

How to counteract shadow employment in Poland?¹⁾

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About 9.3% of the working population in Poland operates in the shadow economy. The majority (57%) comprises persons who perform unregistered work as their main job but significant number (10%)²⁾ are employed officially somewhere else. Most of those working in shadow economy are hired workers i.e. employees (57%) and they work largely on the basis of oral agreements only (see Table 1).

Table 1. Main forms of shadow employment

	The share of a given form of employment in the number of working persons in total	The share of a given form of shadow employment in the shadow economy in total
The total number of working in shadow economy in the main and/or in additional jobs	9.3%	100%
Persons working in the shadow economy in the main job	8.5%	92%
Of that: Hired workers (employees) in total	5.3%	57%
Of that: Hired workers (employees) without a contract	2.8%	30%
Persons working in the shadow economy in an additional place of employment	0.9%	10%

Source: Own calculations

Skills and probability to work in shadow economy

Our results prove that working in shadow economy without any formal agreement and treating this as the main source of income is the most popular among workers performing simple jobs and not having high professional qualifications. It seems that unregistered work should not be treated as the alternative to official work for this group of employees. Undertaking unregistered work is most often connected with a lack of possibilities to find official employment. One may say that the worker of the shadow economy is much more similar to the person who has no work, than to the person who has official employment.

Specialists and skilled workers are in a slightly different situation – primarily computer specialists, teachers and doctors. These professional groups, first, more rarely commit themselves to the shadow economy, and second, they treat unregistered work more frequently as additional work, or as a means to receive extra income apart from official pay in their main place of employment.

Compensation from unregistered work

Work in the shadow economy does not have the explicit influence on the salaries achieved by workers, and it greatly depends on other characteristics of workers, as well as on the form of employment. Work without any legal agreement undermines the positive effect that a high level of education or a good professional position usually has on the salary and reduces the remuneration achieved by workers without qualifications.

Preferences and perceptions

- Nonetheless, in Poland, one observes very strong preferences for unregistered work. It appears that as many as 45% of persons, if they had such a possibility, would undertake unregistered work.
- It means that there is a threat that the currently high share of unregistered workers will go even higher.

- The Poles think also that many jobs, particularly those that are performed for the needs of households, generally should not be taxed. According to a large percentage of respondents unregistered work does not have the character of illegal activity (34%) and they are ready to accept completely such behaviour of others (30%). However, not paying taxes in general is accepted only by 17% of society. On the other hand approval for unregistered work does not mean that persons who perform it do not notice its cost. They do take notice that their pensions will be lower in the future.

High tax wedge and complicated inflexible procedures

- These costs however, in many cases, are not able to outweigh the benefits, which, first of all, are high and notable, and, secondly are visible both here and now. Both workers and entrepreneurs point to high taxation of work as the main reason for the appearance of unregistered work. In the case of workers with low qualifications, these costs mean it is their only chance to get a job, whereas their employers raise their own profits in this way and/or improve their competitiveness.

- The situation differs slightly in the case of qualified specialists who treat work in the shadow economy as a relatively simple way of earning extra money. In this case employers relatively frequently mention the lack of qualified workers as the reason for the appearance of the shadow economy.

- Both employers and workers often give the excessively time-consuming and complicated hiring and workers' related tax procedures as one of the reasons for undertaking work in the shadow economy. Although, on the other hand the majority of employers declare they know these procedures and they assess their role in the „creation” of unregistered employment as much weaker than in case of non-wage labour costs.

- The very important reason for the appearance of the shadow economy, both according to workers as well as employers, is the need for flexibility of the employment relationship. High flexibility of shadow employment is its most important advantage according as many as 40% of unregistered workers. This is quite interesting as the flexibility of employment relationship has been mainly perceived thus far as an expectation unique for employers. The fact that workers also seek it is a relatively new finding. However, one must take into account that these

opinions have been formulated by a peculiar group of workers – the group of those who decided to undertake work in the shadow economy.

Inefficient institutions

Malfunctioning of public institutions, resulting on one hand in unnatural and harmful motivations and on the other, in distrust in the system is the next reason for the appearance of the shadow economy. As much as 6%-9% of shadow employees admit that keeping unemployment or poverty related benefits is the main advantage of not undertaking registered work. It does not seem much but that we speak here about 100,000 persons - about 40% of those entitled to the unemployment benefit at the moment. The lack of trust appears both among employers and employees. In case of the former, it manifests itself generally in a low assessment of the possible effectiveness of the state polices to counteract unregistered employment. Employees on the other hand relatively often express their doubts regarding the reasons to be covered by social security system.

Last, an important reason for the popularity of unregistered employment in Poland is surely a weakness of controlling institutions. What is interesting is the fact that both the findings of our research carried out in public institutions responsible for this sphere and the survey of entrepreneurs led to such conclusions. According to the latter, tightening of control and increase in the severity of punishments are as important for counteracting unregistered employment as simplifying bureaucratic procedures.

Need for better regulations

Decreasing non wage labour costs seems to be the most expected and potentially the most effective instrument for reducing preferences of employers and workers for shadow employment. A reduction in the tax burden is most essential for low-skilled workers being the most severely affected. This decrease can also reduce the size of the shadow economy amongst skilled workers, although it seems that, in this case, the effect will be much smaller. However, it does not seem possible that such politics can have any effect on unregistered work provided for households.

Simplifying regulations and procedures seems to be an essential step, particularly in case of flexible working arrangements being alternative to ordinary full-time employment. Implementation of simple solutions increasing the flexibility of employment will allow for a better match of the employer - employee relationship in „untypical” situations often appearing in certain businesses. The existence of comfortable and maximally simplified - in terms of legal regulations –legal forms of seasonal or temporary employment could also contribute to limiting of unregistered work.

Raising awareness

Informational campaign is an essential element of actions aimed at limiting unregistered work. Issues of labour legislation and different regulations concerning the scope, the form, and the possibilities of entering into a contract based on the civil code, are still not clear for entrepreneurs and their potential employees. Small companies, which cannot afford to pay for a legal advice, have most often reported these problems. Consultancy in the scope of the optimal application of available legal forms of employment, as well as legal advice concerning changes or interpretation of regulations in reference to all possible forms of employment, could enhance the substitution of unregistered work with legal forms of employment.

Other informational campaigns should be directed at workers and persons looking for jobs, as they pay a real cost for being employed in shadow economy. The lack of stabilization, the lack of health insurance, low old-age pensions and social security

benefits, all lower the quality of life and deprive workers of security in case of joblessness. Findings of our research point out that the majority of people do not consider a decision about employment in such a long perspective. And even when they realise the incurred costs, they try to rationalize it.

An important element of an informational campaign also should be devoted to increasing the awareness of costs incurred by society as a result of insufficient funds for public purposes: such as education, the judiciary, police etc.

Make institutions more effective

It is also important that public institutions themselves, by their actions, do not create additional justifications for staying in the shadow economy. An example is a control of persons who receive financial assistance related to poverty or joblessness. One should devote more resources to control their actual situation, motivations and activities undertaken by these persons by themselves in order to find legal employment and improve their financial situation.

As we have recalled, an essential element that could contribute to the reduction of the shadow economy is the improvement of enforcement and the functioning of controlling institutions. The basic recommendation is to create a legally grounded system of state control in the scope of unregistered employment. The system should explicitly appoint one institution responsible for the entirety of causes connected with all aspects of the legality of employment and create effective system of information exchange between the responsible institution and other interested public bodies.

Final remarks

At the end, it is worth to note that every strategy should have a long-term character. Because of such strong preferences for unregistered work among Poles it is hard to expect fast and long-lasting changes in its scope. This means also that the improvement of the economic situation in the country as such (including the improvement of the situation on the labour market) will not necessarily reduce the scale of unregistered work.

Any information campaign or institutional reform will bring no results until the level of public confidence in public institutions improves. Poles do not believe the authorities, public institutions and their fellow-countrymen, and often they hold the widespread conviction that their taxes are squandered. Until public institutions become more effective both in their action and in spending money, more competent and law-abiding, tax avoidance and popular behaviours consisting of privatising public benefits and pushing personal costs back to public will be universal. Thus, long-term limitation of the shadow economy is impossible if the general crisis of the lack of confidence to the public institutions is not overcome.

1) This E-brief very briefly summarises the selected main results of the ten-month-long and interdisciplinary research of the team of experts from CASE -Centre for Social and Economic Research and Millward-Brown SMG/KRC. The research was carried out from March-November 2007, as part of the project: The causes of unregistered work, its scale, character and social consequences. This project was conducted by the Ministry of Labour and Social Affairs - the Department of the Labour Market, as part of the Sectoral Operational Programme - Human Resource Development 2004-2006.

2) It means that 2% of those employed in shadow economy has both jobs unregistered.

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