

PROGRAMME OF RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

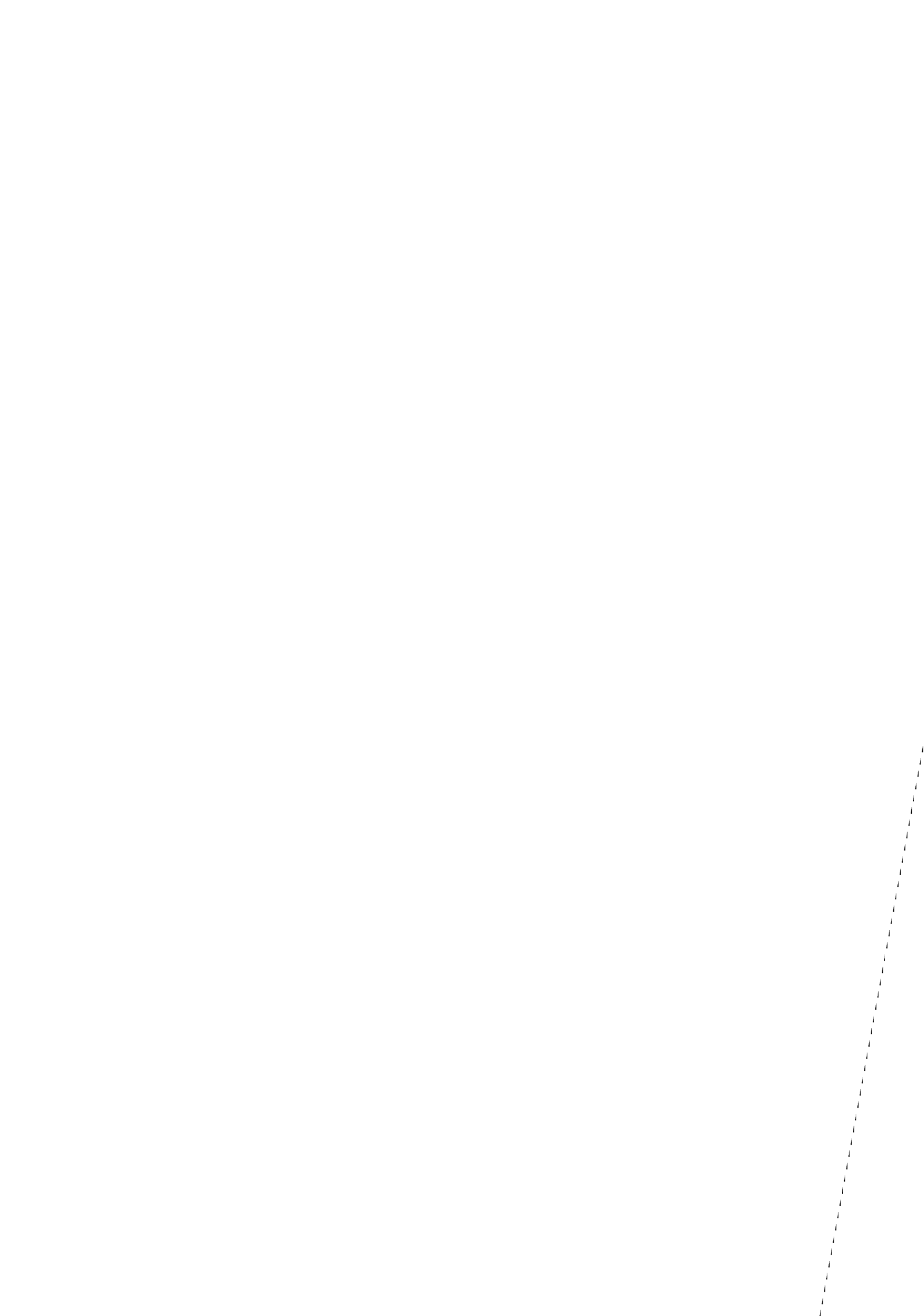
THE FRINGE AND CLANDESTINE LABOUR MARKET
IN FRANCE, THE UNITED KINGDOM AND ITALY

(SUMMARY REPORT)

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February 1980

For:
The Commission of the
European Communities

Study No 79/42



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S U M M A R Y

There are no hard and fast boundaries between "regular" forms of employment, "fringe" employment (such as second jobs or work done at home) and clandestine work in the strict sense.

A proportion of the working population ends up in fringe employment, impelled by a number of socio-economic factors, which are not only connected with the need for money, but equally well with working hours, regulations and conditions. This is illustrated by the examples of France, the United Kingdom and Italy.

Fringe employment does not seem to be a straight substitute for legitimate work, and the 'moonlighter' is not really in competition with the unemployed person seeking full-time paid employment. Regular and fringe jobs play complementary rather than conflicting roles in the economic process. It would be more effective if we were to combat clandestine work by making institutional constraints less inflexible and social barriers less marked, than by taking further repressive, penal measures. Beyond any considerations of recovering taxes and additional social security contributions, it means introducing a system of employment which is as all-embracing as possible.

This study was financed by the Commission of the European Communities under its Labour Market Research and Action Programme. The analyses and proposals concerning the labour market do not commit the Commission in any way.

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I - INTRODUCTION

This study is an attempt at descriptive and comparative analysis. France will be used as an example to illustrate the importance of institutional factors on the structure of employment.

An examination of the situations prevailing in two other Community countries should show quite clearly the effect of social structures on the level and role of fringe employment in its various forms.

Italy and the United Kingdom were chosen because they provide a range of contrasts in combination with France.

Analysis of the labour market is far too often based on observation of the clearly defined, well-documented legitimate sector. This overlooks the fact that alongside the conventional market there is a fringe sector, very poorly described in terms of labour statistics and in relation to the National Accounts, but which nevertheless supplies goods and services, distributes income and accounts for a substantial amount of working time. Whatever its nature, the fringe labour market appears to be one determining factor underlying a number of trends in the supply of and demand for labour.

If we approach the subject with this in mind we see that not only can fringe employment appeal to different individuals for various reasons, but that it is also a reaction to a whole set of what are considered to be intolerable restrictions. It is then possible to indicate positive means of combating clandestine employment, inherently far more effective than any number of repressive measures, which are difficult to organize and useless as deterrents.

After taking an initial look at the established employment scene from the point of view of the clandestine market, we shall go on to trace the economics of the fringe market, having observed that it is no longer possible to make sense of a world reduced merely to "profit".

Our initial observations are illustrated by a profile of the leather working industry in Tarn, which opens our discussion of possible ways of reducing the extent of the fringe and clandestine labour market in relation to the present employment system in the Community countries.

2. THE INSTITUTIONAL BACKGROUND TO CLANDESTINE WORK

2.1 'Moonlighting' in France is defined precisely by the Law of 11 July 1972. The Law prohibits "the practice of any form of gainful occupation, except on an occasional basis, connected with production, processing, repairs or the provision of services, liable to be entered on the "Répertoire des Métiers" (Trades Directory), or where appropriate, on the Commercial Register, or involving commercial acts by a natural or legal person who has not been registered on the abovementioned "Répertoire" or Register and who has not complied with the fiscal and social obligations connected with the occupation concerned".

Wage earners are prohibited from holding more than one job if this means that maximum legal hours of work are exceeded, and from engaging in paid work during periods of sick leave, paid holiday or registered unemployment.

The International Labour Organization defines 'moonlighting' and combining jobs with regard to people who have a second unofficial job besides their main form of employment.

The definition of 'moonlighting' essentially refers to the fiscal and social obligations which constitute the legal context of official employment.

2.2 Clandestine employment in France costs the economy FF 40 000 million, i.e. almost 5% of the marketable GDP (gross domestic product), and equal to over 3.5% of the total amount paid in wages. There are estimated to be between 800 000 and 1 500 000 clandestine workers.

In the United Kingdom, there are between two and three million 'moonlighters', according to official statistics. The revenue authorities estimated that for the tax year 1978-1979, about £11 000 million - i.e. 7.5% of the GNP - were lost in potential tax from the 'underground' economy. In Italy the rate of employment is 38.5%, which is the lowest in the European Community. The figure rises to 55% if one includes four million 'moonlighters'. The gross national product is thus 20% lower than it should be, according to Government statistics.

2.3 The United Kingdom Social Security system is by far the best as far as the employer is concerned (less than half the French rate, which is itself lower than the Italian rate), but the Italian wage-earner is subject to the least pressure.

Ultimately the overall social and fiscal charges are the determining factor in that they determine the room for manoeuvre between the worker and his employer - the limits of which are net salary and official wage costs. Any remuneration falling between the two figures and paid 'under the counter' is to the advantage of both parties.

In the United Kingdom this discrepancy is equivalent to 26% of the gross wage bill, in Italy, to 46.13%, and in France, to 43.05%, not counting insurance contributions for industrial accidents and occupational diseases. Clandestine employment is most prevalent in the country which has the greatest room for manoeuvre.

2.4 The fact that income tax is progressive and that there are high marginal rates of taxation above a certain level of income, encourages dishonesty. High direct taxation has the effect of reducing the official labour supply, particularly in the case of women and young people (whose income is declared by the head of the family at present). Progressive income tax on the individual discourages people from seeking a higher income in their main job. They would rather run the risk of tax evasion by not declaring extra income or by seeking wholly clandestine extra work.

In increasing direct and indirect taxation, there is an inherent risk of ending up by collecting a smaller amount than would have been the case had there been lower taxes and less fraud.

2.5 It is important to reconcile various assessments of the extent of 'moonlighting' with existing data on continuing poverty in the industrialized countries.

Students and temporarily unemployed persons are counted as "poor people", for whom 'moonlighting' is the only possible source of income. Poor workers manage to get work on a daily basis in firms which are in a state of decline, or with private individuals, doing unrewarding jobs for undeclared wages. This is the case for women engaged in domestic work.

Since these menial jobs are not done on a regular basis, they cannot be regarded as clandestine employment in the strict sense, although they are breaking fiscal and social laws. They are usually difficult to curb since they involve people who are in a highly unfavourable position because of the discrimination, divisiveness

and selectivity characteristic of the main labour market.

There is thus a noticeably clear distinction in Italy between workers who come into a category well protected by the 1970 Statute, and a large number of dropouts, unemployed people and pensioners.

3 - ECONOMICS OF THE FRINGE LABOUR MARKET

3.1 The ambiguities that arise from a strict definition of clandestine employment are evidently due to the fact that there is no precise boundary between it and legitimate employment - using the latter as the norm.

It is much simpler and more precise to define clandestine employment indirectly, by listing the constraints applying to conventional employment so that the various forms of fringe employment may be seen as "negative deviations" from legitimate employment.

Each deviation from such a constraint corresponds to some form of fringe employment. Clandestine employment implies that fiscal and social rules are not being observed, but the fringe market covers other types of work such as second jobs which generally mean that the maximum permitted working time is exceeded.

There are three main types of constraint, based on three sets of laws and regulations:

- (a) monetary constraints which fix wage rates and compulsory deductions;
- (b) occupational constraints which restrict access to jobs and the right to exercise particular occupations;
- (c) qualitative constraints, i.e. working conditions in general, but also including working hours.

3.2 The low official activity rates among those of working age indicate the extent of illegal and unofficial employment. This is why in Italy the Central Statistics Institute (ISTAT) showed that by taking into account people engaged in unofficial occupations the working population increased by nearly 750 000 in 1977. These were mainly self-employed workers.

As far as firms themselves are concerned, social progress can be seen in terms of more or less restrictive constraints. Sometimes reducing working time - in the case of small firms or workshops - means that there is a risk of encouraging illegal forms of organization of labour in order to keep wage costs low. A manufacturer may find that he makes more profit with lower productivity, a smaller plant and a 'moonlighter', than with high productivity and a registered worker. The risks involved in bending labour laws and the fines incurred are negligible compared with the savings that can be made in staff costs.

Some Italian firms have no real choice: the productivity required to cover the cost of a registered worker would be beyond the firm's technical capacity. Clandestine employment is thus the only resort possible.

3.3 It is practicably impossible to apply the law on daily or weekly working time to people who work at home, where the whole family may also be involved: women, children and grandparents often spend hours producing on a genuine "family" basis. The person or firm supplying the work turns a blind eye to illegal work done by children, continuing to resort to these "scattered" factories - this host of tiny family production units.

Most people with a second job choose a different occupation from their main one. Second jobs tend to be in the tertiary sector rather than in industry and usually take the form of self-employment rather than paid work.

3.4 Modern industrial production methods are less often used in Italy than elsewhere.

In this respect France comes between Italy and the United Kingdom. There is also a certain dualism in terms of production, which is divided between a modern, highly capital-intensive sector, and a traditionally organized regional sector. The latter is threatened by international competition since it has high wage costs compared with those of the developing countries.

When the rate of unemployment in Europe was much lower than it is now, the illicit labour market was regarded as a means of regulating labour, and there was no question of any interaction with the regular labour market. The parasitic aspects of clandestine employment are emphasized by those who see it as one of the reasons behind the present deplorable state of unemployment, which must be reduced. It is argued that clandestine workers are officially unemployed, and that deterring clandestine employment, or making it legal is merely an artificial means of lowering the official unemployment rates. At the same time, the increase in tax and social security evasion would explain the social security and national budget deficits which are so difficult to combat.

However, this attractive theory must be refuted since there is no proof that the amount of 'moonlighting' is connected with the economic cycle - quite the opposite, as is suggested by research carried out by the United Kingdom Department of Employment, which demonstrates the remarkable stability in the rate of secondary employment between 1969 and 1975, despite the increase in unemployment.

4 - THE FRINGE LABOUR MARKET AND WORKING TIME

4.1 Except in some special cases, every person working is subject to a timetable. Oddly enough this fact is ignored by neo-classical economists who in no way take into account the rigidity of working hours, and consequently of the worker's income. All theories based on indifference curves, consumption of goods/working time, are totally unrealistic since an employee has no control over working time.

The amount of leisure time increases from year to year but increased travelling time, proliferation of activities and the desire for overtime counteract this increase. There are three main categories of people supplying labour, depending on the amount of time offered. There are those who wish to supply part-time work, those who prefer a normal week (about forty hours) and those who want long hours. Reduced working time causes problems for the last category who, seeing their working time diminish, are likely to seek a second, part-time, job.

Extra leisure time may be refused if there is no extra income to cover it. This may explain the renewed interest in do-it-yourself. Leisure is replaced by work at home which means savings on decorating and maintenance. A preference for shorter working time rather than an increase in the main source of income may be interpreted as a desire to organize time which will be used for extra paid activities.

Besides the obvious financial motivation, we should try to understand people's behaviour in terms of seeking objectives connected with the satisfaction gained from activity which one controls oneself, rather than compartmentalized work or passive consumption.

4.2 The generally accepted definition of part-time work is that provided by the International Labour Organization according to which part-time work is work carried out on a regular, voluntary basis during a working day or working week, lasting a much shorter time than normal working time.

The reasons why part-time work is not more widespread are largely institutional. Part-time work has no real status, there are no precise statutes or legal protection. Part-time jobs are not as secure as so-called "normal" jobs. Employers often use part-time workers in order to adjust their working potential to the economic cycle, and regard them as temporary labour.

The legislator takes great care to ensure that part-time work continues to be something exceptional, and to keep it as part of the favours that may be granted to a good employee going through a difficult phase. This approach is qualified by the fact that part-time work can provide freedom for the individual to bring his own labour supply - permanently, and not necessarily because of special circumstances - into line with what he wants to do and to his financial needs, as well as what his physical capacity or family circumstances permit him to do.

4.3 A second job is often defined by the fact that the worker spends fewer hours doing it than he does his main job. The expression "subsidiary occupation" used in the United Kingdom renders the idea that a second job is supplementary in the sense of providing extra income. In the United Kingdom in 1969 14% of men whose main occupation covered normal working time worked more than 51 hours a week, including a second job. In the case of women, two part-time jobs combine to make a normal working week. Over half the women with a second job have a first job of fewer than twenty hours a week.

Of those people with more than one job 20% do their extra work during the day on Saturdays and Sundays, 23% at night at the weekend, 43% in the evening and at night during the week and 14% in a combination of the above.

5 - PROFILE: LEATHER-WORKING IN TARN

5.1 Leather-working means making bags, wallets and various leather goods. This sector is largely based on family businesses and small firms such as craft workshops.

An average leather-working business consists of about nine people. These figures are not completely accurate since firms give out work to be done at home, and 'moonlighting' plays a substantial part in this business. Workers are rarely qualified to start work as soon as they are taken on. The type of labour sought is specialized but not qualified. Work is so organized that full training is not required.

The work structure breaks down in rural areas where traditional activities are declining or have even disappeared. A factory spreads out its former activities among a large number of small home-based units, which are independent and take the form of craft businesses, sub-contracting from the main factory, or of wage-earning home workers. This "scatter" is obviously useful for firms in difficulty since their uncertain expenditure programme requires the greatest possible flexibility in production. Dispersal makes it practically impossible for the Factory Inspectorate or the Social Security authorities to carry out checks.

Clandestine employment accounts for an estimated 30% of work at home.

5.2 Leather-working is at the centre of a whole process, of an economic process, beginning with tawing - which means tanning the skins, and ending up with the distribution and marketing of the finished goods. At each stage of the process part of the activity is hidden from view.

If at any stage of the process concealment were impossible or very difficult, there would then be an obligation to declare most of the production at other levels because of accounting and fiscal inter-dependence.

Fully invoiced marketing would prevent the leather-workers from under-declaring their production by 20%, from employing 20% of their staff on an irregular basis and from getting 20% of their supplies without declaring them. Given this description, it is not surprising to find that 'moonlighting' is a priority in widely dispersed economic processes, which are open to fraud at all levels - such as textiles, which reveals much the same regional features as leather-working.

The need to stock up illicitly throws light upon the effect the current do-it-yourself trend has on the upsurge of 'moonlighting' in the sense of having a second job concerned with building and repairs. In this case materials can be bought legitimately under the guise of the amateur, a widespread practice nowadays.

6 - MEASURES LIKELY TO RESTRICT THE FRINGE LABOUR MARKET AND
'MOONLIGHTING'

6.1 We analysed the range of constraints involved in legitimate employment. Any lessening of these constraints would automatically reduce the amount of fringe employment chosen in reaction to the level of these constraints.

When someone is not satisfied with the rewards from his main job he takes on a second job to fulfil his expectations in so far as the two types of job are compatible. When this is not possible he may prefer to drop out completely and become a full-time 'moonlighter'.

A survey carried out in Cardiff shows why some workers are encouraged to take up a second job. Money as the sole motive only applies in just over half the cases. Taken as only one element of individual decisions, it figures in 63% of cases; while a third do not mention the financial aspect at all, financial motivation may be based on: reduced purchasing power caused by monetary erosion, the desire to achieve social status, family needs.

Furthermore, when there is a choice between declaring and concealing a job, a person will prefer to have an illicit net income which is higher than a corresponding income reduced by taxes and social security contributions:

- (a) when he has social security cover from other sources;
- (b) when he does not fully understand the rights conferred by regular work;
- (c) when he wishes to make use of his free time;
- (d) when he needs to work special hours.

There are also social and personal reasons (escape from home, need for personal liberation, etc.).

6.2 There is already some degree of flexibility in working life. Any extension of the various possibilities would help to contain the fringe labour market. This applies to flexible working time, overtime, part-time work, unpaid leave, work at home, occupational mobility, the elimination of work permits, speeding up enrolment on professional registers, etc.

Care should however be taken where there may be adverse effects. Encouraging work at home makes fraud easier since it is very difficult to keep checks on this form of work, but on the other hand, prohibiting it would lead to all those who do it and find it useful resorting to 'moonlighting'.

Paying for Social Security partly through taxes and thus reducing the relative burden of social welfare costs, mainly felt by industries employing large numbers of workers, would reduce the existing difference between gross and net earnings and would lessen the incentive to engage in clandestine employment.

Measures aimed at stamping out clandestine work should be accompanied by constructive action. Measures of this kind taken together with measures designed to facilitate craft work by ensuring profitability without driving up prices - might prove to be more beneficial than indiscriminately rooting out all forms of 'moonlighting'.

6.3 Measures which might counteract clandestine work sometimes run up against other measures designed to promote work sharing particularly when they relate to maximum working time and certain types of fringe work such as working during retirement.

All things considered, as far as "legalizing 'moonlighting' is concerned the following must be distinguished:

- (a) cases where legalization would conflict with the basic principles of legislation (direct and indirect taxation, redistribution of income) and is therefore impossible;
- (b) cases where legalization is possible by means of selective amendments to legislation (systems of compulsory taxation and deduction, all aspects of the established employment system).

Where legalization is possible, there is also a need to assess whether or not the proposed amendment is advisable, taking into account its effectiveness and possible side effects, which might be dangerous socially and even detrimental. This is where the whole problem lies.

7 - CONCLUSION

7.1 The inflexible aspects of the official economy (taxes, various forms of social protection, working time, etc.) encourage the growth of an unofficial sector without these constraints, posing a basic problem in terms of the State's resources and established employment structures.

We do not consider it a good idea to eliminate all forms of fringe work. This type of work acts as a safety valve, proving that the social system can react to its self-imposed inflexibility.

A second job - usually combined illegally with a main occupation - is often one that would not otherwise be provided or which no one else would take: it is usually part time, provides only supplementary income, is generally in the form of self-employment rather than wage-earning, and above all, in 80% of cases, falls within the tertiary sector whereas it is in industry that efforts are being made to create jobs.

However, both clandestine work and unemployment would diminish in those sectors where both run at a high level: in finishing work in the building trade, the retail trade, some services such as electrical or car repairs, the catering trade and restoration work. These occupations and the legislation applying to them would have to be reorganized for this purpose.

7.2 Two specific surveys - one carried out in the United Kingdom on people with more than one job, and the other in Italy on that part of the population which, officially, does not work have provided us with useful information and arguments for the analysis we have made.