermarkets employ a person on say a 4 hour contract but they work for 7-8 hours. Detection of this form of under-declared employment by the authorities is difficult.

One of the major problems when analysing the nature of the undeclared economy in Greece is that there are very few sources of data. Indeed, one of the few data sources is inspections. For example, Figure 3 reveals the marked regional variations in undeclared work rates identified by labour inspectors, ranging from 3.5% to 10.9%, and Figure 4 displays the significant variations across sectors with undeclared employees as a proportion of all employees ranging from 7.9% to 38.7% across sectors. Although such statistics produced by the labour inspectorate (SEPE) of the number of instances of undeclared work identified during inspections are a useful insight into the character of undeclared work, the major

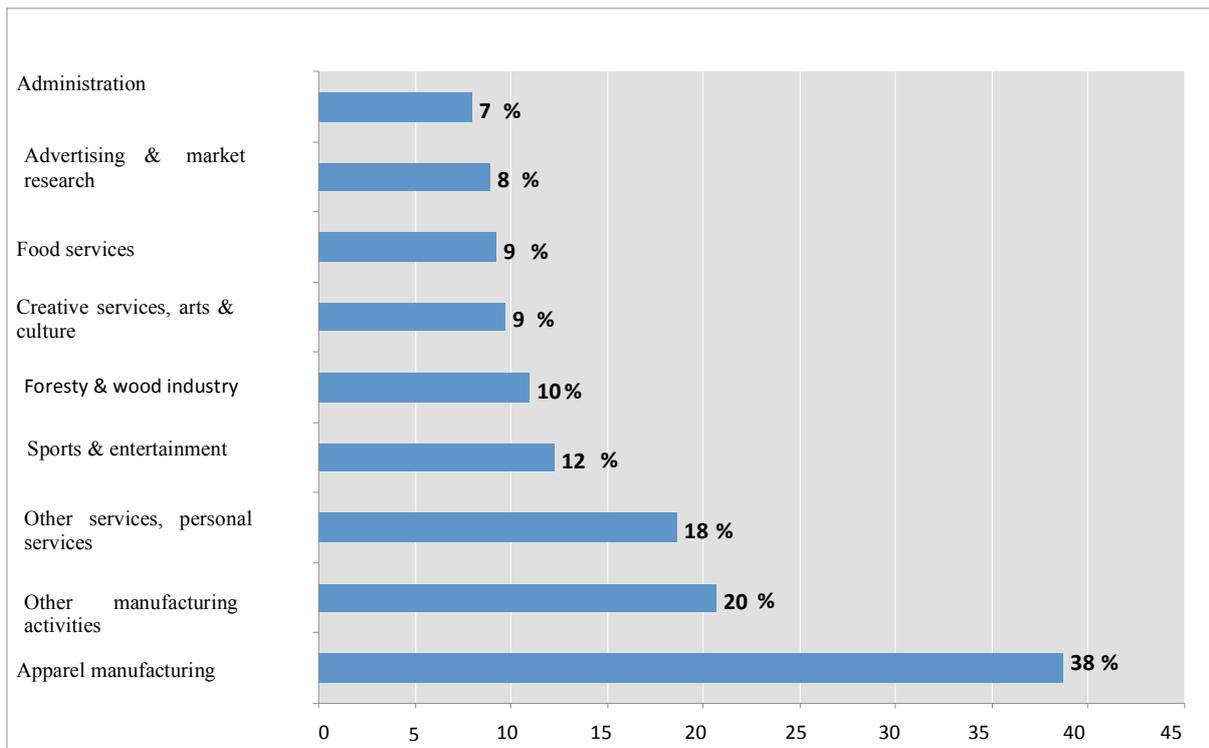
problem is that these data are not based on a representative or random sample of businesses. As such, it is erroneous to extrapolate from the SEPE data to the population.

Figure 3. Rates of undeclared work by region, 2015: results of labour inspections



Source: Michos (2016)

Figure 4. Undeclared employees per sector, 9/2013-12/2015: results of labour inspections



The only known contemporary representative survey of the character of undeclared work is special Eurobarometer No. 402 conducted in 2013. This interviewed 1,000 respondents face-to-face in the national language using a multi-stage random (probability) sampling methodology, which ensured that on the issues of gender, age, region and locality size, the

sample was proportionate to, and representative of, the Greek population.¹ This survey examines the nature of undeclared and under-declared work in Greece, including the sectors in which it is concentrated, who conducts it, and their motives.

Analysing the types of undeclared work undertaken by participants in the 12 months prior to the survey in 2013:

- 67.3% of all undeclared work was waged employment, of which:
 - 13.3% was wholly undeclared waged employment, and
 - 54% was under-declared employment.
- 10.2% was undeclared self-employment, and
- 22.5% paid favours conducted for close social relations, such as kin, friends, acquaintances and neighbours.

To further understand the sectors in which the undeclared economy is concentrated and who participates in such work, firstly, the demand for undeclared goods and services is analysed, secondly, the supply of undeclared work and third and finally, the nature of under-declared work in the form of ‘envelope’ wages in terms of who receives such additional undeclared wages and the determinants of its prevalence.

3.2.2 Demand for undeclared goods and services

Some 30% of the participants in Greece in the 2013 Eurobarometer survey reported purchasing undeclared goods and services in the previous 12 months and spent on average about €750 on such goods and services (see Table C1 in Annex C). Examining the goods and services obtained in the undeclared economy, the finding is that 13.5% of all surveyed participants had bought other goods (besides food) in the undeclared economy in the 12 months prior to the survey, 7.4% home repairs or renovation services, 6.5% food products, 6.3% other services (to those elsewhere on this list), 4.7% healthcare services, 3.8% car repair services, 3.5% house cleaning services, 0.8% gardening services, 0.7% tutoring, 0.5% clothes ironing services, 0.5% help moving house, 0.4% elder care services, and 0.1% IT assistance, and 0.1% baby-sitting services. Indeed, this finding mirrors on the demand-side the IMF (2013) supply-side finding that the sectors with a high propensity to use undeclared work are tourism, catering, construction, agriculture, homecare, and commerce. Indeed, undeclared purchases in some of these sectors will have increased in recent years, not least due to the widespread use of new technologies, such as Airbnb in the tourism industry, coupled with the abolition of the minimum lease period in 2015 (Law 4336/2015). A Grant Thornton study puts this loss at some €270m, as witnessed by a 15-17% increase in arrivals but a 4% decline in hotel bookings.

Therefore, this demand-side evaluation suggests undeclared work will be prevalent on the supply-side among farmers, the home repairs and renovation sector, a range of other domestic consumer services (house cleaning, ironing, gardening) and in healthcare services. Perhaps the most in-depth demand-side understanding of these specific sectors in Greece is in regard to the use of informal payments in the health care system to gain access to or improve the

¹ To analyse the data, population weights are here applied to correct for over- and under-representation in the sample. For the descriptive statistics, the full sample has been used. For multivariate analysis, and to avoid excluding individuals who did not provide answers to every question, multiple imputations have been employed. Fifty imputations were simulated through a system of chained equations for every missing value.

quality of care. Liaropoulos et al (2008) find that 36% of those receiving treatment in public hospitals report at least one informal payment to a doctor, of whom 42% state it was given because of the fear of receiving sub-standard care (if they did not pay) and 20% because the doctor demanded such a payment. Kaitelidou et al (2013) similarly find that 74% using public obstetrics services had made informal payments, whilst Souliotis et al (2015) reports under-the-table payments for 32.4% of public hospital admissions. The prevalence of such payments to doctors perhaps reflects a wider view that the undeclared economy is composed of a 'lower tier' comprising people forced to work in this realm out of necessity and an 'upper tier' of professionals who do so more out of choice, and who tend to receive higher rewards for their undeclared activity (Fields, 1998, 2005). The pervasiveness of citizen payments to doctors certainly suggests the existence of an 'upper' tier, and tentatively intimates that undeclared work in Greece is perhaps not greatest among the poor and unemployed, but rather among professional groups such as lawyers and the medical professions (Artavenis et al., 2012) who not only reap higher rewards for their undeclared work but also tend to be more likely to benefit from purchasing undeclared goods and services (e.g., for domestic cleaning and home maintenance).

This is supported when examining the groups more likely to purchase undeclared goods and services. The 2013 Eurobarometer survey reveals that although it prevails across all socio-demographic and socio-economic groups and regions, it is nevertheless more common in some populations. Those more likely to purchase undeclared goods and services are men, younger people, the more educated and those in employment (40% of the self-employed and 34% of employed people compared with 24% of those not working). Indeed, the self-employed represent just 18% of surveyed population, but purchase 24% of all undeclared goods and services. Similarly, those self-reporting themselves as middle or upper class represent 45% of the population surveyed but make 52% of all undeclared purchases, while those not facing difficulties in paying bills, or rarely facing difficulties, represent 46% of those interviewed but acquire 53% of undeclared goods and services. This strongly suggests that it is the relatively affluent who are more likely to benefit from purchasing undeclared goods and services (e.g., domestic cleaning, home improvement services) supporting the finding that the upper tier in society are those who benefit most from the ability to purchase undeclared goods and services. There are also regional variations. This practice is more common in Voreia Ellada (Northern Greece) and Kentriki Ellada (Central Greece). No major differences are reported with respect to urban/rural variations. A final key finding is that the higher is a citizens **tax morality**, the less likely they are to purchase undeclared goods and services (see Table C1 in Annex C).² This displays the importance of dealing with the formal institutional failings so as to repair the social contract between the state and its citizens in

² In the 2013 Eurobarometer survey, **tax morality**, defined as the intrinsic motivation to pay taxes (Cummings et al., 2009), is measured by asking citizens to rate the acceptability of participating in six types of undeclared work using a 10-point Likert scale (where 1 means absolutely unacceptable and 10 means absolutely acceptable). These six types are: (1) an individual is hired by a household for work and s/he does not declare the payment received to the tax or social security authorities even though it should be declared; (2) a firm is hired by a household for work and it does not declare the payment received to the tax or social security authorities; (3) a firm is hired by another firm for work and it does not declare its activities to the tax or social security authorities; (4) a firm hires an individual and all or a part of the wages paid to him/her are not officially declared; (5) someone evades taxes by not declaring or only partially declaring their income and (6) someone receives welfare payments without entitlement. The average score for each individual is then calculated, giving equal weight to each of the six indicators. A low tax morale score indicates a high level of voluntary compliance (i.e., undeclared work is socially unacceptable), whilst a high tax morale score displays the absence of voluntary compliance (i.e., poor tax mortality) since participation in undeclared work is deemed socially acceptable.

order to foster a high trust high commitment culture. When citizen morality and state morality are aligned, citizens are significantly less likely to purchase undeclared goods and services.

To evaluate whether these variations in the likelihood of purchasing undeclared goods and services are significant when other control variables are taken into account and held constant, a staged logistic regression analysis is conducted (see Table C2 in Annex C). This reveals that those who spent longer in education, with a low tax morality and the self-employed are significantly more likely to purchase undeclared goods and services. Meanwhile, age, gender and marital status have no significant association with the odds of purchasing undeclared goods and services. Neither does the number of persons aged over 15 years old in a household, the presence of children or the respondent's self-reported social class, and nor does having difficulty in paying bills, or whether one lives in an urban or rural area. Those living in Attiki (Attica) or Kriti (Crete), however, are less likely to purchase undeclared goods compared with those living in Voreia Ellada (Northern Greece). These findings are important when it comes to policy measures since it reveals the groups (i.e., the more educated, self-employed and living in Voreia Ellada) that need to be targeted by policies seeking to reduce the demand for undeclared goods and services.

3.2.3 Supply of undeclared work

Examining the 1,000 face-to-face interviews conducted in Greece as part of the 2013 Eurobarometer survey, just 3% of citizens surveyed reported undertaking undeclared work in the prior 12 months and earned an average of €1268 (see Table C3 in Annex C). This reinforces how participants in direct surveys probably under-report their participation and produce only lower-bound estimates of its prevalence. The usefulness of direct surveys, however, is that they enable understanding of the character of undeclared work, including who engages and what they do, although the results reported here need to be treated tentatively due to the small numbers involved. Unsurprisingly, citizens with a below average tax morality are more likely to undertake undeclared work. More surprisingly, however, of the 1000 participants, those perceiving there to be higher sanctions or fines and/or prison if caught, rather than merely having to pay the taxes owed, are more likely work undeclared. So, it can be concluded that the higher are the perceived sanctions and risks of detection, the greater is the level of participation in undeclared work. Those considering the expected sanction for undertaking undeclared work to be that they will need to pay the tax or social security contributions owed plus a fine or prison are 70% of the interviewed population but 83% of all who report conducting undeclared work. This is similarly the case when analysing the perceived risk of detection. Those perceiving the risk of detection as fairly high or very high represent 39% of the interviewed population but 41% of those undertaking undeclared work. Examining who else is more likely to engage in undeclared work, the descriptive statistics also reveal it to be younger people, those with more years in education, without children, living in households with more than three adults aged 15+, facing difficulties paying the household bills most of the time, and living in urban areas. No major differences are reported in relation to gender, social class or occupation.

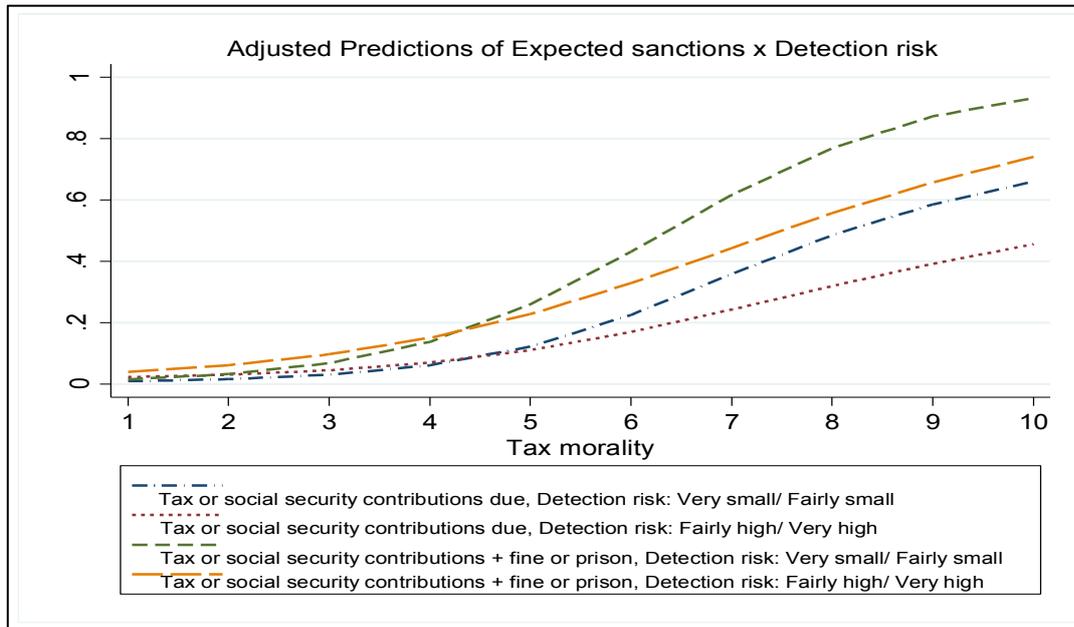
Analysing which socio-demographic, socio-economic and spatial characteristics are significantly associated with participation in undeclared work when other variables are introduced and held constant using a logistic regression analysis (see Table C4 in Annex C), the first important finding is that the expected sanctions and the perceived risk of being caught is not significantly associated with participation in undeclared work. Therefore, increasing the risks of detection and level of penalties has no significant influence on the likelihood of participation. Instead, other factors are at work related to the failings of formal institutions that lead to a non-alignment of state morality and citizen morality. That is, those

with low tax morality are significantly more likely to participate in undeclared work. Reflecting the existence of a 'lower tier' of undeclared workers, so too are younger age groups, those having financial difficulties in paying the bills (which should not be interpreted as the unemployed who are not more likely to be engaged than those in employment). No significant association is found when analysing the gender, age people stopped full-time education, the number of people in household, presence of children, self-assessed social class, urban/rural location, or employment status. It should be noted, however, that this finding about the relationship between employment status and participation in undeclared work runs counter to a large literature which views the prevalence of undeclared work as highest among the self-employed (Matsaganis and Flevotomou 2010; Matsaganis et al, 2012; Mitsopoulos and Pelagidis, 2011; Tatsos 2001). Indeed, in a finer-grained analysis of the prevalence of undeclared work by occupational status, Artavanis et al. (2012) find that the occupations most prone to tax evasion in Greece are lawyers, doctors, accountants, private tutors, and engineers where actual income could be up to 2½ times larger than that declared. This tentatively suggests that the argument of Fields (1990, 2005) that participation in the undeclared economy is composed of a necessity-driven 'lower tier', exemplified in the 2013 Eurobarometer survey by the greater likelihood of younger people and those with financial difficulties doing undeclared work, and a more voluntary-oriented 'upper tier', exemplified by the tendency of doctors, lawyers and accountants, to work undeclared, has a validity in Greece.

Given the statistical significance of tax morality in determining participation in undeclared work, the interaction terms between tax morality and the level of punishment and risk of detection have been analysed. Although there is a lack of overall significance of the interaction terms, some important relationships exist at lower levels of tax morality. Figure 5 graphically portrays the impact of increasing the penalties and risks of detection on the likelihood of participation in undeclared work at various levels of tax morality for a 'representative' Greek citizen, derived by taking the mean and modal values of the other independent variables. As such, this representative Greek citizen is a 45 year-old not working woman, who stopped formal education between 16 and 19 years old, and lives in a two person household in a small or middle sized town, with no children who faces financial difficulties paying the household bills most of the time and who self-assessed as belonging to the working class of society.

This displays that when citizens have a relatively high tax morality (i.e., below a score of 4), the perceived level of sanctions and risks of detection has little if any impact on the probability of participation in undeclared work. However, for those in the population with a poorer tax morality (i.e., above a score of 4), the perceived level of punishment and risk of detection has an impact. The lower the perceived risk and the lower the expected penalties, the higher is the probability of participation in undeclared work, but only for those holding non-conformist attitudes towards tax compliance. Importantly for policy moreover, increasing the perceived risks of detection has a greater impact on reducing participation in undeclared work than increasing the expected punishments. The strong suggestion, therefore, is that for those with low tax morality, deterrence measures (especially increasing the perceived risks of detection rather than penalties) can and should be combined with measures to improve their commitment to compliance, if undeclared work is to be effectively tackled.

Figure 5. Predicted probability of participating in undeclared work of a ‘representative’ citizen living in Greece: by expected sanctions, detection risk, and tax morality



Source: derived from 2013 Eurobarometer survey of undeclared work.

This Eurobarometer study did not analyse the relationship between migrant populations and undeclared work. In the literature on undeclared work in Greece however, this has been a common topic. Studies highlight how excluded from the declared economy, migrant groups, whether documented or not, rely on undeclared work and ethnic community-based forms of collective organisation to protect themselves in lieu of effective citizenship and employment rights (Fouskas, 2012; Gialis et al., 2014; Lyberaki and Maroukis, 2005; Psimmenos and Skamnakis, 2008; Maroukis et al., 2011) and that irregular migrants make hardly any claims against their employers for fear of deportation and lack of awareness of the available legal possibilities and their employment rights (FRA, 2011a), despite occupational accidents being far higher among immigrant workers (Anastasioua et al., 2015) as well as incidences of violence against them (Racist Violence Recording Network, 2015; Kapsalis, 2015 b). Indeed, inspections suggest that this is an important issue. In 2014, SEPE imposed 145 (147 in 2013) administrative fines amounting to €1.01 million (€1.1 million in 2013) for the illegal employment of foreigners and there was the temporary closure for 2-51 days of 51 (52 in 2013) enterprises. Whether this is the ‘tip of the iceberg’ is not known.

3.2.4 Under-declared employment: envelope wages

Until now, the focus has been upon wholly undeclared work. However, under-declared employment is also important, which is where a formal employer under-reports a formal employees’ salary, such as by paying them two salaries, a declared official salary and as undeclared (‘envelope’) wage, in order to avoid the full tax and social contributions due. Examining the 2013 Eurobarometer, 7% of formal employees interviewed asserted that their formal employer paid them a declared wage plus an additional undeclared (envelope) wage in the 12 months prior to the survey. On average, this amounted to 10% of the gross salary that

they received. Given the small numbers identified, therefore, the descriptive findings below need to be treated with caution.

Although this illegal employer practice prevails across all socio-demographic and socio-economic groups, it is nevertheless more common in some than others (see Table C5 in Annex C). Citizens with lower than average tax morale are again more likely to receive envelope wages, as are women, younger people and those aged 55 plus, single people, those living in larger households, in urban areas and facing difficulties in paying their bills. On the whole, therefore, it is marginalized groups who are more likely to have this illegal wage practice imposed on them by employers.

To evaluate whether these variations are significant when other control variables are taken into account and held constant, a logistic regression analysis has been undertaken (see Table C6 in Annex C). This reveals that those with low tax morality are more likely to receive envelope wages, as are those having household financial difficulties in paying the bills. No significant association is found when analysing gender, age, education, marital status, number of people in a household, presence of children, and urban/rural location. The goodness of fit measures, however, indicate that there are considerable unexplained factors beyond the characteristics considered that appear to affect the employee's likelihood of receiving envelope wages. The unexplained component due to determinants beyond these individual-level socio-demographic and socio-economic characteristics is now analysed in Section 3 which identifies other drivers of undeclared and under-declared work.

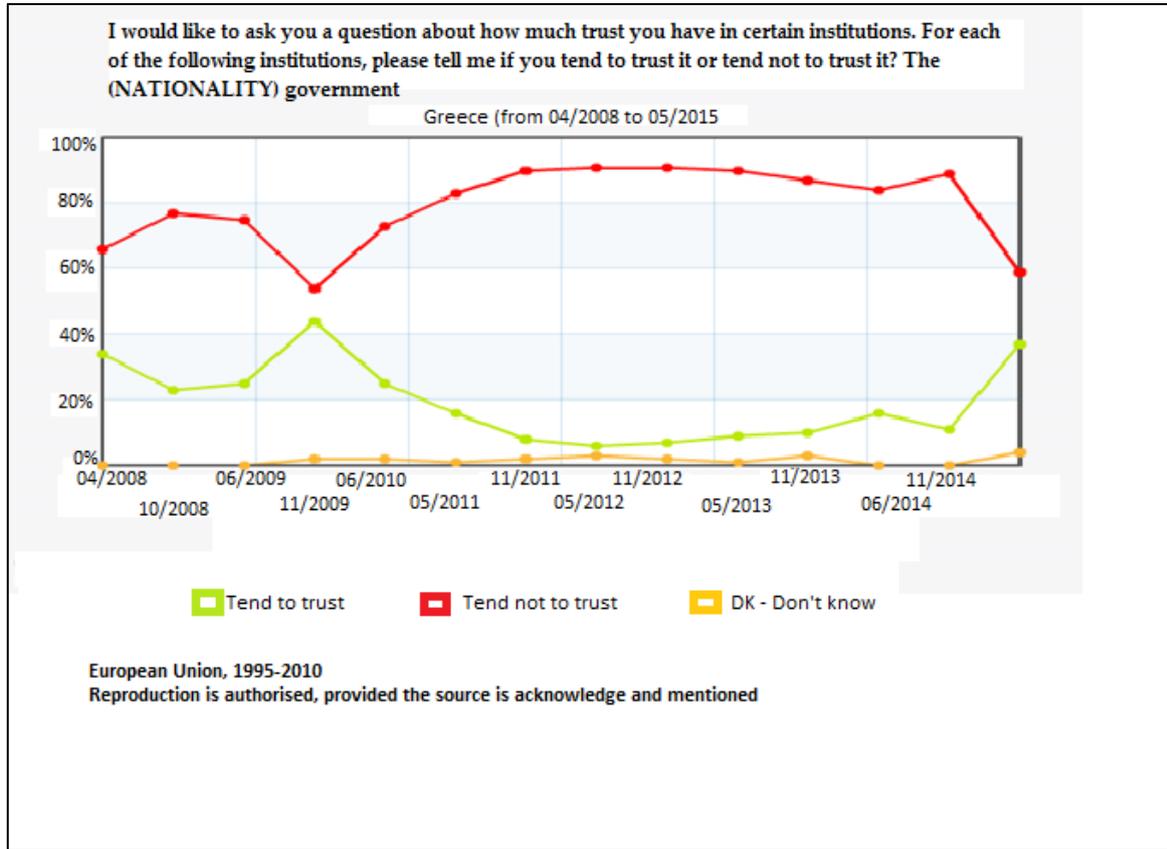
4 DRIVERS OF THE UNDECLARED ECONOMY IN GREECE

As the analytical framework in section 2.1 highlighted, undeclared work arises when the failings and imperfections of formal institutions result in an asymmetry between state morality (the laws and regulations) and citizen morality (citizens' norms, values and beliefs regarding the acceptability of these laws and regulations). In Figure 6, an indication is provided of the degree to which state morality and citizen morality does not appear to be aligned in Greece by examining the proportion of people who have trust in the government. After a significant improvement in the proportion with trust in the government between 2009 and 2011, this levelled out before witnessing a sharp decline in 2015. To the extent that these attitudes are reflected in the compliance behaviour of Greek citizens, the erosion of trust in the authorities will reduce voluntary compliance. As Ballas and Tsoukas (1998) assert, non-compliance is due to the historical mistrust between the Greek state and its citizens, and today, this institutional symmetry, caused by distrust in terms of both horizontal relations (i.e., in citizens trust in other taxpayers) and vertical relations (i.e., lack of citizen trust in the state), remains the core reason for the prevalence of undeclared work and the fiscal authorities being unable to meet its tax receipt goals, the labour inspectorate witnessing labour law violations and the social insurance bodies witnessing social insurance non-payment (Kaplanoglou and Rapanos, 2013; Luttmer and Singhal, 2014: 155).

Figure 7 provides a more direct measurement of how the failures and imperfections of formal institutions have led to a non-alignment of state and citizen morality, by examining the social acceptability of undeclared work in Greece (i.e., 'tax morale'). The perceived social acceptability of a firm hiring an undeclared worker is 1.98 (where 1 is totally unacceptable and 10 is totally acceptable), 1.89 for a firm doing undeclared work for a household, and 1.71 for firms doing undeclared work for another firm. Meanwhile, the Greek population are more tolerant of individuals participating in undeclared work. The acceptability of a person partially or completely concealing their income is 2.09, and it is 2.5 for a person who engages in undeclared work for another household. The exception,

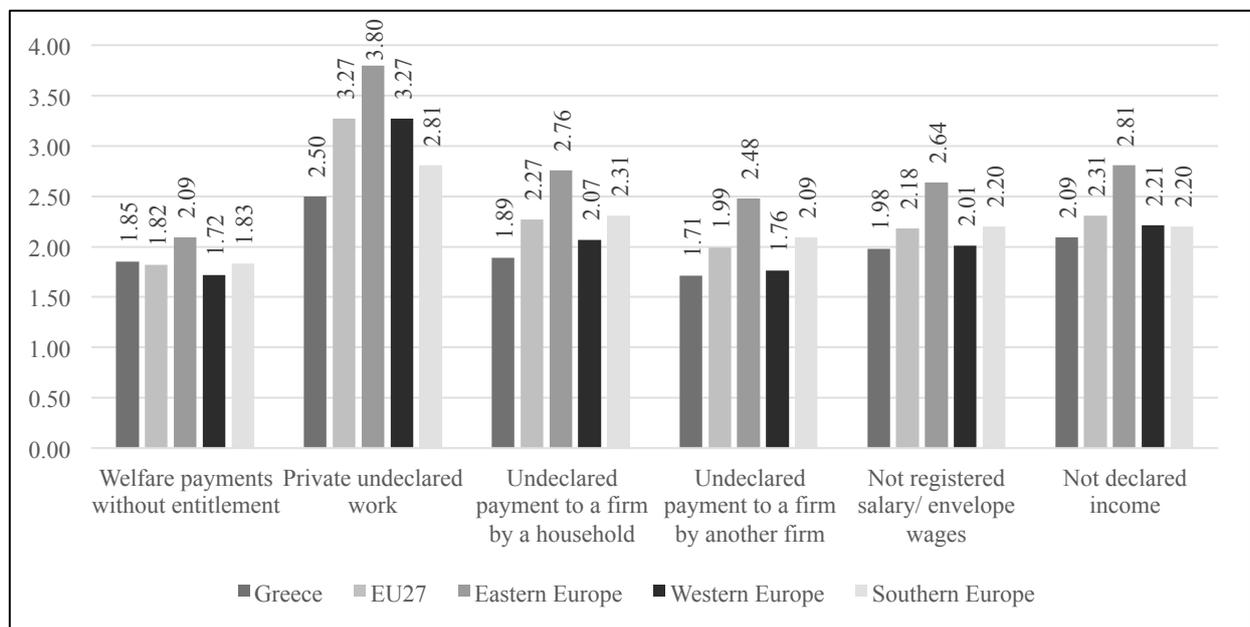
however, is those claiming benefits without entitlement, such as while working on an undeclared basis, which is deemed more unacceptable, scoring 1.85. On the whole, nevertheless, firms engaging in undeclared work are less tolerated than individuals doing so. This pattern is similar across not only the EU28 as a whole but also across all EU regions.

Figure 6. Trust in government in Greece, 2008-2015



Source: http://ec.europa.eu/public_opinion/cf/index_en.cfm

Figure 7. Acceptability of different types of undeclared work: Greece and EU-28 regions



The implication, therefore, is that the Greek authorities will find greater support among the population for tackling undeclared work conducted by firms, than for tackling undeclared work conducted by individuals on a one-to-one basis.

The social acceptability of engaging in undeclared work, however, is not even across all population groups (see Table C7 in Annex C). Importantly, those who undertake undeclared work and those who purchase undeclared goods and services view it as more acceptable than those who do not. So too is the social acceptability of undeclared work greater among men, younger age groups, those with fewer years in education, single people and single person households, people defining themselves as working class, those who seldom have difficulties paying the household bills, the self-employed and living in urban areas.

To determine whether there is an association between tax morality (i.e., the acceptability of undeclared work) and participation in undeclared work (on both the demand- and supply-side), when other characteristics are taken into account and held constant, the results of a linear regression analysis can be examined (see Table C8 in Annex C). This reveals that those supplying undeclared work have a significantly lower tax morality, as do those who purchase undeclared goods and services. However, the significance of the association between the demand side of undeclared work and tax morality disappears when socio-economic and spatial variables are included in the analysis. It also reveals that undeclared work is more socially unacceptable among older people, those living in larger households, people in waged employment and those who most of the time face difficulties paying the household bills, while those self-defining themselves as belonging to working class are significantly more likely to view it as acceptable compared with those belonging to middle or high class of society, and those with more years in education are significantly more likely to view it as socially acceptable than those who stopped full education at 15 years old or earlier. However, there is no relationship between gender, marital status, number of children and urban/rural location, and the social acceptability of undeclared work among the 1000 respondents interviewed. In sum, and importantly for targeting campaigns to raise awareness about the ill-effects of undeclared work, the social acceptability of undeclared work is significantly higher among younger people, with more years in education, those defining themselves as working class, the self-employed, and who face fewer difficulties paying the household bills.

Which specific formal institutional failings, in consequence, result in this non-alignment of citizen morality with state morality (i.e., low tax morality), and thus the prevalence of undeclared work? As section 2.1 revealed, a wealth of cross-national studies reveal that the failings and imperfections in the formal institutions that result in an asymmetry between state morality and citizen morality, and thus the prevalence of undeclared work, are:

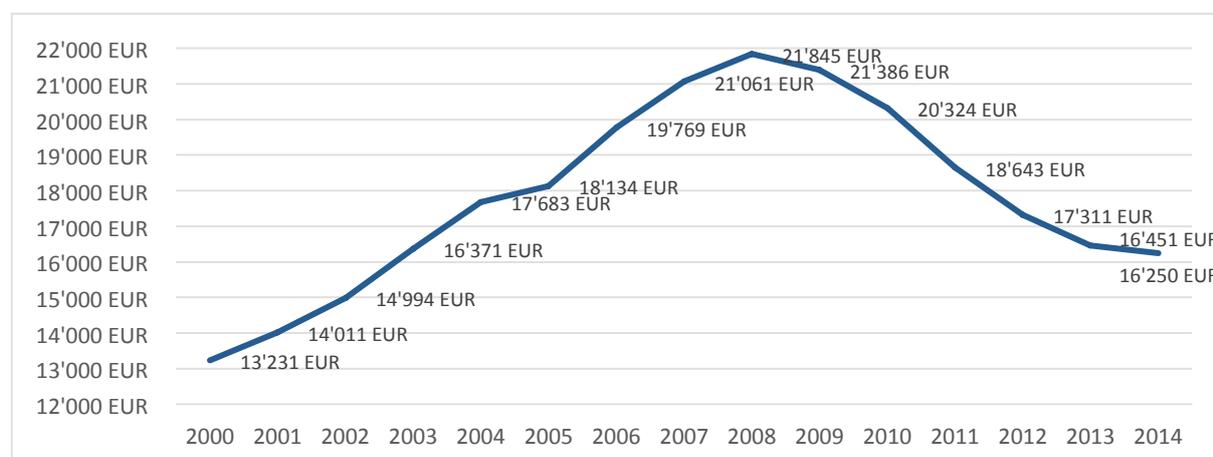
- lower GDP per capita;
- higher corruption and lower quality of governance;
- lower expenditure on labour market interventions to help the most vulnerable groups;
- lower levels of social expenditure, and
- social transfer systems that are less effective at reducing the level of inequality and severe material deprivation, which includes improving the efficiency of collection.

Here, therefore, we evaluate the direction of change in each of these in Greece in order to evaluate where macro-level intervention is required in order to stem the growth of the Greek undeclared economy.

Figure 8 examine the trends in GDP per capita (in current euros) in Greece, which has been widely identified as strongly correlated with the size of the undeclared economy; the lower the GDP per capita, the larger the undeclared economy (ILO, 2013; Williams 2014a,b,c,d,

2015a,b, 2016; Williams and Horodnic, 2016). This reveals that GDP per capita in Greece was steadily increasing until 2008 but since then has been falling. Indeed, in 2014, GDP per capita had reduced to 74% of its 2008 level. Given that this is a crucial systemic determinant of the level of undeclared work, the strong suggestion is that any continuing decline in GDP per capita in Greece will be associated with an increase in the prevalence of undeclared work (see Bitzenis et al, 2016).

Figure 8. Gross Domestic Product (GDP) per capita in PPS - Nominal expenditure (in euro)



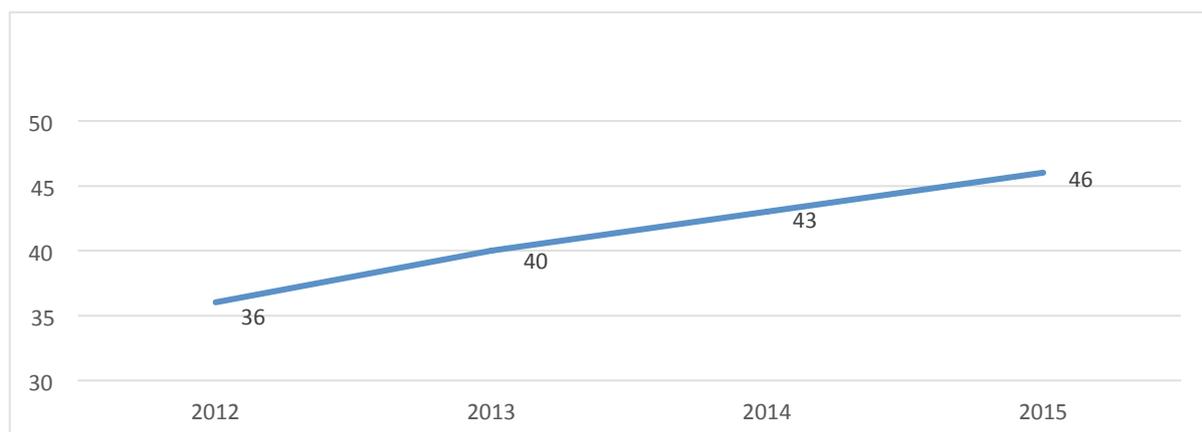
Source: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>

It is also the case that cross-national studies reveal that the greater the level of public sector corruption and the lower the quality of governance, the more extensive is the undeclared economy (see section 2.1). In Greece, according to Transparency International's Corruption Perceptions Index (CPI), there is a relatively higher level of perceived public sector corruption than in other EU member states. Indeed, in 2015, Greece was ranked 58th out of 167 nations globally (and equal with Romania). As Manolas et al (2013: 1045) thus argue, 'the effective restriction of public sector corruption in Greece is expected to have a significant impact on the reduction of the undeclared economy. Thus, policies aiming at the reduction of the undeclared economy in Greece should primarily focus on the fight against corruption and on the improvement of the quality of governance, mainly by reducing the unnecessary state interventions, by abolishing the clientelistic relations of politicians with the electorate and by combating the persistent institutional weaknesses that provide fertile ground for rent seeking behaviour on behalf of politicians and public employees. In this context... the effective reduction of the shadow economy in the long-run is mainly a social issue, namely an issue of social development.'

Bitzenis et al (2016) similarly argue that improving the quality of governance and reducing corruption are key means of reducing the undeclared economy. One reason this is the case is because many exit the declared economy due to the level of public sector corruption, since it increases the cost of doing business and operating undeclared is a means of escaping from having to make such bribe payments. Despite Greece remaining in a relatively low position at 58th out of 167 countries globally, there does nevertheless appear to have been progress made in recent years, albeit from a low starting point. As Figure 9 displays, on a scale where 0 equals highly corrupt to 100 equals very clean, the rating of Greece in Transparency International's Corruption Perceptions Index (CPI) has steadily improved from 36 in 2012 to 46 in 2015. As such, although corruption is improving, further reductions in public sector

corruption and the quality of governance are required if the prevalence of undeclared work is to be tackled.

Figure 9. Corruption Perceptions Index for Greece



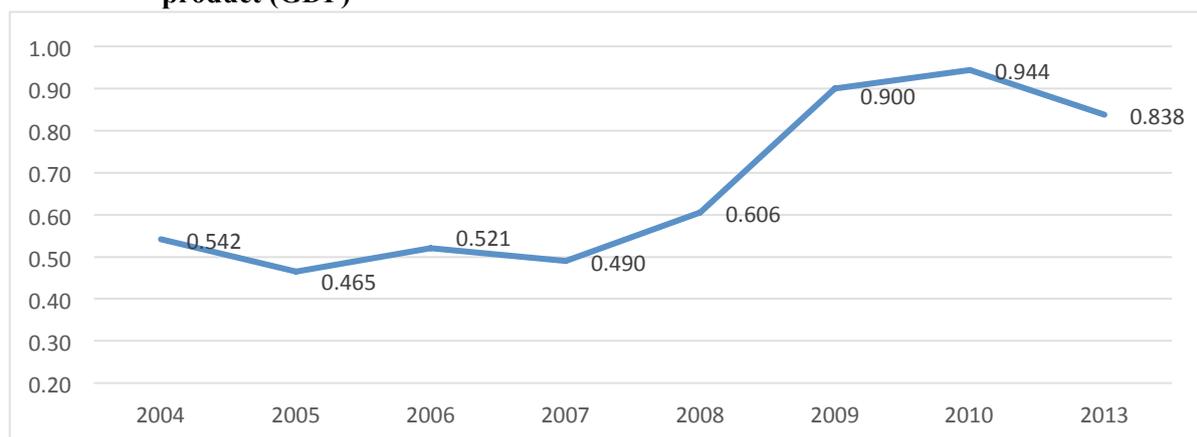
Source: <http://www.transparency.org/cpi2015#results-table>

Many stakeholders during the mission visit argued that the high tax rates are to blame for the level of undeclared work in Greece. However, a multitude of studies reveal that there is little, if any, evidence that higher tax rates are significantly correlated with higher levels of undeclared work (Friedmann et al., 2000; Ihrig and Moe, 2000; Kuehn, 2007; Schneider, 2002; Williams, 2014a,b,c,d, 2015a,b, 2016; Williams and Martinez-Perez, 2014; Williams and Horodnic, 2016). For example, Vanderseyen et al (2013) in the European Commission's annual *Economic and Social Developments in Europe 2013*, examined the relationship between undeclared work and various tax rate variables, namely the implicit tax rate on labour, the share of labour wages in total taxes, and the tax wedge on labour. They find no statistically significant correlation between the prevalence of undeclared work and tax rates.

Tax reductions in Greece, therefore, are not the way forward as is sometimes proposed (Christopoulos 2003; Katsios 2006). Instead, the situation is more complex. On the one hand, in societies where citizen morality and state morality are aligned, tax rates can be high since citizens realise that taxes are the price they pay for a civilised society. Tax rates, therefore, are not the problem. It is the lack of trust in the state and belief that they receive appropriate public goods and services for the taxes they pay. Indeed, this was recognised by stakeholders during interviews with them. There was recognition for example that citizen morality and state morality are not aligned, not least due to a lack of trust in the state apparatus, and that this results in it being difficult for citizens to accept high tax rates due to the inadequate public goods and welfare services received in return. On the other hand, and as the International Monetary Fund (IMF) (2013: 23-26) state, it is not tax rates but insufficient tax collection which is the problem, with €67.9 billion of uncollected confirmed taxes in 2013, equivalent to one-third of Greece's GDP (www.gsis.gr/gsis/info/gsis_site/PublicIssue/profit_np/). This is also recognised in other studies (Kaplanoglou and Rapanos 2013). There is no evidence, therefore, that reducing tax rates reduces the undeclared economy. Instead, the focus needs to be on: (1) improving the ability to sustain higher tax rates by aligning state morality and citizen morality, not least by improving perceptions of distributive fairness (i.e., that people receive a fair and equitable return in terms of public goods and services for the taxes they pay), and (2) significantly improving tax collection.

There is also no evidence that reducing state intervention in the labour market reduces the size of the undeclared economy. Instead, quite the opposite is the case. Undeclared work is lower in countries where a larger proportion of GDP is spent by governments on interventions in the labour market targeted at groups with difficulties, such as the unemployed, people in jobs but at risk of involuntary job loss, and inactive persons currently not part of the labour force but who would like a job and are disadvantaged in some manner (Eurofound, 2013; Vanderseyen et al, 2013; Williams, 2014a,b,c,d, 2015a,b, 2016; Williams and Horodnic, 2016). As Figure 10 reveals, Greece has indeed increased the proportion of GDP spent on such labour market interventions, which is a positive step to facilitate reductions in the level of undeclared work, although this level of expenditure has reduced in recent years. Maintaining expenditure levels on active labour market policies targeted at vulnerable groups is therefore necessary if undeclared work is to be tackled.

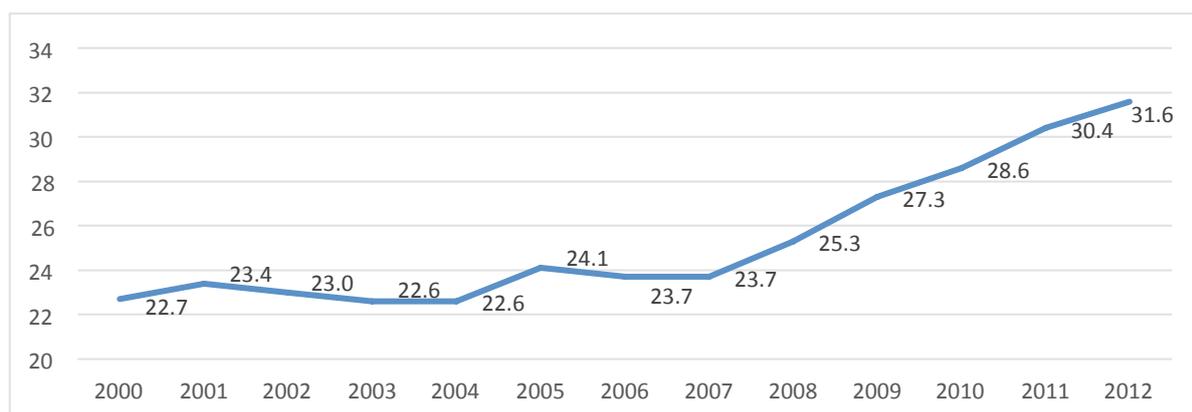
Figure 10. Total Labour Market Policy Interventions (categories 1-9): % of gross domestic product (GDP)



Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/Archive:Labour_market_policy_interventions

It has also been widely shown that the greater the level of expenditure on social protection as a proportion of GDP, the less prevalent is undeclared work (Eurofound, 2013; Vanderseyen et al, 2013; Williams, 2014a, b, c, d, 2015a,b, 2016). As Figure 11 reveals, there are again positive steps in this direction in Greece. Such greater social protection should mean that the necessity to enter the undeclared economy is reduced. Unemployment benefits are one component of such expenditure, representing 6 per cent of total social protection benefits expenditure. This component too has increased. Expenditure on unemployment benefits as a percentage of GDP and as a share of total social protection expenditure has increased compared with 2008. In 2012, 1.9 per cent of GDP was spent on unemployment benefits compared to 1.2 per cent in 2008 (and 2.2 per cent in 2011). However, there are reasons to be cautious about whether this has reduced the necessity to enter the undeclared economy in Greece. Unemployment benefit can last up to 12 months and is a flat rate payment of €360 per month. In practice, however, unemployment benefit is received for just 5 months since it is based on the insurance record of the recipients. Moreover, only 12% of those registered as unemployed receive unemployment benefit. This, therefore, does not provide the unemployed with a ‘safety net’ so that they do not have to turn to the undeclared economy as a means of survival. With such a weak ‘safety net’, it is little surprise that citizens turn to undeclared work as a last resort and survival practice. Putting in place a stronger ‘safety net’, therefore, and targeting social expenditure at groups likely to enter the undeclared economy, will be required to reduce the ready-supply of labour for the undeclared economy.

Figure 11. Total social expenditure (including administrative costs) in Greece: % of gross domestic product (GDP)³

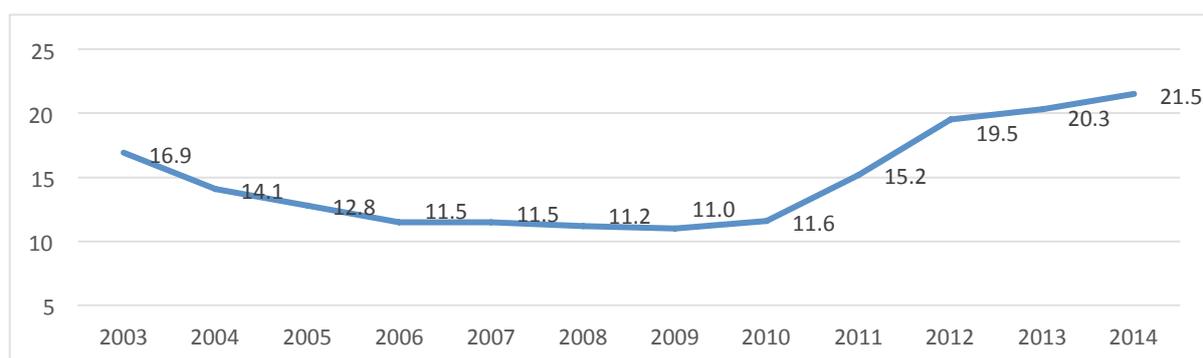


Source: <http://appsso.eurostat.ec.europa.eu/nui/show.do>

Similarly, the more the state is successful in using direct taxes to reduce the proportion of the population at risk of poverty, the less prevalent is undeclared work in economies. Examining the effectiveness of state redistribution via direct taxes, measured by the decrease in percentage points of poverty (defined as the proportion of the population with an income below 60% of the national median income) after social transfers, a statistically significant positive correlation is found (Eurofound, 2013; Vanderseyen et al, 2013; Williams, 2014a,b,c,d, 2015a,b, 2016). In Greece, however, the effectiveness of social transfers in reducing poverty is considerably lower than in the EU as a whole. As the European Commission (2015a) state, although social expenditures amount to 31.2% of GDP in Greece (compared with an EU average of 29.5%), social transfers (other than pensions) only reduced poverty by 17.5% in 2013 (compared with an EU average of 36%). This, it states, is because the social transfer system is not well targeted, not least because many of the most vulnerable in Greek society have never been covered by the social protection system. If undeclared work is to be tackled, therefore, there needs to be a marked increase in the efficiency of the social transfer system in reducing poverty. Indeed, the fact that this is a key challenge for Greece is further reinforced by Figure 12 which reveals that there is a very significant increase over the past few years in the proportion of the population suffering from severe material deprivation, increasing from 11% in 2009 to 21.5% in 2014.

³ Social protection expenditure contain: social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs; administration costs, which represent the costs charged to the scheme for its management and administration; other expenditure, which consists of miscellaneous expenditure by social protection schemes (payment of property income and other). It is calculated in current prices as percentage of GDP.

Figure 12. Severe material deprivation (% and 000 persons) in Greece⁴



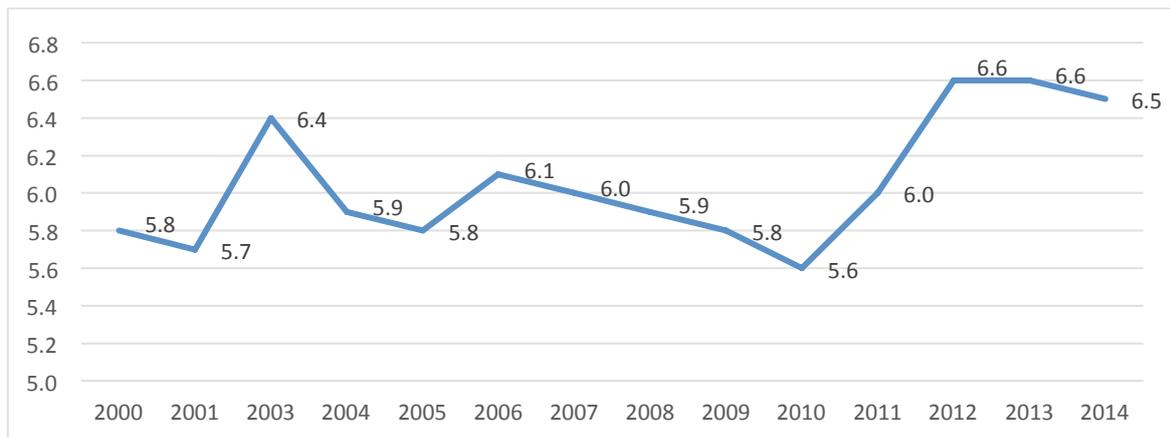
Source: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdsc270>

Studies also reveal a strong positive relationship between the level of equality in societies and the prevalence of undeclared work; the greater the income inequality, the more prevalent is the undeclared economy (Williams, 2014a,b,c,d, 2015a,b, 2016; Williams and Martinez-Perez, 2014; Williams and Horodnic, 2016). As Figure 13 reveals, however, the level of income inequality in Greece has markedly increased in recent years, suggesting that this will have contributed to the size of the undeclared economy. As the European Commission (2014c, 2015) and Tafenu et al. (2010) recognise, higher levels of income inequality and greater levels of undeclared work go hand-in-hand.

Figure 13. Income inequalities in Greece⁵

⁴ The collection "material deprivation" covers indicators relating to economic strain, durables, housing and environment of the dwelling. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.

⁵ The ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile). Income must be understood as equivalised disposable income.



Source: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tessi180>

In sum, to tackle the undeclared economy in Greece, it is not simply a case of pursuing enforced compliance/direct controls (using deterrents and incentives) and voluntary cooperation/indirect controls (using awareness raising campaigns about the unacceptability of undeclared work and reforms to the processes of formal institutions). Although these are necessary, they are insufficient. There is also a need to change the macro-level economic and social conditions which result in the prevalence of the undeclared economy. These include:

- Redressing the falls in GDP per capita;
- improving governance and reducing public sector corruption;
- maintaining and improving the levels of expenditure on labour market interventions to help the most vulnerable groups;
- persisting with increasing social expenditure, but coupling this with
- developing far more effective social transfer systems that reduce the widening levels of income inequality and ever increasing levels of severe material deprivation in Greek society.

It is important to highlight that many stakeholders identified some or all of these drivers during interviews with them. There was widespread recognition for example that formal institutional failures lead to a lack of alignment of state morality with citizen morality, not least due to a lack of belief and trust in the state apparatus, and that this results in it being difficult for citizens to accept high tax rates due to the inadequate public goods and welfare services received in return.

Views of Greek stakeholders on determinants of undeclared and under-declared work

During the diagnostic mission Greek stakeholders highlighted a number of (both structural and non-structural) determinants of the undeclared and under-declared work, including:

- high levels of self-employment and the small size of enterprises and family businesses
- high unemployment rates, especially among young people;
- seasonality and dispersion of operations especially in agriculture and hospitality
- the immigration flow into the Greek labour market;
- high levels of non-labour costs - social security contributions for both employers and employees;
- high tax rates;
- Changes in the determination of wages through legislative means rather through

- social dialogue;
- the reduction of real wages, and
- the lack of trust in state mechanisms and the mindset developed because of these factors.

Given this identification of the drivers of the undeclared economy, attention now turns to the organisation of the fight against undeclared work in Greece and an evaluation of the policy approach and measures being pursued.

5 ORGANISATION OF THE FIGHT AGAINST UNDECLARED WORK: INSTITUTIONAL FRAMEWORK

5.1 Responsibilities of government ministries

How, therefore, is the fight against undeclared work organised? And are there ways in which the institutional framework can be improved? Table 2 provides a conceptual framework for evaluating the current organisational approach of the Greek government. At the top of this spectrum are fully joined-up forms of government where one agency/department is responsible for the whole undeclared economy. Moving down the spectrum, there are then a range of cross-government departmental co-operations ranging from initiatives where the co-operating government departments have common shared targets to achieve at the level of strategy, operations or data matching (and which relate to the whole undeclared economy or specific sectors, occupations and so forth). Following this, there are then cross-government departmental co-operations where the departments involved have separate targets to achieve and which again can be applied at the level of strategy, operations or data matching. Finally, and at the bottom of the spectrum, are completely fragmented forms of government in the form of a departmental ‘silos’ approach.⁶

Table 2 A hierarchy of joined-up government

Approach	Scope	Targets	Level
Single compliance unit	Whole economy	undeclared	Common
	Segment		Common
Cross-Departmental Cooperation	Whole/segment		Common
	Whole/segment		Common
	Whole/segment		Common
	Whole/segment		Common

⁶ This table only considers joined-up government, not joined-up ‘governance’, which includes tripartite social dialogue.

	Whole/segment	Separate	Operations
	Whole/segment	Separate	Data matching & sharing
Departmental ‘silos’	Segments	Separate	Strategy
			Operations
			Data matching

Source: derived from Dekker et al (2010)

In Greece a departments ‘silos’ approach is currently adopted. Although some limited cooperation occurs at the level of operations as well as data matching and sharing, there are no common or shared key performance targets. Instead, the departments involved in the fight against undeclared work largely work separately, with each responsible for their own segment of the undeclared economy, namely:

- the Ministry of Labour, Social Security and Solidarity for labour law violations;
- the Ministry of Finance for tax non-compliance, and
- the social security institutions (e.g., IKA) for social security fraud.

Ministry of Labour, Social Security and Solidarity

The Ministry of Labour, Social Security and Solidarity takes overarching responsibility for labour law violations, and given that tackling undeclared work in Greece is primarily perceived as concerned with the social protection of workers, this Ministry is viewed as the lead Ministry in tackling undeclared work, taking responsibility for the definition and implementation of policies on employment, working conditions and social security, coordinating the system of labour administration, including the Labour Inspectorate (SEPE) and the Labour Force Employment Organization (OAED).

Labour Inspectorate (SEPE). This was established in 1955 and restructured to its present form in 1999. In accordance with Article 2 of Act 3996/2011: the “project of the Labour Inspection Corps is the supervision and control of the implementation of the provisions of labour legislation, the investigation of the insurance cover and illegal employment of workers, reconciliation and settlement of labour disputes, and the provision of information to workers and employers concerning the most effective means of complying with the current provisions”. It reports to the Ministry of Labour, Social Security and Solidarity, so as to ensure a unified policy for monitoring the implementation of labour legislation. In accordance with Law 2639/1998 (FEK A’ 205) on ‘regulation of labour relations, establishment of a Labour Inspectorate and other provisions’,⁷ SEPE is responsible for: (a) the monitoring of the implementation of labour legislation (labour accidents, health and safety etc); (b) the investigation of incidents of illegal labour and uninsured labour, and (c) the provision of information and proposals regarding the effective application of labour legislation. SEPE has the authority to freely enter all workplaces in the private and public sector, at any time of the day or night, even without prior notification. It carries out necessary

⁷ Law 2639/1998 (FEK A’ 205), as supplemented by article 9 of Law 3762/2009 (FEK A’ 75) on “reorganization of Labour Inspectorate, regulation of issues of Organizations supervised by the Ministry of Employment and social Protection and other provisions”. Additionally, Law 1558/1985, article 28 refers to issues of SEPE administration.

examinations, monitoring or investigations of all types, with a view to determining whether the provisions of labour legislation are being observed. It can temporarily suspend operation of the whole or part of an enterprise, if the labour inspectors deem that workers' safety and health are directly at risk. SEPE's intervention role is different to the tax and social security authorities (Argyriadis, 2016). SEPE intervenes in cases covered by private law while the tax and social security authorities operate within the public law remit. For instance, the tax authorities inspect citizens as tax payers in the context of the state-citizen relation with regard to tax compliance, and IKA inspects the relationship between employers and social insurance organisation as regards their due contributions. SEPE, however, is not a party to the relationship inspected. Often this distinction makes effective inspection, in particular of due salaries and benefits, difficult.

The total staff of SEPE is some 750 employees, of whom 324 are labour inspectors and 253 are health and safety inspectors (Michos, 2016). The labour inspectors are civil servants selected by a state personnel selection commission. Candidates for labour inspection posts must have a university degree in economics, public administration, social studies, or law and very good knowledge in at least one European language. Informatics ability is also a prerequisite. Candidates for the technical and medical posts are required to have a degree in engineering or medical studies respectively. A training period of three weeks takes place after the nomination as labour or technical and medical labour inspector. SEPE responds to grievances, or targets certain sectors or enterprises for inspections. SEPE sets annual plans and publishes annual reports, posted on the site of the Ministry of Labour, Social Insurance and Social Solidarity.⁸ Inspections are sometimes joint inspections with SDOE, financial police, inspectors from the Ministry of Agricultural Development and Ministry of Trade. According to oral statements of the Special Secretary and the Special Inspectors (April 24, 2016), SEPE currently uses the services of 24 Special Inspectors throughout Greece. The problems they face are: the geographical dispersion of the country; limited resources (inspectors often use their own private cars and gasoline at their own expense); the recent mergers between branches; and the seasonality of inspections. The current philosophy of SEPE is: to target big business rather than small and weak ones; to solve issues by consensus, through normative letters and warnings; and to provide prevention inspections.

Manpower Employment Organization (OAED). This is the public body responsible for the implementation of employment policy and services. In particular, OAED is responsible for information on the labour force and the unemployed, for the professional orientation of the labour force, the delivery of technical education and training, facilitating the link between labour demand and supply, and the payment of benefits such as unemployment benefits, maternity benefits etc. OAED is responsible for maintaining the registry of unemployed in Greece, which, according to the Governor of OAED (interview 26 April 2016) is inter-operational with SEPE and IKA. OAED is co-owner of ERGANI and data is cross-checked. They are also connected with the revenue administration, from which they draw data on taxpayers. OAED draws hiring announcements from ERGANI, gets the AFM (taxation number), cross-checks this, and seizes unemployment benefits if the person is employed. Furthermore, the unemployed are obliged to appear physically once every three months to sign that they are unemployed. In cases of employment, the unemployment benefits are

⁸ <http://www.ypakp.gr/>

suspended. According to the same source, the problem with undeclared work is that they work without appearing in any data sets.

Ministry of Finance

The Ministry of Finance, meanwhile, takes responsibility for that aspect of the undeclared economy related to tax non-compliance. This Ministry is responsible for tax revenue and more particularly in relation to the undeclared economy, tax non-compliance, and includes the *Financial and Economic Crime Unit (SDOE)* which is the tax inspectorate and takes responsibility for investigating tax non-compliance, the Public Revenue Service and the General Secretariat of Information Systems (GSIS).

In recent years, considerable progress has been made on strengthening tax compliance. As the European Commission (2015) state, attempts have been pursued to increase tax compliance across all social and professional groups, so as to create a fairer and efficient system with sufficient staffing and adequate tools to collect, eliminating preferential treatments for certain groups such as big tax debtors, while ensuring a safety net for those with proven needs. Initiatives are also being pursued to improve tax debt collection. As the IMF (2011) and IMF and European Commission (2012) state, this strengthening of the power of the revenue administration has several components:

Operational reforms. There is a need to improve detectability of tax evasion by: (i) adopting segmentation strategies that focus resources where the tax risks are the greatest (e.g., largest taxpayers, high-wealth individuals, and high income self-employed); (ii) improving the incentives and qualifications of staff in these units; (iii) increasing collection of third party information; and (iii) using risk-based approach to audit. Enforcement also needs to be strengthened by: improving debt collection; adhering strictly to the no amnesty commitment; introducing instalment arrangements in line with international practice; adhering to filing deadlines; improving dispute resolution and judicial process; and developing taxpayer assistance strategies to improve voluntary tax compliance. Legislative changes to upgrade operations have already been made. Legal constraints to write-off uncollectable amounts of tax debt have now been removed. Legal obstacles to auditing those cases that represent the highest revenue risk have also been dismantled. Legislation creating formal audit centres for large taxpayers and high-wealth individuals has been passed. Legislation to use indirect audit methods and establish the actual income of taxpayers—rather than rely excessively on presumptive methods of taxation—has also been adopted. Finally, a new legislative framework for instalment schemes has been adopted, which is intended to depart from the vicious cycle of extending amnesty schemes.

Autonomy and organization. There is a need to remove completely political interference from revenue administration. A law passed in 2012 established the General Secretariat for Public Revenue and required transferring powers from the Minister to the Secretary General over implementation of customs and tax laws related to revenue collection; provided for the Secretary General to appoint heads of units; and required that the Secretary General be a non-political appointment for 5 years. Further legislative changes in March and April 2013 gave powers to the Secretary General to make changes of organizational units without constraints imposed by the Ministry of Administrative Reform (MAREG). Accountability of the revenue administration is strengthened by the provision to establish an advisory board to the Secretary General.

Resources and staffing. The Greek revenue administration is aging, with more than 50% of staff exceeding 50 years of age. Skills are also lacking across main functions, such as audit and debt collection. However, upgrading staff is notoriously difficult due to a low-entry level pay and a flat grade for auditors, which do not create sufficient incentives for existing and new staff to perform complex tasks. For example, in comparison with revenue

administrations in other advanced countries—where the minimum remuneration of an auditor is about 134% of GDP per capita, tax auditors in Greece are paid significantly less—at less than 50% of GDP per capita. Auditor pay scale distinguishes multiple grades, and auditor remuneration reaches 340% of per capita GDP at the highest grades (OECD, 2006). Under newly passed legislation, the Secretary General is now allowed to determine the grading and promotion system of the revenue administration, which will allow changing staff incentives and encouraging skilled staff to take challenging audit and debt collection functions. The appointment process for staff, while is still under the control of ASEP and constrained by the overall general government hiring constraints, will also be determined by the Secretary General. A code of ethics for the revenue administration that determines standards for professional integrity of staff and an anti-corruption plan for the entire public administration have also been adopted.

Despite significant legislative effort, the reforms continue to be challenging. While started in 2010, it has continuously faced both political and internal resistance to change. The reforms have been marred by lack of direction, management, and control from headquarters, especially in periods of political uncertainty: the revenue administration had no head for most of 2012. The process to reshape the organization by scaling down powerful local tax offices and toward a function-based organization has been very slow. As a result, the revenue administration continues to operate under mostly decentralized control, in which eradicating corruption remains a major challenge. Efforts to upgrade the quality of audit staff through both external recruitment and internal certification have mostly failed due to union resistance and management inability to effectively reassign staff.

Social Insurance Institutions

So far as the third prong of the undeclared economy is concerned, namely social security fraud, this is the responsibility of the social security institutions. The main insurance fund for salaried employees is **IKA**, offering coverage to approximately 6 million insured and pensioners. The social insurance contributions to IKA cover the following provisions: illness and maternity (monetary and in kind benefits), pension plans (principal and subsidiary pensions), unemployment, and housing benefits. The total contributions as of 1 June 2016 are that for every €100 gross salary, the employer pays an extra 25.06% and the employee contributes 16% from gross salary to IKA, so the employee receives €84, whilst the costs for the employer is €125.6. The contributions for occupational hazardous professions are slightly higher. A problem with social insurance contributions in Greece is that employees do not see the benefit; young people, seasonal or contingent workers need a long time to collect pension rights, while the public health care system has funding weaknesses due to the recession. IKA thus undertakes a number of activities to tackle uninsured work such as improving its monitoring systems, ensuring cooperation with SEPE, building supporting systems etc. With regard to groups like immigrants, efforts to tackle uninsured labour include linking proof of social insurance to the ability to renew residence permits. Under current immigration legislation, the rights to renew a residence permit and to thereby work legally in Greece depends directly on the ability to provide proof that the worker has completed a specific number of days of insurance (stamps) each year. Therefore, as well as submitting an application for the renewal of the residence card, each migrant worker must provide a certificate authorised by the Social Insurance Fund. This document proves that the migrant worker has accomplished a number of working days each year during the period of validation the Special Insurance Inspection Service (EYPEA-IKA). IKA conducts inspections through EYPEA and the 101 local IKA branches. Most inspections respond to grievances. There are three levels of inspections: (a) local inspection at a company's premises, when they may charge a €10,500 fine for undeclared workers, (b) typical control of records, and (c)

substantive controls, which combine local and informational controls. In 2017, 17,000 inspections were conducted, with 17% having instances of uninsured workers (EPYEA, Statistical data 1.1.2015-31.12.2015, not published). (Interview with IKA representatives, 25 April, 2016). IKA has its own information system but since 2014, has also had access to ERGANI.

IKA inspections are not focused on large businesses because this would take too long, but instead are focused on small businesses. IKA have found that 15% of construction workers are uninsured and 10-12% of all workers surveyed are uninsured. For IKA, the issue is not so much inspections as the collectability of what is owed. The culture is oriented to court settlement. When citizens receive a bill for what is owed, they immediately take it to court and appeal (for which they have a one month period to do so). This is due to a lack of trust in the state-citizen relationship. The stringent time deadline of one month to lodge an appeal increases this tendency. There is a lack of extra-judicial remedies such as informal settlements and the use of the ombudsman.

The **OAE**E (Social Security Organisation for the Self-Employed), meanwhile, has 700,000 insured (a large number of whom are behind with their payments) and 350,000 pensioners (including invalidity and widower pensions). OAE E contributions are 55% state subsidised. It has a joint centre with IKA for debt collection, and has 140,000 debtors who are sent monthly reminders of their debts and can pay in 100 instalments. No inspections are carried out by OAE E (leaving inspections to IKA).

The **OGA** (Organisation for Social Security in Agriculture) is the insurance fund for primary sector farm workers. OGA was created in 1961 by Law 4169/1961 in order to offer pensions and health services to farmers. Since 1998 by Law 2458/1997 (FEK A/15/14.2.1997), OGA is the principle insurance fund for everybody working in the primary sector. OGA insures the owners of ventures, their spouses and children, if they work in the same venture, in the primary sector (i.e., farming, livestock farming, fisheries, beekeeping, etc.) By Law 2639/1998, unskilled workers working in the primary sector (farm workers) may also be insured by OGA. All of the above are insured in OGA as independently employed and are responsible for their social insurance contributions. OGA also insures people working in enterprises under Law 3232/2004⁹ as well as posted workers. Therefore, many ‘independent workers’ pay their insurance for up to 150 days of work, even if they work longer; this gives them the right to both be insured and receive resident status if they are immigrants (Interview with OGA representatives, 21 April, 2016). There are 620,000 insured people in OGA (about 700,000 according to the official site) and 250,000 ventures that employ agricultural workers. Of the 50,000 insured farm workers, 5,000 are Greek and 45,000 foreign workers. In 2010 there were 100,000 insured workers, but the financial crisis and application of vouchers (ERGOSIMO) since 2011 has reduced this¹⁰ (Interview with OGA representatives, 21 April,

⁹ Law 3232/2004, FEK 48/A/12-2-2004; OGA Bulletin/encyclical 11/2004, I,3, clarifying Law 3232/2004; and <http://www.oga.gr/#a2>

¹⁰ http://www.oga.gr/attach/odigos_asfalismenou.pdf

OGA Bulletin/encyclical 11/2004, clarifying Law 3232/2004

OGA Bulletin 9/2011, clarifying Law. 3863/2010 FEK 115/A, and Law 3996/2011, FEK 170/A, about ERGOSIMO

OGA Bulletin 2/2013, specifying that the date of application of ERGOSIMO is 1 Jan. 2013.

OGA Bulletin 4/2013

2016). There is a lack of inspections in agriculture. This may be because although C081 - Labour Inspection Convention, 1947 (No. 81) ‘Convention concerning Labour Inspection in Industry and Commerce’ was ratified by Greece in 1955¹¹, convention C129 concerning ‘Labour Inspection in agriculture’ has not been ratified by Greece¹², so there is lack of legislative obligation. Furthermore, Law 3996/2011 states that SEPE inspects enterprises that keep employment records; however, most small farmers do not (Ministry of Agricultural Development and Food representatives).

According to the provisional data of the Greek Statistical Authority (ELSTAT), in 2011, the total expenditures of the social security organizations was €40,532,533, while receipts €41,809,622 from all sources of origin. In 2011, there were 2,479,000 pensioners, receiving their principal pension from the social insurance organizations. (www.statistics.gr).

At the time of the visit in May 2016, legislation was introduced in the realm of social insurance and pensions which would create a more unified system. The new social insurance system, according to the Law 4387/2016¹³ on the “Uniform system of social insurance”, created the National Council of Social Insurance (**ESYKA**) as a consultative organ of the Ministries of Health, Finance, and Labour, Social Insurance and Social Welfare, for the drafting of national policies, within the framework of the uniform system of social insurance, that will contribute to the improvement of social insurance (chapter a, article 3). The same law, created a new legal organ of public law, namely **EFKA** (Uniform Social Insurance Fund), which will subsume the existing social insurance funds for principal insurance, i.e. IKA (employees), ETAA (engineers, doctors, lawyers), OAEE (self-employed), OGA (agricultural workers), NAT (seafarers), TAYTEKW (public welfare organizations employees), and ETAT (bank employees) (chapter E, articles 51-53). Secondary insurance will be assumed by ETEAEP (former ETEA), the “Uniform Secondary Social Insurance Fund and Lump Sum Benefits”.

There was a sense that the new legislation would increase the amount of social insurance violation because citizens would no longer see the rationale for paying social insurance contributions, especially among younger generations. IKA, nevertheless, highlighted a 92% compliance rate with regard to the payment of current contributions, and how compliance was influenced by seasonality, sector economic conditions and understandings, with young people less interested in social insurance due to their lack of awareness of its importance. One suggestion was that the Ministry of Education might introduce in civil education courses in schools the idea of raising awareness about the importance of social security payments and the role of taxation.

Role of other Ministries

Beyond the Ministry of Labour, Social Security and Welfare, Ministry of Finance and social insurance institutions, a range of additional Ministries have responsibility for tackling various aspects of the undeclared economy. These include:

OGA Bulletin 2/2016, clarifying Law 4251/2015, FEK 80/A, about providing OGA insurance to third country nationals.

¹¹http://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0::NO:11300:P11300_INSTRUMENT_ID:312226

¹²http://www.ilo.org/Search4/search.do?searchWhat=Convention+129&locale=en_US

¹³ FEK 85, A/12.05.2016

- **Ministry of Agricultural Development and Food**, which has an interest in the undeclared economy in the agricultural sector.
- **Ministry of Economy, Development and Tourism**, which has a particular interest in the undeclared economy in the tourism industry.
- **Ministry of Culture and Sports**, again with a minor interest in the undeclared economy in the cultural and sports sectors.
- **Ministry of the Interior and Administrative Reconstruction**, which has a responsibility for economic immigrants, including those working without permits.

5.2 The role of social partners

There are two main Greek employee representative confederations (third level unions): the Greek General Confederation of Labour (Γενική Συνομοσπονδία Εργατών Ελλάδος, **GSEE**), representing private sector workers, and the Confederation of Public Servants (Ανώτατη Διοίκηση Ενώσεων Δημοσίων Υπαλλήλων, **ADEDY**), representing public servants. Both organisations are affiliated at the EU level – they are ETUC members.

There are four main employers organisations in Greece: (a) the Hellenic Federation of Enterprises (Σύνδεσμος Επιχειρήσεων και Βιομηχανιών, **SEV**), representing big businesses, (b) the Hellenic Confederation of Commerce & Entrepreneurship (Ελληνική Συνομοσπονδία Εμπορίου & Επιχειρηματικότητας, **ESEE**), representing commercial enterprises, (c) the Hellenic Confederation of Professionals, Craftsmen and Merchants (Γενική Συνομοσπονδία Επαγγελματιών Βιοτεχνών Εμπόρων Ελλάδος, **GSVEE**), representing micro, small and medium enterprises, and self-employed, and (d) the Greek Tourism Confederation (Σύνδεσμος Ελληνικών Τουριστικών Επιχειρήσεων, **SETE**). From these organisations, the following are affiliated at the EU level: SEV to BUSINESSEUROPE, ESEE to UEAPME (where it serves as vice chair) and with EUROCOMMERCE, and GSVEE to UEAPME.

5.3 Bodies of Social Dialogue

The Greek ESC was established in 1994, based on the model of the European Social Committee of the European Union. The Greek ESC (OKE) from May 2001, has become a constitutionally recognised institution of the Greek state. The article 82, paragraph 3 of the Constitution provides that “The law determines the issues related to the formation, operation and competencies of the Economic and Social Council, whose mission is to conduct the social dialogue on the country's general policy and in particular on economic and social policy guidelines, as well as to formulate opinions on government bills or MPs' law proposals referred to it.”

The highest social dialogue body is the **Economic and Social Council of Greece (OKE)** (Οικονομική και Κοινωνική Επιτροπή της Ελλάδος). The advisory role to the government is a mandatory process to be followed prior to passing formal laws on matters concerning wider socio-economic policy, and its advice is also requested by the government when considered necessary in connection with any current issues. Furthermore, OKE can take the initiative to provide advice on topics that it considers important. A view expressed by OKE is that there has been a decline in their involvement, not least due to troika pathway, which has resulted in expedient legislation and little discussion with OKE before implementation. They have published a joint document, the ‘Green Bible’. The stipulates that the major challenges are: extending employment protection to the undeclared economy; defining dependent labour by clarifying the ‘grey areas’ between employed labour and self-employment; combating undeclared work; and facilitating transition between various forms of employment and unemployment. An opinion on undeclared work (number 307) was tabled on 26/6/2015 (OKE, 2015). During stakeholder meetings, OKE suggested: i) restoring social dialogue; ii)

improving the inspection service such as the effectiveness and quality of interventions, promoting transparency and meritocracy in the recruitment and promotion of staff (e.g., examine income declarations and their progression over the career of the staff), and the coordination of all relevant inspection services (tax, SEPE, IKA, OAED, etc); iii) take appropriate measures to restore trust between state and citizens and encourage social security and tax awareness (and behaviour). A consistent and simple to understand tax and insurance system (stable without continuous changes) was advocated, along coupling the cost of tax with the expected benefit; iv) incentives to the self-employed and small firms to declare their activities (e.g., setting up a low social security band for family members assisting the business and social security rates proportionate to income/ real average/ minimum income or mixed system for self-employed); v) facilitating employment in the primary sector (migrant work); and vi) public rewards for legitimate and law-abiding firms (Interview with OKE representatives 22 April 2016).

In addition to OKE, there are various other social dialogue bodies related to the undeclared economy. Law 3850/2010 (Article 26) reaffirms the existence of **Council for Occupational Safety and Health** (SYAE) responsible for issuing opinions in the field of OSH. It operates in the framework of the ASE (Supreme Labour Council). SYAE is chaired by the Secretary General of the Ministry of Labour, Social Insurance and Solidarity. The SYAE is composed of representatives from Ministries, professional institutions, and from the employers' and workers' organizations. Law 3996/2011 (Article 21)¹⁴ reaffirms the existence of a **Council for Social Control of Labour Inspection** (SKEEE) at the Ministry of Labour, Social Security and Solidarity, responsible for formulating opinions on issues relating to the operation and action of the Labour Inspectorate and submitting recommendations to the Ministry concerning the adoption of acts and regulatory measures geared to improve the operation of the SEPE. It also deals with training, planning and annual reports. It operates in the framework of the ASE (Supreme Labour Council). SKEEE is chaired by the Executive Secretary of the SEPE. The composition is completed as follows: two Inspectors General (one from OSH and other from labour relations) (not yet implemented), with the heads of the central directors of corresponding sectors as their deputies; two representatives of the Greek General Confederation of Labour (GSEE) and one representative of the Supreme Administration of Civil Servants' Trade Unions (ADEDY) proposed by the said organizations; four representatives of employers' organizations, viz. one representative of the Hellenic Federation of Enterprises (SEV), one representative of the Hellenic Confederation of Commerce & Entrepreneurship (ESEE), one representative of the Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) and one representative of the Association of Greek Tourism Confederation (not yet implemented) proposed by the said organizations; one representative of the workers of the Labour Inspectorate, proposed by the Federation of Employees of Ministry of Labour, Social Insurance and Solidarity; one representative of disabled persons proposed by the National Federation for the Disabled (not yet implemented); the Director General of Labour at the Ministry of Labour, Social Insurance and Solidarity, with another director at the Ministry acting as his deputy, and the Director General of Working Conditions and Health at Work at the same ministry, with another

¹⁴ SKEEE was initially created by Law 2639/1998 (FEK A/205) on "regulation of labour relations, composition of labour inspectorate and other provisions", as supplemented by article 9 of Law 3762/2009 (FEK A/75) on "reorganization of Labour Inspectorate, regulation of issues of Organizations supervised by the Ministry of Employment and social Protection and other provisions".

director acting as his deputy. As provided by Art 21. 2 of Law No. 3996/2011, SKEEE is responsible for:

- Formulating an opinion on the need of a special collective agreement within no more than twenty days;
- Formulating an opinion on action planning and the operation of the Labour Inspectorate in general at national level and on staff training programmes;
- Formulating an opinion on the Labour Inspectorate's annual report;
- Recommending new laws and regulations to the Minister for Labour and Social Security, with a view to improving the operation of the Labour Inspectorate and guaranteeing the standard of services provided by it, and
- Recommending provisions relating to labour legislation to the Minister for Labour and Social Security.

A Regional Committee for Social Control of Labour Inspection (PEKEEE) also exists in each region and issues opinions on the operation and activities of the SEPE at the regional level. It is composed in a tripartite way, including Public Servants' members, Trade Unions and Employers representatives as provided in art 21.4 of the law No. 3996/2011. (Not yet implemented).

In addition, as of 1992, the only institutionalized body that has critically contributed to the establishment and the development of social dialogue in the area of labour relations in Greece is the Organization for Mediation and Arbitration (O.ME.D.), which was created by Law 1876/1990, as an independent body for the resolution of collective labour disputes. There is a bipartite and isomeric representation of the social partners in the Board of Directors (BoD) of O.ME.D. (4 representatives from the workers' side and 4 representatives from the employers' side), while its President, an expert scientist, specialized in labour issues and collective labour law, is voted unanimously by the representatives of the social partners, who participate in O.ME.D.'s BoD.

Through the services of mediation and arbitration, O.ME.D has significantly contributed to supporting free collective bargaining and developing social dialogue among the negotiating parties, while it has strengthened the bargaining ability of the representatives of the workers' side and the employers' side by organizing training sessions throughout Greece, and through publishing research papers on related issues.

The representatives of O.ME.D during the interview on 27 April 2016 with the ILO expert team, underlined the need for an immediate drawing and application of a comprehensive national strategy on undeclared work, as the existence and the expansion of the phenomenon negatively affects, among others, the healthy competition between enterprises. Towards this direction, it is essential that social dialogue and the bargaining role of O.ME.D. be strengthened, through the reinstatement of the extension of collective agreements, as it was provided by Law 1876/1990, so that negotiating parties will have an incentive to include the issue of undeclared work as an additional term in their collective bargaining.

To collate the views on undeclared work of employer and employee representative organizations, workshops were held to gather their collective views. The *employers' organisations* held one workshop. Taken as a whole, these view the main causes of undeclared work as: the high rate of social security contributions; the excessive bureaucracy and complexity of the rules, including hiring procedures, especially the multitude of circulars and provisions inserted into irrelevant Bills; the chronic lack of confidence by citizens in the state; the level of corruption characterising the control mechanisms, as recorded in the reports prepared by the Controller for Public Administration and in reports drawn up by international organisations; and the lack of justice, manifested through the arrangements whereby the

constitutional right of being heard before a €10,500 fine is imposed has been abolished and the obligation has been introduced to pay a fine imposed by SEPE before one can have recourse to justice. Undeclared work is seen as particularly problematic in relation to the service industries, smaller enterprises and family-owned businesses, farmers and farm workers, because they have neither Social Security number (AMKA) nor VAT number, working pensioners who do not want to declare for fear of repercussions on their pensions, trainees and apprentices. Proposals and ideas to combat undeclared work include: the establishment of a single database/register for declarations (to social security bodies, the OAED, SEPE etc) and possibly any infringements, to which every public administration department should have access; the better training of inspectors, especially so that they do not treat all enterprises as 'infringers'; extending the labour vouchers system; clarifying the rules pertaining to family member employment; reducing the €10,500 fine which is too high and excessive, and replacing this with an escalating fine to the effect that, the first time an infringement were established during a check, some recommendation would be made and, if the infringement were repeated, then a fine would be imposed; the simplification of the rules; and raising awareness about the consequences and risks of employing undeclared workers.

Workers' organizations also emphasized a number of concerns in their workshop. According to GSEE, undeclared work is associated, among others, with a culture of tax and social security obligations' non-compliance and lack of trust between state and citizens, which is reinforced by a lack of concrete political will to combat the phenomenon. They are aware that certain businesses have closed their formal businesses due to the economic downturn, but continue to operate on an undeclared basis. This, along with other undeclared activities, intensifies unfair competition to the detriment of compliant companies. Undeclared work has substantially increased with the recent economic crisis and the effective suspension of collective bargaining. To improve the situation, 'white lists' for legitimate employers would be useful and effective in certain situations, for instance public procurement contracts, and in addition to other measures such as 'black lists'. To objectively assess the extent of undeclared work, the minimum required staff indicator could be possibly developed for each type of activity and business (i.e. restaurant). The confederation disagrees with the codification of the existing labour legislation, due to the fact that it would legitimize the recent Acts imposed on the country in the context of the MoUs with the institutions. E-cards for certifying employee presence is a measure supported by the confederation, provided that they respect legislation on personal data protection, but not penalties on employees. With regard to the use of vouchers (see section 6), GSEE thinks that, having as an obligatory basis the model of the fulltime job, those should only be used under strict and specified conditions only for occasional jobs but certainly not in agriculture as it may replace (or not encourage) salaried work. GSEE argues that social dialogue should be restored, particularly collective agreements banned by Law 4024/2011, article 37, as provided by Law 1876/1990, as the suspension of collective agreements allows some employers to pay a legally minimum salary even to specialised workers, and give an envelope wage to supplement the wage. Undeclared work could be best tackled under the aegis of a national coordination body consisting of all relevant state actors and social partners. GSEE favours the following measures to fight undeclared work: strengthening the Labor Inspectorate in terms of human and material resources; staffing the Labour Inspectorate with additional administrative personnel; connecting all public Information Systems (databases); mapping inspection mechanisms and competent ministerial services; instituting workers' participation in IKA audits; identification of the problems with the Information Systems, such as ERGANI and modify the relevant provisions that lead to delinquent behaviours; assessment (separate and joint) of the systems of fines and sanctions regarding the breaches of labour and social security law and make labour protection more effective, exploring other means of dovetailing employers'

compliance with the statutory and actual employment needs in their enterprises; revision of the labour card effectiveness; parametric changes /abolition of flexibilities in labour law; reinforcement of a framework of professional qualifications (specialties) based on the type of enterprise and the sector; institutionalization of a minimum personnel synthesis and similar objective control criteria; establishment of objective criteria to deal with undeclared personnel in some specialties; strict prohibition of contracting assignments for work provision necessary for a business's operation (INE-GSEE, 2016).

All social partners coincide in the need to revitalize tripartite oversight of decisions which they feel has significantly reduced as legislation is rushed through Parliament in order to meet the needs of the troika, resulting in a lack of wider consultation.

5.4 Towards a joined-up strategic approach

As shown, there is little or no coordinated strategy across government so far as the fight against undeclared work is concerned. Instead, a departmental ‘silos’ approach is adopted with each Ministry and agency working separately on the issue with no joined-up strategic approach. Neither are there common cross-cutting targets or goals. Rather, these are fragmented.

Consideration, therefore, needs to be given to a more joined-up strategic approach which might involve one single agency being responsible for tackling undeclared work (given its importance nationally). Whether this body is implemented or not, there is a need for more joined-up government where common shared targets are set at the level of strategy and operations. There is also a need to consider how governance is joined-up, such as the extent to which employer federations, trade unions, private and voluntary sector organizations, as well as local government, are involved as partners at every level in this joined-up governance. This joining-up if further required due to the establishment in 2016 of the EU Platform on tackling undeclared work since there is a need to organise at the national level a vehicle for feeding up and down into/from this EU-level platform.

Such a development reflects the call by the OECD (2016) to further enhance the efficiency of public administration, inter alia, through the evaluation of staff performance based on clear individual objectives. Restructuring in the public sector has been stipulated with the laws 4024/2011 and 4178/2013. The process involved an evaluation of public entities followed by a report with proposed scenarios and was submitted to the Government Council of Reform (GCR) for the final decision. The first phase of the restructuring was completed in November 2014 with the implementation of the new organigrams of 16 out of 19 Ministries. In April 2014, the e-Government Strategy 2014-2020 was adopted. According to this strategy, in the next seven years, Greece aims to build a more efficient, transparent and accountable public administration, through the use of ICT and the support of the necessary governance and monitoring mechanisms. The respective e-Gov actions are described and further elaborated within the e-Government Action Plan 2014-2020, which was adopted in January 2015. In February 2016, moreover, a new law draft was submitted to Parliament with two main parts: a) evaluation of performance linked to goals setting, and b) selection of managers in public administration. Performance evaluation is a main criterion for this selection.

A recent circular¹⁵ (May 2016) by the Minister of interior and administrative reform introduces Key Performance Indicators (KPIs) in the public sector. A strategic plan would be

¹⁵ http://www.efsyn.gr/sites/efsyn.gr/files/stoxothesia_100516.pdf

created every year with the participation of civil servants and individual targets. Both strategic and personal targets will be published on DIAVGIA. This will improve the operation and effectiveness of the service if implemented and is not met with resistance. The proposal here a holistic integrated strategic approach for tackling undeclared work is in accordance with this circular. This would set strategic objectives for the various Ministries and agencies involved in the fight against undeclared work, which should be SMART (Specific, Measurable, Achievable, Relevant & Time-bound) and key performance indicators (KPIs) developed against which progress in the fight against undeclared work can be measured.

6 CURRENT POLICY APPROACH AND MEASURES: AN EVALUATION

To evaluate the current policy approach and measures adopted in Greece, both desk-based research was conducted as well as meetings with a wide array of stakeholders in April 2015 in Greece (see Appendix A for a list of the organisations with whom meetings were held). Table 3 summarises the current policy measures used in Greece and compares this with the range of policy measures pursued in European Economic Area (EEA) as reported by Dekker et al (2010). This reveals that Greece focuses upon using deterrence measures to stamp out undeclared work. Only a narrow range of incentive measures are currently being used in Greece, in contrast to EEA countries that are changing the ‘benefits’ side of the equation by adopting measures to make it easier and more beneficial to operate in the declared economy. Moreover, although in some EEA countries there is a shift from purely the ‘direct controls’ (enforced compliance) approach which changes the cost/benefit ratio confronting suppliers and purchasers and towards an ‘indirect controls’ (voluntary cooperation) approach that seeks to engender a commitment to operating on a declared basis, this is largely absent in Greece.

Table 3 Policy measures used in Greece and 31 other European countries to tackle undeclared work

Policy	Use in Greece	% of EEA nations	% EEA stakeholders stating measure is:		
			Effective	Neutral	Ineffective
DIRECT CONTROLS					
Deterrence					
<i>Penalties:</i>		93	50	45	5
Administrative sanctions for purchasers/companies	√	87	46	49	6
Administrative sanctions for suppliers/employees		83	41	59	0
Penal sanctions for purchasers/companies	√	74	59	33	8
Penal sanctions for suppliers/employees		52	53	42	5
<i>Measures to improve detection:</i>		100	64	34	2
Data matching and sharing	√	83	72	25	2
Workplace inspections	√	100	75	17	8
Registration of workers prior to starting work or on first day of work	√	74	74	23	3
Coordinating strategy across government		57	56	44	0
Certification of business, certifying payments of social contribution and taxes	√	65	62	33	5
Use of peer-to-peer surveillance (e.g. telephone hotlines)		39	20	80	0
Coordination of operations across government		61	64	36	0
Coordination of data sharing across government		65	82	19	0
Mandatory ID in the workplace	√	65	70	30	0
Enabling compliance:					
<i>Preventative measures:</i>		90	45	43	12
Reduce regulations		48	56	38	6
Simplify compliance procedures		87	62	38	0
Technological innovations (e.g. certified cash registers)		43	73	27	0
New categories of work (e.g., for small or mini-jobs)		35	59	33	8

Direct tax incentives (e.g., exemptions, deductions)		61	57	33	10
Social security incentives		35	62	15	23
Ease transition from unemployment into self-employment		65	29	63	8
Ease transition from employment into self-employment		44	15	77	8
Changing minimum wage upwards		48	24	59	18
Changing minimum wage downwards		9	0	50	50
Training & support to business start-ups	√	61	50	46	4
Micro-finance to business start-ups		52	48	52	0
Advice on how to formalise	√	61	33	67	0
Connecting pension schemes to formal labour	√	61	47	41	12
Introducing supply chain responsibility		17	78	0	22
Restricting free movement of (foreign) workers		43	29	53	18
<i>Curative measures:</i>		<i>64</i>	<i>61</i>	<i>35</i>	<i>4</i>
<i>Stimulate purchasers to buy declared:</i>					
Service vouchers	√	26	58	42	0
Targeted direct tax incentives		61	65	29	6
Targeted indirect taxes		17	63	25	13
<i>Stimulate suppliers to formalise:</i>					
Society-wide amnesties		9	10	0	0
Individual-level amnesties for voluntary disclosure		17	75	25	0
Formalisation advice to business		30	44	56	0
Formalisation support services to businesses	√	30	57	29	14
Targeted VAT reductions		17	43	43	14
Free record-keeping software to businesses		13	50	50	0
Fact sheets on record-keeping		22	57	43	0
Free advice/training on record-keeping		22	57	43	0
Gradual formalisation schemes		13	67	33	0
INDIRECT CONTROLS:		69	44	52	4
Change values, norms & beliefs					
Campaigns to inform undeclared workers of risks and costs of working undeclared		61	64	36	0
Campaigns to inform undeclared workers of benefits of formalising their work		57	43	47	10
Campaigns to inform users of undeclared work of the risks and costs		61	50	40	10
Campaigns to inform users of undeclared work of the benefits of declared work		52	35	59	6
Use of normative appeals to people to declare their activities		52	33	67	0
Measures to improve tax/social security/labour law knowledge		65	50	50	0
Campaigns to encourage a culture of commitment to declaration		39	29	64	7
Reform formal institutions					
Measures to change perceived fairness of the system		26	25	75	0
Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner)		17	60	40	0
Adoption of commitment rather than compliance approach (e.g., 'responsive regulation')		30	50	40	10

6.1 Direct controls: deterrence measures

Citizens abide by the law either (1) because they fear detection and fines due to the power of authorities (enforced compliance) or (2) because they feel a commitment to be honest and have trust in the authorities (voluntary cooperation). In Greece, much of the emphasis until now has been on pursuing enforced compliance, not voluntary cooperation. Moreover, enforced compliance has been largely sought not by providing incentives to operate in the declared economy but by increasing the perceived and/or actual costs of working in the undeclared economy. This has been achieved firstly, by raising the penalties and sanctions for engaging in undeclared work and secondly, increasing the perceived and/or actual risk of detection.

6.2 Penalties and sanctions

Examining the perceived sanctions that Greek citizens expect for working in the undeclared economy, the 2013 Eurobarometer survey reveals that 8% perceive the punishment to be imprisonment, 52% to be that they will have to pay the normal tax or social security contributions due plus a fine, 26% that the normal tax or social contributions due have to be paid and 14% either refused to answer, did not know or gave some other answer.

Analysing the actual penalties and sanctions for undeclared work, the past years have seen steady increases. According to article 19 of law 4144/2013, the administrative sanctions in cases of illegal employment of the subsidized unemployed, in addition to other sanctions, are a fine of €3,000 for each such person employed or a fine of €3,000 for each such person employed, when the same employer has previously terminated their contract of employment.

Under Law 4052/2012, moreover, it is prohibited to employ an illegally resident third country citizen. In case of breaches of this prohibition, upon finding or notification thereof, a financial penalty of €5.000,00 per illegally employed third-country national is imposed on the employer by SEPE. In cases where the employer violates the above prohibition again within four years following the initial offence, the amount of the financial penalty per employee doubles. There is also the option of temporary closure of a specific production process or a section or sections or the whole of the undertaking or operation, in which a violation has occurred, for up to three days by the Special Inspector or the Head of the competent Regional Directorate of SEPE upon a substantiated recommendation of the competent Labour Inspector. A temporary closure of more than 3 days or permanent closure of a specific production process or a section or sections or the whole of the undertaking or operation, in which a violation has occurred, is by a Decision of the Minister of Labour upon a substantiated recommendation of the Special Inspector or of the Head of the competent Regional Directorate of SEPE. There is also the option of imprisonment of at least five months to an employer who intentionally employs illegally residing third-country nationals.

Since 15.09.2013, the administrative sanctions for directly evidenced infringements of labour legislation, as circumscribed powers of the labour inspector (M.D. 27397/122/19-8-2013, OG 2062/B'/23.8.13) are that when Special labour Inspectors or labour Inspectors, ascertain that an employee is not included by the employer in the current personnel table, they can impose an administrative penalty (fine) in their circumscribed power, without a prior call for explanations. For employees over 25 years old, the fine is €10,549.44 (i.e., 18 times the minimum wage) whilst for employees under 25 years old, the fine is €9,1979.10 (i.e., 18 times the minimum wage for under 25 year olds). In the case of recurrence of the above infringement by the company/employer, temporary or permanent closure of a specific production process or a section or sections or the whole of the undertaking or operation in which the infringement was committed, can be imposed, in addition to the above fines, as set out in N. 3996/11, as amended.

During the visit, some stakeholders argued that such penalties are too harsh for the offense, or have a disproportionate impact on the firm, because inspections in small offending firms may result in an end to their business activity. This is not necessarily a desired outcome if transforming undeclared work into the declared economy is the goal. However, to reduce such penalties would negate the power of authorities and thus the ability of the state to pursue enforced compliance. Rather than reduce penalties and thus the power of authorities, what is perhaps instead required is for more emphasis to be given to improving trust in authorities and therefore voluntary compliance. Measures to achieve this will be discussed later in this section.

In relation to sanctions and penalties for tax non-compliance, it is again the case that although penalties appear high, in practice this is not the case. As the IMF (2013: 23-26) state, although in law the penalties stipulated are generally high, the probability is very low that these penalties will be fully applied and enforced. For example, after an audit order has been sent out, one can still apply for an amnesty on audits. Moreover, if an audit detects undeclared liability, the local tax office manager may reduce the penalties for non-compliance (about 100% of the tax liability) and the interest for late payment (standard rate per month of 1%, not compounded) by up to 80%. If the taxpayer settles the final liability immediately, the taxpayer receives a 5% cash rebate on the total amount paid and faces little risk of prosecution. If this liability becomes overdue, the taxpayer can participate in an instalment scheme, which offers additional discounts to the penalties or interest by 50% if paid immediately. This reduces the effective interest rate well below commercial lending rates, making it cheaper to not declare taxable incomes even in the case that the actual tax liability is eventually detected. Indeed, even though effective penalties remain low, the IMF (2013) highlights how a large share of the assessed tax remains unpaid. In 2012, new debt of €13.1 billion accrued, or 25% of total assessed taxes. Of this, only some €1.4 billion were collected (less than 12% of revenue).

Similarly, for social security contributions, the gap between actual collections and the assessed amount reached 15% for IKA, 25% for the self-employed fund ETAA, and 65% for the agricultural fund OGA in 2012. Overall, unpaid obligations reached €56 billion for taxes and more than €12 billion for social security contributions at end-2012. Enforced collection focuses on the oldest claims, irrespective of their low collectability compared with new debts. Further, the available instruments to enforce collection are inadequate by international standards. Since 14% of the debts represent 92% of debt value, there is a need for scarce human resources to focus on these debts and for other debt to be subject to automated interventions. As insufficient resources are dedicated to the collection of new debt, such debt quickly becomes uncollectable. Technical assistance advice to dedicate greater resources—at least 10% in local tax offices—to collection has also remained unaddressed, and the workforce continues to be dedicated mostly to the assessment of debt.

In sum, although there have been concerns about the level of penalties, not least with respect to proportionality, it is here argued that penalties are not in need of change. On the one hand, if reduced, this might negate the power of authorities and thus the ability of the state to pursue enforced compliance. On the other hand, and more importantly, and as Figure 5 revealed, there is no association between the perceived penalties and the likelihood of participating in undeclared work. What is required, however, is for assessed taxes and social security contributions owed to be collected. This requires greater resources to be dedicated to collection. If this occurs, the tax base for example can be broadened, enabling future decreases in tax rates. *Overall, therefore, altering the sanctions and penalties should not be the focus of attention of a national action plan for tackling undeclared work.* The perceived risk of detection, however, is significantly correlated with the likelihood of participation (albeit only amongst those who have poor tax morality).

6.2.1 Detection measures

Until now in Greece, the vast majority of measures pursued to tackle undeclared work have been focused on improving the perceived and actual risk of detection. Enforced compliance has been sought, therefore, not by providing incentives to operate in the declared economy, but by increasing the perceived and actual risks of detection, so as to increase the perceived and actual costs of working in the undeclared economy.

To evaluate the overall effectiveness of these measures to increase the risk of detection, the 2013 Eurobarometer survey examines how Greek citizens view the perceived risk of detection. The finding is that the majority of Greek citizens (57%) perceive the risk of detection as small, 36% perceive the risk of detection as high, while 7% either refused to answer or do not know. *A perception of the authorities as an all-knowing and all-seeing 'big brother' is therefore absent in Greece. Put another way, the emphasis until now on increasing the perceived and actual risk of detection does not seem to have had the desired effect.* The majority of Greek citizens perceive there to be little risk of detection. Here, therefore, the measures so far pursued are reviewed, and various means of improving the perceived and actual risk of detection advocated.

Data matching and sharing

As the IMF (2013: 23-26) state specifically in relation to tax non-compliance, the low probability of detection is exasperated by the historical tendency for audits to firstly, focus on non-filers and non-active companies, with minimal prospects of collecting additional assessed taxes, leaving high-risk cases unlikely to be audited; and secondly, the limited probability of detecting undeclared tax liability when an audit is carried out, due to limited use of third party information to detect inconsistencies between declared and actual wealth and income, and lack of access to bank account information. Audits focus on bookkeeping formalities rather than assessment of tax liabilities, reducing auditor productivity.

One of the key initiatives in recent years has been the improvement of the risk of detection of tax non-compliance through better data mining and matching. It is now increasingly possible to crosscheck and monitor information over time through a centralised integrated information system, namely the Integrated Information System of Controlling Services (ELENXIS) of the Ministry of Finance. As a first step, ELENXIS allows cross-checks and risk-based audits of tax information. To ensure, however, a systematic electronic monitoring of the entire range of a taxpayer's assets and liabilities vis-a-vis the state, and consumer spending, Vasardani (2013) states that it would be useful to connect various bodies and services, including Ktimatologio SA (Hellenic Cadastre), the Ministry of Transport and insurance companies, directly to the system, and strengthen cooperation with foreign authorities. This would also facilitate the introduction and widespread use of a 'single personal identification number' for each citizen, modelled on the social security number in place in many developed countries, which in turn would allow comprehensive treatment of the tax affairs of the individual.

In the labour inspectorate, mandatory reporting is through the IT system, ERGANI, launched in March 2013. For forms (electronically) submitted by employers through ERGANI, the data includes: recruitment notification (by type of employment contract); personnel list; withdrawals, including announcements of salary-paid employees who voluntarily quit; dismissal of workers on indefinite-duration employment contracts (with or without notice) and the termination of those on fixed-term contracts; overtime work; part-time employment and job rotation; firm level agreements; and annual leave. Data mining to identify instances of labour law violation, however, is at an earlier stage in its development. It at present lacks a consolidated database, in coordination with other provincial and national government agencies, that could improve the planning and monitoring function of the labour inspection

system. The existence of a new integrated information system currently in development will open several possibilities and will lay down the basis for increasing the efficiency of the SEPE. The system should progressively include other relevant data.

Coordination of data sharing across government

Despite the development of databases across the bodies responsible for tax, social security and labour law compliance, there currently remains a lack of a fully coordinated approach to data sharing. Instead, there appears to be a lack of will among the individual bodies involved to freely share their data with others, and each appears to have a desire for their own information system to be the one comprehensive system. In order to make progress, therefore, one option is for a decision to be made on which system is to be primarily used to collate data to detect instances of undeclared work. This would resolve the current culture of an apparent lack of willingness to share data.

Another more integrated and comprehensive approach is to create one specialist unit that gathers information and conducts data mining investigations into undeclared work. This unit would produce reports on the undeclared economy and investigate using data mining specific organizations and persons suspected of engaging in undeclared work at the request of other organizations, such as the labour inspectorate, Ministry of Finance and social security institutions. This unit would have the power to obtain information from the authority that requests the compliance report. The unit would not charge for the preparation of compliance reports and would be entitled to obtain the necessary information free of charge. A compliance report can be used only for the requested purpose, although it can be used as basis for another report requested by the same authority on the same subject (see Box 1).

Box 1 Joining-up data mining

Initiative: Grey Economy Information Unit (*Harmaan talouden selvitysyksikkö*), Finland

Aim: To join-up the previously fragmented function of data-mining.

Description: In Finland, data mining is the responsibility of the Grey Economy Information Unit (*Harmaan talouden selvitysyksikkö*). Established on 1 January 2011, this specialist unit within the tax administration (in the Ministry of Finance) gathers information and conducts investigations into undeclared work. This unit produces reports on the undeclared economy and investigates specific organizations and persons suspected of engaging in undeclared work at the request of other organizations, such as the police, customs bureau and Finnish Centre for Pensions as well as authorities dealing with work safety, debt recovery and bankruptcies. The unit has the power to obtain information from the authority that requests the compliance report. A compliance investigation can also be a general phenomenon report. The unit does not charge for the preparation of compliance reports and is entitled to obtain the necessary information free of charge. A compliance report can be used only for the requested purpose, although it can be used as basis for another report requested by the same authority on the same subject. The Grey Economy Information Unit is authorised to keep a database within the meaning of the Data Protection Directive (95/46/EC, 1995), containing information necessary for the preparation of reports. The data controller is the tax administration.

Evaluation: Its budget in 2011, the unit's first year, was €1.6 million and €1.9 million in 2012. Some 20 persons are employed. After a year and a half of operation, the unit completed over 40 information gathering and dissemination tasks. It also produced approximately 11,000 compliance reports to other authorities (this mandate started in July 2011). During 2011, 732 tax audits were conducted on information provided, resulting in €42 million of undeclared wages and €65 million in undeclared sales being recovered (Virtanen, 2013).

Targeting of workplace inspections

In Greece, a measure was introduced by article 26 of Law No. 3996/2011, under the second memorandum of the Greek government with the Troika. Enterprises from sectors to be selected for a pilot by ministerial decision have to use electronic labour cards to register all working time. Adherence to the measure is compensated by a reduction of indirect labour costs, while non-compliance is punished with strict sanctions. Labour cards display automatically the times of arrival, departure and pauses of workers. Information is sent electronically to a common database accessible to SEPE, IKA-ETAM and OAED.¹⁶ This improves the effectiveness of inspections. In an enterprise where the labour card system has been introduced, the use of such a system is conducted according to the provisions of this article. In addition to the other administrative penalties specified under the applicable legislation, the following penalties shall be imposed: suspension of the discount under paragraph 2 for a period of three months after the imposition of the penalties; an additional administrative penalty on the enterprise amounting to €400 for each employer who does not use the labour card; and an administrative penalty amounting to €200 imposed on the employee and paid by the employer.

Further improvements in workplace inspections could be achieved. It is not only the number of labour inspectors that hinders the effectiveness of workplace inspections but also the quality of the information systems for data mining to identify targets for inspections. There is currently not only a lack of necessary resources, but also the tools, procedures and coordination with other relevant authorities to prevent, identify and remedy suspected cases of labour law violation. A further problem is the geography of inspections with fewer taking place in remote geographical areas and very few, if any, in the agricultural sector, the former being due to the fact that labour inspectors must cover transport costs from their own pocket, meaning that long distance inspections are reduced, and the latter due to both legal reasons (covered earlier) and also few inspectors perceiving themselves as having the credentials to conduct agricultural inspections and a perception that doing so would result in many fines being imposed and the country not having domestic food produced.

Another method to improve the effectiveness of inspections is to use **notification letters** that notify businesses that they may be inspected in the near future, so as to encourage voluntary compliance without the need for a workplace inspection, or that they may be audited in future after submitting their tax return. At present, neither the social security, tax nor labour inspectorates use to any major extent such an approach which is a potentially cost-effective way in which to achieve greater self-compliance. These may also contain normative information on why it is important to be compliant and not to use undeclared work.

There is also a lack of **training of inspectors** in the realm of tackling the undeclared economy. This applies not only to labour inspectors but also tax and social security inspectors. A national training policy for labour inspection, for example, is not in place. Such a policy should be part of the SEPE strategic plan and policy. Moreover, the planning and practice of inspection visits should be reassessed to ensure that adequate attention is paid to the incidence of undeclared work, even in situations where a visit's primary objective is not to detect undeclared activities. At present, workplace inspections are focused upon larger businesses, despite the explicit acknowledgement that there is a lower likelihood of undeclared work in such units. Hence, better **targeting inspections** in the labour inspectorate would considerably improve the detection of undeclared work. In addition, there is an under-

¹⁶ According to Law 3996/2011 for electronic cards to be implemented, a ministerial decision (YA) is required. Such a ministerial decision has not yet been issued (see also Kapsalis, 2015, p. 34).

emphasis put on the educational or promotional function of labour inspectorates to increase awareness among businesses and workers about the rules on undeclared work and how such situations can be avoided or regularized. Instead, they are largely viewed as enforcers handing out fines and penalties. The overall balance between preventive and enforcing services is not systematic or based on strategic objectives, even though such a balance is important for promoting a culture of compliance. Currently, it does not appear that notifications and/or warnings (e.g. improvement or compliance orders) are used to their full potential or in a more regular way. A greater focus upon the **preventative role** of the labour inspectorate (and tax and social security inspectorates) rather than the enforcement role would therefore be a useful development. This could include the development of educational materials on the benefits of declared work, a FAQ section on their websites and a more customer-friendly approach, all of which would facilitate the further development of their more facilitative preventative role.

A better balance between reactive and proactive visits is also required. In a country characterized by SMEs and micro enterprises, the number of labour inspection visits per inspector could be much higher with better planning and with a more adequate composition of the inspection teams, taking into account the economic sectors and local realities. A modern system of management combining strategic objectives, target setting and performance appraisal is not in place in the labour or tax inspectorate.

Coordination of inspections

From a business perspective, joint inspections of the social security, labour and tax inspectorates, would be a customer-friendly development. At present, however, this is rarely undertaken. For example, less than 1% of the inspections conducted by the IKA insurance body are currently conducted in cooperation with SEPE, not least because there are debates about who should receive the money when a fine is imposed. SEPE and the Financial Police, meanwhile, only conduct joint inspections in large businesses.

The ELENXIS database as well as the new IT software in the labour inspectorate which is still in pilot phase, could provide the basis not only to better target the visits but also to elaborate a coordinated joint visit plan (taking into consideration the economic sectors, the seasonality of tourism, the local realities etc.). Already Laws 3655/2008 and 3296/2004 provide that officers of the Fraud Squad may participate in joint teams inspecting the companies and workplaces, in which case the Executive Secretary of the Fraud Squad, the Executive Secretary of the Labour Inspectorate and the Director of the National Insurance Fund or their authorized employees shall cooperate for the purpose of coordinating, controlling and monitoring the work by the mixed teams. Once the joint audit has been carried out, each member of the team shall independently take all legal action provided for under his/her remits.

Since the beginning of 2010, the provision of Art. 151 of Law 3655/2008 has been enabled and, regular checks of groups consisting of officials from the Labour Inspectorate and Special Control Service Security (EYPEA) of the Social Security Institution (IKA) are performed. Focusing on the government's priority to tackle undeclared work, the Directorates for planning and coordination establishes joint inspection units for undeclared work with the participation of social and technical (safety and health) labour inspectors who, according to the new law and the circular No 31475/29-09-2011, are independently charged with tackling undeclared work. In parallel Art. 18 of Law 3996/2011 sets out that the labour inspectorate, the National Insurance Fund and the Manpower Employment Agency shall be connected via a joint online platform for the purpose of recording and managing information and communicating with companies.

Moreover, in accordance with the provision of Art. 151 of Law 3655/2008 as it was reformulated by Art. 31 of Law 3996/2011, the Department of Coordination (SEAT) caters for the establishment of joint units of inspection comprised of personnel from SEPE, the Special Insurance Inspection Service (EYPEA-IKA) and the Financial and Economic Crime Unit (SDOE), inspections which are sampling in those sectors of economic activity where high percentages of undeclared work have been documented to date. However, such joint inspections are not currently regularly planned and organized, and are often ad hoc.

Finally, increasing the potential of detection does not always have to lie with state authorities. Social partners can also play a central role. Some 17% of European countries have introduced **supply chain responsibility** in an attempt to tackle the undeclared economy. In those countries which have done so, 78% of stakeholders view this as an effective policy instrument and the remaining 22% as ineffective. To see how this operates in practice, a case study is provided of the implementation of supply chain responsibility in Finland (see Box 2). In discussions with employer representative organisations in Greece, there was considerable support for such a *voluntary* initiative within the context of their corporate social responsibility agendas.

Box 2 Introducing supply chain responsibility

Initiative: Contractor's Obligations and Liability Act, Finland

Aim: To reduce the presence of undeclared work in supply chains.

Description: The 2006 Contractor's Obligations and Liability When Work Is Contracted Out Act requires that the party responsible for a construction project obtains necessary guarantees that subcontractors fulfil their various obligations. The law has been in effect since 2007, but obligations in construction sector expanded in 2012. The 2006 legislation originally exempted established subcontracting relationships from a background check, but this hampered the enforcement of the legislation. These have now been included, as has accident insurance been included on the list of items that now needs checking. The objective of the original legislation as well as the 2012 amendments has been to combat the undeclared economy and promote fair competition between companies, particularly in the construction sector. Long subcontracting chains lead to situations where work is carried out without withholding employee taxes, making VAT payments, making pension payments, or observing conditions laid out in collective bargaining agreements. The legislation placed the responsibility on the users (which tend to be larger businesses) of subcontractors and temporary work agencies that these subcontractors and employment agencies meet their obligations. Contracting parties are required to ask for and obtain documents that verify certain registrations and payment of taxes as well as a reference to applicable collective bargaining agreements or corresponding conditions. Depending on the results of the background check, contracting may be subject to a penalty. The contracting party must inform its employee representatives of subcontracting or the use of employment agency workers. The act is limited to work taking place on the premises or site of the contracting party by employees of a subcontractor or an employment agency.

Evaluation: An early evaluation of the measure found that the law and its contents were known, although this questionnaire-based evaluation also revealed some companies were unaware of them (predominantly small companies). There was more uncertainty of the law's applicability in different sectors and situations, but most respondents regarded it as useful in raising the issue of employer obligations in contracting decisions so as to avoid undeclared work occurring. One problem identified by the respondents of the early evaluation was the additional work required by contracting companies. So too was getting the required information on foreign companies identified as a problem, the penalties were viewed as too low for some situations and the omission of accident insurance from the documents to be requested was considered a problem. This feedback was taken into account in the 2012 amendments. This set the penalties higher at between €16 000 and €50 000 depending on the size of the contract, included accident insurance on the list of documents to be collected, and dropped

existing business relationships from exemption because of the prior difficulties of verifying this. In 2010, there were 872 investigations by the authorities (50% in the construction sector). In total, 2541 contracts were examined and half found to contain violations. By March 2011, penalties totalling €302 500 had been imposed based on the 2010 investigations (Alvesalo and Hakamo, 2009; Työ-ja elinkeinoministeriö, 2011).

6.3 Direct Controls: supply-side incentives

All of the measures so far reviewed are deterrents which seek to increase the costs of operating undeclared work by increasing the penalties or risks of detection. Another way of changing the cost-benefit ratio confronting those considering participation in undeclared work is to provide incentives for, or increase the benefits of, declared work. These measures can be either supply-side incentives or benefits that encourage people to engage in declared rather than undeclared work, or demand-side incentives that reduce the purchase of undeclared goods and services by providing rewards for purchasing on a declared basis. In this sub-section, the focus is upon supply-side incentives.

A ‘white’ registry of consistent business (Perseas, ΠΕΡΣΕΑΣ) has been proposed but has not yet been fully implemented. Introducing such a registry would provide an incentive for businesses to operate legitimately. One way forward in this regard is to introduce business certification schemes and payment certification of tax and social contributions so as to create a ‘white list’ of compliant businesses, which a business needs to be listed on in order to tender for public procurement contracts (see Box 3).

Box 3 Business certification schemes

Initiative: Certification scheme for cleaning companies, Norway

Aim: To reduce the use of undeclared workers in cleaning businesses.

Description: In Norway, the Confederation of Norwegian Enterprise (*Næringslivets Hovedorganisasjon*, NHO) developed a voluntary certification scheme for cleaning businesses known as ‘clean development’ (*Ren utvikling*). All participating cleaning businesses had to provide documentation that their accounts and tax records were in order. User companies were then provided with a list of service providers in the cleaning industry whose activities are in order in relation to the existing rules and standards on tax as well as the working environment and workers’ rights.

Evaluation: In 2008, however, there were just 27 certified businesses, which was a tiny fraction of all businesses in the cleaning industry (Sissel et al., 2011). In 2012 therefore, the certification scheme was made compulsory for Norwegian cleaning companies (*Godkjenningsordningen for renholdsbedrifter*) and it was made illegal to purchase cleaning services from companies not approved by the labour inspectorate. This scheme ensures that any approved business has documented that it meets the requirements for residence permits for all employees and the registration and reporting obligations on public registers for all employees. The companies also need to document that they fulfil important requirements related to health and safety, and that all employees carry identity cards that they receive from the labour inspectorate. A central register lists the approved companies that customers can use. In 2012, the government allocated 20 million NOK (€2.69m) to implement this approval scheme (Sissel et al., 2011).

Another supply-side incentive is to **simplify compliance**. Simplifying compliance is not the same as de-regulation. The problem in Greece is that the regulatory framework is complex, not least due to regulations on undeclared work being added continuously in various legal acts on issues often only partially related to tax, labour and social security law. The result is a patchwork quilt of legislation which is difficult for the layperson to understand, let alone

comply with. A result is unintentional non-compliance. One option to overcome this is to provide better advice and support on the existing laws, regulations and codes to help them comply (e.g., FAQs on the websites of ministries, or software based on decision-trees that enables a business or citizen to ensure that they are being compliant).

Another perhaps more preferable option is to simplify the regulatory compliance framework itself. An example would be to simplify tax administration for small businesses (e.g., the number of tax forms and returns, pursuing an integrated approach to audit with a single visit to inspect records rather than separate inspections) and improving support and education to help firms comply. Simplifying regulatory compliance however, need not solely concern relatively minor administrative changes such as simplifying the number of procedures and forms. Measures might also include fundamental changes. This has already occurred for employees with the 'pre-filling' of tax returns. On pay-as-you-earn accounts, this information is inserted, as is bank interest inserted on all accounts and from next year, so too will be dividends. Lease property revenue is not yet included. A similar simplification has not yet occurred for the self-employed and small businesses. One example would be introducing a 'standard deduction' for the self-employed (see Box 4).

Box 4. Measures to simplify compliance.

Initiative: A 'standard deduction' for the self-employed

Aim: To facilitate a higher level of tax compliance by simplifying the compliance system so that it is easy to understand and use, with few loopholes.

Description: In many countries, the self-employed have to complete detailed (often self-assessed) tax returns that require a great deal of time and effort, as well as psychological stress. Indeed, all income has to be recorded, receipts kept for all expenditures and detailed calculations made for all tax deductible items, so that net profit can be calculated. A major change proposed by Elffers and Hessing (1997) is to introduce one overall standard deduction to replace the current complex process (see also Slemrod and Yitzhaki, 1994). This would not be simply a fixed deduction on specific standard tax-deductible items but an overall standard deduction that the self-employed person would deduct from their income to take account of the expenses. This could be either a fixed amount or a percentage of gross income. If implemented, it would eradicate the whole process of deductible items, the keeping and logging of receipts from expenditures and significantly decrease the complexity of the tax system. The usual argument against such a measure is either that it will not work or that it is unfair towards those taxpayers who really do have high costs. The latter could be overcome by allowing taxpayers not wishing to opt for the overall standard deduction to retain the right to continue with the current process if they so wish.

Evaluation: The advantage for the taxpayer of applying this overall deduction, which has operated in the US federal income tax system for many years, is that: this is a safe and certain option; it saves time and trouble; there is no need to pay for a tax advisor; and it reduces uncertainty. The higher the standard deduction, the greater is the chance that they will use this system rather than seek to specify all tax deductible items. Indeed, the fact that this is an attractive option for taxpayers is its take-up in countries where introduced. Gross (1990) reports that in the US in 1990, 71% of taxpayers opted for the standard deduction, in the form of a fixed amount. For tax authorities meanwhile, from the revenue-to-costs viewpoint, it is wholly ineffective to check deductible items claimed on each self-assessment form; it is a matter of small sums of money, which takes tax officials much time to check, let alone discuss and correct. If there were fewer claims with deductible items, this would make an enormous difference to the workload of tax offices. It would also release time either to check those specifying deductible items in more depth or for shifting resources towards enabling compliance rather than detecting non-compliance.

Various options exist for implementing this overall standard deduction. One option is to start by applying it to those filing self-employment tax returns. To estimate the effects on revenue collected

under a standard deduction system, three variables require consideration. Firstly, there are the revenues lost or gained by introducing the standard deduction. Secondly, there is the number of taxpayers opting for the overall standard deduction, and third and finally, there is the reduction of work involved for the tax administration. The level of this standard deduction, either a fixed amount or percentage of gross income, so that it is revenue-neutral, could be calculated by auditing existing tax returns across various industries and occupations for the mean or median deductions claimed. It could then be either universally applied (which would be simplest for the tax filer) or applied in the first instance only to those sectors and/or occupations where the shadow economy is rife.

The advantage of opting for a ‘standard deduction’ for the self-employed in Greece is that a great deal of time of staff in the revenue administration is currently spent assessing taxes owed. A ‘standard deduction’ would make considerable inroads into overcoming the problem of tax collection. There would be a simple standard deduction based on their reported income, which would prevent appeals and allow a more efficient use of resources in the tax administration.

Moreover, and given the high level of evasion of direct taxes in Greece, greater emphasis has recently been put on collecting tax revenue via **indirect taxes on consumption**. As part of the negotiations of the new MoU, the Greek authorities adopted in July 2015 a major VAT reform which broadened the tax base (European Commission, 2015). Furthermore, circular 1061/2016 institutionalized the increase of VAT to 24% and the abolition of the lowest VAT rates in the second group of islands¹⁷ (Syros, Thasos, Andros, Tinos, Karpathos, Milos, Skiros, Alonnisos, Kea, Antiparos and Sifnos). Therefore these islands as of 1 June 2016 applied VAT rates that are valid in the entire country i.e. 24% (normal), 13% (lower), 6% (lowest). It concerns the second group of islands in which the lower VAT rates are abolished following the first group of islands i.e. Thira, Mykonos, Naxos, Paros, Rhodes, Skiathos, in which the lower rates were already abolished as of 1-10-2015 and are referred to the new paragraph 6A of article 21 of the VAT Code.

In Greece where undeclared work is significant, consumption tax is a necessary means to collect tax revenues from the entire population (European Commission, 2014a). As the European Commission (2015) state, the various adjustments in the VAT system are expected to increase fiscal revenues by around 1% of GDP. VAT has so far accounted for around 8% of GDP. Before the reform, the VAT gap – i.e. the difference between the VAT collected and the amount theoretically due – was among the highest in the EU, while the fragmented tax regime created unjustified costs (European Commission, 2012).

There are thus no current possibilities for using VAT reductions to reduce the level of undeclared work. However, one feasible option is to use **reverse charges for VAT** whereby the buyer, not seller, must file and pay the VAT. Until now, reverse VAT charges have been introduced in several European countries in the construction industry (see Box 5). This could be applicable to Greece and introduced in a range of sectors where undeclared work is rife.

Box 5 Reverse VAT charges

Initiative: Reverse charges in the construction industry, Sweden

Aim: To tackle VAT fraud and undeclared work in the construction industry

¹⁷ <https://www.taxheaven.gr/laws/circular/view/id/23691>

Description: To tackle VAT fraud and undeclared work in the construction industry, the Swedish government introduced a law on reverse charges for VAT effective from 1 July 2007. A reverse charge means that the buyer, not the seller, must file and pay the VAT. A company selling construction services more than on a temporary basis must pay VAT for its sub-contractors. If the purchaser is not a construction company, the vendor shall add VAT to the invoice. If the purchaser is a construction company, the vendor shall not add VAT to the invoice. Instead, the purchaser will be responsible for reporting the output VAT. Reverse VAT liability does not apply to sales which consist solely of materials.

Evaluation: According to a survey by the Swedish Tax Agency (2011), around 39% of the surveyed companies believed that the reverse charge reduced undeclared work in the construction sector. The Swedish Tax Agency does not find support for this argument when investigating a possible increase in reported payroll taxes. However, it does not preclude that the measure may have affected the prevalence of the undeclared economy concluding that the reverse charge has had positive effects in terms of increased reporting of output tax in the construction sector at SEK 700 million (€82.3 million) in 2008 (Swedish Tax Agency, 2011).

Initiative: Reverse VAT in the construction industry, Finland

Aim: To tackle VAT fraud and undeclared work in the construction industry

Description: In April 2011, Finland similarly introduced reverse VAT where VAT is paid by the buyer (main contractor) rather than seller (subcontractors). This was deemed effective because the tax liability does not as easily disappear into the subcontracting chain and the main contractors tend to be large, established and reputable companies. Subcontractors do not charge VAT to the main responsible party. If there is a chain of subcontracting, as is typical, all invoicing excludes VAT, which is only disbursed at the top of the chain. The reverse system only applies to construction services, not materials, and private individuals as buyers are excluded.

Evaluation: The tax administration estimated that during the first three years the reverse system would annually require 60 work-years to implement, followed by 30 work-years in each subsequent year. In the legislative proposal, the increase in VAT revenue was estimated at €80-120 million. The disbursement of VAT has been shifting towards the main contractors as intended. Information from a few tax audits based on it have been analysed and reported. They have uncovered both honest mistakes and suspicious activity. There are no reports however, of suspected appearances of 'front' organizations as fraudulent main contractors.

To make it easier to work on a declared basis, another approach is to introduce **new categories of declared work** in order to allow economic activity currently conducted as undeclared work, often out of necessity due to the complex compliance regulations involved, to move into the declared realm. Overall, one-third of the European countries surveyed in 2010 had introduced such measures. Of those adopting this measure, 59% viewed it as effective, 33% as neither effective nor ineffective, and just 8% as ineffective (Dekker et al., 2010). Here therefore, and to see how new categories of declared work can be introduced to make it easier to move work currently conducted out of necessity in the undeclared economy into the declared realm, an example is taken from Hungary where the Simplified Employment Act has made it easier for people to undertake small jobs in the declared economy which would have been impossible beforehand and would be necessary have been undertaken on an undeclared basis, such as doing a small computer repair job for an acquaintance (see Box 6).

Box 6 New forms of declared work

Initiative: Simplified Employment Act (Egyszerűsített foglalkoztatási törvény) 2010, Hungary

Aim: To bring small mini-jobs into the declared economy that would otherwise be conducted on an

undeclared basis

Description: In 2010, the Hungarian government introduced the Simplified Employment Act to make seasonal and temporary employment easier to conduct on a declared basis. Before this Act, it was necessary to complete in duplicate an official attendance sheet with 18 pieces of information for every single seasonal worker. This Act frees both the employee and employer of such administrative burdens, and enables the mutually agreed simplified work contract to be notified either by: a simple Text Message (SMS) or electronically via the Client Gate System after they are registered and in the system. It distinguishes two categories of simplified employment: seasonal agricultural work, including seasonal tourism services, and other casual/temporary work (i.e., domestic work). In the first case the employer has to pay taxes of HUF 500 (€1.75), in the second case HUF 1000 (€3.50), on a daily basis. All obligations are fulfilled by entering two codes into the Text Message or into the Client Gate System.

Evaluation: According to data from the Hungarian National Tax and Customs Administration, between April and May 2010, 505,621 simplified employment cases were registered at the tax authority, of which 417 937 entries were for ad hoc/casual employment, 15,877 for seasonal agricultural employment, 6393 tourism employment, 761 at non-profit organizations, and 10,326 in plant cultivation. Of these jobs, 499,987 lasted less than five days and 2,169 longer than five days. By July 2011, there were 512,000 temporary or seasonal jobs registered as simplified employment from 370,000 employers. Between 1 August 2010 and 31 December 2011, around 12.5 million working days were registered across these 17 months and HUF 8 billion (€28 million) flowed into the state's treasury (Rindt and Krén, 2013).

Another supply-side incentive is to use **social security and direct tax incentives** to prevent citizens and businesses entering the undeclared economy. From a legal viewpoint, Law 3996/2011 sets some incentives for compliance. Art. 26 introduces an incentive consisting of a reduction of insurance contributions (10%) for employers who cumulatively use electronic work cards and timely pay wages and contributions. Although many of the policy initiatives discussed until now have been government-led initiatives, there are many opportunities for both employer and employee representative organizations to develop social security measures to tackle the undeclared economy, as a Romanian measure displays. This seeks to provide social protection for workers so that they do not need to turn to the undeclared economy and at the same time, provides rewards for those workers who operate on a declared basis so as to make work in the declared economy pay relative to work in the undeclared economy (see Box 7). Given the low unemployment benefits in Greece, this could well be applicable and transferable to the Greek context.

Box 7 Social security incentives

Initiative: Builders Social House, Romania

Aim: To introduce incentives to workers to operate in the declared rather than undeclared economy by providing them with social security during the off-season.

Description: In Romania, 'The Construction Sector Social Agreement for 2007-2009' (*Acordul Social Sectorial Pentru Construcții 2007-2009*) estimates that some one-third of the active workforce operates in the undeclared economy and highlights the importance of tackling this sphere. The Builders Social House (*Casa Socială a Constructorilor*, CSC) is one prominent initiative used to enable this work to take place in the declared rather than undeclared economy. The CSC was established in 1998 as a privately run welfare organization, to which the representative trade unions and employer organizations in the construction and building materials sector contribute in equal measure. It provides welfare payments during the cold season (1 November - 31 March), when the construction sector slumbers, to workers in registered declared employment and in doing so, provides an incentive for workers to be in the declared economy rather than working in the undeclared

economy in the construction and building materials sector. CSC members are construction companies and manufacturers of building materials. Entitlement to welfare payments during these winter months is only available to declared employees, that is, those with employment contracts recorded with the local labour inspectorates, and whose social security contributions due by both the employer and employee have been paid. Corporate contributors pay 1.5% of their turnover into the CSC scheme, and employees contribute 1% of their gross base salary.

Evaluation: In 2008, CSC had 573 member organizations accounting for 40% of all declared employment in the construction and building materials industries. During the 2007-8 winter period, 102,387 declared workers benefited from this scheme as recipients of welfare payments (Eurofound, 2013). This is potentially transferable both to other economic sectors where work is largely seasonal, such as agriculture and forestry, and other countries. Importantly moreover, it shows what can be achieved by employer and employee representative organizations working together, and without reliance on governments, so far as implementing policy measures to tackle the undeclared economy is concerned.

A further supply-side incentive to encourage declared work is the provision of **support and advice on formalisation** both by government and by social partners. At present, one notable initiative in this regard is the INEMY-ESEE/GSEVEE initiative that uses a helpline and 15-20 advisors to provide advice to enterprises on tax, social security and labour law. This initiative could be extended and could also focus more upon providing formalisation advice to current businesses that operate on a partially undeclared basis about how they can put their affairs in order. A broader initiative might also include the use of ‘role models’ organised by for example chambers of commerce. The use of non-governmental bodies to provide this advice is important so that there is greater willingness and less fear from businesses of approaching them for such advice.

Another notable initiative that provides an incentive for business to formalise is the ‘Business walking routes’ initiative of the Institute of Commerce and Services (INEMY), which is the scientific institute of the Hellenic Confederation of Commerce and Entrepreneurship (ESEE), co-financed by Greek and European funds. This mapped and proposes to citizens and visitors six walking routes in the city centre of Athens, each themed for specific goods. Only businesses are included which are formal registered businesses that have no compliance issues outstanding. These include:

- Lets go for a gift walk (Plaka area)
- Lets go for a books and music walk (Exarcheia area)
- Lets go for a footwear and leather walk (Ermou street)
- Lets go for a shopping walk (Kolonaki area)
- Lets go for a tasty walk (Omonia Square area)
- Lets go for a Pattision Street walk

This provides an incentive for businesses to be formal by providing them with free marketing for their business, and could be significantly extended to other districts and sectors.

Beyond such limited initiatives, there is little support at present given to businesses to facilitate their formalisation in Greece. There is no free provision of record-keeping software to businesses, no fact sheets on record-keeping, and no free advice or training on record-keeping, so far as is known.

6.4 Direct Controls: demand-side incentives

Besides providing supply-side incentives to operate in the declared economy, recent years have witnessed the expansion of demand-side incentives to encourage the purchase of declared goods and services. One option is to give straightforward income tax relief, claimed

on tax returns, to customers using declared labour to do specific tasks (e.g., roof maintenance, outside painting, domestic cleaning) commonly conducted in the undeclared economy, so that the wage costs of employing workers on a declared basis become equivalent or better than the wage costs of employing somebody on an undeclared basis (see Box 8).

Box 8 Tackling the demand-side: the use of tax deductions

Initiative: Tax deductions for household work, Sweden

Aim: To use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm

Description: Since 8 December 2008, Swedish citizens have been able to apply for a tax deduction amounting to 50% of the labour cost for the renovation, conversion and extension of homes (ROT), and also for household services (RUT), including cleaning, laundry, basic gardening and babysitting. The maximum annual tax deduction that can be applied for is SEK 50 000 (€6000) for each individual. In the government bill from 2007 where the RUT deduction was proposed, the measure was estimated to cost SEK 1.3 billion per year (€155 million). The ROT-deduction was in the spring budget bill in 2009 and was calculated to cost SEK 13.5 billion per year (€416 million) (Swedish Tax Agency, 2011). As of 1 July 2009, companies performing household services charge the customer the costs of materials and half the labour costs, including VAT. The company performing the work then requests the outstanding sum from the Swedish Tax Agency. As a result, the customers only pay half of the labour cost at the point of purchase of the service.

Evaluation: Comparing data from 2005 and 2011, the Swedish Tax Agency (2011) display that undeclared work has decreased by about 10% within the categories of jobs covered by the ROT and RUT-deduction. In the autumn of 2011, the Swedish Federation of Business Owners (*Företagarna*) conducted a survey of 2447 construction companies. The results show that nearly 90% felt that the ROT-deduction had a positive impact on reducing undeclared work in the sector compared with 78% in 2009. In 2010, 1.1 million people bought household services with a tax deduction (RUT and ROT) and the Swedish Tax Agency paid out SEK 1.4 billion (€166 million) in RUT deductions and SEK 13.5 billion (€1.6 billion) in ROT-deductions. This means that around 7.6 million hours of cleaning and household (ROT) services and 53 million hours of renovation work (ROT) were performed using these schemes (Brunk, 2013c).

Initiative: Home-job plan, home-job tax deduction, Denmark

Aim: To use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm

Description: Since 1 June 2011 until the end of 2013, it has been possible for each member of the household over 18 years of age to deduct from their taxes up to DKK 15 000 (€2000) the costs of employing craftspeople and domestic helpers under a pilot project called 'Home-Job Plan' (*Bolig-Jobplan*). The major difference compared with the Swedish scheme therefore, is that whilst Sweden has a maximum tax deduction of €6600, the cap is €2000 in Denmark. The activities covered include cleaning, indoor-outdoor maintenance of the house, gardening and babysitting. The cost to the government is estimated to be DKK 1 billion (€134 million) in 2011 and around DKK 1.75 billion (€234 million) in 2012 and 2013. The expenses and the company involved is informed digitally by the buyer of the services to the tax authorities in a special template, who then deduct 15% of the amount in the yearly tax or fiscal income. The action involved for the buyer of these services resembles an ordinary payment transfer, and the system does the rest.

Evaluation: Relative to expectations, the pilot project has so far been a success. Some 270 000 people used the deduction in 2011 and most of the work involved home improvement, maintenance and repair. They have on average reported deductions of DKK 9800 (€1315) per person. In total, the deductions reported constitute DKK 2.7 billion (€362 million). The tax value of those deductions is around DKK 900 million (€121 million) (Jørgensen, 2013).

Another option is to use **service voucher schemes**. Indeed, this is one of the few curative incentives to have been introduced in Greece. ERGOSIMO was institutionalized by Law 3863/2010 (FEK 115/A/15-7-2010) as a means to pay wages and social security contributions to contingent workers following European standards. The ‘reasoning report’ of the initiating law does not refer to combating undeclared work as a reason for issuing an ERGOSIMO, but only ‘to insure even the most atypical and temporary types of employment.’¹⁸ According to the initiating law, ERGOSIMO appertains to the following categories: (a) domestic work, such as home cleaning, gardening, maintenance services, private lessons, baby-sitting, elder care, disabled-people care, aestheticians, and nursing; i.e. work which is insured under IKA; and (b) agricultural work, i.e. work which is insured under OGA. ERGOSIMO is bought by the employer, for a minimum payment of €5 and is given to the employee, who cashes it, and keeps the net wage while the social insurance contribution (employers and employees) is withdrawn automatically. This contribution is 20% for those insured in IKA (Law 3863/2010, article 21, 1), extended to 25% (by Law 4144/2013, article 74) (see also Argyriadis, 2016, p. 41) and 10% for those insured in OGA (Law 3863/2010, article 22, 2).

In May 2016, moreover, the Ministry of Agriculture introduced a voucher system in agriculture for farmers who wished to employ migrants who do not have a residence permit. The intention is to regularise irregular immigrants working in agriculture on an undeclared basis and to tackle trafficking. This asks each region to specify the number of workers that it wishes to employ on such a basis and they can employ them for a period of six months. They provide the identity of the workers, and forward this to the police authorities. It gives these irregular migrants rights that they did not previously possess, and cuts out the intermediaries since they are registered, and provides them with access to rights to complain about the employers. This can be renewed after six months if they have worked for over 75 days. It is paid at €30 per day with 10% deducted for social insurance, meaning €27 per day pay. This voucher price is the same as for EU nationals. The OGA estimates that it currently loses €40 million per annum due to unregistered workers and this is seen as one solution to undeclared work.

In these voucher schemes, there is a need to conduct an evaluation to assess whether the vouchers are replacing formal waged employment or whether it is substituting for undeclared work. Until now, little is known about whether this is the case.

Given that a large proportion of payments for work in the undeclared economy are in the form of cash, one way forward is to **incentivise electronic payments** and in doing so, shift away from cash payments. To transfer from cash to electronic payments, a first option is for governments to introduce a ceiling for cash transactions. This has been set at €1500 in Greece (Vanderseyen et al., 2013). A second option is to make point-of-sale (POS) terminals available across all sectors, such as bars and taxis. Introducing them can reduce the use of cash. This has been largely introduced in Greece. A third option is for governments to shift more fully towards electronic payments. A fourth option is to discourage easy access to cash. The presence of no-fee automated teller machines (ATMs) provides uninhibited access to cash and subsequent cash payment at the point-of-sale. A fifth and final option is to provide incentives for using cards at the point-of-sale. Many day-to-day transactions, especially those worth less than €15, remain cash-based. Developing incentives for individuals to use cards is

¹⁸ (Αιτιολογική έκθεση στο σχέδιο νόμου «Νέο ασφαλιστικό σύστημα και συναφείς διατάξεις, ρυθμίσεις στις εργασιακές σχέσεις» [Reasoning report in draft law on “New insurance system and related provisions, regulations on labour relations] Available at: <http://www.hellenicparliament.gr/UserFiles/2f026f42-950c-4efc-b950-340c4fb76a24/n-neoasf-eis.pdf>, p. 6)

a way forward. Argentina for example, offers a 5% VAT discount on debit card transactions and 3% on credit card purchases.

In Greece, the Foundation for Economic & Industrial Research (2015) has conducted research on how this could reduce undeclared work. The incentives include partial refunds when a transaction is carried out with electronic means of payment (EMP), income tax discounts when households, as well as enterprises, achieve targets for EMP use in their transactions, and lotteries for EMP transactions. The incentives are often accompanied by administrative measures, such as an obligation of accepting EMP and a prohibition of cash use for higher value transactions. Implementing a series of such measures in South Korea led to an increase in the share of card transactions in private consumption to over 65% in 2010, from 14.7% in 1999. In the same period, the total receipts deriving from income tax in the country were growing by 13.6% annually, significantly surpassing the pace of GDP growth (6.5% on average from 2000 to 2009). Apart from the state, the use of EMP has also been incentivised by financial institutions. In Greece, the banks implement loyalty programmes that provide rewards for the use of credit and debit cards. The programmes usually entail the collection of reward points for each transaction and exchange of the points for discounts in participating stores. Few of the existing programmes entail the return of cash at the end of an administrative period (e.g., a month). The main programmes encountered in Greece can be grouped in the following categories:

- Cash refund programmes, either at a bank account of the consumer or against purchases at participating stores.
- Programmes of collecting reward points. The points correspond to gifts, gift cheques or discounts at participating stores.
- Programmes of collecting air miles, which can be exchanged for tickets, seat upgrades, hotel discounts and other offers to travellers by airline alliances.
- Coupon programmes, where the consumers receive discount coupons for purchases in participating stores. The discount rate is higher when the payment is made with a card of the bank that administers the programme.

The Foundation for Economic & Industrial Research (2015) examine the effectiveness of the incentives that the Greek banks offer, using transaction data for a random anonymised sample of 40,000 consumers, covering the period from 2010 to 2014. The econometric analysis reveals a positive relationship between the incentives offered by the domestic banking institutions and the use of payment cards, both in terms of frequency of use and value per transaction. In addition, the number and the value of transactions are higher among younger consumers, men, the employed and university graduates (all of which were earlier shown to have a higher likelihood of engaging in undeclared work). Therefore, the provision of incentives in the form of discounts or cash refunds seems an effective method for boosting digital payments in Greece and reducing undeclared work. In particular, using annual time series for the value of transactions with payment cards, tax revenues and GDP for the last 15 years, they estimate that the tax revenues increase by 0.24 percentage points for every percentage point growth of the use of payment cards.

In the transactions where the gain from tax evasion is collected exclusively by the merchants, as is the case for example in tourist enterprises or small stores that do not reduce the final price paid by the consumers when a receipt is not issued, the discount that could incentivise the consumers to insist on paying with EMP should be deeper (e.g. 5%). Further measures that could be adopted in this risk category are compulsory installation of POS terminals, the imposition of fines in case that a digital payment is refused, incentives to the consumers that have justifiably reported a digital payment refusal and incentives to very small enterprises, such as a subsidy for the installation of POS terminals with a corresponding reduction of the bank fees and the possibility to participate in a lottery.

Table 4 Policy measures per transaction type

	A: Low risk of tax evasion	B: Intermediate risk of tax evasion	C: High risk of tax evasion
Incentives	1% refund on the transaction value	5% refund on the transaction value	10% refund on the transaction value EMP lottery
Administrative measures	Digital payments in all public services (such as tax office, electricity and water utilities)	Mandatory POS terminal installation	Mandatory EMP use for payments of more than €30

Source: Foundation for Economic & Industrial Research (2015: Table 1)

Lastly, even a discount of 5% might not be sufficient to incentivise the use of EMP in transactions where the merchants can reduce the final price of the service paid by the consumers in cash without a receipt (e.g., in construction, repair and health services). In this case, the discount stands at 10% of the transaction value. However, as the gain for the consumers in these cases could reach the total of the VAT, evading the tax might be the preferred option for the consumer, even with quite a large discount on the transaction value. In these cases, a lottery could be adopted, where the value of the first prize exceeds significantly the benefit that a consumer can gain from not paying VAT. In this case, it is preferable that the lottery concerns digital payments only, in order to contribute to the overcoming of the network effects, but also to reduce the administrative cost to the consumers and the state from tasks such as collection of receipts, communication of receipt codes and check of the legitimacy of the codes. The study concludes with the following policy suggestions:

- A refund by 1% of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services by individuals from sectors with low risk of tax evasion;
- A refund by 5% of the transaction value for digital payments through POS terminals for the purchase of goods and services by individuals from sectors with intermediate risk of tax evasion;
- A refund by 10% of the transaction value for digital payments through POS terminals for the purchase of goods and services by individuals from sectors with high risk of tax evasion;
- Lottery for consumers that uses digital payments in sectors with high risk of tax evasion
- Placement of POS terminals in all public utility branches;
- Mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €150,000 operating in sectors with intermediate or high risk of tax evasion, and
- Mandatory use of digital payments for transaction with a value above €30 in sectors with a high risk of tax evasion.

It is estimated that the adoption of these measures would have a significant positive impact on the state tax revenues, provided that feasible targets for EMP transaction growth are met. The net fiscal benefit in the central scenario of the simulations is estimated as nearly €700 million in the first year of implementation (Table 5). Subsequently, as the EMP diffusion targets are met and the use of digital payments consolidates as part of consumer habit, the incentives can be gradually withdrawn, resulting in a reduction of their gross fiscal cost and a corresponding increase in their net fiscal benefit. The additional tax revenues grow much faster than the fiscal cost of the measures, with the growth of EMP use. On the other hand, an ineffective implementation of the measures that leads to a small increase of the value of EMP transactions might result in a net negative outcome for the state. This result highlights the importance of the appropriate design and communication of the measures to the consumers and the enterprises, and the need for mobilisation of the tax audit authorities in the utilisation of the increased transparency provided by the wider EMP diffusion. A further prerequisite to achieve the targets for tax revenue growth by boosting EMP use is to restore the trust of the Greek public in the domestic banking system.

Table 5: Anticipated net fiscal outcome (€ million) per scenario and policy measure

Policy measure	Break-even	Pessimistic	Central	Optimistic
1% refund	25%	47	248	610
5% refund	105%	-1	79	182
10% refund	165%	-10	90	183
Lottery	1%	6	72	153
POS in utilities	0,1%	0	2	5
POS in small stores	1%	-14	124	297
Mandatory use of EMP	0%	16	82	163
Total	-	46	696	1594

Source: Foundation for Economic & Industrial Research (2015: Table 2)

6.5 Indirect controls

Until now, all the measures proposed have been direct controls which seek to change the cost/benefit ratio confronting businesses and citizens when considering participation in undeclared work either by increasing the costs of undeclared work or the benefits of declared work. As shown in section 2.2 however, business and citizens are not always simply rational economic actors. They are also often social actors who do not comply because they either lack trust in the state, or do not understand or believe in what the state is seeking to achieve (i.e. they lack ‘vertical’ trust), or they believe that many others are operating undeclared so see no reason that they should operate on a declared basis (i.e., they lack ‘horizontal’ trust).

To tackle undeclared work, the root causes that lead to the values, norms and beliefs of citizens not being aligned with the laws and regulations, needs to be tackled. This is what indirect controls seek to achieve by dealing with the formal institutional imperfections and failures that lead to the decision to engage in the undeclared economy. Until now, Greece has paid little if any attention to such indirect controls as a means of tackling the undeclared economy. No strategy has been developed to foster trust in government and to align the norms, values and beliefs of citizens regarding compliance with the codified laws and regulations. Two sets of initiatives are required to achieve this. Firstly, initiatives can be pursued to alter the norms, values and beliefs of citizens so that they align with the laws and regulations and secondly, and in order for this to be achieved, it is also necessary to deal with

the formal institutional failings and imperfections so as to foster greater self-compliance in the population.

6.5.1 Altering informal institutions: awareness raising campaigns

Many citizens do not fully understand why they pay their taxes and/or what these taxes are used for by governments; they do not fully make the connection between the public goods and services they receive (e.g., hospitals, schools, transport infrastructure) and the taxes they pay. Until now, governments have generally undertaken very little marketing to help citizens make this connection. However, if the norms, values and beliefs of many in the population are to become better aligned with the codified laws and regulations of formal institutions and voluntary cooperation is to ensue, educating citizens about this is important. The advantage of pursuing voluntary cooperation, rather than enforced compliance, is that this is potentially a far cheaper, more effective and sustainable means of tackling violations of tax, social security and labour law related to undeclared work than having an army of inspectors to police non-compliant behaviour and using incentives to effectively ‘bribe’ the population to operate on a declared basis.

To achieve such voluntary cooperation, two broad forms of education are required. On the one hand, and to prevent unintentional non-compliance, citizens need to be educated and informed about what the current system requires of them. On the other hand, and more broadly, citizens need to be educated about the benefits and value of paying tax and being compliant with labour law and social insurance regulations, by educating them about the benefits of paying taxes and social insurance contributions, and complying with labour law, in order to develop their intrinsic motivation to do so and facilitate greater self-regulation.

The first type of education requires the provision of easily understood information regarding their responsibilities with regard to the tax, social security and labour law. A significant portion of non-compliance is unintentional, arising from both the complexity of the compliance system as well as a lack of knowledge, misunderstanding and ambiguous interpretation of tax and labour law (Hasseldine and Li, 1999; Natrah, 2013). In consequence, one way forward is to provide greater information to citizens (Internal Revenue Service, 2007; Vossler et al., 2011). At present, few if any initiatives in this regard have been pursued in Greece. Besides simplifying compliance (discussed in section 6.3), a frequently asked questions (FAQ) section on ministerial websites might be helpful.

The second and perhaps more important type of education is that which seeks to educate citizens about the benefits and value of being compliant with labour, tax and social insurance regulations. One potential and partial remedy, therefore, is to educate citizens about the activities on which their taxes are spent, and the value of pensions and abiding by labour law. If citizens are informed and knowledgeable about the current and potential public goods and services which they are receiving for their money, and the value of having a pension, they may be more willing to pay their taxes and social contributions (Bird et al., 2006; Saeed and Shah, 2011). One direct way of doing this, as occurred in 2009 in Greece, is to provide information to tax payers regarding where their taxes are being spent and how much they are contributing to which activities of government. This set out what portion of their taxes is spent on which public goods and services. Another simple way of doing this is to display signs such as ‘your taxes are paying for this’ on public construction projects (e.g., new roads), on ambulances, in doctor’s waiting rooms, in hospitals and schools, which convey a clear message to the public that the taxes they pay are being used to provide these public goods and services.

In Canada for example, the Tax System Learning Unit provides information about the tax system as well as how the government spends the tax dollars collected. This Unit until now

has targeted junior and high school students so as to educate citizens before they start participating in the tax system. While the initiative has enjoyed success in getting participation from education institutions, its impact on compliance has not been measured, since there is no mechanism to track the compliance behaviour of those taking the modules against a control group who have not. Austria has adopted a similar initiative targeted at schools whereby tax officials provide training on future responsibilities for compliance, as have the Internal Revenue Service in the USA (Internal Revenue Service, 2007).

Although information and advice is provided by telephone, email or during inspection visits, and SEPE material is published, no concerted awareness raising campaign has been launched about the costs of undeclared work and benefits of declared work. It is more information on *obligations* that is provided by the tax, labour and social security bodies. An awareness raising campaign, meanwhile, can either: inform those working in the undeclared economy of the costs and risks of doing so; inform potential users of undeclared labour of the risks and costs; inform those working in the undeclared economy of the benefits of being legitimate, and/or inform potential users of undeclared labour of the benefits of formal labour.

There is tentative evidence is that emphasising the benefits of working declared rather than the costs and risks of engaging in undeclared labour is more effective. As Thurman et al. (1984) explain, publicising the adverse consequences of engaging in undeclared labour is ineffective because those working in the undeclared economy tend to neutralise their guilt, such as by seeing themselves as small players with little impact compared with the big players. If an awareness-raising campaign does decide to focus upon the costs of undeclared work, therefore, then it will need to ensure that these rationalisations are not available to participants in the undeclared economy, such as by advertising the average level of non-compliance so that people will not view their own activity as 'minor' compared with others.

For a campaign to be effective however, it has to use tailored advertisements that will need to vary in form and content depending on the audience targeted. The language, media used, word style and slogans that will be effective for one population group such as younger people, will not be for another group such as the elderly. Similarly, effective media for one target group, such as newspaper adverts for older people, will not be for the internet-oriented younger generation. As shown in other realms of advertising, harnessing the power of celebrities can also be effective in influencing the target audience. If celebrities and/or opinion leaders are used by administrations, then as Lessing and Park (1978) identify, it is necessary to differentiate three types of campaign. These are firstly, information campaigns where citizens lacking knowledge refer to opinion leaders for information, such as highly respected economic experts via television commercials, talk shows and newspaper articles, secondly, utilitarian campaigns when citizens are motivated by hearing about others rewarded or punished, such as when names are published of those who pay taxes and do not and, third and finally, value-expressive campaigns when citizens are encouraged to associate themselves with positive role models, such as by publicising the tax payments of famous television and movie stars, athletes, scientists, politicians and business tycoons, holding them up as role models for the law-abiding citizen to follow.

Moreover, it does not always have to be governments leading such awareness raising campaigns. It can also be social partners such as employer or employee representative organizations either independently or in cooperation with the state. In Sweden for example, employers have led campaigns to tackle the undeclared economy and undeclared labour in both the construction industry and the taxi-driving sector. The Bulgarian Industrial Association, meanwhile, has run an 'In the Light' (www.nasvetlo.net) campaign since 2007 and sought to encourage greater awareness of the negative implications of the undeclared economy and undeclared labour, whilst in Canada, a national awareness advertising campaign, 'Get it in Writing', to inform purchasers of undeclared labour of the risks involved

in dealing with home repair and maintenance contractors has been developed in partnership between the tax administration and the Canadian Home Builders' Association.

6.5.2 Reforming formal institutions

There is little point in seeking to change norms, values and beliefs, however, unless one addresses the formal institutional failings that cause the non-alignment of citizen morality with state morality, and thus the prevalence of undeclared work. As Matsaganis et al (2012) assert for example, there is a tension between the conflicting goals of achieving fiscal savings in the short run and modernizing public administration over the longer run, and that there is a need to opt for lasting solutions which ensure that Greece can function as a modern state. To tackle these formal institutional failings so that citizens become more committed to being compliant, therefore, two broad approaches are required. On the one hand, the processes of formal institutions need to be changed. On the other hand, the products of formal institutions need to be addressed. These related to tackling formal institutional voids (e.g., a lack of welfare protection). Here, each is considered in turn, starting with the processes of formal institutions.

Changing the processes of formal institutions addresses two key types of formal institutional failure. On the one hand, changing the processes of formal institutions tackles formal institutional inefficiencies, or resource misallocations by formal institutions, such as when formal institutions seek to protect or maximize economic rents for elites, or when state capture occurs by such elites, resulting in the majority not receiving a fair share in return for their contributions, or suffering from overly burdensome taxes, registration and licensing regulations and costs. On the other hand, changing the processes of formal institutions tackles formal institutional weaknesses and instability, manifested in their lack of capacity and capability to enforce legislation and/or there are continuous changes in the formal 'rules of the game' about what is acceptable, which leads citizens to reject the continuously changing formal rules of the game in favour of their own more stable unwritten socially shared rules. These malfunctions lead to a non-alignment between state morality and citizen morality. To change this, processes need to be altered to ensure that there is procedural justice, procedural fairness and distributive fairness. This net result will be a shift in public institutions away from a 'cops and robbers' approach and towards a more customer-friendly orientation. Each is here considered in turn.

Procedural justice. The extent to which citizens perceive government to treat them in a respectful, impartial and responsible manner significantly effects whether citizens engage in voluntary cooperation (Hartner et al, 2008; Murphy et al., 2009; Torgler and Schneider, 2007). Leventhal (1980) formulated the following six rules regarding procedural justice:

- (i) The consistency rule - procedures should be consistent across people and time; nobody should be favoured or disadvantaged.
- (ii) bias suppression rule - egoistic intentions and prejudice on the part of the decision-makers should be avoided;
- (iii) accuracy rule - all relevant sources of information should be exhausted, in order that decisions are based on well-founded information;
- (iv) correctability rule - the possibility of the adjustment or revision of decisions made;
- (v) representativeness rule - the opinions and interests of all parties should be considered, and
- (vi) ethicality rule - procedures should align with the prevailing moral and ethical values.

Leventhal's rules deal primarily with the decision-making process. However, Bies and Moag (1986) argue that it is also important to consider interpersonal interactions and whether there is respectful and fair treatment (i.e., interactional fairness). Compliance is significantly higher when citizens perceive there to be interactional fairness. Being treated politely, in a dignified manner and with respect, being given a say, and having genuine respect shown for one rights and social status all improve compliance (Gangl et al., 2013; Hartner et al., 2008).

Consequently, it is necessary for the state to move towards a customer-oriented service approach that treats citizens with respect and dignity. This shift from a coercive to cooperative approach seeks to reduce the need for enforced compliance. The more regulatory interactions are grounded in trust, the greater is the likelihood of self-regulation or voluntary compliance.

Procedural fairness. People who receive procedurally fair treatment by an organization will be more likely to trust that organization and will be more inclined to accept its decisions and follow its directions (Murphy, 2005). If one citizen caught violating the law pays no fines, but others caught have to pay, s/he will view themselves as being treated unfairly. Fairness is one of the most important determinants of compliance (Hartner et al., 2011; Kirchgässner, 2010, 2011; Molero and Pujol, 2012). If citizens feel that they are not receiving fair treatment, non-compliance increases (Bird et al., 2006). Where grievance exists either in absolute terms (e.g., those who feel that taxes are too high, those who feel that public funds are wasted) or in relative terms (e.g., the suspected level of others' tax evasion), the result is greater non-compliance. Indeed, and as shown above, citizens can justify their own non-compliance in the perceived non-compliance of others. If the undeclared economy is perceived as extensive, then this justifies citizens engaging in non-compliant behaviour themselves. This obviously has implications for administrations. If the authorities advertise that the undeclared economy is extensive, then they create the conditions for widespread grievance and for greater participation in the undeclared economy of those who might not have otherwise done so. Similarly, if an offender believes that administrations are communicating disapproval to them through disrespect or stigmatising them, such as by labelling them with negative identities (e.g., thief, tax cheat), re-offending results since the individual externalizes the blame and feels alienated (Murphy and Harris, 2007).

Distributive fairness. Whether a citizen adheres to the codified laws and regulations and does not engage in the undeclared economy is heavily determined by whether they believe that they receive the goods and services they deserve given the taxes they pay (Richardson and Sawyer, 2001). Taxes, after all, are prices for the public goods and services provided by the government. If citizens view their interests as properly represented in formal institutions and they receive what they view as appropriate public goods and services for the taxes they pay, their identification with the state increases and their willingness to contribute is greater. As the IMF (2013: 18) state, 'The distribution of the revenue burden across society, and perception that everyone is paying their fair share, plays a key role in gaining support for the fiscal adjustment mix. ... To date in Greece, the main adjustment burden has been carried by easy-to-tax salaried employees and pensioners, while the richer, such as the self-employed (e.g., doctors, lawyers), and other high wealth individuals have continued to stay outside the tax net.'

If citizens do not receive the goods and services that they think they deserve given the taxes they pay, non-compliance increases. This may occur for example, when corruption is extensive and the citizen has little trust in formal institutions. In such situations, there will be a low incentive to cooperate. Corruption generally undermines the willingness of citizens to comply, causing them to become frustrated. Citizens will feel cheated if they believe that corruption is widespread and their tax burden is not spent well (Torgler, 2007, 2012). As Kirchgässner (2010, p. 28) thus puts it, 'If the willingness to pay taxes is to be enforced, a

responsible use of tax revenue by the public authorities is necessary as well as a partnership relation (and not a magisterial one) between them'. The result is that governments need to educate citizens about where their taxes are spent. In situations where citizens do not know, or do not fully understand that public goods and services are due to taxes, then compliance will be lower than in situations where citizens are fully aware of the public goods and services they receive for their taxes and agree with how their taxes are spent (Lillemets, 2009). It is therefore important that the Greek government explains to taxpayers how their money is spent.

6.5.3 Changing the products of formal institutions

It is not purely changes in the processes of formal institutions which are required to increase voluntary compliance. As outlined in section 2.1 and section 4, broader work and welfare regimes influence the size of the undeclared economy in a country. Larger undeclared economies are associated with lower levels of GDP per capita, a low quality of bureaucracy and higher levels of perceived public sector corruption, lower levels of expenditure on social protection, less effective social transfer systems and greater inequality and deprivation. Tackling the undeclared economy, therefore, is not solely about changing the penalties and risks of detection, or providing incentives to work in the declared economy. It also requires changes in the macro-level economic and social conditions, if it is to be reduced. Unless this is achieved, there will continue to be an asymmetry between the informal and formal institutions in a country and undeclared work will remain rife.

7 A NATIONAL ACTION PLAN: POLICY RECOMMENDATIONS AND SEQUENCING

7.1 A National Action Plan

Until recently, governments have largely sought to tackle undeclared work by seeking to repress this sphere. Today however, most governments are no longer seeking to eradicate the undeclared economy. Rather, there has been growing recognition across governments that they are seeking to move the undeclared economy into the declared economy (Dekker *et al.*, 2010; Eurofound, 2013; European Commission, 2007a, ILO, 2015; Small Business Council, 2004, Williams, 2006a; Williams and Nadin, 2012a,b, 2013, 2014). The rationale for this shift is several-fold.

For governments, the benefits of moving undeclared work into the declared economy are that it improves the level of public revenue, thus enabling governments to pursue higher expenditure on social integration and mobility projects (Williams and Windebank, 1998). It also enables the creation of more declared jobs and facilitates a joining-up of policy towards the undeclared economy with the policy approaches towards entrepreneurship and social inclusion (Dekker *et al.*, 2010; European Commission, 2007a). Given that a large proportion of undeclared work is self-employment, seeking to eradicate the undeclared economy would result in one hand of government repressing precisely the entrepreneurship and enterprise culture that with other hands they are seeking to foster. Similarly, given that much work in the undeclared economy is composed of paid favours between close social relations conducted for redistributive rationales and to help out others, repressing the undeclared economy would also result in one hand of government eradicating precisely the active citizenship that other hands of government wish to nurture. Seeking to harness endeavour in the undeclared economy by facilitating its transfer into the declared economy, rather than seeking to eradicate it, these contradictions are overcome. There is a joining-up of government policy towards the undeclared economy and policy towards entrepreneurship and active citizenship. It is beneficial not only to governments however, to move the undeclared economy into the declared economy.

For legitimate businesses, it prevents unfair competition and enables the business community to pursue a ‘high road’ rather than ‘low road’ approach by shifting towards greater regulatory standards on working conditions such as health and safety and labour standards (Williams and Windebank, 1998). For undeclared workers meanwhile, the key benefits are that they can achieve the same levels of legal protection as declared workers (ILO, 2015b). For customers, furthermore, the advantages of legitimising the undeclared economy are that such customers benefit from legal recourse if a poor job is done, have access to insurance cover, enjoy guarantees with regard to the work conducted, and have more certainty that health and safety regulations are being followed (Williams and Martinez, 2014c). Across most governments therefore, the aim now is less to stamp out the undeclared economy and more to move the undeclared economy into the declared realm. How, therefore, can this be achieved?

The National Action Plan for tackling undeclared work is an integrated holistic approach based on a diagnostic of the current character of the undeclared economy in Greece which tackles this by utilising the full range of direct and indirect controls by concurrently pursuing both enforced compliance and voluntary cooperation. In Table 6, the policy measures that are required in Greece in order to achieve this are outlined.

Table 5 NATIONAL ACTION PLAN FOR TACKLING THE UNDECLARED ECONOMY

Activity	Rationale	Expected Outcome	Actors Involved
<p>ORGANISATION OF THE FIGHT AGAINST UNDECLARED WORK</p>			
<p>1. Implement a holistic integrated strategic approach towards tackling undeclared work.</p>	<ul style="list-style-type: none"> • The organisation of the fight against undeclared work (in terms of strategy, operations and data mining) is currently fragmented across a range of ministries, departments, sub-divisions and agencies, each working in ‘silos’, with little cooperation or joined-up thought and action. • It is essential, however, to join-up the strategies, operations and knowledge of all state agencies and the social partners in a coordinated approach if the fight against undeclared work is to be effective. • The establishment of coordination mechanisms under the responsibility of an existing body or a new National Independent Coordinating Body, to be defined through tripartite dialogue, would enable a holistic integrated strategy to be formulated and implemented. • This body should focus upon setting strategic objectives which can be individually or jointly adopted by the various Ministries and agencies involved in the fight against undeclared work. These objectives should be SMART (Specific, Measurable, Achievable, Relevant & Time-bound). To measure progress against these strategic objectives, key performance indicators (KPIs) should be developed for all Ministries involved in tackling undeclared work. These KPIs should be cascaded down to unit-level and individual-level targets within and across the various Ministries and agencies. • Given that such a strategic national coordinating body will be required both to feed up into and receive down good 	<ul style="list-style-type: none"> • A coordinated national strategy will result, which does not exist at present; including some specific measures for those who are especially vulnerable to undeclared work including, but not limited to, women, young people, migrants and refugees. • The creation of such a holistic integrated strategic approach will send a message to those involved in undeclared work that the government are seriously tackling this issue in collaboration with the social partners. • Attaching KPIs to measure progress against SMART strategic objectives will facilitate the modernisation of public services and the development of a more effective and efficient system of public administration. 	<p>Cabinet Office and Ministers of Labour, Social Security and Solidarity, Minister of Finance and ESYKA who are responsible for the major facets of undeclared work, social partners, and perhaps sub-groups at the sectoral level</p>

	practice from the newly established EU Platform for tackling undeclared work, this body would also fulfil that function.		
DIRECT CONTROLS			
Deterrence Measures			
2. Improve the effectiveness of electronic systems for data mining, the interoperability of data bases and data sharing.	<ul style="list-style-type: none"> • Not all the electronic systems for data mining are fully operational, and there is a lack of full data sharing across these systems whenever required. • This is not wholly a technocratic but also an organisational problem, and needs to be resolved. There is currently a lack of willingness among the individual bodies involved in data mining to freely share their data with others, and each appears to have a desire for their own information system to be the one comprehensive system. • To resolve this, these electronic systems could be integrated organisationally and under some coordination mechanism. This might be moving them into a newly-established 'Undeclared Economy Information Unit' in the coordinating body. The Grey Economy Information Unit in Finland is a good practice example of where data mining has been integrated into a single national body. 	<ul style="list-style-type: none"> • This would join-up the various data-sets and enable more effective data mining across government. • Inspectors will receive better information to plan more effective inspections • Inspectors will be able to develop segmentation strategies that focus resources where the risks are the greatest (e.g., largest taxpayers, high-wealth individuals, and high income self-employed). • Improved rate of detection of undeclared workers 	Cabinet Office SEPE Secretary General of Information Systems Ministry of Finance ESYKA
3. Targeting and planning inspections	<ul style="list-style-type: none"> • At present, inspections are not necessarily targeted at those sectors and businesses in which undeclared work is rife (e.g., agriculture and small businesses). A more targeted approach (when combined with various incentives listed below), would enable a more effective approach to be pursued towards enforced compliance. • Coordinated inspections between SEPE, ESYKA and the tax authorities at the same business, particularly the self-employed, would increase impact. Additionally, it may remove the incentives of people to resort to self-employment, which often does not stem from a genuine entrepreneurial spirit but rather, is a means of benefiting from high margins and a means of evading tax. 	<ul style="list-style-type: none"> • Improved rate of detection of labour law violations, tax non-compliance and social insurance fraud. 	SEPE Ministry of Finance ESYKA

<p>4. Training of inspectors</p>	<ul style="list-style-type: none"> • There is currently limited official training of labour, tax and social security inspectors on the issue of tackling the undeclared economy. • By continuously training inspectors on the issue of tackling the undeclared economy, a more efficient and effective approach will result, and also a culture change facilitated away from a ‘cops and robbers’ approach towards a customer-friendly approach, including in inspection methods and techniques. • The training multidisciplinary program in France could be an example 	<ul style="list-style-type: none"> • Improved efficiency and effectiveness of inspectors in tackling the undeclared economy. • Capacity-building of the inspectorates. • Facilitates organisational culture change towards a more customer-friendly approach. • Tools/specific training programs for inspectors to better address undeclared work in small enterprises. 	<p>ILO Ministry of Finance SEPE ESYKA</p>
<p>5. Introduce voluntary supply chain responsibility initiative</p>	<ul style="list-style-type: none"> • Improving detection does not have to be solely a responsibility of the state authorities. Social partners can also play a role in detecting undeclared work. • To achieve this, a voluntary employer-led initiative to rid the supply-chain of undeclared work can be implemented. Either the employer at the top of the supply-chain will take responsibility for ensuring that this is the case or an initiative based on joint liability could be adopted. This could be introduced by a selection of circa 15 large Greek businesses (via SEV) as well as in the Greek tourism sector (via SETE). • This would involve social partners in detecting and eradicating undeclared work in the supply chain, and also provide a clear incentive for smaller businesses lower in the supply chain to be compliant so that they receive contracts from larger firms. • In this voluntary employer-led initiative, firms could be requested to show that they comply with tax and social security obligations through external auditors and/or refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. 	<ul style="list-style-type: none"> • Increases detection of undeclared work by involving social partners in its detection. • Reduces opportunities for undeclared work. • Provides a clear ‘demonstration effect’ to smaller firms that larger employers take compliance seriously and that they need to similarly do so. • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work. 	<p>SEV SETE Athens Chamber of Commerce American- Hellenic Chamber of Commerce</p>

<p>6. Introduce supply chain responsibility in all public works contracts awarded via a clause in the contract certifying that the winning firm undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers.</p>	<ul style="list-style-type: none"> • Another means of increasing detection through social partners is to introduce a clause in all public works contracts that the firm to which the contract is awarded undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers • The awarding of public works contracts are contracts over which the government has control and the inclusion of clauses in contracts is possible. • Including such a clause will place a substantial obligation on main contractors to whom contracts are awarded to abide by tax, social security and labour legislation and importantly, to ensure that any sub-contractors they employ will not employ undeclared workers. • In addition, it would help to make the submission of two bank guarantees obligatory for i) ensuring that salaries and ii) social security, will be paid. • If main contractors are found by the state inspectorates to have engaged undeclared workers in their supply chain, then a ban on bidding for public works contracts could be imposed for a specified period, and they would be removed from the ‘white list’ (see below). • 18% of SMEs bid for public procurement programmes. 	<ul style="list-style-type: none"> • Increases detection of undeclared work by involving social partners in its detection • Reduces opportunities for undeclared work • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work. 	<p>All Government Ministries</p>
<p>Direct Controls: Incentives</p>			
<p>Supply-side incentives</p>			
<p>7. ‘White list’ of legitimate employers (not ‘black list’) for public procurement contracts, etc</p>	<ul style="list-style-type: none"> • In order to lower the incidence of undeclared work, all firms who wish to tender for public contracts would have to obtain a ‘Clearance Certificate’ from SEPE, ESYKE and the Revenue Administration. This certification could be kept simple and refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. • This measure should be considered in the context of the PERSEAS system which has not been fully implemented. 	<ul style="list-style-type: none"> • Provides an incentive and positive benefit of being compliant by rewarding those who are compliant with access to public contracts. • Stronger control by SEPE and Ministry of Finance over ensuring compliance by providing a benefit of being 	<p>Ministry of Labour, Social Security and Solidarity Ministry of Finance ESYKA SEPE Social partners</p>

		<p>compliant.</p> <ul style="list-style-type: none"> • Reduces opportunities for undeclared work. 	
8. Take measures for removing barriers to formalization where appropriate	<ul style="list-style-type: none"> • To continue to simplify compliance in the realms of tax, labour and social security legislation, so as to make it easier to identify who is compliant and who is not. • An example of a good practice is the 2010 Simplified Employment Act (Egyszerűsített foglalkoztatási törvény) 2010 in Hungary which brings small jobs into the declared economy that would otherwise be conducted on an undeclared basis (see Box 6 in Report) 	<ul style="list-style-type: none"> • Reduces both intentional and unintentional non-compliance 	SEPE Ministry of Finance ESYKA Social partners
9. Improve the collectability of taxes owed and the process of imposing the administrative sanctions and penalties	<ul style="list-style-type: none"> • Even when taxes are owed, and the need for administrative sanctions and penalties identified, the process of collecting the taxes owed and imposition of sanctions is ineffective and inefficient. Judicial processes are slow and ineffective. • There is therefore need to dedicate greater resources to collection rather than the assessment of debt. • To enable the release resources for, and to facilitate, collection, and importantly, to prevent so many judicial appeals, consideration should be given to introducing a simple ‘standard deduction’ for businesses and the self-employed (see Box 4 in Report). 	<ul style="list-style-type: none"> • Improved collection of taxes owed. • Improved tax revenues from identified non-compliance • Simplified tax assessment and compliance 	Ministry of Finance Social partners
10. Provide incentives for business to formalise, notably by extending the INEMY-ESEE ‘Business walking routes’ initiative	<ul style="list-style-type: none"> • Businesses require incentives to formalise. On such incentive is to increase the opportunities for gaining greater market share. The INEMY-ESEE ‘Business walking routes’ initiative provides free marketing for businesses that operate formally by advertising their services so as to increase opportunities for trade. • This is currently confined to a small range of local districts. It could be extended to a wider range of local districts and also services where it is known that the undeclared economy is prevalent (e.g., home repair services, electricians, plumbers) in order to provide an incentive for businesses to operate on a formal basis using the ‘carrot’ of free advertising and marketing. 	<ul style="list-style-type: none"> • Provides an incentive and benefit for firms that operate legitimately by providing them with free marketing • Incentivises declared work 	Employer representative organisations in cooperation with Ministry of Finance and Ministry of Labour, Social Security and Solidarity

11. Provision of formalisation advice	<ul style="list-style-type: none"> • Many businesses require advice on how to put their affairs in order and to operate on a fully formal basis, as well as advice at start-up on how to operate legitimately. • One such initiative is the INEMY-ESEE/GSEVEE helpline and advisors who provide advice to businesses on tax, social security and labour law. Currently, 15-20 advisors are employed. This could be extended and also focus to a greater extent on formalisation support and advice in key sectors where the undeclared economy is rife. • A broader initiative might also include the use of ‘role models’ organised by for example chambers of commerce to act as mentors to nascent entrepreneurs starting-up. 	<ul style="list-style-type: none"> • Enables business start-ups to do so legitimately • Enables those business operating on a partially undeclared basis to receive advice on how they can put their affairs in order 	Employer representative organisations in cooperation with Ministry of Finance and Ministry of Labour, Social Security and Solidarity Chambers of Commerce
12. Normative notification letters (using data mining)	<ul style="list-style-type: none"> • To make use data mining in a preventative and curative manner, and reduce the need for costly inspections to resolve the existence of undeclared work, businesses perceived to be potentially engaging undeclared or under-declared workers (e.g., with below average wage rates for their sector or size) should be sent normative notification letters. • These normative notification letters should inform the businesses that: (i) the tax, labour and/or social security authorities have identified possible discrepancies in their business; (ii) that they may well be targeted in the near future for an inspection, and (iii) highlight to them the benefits of being declared and costs of undeclared work both to society and legitimate businesses. They could also state how the vast majority of businesses are compliant in their area and/or sector, so as to improve horizontal trust. • In agricultural sector, will encourage adoption of voucher system rather than employ undeclared workers • Means of extending out into peripheral areas currently seldom visited by inspectorates 	<ul style="list-style-type: none"> • To encourage businesses to put their affairs in order in a cost-effective manner • Widens tax base 	SEPE Ministry of Finance ESYKA
13. Review the sanction system and the collection of fines	<ul style="list-style-type: none"> • In 2014, a new reform on inspections and sections was promulgated. Sanctions were heavily increased and process of application became easier. There are no as yet impact 	<ul style="list-style-type: none"> • A more detailed evaluation of the impact of sanctions should be considered 	SEPE ESYKA Social

	assessments of this revision in terms of dissuasion and compliance. On the other hand since 2015, SEPE has been using a more preventative approach not really using the fines provided by legislation.	<ul style="list-style-type: none"> An eventual legislative reform on the issue could be proposed and new strategies on undeclared work dissuasion should be defined by SEPE 	partners
Demand-side incentives			
14. Electronic payments	<ul style="list-style-type: none"> Greece has one of the lowest levels of electronic payments per capita per annum of EU member states. To discourage the use of cash and incentivise an increase in electronic payments, so as to reduce the opportunities for undeclared work, Greece should: (1) implement the ceiling on cash transactions, including the mandatory use of digital payments for transaction with a value above €30 in sectors with a high risk of undeclared transactions, (2) discourage easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €150,000 operating in sectors with intermediate or high risk of undeclared transactions, (4) central and regional governments to shift more fully towards electronic payments and (5) provide incentives for using cards at the point-of-sale. This might involve: <ul style="list-style-type: none"> A refund of 1% of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services by individuals from sectors with a low risk of undeclared transactions A refund of 5% of the transaction value for digital payments through POS terminals for the purchase of goods and services by individuals from sectors with intermediate risk of undeclared transactions A refund by 10% of the transaction value for digital payments through POS terminals for the purchase of goods 	<ul style="list-style-type: none"> Tax revenues increase by 0.24 percentage points for every percentage point growth of the use of payment cards The net fiscal benefit is estimated to be €700 million in the first year of implementation. Subsequently, as the Electronic payment targets are met, and the use of digital payments consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit. 	Bank of Greece Banks Financial institutions All government departments Social partners

	<p>and services by individuals from sectors with high risk of undeclared transactions</p> <ul style="list-style-type: none"> • Lottery for consumers that use digital payments in sectors with high risk of undeclared transactions 		
<p>15. Use of service vouchers, such as in household services and agriculture, to cover payments for tax and health and social contributions, but conduct research to evaluate the substitution effect</p>	<ul style="list-style-type: none"> • The agricultural sector has high levels of temporary seasonal workers. Most workers are employed for short periods and employers and workers benefit from lack of regulation in this sector. The focus has been on facilitating employers in this sector to employ legal workers through a voucher system and making it simple for employers to comply • Household services are similarly a sector in which there is high levels of undeclared work. • These vouchers cover tax, health and social insurance contributions in a lump sum, thus ensuring that the State is receiving tax and social contributions and workers are registered. • This system could be extended, where appropriate through tripartite consultation, to more sectors prone to undeclared work. • In all sectors where implemented, evaluation should occur through a representative sample survey of the substitutive effect of this scheme (i.e., is it replacing regular employment or undeclared employment?). 	<ul style="list-style-type: none"> • The agricultural sector which has a high level of seasonal workers who are undocumented migrants will become better regulated and will lead to a more robust method of controlling undeclared work in the sector. • In household and personal services, it transfers undeclared work into the declared economy. 	<p>Ministry of Agriculture ESYKA Ministry of Labour</p>
<p>16. Introduce a tax rebate incentive scheme for home owners to receive a rebate of tax when they employ (i) domestic workers, and (ii) registered building contractors or registered tradespeople who provide house repair and renovation</p>	<ul style="list-style-type: none"> • Surveys indicate that, in common with many other European States, a high proportion of undeclared work takes place in home repair and renovation, and domestic services. • Encouraging homeowners with a tax rebate when they employ registered workers will encourage homeowners to engage declared persons to provide such services. • Tax rebate schemes for domestic services, and home repair and renovation, have been demonstrated in other EU Member States (for example: Denmark, Germany, Belgium, Sweden) to be a major incentive to engage 	<ul style="list-style-type: none"> • Offers an incentive to citizens to employ declared workers and raises awareness of the negative effects of employing undeclared workers. • It has a two-fold benefit in increasing income possibilities for registered builders and trades persons and it raises the quality of housing repair and 	<p>Ministry of Finance Social Partners and other stakeholders</p>

<p>services.</p>	<p>declared workers and reject undeclared workers.</p> <ul style="list-style-type: none"> The tax rebate does not need to be high - normally it applies to the cost of the labour only and consists of a relatively small percentage of the costs of labour (e.g., 20%) although some countries go up to 50% rebate of labour costs. 	<p>maintenance.</p>	
<p>INDIRECT CONTROLS</p>			
<p>Change citizens' values, norms and beliefs</p>			
<p>17. Launch of a Public Awareness Campaign on the Benefits of Declared Work</p>	<ul style="list-style-type: none"> Extensive research reveals that when citizen morality does not align with the laws and regulations, there are larger levels of undeclared work. Measures to improve commitment to compliance (i.e., voluntary cooperation), therefore, are important when fighting the undeclared economy. A public awareness campaign on the benefits of declared work may increase the level of voluntary compliance. This campaign could target younger people who are more likely to view undeclared work as socially acceptable, as well as perhaps professional groups such as doctors, lawyers and accountants. The media used and messages need to be tailored to these selected groups. International experience indicates that as public acceptance of the morality of engaging in undeclared work falls, this is reflected in a similar fall in the number of those engaging in undeclared work. 	<ul style="list-style-type: none"> Reducing the tolerance of undeclared work will result in lower levels of undeclared work. The percentage of citizens engaged in undeclared work will fall. There will be an increase in the number of reports to the hotlines and inspectors. The groundwork will be laid for a fairer more equitable society. It will widen the tax base 	<p>Ministry of Finance Ministry of Labour, Social Security and Solidarity Social Partners and other stakeholders such as American-Hellenic Chamber of Commerce and Athens Chamber of Commerce</p>
<p>18. Awareness raising campaign among business community of the benefits of declared work</p>	<ul style="list-style-type: none"> To raise awareness among businesses of the benefits of declared work and costs of undeclared work so as to increase the level of voluntary cooperation, and reduce the need for enforced compliance. Roadshow to some 50 local Chambers of Commerce Foster role models/mentors by developing buddy system whereby legitimate entrepreneurs buddy with younger nascent entrepreneurs to help them legitimise and provide 	<ul style="list-style-type: none"> Reducing the tolerance of undeclared work will result in lower levels of undeclared work. The percentage engaged in undeclared work will fall. There will be an increase in the number of reports to the 	<p>American-Hellenic Chamber of Commerce Athens Chamber of Commerce Employers' organizations ILO</p>

	support and advice on legitimate business development.	<p>hotlines and inspectors.</p> <ul style="list-style-type: none"> • The groundwork will be laid for a fairer more equitable society. • It will widen the tax base 	
19. Educating citizens about the tax system	<ul style="list-style-type: none"> • An annual letter can be sent to all tax payers which sets out what portion of their taxes is spent on which public goods and services, akin to 2009 initiative showing how their taxes are spent. • In addition, there might be signs such as ‘your taxes are paying for this’ on public construction projects (e.g., new roads), on ambulances, in doctor’s waiting rooms, in hospitals and schools. This conveys a clear message to the public that their taxes are being used to pay for these public goods and services. 	<ul style="list-style-type: none"> • Improved citizens understanding about the relationship between paying taxes and the public goods and services received. • Resultant reduction in undeclared work. 	<p>Ministry of Finance Ministry of Education Ministry of Health and Welfare SEPE ESYKA Social partners and other stakeholders</p>
20. Educate schoolchildren of the benefits of declared work	<ul style="list-style-type: none"> • Target school students so as to educate citizens before they start participating in the labour market about the benefits of declared work and costs of undeclared work. • Introduce in the civic education curriculum lessons on why people pay tax, the benefits of social insurance and declared work, and the costs of undeclared work. • Introduce a national Undeclared Work-week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant. • Involve sportspeople, singers or actors in order to have ‘celebrity endorsement’ for a large social media campaign addressed to young people on the benefits of declared work. 	<ul style="list-style-type: none"> • Improved understanding of children about the benefits of paying taxes and social insurance, and working declared. • Resultant peer pressure on parents from children will reduce undeclared work. 	<p>Ministry of Education SEPE IKA Social partners and other stakeholders</p>
21. National competition on why pay your taxes	<ul style="list-style-type: none"> • To use a celebrity role model to make a social media video on ‘why pay your taxes’ so as to use appropriate role models for the target group for celebrity endorsement. • This video will be used to launch a competition for people to make their own video on the subject of ‘why pay your taxes’. A prize of €50,000 would be awarded for the best 	<ul style="list-style-type: none"> • Encourages self-reflection by a wide segment of the target population (e.g., young people) to consider the pros of paying taxes and cons of failing to do so. 	<p>Ministry of Finance Ministry of Education SEPE ESYKA Social partners and other stakeholders</p>

	<p>social media (e.g., youtube) video on this subject of ‘why pay your taxes’.</p> <ul style="list-style-type: none"> • This would involve people in considering for themselves why it is important to pay tax, rather than be told why they should do so. Such reflexive self-learning is far more effective than information campaigns at embedding knowledge and understanding. • An additional option is to integrate this competition with the above recommendation to introduce this issue in the civic education curriculum. If this is done, schoolchildren can produce such videos in their civic education classes. • The sequencing of such a competition with the policy measures below is important. It should be run following, rather than prior to, public institutional reforms to be effective. 	<ul style="list-style-type: none"> • Rather than preach messages, it encourages self-reflection and self-education. 	
REFORM FORMAL INSTITUTIONS			
22. Strengthening social dialogue	<ul style="list-style-type: none"> • To improve the participation of all social partners in the fight against undeclared work, there is a need to get a consensus of the main labour market institutions and particularly the social partners. • To enhance tripartite capacities to tackle undeclared work. • As self-employment is extensive and one of the key structural characteristics resulting in the prevalence of the undeclared economy, bipartite social dialogue should be used to deal particularly with bogus self-employment and measures to effectively deal with it. • Progress on this issue should be monitored annually and supported with data at the sectoral level and SEPE inspection reports in a collaborative effort. 	<ul style="list-style-type: none"> • Broadening of involvement • Improved governance 	All social partners
23. Collective labour agreements	<ul style="list-style-type: none"> • Across the stakeholders interview, there is a consensus that the extension of collective agreements, which was banned by Law 4024/20111, article 37, be reinstated (as it was provided by Law 1876/1990), as the suspension of the 	<ul style="list-style-type: none"> • Reduces under-declared work 	GSEE SEV GSEVEE ESEE SETE

	extension of collective agreements allows some employers to pay a legally minimum salary even to specialized workers, and give an envelope wage to supplement the wage of the competitors.		OMED
MONITORING THE IMPACT OF A NATIONAL ACTION PLAN			
24. Baseline assessment of the extent and nature of undeclared work	<ul style="list-style-type: none"> Without a baseline assessment, it will be difficult to monitor the impact of policies on undeclared work. An up-to-date mapping of its character (e.g., who does it, what they do and why), will enable the targeting of policies. Face-to-face structured interviews are one option with a representative national sample of some 2,000 respondents, perhaps as part of Omnibus surveys. Another option is to include questions on regular national labour force surveys to identify those conducting undeclared and under-declared work, which would provide regular data and at relatively low cost. This requires (i) a survey of citizens using household as the unit of analysis, with the Eurobarometer survey of undeclared work forming the starting point for its design and (ii) a business survey so as to evaluate undeclared work and its impacts on enterprises. This will enable a more focused prioritisation of the most important sectors, groups, types of undeclared work, etc to tackle. 	<ul style="list-style-type: none"> A baseline assessment enables future progress in tackling undeclared work to be measured. Evidence-based decision-making can occur on which types of undeclared work, sectors, groups, etc to prioritise. The above policy measures proposed can be shaped by the findings (e.g., the groups targeted by awareness-raising campaigns, the sectors focused upon by initiatives, the types of undeclared work which receive priority) 	Hellenic Statistical Authority SEPE ESYKA Ministry of Finance
25. Evidence-based evaluation of policies	<ul style="list-style-type: none"> Instilling a culture of evidence-based evaluation of public policies is necessary. When any of the above policies and actions are undertaken, which requires investment of public money, then evaluation of the effectiveness of the money used (e.g., revenue-to-cost ratios) and the effectiveness of the policy measure (e.g., impact on 	<ul style="list-style-type: none"> More effective policy approach towards tackling undeclared work More effective use of public money 	Cross-government

transforming undeclared work into declared work) should be used.

- There is a need for both ex-ante and ex-post evidence-based evaluations of policy measures

7.2 Sequencing of the policy measures

When introducing the above recommended policy measures, it is important to implement:

- measures that seek to improve citizen morality either at the same time as, or after, measures that reform the formal institutions, and
- direct controls that provide incentives to, and bolster the benefits of, working declared, either prior to, or at the same time as, measures that improve the sanctions and risks of detection.

7.3 Specification of a feasible sector and/or region to launch a pilot programme

To support the transition to declared work, it is recommended that a pilot study using this integrated policy framework be conducted to assess its impacts in terms of tackling undeclared work. Rather than select a specific economic sector and/or region at which all measures should be targeted, different population groups, sectors and/or regions could be selected, through tripartite consultation, for the piloting of each of the above policy measures, taking into account the causes, circumstances and forms of undeclared work in Greece, as well as the desires, competencies, capacities and capabilities of those involved in the fight against undeclared work. This will enable the effectiveness and efficiency of this multi-stakeholder holistic integrated policy approach to be evaluated in practice, and for any teething problems to be resolved with each measure before its wider implementation.

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ANNEX A

KEY STAKEHOLDERS CONSULTED

Meetings were held with the following key stakeholders

Ministries

Ministry of Labour, Social Security and Social Solidarity

- Minister Mr. Katrougalos
- SEPE (National Labour Inspectorate: Executive Secretary/ERGANI/ARTEMIS/ Inspectors)

Ministry of Finance

- Special Secretariat Financial and Economic Crime Unit- SDOE
- General Secretariat for Information Systems- GSIS
- General Secretariat of Public Revenues

Ministry for Interior and Administrative Reconstruction

- Financial Police Division - Hellenic Police Headquarters

Ministry of Rural Development and Food

Social partners:

EMPLOYERS:

- Hellenic Federation of Enterprises (SEV)
- Hellenic Confederation of Professionals, Craftsmen & Merchants (GSEVEE)
- Hellenic Confederation of Commerce and Entrepreneurship (ESEE)
- Association of Greek Tourism Enterprises (SETE)

WORKERS:

Greek General Confederation of Labour (GSEE)

Social security authorities:

- Social Security Organization for the Self-Employed (OAEE)
- Organization on Social Security and Agriculture (OGA)
- United Insurance Fund for Employees (IKA)

Research Centres:

Labor Institute of GSEE (INE-GSEE)

Institute of Commerce and Services (INEMY-ESEE)

Small Enterprises' Institute (IME-GSEVEE)

Foundation for Economic and Industrial Research (IOBE)

Centre of Planning and Economic Research (KEPE)

Society of Labor Law and Social Security (EDEKA)

Universities:

National and Kapodistrian University of Athens (EKPA)

Athens University of Economics and Business (AUEB)

Chambers:

Athens Chamber of Commerce and Industry (EVEA)

American – Hellenic Chamber of Commerce

Others:

Public Employment Agency (OAED)

Bank of Greece

Greek Ombudsman

Organization for Mediation and Arbitration (OMED)
Hellenic Statistical Authority (ELSTAT)
Economic and Social Council of Greece (OKE)

ANNEX B CHECKLIST FOR MEETINGS

Introduction

The main objective of our project is to provide a ‘diagnostic report’ on how the undeclared economy can be tackled in Greece.

You have been approached due to your ability to provide us with valuable input for our analysis. We would like to emphasize that this is an opportunity to give your opinion and influence the decision making process in this field.

We would like to discuss with you the following issues:

- Nature and extent of UDW in your country
- Characteristics of the existing national institutional framework;
- Policy towards UDW
- Good practices.

Although no official definition of undeclared work exists, there is a broad consensus on what is included and excluded. In this project, this consensus is reflected by using the following definition of undeclared work as a starting point:

‘any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account the differences in the regulatory system of Member States’ (European Commission, 2007: 2).

8.1.1 A. NATURE AND EXTENT

- Do you know of/have any estimates of the **extent** of UDW in Greece?
 - % of GDP?
 - % labour force?
 - Years of measurement? Authors?
 - Development in extent (growing, getting smaller)? (*last 10 years*)

- What is the **nature** of UDW in Greece?
 - Types
 - Wholly undeclared wage jobs + envelope wages
 - Self employed for friends and family
 - Self employed for third parties
 - “subsistence” economy (marginal businesses/agriculture)

 - Developments in types of UDW, is one type growing? (*last 10 years*)

 - Participants
 - Sex, age, education, occupation

 - Sectors:
 - Household services
 - Construction
 - Personal services
 - Hotels and restaurants
 - Repair services
 - Industry
 - Agriculture
 - Fishery
 - Transport

- Retail
- Other, viz:
- Geographical aspects?
 - Regions, rural – urban

Evidence from tax, labour inspectors, etc

- Number of tax and labour inspectors
- Evidence on performance (number of cases identified, sectors, etc)
- Current KPIs

B. ORGANISATIONAL FRAMEWORK

- How is the overall national **organisational framework** towards undeclared work in your country best described?

as:

- () One single compliance unit/agency/organisation is responsible
- () Different (government) departments/organisations are responsible for different aspects
- () Other:

Which (government) departments/organisations (including NGO's) have responsibility for different aspects of undeclared work:

Name and sort of department/organisation

Name organisation	Types of undeclared work focused on (e.g., tax/ social security and/or labour law/ other)	Function (strategy, operations and/or data sharing)

- Evidence of joined-up actions across government departments
.....
- Is this cooperation in the realm of:
 - Strategy
 - Operations
 - Data-matching
 - Other
- What is the role of social partners?
- What would you say are the main difficulties the enforcement bodies face

8.1.2 C. CHARACTERISTICS OF EXISTING NATIONAL POLICIES

These questions relate to the national policies with regard to tackling (fighting, preventing and transforming) undeclared work in Greece

- What are the three most dominant policy ‘themes’ used in your country? Please list 1st, 2nd and 3rd in order

Deterrence: Penalties	
Deterrence Measures to improve detection	
Enabling: Preventative measures	
Enabling: Curative measures	
Enabling: Fostering commitment to declared work	

Examples of policy (good practices) and evaluations

.....

- try to identify:
 - Objectives
 - Results
 - Information (evaluations, contacts)
 - Bibliography
- How has policy towards UDW evolved over the last 10 years?
 - Any shift of emphasis in policy?
 - Involvement of social partners?
 - Influence of EU?

Checklist: collect evidence on existence (and any evaluations) and also perceived effectiveness of each measure for tackling undeclared work

Measures	Used in Greece	Effectiveness [1= very effective, 5 = very ineffective]
<i>DETERRENCE</i>		
Penalties		
Use of penalties and fines for purchasers/companies	()	
Use of penalties and fines for suppliers/employees	()	
Measures to improve detection		
Data matching and sharing	()	
Workplace inspections	()	
Registration of workers prior to starting work or on first day/week of work	()	
Coordinating strategy across government	()	
Coordination of operations across government	()	
Coordination of data sharing across government	()	
Use of peer-to-peer surveillance (e.g. telephone hotlines)	()	
Certification of business, certifying payments of social contribution and taxes	()	
Mandatory ID in the workplace	()	
<i>ENABLING COMPLIANCE</i>		
Preventative measures		
Reduce the regulations	()	
Simplify procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication)	()	
Technological innovations to prevent undeclared transactions (e.g. certified cash registers)	()	
Introducing new categories of work e.g., simplify procedures for small or mini-jobs	()	
Use of direct tax incentives (e.g., exemptions, tax deductions)	()	
Use of social security incentives	()	
Initiatives to ease transition from unemployment into self-employment	()	

Initiatives to ease transition from employment into self-employment	()	
Changing minimum wage upwards	()	
Changing minimum wage downwards	()	
Training & support to business start-ups	()	
Micro-finance to business start-ups	()	
Advice on how to formalise	()	
Connecting pension schemes to formal labour	()	
Introducing supply chain responsibility	()	
Restriction on free movement of (foreign) workers	()	
Curative measures		
Measures to encourage <i>purchasers</i> to buy formal goods and services:		
service vouchers	()	
targeted direct tax incentives (e.g., income tax relief/reduction/subsidy schemes)	()	
targeted indirect taxes (e.g., VAT reductions)	()	
Measures to stimulate <i>suppliers</i> to formalise:		
society-wide amnesties	()	
individual-level amnesties for voluntarily disclosing undeclared activity	()	
'formalisation' advice to business	()	
'formalisation' support services to businesses	()	
Targeted VAT reductions	()	
Provide free record-keeping software to businesses	()	
provide fact sheets on record-keeping requirements	()	
provide free advice/training on record-keeping	()	
Gradual formalisation schemes (e.g. wage alignments in Italy)	()	
Fostering commitment to declared work		
Campaigns to inform undeclared workers of the risks and costs of working undeclared	()	
Campaigns to inform undeclared workers of the benefits of formalising their work	()	
Campaigns to inform users of undeclared work of the risks and costs	()	
Campaigns to inform users of undeclared work of the benefits of declared work	()	
Use of normative appeals to people to declare their activities	()	
Measures to change perceived fairness of the system	()	
Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner)	()	
Measures to improve tax/social security/labour law knowledge	()	
Adoption of commitment rather than compliance approach (e.g., 'responsive regulation')	()	
Campaigns to encourage a culture of commitment to declaration	()	

D. DETERMINANTS OF, AND BARRIERS TO, TACKLING UNDECLARED WORK

What do you view as the causes of undeclared work?

.....

What do you view as the main barriers to tackling the undeclared economy?

.....

Priorities and paths to tackle this challenge

.....

Feasible sector and/or region to launch the pilot programme to reduce undeclared work in Greece

.....

ANNEX C
ANALYSIS OF 2013 EUROBAROMETER DATA ON UNDECLARED WORK

Table C1. Who purchases undeclared goods and services in Greece?

Variables*	% of population purchasing undeclared goods and services	% of all undeclared goods and services purchased by:	% of surveyed population	€ spent on undeclared goods and services (mean)
<i>Greece</i>	30	100	100	748
Tax morality (mean = 2.00)				
Below mean	28	55	59	710
Above mean	33	45	41	787
Gender				
Female	28	49	51	560
Male	31	51	49	933
Age				
15 – 24	31	17	17	439
25 – 39	36	33	27	527
40 – 54	31	25	24	854
55 and older	23	25	32	1166
Formal education				
15 and under	19	18	29	491
16-19	31	37	35	473
20+	41	34	25	1296
Still studying	29	11	11	477
Marital status				
[Re]-Married/ Cohabiting	31	55	52	894
Single	31	31	30	511
Divorced or separated/ Widowed/ Other	23	14	18	713
People 15+ years in own household				
One	26	22	25	392
Two	33	50	44	714
Three and more	27	28	31	1107
Children				
No children	28	72	76	791
Having children	36	28	24	633
Social class				
Middle or high class of society	34	52	45	1101
Working class of society	25	48	55	382
Difficulties paying bills				
From time to time/ Almost never/ Never	34	53	46	1044
Most of the time	26	47	54	414
Occupation				
Self-employed	40	24	18	950
Employed	34	29	25	493
Not working	24	47	57	789
Area				
Rural	29	27	28	581
Urban	30	73	72	814
Region				
Voreia Ellada - Northern Greece	34	39	34	404
Kentriki Ellada (Central Greece)	33	25	23	1788
Attiki (Attica)	27	33	37	388
Kriti (Crete)	15	3	6	--

* Refusal and Don't know excluded

Table C2. Logistic regressions of the likelihood of purchasing undeclared goods and services in Greece

Variables	Model 1			Model 2			Model 3		
	β	se(β)	Exp(β)	β	se(β)	Exp(β)	β	se(β)	Exp(β)
Tax morality	0.133 **	0.063	1.143	0.117 *	0.063	1.124	0.168 **	0.071	1.183
Gender (Female)									
Male	0.103	0.153	1.108	0.011	0.156	1.011	0.022	0.157	1.022
Age (Exact age)	-0.008	0.007	0.992	-0.005	0.007	0.995	-0.005	0.007	0.995
Formal education (15 and under)									
16-19	0.514 **	0.221	1.672	0.463 **	0.225	1.588	0.475 **	0.230	1.608
20+	0.783 ***	0.249	2.187	0.797 ***	0.256	2.219	0.802 ***	0.263	2.230
Still studying	0.275	0.398	1.316	0.524	0.414	1.688	0.469	0.418	1.599
Marital status ([Re]-Married/ Cohabiting)									
Single	-0.111	0.253	0.895	-0.090	0.253	0.914	-0.107	0.256	0.899
Divorced or separated/ Widowed/ Other	-0.007	0.272	0.993	0.009	0.275	1.009	-0.012	0.275	0.988
People 15+ years in own household (One)									
Two	0.190	0.246	1.209	0.208	0.247	1.232	0.138	0.249	1.148
Three and more	-0.174	0.246	0.840	-0.140	0.247	0.870	-0.212	0.250	0.809
Children (No children)									
Having children	0.051	0.204	1.052	0.049	0.206	1.050	0.032	0.209	1.033
Social class (Middle or high class of society)									
Working class of society	-0.227	0.163	0.797	-0.119	0.177	0.888	-0.114	0.179	0.892
Difficulties paying bills (From time to time/ Almost never/ Never)									
Most of the time				-0.136	0.165	0.873	-0.170	0.167	0.844
Occupation (Self-employed)									
Employed				-0.450 **	0.221	0.638	-0.386 *	0.229	0.680
Not working				-0.603 ***	0.214	0.547	-0.553 **	0.222	0.575
Area (Rural)									
Urban							0.221	0.193	1.247
Region (Voreia Ellada - Northern Greece)									
Kentriki Ellada (Central Greece)							-0.084	0.203	0.919
Attiki (Attica)							-0.404 **	0.191	0.668
Kriti (Crete)							-0.911 **	0.428	0.402
Constant	-1.075 **	0.537	0.341	-0.740	0.553	0.477	-0.751	0.563	0.472
N			1,000			1,000			1,000
Number of imputations			50			50			50
Prob. > F			0.0001			0.0000			0.0000

Notes: Significant at *** p<0.01, ** p<0.05, * p<0.1; All coefficients are compared to the benchmark category, shown in brackets.

Table C3. Who works in the undeclared economy in Greece? by socio-demographic, socio-economic and spatial characteristics

Variables*	% of population engaged in undeclared work	% of all undeclared work conducted by:	% of surveyed population	€ earned through undeclared work (mean)
<i>Greece</i>	3	100	100	1268
Expected sanctions				
Tax or social security contributions due	1	17	30	612
Tax or social security contributions + fine or prison	2	83	70	245
Detection risk				
Very small/ Fairly small	3	59	61	1775
Fairly high/ Very high	3	41	39	409
Tax morality (mean = 2.00)				
Below mean	2	37	59	349
Above mean	4	63	41	1738
Gender				
Female	3	51	51	778
Male	3	49	49	1941
Age				
15 - 24	7	39	17	754
25 - 39	4	33	27	1729
40 - 54	2	16	23	100
55 and older	1	12	33	2909
Formal education				
15 and under	1	13	29	500
16-19	3	39	35	455
20+	3	27	25	5000
Still studying	6	21	11	1228
People 15+ years in own household				
One	3	22	25	1722
Two	2	31	44	1226
Three and more	4	47	31	1112
Children				
No children	3	84	76	1273
Having children	2	16	24	1234
Social class				
Middle or high class of society	3	43	45	2136
Working class of society	3	57	55	655
Difficulties paying bills				
From time to time/ Almost never/ Never	2	35	46	365
Most of the time	4	65	54	1955
Occupation				
Self-employed	3	17	18	5000
Employed	3	27	25	1000
Not working	3	56	57	641
Area				
Rural	2	18	28	2473
Urban	3	82	72	1047

* Refusal and Don't know excluded

Table C4. Logistic regressions of the likelihood of working in the undeclared economy, Greece

Variables	Model 1			Model 2			Model 3		
	β	se(β)	Exp(β)	β	se(β)	Exp(β)	β	se(β)	Exp(β)
Expected sanctions (Tax or social security contributions due)									
Tax or social security contributions + fine or prison	0.744	0.751	2.105	0.948	0.787	2.582	0.986	0.783	2.679
Detection risk (Very small/ Fairly small)									
Fairly high/ Very high	0.316	0.418	1.372	0.373	0.414	1.452	0.415	0.412	1.515
Tax morality	0.613 ***	0.158	1.846	0.661 ***	0.156	1.937	0.660 ***	0.158	1.934
Gender (Female)									
Male	-	0.420	0.868	-	0.439	0.857	-0.208	0.447	0.812
	0.142			0.154					
Age (Exact age)	- **	0.021	0.954	- **	0.021	0.949	-0.054 ***	0.020	0.947
	0.047			0.052					
Formal education (15 and under)									
16-19	0.019	0.718	1.020	0.149	0.743	1.160	0.136	0.736	1.146
20+	-	0.827	0.798	-	0.821	0.898	-0.145	0.814	0.865
	0.226			0.108					
Still studying	-	1.074	0.692	-	1.164	0.686	-0.461	1.158	0.631
	0.368			0.377					
People 15+ years in own household (One)									
Two	0.144	0.619	1.155	0.197	0.607	1.218	0.150	0.599	1.162
Three and more	0.532	0.557	1.703	0.689	0.569	1.992	0.658	0.570	1.932
Children (No children)									
Having children	-	0.630	0.456	-	0.602	0.485	-0.731	0.585	0.481
	0.785			0.723					
Social class (Middle or high class of society)									
Working class of society	0.192	0.476	1.212	-	0.491	0.833	-0.172	0.496	0.842
				0.182					
Difficulties paying bills (From time to time/ Almost never/ Never)									
Most of the time				1.095 **	0.470	2.988	1.105 **	0.473	3.020
Occupation (Self-employed)									
Employed				0.192	0.560	1.212	0.023	0.590	1.023
Not working				0.379	0.571	1.461	0.206	0.598	1.229
Area (Rural)									
Urban							0.766	0.546	2.150
Constant	- **	1.683	0.021	- ***	1.780	0.008	-5.191 ***	1.680	0.006
	3.866			4.841					
N			1,000			1,000			1,000
Number of imputations			50			50			50
Prob. > F			0.0000			0.0000			0.0000

Notes: Significant at *** p<0.01, ** p<0.05, * p<0.1; All coefficients are compared to the benchmark category, shown in brackets.

Table C5. Who engages in under-declared work in Greece? by socio-demographic, socio-economic and spatial characteristics

Variables*	% of employees receiving envelope wages	% of all employees receiving envelope wages by:	% of all employees	% of gross salary received as envelope wage (median)
<i>Greece</i>	7	100	100	10
Tax morality (mean = 1.96)				
Below mean	6	54	58	10
Above mean	7	46	42	30
Gender				
Female	7	48	46	40
Male	6	52	54	10
Age				
15 - 24	12	17	9	10
25 - 39	8	62	52	30
40 - 54	2	10	32	30
55 and older	10	11	7	10
Formal education				
15 and under	4	6	9	--
16-19	7	45	41	10
20+	6	49	50	30
Marital status				
[Re]-Married/ Cohabiting	5	41	54	10
Single	9	49	36	10
Divorced or separated/ Widowed/ Other	7	10	10	40
People 15+ years in own household				
One	5	17	22	50
Two	5	40	49	10
Three and more	10	43	29	10
Children				
No children	7	66	66	30
Having children	7	34	34	10
Difficulties paying bills				
From time to time/ Almost never/ Never	1	12	56	10
Most of the time	13	88	44	20
Area				
Rural	5	18	22	30
Urban	7	82	78	10

* Refusal and Don't know excluded

Table C6. Logistic regressions of the likelihood engaging in under-declared work in Greece

Variables	Model 1			Model 2			Model 3					
	β	se(β)	Exp(β)	β	se(β)	Exp(β)	β	se(β)	Exp(β)			
Tax morality	0.390	*	0.230	1.477	0.509	**	0.252	1.664	0.510	**	0.252	1.665
Gender (Female)												
Male	-0.241		0.522	0.786	-0.273		0.538	0.761	-0.275		0.536	0.760
Age (Exact age)	-0.019		0.032	0.981	-0.036		0.036	0.965	-0.036		0.036	0.965
Formal education (15 and under)												
16-19	0.556		1.205	1.744	1.029		1.274	2.797	1.028		1.268	2.796
20+	0.204		1.207	1.227	1.163		1.294	3.201	1.163		1.300	3.200
Marital status ([Re]-Married/ Cohabiting)												
Single	0.680		0.740	1.975	0.296		0.747	1.345	0.296		0.754	1.344
Divorced or separated/ Widowed/ Other	0.662		0.986	1.938	0.512		1.043	1.669	0.511		1.063	1.668
People 15+ years in own household (One)												
Two	0.405		0.928	1.499	0.573		0.969	1.773	0.573		0.975	1.774
Three and more	0.729		0.778	2.072	1.266		0.897	3.548	1.268		0.906	3.554
Children (No children)												
Having children	0.279		0.757	1.322	0.393		0.680	1.482	0.393		0.678	1.482
Difficulties paying bills (From time to time/ Almost never/ Never)												
Most of the time					2.892	***	0.872	18.02	2.894	***	0.882	18.07
Area (Rural)												
Urban									-0.002		0.714	0.998
Constant	-3.833		2.381	0.022	-6.266	***	2.333	0.002	-6.269	***	2.393	0.002
N				260				260				260
Number of imputations				50				50				50
Prob. > F				0.5961				0.0001				0.0001

Notes:

Significant at *** p<0.01, ** p<0.05, * p<0.1; All coefficients are compared to the benchmark category, shown in brackets.

Table C7. Tax morality in Greece: by socio-demographic, socio-economic and spatial characteristics

Variables*	Tax morality index (mean score across 6 behaviours, where 1 = totally unacceptable and 10 = totally acceptable)	Tax morality - 6 behaviours (mean score, where 1 = totally unacceptable and 10 = totally acceptable)					
		1	2	3	4	5	6
<i>Greece</i>	2.00	1.85	2.50	1.89	1.71	1.98	2.09
Undeclared work							
No	1.93	1.79	2.42	1.82	1.64	1.92	2.01
Yes	2.93	2.65	3.99	2.67	2.52	2.71	3.34
Purchased undeclared goods/ services							
No	1.91	1.79	2.34	1.79	1.61	1.90	2.00
Yes	2.14	1.89	2.82	2.03	1.84	2.10	2.19
Gender							
Female	1.98	1.76	2.43	1.86	1.72	2.03	2.08
Male	2.01	1.95	2.57	1.92	1.70	1.93	2.09
Age							
15 – 24	2.06	1.80	2.65	1.93	1.72	2.06	2.23
25 – 39	2.11	2.01	2.57	2.02	1.83	2.05	2.20
40 – 54	2.04	1.82	2.64	1.92	1.80	2.06	2.14
55 and older	1.83	1.77	2.25	1.73	1.55	1.83	1.88
Formal education							
15 and under	1.84	1.77	2.29	1.77	1.56	1.79	1.91
16-19	2.06	1.84	2.65	1.93	1.80	2.07	2.18
20+	2.11	2.05	2.53	2.01	1.83	2.10	2.16
Still studying	1.99	1.74	2.57	1.85	1.61	1.99	2.16
Marital status							
[Re]-Married/ Cohabiting	1.95	1.80	2.44	1.84	1.67	1.92	2.05
Single	2.06	1.83	2.60	1.95	1.79	2.06	2.15
Divorced or separated/ Widowed/ Other	2.02	2.06	2.48	1.92	1.73	2.01	2.09
People 15+ years in own household							
One	2.16	2.04	2.60	2.10	1.91	2.20	2.27
Two	1.99	1.89	2.46	1.87	1.70	2.00	2.03
Three and more	1.88	1.67	2.47	1.75	1.58	1.79	2.03
Children							
No children	2.00	1.83	2.55	1.88	1.70	1.97	2.10
Having children	1.99	1.92	2.33	1.91	1.76	2.01	2.03
Social class							
Middle or high class of society	1.96	1.84	2.48	1.91	1.70	1.93	1.98
Working class of society	2.02	1.87	2.49	1.88	1.73	2.03	2.17
Difficulties paying bills							
From time to time/ Almost never/ Never	2.05	1.91	2.47	1.99	1.84	2.08	2.04
Most of the time	1.95	1.80	2.53	1.80	1.61	1.90	2.13
Occupation							
Self-employed	2.26	2.03	2.81	2.20	1.97	2.30	2.37
Employed	1.96	1.95	2.38	1.86	1.70	1.89	2.01
Not working	1.93	1.75	2.44	1.80	1.64	1.92	2.03
Area							
Rural	2.04	1.78	2.57	1.98	1.75	1.99	2.24
Urban	1.98	1.88	2.46	1.85	1.70	1.98	2.03

* *Refusal* and *Don't know* excluded

Table C8. Linear regression for the determinants of individual tax morale in Greece

Variables	Model 1		Model 2		Model 3	
	β	se(β)	β	se(β)	β	se(β)
Undeclared work (No)						
Yes	1.092 ***	0.421	1.126 ***	0.420	1.134 ***	0.421
Purchased undeclared goods/ services (No)						
Yes	0.154 *	0.088	0.129	0.088	0.130	0.087
Gender (Female)						
Male	0.063	0.077	0.038	0.078	0.040	0.078
Age (exact)	-0.008 ***	0.003	-0.008 **	0.003	-0.008 **	0.003
Formal education (15 and under)						
16-19	0.157	0.104	0.156	0.105	0.165	0.106
20+	0.218 *	0.125	0.263 **	0.129	0.276 **	0.129
Still studying	0.001	0.177	-0.001	0.197	0.015	0.197
Marital status ([Re]-Married/ Cohabiting)						
Single	-0.145	0.123	-0.128	0.123	-0.128	0.123
Divorced or separated/ Widowed/ Other	0.024	0.133	0.043	0.132	0.044	0.132
People 15+ years in own household (One)						
Two	-0.261 **	0.129	-0.253 *	0.129	-0.254 **	0.129
Three and more	-0.429 ***	0.123	-0.428 ***	0.124	-0.427 ***	0.124
Children (No children)						
Having children	-0.119	0.099	-0.109	0.099	-0.108	0.099
Social class (Middle or high class of society)						
Working class of society	0.150 *	0.083	0.240 **	0.095	0.236 **	0.095
Difficulties paying bills (From time to time/ Almost never/ Never)						
Most of the time			-0.188 **	0.091	-0.188 **	0.091
Occupation (Self-employed)						
Employed			-0.329 ***	0.123	-0.313 **	0.124
Not working			-0.195	0.122	-0.180	0.122
Area (Rural)						
Urban					-0.075	0.085
Constant	2.406 ***	0.261	2.634 ***	0.264	2.663 ***	0.266
N		1,000		1,000		1,000
Number of imputations		50		50		50
Prob. > F		0.0000		0.0000		0.0000

Notes:

Significant at *** p<0.01, ** p<0.05, * p<0.1;

All coefficients are compared to the benchmark category, shown in brackets.



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