

Policy Approaches Towards Undeclared Work

A conceptual framework

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1 Executive Summary

The aim of this working paper is to provide a conceptual framework for understanding the policy approaches for tackling undeclared work. In doing so, the intention is to provide the structure for a future comprehensive review of the policy measures available for tackling undeclared work.

This paper is part of a series of papers associated with the project entitled 'Out of the shadows: developing capacities and capabilities for tackling undeclared work in Bulgaria, Croatia and FYR Macedonia'. Funded by the European Commission's Framework 7 Industry-Academia Partnerships Programme (IAPP), the objective of this project is to provide concrete policy recommendations about what policies may work better, based on rigorous empirical evidence, for those seeking to tackle the undeclared economy in the Balkans.

Reframing the undeclared economy: a tame or wicked problem?

Akin to many contemporary societal problems, tackling the undeclared economy has often been conceptually framed as a 'tame' problem (i.e., a problem that is complicated but easily solvable, often with a discrete response that can be replicated anywhere). Here however, the undeclared economy is reframed as a 'wicked' problem which is complex, rather than complicated, and the outcome of a number of inter-related drivers, each of which if addressed has unforeseen and unintentional knock-on effects. Responsibility for tackling the problem moreover, stretches across multiple stakeholders and requires profound behavioural changes across both citizens and stakeholders. In consequence, there is a need for 'clumsy' approaches rather than 'elegant' solutions.

Reviewing the policy choices

Four hypothetical policy choices when tackling undeclared work: do nothing; de-regulate the declared economy; eradicate the undeclared economy, or move undeclared work into the declared economy. Reviewing these choices, the first option of doing nothing is unacceptable. This is because it leaves intact the existing negative impacts on legitimate businesses (e.g., unfair competition), undeclared businesses (e.g., the inability to gain access to credit to expand), customers (e.g., no guarantee that health and safety standards have been followed) and governments (e.g., taxes owed are not collected). Secondly, de-regulating the declared economy is unacceptable because it results in a levelling down rather than up of working conditions and third and finally, eradicating the undeclared economy is unacceptable because it leads to governments repressing through their approach towards the undeclared economy precisely the active citizenship, enterprise culture and social inclusion that they otherwise wish to nurture. Moving undeclared work into the declared economy thus appears to be the most viable policy choice.

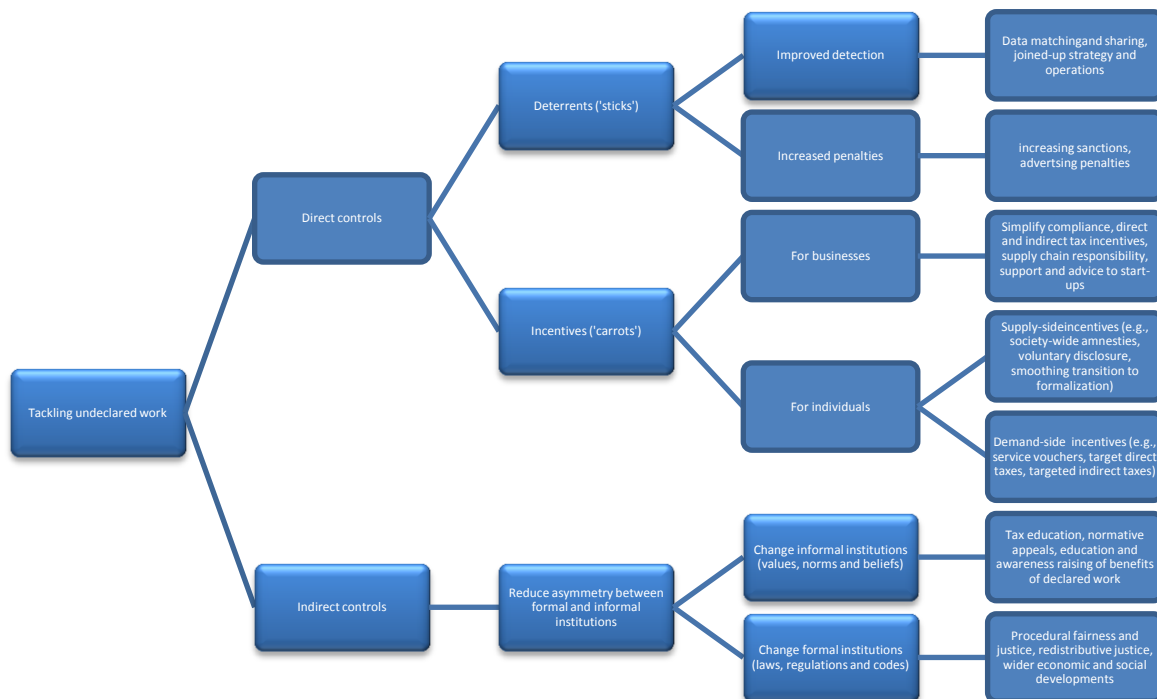
Nevertheless, this does not mean that the other choices are not useful. Although moving undeclared work into the declared economy is the most viable choice, it may be that doing nothing sometimes will have a supporting role to play such as in relation to small-scale paid favours because such activity is not susceptible to conversion into declared employment. A de-regulatory approach, meanwhile, may

be in some instances useful when seeking to simplify compliance in relation to business start-ups, and an eradication approach when tackling those who fail to comply.

Policy measures: a conceptual framework

To provide a conceptual framework of the policy measures available for tackling the undeclared economy, the starting point of this paper are the advances at the organizational level in how to elicit behaviour change. Revealing the shift at the organizational level from the use of direct controls to indirect controls to elicit behaviour change, this paper applies this approach at the societal level to tackling undeclared work. The result is a call for a shift away from using solely direct controls (deterrents and incentives) and for an exploration of the range of indirect controls that might elicit behaviour change (see Figure).

A typology of policy measures for tackling undeclared work



An institutional perspective on the way forward

To develop this indirect controls approach towards tackling undeclared work, an institutional approach is here shown to be required. In many societies, there is incongruence between the laws, codes and regulations of the formal institutions and the norms, beliefs and values that comprise the informal institutions. The result is that what formal institutions deem illegitimate is viewed as licit in terms of the norms, values and beliefs. To tackle undeclared work therefore, a reduction in this institutional incongruence is required. Two options exist.

Firstly, one can change the norms, values and beliefs of the population regarding the acceptability of working in the undeclared economy so that these informal institutions align with the laws, regulations and codes of formal institutions. This requires tax education initiatives, awareness raising campaigns and normative appeals to improve the level of tax morality.

Secondly, one can change the formal institutions to align with the norms, values and beliefs of the wider society. On the one hand, changes in the processes of formal institutions are required. This includes seeking improvement in procedural justice (i.e., whether citizens believe the authorities are treating them in a respectful, impartial and responsible manner), procedural fairness (i.e., whether citizens believe they are paying their fair share compared with others) and redistributive justice (i.e., whether citizens believe they are receiving the goods and services they deserve given the taxes they pay). On the other hand, changes are required in the products of formal institutions by pursuing wider economic and social developments. This requires the pursuit of wealthier economies, with stable high quality government bureaucracies that seek to reduce poverty levels, pursue equality, greater levels of social protection, more effective redistribution via social transfers and greater state intervention in the labour market to protect vulnerable groups.

Synthesising the direct and indirect control approaches

Indirect control measures that change formal and informal institutions, although necessary, are insufficient on their own to tackle undeclared work. Given that undeclared work is a wicked problem with multiple drivers, a multi-pronged approach is required that uses both direct and indirect controls. For example, governments might seek to change the culture of government departments towards a more customer-oriented approach and introduce public campaigns to elicit greater commitment to tax morality, whilst simplifying regulatory compliance and introducing incentives (e.g., amnesties, tax deductions) to enable undeclared work to move into the declared realm. At the same time, and in relation to those who fail to comply, they may also pursue improvements in the probability of detection and tougher sanctions for those subsequently caught.

The debate therefore, is not so much over whether to use direct or indirect controls. Rather, the major discussion concerns which specific policy measures are most effective and what is the most effective way of putting these policy measures together in various combinations and sequences to elicit behaviour change. The 'responsive regulation' approach and 'slippery slope' framework provides two options. Whether these are more effective than other sequences and combinations now needs evaluating. If this paper therefore encourages greater research into which sequences and combinations are effective in which contexts, then it will have achieved its objective. If it also leads to the wider adoption of this conceptual framing for understanding the policy approaches for tackling undeclared work, then it will have achieved its wider intention.

1. Introduction

This working paper is part of a series of papers associated with the project entitled 'Out of the shadows: developing capacities and capabilities for tackling undeclared work in Bulgaria, Croatia and FYR Macedonia' (Dzhekova and Williams, 2014; Franic and Williams, 2014). Funded by the European Commission's Framework 7 Industry-Academia Partnerships Programme (IAPP), the aim of this project is to provide concrete policy recommendations about what policies may work better, based on rigorous empirical evidence, for those seeking to tackle the undeclared economy in the Balkans. In particular, the objectives of our project are to:

1. Conduct a comprehensive review of the policy approaches and measures being used to tackle undeclared work.
2. Empirically evaluate the measures for facilitating the shift of undeclared work into the declared economy in the selected target region.
3. Based on the results of the first two objectives, the final objective is to recommend possible new policy approaches and measures (or endorse old ones) that will facilitate the shift of undeclared work into the declared economy.
4. In this Working Paper, the objective is to provide a conceptual framework for understanding the policy approaches for tackling undeclared work. This conceptual framework will then provide the basis for a comprehensive view of the policy approaches and measures available for tackling undeclared work, so that a policy approach and specific measures can be selected for facilitating the shift of undeclared work into the declared economy.

In this paper, therefore, Section 2 reveals how the problem of tackling undeclared work needs re-framing as a wicked problem rather than a tame one. Section 3 then reviews the range of potential hypothetical policy choices available for tackling undeclared work. These are doing nothing, de-regulating the declared economy, eradicating the undeclared economy or moving undeclared work into the declared economy. Evaluating these policy choices, the finding is that moving undeclared work into the declared economy is the only logical solution, although doing nothing, de-regulating the declared economy and eradicating the undeclared economy remain subsidiary strategies in relation to particular population groups and types of undeclared work. Section 4 then draws upon advances in research in eliciting behaviour change in the workplace in order to develop a heuristic conceptual framework for understanding the range of potential measures available for tackling the undeclared economy. Highlighting the shift towards indirect controls at the organisational level and the possibility for their use at the societal level when tackling undeclared work, section 5 then adopts an institutional approach for understanding how indirect controls can tackle this phenomenon. The final section 6 then reveals the different ways in which these indirect controls can combine with direct controls before drawing conclusions in section 7 regarding the way forward when tackling undeclared work both in the Balkans and beyond.

Before commencing however, undeclared work needs defining. Although in many developing countries, enterprise-based and jobs-based definitions have been widely employed (see Williams, 2013a), in developed economies activity-based

definitions are more common. The most widely used activity-based definition, and the one adopted in this report, defines the undeclared economy as:

“all legal production activities that are deliberately concealed from public authorities for the following kinds of reasons: to avoid payment of income, value added or other taxes; to avoid payment of social security contributions; to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety or health standards, etc. (OECD, 2002: 139).

This definition has been widely adopted in Europe (see Eurofound, 2013; European Commission, 2007; Schneider and Williams, 2013; Williams, 2004a,b, 2007a,b, 2008a,b, 2014a,b,c,d; Williams and Lansky, 2013; Williams and Nadin, 2012a,b,c, 2014; Williams and Renooy, 2013, 2014; Williams and Round, 2008). The only absence from undeclared work relative to declared work therefore, is that it is undeclared to the authorities for tax, social security and/or labour law purposes. If economic activities possess other absences, then it is not defined as undeclared work. If the goods and services are illegal, it is defined as ‘criminal’ activity and if unpaid it is defined as part of the ‘unpaid economy’.

2. Reframing the undeclared economy: a tame or wicked problem?

Until now, and similar to many contemporary societal problems, tackling the undeclared economy has been beset by a tendency to conceptually frame it as what Rittel and Webber (1973) call a ‘tame’ problem, rather than as a ‘wicked’ one. A tame problem is one that may be complicated but is easily resolvable, often with a discrete response that one can replicate at any time and in any context. Conversely, wicked problems are complex, rather than complicated, problems and are the outcome of a number of inter-related drivers, each of which if addressed has unforeseen and unintentional knock-on effects (Grint, 2010).

A tame problem therefore, may be a complicated problem but is resolvable through uni-linear acts and the problem is likely to have before occurred so is a known problem. There is thus limited uncertainty and resolving it akin to resolving a puzzle for which there is always an answer. In contrast, a wicked problem is more complex, rather than complicated. Indeed, Rittel and Webber (1973) identify ten primary characteristics of wicked problems:

1. There is no definitive formulation of a wicked problem.
2. Wicked problems have a no ‘stopping rule’, that is, no definitive solution, no points at which the problem is entirely solved (e.g., undeclared work will cease to exist because it has been resolved).
3. Solutions to wicked problems are not true-or-false, but good-or-bad.
4. There is no immediate and no ultimate test of a solution to a wicked problem.
5. Every (attempted) solution to a wicked problem is a ‘one-shot operation’; the results cannot be readily undone, and there is no opportunity to learn by trial-and error.

6. Wicked problems do not have an enumerable (or an exhaustively describable) set of potential solutions, nor is there a well described set of permissible operations that may be incorporated into the plan.
7. Every wicked problem is essentially unique.
8. Every wicked problem can be viewed as a symptom of another problem.
9. The existence of a discrepancy representing a wicked problem can be explained in numerous ways.
10. The planner has no 'right to be wrong' (i.e., there is no public tolerance of experiments that fail).

Alternatively but similarly, the Australian Public Service Commission (2007) outline eight key features of wicked problems:

1. Difficult to clearly define.
2. Many interdependencies and multi-causal aspects.
3. Proposed measures may have unforeseen effects.
4. Problems may be unstable and continue evolving.
5. No clear and correct solution.
6. Problems are socially complex with many stakeholders.
7. Responsibility stretches across many organisations.
8. Solutions may require behavioural changes by citizens and stakeholder groups.

The contention in this paper therefore, is that tackling undeclared work is not a tame problem but rather, a wicked one. When defining the problem of undeclared work, there are multiple drivers which display interdependencies and any attempt to tackle these drivers often has unforeseen and unintended effects, meaning that there is no clear and correct solution that can be simply implemented which necessarily results in the desired outcome. Responsibility for tackling the problem moreover, is not confined to one organisation but rather often stretches across multiple stakeholders and requires profound behavioural changes by both citizens as well as stakeholder groups in order to address this problem.

Wicked problems, in consequence, are tackled using 'clumsy' approaches rather than 'elegant' solutions (Douglas, 1966). Elegant solutions to tame problems are internally consistent ways of viewing the world based on particular cultural understandings. For hierarchists, stringent rules and punishments are used, individualists design incentives and egalitarians cultivate the right norms and cultural values. Wicked problems however, do not offer themselves up to be solved by such 'elegant' approaches. To address wicked problems, so-called 'clumsy' solutions are required that pragmatically draw from across these contradictory framings of the problems and policies.

3. Reviewing the policy choices

When tackling the undeclared economy, various hypothetical choices are available to policy-makers. Policy-makers might choose to: do nothing; eradicate the undeclared economy; move declared work into the undeclared economy; or alternatively, seek to

transfer work from the undeclared economy into the declared economy. Although some of these hypothetical choices might seem a little implausible at first glance, scholarship on the undeclared economy has advocated all of them in recent decades. As such, it is not possible to reject any of them without first reviewing and evaluating their implications.

3.1 Doing nothing

A first choice available to policy-makers is to do nothing. Governments could choose to ignore the undeclared economy or put another way, to adopt a 'laissez-faire' approach towards such work. At first glance, it might seem obvious that policy makers would wish to tackle the undeclared economy, not least to stimulate economic growth, protect working conditions and raise tax revenues in a fair and just manner to pay for wider social cohesion measures.

Nevertheless, there are clear rationales for doing nothing. Firstly, there are significant costs associated with government deciding to tackle the undeclared economy. Indeed, it might well be that when the undeclared economy is relatively small in a country, the revenue-to-cost ratios become so low that it is not worthwhile for governments to intervene to reduce its size. Secondly, it might be that because the undeclared economy acts as breeding ground for enterprise creation and test-bed for many nascent business ventures (Williams, 2009b; Williams and Martinez, 2014a,b), this sphere should be left alone. Thirdly, in many countries much of the undeclared economy is composed of paid favours for close social relations (Williams, 2004a, 2009a), and this is a main vehicle for delivering active citizenship. If deterred, governments will destroy precisely the active citizenship that it is otherwise seeking to foster. For these reasons, one might choose to do nothing about the undeclared economy. The problem however, and as Table 1 displays, doing nothing about the undeclared economy also has a wide array of costs on declared businesses, undeclared businesses, those working in the undeclared economy, customers and governments.

Reviewing these costs and benefits, most governments and scholars conclude that the costs of doing nothing outweigh the benefits. Few therefore deem doing nothing to be a viable approach. Nevertheless, even if pursuing solely this approach is not viable, this is not a reason to reject a laissez-faire approach outright. It appears to have some role as part of a package of policy approaches. For example, doing nothing might be adopted towards small-scale one-off odd-jobs conducted as paid favours to help close social relations, which is a primary source of active citizenship in contemporary monetized market societies (White and Williams, 2010; Williams, 2009b), thus freeing government resources to concentrate on larger-scale tax evasion by businesses. It might also be that doing nothing is appropriate for business start-ups, so that they can test-trade the viability of their enterprise (Williams and Martinez, 2014a,b,c). In consequence, although doing nothing is not an option with regard to all undeclared work, this approach has some role to play in relation to specific types of undeclared work. Overall, nevertheless, the costs of doing nothing outweigh the benefits, meaning that some form of action is required. Three choices exist.

Table 1. Costs and benefits of the undeclared economy

Costs	Benefits
<i>For declared businesses:</i>	
Results in unfair competition for declared businesses	Test-bed for business start-ups.
Declared businesses evade regulatory compliance to compete with undeclared businesses resulting in a 'race to the bottom'	
<i>For undeclared businesses:</i>	
Business expansion hindered by lack of access to the capital and business support available to declared businesses	Enables test-trading of the viability of business ventures.
Pressured into exploitative supply chain relationships with declared businesses	
Growing a business that cannot be openly advertised is difficult.	
<i>For undeclared workers:</i>	
Lack access to credit and financial services, due to undeclared income	Provides source of income.
Barriers of entry to formal labour market because unable to provide employment history to back up skills	Reduces barriers to entry into work because majority of such work is for close social relations.
No labour rights (e.g., minimum wage, sick pay, redundancy rights), access to health and safety standards as well as bargaining rights and voice.	
Cannot build-up rights to the state pension and other contributory benefits, and access occupational pension schemes	
<i>For customers:</i>	
Lack legal recourse, insurance cover, guarantees in relation to the work undertaken, and certainty that health and safety regulations are followed	A more affordable product or service is available to customers
<i>For governments:</i>	
Causes loss of state revenue in terms of non-payment of direct and indirect taxes	Acts as brake on government developing burdensome regulations
Has knock-on effects on attempts to create social cohesion by reducing the money governments have at their disposal to pursue social integration and mobility	
Leads to a loss of regulatory control over the quality of jobs and services in the economy	
Such activity may encourage a more casual attitude towards the law more widely	

Source: derived from Williams (2014a: Table 4.1)

3.2 De-regulating declared work

One choice available to governments is to de-regulate declared work. Advocated by a neo-liberal approach, this explains the undeclared economy to be a result of over-regulation (Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Small Business Council, 2004). Viewed through this lens, undeclared workers voluntarily exit the declared realm to operate in the undeclared economy due to the burdensome regulation in the declared realm (e.g., Sauvy, 1984; De Soto, 1989). The undeclared economy, therefore, is an expression of the existence of popular resistance to state over-regulation and undeclared workers are a political movement. For these scholars therefore, the undeclared economy directly results from high taxes, over-regulation and state interference in the free market. The resultant policy approach is to pursue tax reductions, de-regulation and minimal state intervention.

Although such scholars praise undeclared workers, their intention is not to promote undeclared work. Instead, their view, as Castells and Portes (1989: 13) put it, is that 'In an ideal market economy, with no regulation of any kind, the distinction between formal and informal would lose all meaning since all activities would be performed in the manner we now call informal'. By stripping away regulations, the distinction between declared and undeclared work would disappear and the declared and undeclared realms would become inseparable since all activities would be undeclared work, although such activity would be declared work since it would not be breaking any rules.

The problems with this policy option are manifold. Firstly, there is little evidence that reducing taxes and de-regulating the declared economy reduces the size of the undeclared economy. The emerging evidence is that reducing taxes does not formalize the economy (Eurofound, 2013; Kus, 2010; Vanderseyen et al., 2013; Williams, 2013b) and neither does reducing the regulatory burden decrease the size of the undeclared economy (Kus, 2014; Williams and Renooy, 2014). Secondly, even if de-regulation did reduce declared work, the outcome would be poorer quality working conditions and widening inequalities (Williams, 2006a, 2013b).

Just because pursuing solely this approach is not viable however, does not mean that it cannot be part of a package of approaches. De-regulation, such as in the form of simplifying compliance, could be a useful tool when helping businesses start-up on a legitimate basis. If the regulatory burden is high and complex, then de-regulation might have a role to play with regard to specific problems facing particular types of undeclared work. On its own however, de-regulation is not a viable approach since it would produce a levelling down of working conditions.

3.3 Eradicating the undeclared economy

A third choice is to eradicate the undeclared economy. The rationales underpinning this approach are evident in Table 1. Given the problems for declared and undeclared businesses, undeclared workers, customers and governments, eradicating the undeclared economy appears a viable choice.

Yet in recent decades, multifarious problems have been found regarding the practicability and desirability of pursuing eradication as an approach. The practical problem is that beyond a certain point, the cost of seeking to eradicate the remnants of the undeclared economy may well far outweigh the benefits of doing so. There is

thus a point beyond which it is difficult to progress when eradicating the undeclared economy.

Examining how its eradication can be achieved moreover, the conventional approach is to view those working in the undeclared economy as rational economic actors who are non-compliant because the pay-off is greater than the expected cost of being caught and punished (Allingham and Sandmo, 1972). As such, policies seek to change the cost/benefit ratio confronting actual or likely participants. This is done by focusing on the cost side and increasing the perceived or actual likelihood of detection and the penalties for those caught (Grabiner, 2000; Richardson and Sawyer, 2001). This therefore, is a 'negative reinforcement' approach that elicits behaviour change by using 'sticks' to punish 'bad' (non-compliant) behaviour. In recent years however, there have been questions regarding the efficiency and effectiveness of such an approach. Many have found that increasing detection and/or penalties leads to a growth, rather than decline, in the size of the undeclared economy (Bergman and Nevarez, 2006; Murphy, 2005). This is because such an approach decreases the willingness to comply by reducing the belief in the fairness of the system, especially when the fines are high and/or they are treated in a manner which they do not perceive as fair and just (Murphy, 2005).

Eradicating undeclared work is also perhaps not desirable. Not only may eradication be a costly option for governments but in doing so, governments will as mentioned above destroy precisely the entrepreneurial endeavour and active citizenship with one hand that with other hands governments are seeking to nurture and develop. The consequent challenge confronting governments is to join-up their approach towards the undeclared economy with their wider policies towards entrepreneurship and active citizenship. There is also a need to join up the approach towards the undeclared economy with its wider policies on employment creation and social inclusion. After all, governments do not seek simply to eradicate the undeclared economy. Rather, eradication is a means to achieving particular ends. One of these ends is the growth of the declared economy, such as declared jobs in order to improve employment participation rates. Simply eradicating undeclared work is not an effective and efficient way of achieving this end. Similarly, if an end is to increase government tax revenue, not least to support wider societal objectives, then again it is not obvious that eradicating undeclared work is appropriate (Williams, 2014a; Williams et al., 2013b).

Even if this policy choice is not on its own viable however, as part of a package of approaches, it may have a useful supporting and subsidiary role. When undeclared workers and businesses have received every opportunity to declare their activities but have not done so, then governments must be able to detect and punish those failing to comply. In these situations, the tools of the eradication approach such as penalties are required. As such, although not the cornerstone of any policy approach, it can be a necessary, albeit insufficient, part of a policy approach towards undeclared work.

3.4 Moving undeclared work into the declared economy

A fourth and final choice is for governments to move undeclared work into the declared economy. The rationales for doing so differ according to whether declared and undeclared businesses, undeclared workers, customers or the government, are

considered. Before reviewing the benefits of such an approach however, possible costs need identifying. One cost is that undeclared suppliers will no longer be able to use the undeclared economy to test-trade their business when starting-up, although this issue is not relevant if this approach recognizes that many business start-ups are on a journey to formalization and it seeks to facilitate this journey. Customers of the undeclared economy, meanwhile, will have to pay the full market price, since the function of the undeclared economy in providing access to cheaper goods and services will no longer be available. The benefits of moving undeclared work into the declared economy however, far outweigh these costs.

For businesses, moving undeclared work into the declared economy eliminates the unfair competitive advantage for undeclared businesses over those who play by the rules (Evans et al., 2006; Renooy et al., 2004). It also enables businesses to pursue a 'high road' rather than 'low road' approach by moving towards greater regulatory standards on corporate social responsibility and conditions of work such as health and safety and labour standards (Grabiner, 2000; Renooy et al., 2004; Williams and Windebank, 1998).

For businesses operating on an off-the-books basis, the key benefits of moving into the declared economy are manifold. They can escape pressurization into exploitative relationships with the legitimate sphere (Gallin, 2001; Williams and Windebank, 1998) and achieve the same levels of legal protection as legitimate businesses (Castells and Portes, 1989; ILO, 2002a; Morris and Polese, 2014; Williams and Windebank, 1998). They are also able to secure formal intellectual property rights to their products and processes (De Beer et al., 2013) and overcome the structural impediments that constrain their growth such as by gaining access to capital and secure advice and support (ILO, 2002a).

Individuals working in the undeclared economy meanwhile, benefit from shifting their work into the declared economy. They gain access to health and safety standards in the workplace (Adom and Williams, 2014; Evans et al., 2006; Gallin, 2001; ILO, 2002a), enjoy the same employment rights as declared workers, such as annual and other leave, sickness pay, redundancy and training (Evans et al., 2006). They are also able to gain access to mortgages and credit since their pay is official and recognized by lending institutions (Kempson, 1996; Leonard, 1998; Williams, 2007a). They also benefit from greater job security (Williams, 2001), are able to get an employer's reference (ILO, 2002a) and gain access to a range of other legal rights such as the minimum wage, tax credits and the working hours directive (Leonard, 1998; Renooy et al., 2004; Williams and Windebank, 1998). Finally, they can build-up rights to the state pension and other contributory benefits, and access occupational pension schemes (Gallin, 2001; ILO, 2002b), enjoy bargaining rights (ILO, 2002b), improve their employability by being able to evidence their engagement in employment, and reduce their constant fear of detection and risk of prosecution (Grabiner, 2000).

For customers, the advantages of moving work from the undeclared economy into the declared economy are that they benefit from legal recourse if a poor job is done, have access to insurance cover, enjoy guarantees in relation to the work conducted, and have more certainty that health and safety regulations have been followed (Williams and Martinez, 2014c).

Finally, for governments, the benefits of moving work from the undeclared economy into the declared economy are again manifold. It improves government

revenue, thus enable social integration and mobility to be pursued (Williams and Windebank, 1998). It also allows more declared jobs to be created and thus improvements in employment participation rates and enables a joining-up of the policy approach towards the undeclared economy with the policy approaches towards entrepreneurship, active citizenship and social inclusion (Dekker et al., 2010; European Commission, 2007, Small Business Council, 2004). It also leads to greater control over the quality of jobs and services provided in the economy (Gallin, 2001) and a more positive attitude towards the law more widely (Polese, 2014; Renooy et al., 2004; Sasunkevich, 2014). For these reasons, moving undeclared work into the declared economy appears to be the way forward. This is not to say however, that the other policy options are entirely redundant.

3.5 Towards a mixed approach

This review of the four choices available reveals that the first option of doing nothing is unacceptable. This is because it leaves intact the existing negative impacts on legitimate businesses (e.g., unfair competition), undeclared businesses (e.g., the inability to gain access to credit to expand), customers (e.g., no guarantee of health and safety standards) and governments (e.g., taxes owed are not collected). Secondly, de-regulating the declared economy is unacceptable because it results in a levelling down rather than up of working conditions and third and finally, eradicating the undeclared economy is unacceptable because it leads to governments repressing through their approach towards the undeclared economy precisely the active citizenship, enterprise culture and social inclusion that they otherwise wish to nurture. Moving undeclared work into the declared economy thus appears to be the most viable policy choice. Nevertheless, this does not mean that the other choices do not have a role to play.

Although moving undeclared work into the declared economy is the most viable choice, it may be that doing nothing may sometimes have a supporting role to play such as in relation to small-scale paid favours because such activity is not susceptible to conversion into declared employment. A de-regulatory approach, meanwhile, may be in some instances useful when seeking to simplify compliance in relation to business start-ups and an eradication approach when tackling those who fail to comply.

4. Policy measures: a heuristic conceptual framework

In the last section, the argument was that transferring undeclared work into the declared economy is the most beneficial policy approach for the widest range of actors affected by the undeclared economy, although the approaches of doing nothing, de-regulating the declared economy and eradicating the undeclared economy all have subsidiary roles to play. Based on this, the aim of this section is to provide a conceptual framework of the policy measures available for tackling the undeclared economy.

The starting point is the recognition that eliciting behaviour change at a societal level in order to tackle the undeclared economy is a relatively new subject area that can perhaps learn much from more established academic disciplines, such

as human resource management (HRM) and organizational behaviour, which have been promoting behaviour change at the organizational level for many decades. Here, therefore, the advances at the organizational level in eliciting behaviour change reveal a shift from the use of direct controls to indirect controls. Shifting the scale of analysis from the organizational to the societal-level, a conceptual framework is then developed of the range of direct and indirect controls available to governments when tackling the undeclared economy.

4.1 Direct and indirect controls: lessons from the organizational level

At the organizational level, there has been a long-standing shift away from the use of direct controls and towards the use of indirect controls when seeking to elicit behaviour change in the workforce. This is variously referred to as a shift from 'hard' to 'soft' human resource management or 'bureaucratic' to 'post-bureaucratic' management (Grey, 2005; Legge, 1995; Reed, 1992, 2005; Thompson and Alvesson, 2005). Here, this paradigmatic shift is reviewed of how behaviour change is being elicited at the organizational level in order to consider what might happen if this was scaled-up to, and applied at, the societal level to create 'high commitment' societies.

To understand the direct controls approach (alternatively termed 'hard' HRM or bureaucratic management) and its successor, the indirect controls approach ('soft' HRM or post-bureaucratic management), Table 2 provides a useful summary of the two approaches. This reveals that conventional bureaucratic work organizations when seeking to elicit behaviour change amongst the workforce focus upon direct controls or compliance via close supervision and monitoring, tight rules, prescribed procedures and centralized structures within the context of a low commitment, low trust and adversarial culture. Post-bureaucratic organizations, meanwhile, emphasize the use of indirect control methods through loose rules, flexible procedures and decentralized structures in the context of a high commitment, high trust culture of mutual interest.

Table 2 Direct and indirect control approaches in work organizations

Direct control approaches	Indirect control approaches
Close supervision and monitoring of activities	Empowerment and discretion applied to activities
Tight rules	Loose rules
Highly prescribed procedures	Flexible procedures
Centralized structures	Decentralized structures
Low commitment culture	High commitment culture
Low trust culture	High trust culture
Adversarial culture	Culture of mutual interest
A tightly bureaucratic structure and culture	A loosely bureaucratic structure and culture

Source: derived from Watson (2003: Table 5.2)

In the indirect controls approach in contrast, there is a shift from externalized to internalized control by seeking to align the values of the workforce with the values of the organization, rather than seeking rule following. In consequence, while the direct controls approach conventionally sought compliance using externally imposed bureaucratic control systems, generating reactive rather than proactive behaviours, the indirect controls approach seeks commitment through internalized belief, generating constructive pro-activity on the part of people (e.g., Guest, 1987; Legge, 1989, 1995). As Watson (2003: 109) states, 'the single feature that distinguishes [this approach] ... is its concern with developing a high level of psychological and social commitment towards the employing organization'. This indirect controls approach is therefore concerned with instilling emotions, values and world-views that are congruent with the interests of the organization so as to generate internal control from both the individual themselves and the team of people surrounding them (Wilkinson and Willmott, 1994).

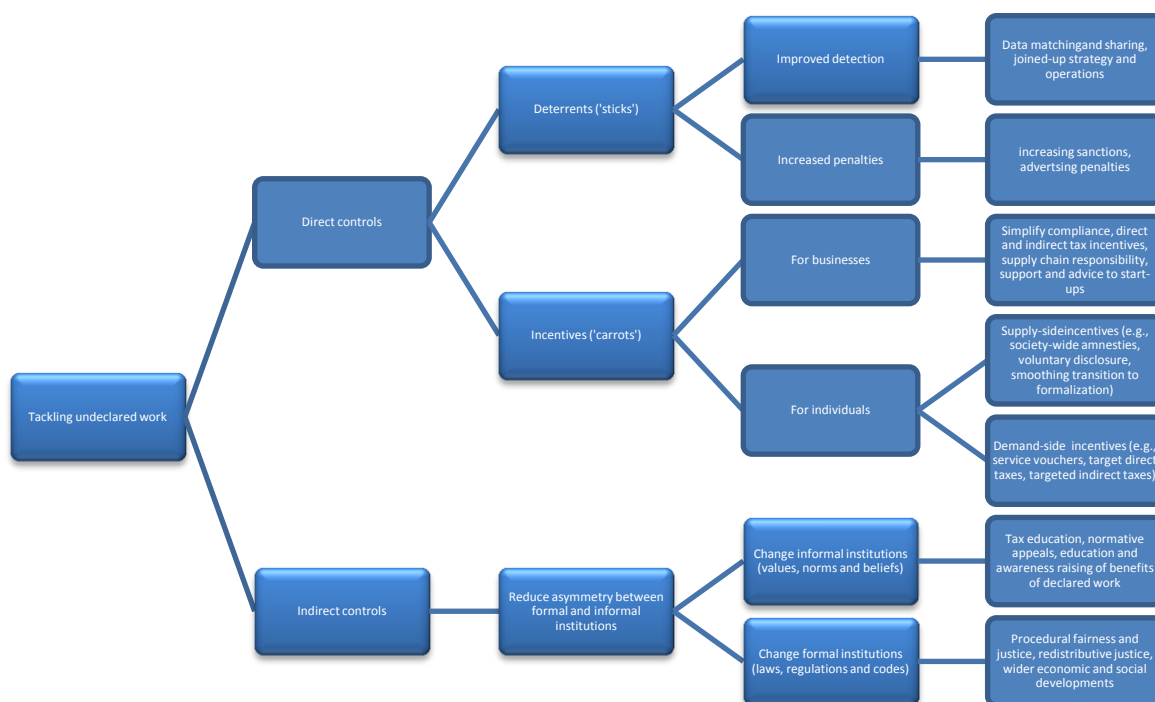
Until now, this turn towards an indirect controls approach when eliciting behaviour change has been largely at the organizational level. Here however, attention turns to applying the same approach to the societal level and more specifically, tackling the undeclared economy.

4.2 Tackling undeclared work: direct and indirect control approaches

Examining the literature on tackling undeclared work, there are two contrasting policy approaches. Firstly, there is a dominant direct controls approach, which detects and punishes non-compliance and/or provides rewards for those engaging in compliant behaviour. Secondly, there is an indirect controls approach. This fosters internalized control in order to nurture commitment to acting in a compliant behaviour. These have been variously labelled a 'chauvinistic' versus 'softy' approach (Cullis and Lewis, 1997), 'regulatory formalism' versus 'responsive regulation' (Braithwaite, 2002), 'deterrence' versus 'tax morale' (Ahmed and Braithwaite, 2005) and 'command and control' versus 'responsive regulation' (Commonwealth Association of Tax Administrators, 2006).

Figure 1 provides a conceptual framework for understanding these direct and indirect control approaches when tackling undeclared work. In the direct controls approach, the intention is to seek compliant behaviour 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'). In the indirect controls approach meanwhile, attention shifts away from using 'sticks' and 'carrots' to elicit behaviour change and instead focuses on developing the psychological contract (or what might also be called the social contract) between the state and its citizens by fostering a high trust high commitment culture. Here therefore, each of these approaches are reviewed in turn.

Figure 1: A typology of policy measures for tackling undeclared work



4.3 Direct controls

The use of direct controls is the conventional policy approach adopted for tackling the undeclared economy. As the OECD (2008: 82) put it, ‘Combating informal employment requires a comprehensive approach to reduce the costs and increase the benefits to business and workers of operating formally’. To outline this direct controls approach therefore, firstly, the use of deterrence measures to detect and punish non-compliant (‘bad’) behaviour is reviewed followed secondly, the use of incentives to make it easier to undertake, and reward, compliant (‘good’) behaviour.

4.3.1 Direct controls: deterrence measures

The origins of the deterrence approach to elicit behaviour change lies in the work of Jeremy Bentham (Bentham, 1788) and Cesare Beccaria (Beccaria, 1797) on the classic utilitarian theory of crime. The premise is that people are rational actors who behave in a manner to maximize their expected utility. In other words, they disobey the law if the expected penalty and probability of detection is small relative to the profits gained. Based on this premise, governments must seek to deter these supposedly rational economic actors by making the benefits of non-compliance smaller than the benefits of compliance.

In criminological studies, this rational actor approach was subsequently popularised by Becker (1968) who argued that governments must find the

appropriate balance between the costs of non-compliance and the benefits of compliance to make compliance the rational choice for people. According to him, by increasing the probability of detection and the sanctions, non-compliance becomes irrational behaviour. Prior to this rational economic actor approach, the dominant view was that criminal behaviour resulted from mental illness and/or the social environment, and that criminals are simply victims of their circumstances. Becker's work thus signalled a paradigm shift.

During the early 1970s, Allingham and Sandmo (1972) applied this Beckerian economics of crime approach to the study of tax non-compliance to bring about a similar paradigmatic shift. In a seminal paper, they argued that the non-compliant are rational economic actors who evade tax when the pay-off is greater than the expected cost of detection and punishment. To deter engagement therefore, the goal is to change the cost/benefit ratio facing those participating or considering participation in non-compliance (e.g., Bernasconi, 1998; Grabiner, 2000; Gramsick and Bursik, 1990; Hasseldine and Li, 1999; Job et al., 2007; Lewis, 1982, Milliron and Toy, 1988; Richardson and Sawyer, 2001; Sandford, 1999). In this deterrence approach, this was achieved by focusing on the cost side of the equation and increasing the actual and perceived risks and costs associated with participation by firstly, raising the perceived or actual likelihood of detection and/or secondly, raising the penalties and sanctions for those caught.

This, therefore, is a 'negative reinforcement' approach; it seeks behaviour change by using 'sticks' that punish non-compliant ('bad') behaviour. In many other spheres however, punishing people for doing something wrong (i.e., negative reinforcement) is recognized as relatively ineffective at changing behavior in the ways desired compared with rewarding good behavior (i.e., positive reinforcement). Indeed, few parents today would believe that smacking their children for doing something wrong is the best way to change their behaviour. Instead, rewarding good behaviour is seen as more effective. Despite this, when it comes to tackling the undeclared economy, this same recognition does not appear to exist, at least so far as those adopting the dominant deterrence approach is concerned.

A substantial and growing body of literature on the use of deterrents to tackle the undeclared economy nevertheless, is not supportive of the effectiveness of this deterrence approach (see Williams, 2008a,b, 2014a; Williams et al., 2013c). A growing body of literature for example, reveals that increasing penalties either leads to a growth in undeclared work, has no effect, or only a short-term effect, on compliance (Elffers et al., 1987; Feld and Frey, 2002; Friedland, 1982; Murphy, 2005; Spicer and Lunstetdt, 1976; Varma and Doob, 1998; Webley and Halstead, 1986). There is also a large body of evidence that increasing the probability of detection does not lead to greater compliance (e.g., Dubin et al., 1997; Dubin and Wilde, 1988; Elffers et al., 1987; Shaw et al., 2008; Webley and Halstead, 1986). Instead, it increases non-compliance, not least due to a breakdown of trust between the state and its citizens (Ayres and Braithwaite, 1992; Blumenthal et al., 1998; Brehm and Brehm, 1981; Kagan Scholz, 1984; Murphy and Harris, 2007; Tyler et al., 2007; Williams, 2001). Indeed, the most telling rebuttal of deterrents is the finding that many voluntarily comply even when the level of penalties and risks of detection would suggest that they should act in a non-compliant manner if they were truly rational economic actors (Baldry, 1986; Erard and Feinstein, 1994; Murphy, 2008). Obviously therefore, other factors must be at

work engendering this commitment to compliant behaviour that lie beyond the level of deterrents.

This deterrence approach has not only been criticized due to questions being raised about its effectiveness but a range of unintended and unwanted broader impacts of using deterrence measures have also been identified. As highlighted above, the outcome of a deterrence approach is that one hand of government suppresses precisely the enterprise culture and active citizenship that other hands of government wish to foster. When this is combined with the recognition that punishing non-compliant ('bad') actions is not necessarily the most effective means of changing behaviour, the outcome has been that many have begun to question the value of this approach. New approaches have thus emerged.

4.3.2 Direct controls: incentive measures

When using direct controls, the deterrence approach focuses upon increasing the costs of operating in the undeclared economy. With the growing recognition across governments that the goal is to move undeclared work into the declared economy however, a shift has begun to take place. Rather than detect and punish non-compliance, there has been a shift towards incentivising declared work by making it easier and more beneficial to engage in declared work (Renooy et al., 2004; Small Business Council, 2004; Slemrod, 1992; Williams, 2006a).

Unlike the deterrence approach which uses negative reinforcement by punishing 'bad' (non-compliant) behaviour, this approach uses positive reinforcement by rewarding 'good' (compliant) behaviour, rather than taking it as given. This recognises that compared with rewarding good behaviour, punishing bad behaviour is relatively ineffective. Indeed, evidence of this is found in studies ranging from effective leadership in organizations (e.g., Prewitt, 2003; Romero and Kleiner, 2000), toilet training young children (Cicero and Pfadt, 2002), smoking cessation (Glautier, 2004), the personal management of diabetes (e.g., Parra-Medina et al., 2004) and tackling anti-social behaviour in schools (Beaman and Wheldall, 2000; Luiselli et al., 2002). In these and many other fields, it is now rare to find an emphasis on negative reinforcement when changing behavior.

When tackling the undeclared economy, this positive reinforcement approach can take at least three forms, as displayed in Figure 1 above. Firstly, it can be made easier and/or more beneficial for businesses to engage in compliant behaviour. Secondly, it can be made easier and/or more beneficial for individuals supplying undeclared work to engage in compliant behaviour. Third and finally, it can be made easier and/or more beneficial for customers to use the declared rather than the undeclared economy to source goods and services.

4.4. Indirect controls

The problem with changing behaviour using direct controls to alter the cost/benefit ratio confronting businesses and people is that these actors are not always rational economic actors with perfect information available. They are limited in their ability to compute the costs and benefits, often misperceive or do not perceive the real costs of their actions, have limited self-control and are influenced by social context. Most importantly, they are not just motivated by self-interest and what is most profitable

for them but by additional motives, including redistribution, fairness, reciprocity, social customs, norms and morality (Alm, 2011).

Based on this recognition, the indirect controls approach moves away from the use of 'sticks' and 'carrots' to change behaviour. Instead, the focus is on the use of indirect controls that improve the psychological contract between the state and its citizens in order to nurture a high trust high commitment culture (Alm et al., 1995; Andreoni et al., 1998; Torgler, 2003; Weigel et al., 1987; Wenzel, 2002). The intention is to engender willing or voluntary commitment to compliant behaviour rather than force citizens to comply using threats, harassment and/or incentives (see for example, Kirchler, 2007; Torgler, 2007, 2011).

To understand the tools used in this approach, it is necessary to recognize that there exists an institutional incongruity between the laws, codes and regulations of formal institutions and the norms, beliefs and values of informal institutions. Work in the undeclared economy occurs where the norms, values and beliefs differ to the laws and regulations, resulting in what formal institutions deem to be illegal activities being legitimate in terms of the norms, values and beliefs of the society or particular population groups. To tackle the undeclared economy therefore, there is a need to reduce this institutional incongruence. This can be achieved either by changing the informal institutions and/or the formal institutions.

On the one hand, therefore, policy can seek to change the norms, values and beliefs of the population regarding the acceptability of working in the undeclared economy so that these informal institutions align with the laws, regulations and codes of formal institutions. This commitment approach views individuals and businesses not as rational economic actors but as social actors ordinarily inclined to comply with the law because of their belief in the rule of law and understanding that it is in their self-interest (Kagan and Scholz, 1984; Murphy, 2008). As such, their cooperation rather than coercion is pursued by changing their attitudes towards compliance. This is achieved using awareness raising campaigns about the costs of undeclared work and benefits of declared work, tax education campaigns and normative appeals.

On the other hand, policy can also seek to change the formal institutions to align with the norms, values and beliefs of society. Two options exist in this regard. Firstly, this can involve internal *process* changes in the formal institutions to improve the perception that there is tax fairness, procedural justice and redistributive justice. Fairness here refers to the extent to which people believe they are paying their fair share compared with others (Wenzel, 2004a). Redistributive justice refers to whether they receive the goods and services they believe that they deserve given the taxes that they pay (Richardson and Sawyer, 2001) and procedural justice to the degree to which they believe that the tax authority has treated them in a respectful, impartial and responsible manner (Braithwaite and Reinhart, 2000; Murphy, 2005).

Secondly, this can involve changing the *products* of formal institutions by pursuing wider economic and social developments. For the moment, the economic and social developments required to reduce the undeclared economy are left aside. Here, all that is necessary is to recognize that using indirect controls to engender a greater commitment of citizens to compliance requires changes in both formal and informal institutions to reduce institutional incongruence. If pursued, a reduction in the undeclared economy can result through a shift towards greater self-regulation brought about by an intrinsic psychological and social commitment to the value of the declared economy. Below, therefore, how this can be achieved is outlined.

5. An institutional perspective on the way forward

To advance understanding of how this indirect controls approach can tackle undeclared work, this section provides an institutional perspective on the way forward. In many societies, that is, the laws, codes and regulations of the formal institutions are incongruent with the norms, beliefs and values that comprise the informal institutions. To tackle undeclared work therefore, a reduction in this institutional incongruence is required. Two options exist. On the one hand, one can seek to change the norms, values and beliefs of the population regarding the acceptability of working in the undeclared economy so that these informal institutions align with the laws, regulations and codes of formal institutions. On the other hand, one can change the formal institutions to align with the norms, values and beliefs of the wider society.

The aim of this section is to review and evaluate how to achieve this so that there is an intrinsic psychological and social commitment to the value of the declared economy and thus a reduction in undeclared work. Firstly, therefore, this section will evaluate the varying degree to which formal and informal institutions align across European societies. Secondly, policy measures that seek to change the norms, values and beliefs of the population so that these informal institutions align with the laws, regulations and codes of formal institutions, are outlined. This will include a review of tax education initiatives, awareness raising campaigns and normative appeals that seek to improve the level of tax morality. Thirdly, policy measures are reviewed that seek to change the formal institutions so that they align more with the norms, values and beliefs of the wider society. On the one hand, this involves process changes in formal institutions. These include improving procedural justice (i.e., whether citizens believe the authorities are treating them in a respectful, impartial and responsible manner), procedural fairness (i.e., whether citizens believe they are paying their fair share compared with others) and redistributive justice (i.e., whether citizens believe they are receiving the goods and services they deserve given the taxes they pay). On the other hand, this includes changes in the *products* of formal institutions by pursuing wider economic and social developments. The outcome will be a fuller understanding of the measures available in the indirect controls approach.

5.1 The asymmetry of formal and informal institutions

All societies have codified laws and regulations that define the legal rules of the game (Baumol and Blinder, 2008; North, 1990; Webb et al., 2013, 2014; Williams and Vorley, 2014). Informal institutions meanwhile, are the norms, values and beliefs that shape what is socially acceptable (North, 1990, Webb et al., 2013, 2014). When formal and informal institutions are unaligned, one finds the existence of economic activities not aligned with the laws and regulations of formal institutions but that are within the boundaries of what informal institutions deem acceptable (Webb et al., 2009, 2013, 2014). An exemplar is undeclared work which is 'illegal' in the eyes of formal institutions but often seen as 'legitimate' from the viewpoint of the norms, values and beliefs comprising a society's informal institutions. The level of tax morale measures this gap between formal and informal institutions. When the discrepancy is large, tax

morale is low. When the formal and informal institutions closely align meanwhile, tax morale is high.

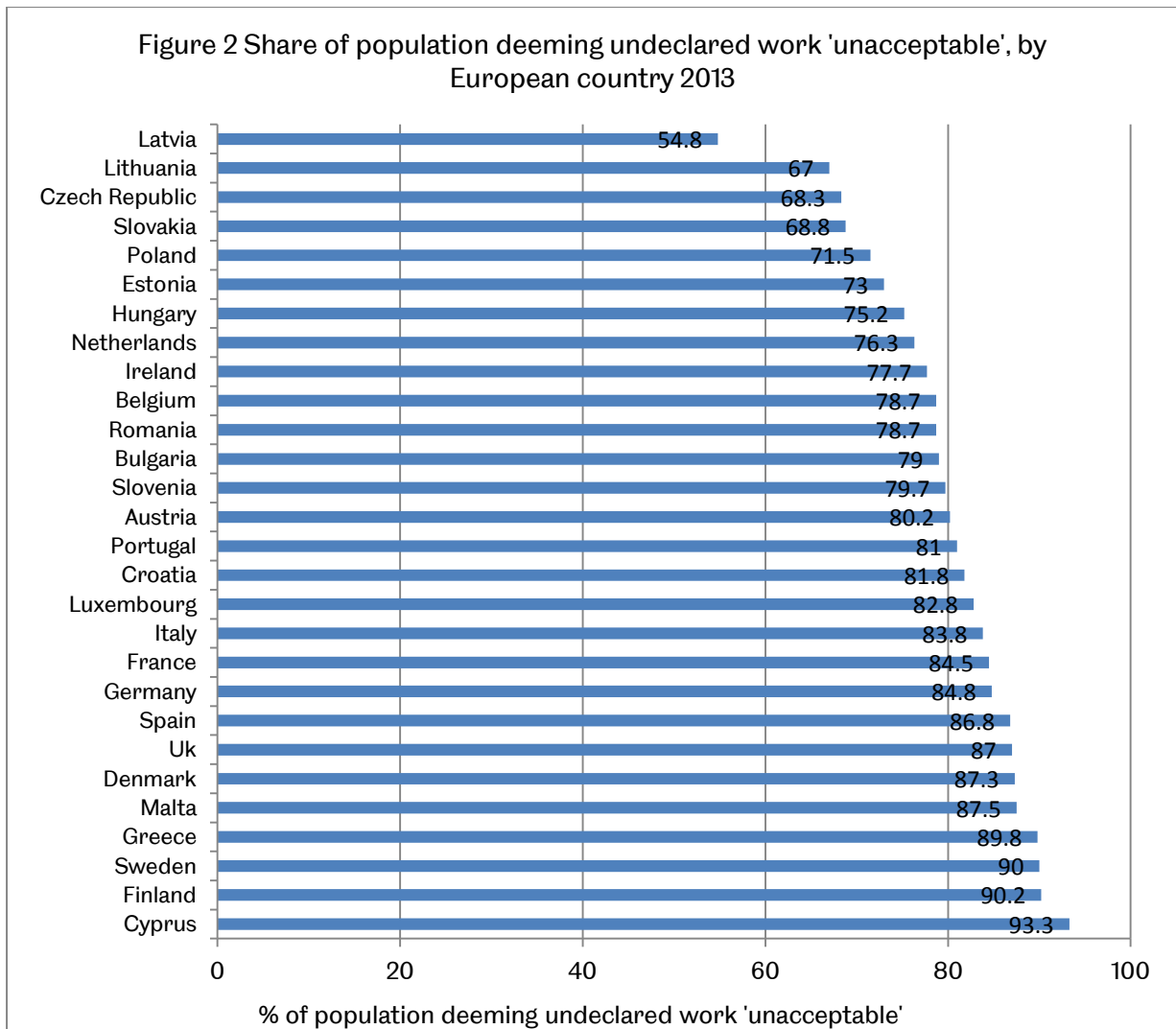
Tax morality refers to a person's internal or intrinsic motivation to pay taxes owed (McKerchar et al., 2013; Torgler, 2005a, 2007, 2012; Torgler and Schneider, 2007) and studies reveal a strong correlation between the propensity to engage in undeclared work and the level of tax morality (Alm et al., 1995; Riahi-Belkaoui, 2004; Richardson, 2006). What, therefore, is the current level of institutional incongruence between formal and informal institutions so far as paying taxes are concerned. To measure this, the current level of tax morality across Europe can be evaluated using data from the 2013 Eurobarometer survey (European Commission, 2014). In this survey, participants were asked to rate how acceptable they felt various behaviours relating to tax non-compliance were, using a 10-point scale where 1 means 'absolutely unacceptable' and 10 means 'absolutely acceptable'. The six behaviours examined were:

- Someone receives welfare payments without entitlement;
- A firm is hired by another firm and does not report earnings;
- A firm hires a private person and all or part of their salary is not declared;
- A firm is hired by a household and doesn't report earnings;
- Someone evades taxes by not or only partially declaring income; and
- A person hired by a household does not declare earnings when it should be declared.

To analyse the level of tax morality and thus institutional incongruence on paying taxes, the 10-point scale is condensed into three groups: a respondent rating of 1-4 is deemed 'unacceptable'; a rating of 5-6 as 'fairly acceptable' and a rating of 7-10 classified as 'acceptable'. Figure 2 reports the aggregate findings across all six behaviours in terms of the share of the population who deem participation in these forms of undeclared work to be 'unacceptable'.

As Figure 2 reveals, strong cross-national variations exist in the level of tax morality and thus the level of institutional incongruence between formal and informal institutions. Examining firstly the countries where there is the greatest symmetry between formal and informal institutions in terms of the willingness to pay taxes owed, the finding is that participants in Cyprus are the least tolerant of the undeclared economy among the 28 countries, followed by two Nordic countries (Finland and Sweden) and two Southern European nations (Greece and Malta). The countries most tolerant of undeclared work meanwhile, and where the greatest institutional incongruence exists between formal and informal institutions, are East-Central European nations, with participants in Latvia the most likely to view the undeclared economy as acceptable, followed by Lithuania, the Czech Republic, Slovakia, Poland and Estonia. The remaining countries, including all Western European countries, fall between these two extremes.

Given this assessment of the size of the gap between the formal and informal institutions regarding tax non-compliance, attention now turns towards the various policy measures that can reduce this institutional asymmetry.



Source: derived from Williams (2014a: Table 10.2)

5.2 Changing the informal institutions

To tackle undeclared work, one option is to change the norms, values and beliefs of informal institutions to align better with the codified laws and regulations of formal institutions. To achieve this, firstly, one can seek to improve tax knowledge, secondly, pursue awareness-raising campaigns and third and finally, normative appeals.

5.2.1 Improving tax knowledge

Educating citizens about taxation is important if the norms, values and beliefs are to align with the codified laws and regulations of formal institutions. To do this, two types of education are required. Firstly, there is the need to educate citizens about what the current tax system requires of them by providing easily consumable information on their responsibilities. Secondly, and more widely, there is the need to educate citizens about the value and benefits of paying taxes in order to elicit an intrinsic motivation to comply.

The first type of education thus requires easily consumable knowledge on the current tax system so that citizens understand their responsibilities. A large body of research is critical of the complexity of tax systems and the problems this poses for achieving high rates of compliance (Andreoni et al., 1998; Natrah, 2013; Tanzi and Shome, 1994). A significant portion of supposed tax evasion is unintentional, resulting from lack of knowledge, misunderstanding and ambiguous interpretation of tax law (Hasseldine and Li, 1999; Natrah, 2013). One way forward therefore, is to provide greater information to taxpayers (Internal Revenue Service, 2007; Vossler et al., 2011).

The second type of education more broadly educates citizens about the value and benefits of paying their taxes. In many countries for example, substantial voluntary donations to private charities occur but at the same time, citizens are reticent about paying their taxes, despite private charities often having parallel missions to government. This is doubtless because they know what happens to voluntary donations given to private charities but not what happens to their taxes (Li et al., 2011). A way forward therefore, is to educate citizens about what happens to their taxes. This can be done by informing citizens of the current and potential public goods and services received (Bird et al., 2006; Saeed and Shah, 2011). Signs such as 'your taxes are paying for this', for example on public construction projects (e.g., new roads), are one way of doing this by conveying a clear message to the public that money collected is paying for public goods and services.

5.2.2 Awareness-raising campaigns

A further tactic to change attitudes towards the undeclared economy and to nurture commitment to tax morality is to run awareness-raising campaigns. Such campaigns can either inform: undeclared workers of the costs and risks of undeclared work; potential users of undeclared labour of the risks and costs; undeclared workers of the benefits of being declared, and/or potential users of undeclared work of the benefits of declared labour.

Indeed, the evidence suggests that advertising campaigns are effective and cost efficient. In the UK for example, an evaluation of the advertising campaigns run by HMRC reveals that some 8300 additional people had registered to pay tax who would otherwise not have done so who will pay tax of around £38 million over three years, providing a return of 19:1 on the expenditure of £2 million. This compares with an overall return of 4.5: 1 on the £41 million a year spent on all its undeclared economy work in 2006-07 (National Audit Office, 2008).

5.2.3 Use of normative appeals

Normative appeals to citizens to declare their undeclared activities are another potential way forward. Their effectiveness however, depends in part on the nature of the appeal made. Although Blumenthal et al. (2001) in Minnesota reveal that normative appeals only affected some groups of taxpayer, Chung and Trivedi (2003) examine the impact of normative appeals on a friendly persuasion group who were required to both generate and read a list of reasons why they should comply fully and compared with a control group not asked to do so. The participants in the friendly persuasion groups report higher earnings than the control group. Hasseldine et al. (2007), meanwhile, examine 7,300 sole proprietors in the UK. Comparing the effect

of five different letters from a simple offer of assistance to a letter advising that his/her tax return had been already pre-selected for audit, they find that appeals resulted in greater compliance.

5.3 Changing the formal institutions

Besides changing the norms, values and beliefs in order to synchronize formal and informal institutions, another option is to change the formal institutions. On the one hand, this involves pursuing process changes. On the other hand, this can involve changing the *products* of formal institutions by pursuing wider economic and social developments.

5.3.1. Changing processes within formal institutions

Changing the processes within formal institutions to create greater symmetry with informal institutions requires at least three changes. Firstly, procedural justice can be improved which refers to the degree to which citizens believe that the tax authority has treated them in a respectful, impartial and responsible manner (Braithwaite and Reinhart, 2000, Murphy, 2005; Taylor, 2005; Tyler, 1997, Wenzel, 2002). Secondly, procedural fairness can be enhanced which is the extent to which people believe they are paying their fair share compared with others (Kinsey and Gramsick, 1993; Wenzel, 2004a,b). Third and finally, redistributive justice can be improved which refers to whether citizens receive the goods and services they believe that they deserve given the taxes that they pay (Kinsey and Gramsick, 1993; Kinsey et al., 1991; Richardson and Sawyer, 2001; Thurman et al., 1984). Here, a review of each policy measure is undertaken.

Procedural justice

The extent to which citizens perceive the government to have treated them in a respectful, impartial and responsible manner has a significant effect on compliance. If they view the tax administration as treating them in such a manner, then they will be more likely to engage in compliant behaviour (Hanousek and Palda, 2003; Hartner et al, 2008; Murphy, 2003; Murphy et al., 2009; Torgler and Schneider, 2007; Wenzel, 2002). Leventhal (1980) formulated the following six rules regarding procedural justice:

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

Leventhal's rules deal primarily with the decision-making process. However, Bies and Moag (1986) emphasize the importance of additionally considering interpersonal interactions. People want respectful and fair treatment (i.e., interactional fairness). As Wenzel (2006) finds, the compliance rate was significantly higher among taxpayers who perceived there to be interactional fairness. Being treated politely, with dignity and respect, being given a say, and having genuine respect shown for one rights and social status all enhance compliant behaviour (Alm et al., 1993; Feld and Frey, 2002; Gangl et al., 2013; Hartner et al., 2008; Murphy 2005; Tyler, 1997, 2006; Wenzel, 2002).

Procedural fairness

This refers to the extent to which people believe they are paying their fair share compared with others (Wenzel, 2004a,b). 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). The fairness of the tax system is one of the most important determinants of tax morale (Bobeck and Hatfield, 2003; Hartner et al., 2007, 2011; Kirchgässner, 2010, 2011; McGee, 2005, 2008; McGee et al., 2008; Molero and Pujol, 2012). Conversely, where there is grievance by citizens that they are not receiving fair treatment, non-compliance increases (Bird et al., 2006).

Redistributive justice

This refers to whether citizens receive the goods and services they believe that they deserve given the taxes that they pay (Richardson and Sawyer, 2001). Taxes are prices for the goods and services provided by the government. The question for the moral evaluation of taxes is whether the price corresponds to the value of these services (i.e., whether it is seen as 'just'), namely whether there is a 'just price' (Kirchgässner, 2010). Citizens see themselves as more justified being non-compliant and breaking the psychological contract between the state and its citizens, the less they perceive the tax system as fair. If tax compliance is to be high therefore, the tax system should be perceived as fair.

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. If however, citizens do not receive the goods and services that they believe they deserve given the taxes that they pay, then non-compliance increases (McGee, 2005). This may occur for example, when corruption is rampant and the citizen has little trust in formal institutions. In such situations, there will be a low incentive to cooperate. Corruption generally undermines the tax morale of the citizens, causing them to become frustrated. Taxpayers will feel cheated if they believe that corruption is widespread and their tax burden is not spent well (McGee, 2005; Torgler, 2007, 2012; Uslaner, 2007). As Kirchgässner (2010: 28) thus put 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). In recent years therefore, many governments have sought to explain to taxpayers how their money is spent.

5.3.2 Changing the products of formal institutions: wider economic and social developments

To achieve a high-commitment culture and self-regulation by citizens, there is also a need to change the products of formal institutions by pursuing wider economic and social developments (Vanderseypen et al., 2013; Williams and Renooy, 2013, 2014). Until now, there have been three contrasting theoretical standpoints regarding what broader economic and social policies might encourage citizens to pursue legitimate behaviour and not to engage in work in the undeclared economy.

Firstly, the 'modernization' thesis purports that the undeclared economy decreases as economies modernize and develop and therefore that economic development and growth is required to reduce the undeclared economy (ILO, 2012). Secondly, the 'neo-liberal' thesis argues that its prevalence is a direct result of high taxes, public sector corruption and state interference in the free market and therefore that tax reductions, resolving public sector corruption and reducing the regulatory burden are the ways forward (De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Sauvy, 1984; Schneider and Williams, 2013). Third and finally, the 'political economy' thesis argues that its pervasiveness is the outcome of inadequate levels of state intervention in work and welfare, meaning that workers are unprotected. The focus therefore should be less upon formalising work and more upon introducing social protection for workers, reducing inequality and pursuing labour market interventions to help vulnerable groups (Castells and Portes, 1989; Davis, 2006; Gallin, 2001; Hudson, 2005; Sassen, 1996; Slavnic, 2010; Taiwo, 2013).

In recent years, there have been evaluations of which economic and social policies are associated with smaller undeclared economies (Vanderseypen et al., 2013; Williams, 2013a,b, 2014a,b,c; Williams and Renooy, 2013, 2014; Williams et al., 2013a). Analysing the relationship between cross-national variations in the size of the undeclared economy and cross-national variations in the various aspects of the broader economic and social environment deemed important by each of the above perspectives, there has been a rejection of all of the tenets of the neo-liberal thesis. However, there is support for the tenets of both the modernisation and political economy theses. The outcome has been a call for a new neo-modernisation thesis. This argues that larger undeclared economies are associated with under-development and lower levels of taxation, expenditure on social protection and labour market intervention to protect vulnerable groups (Williams, 2013a,b, 2014a,b; Williams and Renooy, 2013, 2014).

This more nuanced neo-modernization explanation for the cross-national variations in the size of undeclared economies has clear practical policy implications in terms of pinpointing the additional economic and social developments required. Wealthier economies, with stable high quality government bureaucracies and those with lower poverty levels, more equality, greater levels of social protection, more effective redistribution via social transfers and greater state intervention in the labour market to protect vulnerable groups, have smaller undeclared economies.

6. Synthesising the direct and indirect control approaches

The undeclared economy and low tax morality occurs when there is incongruity between the codified laws and regulations of formal institutions and the norms, values and beliefs that constitute informal institutions. To tackle the undeclared economy therefore, a reduction in this institutional incongruence is required. To achieve this, one can either change the formal institutions or one can change the norms, values and beliefs so that they better align with each other. These two options however, are not mutually exclusive. In practice, institutional incongruence and therefore poor tax morality and the existence of undeclared work, require that both change rather than one or the other.

Indeed, there has been growing recognition that the eliciting of internalized commitment to tax morality through indirect control measures that change formal and informal institutions, although necessary, is insufficient on its own as a means of engendering tax compliance (Williams, 2014a; Williams and Renooy, 2013). Instead, and given the multiple influences on the undeclared economy, a multi-pronged approach is required of which engendering internalized commitment is one facet. For example, governments might seek to change the culture of government departments towards a more customer-oriented approach and introduce public campaigns to elicit greater commitment to tax morality, whilst simplifying regulatory compliance and introducing incentives (e.g., amnesties, tax deductions) to enable undeclared work to move into the declared realm. At the same time, and in relation to those who fail to comply, they may also pursue improvements in the probability of detection and tougher sanctions for those subsequently caught.

The result is that there is recognition that both direct and indirect control measures need to be used together to tackle the undeclared economy. The current debate therefore, is not over whether to use direct or indirect controls. There is a consensus that both are required. Rather, the major problems involve working out which specific policy measures in each approach are most effective and what is the most effective way of putting these policy measures together in various combinations and sequences to engender compliance. At present for example, measures to improve detection through inspections are often combined with campaigns aimed at raising awareness or warning customers that inspections are about to occur. Tougher sanctions, moreover, follow amnesties and voluntary disclosure schemes. However, whether these combinations are more effective than other sequences and combinations needs evaluating. In recent years nevertheless, two particular approaches have come to the fore in the literature that provide ways of combining these policy approaches in particular sequences, namely the responsive regulation approach and the slippery slope framework.

6.1 Responsive regulation

Braithwaite (2002) distinguishes between ‘regulatory formalism’ and ‘responsive regulation’. The former is where an agency lists its problems in advance, specifies the appropriate response and generates manuals of rules to achieve these responses.

This arguably enables process efficiency and outcome consistency. In recent years, and as discussed above, the nature of regulatory formalism has shifted away from reliance mostly on deterrents and towards the use of incentives to engage in declared work. There has also been a greater consideration of the fair and respectful treatment of taxpayers. Such 'humanizing' of regulatory formalism however, is not the same as responsive regulation.

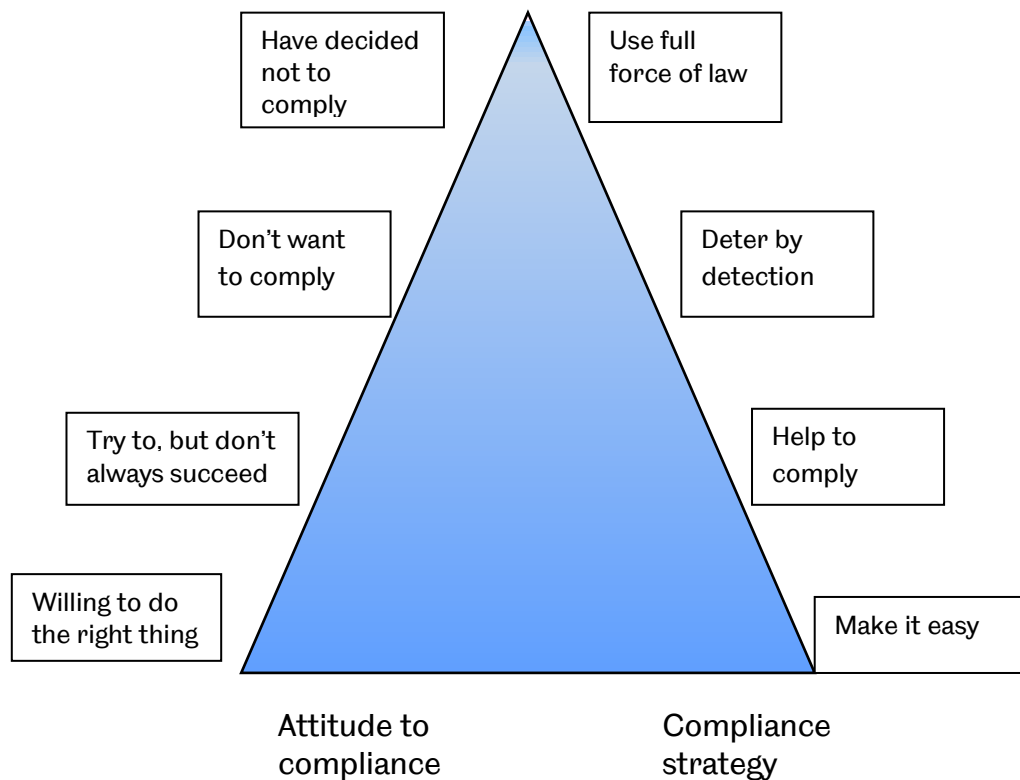
Responsive regulation openly engages taxpayers to think about their obligations and accept responsibility for regulating themselves in a manner consistent with the law. It is about winning their 'hearts and minds' so as to engender a culture of commitment to tax morality in order that people will regulate themselves rather than need to be regulated by external rules. However, although it gives primacy to the use of indirect controls, it does not exclusively confine itself to such measures for engendering tax compliance. For Braithwaite (2009), responsive regulation means influencing the community's commitment to paying tax through respectful treatment, through attending to resistance and reforming faulty processes, through fairly directed and fully explained disapproval of non-compliant behaviour, through preparedness to administer sanctions and to follow through to escalate regulatory intervention in the face of continuing non-compliance. Indeed, since responsive regulation was first proposed, it has enjoyed widespread support from both many scholars (Abbott and Snidal, 2013; Braithwaite, 2007, 2010; Dwenger et al., 2014; Grabosky, 2013; Hashimzade et al., 2013; Parker, 2013; Wood et al., 2010) as well as tax administrations (see Job et al., 2007).

The Australian government for example has adopted this 'responsive regulation' approach. As Figure 3 displays, in the first instance indirect controls facilitate voluntary self-regulated compliance, followed by persuasion and only then punitive measures to tackle tax non-compliance (Braithwaite, 2009; Job et al., 2007). Put another way, this responsive regulation approach envisages a regulatory pyramid with various options that a tax authority can use to engender compliance, sequenced from the least intrusive at the bottom and used first to the most intrusive at the top.

The view is that a tax authority does not need in most cases to pursue the coercion option at the top of the pyramid to engender compliance. Instead, it can commence with the indirect control measures at the bottom of the pyramid and if these do not work with some groups, then the level of intrusiveness can escalate up the pyramid until it reaches the policy 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 and moving through to sanctions.

Whether this is the most appropriate combination and temporal sequencing of measures is open to debate. Until now, no evaluation has occurred of whether this sequencing of the policy measures used by the ATO is the most appropriate and/or effective sequencing combination to use to engender compliance. Neither has there been any testing of whether this particular sequential approach would also be the most appropriate to use elsewhere to tackle the undeclared economy. In other words, although it appears an appropriate and effective way of tackling the undeclared economy, there is currently no evidence-base of whether this is the case.

Figure 3 The responsive regulation approach



6.2 Slippery slope framework

Another way of combining the direct and indirect control approaches is by adopting the 'slippery slope framework' (Kirchler et al., 2008) which has started to be widely discussed (Alm and Torgler, 2011; Alm et al., 2012; Kastlunger et al., 2013; Khurana and Diwan, 2014; Lisi, 2012; Muehlbacher et al., 2011a,b; Prinz et al., 2013). This distinguishes between two types of compliance, namely voluntary compliance and enforced compliance. Voluntary compliance occurs where there is trust in the authorities. Enforced compliance, meanwhile, occurs where authorities have power (i.e., the ability to get citizens to do what they were before not going to do, in the way in which the authorities wish them to do it). When there is neither trust in authorities and authorities do not have power, then undeclared work is rife.

To tackle undeclared work, therefore, one can either increase the power of authorities and/or trust in the authorities. The direct controls approach tends to put the emphasis on increasing the power of authorities, whilst the indirect controls approach places greater emphasis on increasing the trust of authorities. In practice, however, these are not mutually exclusive. It is possible to use both to engender compliance. The slippery slope framework displays that these choices are available as well as that both approaches can be combined in order to elicit behaviour change.

To evaluate the basic assumptions of the slippery slope framework, Wahl et al. (2010) randomly presented participants with one of four different descriptions of a fictitious country, in which the authorities were depicted as either trustworthy or untrustworthy on the one hand and as either powerful or powerless on the other

hand. Their results show that participants paid significantly more taxes when both power and trust were high, as suggested by the slippery slope framework. They also found that voluntary compliance was highest when the authorities were both trustful and powerful, while enforced compliance was highest when authorities were portrayed as powerful, but not trustworthy. This has been since further reinforced by two surveys of real-world taxpayers (Muehlbacher et al., 2011a,b). The outcome is that a combination of both greater trust in authorities and the greater power of authorities is seen as a potent combination in ensuring compliant behaviour. Based on this, the suggestion is that it is not a matter of simply increasing trust or increasing the power of authorities. Rather, both in combination is argued to be the most effective approach.

7. Conclusions

The aim of this paper has been to provide a conceptual framework for understanding the policy approaches for tackling undeclared work. The intention in doing so has been to make available a structure for a future comprehensive review of the policy measures available for tackling undeclared work.

Akin to many other contemporary societal problems, tackling the undeclared economy has perhaps previously been conceptually framed as a 'tame' problem (i.e., a problem that is complicated but easily solvable, often with a discrete response that can be replicated anywhere). Here however, the undeclared economy is reframed as a 'wicked' problem which is complex, rather than complicated, and the outcome of a number of inter-related drivers, each of which if addressed has unforeseen and unintentional knock-on effects. Responsibility for tackling the problem moreover, stretches across multiple stakeholders and profound behavioural changes across both citizens and stakeholders are required to address the issue. Such wicked problems therefore, have to employ 'clumsy' approaches rather than 'elegant' solutions.

Four hypothetical policy choices exist in relation to addressing undeclared work: do nothing; de-regulate the declared economy; eradicate the undeclared economy, or move undeclared work into the declared economy. Reviewing these choices, the first option of doing nothing is revealed to be unacceptable because it leaves intact the existing negative impacts on legitimate businesses (e.g., unfair competition), undeclared businesses (e.g., the inability to gain access to credit to expand), customers (e.g., no guarantee that health and safety standards have been followed) and governments (e.g., taxes owed are not collected). Secondly, de-regulating the declared economy is unacceptable because it results in a levelling down rather than up of working conditions and third and finally, eradicating the undeclared economy is unacceptable because it leads to governments repressing through their approach towards the undeclared economy precisely the active citizenship, enterprise culture and social inclusion that they otherwise wish to nurture. Moving undeclared work into the declared economy thus appears to be the most viable policy choice.

Nevertheless, this does not mean that the other choices are not useful. Although moving undeclared work into the declared economy is the most viable in terms of the overarching thrust of policy, it may be that doing nothing sometimes will

have a supporting role to play such as in relation to small-scale paid favours because such activity is not susceptible to conversion into declared employment. A de-regulatory approach, meanwhile, may be in some instances useful when seeking to simplify compliance in relation to business start-ups, and an eradication approach when tackling those who fail to comply.

To provide a conceptual framework of the policy measures available for tackling the undeclared economy therefore, the starting point and inspiration underpinning this paper has been the advances in eliciting behaviour change at the organizational level amongst the workforce. Revealing how there has been a shift from the use of direct controls to indirect controls to elicit behaviour change at the organisational level, this paper has applied this approach at the societal level to tackling undeclared work. The result has been a call for a shift away from using solely direct controls (deterrents and incentives) and for an exploration of the range of indirect controls that might also elicit behaviour change.

To develop this societal-level indirect controls approach towards tackling undeclared work, this paper has employed an institutional perspective. In many societies, there is incongruence between the laws, codes and regulations of the formal institutions and the norms, beliefs and values that comprise the informal institutions. The result is that what formal institutions deem illegitimate are licit in terms of the norms, values and beliefs. To tackle undeclared work therefore, a reduction in this institutional incongruence is required. Two approaches exist for doing so.

Firstly, one can change the norms, values and beliefs of the population regarding the acceptability of working in the undeclared economy so that these informal institutions align with the laws, regulations and codes of formal institutions. This requires tax education initiatives, awareness raising campaigns and normative appeals that seek to improve the level of tax morality. Secondly, one can change the formal institutions to align with the norms, values and beliefs of the wider society. On the one hand, this requires changes in the processes of formal institutions. This includes seeking improvement in procedural justice (i.e., whether citizens believe the authorities are treating them in a respectful, impartial and responsible manner), procedural fairness (i.e., whether citizens believe they are paying their fair share compared with others) and redistributive justice (i.e., whether citizens believe they are receiving the goods and services they deserve given the taxes they pay). On the other hand, this requires changes in the products of formal institutions by pursuing wider economic and social developments. This includes the creation of wealthier economies, with stable high quality government bureaucracies that seek to reduce poverty levels, pursue equality, greater levels of social protection, more effective redistribution via social transfers and greater state intervention in the labour market to protect vulnerable groups.

However, indirect control measures that change formal and informal institutions, although necessary, are insufficient on their own to tackle undeclared work. Given that undeclared work is a wicked problem with multiple drivers, a multi-pronged approach is required that uses both direct and indirect controls. For example, governments might seek to change the culture of government departments towards a more customer-oriented approach and introduce public campaigns to elicit greater commitment to tax morality, whilst simplifying regulatory compliance and introducing incentives (e.g., amnesties, tax deductions) to enable undeclared

work to move into the declared realm. At the same time, and in relation to those who fail to comply, they may also pursue improvements in the probability of detection and tougher sanctions for those subsequently caught.

The debate therefore, is not so much over whether to use direct or indirect controls. Rather, the major discussion concerns which specific policy measures are most effective and what is the most effective way of putting these policy measures together in various combinations and sequences to elicit behaviour change. The 'responsive regulation' approach and 'slippery slope' framework provides two options. Whether these are more effective than other sequences and combinations now needs evaluation. If this paper therefore encourages greater research into which sequences and combinations are effective in which contexts, then it will have achieved its objective. If it also leads to the wider adoption of this conceptual framing for understanding the policy approaches for tackling undeclared work, then it will have achieved its wider intention.

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