



SPEECH

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LABOUR MARKET CHALLENGES: HUNGARIAN AND EU BEST PRACTICES TO FIGHT UNDECLARED WORK

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Introduction

My name is Steven D'Haeseleer. I work in the Social Affairs Department of BUSINESSEUROPE. I would like to start by thanking you for inviting me speak and this for two specific reasons. First, because this seminar is a good example of the strong links and successful collaboration between MGYOSZ and BUSINESSEUROPE. And, secondly, because the topic of the seminar is an important one. Fighting undeclared work is a key challenge facing policy-makers and social partners alike.

Undeclared work creates unfair competition vis-à-vis law-abiding companies and citizens. Workers are not protected by the provisions of the labour code while undeclared work also constitutes a loss in tax revenue and social security contributions. Often, the state pays out unemployment or other social benefits to people that are working. Successfully addressing the problem would provide an enormous boost to national public finances.

In my presentation, I will therefore focus on how to address the challenge of undeclared work. I will proceed in three steps, focusing on three issues: the policies needed to fight undeclared work, the role various actors play – with a particular focus on actions undertaken by European social partners - and the level of policy-making.

But before digging into content, let me first say a few words about BUSINESSEUROPE. Our organisation is composed of 39 member federations spanning the whole continent. These groups are the principal industrial and employers' federations in their respective countries. Through these member federations, BUSINESSEUROPE represents the interests of more than 20 million small, medium and large companies.

Among the many issues that BUSINESSEUROPE is dealing with, an important part concerns employment and social policy. Our involvement in the social field covers different forms of activities, including bipartite social dialogue (or consultation, co-operation and negotiation between the social partners at EU-level). I will later come back to what we have done in the EU social dialogue on undeclared work. Let me now turn to the policies that are needed to fight undeclared work.

On policies

The most effective strategy to combat undeclared work consists of a combination of preventive actions and sanctions. Let me first turn to prevention and highlight some of the main actions to be taken.

1. Lowering fiscal levies and social security charges on labour;
2. A business-friendly environment with simpler procedures and legislation and less bureaucracy;
3. Improving labour market flexibility by addressing rigidities and making available a variety of contractual arrangements;
4. Modern social protection systems which link rights and obligations and provide incentives to work;
5. These measures have to be accompanied by increased efforts regarding public awareness of the possible negative effects of undeclared work and the shadow economy.

In short, what is needed is a broad-based approach with action taken across a broad range of policy domains. In this respect, there is a clear link with flexicurity.

This is not the place to elaborate on the concept of flexicurity. Let me just say that, in fact, one of the objectives of flexicurity is to tackle segmented labour markets where insiders enjoy a high degree of security while outsiders are trapped in unemployment or undeclared work. Flexicurity could help transform informal work into formal work as it would facilitate job creation by employers by reducing the administrative burden, making available a variety of employment contracts and ensuring the availability of a more skilled workforce. For workers, it would mean improved job prospects through increased investment in lifelong learning, active labour market policies and the provision of unemployment benefits in case of unemployment. BUSINESSEUROPE and its member federations therefore attach the greatest importance to contributing to making progress with respect to the implementation of flexicurity policies at national level.

In addition to “preventive” actions, we also need better surveillance and stricter law enforcement. This means improving law enforcement capacity as well as co-operation between authorities, both within and between countries. I will come back to this point later.

In sum, a policy approach which is to successfully reduce undeclared work should be balanced and involve a mix of the elements I briefly highlighted. This policy mix will inevitably vary from country to country. Having discussed policies, let's now take a look at the role of public authorities and social partners.

On actors

There is a broad consensus that combating undeclared work is a shared responsibility of public authorities and social partners. First and foremost, public authorities have to put in place the right framework conditions (labour law, fiscal measures etc.) to stimulate regular employment. In addition, they need to effectively enforce existing legislation and sanctions.

But social partners also have a crucial role to play. At sectoral or national level, they can contribute to the design and implementation of measures which can have a more direct impact on undeclared work. Later today, we will hear some interesting and concrete cases that illustrate this. For my part, I would like to give you four examples of the way in which the European social partners have been dealing with the issue of undeclared work in recent years.

A first example – and the most recent one - is the joint labour market analysis.

BUSINESSEUROPE conducted a Joint Labour Market Analysis with the European Social Partners. The results and recommendations were presented to the Tripartite Social Summit in October and to the European Council in December 2007.

The agreement can be considered a milestone in the history of European Social Dialogue. For the first time, European social partners jointly acknowledge the need for labour market reform to face the challenges of population ageing, technological change and globalisation.

In the joint analysis, we have also touched upon the issue of undeclared work. Employers and trade unions not only expressed their concern about the high level of undeclared work in many EU Member States. We also agreed on a recommendation in which we call upon Member States to fight undeclared work by:

- ensuring the respect of law and rights (administration, social inspection etc.);
- improving the cooperation between social administrations throughout the EU;
- deciding with the social partners on joint initiatives depending on the national situation; including campaigns against undeclared work, starting in those sectors where abuse is the most prevalent.

Secondly, in the context of a joint programme of the EU social dialogue on restructuring, we bring together social partners at national level to discuss social and economic challenges facing the country in question. In 2003-2005, the programme focused on the new Member States. Every national seminar touched, to a greater or lesser extent, on the informal sector. As we are in Hungary and many people in the audience are from a Central or Eastern European country, I would like to share with you some main conclusions.

1. The seminars revealed that undeclared work exists in every country but is particularly acute in Poland, Hungary, the Czech Republic and Latvia. While the scale of the grey economy is per definition difficult to assess, estimates in Poland and Hungary put the number at around one million workers in each country.
2. Various forms of informal work were identified:
 - the grey worker (*not existing but paid in cash*);
 - the moonlighter (*worker with two jobs, but only one formal*);
 - the envelope worker (*single job but receives two salaries*);
 - the selective accountant (*runs small business and under-records income*);
3. A wide variety of reasons were given for the high levels of undeclared work: state regulation of taxes, social security payments, business bureaucracy, employment laws and cultural reasons.

These issues are described in more detail in the national reports which were drawn up after the seminars. I invite you to take a look at them. They can be found on the website of the Employers' Resource Centre. This website has been created as a service to respond to the needs of employer federations. It provides information on the European Social Dialogue, on joint projects being undertaken by European Social Partners, and on financial opportunities for their members that exist.

A third example of how European social partners have addressed the issue of undeclared work was through the organisation of a joint seminar on undeclared work. This took place within the context of the 2003-2005 social dialogue work programme. The aim was to raise awareness of the nature of the problem, the driving forces, the situation in specific countries (Italy, Latvia) etc.

A final example dates back to 2005. European social partners have reported on social partner actions at national level which were relevant for the implementation of the European Employment Guidelines. Quite a number of national reports described social partners' actions aimed at fighting undeclared work. These ranged from sectoral agreements (in the cleaning and construction sector in Belgium) to tripartite discussions or agreements in Latvia, Italy, France, Spain and the UK.

Now, I hope that with these four examples you have a better idea about how European social partners have contributed to the fight against undeclared work. Let me now dig into the third part of my presentation. After the "what" and "by whom" parts, this will be about "where" (at which level) policies have to be taken.

On the level of policy-making

Clearly, the competence to take action lies primarily with the Member States. Most of the decisions will therefore have to be taken at national level. This also includes effective enforcement of existing European labour law as transposed into national legislation. Yet, the EU can play a useful role by:

- providing a framework to facilitate Member States' labour market reform efforts;
- providing a platform for the exchange of best practices or experiences between national labour inspectorates;
- fostering administrative co-operation between Member States.

When talking about this third element, cross-border co-operation between EU Member States, one cannot but touch upon the Posting of Workers Directive. The cross-border provision of services can involve posting workers from one member state to another. In that case, the posting of workers directive specifies which working conditions apply to the posted workers. It thus facilitates mobility of workers while providing a significant protection, guaranteeing a level playing field and protecting against so-called “social dumping”. In order for the posting of workers directive to achieve its full benefits and potential, it is crucial that companies wishing to post a worker in one of the EU Member States have easily accessible information on their obligations. Likewise, administrative co-operation between national authorities is of crucial importance for an effective implementation of the Directive.

The European Commission recently adopted a recommendation which focuses exactly on these issues (i.e. a more effective exchange of information, better access to information and exchange of best practice). European employers therefore very much welcome this initiative. This is precisely where the added-value of the EU lies. It is now up to the Member States to improve the actual implementation of the Posting Directive.

Before wrapping up my presentation, let me also say a few words about free movement of workers. As most of you know, in the area of cross-border mobility of workers, a distinction should be made between free movement of workers and free movement of services.

At the end of 2008 (for Romania and Bulgaria) and in 2009 (for the A-8 countries), EU Member States will have to decide whether they will continue restricting access to their labour markets for workers from Central and Eastern Europe. While acknowledging that in some countries the need for transitional arrangements can exist, BUSINESSEUROPE is in favour of full application of free movement of workers. We therefore hope that on the basis of the evidence of the last few years, Member States will lift their transitional arrangements as soon as possible or reduce their scope as much as possible. Not only is free movement of labour a fundamental freedom guaranteed by the Treaty, experience has also shown that it has helped to tackle labour shortages, alleviate skills bottlenecks and spur economic growth. But, clearly, opening up labour markets will also reduce incentives to seek illegal work.

Conclusion

To conclude, let me briefly summarise the main messages of my presentation:

- On policies: we need the right mix of policy measures, consisting of both preventive measures on the one hand and enforcement of existing legislation on the other hand;
- On actors: social partners – at all levels – and public authorities have a joint responsibility to transform undeclared work into regular work;



- Finally, while most of the measures will have to be taken at national (or sectoral) level, the EU has an important complementary role to play.

Given the size of undeclared work in EU Member States, it is clear that much remains to be done. We therefore need to step up our efforts to fight undeclared work. Only by doing so, we will be able to address unfair competition, improve working conditions for workers and boost public finances. Ultimately, an effective fight against undeclared work will give a much needed boost to the success of the Growth and Jobs Strategy.

Thank you for your attention.
