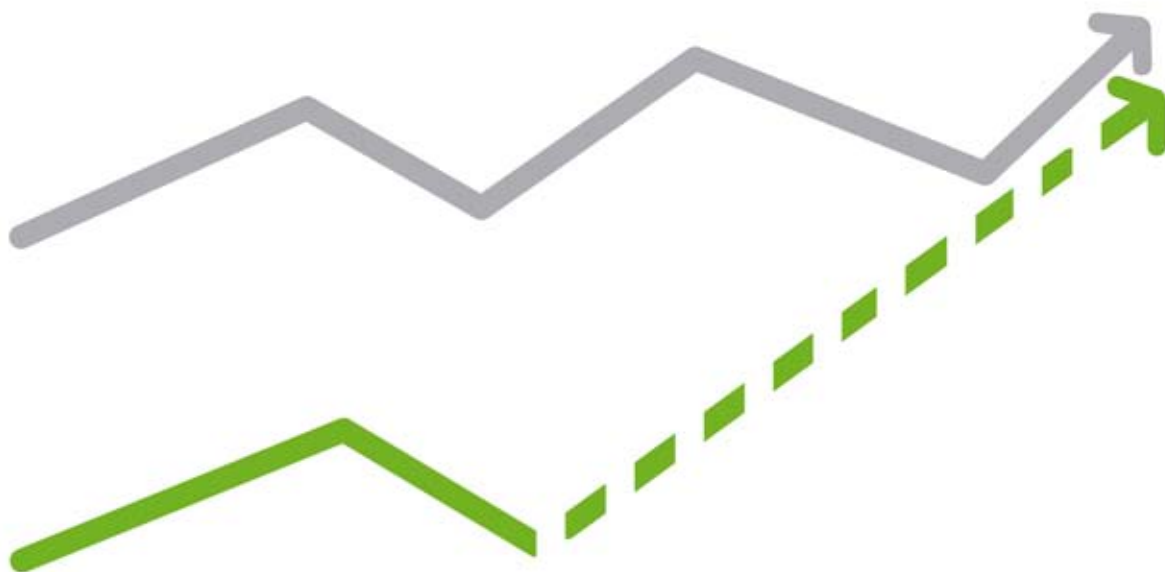


# Turning Undeclared Domestic Work Around (TUDWA)

Barcelona, 21<sup>st</sup> and 22<sup>nd</sup> June 2012



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## • Summary

<b>Executive Summary .....</b>	<b>4</b>
<b>Chapter 1 - Introduction .....</b>	<b>5</b>
<b>Chapter 2 - General Concepts .....</b>	<b>6</b>
2.1 - Undeclared Work .....	6
2.2 - Domestic Work .....	7
2.3 - Undeclared Domestic Work in the European Union .....	8
<b>Chapter 3 - The Extent of Undeclared Domestic Work .....</b>	<b>9</b>
<b>Chapter 4 - Reasons .....</b>	<b>15</b>
4.1 - Reasons for Undeclared Work .....	15
4.2 - Characteristics and Types of Undeclared Work .....	18
4.3 - Reasons behind Undeclared Domestic Work .....	19
<b>Chapter 5 - Consequences of Undeclared Domestic Work .....</b>	<b>23</b>
5.1 - Individual Consequences .....	23
5.2 - Collective Consequences .....	25
5.3 - The Case of Immigrants in an Irregular Situation .....	26
<b>Chapter 6 - Policies .....</b>	<b>27</b>
6.1 - Deterrence Approach .....	28
6.2 - Enabling Compliance .....	29
6.3 - Implementation of Policies .....	36
<b>Tables .....</b>	<b>39</b>
<b>Bibliography .....</b>	<b>40</b>

## • Executive Summary

By studying the grounds behind the concepts of both undeclared work and domestic work, it can be concluded that reversing undeclared domestic work is one of the major concerns in Europe. Its consequences for public finances, working conditions, vulnerable groups, as well as the growing impact of this sector and the complex features that need to be tackled require an urgent resolution of the situation in the European Union.

The estimated size of undeclared work varies between 1.5% and 19% of the GDP of different member states, and the household sector leads the ranking with the highest rates. In addition, the magnitude of the domestic sector is also quite important to the overall labor market, and the presence of women and migrants is crucial to the overall picture.

Elements such as tax and social contributions, overly complicated administration, changes in family structure and organization, work distribution within households, cultural acceptance and the role of migrant and gender inequalities are considered to be the main reasons behind the existence of significant undeclared labor in the domestic sector around Europe.

This phenomenon has negative consequences on both an individual and a collective level. Individuals experience increased vulnerability while working conditions and social protection decline; the collective consequences include social fraud, economic setbacks, and lack of union representation, for example.

By analyzing the main public policies in place against undeclared labor, we have detected specific policies which could have a greater impact in tackling undeclared domestic work. The key elements to tackle are administrative simplification, reducing the financial advantage of undeclared work, introducing incentives for regulated workers, professionalization of the sector, and promoting the benefits of the declared economy. In sum, the complexity of the problem means integrated models, not single policies, must be implemented. Furthermore, it is also necessary to ensure the participation of a wide range of relevant entities.

# • Chapter 1 - Introduction

The demographic and socioeconomic evolution of Europe during recent decades has brought significant changes to the model of family organization. The traditional model consisted of a division of labor made according to gender. Men were expected to do paid work, while women took care of household work with no salary (Cancedda, 2001).

However, modernization has driven many women to the labor market, leaving them less time to dedicate to household tasks. Plus, not only have the roles changed, but so has the composition of families: the number of single person households and single parent families has increased. Life expectancy has also increased, which has generated a greater need to provide care for the elderly.

All these changes have entailed the need to redistribute household tasks. The lack of male cooperation and insufficient public provision of household services, especially in southern European countries, have helped to increase the demand for private domestic services (Castelló, 2008). However, even though there is demand for a huge number of new jobs, these jobs are clearly characterized by their precariousness in the form of undeclared labor.

The household sector is one of the main areas where undeclared work has a greater presence (TNS Opinion & Social, 2007). Employers and employees do not legally formalize their labor relationship. Millions of European citizens face this situation, which means that employment and social protection rights may be significantly reduced, with the consequence that uncertainty about employment and careers can arise and personal stability can be affected. Nowadays, in the context of the economic crisis, the regularization of this sector is seen as an opportunity to create a significant number of jobs while attempting to bring quality, social recognition and professionalization to the sector. In fact, the presence of undeclared domestic jobs is a permanent handicap for the welfare state: while it provides social protection to the population performing its duties, society does not fund all its services accordingly.

This study attempts to analyze the problems around undeclared domestic labor. Through the analysis of a large bibliography, the origins of undeclared domestic work will be discussed, as well as its extent and its consequences. This will bring us to the main goal of the project: to present possible public policies to combat undeclared domestic work.

# • Chapter 2 - General Concepts

## 2.1 – Undeclared Work

Undeclared work, also known as the black economy, informal work or the hidden economy, affects all the countries in the European Union. To build an effective legal and administrative response, it is important to clearly define the concept, since this will enable its scope to be determined.

The definition chosen for this report was issued by the European Commission, “*any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account differences in the regulatory systems of Member States*” (COM (1998) 219 final). In this definition, undeclared work differs from declared work only by the fact that it circumvents tax, social security and labor law regulations. Criminal activities are not taken into account.

### Main Characteristics

Undeclared work is difficult and almost impossible to quantify, since it is, by definition, unregistered and not officially observed. The Eurobarometer survey, “Undeclared work in the European Union”, carried out in 2007 (TNS Opinion & Social) was the first European survey on this topic based on the aforementioned definition. The results of the survey will be elaborated on further in Chapter 3.

Undeclared work is an issue of major concern in the European Union.

It affects public finances since it leads to less revenue in terms of social contributions and tax income, and represents an important risk for social security systems. Shadow economy (adding tax fraud and undeclared work) would represent 10% of the GDP in Western Europe, 25% in Mediterranean countries and 30% in Eastern Europe (Schneider, 2011).

The undeclared employee can also face difficulties regarding working conditions and be in a somewhat unstable situation due to the lack of social protection.

A few factors explaining the development of undeclared work can be identified: a growing demand for personal services due to a change in lifestyles, vertical disintegration of firms, regulation being considered a burden, the development of new lightweight technologies, the appearance of new types of professional activities, cultural traditions, etc. The causes and consequences of undeclared work will be further explained in Chapters 4 and 5.

### Challenges for the European Union

One of the priorities for the European Union regarding undeclared work is to reduce its impact on the economy. All Member States need to secure the durability of their social security systems, but also ensure decent working conditions for workers. A major challenge for governments is, therefore, reducing the incentives for both employers and employees to choose the “hidden way”. The preferred approach would involve a balance between law enforcement and prevention.

Before trying to define measures or policies to tackle undeclared labor or to transform undeclared work into regular work, it is essential to mention that strong disparities exist between different Member States regarding regulatory systems. Policies aimed at tackling undeclared work, therefore, need to be tailored to the situation of each individual country (Williams and Renooy, 2008).

Chapter 6 of this report will focus on policies implemented in different countries within the European Union to curb undeclared work.

## 2.2 – Domestic Work

The definition chosen for this report was issued by the European Foundation for the Improvement of Living and Working Conditions in 2001 in the report entitled *Employment in Household Services* (Cancedda) and is as follows: all services provided by a public or private organization, or by the third sector, which substitute paid work (in the form of a job or self-employment) for work that was formally performed unwaged within the household. A number of activities fall under this definition: gardening, child care, elderly care, domestic cleaning and catering.

Domestic workers represent an important workforce in Europe but they are quite invisible and, thus, vulnerable to more abuse. This category of workers, therefore, requires special attention.

The International Labour Organization (ILO) adopted the Convention on Domestic Workers in July 2011. It states that domestic workers have the same rights as other workers. The European Parliament recommended that the 27 EU Member States ratify this Convention.

### A Growing Sector

Due to demographic and socio-economic factors, including an ageing population and changes in family structures, the household services sector is expected to keep growing in Europe in the coming years.

The increasing demand for domestic services in Europe is seen as a good opportunity to create new formal jobs within European households, in a sector where informal employment is, to a large extent, the norm.

Nonetheless, concerns exist regarding working conditions for domestic workers and it is important to remember that domestic work is still undervalued and characterized by low income and widespread part-time work.

### The Main Features of Domestic Work

Domestic work can hardly be compared to any job that would take place in a factory or a company since the work is carried out within a private household. A personal relationship is established between employer and employee within the private sphere, and involves an emotional and intimate level. Power relations are often characterized by inequality.

Domestic work, formerly performed inside the home by women without specific qualifications, naturally remains categorized as “unskilled” work. We could also say that women are seen as “naturally skilled” for household tasks.

In many European countries, domestic work is traditionally performed as undeclared, and illegal workers represent a large majority of the workforce (Larsen et al., 2011). This unregistered and, therefore, invisible work is mostly performed by people who find themselves in a precarious situation (undocumented immigrants, unemployed people, senior workers, etc.), which obstructs them from social integration and even social rights.

## 2.3 – Undeclared Domestic Work in the European Union

Domestic work is still considered to be a women's issue and most of the time both employees and employers are women. Women inside the household are naturally given the role of dealing with household matters, including domestic employee(s). European studies showed that in childcare services, eldercare and domestic cleaning the percentage of female workers reaches 90%. In Europe, as in the rest of the world, domestic work is highly gender-oriented.

Domestic work is one of the main sectors in which informality is extremely widespread.

The registration of domestic workers, which is often difficult and time-consuming, acts as a deterrent for employers, especially when the employee only works a few hours a week.

Women and migrant workers, who represent the overwhelming majority of domestic workers, are a particularly vulnerable sector of society, especially when they find themselves in an irregular situation. A report from the European Union Agency for Fundamental Rights (2011) found that domestic work undertaken by employees is typically less regulated by legal standards and enforcement mechanisms than other forms of employment.



## • Chapter 3 - The Extent of Undeclared Domestic Work

This overview provides a brief look at the main features of the phenomenon of undeclared domestic work in the European Union, through research based on the data available.

Given its principal characteristic – being hidden – the phenomenon of undeclared work is difficult to quantify. The estimated size of undeclared work in the different Member States varies between 1.5% and 19% of GDP (Bielenski, 2006). This information is a result of different methods used by different institutions (statistical offices, banks, tax authorities) and refers to different years of measurement.

In 2007, the European Commission undertook a study to measure undeclared work across the entire Community (TNS Opinion & Social, 2007). The study looked at both the share of people buying undeclared goods and services as well as the profile of workers who take up such jobs. The results of the Special Eurobarometer on undeclared work in the EU (Williams and Renooy, 2008) reveal that some 5% of the population surveyed in the EU-27 carried out undeclared work during the 12 months prior to the survey (Table 1). In some countries, however, the participation rate is much higher, including Denmark (18%), Latvia (15%), the Netherlands (13%), Estonia (11%) and Sweden (10%). This does not necessarily mean that the size of the undeclared economy is higher in these countries.

The findings also suggest that undeclared work is not always concentrated in the same sectors. As the results in Table 2 show, almost one in five undeclared jobs across the EU are found in the household services sector, which includes domestic cleaning services as well as child and eldercare. In other words, the providers of undeclared work in the EU-27 cited household services as the most significant undeclared activity performed in the past 12 months (19%).

Table 2: Incidence of Undeclared Work in EU-27, by Sector and Country Group (%)

% of undeclared work in:	Continental Europe	East-Central Europe	Nordic countries	Southern Europe	EU 27
Household services	23	7	11	30	19
Construction	16	19	27	3	16
Personal services	11	7	4	10	9
Hotels and restaurants	9	2	4	17	8
Repair services	7	5	4	9	7
Industry	1	5	7	13	5
Agriculture	2	9	2	3	4
Transport	2	4	11	2	3
Retail	2	6	1	1	3
Other	17	15	20	7	15
Refusal/don't know	9	22	9	7	12
Total	100	100	100	100	100

Source: TNS Opinion & Social, 2007

Table 1: Prevalence of Undeclared Work and Annual Earnings in the EU, by Country and Country Group

Country	% engaged in undeclared work in last 12 months	Average total number of hours of undeclared work in last 12 months	Average annual undeclared income per person (€)	Average annual undeclared income per undeclared worker (€)
<b>Continental Europe</b>				
AT	7%	113	19	1,875
BE	6%	158	140	3,496
DE	3%	95	28	1,381
FR	6%	167	111	3,685
IE	4%	253	60	2,013
LU	5%	187	210	6,998
NL	13%	100	85	1,210
UK	2%	81	138	2,308
<b>East-Central Europe</b>				
BG	5%	649	240	4,802
CZ	7%	157	88	1,252
EE	11%	182	305	2,772
HU	7%	296	87	1,244
LT	7%	347	369	5,275
LV	15%	390	602	4,015
PL	5%	359	84	1,686
RO	4%	266	449	11,234
SI	5%	97	45	752
SK	6%	198	112	2,245
<b>Nordic countries</b>				
DK	18%	68	254	1,410
FI	4%	51	48	1,211
SE	10%	78	105	1,055
<b>Southern Europe</b>				
CY	1%	218	226	3,764
EL	4%	376	34	1,140
ES	3%	276	37	1,827
IT	3%	550	97	2,427
MT	2%	363	121	2,437
PT	3%	320	329	2,530
EU-27	5%	199	164	3,294

Source: TNS Opinion & Social, 2007

Data on the number of domestic workers throughout the world are hard to collect. The main reasons for the lack of accurate and comparable data include the high incidence of undeclared domestic work and consequent under-reporting, the varying definitions of domestic work in statistical surveys, and the fact that national statistics often do not count domestic workers as a distinct category but register them under such headings as “community, social and personal service activities”.

But, the data that are available show that domestic work absorbs a significant proportion of the workforce. In developing countries it accounts for between 4 and 10 per cent of total employment (both female and male), compared to industrialized countries where it ranges between 1 and 4 per cent of total employment (Table 3).

**Table 3: Domestic Workers as a Percentage of Total Employment, by Sex (Selected Years)**

	Total			Men			Women			Women's share of total domestic employment 2006%
	1995	2000	2006	1995	2000	2006	1995	2000	2006	
Argentina	7.42	7.93	7.94	0.89	0.82	0.31	18.05	18.51	18.31	92.4
Belize	3.74	3.70 (a)	5.90 (b)	0.98	0.90	2.30	10.14	9.80	12.80	74.2
Bolivia	6.70 (c)	6.06	–	0.80	0.44	–	13.70	13.17	–	–
Brazil	–	7.64 (d)	7.70 (b)	–	0.92	0.90	–	18.73	17.10	93.3
Chile	–	6.10 (d)	–	–	0.90	–	–	15.80	–	–
Ecuador	–	6.35	4.16	–	0.81	0.40	–	15.18	9.78	89.6
El Salvador	4.30 (e)	4.32	5.01	0.40	0.49	0.84	10.30	9.88	10.63	90.1
Ethiopia	–	–	5.26	–	–	0.70	–	–	9.78	90.7
France	–	–	2.50 (b)	–	–	0.80	–	–	4.50	–
Israel	1.66	1.56	1.78	0.25	0.34	0.31	3.57	3.03	3.49	94.1
Luxembourg	2.13	2.24	2.67 (b)	–	–	–	–	–	–	–
Mexico	3.35	4.47	4.16	0.44	0.78	0.54	9.46	11.55	10.34	90.9
Panama	5.98	5.66	6.19	1.07	1.21	0.98	16.30	14.48	15.53	87.1
South Africa	–	9.36	8.66	–	3.11	3.05	–	17.56	16.13	79.7
Spain	2.84	2.75	3.85	0.62	0.49	0.59	7.11	6.67	8.63	90.9
Switzerland	1.24	1.47	1.24	0.04	0.43	0.29	2.87	2.81	2.40	83.0
Uruguay	–	9.49	8.69	–	1.61	1.36	–	20.12	18.88	92.5

(a) 1999. (b) 2005. (c) 1996. (d) 2002. (e) 1998. By default, labor force surveys were used to produce these data. Official estimates were used in the case of Switzerland and Luxembourg. Chile relied on a population census, as did Brazil, but only for the year 2000.

Source: ILO, 2008

In Europe, the trend in recent years has been toward an increase in migrants among domestic workers, the overwhelming majority of whom are women. These workers are exposed to exploitation and abuse due to several factors, including the lack of recognition of their work as a proper job (as a result of gender stereotyping), their heavy dependence on the employer (especially if they live in the employer's house), and a lack of clear legal protection. Furthermore, many migrant domestic workers are particularly vulnerable because of their irregular situation or the undeclared nature of their work.

In 2008, data provided by EUROSTAT (2008)<sup>1</sup>, collected in 2005 for 25 EU Member States, showed that the fourth and fifth largest occupational categories for women were those of “domestic helpers” and “personal care workers”. These two categories (together with “other office clerks”) employed 19 per cent of women.

Table 4 shows the magnitude of this factor in European Union countries.

Table 4: Magnitude of Domestic Work in the EU-27 in 2008

	Total No. of employees
Spain	752,600
France	606,600
Italy	419,000
Germany	173,000
Portugal	136,300
United Kingdom	136,000
Greece	68,100
Belgium	41,100
Poland	18,000
Cyprus	16,800
Austria	11,000
Ireland	8,600
Finland	8,000
Netherlands	4,000
Lithuania	2,900
Slovakia	2,200
Norway	2,000
Latvia	1,900
Czech Republic	1,000
Bulgaria	no information available
Denmark	no information available
Estonia	no information available
Hungary	no information available

Source: ILO (2008b)

1- The data showed that some 61% of employed women worked in just six sectors of activity, all of which involved the supply of services: healthcare and social work (in which 17% of all working women were employed), retail (12.5%), education (11.5%), public administration (7%), business activities (7%) and hotels and restaurants (5%). These six sectors, however, accounted for only 31% of employed men.

Regarding undeclared work in the domestic sector, discrepancies in the statistical figures on the actual numbers of domestic workers reflect the high incidence of informality in the sector which, to varying extents, seems to be highly widespread across Europe. Some sources report an estimate of 70 to 80 per cent of undeclared, irregular jobs in this sector in Europe (ETUC, 2005).

Table 5: Estimations about Undeclared Domestic Work

Country	Estimation of domestic workers	Alternative estimations	Estimations of undeclared domestic work (if available)
	Source: ILO, 2008c		
France	607,900	1,600,000 in 2006 (Pape, 2010)	
Italy	419,000	1,200,000 (IRENE & IUF 2008) 2,000,000 (Eurofound, 2007)	
Spain	752,600		60% (Colectivo IOE, 1990) 1990 – 52% 1999 – 62% (Sanchis, 2005)
Germany	216,000  40,000 eligible for social security (Cyrus, 2009)	50,000 – 145,000 irregular migrant workers (Hamburg Institute of International Economics) 2,000,000 (Kontos et al. 2009)	2.9 million households regularly employ domestic workers and  1.1 million households occasionally employ domestic workers (Schupp, 2002) 90-95%, 500,000 – 600,000 (Larsen, 2011)
United Kingdom	136,000		

Source: Own elaboration

Reliable statistical data on the size and composition of the informal economy and on the share of migrants involved in these kinds of activities are often unavailable and sometimes incomparable. However it is generally agreed that this is a growing phenomenon in spite of numerous attempts to tackle the issue, including the adoption of increasingly restrictive migration provisions. Evidence shows that migrant women –mostly, but not exclusively, undocumented– constitute a large share of the informal European economy and are mainly concentrated in informal employment in the area of household and care services. It should also be noted, as the following data state, that when employment registration becomes a condition for eligibility for regular residence status, as in the normalization processes carried out in Italy and Spain over the last decade, national authorities have been able to register a significant increase in employment relationships in the domestic sector (Galloti, 2009).

It follows that the major reasons for engaging in undeclared work are tax and social security burdens that force a whole employment segment into this type of economy. Employment in personal services and household services is considered to be too costly to be executed legally in the formal labor market. Social security contributions, in particular, are seen as driving labor costs

beyond productivity, thus rendering legal employment in these areas uneconomical. Thus, the result is a high unemployment rate for unskilled workers and a growing demand for the provision of care services in the informal economy (Renooy, 2007).

The relationship between domestic work, undeclared employment relationships and irregular migration is complex. In general, while irregular migration is often perceived by the media, the broader public or even policymakers as being “the” cause behind the rise of the informal economy, it is clear that an established informal sector is a powerful “pull” factor, attracting irregular labor migration to Europe. This also holds true for the domestic work sector, which is one of the major informal sectors.

## • Chapter 4 - Reasons

### 4.1 – Reasons for Undeclared Work

The main reason why employers, employees and the self-employed participate in the undeclared economy is financial. Working in the undeclared economy offers the opportunity to increase earnings or reduce costs while avoiding taxation and social contributions. From an historical perspective there are three factors that contribute jointly to the existence of undeclared work, to varying degrees:

- a) The emergence of a highly disparate demand for ‘personalized services’ for families and individuals (such as care, cleaning, etc.); these services have a high labor content and low productivity growth;
- b) The reorganization of industry and firms into long lines of vertical disintegration and chains of subcontracting in order to make production more flexible and to increase the capacity for innovation and adaptation to specific situations and market fluctuations. This kind of flexibility leads to an increase in self-employment and of worker entrepreneurs, some of whom may be operating within the undeclared economy;
- c) The impact of the spread of light technology, such as personal computers, which provides new working opportunities and opens up new areas to service activities.

The scope and extent of undeclared work varies according to different institutional aspects of the economy in each Member State, such as:

**Tax and social contribution levels:** The level of tax and social contributions clearly influences the level of undeclared work. A higher tax burden is an incentive to enter the underground economy both for the worker and the employer. Apart from the level of tax and social security contributions, the structure of these contributions also shapes the black economy. In countries where income taxation is high, the push will come from labor supply, and the undeclared worker will characteristically be self employed. In countries where social security contributions are high, the push will be from the demand side and undeclared labor will tend to be structured in (completely or partially) undeclared firms.

**Regulatory and administrative burdens:** The weight of excessive overheads and administrative procedures for registering as a service provider or for formalizing an employment relationship, for example, may discourage declaring work where both sides can see the advantages of it remaining undeclared. The existence of craft corporations may also be conducive to undeclared work since, in some countries, membership to a craft association is required in order to exercise certain professions. While these exist to guarantee the quality of the product or service, they can also act as entry barriers with the result that non-members could be tempted to exercise their profession in an unofficial way.

**Inappropriate labor market legislation:** Limited recognition within current legislation for new kinds of work (for example, non-standard working hours, part-time work or temporary contracts) may also force people into undeclared work.

**Industrial structure:** In areas dominated by a few large companies the underground labor market is relatively insignificant. But, at the other extreme, in local economies composed of a plethora of

small firms, not only is undeclared labor more likely, but it is also more often organized rather than on an individual basis. However, where workers are aware of their rights, undeclared work tends to be less prevalent.

**Low competitiveness:** Recourse to undeclared labor may be a cost-cutting survival attempt by firms in declining sectors which would otherwise not be able to survive in a competitive market. In the long run, however, it is difficult for an undeclared sector to compete internationally, because it is more disorganized and requires a high degree of mutual trust between the operators, making it difficult for it to have an impact beyond a closed circle.

**Cultural acceptance:** There is a certain cultural understanding or acceptance of the informal economy. Participating in the informal economy at the local level is often perceived as an exchange of services or mutual assistance which does not need to be declared (cleaning, agricultural seasonal work, etc.).

**The existence of easy opportunity:** Each individual chooses whether or not to engage in undeclared work, doing a personal cost-benefit analysis in which he or she will weigh up the advantages, such as higher (immediate) income, against the disadvantages, such as possible sanctions, the risk of being caught and moral considerations. The more opportunity an individual has to exercise an undeclared activity at low risk (lax controls, or, because he or she is already covered by the insurance of the main employer or of a spouse, for example), the easier it will be to take advantage of the situation.

Undeclared work is generally present in sectors which are labor intensive and involve low profits, such as agriculture, construction, retail, catering and domestic services, manufacturing and business services where costs are the major competition factor, in addition to modern innovative sectors (COM (1998) 219 final).

The 2007 Eurobarometer Survey (TNS Social & Opinion) gives evidence for the main reasons why people tend to engage in undeclared work. The survey was considered a pilot initiative and given that it was based on an established sample, it could not provide evidence on the situation of illegal third-country nationals or citizens from new Member States facing temporary restrictions on free movement. Still, the results are interesting and provide a clear framework for the phenomenon in Europe. In sum, the survey highlights the following (COM (2007) 628 final):

- There is a large market for undeclared work throughout the EU, especially in household services;
- The avoidance of taxes and administrative formalities (notably in the case of atypical work, e.g., seasonal activities) are the main drivers, with necessity to a lesser extent;
- The importance of envelope wages, which are the share of total wages paid cash-in-hand and undeclared, especially in the construction sector;
- The prevalence among students, the self-employed and the unemployed;
- The low awareness of sanctions in case of detection.

The motives for participating in undeclared work are to be divided into two key groups, which refer to supply and demand.

As for consumer motivation, just under half (44%) of undeclared purchases were motivated by lower prices, while 7% of consumers overall reported that price was either a major or contributory factor



in the EU-27. Other important factors, apart from the financial aspect, are availability, quality and speed of formal service provision<sup>2</sup>.

The reasons vary across countries. In Nordic countries for example, financial gain is less of a driver than in other EU regions, while poor formal service provision appear to be a more significant factor, either solely or in combination with the desire to save money. Social/redistributive rationales, meanwhile, are more important in Nordic and Continental European countries than in East-Central and Southern European countries. Thus, different explanations appear to be more relevant in different countries.

**Table 6: Reasons Cited by Consumers for Participating in Undeclared Work, by Country Group, EU-27 (%)**

Reasons given	Continental Europe	East-Central Europe	Nordic countries	Southern Europe	EU-27
Lower price	44	47	35	44	44
Poor formal service provision	14	15	18	15	15
Social reasons	11	7	10	8	10
Lower price and poor formal service provision	14	19	22	16	16
Lower price and social reasons	9	5	7	7	8
Poor formal service provision and social reasons	3	2	3	4	3
Lower price, poor formal service provision and social reasons	5	5	5	3	5

*Source: TNS Social & Opinion, 2007.*

As for the reasons cited by suppliers in relation to undeclared work, they can be divided depending on whether participation is due to exit and/or exclusion factors. The rationale of ‘exclusion’ refers to those asserting that they engage in undeclared work either because they could not find a regular job, or due to the claim that not declaring activities and/or that working in the undeclared economy is common in the particular region or sector and that there is no real alternative. On the other hand, the following groups were categorized as willing undeclared workers driven by a desire to voluntarily exit the formal economy: those asserting that the bureaucracy or red tape required to carry out a regular activity is too complicated; respondents claiming that they were able to ask for a higher fee for their work; those reporting that both parties benefited from the arrangement; respondents claiming that taxes and/or social contributions are too high; those asserting that their participation in seasonal work is not worth declaring; and/or respondents who argue that the state does not do anything for them, so they see no reason to pay taxes. Respondents citing a mixture of these exclusion and exit drivers were classified as being driven by both exit and exclusion considerations.

**Table 7: Reasons Cited by Suppliers for Participating in Undeclared Work, by Country Group, EU-27 (%)**

Reasons given	Continental Europe	East-Central Europe	Nordic countries	Southern Europe	EU-27
Factors relating to a desire to exit the formal economy	63	54	78	50	60
Factors relating to exclusion from the formal economy	17	19	5	28	18
Both exit and exclusion factors	20	27	17	22	22

*Source: TNS Social & Opinion, 2007.*

2- The Eurobarometer report groups the EU Member states into four geographical regions: Continental Europe (Austria, Belgium, France, Germany, Ireland, Luxembourg, the Netherlands and the UK), Eastern and Central Europe (Bulgaria, the Czech Republic, Estonia,

Demographic transformation involving population ageing, the changes occurring in household structures and roles, together with an inadequate long-term care system have significantly influenced families<sup>3</sup> steadily increasing demand for alternative care resources. The EUROFAMCARE study on family carers found that, in 17 out of 23 countries in Europe, families reported relying on migrant care workers at least from time to time (Quatrinni, 2006).

The reasons behind informality are numerous and complex, particularly for migrant women whose immigration and employment status is intimately linked to and influenced by gender, ethnicity and class-related factors. Cumbersome and/or onerous administrative procedures for the registration of domestic work, especially in the presence of an abundant, flexible and cheap workforce, might also act as a deterrent for employers to regularize domestic workers, in particular when the worker only works for a few hours per week. In some cases it is the existing legislative framework that leaves no other option than informality. This is the case, for example, for some legislation that excludes part-time or occasional work from the obligation to formalize the working relationship. Of course, this is further complicated for migrant domestic workers, as most European countries' immigration laws do not foresee the possibility to obtain a residence permit for the purpose of domestic work.

## 4.2 – Characteristics and Types of Undeclared Work

In the context of the definition of undeclared work and the Eurobarometer report (TNS Social & Opinion), there are three types of undeclared work:

- 1) Undeclared work within a formal enterprise, or what might be termed as undeclared waged employment: this work can either be wholly undeclared, whereby all of the person's wages are paid 'off the books', or partially undeclared, whereby a portion of the wage from one's formal employer is paid officially and the remaining portion is paid off the books ('envelope wages').
- 2) Own-account undeclared work: work for a formal enterprise or another client, such as a household, conducted under social relations akin to self-employment.
- 3) More socially embedded own-account undeclared work: work involving the delivery of goods and services directly to consumers who are neighbors, family, friends or acquaintances.

Four main groups of participants can be identified in undeclared work:

- 1) Second and multiple job holders. The majority of undeclared work is carried out by people who also have a regular activity. Being able to participate in the undeclared economy often means that the individual is responding to a demand, which requires certain skills or special qualifications.
- 2) "Economically inactive" persons (students, housewives, and early retirees). They have fewer time constraints on taking part in the undeclared economy and opportunities are greater for those who have had previous contact with the world of work.
- 3) The unemployed. On the one hand, the risks of participating in undeclared work may be

3- Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), the Nordic countries (Denmark, Finland and Sweden), and Southern Europe (Cyprus, Greece, Italy, Malta, Portugal and Spain).

higher for them, as they might lose their unemployment benefits, especially if these depend on an active job search or participation in training. On the other hand, they may be offered a job on the condition that it remains undeclared, and their ability to resist is very low, particularly where unemployment benefits are low. However, the longer unemployment lasts, the more the opportunities for performing undeclared work decline.

#### 4) Third-country nationals

The age and gender of undeclared workers depends to a large extent on the sectors affected.

### 4.3 – Reasons behind Undeclared Domestic Work

**Family structure and organization:** Despite the mass incorporation of women into the labor market, they have not been released from housework. This has stopped paid domestic work from being seen and considered as a professional job, thus denying its professional character and sentencing such work to precariousness.

Changes in everyday forms of managing and performing domestic and family work, the increase in female employment, the transformation of the extended family to a family with a smaller core, an ageing population, single parenthood and new time management have led to the outsourcing or commercialization of domestic work. Unfortunately, the transposition of domestic work into the public sphere has not led to the professionalization and improvement of the quality of the sector, but to a regime of weak labor and working conditions nearing a relationship of servitude, instead of relationships with clearly defined roles and contractual formalities.

**Specific features of the domestic environment:** Not being considered a regular job due to the fact that the role of “entrepreneur” is held by the head of the family, but having the necessary resources to exercise the role of a “boss”. Additionally, the wage obtained by a woman is frequently seen as a complement to the husband’s salary, hence it is not a regular job. Furthermore, domestic work takes place in homes, which involves discretion and means working relationships are mixed with personal relationships and trust, which can lead to abusive situations, in addition to difficulties in monitoring activity, taking into account the right of inviolability of the home. Thus, it is an activity that is not considered employment and, therefore, it is not common to have professional qualifications.

**Economic issues:** The establishment of new conditions for labor relations that have been occurring informally means that many employers are unwilling to change the rules of the game, especially if the adjustment involves something extra (guaranteed minimum wages, social security contributions, etc.). Meanwhile, some workers believe that the adjustment may involve economic costs that are not proportional to the benefits that may be involved (economic and social protection, pensions, etc.). They do not demand the regularization of their activity, in some cases for fear of losing employment.

**Gender and migrant factors:** Given that the jobs are almost exclusively performed by women, mostly immigrants, this facilitates social vulnerability and job insecurity. By virtue of being considered socially specific to women, domestic work is legally constructed from deregulation. Hence, it is an obstacle for women to achieve the recognition of certain citizenship rights derived from the work.

When tasks are uniquely done in a household, they are performed mainly by immigrant women; while the tasks performed by the hour at several homes are more often spread between native

women. Feminization of the sector has increasingly deteriorated working conditions. The fact that there is a strong presence of immigrants with a special need to work who, in some cases, may accept worse working conditions, especially if they are in an irregular situation, exacerbates insecurity.

The range of activities carried out by migrant domestic workers is extensive. Nevertheless, there are some common factors. The domestic worker's job tends to involve a variety of tasks of a domestic nature which are perceived as "low-skilled", and therefore poorly valued in social and economic terms. However, unlike some other "low-skilled" jobs, this type of job tends to be highly personalized, isolated and emotionally charged. It involves very unequal power relationships and is typically performed by women – indeed, it is widely perceived as a "woman's job".

Despite the continuous incorporation of women in paid work and the more balanced sharing of responsibilities between men and women, domestic work remains a highly gender-specific niche in the labor market. For instance, in Austria, more than 96 per cent of domestic workers officially accounted for in 2008 were female.

In conjunction with gender stereotypes, this fact contributes to the low social prestige and poor economic evaluation of domestic work. The underlying context is one of a persistent gender stereotype which identifies domestic work as a traditional, unpaid women's activity. This view leads to an undervaluation of domestic work, which is not perceived as a professional activity even when it is carried out by paid "outsiders" rather than by the female head of the household. As a result of the growing migration dimension of domestic work in Europe, the trend in recent years has been toward an increased proportion of migrants among domestic workers. As the gender composition of domestic workers has remained virtually unchanged, the growing demand from abroad has inevitably become one of the factors contributing to the "feminization of migration".

This development reveals not only the increasing proportion of women migrants, but also the phenomenon of women migrating independently in search of jobs (rather than accompanying their male family members) in response to the surge in demand for a cheap female labor workforce in developed countries. This trend, moreover, is likely to continue in coming years.

The relationship between domestic work, undeclared employment relationships and irregular migration is complex. In general, while irregular migration is often perceived by the media, the broader public or even policymakers as being "the" cause behind the rise of the informal economy, it is clear that an established informal sector is a powerful "pull" factor, attracting irregular labor migration to Europe. This also holds true for the domestic labor sector.

In fact, this is one of the major informal sectors. In the first place, this may be due to the characteristics of the sector itself. It is a very flexible type of work (in terms of schedules, salaries and employment conditions) which has traditionally been considered as assistance, rather than a profession. In addition, it is usually carried out in the employer's house, which may also be the employee's residence. These factors ensure there must be a relationship of trust between the employer and the employee, and if this does not exist then abusive situations can ensue. These are difficult to detect as the closed conditions in which the work is carried out hinder the access of labor inspectors.

Furthermore, the existence of a large informal sector is driven by the employers themselves, who seek to avoid the burdensome administrative procedures involved in the registration of domestic workers. In certain cases, the administrative hurdles stemming from restrictive migration policies might actually prevent employers from recruiting migrant domestic workers legally even if they wish to do so.

For many migrant workers with various types of irregularity (from those who are fully undocumented to those whose conditions of legal residence exclude paid employment), such undeclared work is not truly a choice but a necessity since they are unable to gain access to the legal labor market. Even in certain circumstances and in certain legal systems, a relatively long stay in the informal domestic service labor market is the only possible way to access administrative regularization.

Moreover, some legal migrants may also accept undeclared work if required to do so by their employer in a highly asymmetrical working relationship, or because they have not been successful in finding a job in the legal labor market (due to a lack of skills, discrimination, etc.).

**Table 8: Migrant Care Workers in Some EU Countries**

Country	Migrant Care Workers
Austria	50% of care providers are foreigners. At least 40,000 of them do not have a contract.
Denmark	6.2% of nurses are foreigners and 11% of all longterm care workers are of foreign descent.
France	50% of those who carry out domestic work for dependent elder people are foreign women.
Germany	Estimations vary between 100,000 and 200,000 migrant women who work as care workers, most of them in the hidden economy.
Greece	There are at least 250,000 migrant care workers, representing nearly 70% of all family assistants.
Italy	There are around 750,000 migrant care workers, and 90% of them work in households.
Netherlands	8% of workers in the longterm care sector are migrant workers.
United Kingdom	20% of those who work in the longterm care sector are foreigners. 3.5% of nurses are trained abroad.
Spain	It is estimated that between 200,000 and 400,000 domestic assistants are foreigners.
Sweden	13% of those who work for dependent elder people and handicapped people are migrant care workers.

*Source: Colombo (2011)*

## Employers' and Workers' Perspectives

In general, the combination of demographics (increasing life expectancy and an ageing population), a weak protection system of dependence and —in some countries— cultural and social Mediterranean values reluctant to institutionalize older people determine that the most demanded mode of domestic work for house-workers in the domestic regime is permanent and exclusive to the same household. Also, 24-hour-a-day availability, with accommodation at the same home in most cases, favors subordination and blurs the line between maximizing workspace and personal space.

The attitude of domination of some people seems to make employers legally required to regulate the employment relationship and even an option in favor. The flexibility of the accommodation and food (24-hour presence at home with absolute availability for work) is considered a favor, and is even deducted from wages by some employers.

In this situation, recourse to the informal economy, especially for immigrant workers who are willing to work for lower wages and be available virtually 24 hours a day, becomes the best option economically, and is sometimes the only one available to the family.

This chapter has discussed how there is social acceptance around the undeclared work environment that allows for the situation of deregulation to be tolerated.

One of the most important reasons for the existence of covered domestic work is the economic benefit for employers, as it is a direct tax payment and, therefore, constitutes cost savings. It also represents lower costs for workers as they do not have to pay taxes or social contributions.

In addition, it is noteworthy that the regulated market is complicated and the bureaucracy involves costs and high taxation.

Some employees have an attitude of submission, expecting their employers to regularize their situation, despite it being a legal obligation. In many cases, their employers do not consider domestic service to be a job, so they do not conceive the idea of regularization.

There is a significant lack of knowledge about the rights and duties of employers and workers. The fact that the employees' activities are carried out individually and they are dispersed, thus making it difficult to pool their membership in a union, ultimately makes the collective defense of their interests almost unfeasible, so they neither claim their rights nor improve their working conditions.

# • Chapter 5 - Consequences of Undeclared Domestic Work

Although undeclared domestic work is paid employment, in terms of its legal nature it is not included as regular work, as it is developed outside of labor standards. In this sense, we can distinguish between the individual and collective consequences of undeclared domestic work, which are negative in all cases.

## Summary of Undeclared Domestic Work Consequences

Individual Consequences	Collective Consequences
Labor	Economic (macro and microeconomic)
Economic	Social fraud
On social protection	Labor market segmentation
On health	Lack of union representation
Vulnerability to labor risks	
Vulnerability to maternity	
Loss of other rights and paid leave	
Helplessness in case of corporate abuse	
Helplessness in case of gender violence in the workplace	
Obstacle to personal development	
Obstacle to professional development	
Reduction of social value	
Risk of social exclusion	

## 5.1. – Individual Consequences

### • Labor

Undeclared domestic work has negative effects on the working life of the people who engage in it: it limits the ability of these workers to request improvements to their working conditions (wage increases, better schedules, paid leave or holidays) or receive compensation in case of dismissal. Undeclared domestic work is, oftentimes, a barrier that hinders access to the employment market and limits people to only engaging in jobs related to undeclared activities.

### • Economic

The remuneration of undeclared domestic work is lower than that of regulated domestic work, which in itself is lower than other occupations (ILO, 2011). The salary of non-declared workers does not include extra payments or waged holidays. This limits the economic independence of workers due to the low pay they receive (Del Cabo et al., 2005).

### • On Social Protection

In the short term, undeclared domestic work does not pay contributions for unemployment or illness, so these workers cannot benefit from any financial benefits in case of unemployment

(if they are fired or lose their job) or in the case of temporary absence (if they suffer a common disease or non-work related accident). In the longterm, undeclared domestic work does not pay contributions for retirement, so the workers cannot be beneficiaries of a pension when they reach retirement age. Likewise, family members wouldn't have the right to access a widow's and/or orphan's pension in case of death of the employee due to a work-related accident or occupational illness.

- **On Health**

Not having a labor contract means that workers who perform undeclared domestic tasks are not protected in case of a temporary incapacity, common disease, non-work related accident or an accident at work (in their own workplace or commuting to and from work) or in case of a disease associated with carrying out the tasks of the profession.

- **Vulnerability to Labor Risks**

Employers are obligated by law to ensure that the work performed by people employed as domestic workers can be performed under appropriate health and safety conditions. In the case of undeclared domestic work, these safety and hygiene conditions cannot be taken into account, thus endangering the health of the worker.

- **Vulnerability to Maternity**

Maternity is protected and regulated by labor legislation in all European Union countries. In this sense, people who are legally employed as domestic workers have paid leave related to maternity that undeclared workers cannot take advantage of (exams and prenatal childbirth preparation, breastfeeding leave, reduction in working hours to care for a child).

- **Loss of Other Rights and Paid Leave**

There are other rights and paid leave regulated by law that people who work in undeclared domestic service cannot take advantage of, or who must rely on the "goodwill" of the employer (marriage leave, childbirth, death, accident or serious illness of family, moving, active suffrage, union duties, etc.).

- **Helplessness in Case of Corporate Abuse**

As a consequence of being outside the regulated labor market, people who work in undeclared domestic service do not have adequate protection of their rights, either at a legal or union level. In case of corporate abuse or mobbing, they do not have the necessary tools to defend themselves.

- **Helplessness in the Case of Gender Violence in the Workplace**

There are resources and protocols to treat cases of gender violence in the workplace that undeclared domestic workers cannot use. In this sense, for them, the only solution to avoid these situations is to leave their job.

- **Obstacle to Personal Development**

Another consequence of undeclared domestic work is that it becomes an obstacle to the personal development of workers, because they work in isolation from other workers, have no



colleagues and no relationships with others throughout the workday. Undeclared domestic work is socially isolating and reduces the self-esteem of people who do it (Del Cabo et al., 2005 and ILO, 2011).

- **Obstacle to Professional Development**

Undeclared domestic work also hinders the development and career advancement of workers, because it does not offer options for development within the workplace, does not give workers the chance to be trained to grow as professionals and limits the possibilities and opportunities for workers to acquire and maintain professional qualifications related to their employment. The person is relegated to low-skilled and poorly paid jobs (Del Cabo et al., 2005 and COM (2007) 628 final).

- **Reduction of Social Value**

The negative social value of domestic work is accentuated if the people who engage in it do it outside the regulated labor market. The personal value placed on these people by family, friends and society in general is reduced and damages the professional judgment that other people have about the undeclared domestic worker (Del Cabo et al., 2005).

- **Risk of Social Exclusion**

All these individual effects can lead to the social exclusion of people who undertake undeclared domestic work (Del Cabo et al., 2005).

## 5.2. – Collective Consequences

- **Economic (Macro and Microeconomic)**

From a macroeconomic perspective, undeclared domestic work has an impact on national public finances (COM (2007) 628 final), as the government fails to receive tax contributions for the person carrying out his work in the informal economy; thus, tax revenue is reduced. This results in a lower level of public services that can be offered to the public and an increase in public debt.

Undeclared domestic work also affects the balance of the national social security system (COM (2007) 628 final), because this system protects everyone, without receiving the contribution of people who do not declare their work, or those of companies or employers.

Likewise, undeclared domestic work and irregular work, in general, affect the economic policies of countries (Del Cabo et al., 2005), as their existence interferes with the measurement of the main economic aggregates, distorting economic decisions based on them. In this sense, the unemployment rate and inflation can be overestimated while GDP, national income, the rate of consumption and savings, etc., can be underestimated.

From a microeconomic perspective, undeclared domestic work has an effect on competition (COM (2007) 628 final), influencing the competitiveness of workers, because the price of labor differs depending on the requirements, supply and demand of the worker and/or employer. Undeclared work also influences and distorts the competitiveness of companies, because companies that properly comply with their legal obligations are at a disadvantage: some have more labor costs than the others.

In this sense, undeclared work can be considered as a form of social dumping, which introduces unfair competition between companies on the basis of insufficient wages and non-payment of social security benefits (Fundación 1º de Mayo, 2011 and COM (2007) 628 final).

- **Social Fraud**

When workers use undeclared domestic work to supplement their income to compensate for inactivity, such as a benefit or unemployment benefit, it is considered social fraud.

- **Labor Market Segmentation**

Undeclared domestic work represents an extreme case of labor market segmentation: people develop their profession outside the regulated labor market, causing segmentation between the “legal” labor market and the “undeclared” labor market. This situation causes the deterioration of working conditions and lack of protection for workers, as opposed to domestic workers who are inside the regulated labor market (COM (2007) 628 final).

- **Lack of Union Representation**

Undeclared domestic service workers cannot benefit from collective representation in the labor market through trade unions and independent employer organizations, or institutions for social dialogue, limiting their bargaining over labor and economic conditions (COM (2007) 628 final).

### **5.3. – The Case of Immigrants in an Irregular Situation**

The negative consequences of undeclared domestic work are aggravated in the case of immigrants in an irregular situation, because they experience more vulnerability and social precariousness and, therefore, have a higher risk of falling into undeclared work, as it is a situation that allows them to be regularized. Also, they are exposed to socially unacceptable working conditions and the risk of being deported (Fundación 1º de Mayo, 2011; Del Cabo et al., 2005 and COM (2007) 628 final).

## • Chapter 6 - Policies

This chapter analyses the suitability of the most common policies implemented throughout different European countries to combat undeclared domestic work. The analysis takes into account the characteristics of the undeclared domestic economy discussed in previous chapters. It concludes with methodological aspects of its implementation.

The fight against undeclared work has generated a wide range of public policies which have been studied frequently. In order to systematize them they are analyzed using the classification proposed by Williams and Renooy (2008) based on two different policy approaches: deterrence and enabling compliance.

The deterrence approach aims to reduce undeclared work by detecting and punishing it. It has two methods: improving detection and penalties.

The enabling compliance approach is a step toward a more positive reinforcement approach. Instead of using coercion, the objective is to persuade or to encourage good behavior with preventative, curative or commitment-fostering methods.

All these methods use different types of measures. The table below shows the layout of this classification and the main measures used against undeclared work:

**Table 9. Classification of Policies against Undeclared Work**

Approach	Method	Measures
Deterrence	Improving detection	Increasing the effectiveness of inspections Joining-up strategy / Joining-up operations / Data matching and sharing
	Penalties	Increasing penalties for evasion
Enabling compliance	Preventative	Simplifying compliance and administrative paperwork
		Developing technologies to prevent undeclared transactions
		Direct and indirect tax incentives
		Reducing the financial advantage of undeclared work – subsidies
		Introducing healthcare incentives
		Smooth transition into self-employment
		Introducing new categories of work
		Creating cooperatives and worker-owned companies
		Micro-enterprise development programs
		Regularizing and protecting domestic workers
		Professional qualifications
		Quality standards
	Curative	Purchaser incentives:
		- Service vouchers
		- Targeted direct and indirect taxes
		- Wage realignment
		Supplier incentives:
		- Society-wide amnesties
		- Voluntary disclosure
		- Business advisory and support services
		Introducing a national minimum wage
	Commitment-fostering	Promoting benefits of declared work
		Education and awareness
		Peer-to-peer surveillance
		Tax fairness
		Procedural justice
		Redistributive justice

Source: Adaptation from Williams and Renooy, 2008, 14. The classification has been extended with other measures not originally included.

In order to discuss how to tackle undeclared domestic work, the policies from this table will be described and, at the same time, it will be discussed whether they are suitable as a means to specifically overcome undeclared domestic work.

## 6.1 – Deterrence Approach

### 6.1.1 Improving Detection

- **Increasing the Effectiveness of Inspections**

It consists of increasing the capacity for detecting undeclared situations or detecting higher amounts of undeclared tax collected. Several methods have been developed to increase the effectiveness of inspections. For instance, the number of inspections conducted can be increased, the inspections can be concentrated on “suspect” sectors and the registration of workers prior to commencing work can be enforced (owners claimed to inspectors that an unregistered worker had just started to work).

Although this is one of the most widespread policies around Europe (Williams and Renooy, 2008: 20), these measures have not been particularly appropriate within the domestic sector; mainly because they do not operate under the same conditions as other economic sectors. Inspections in private households are not legal for tax authorities.

Another disadvantage is that the number of households is by far larger than the number of firms. Therefore, increasing the number of inspections would be endless. In addition, not all households have domestic workers. This means an inspector would find it reasonable for someone to say that he or she does not have any regular employee contracted. And finding someone who is not a family member inside a house is not evidence of irregular work. Consequently, proof of an irregular situation is hard to detect.

It is possible that the worker may file a complaint against the employer. In this case, the inspection is possible. However, this is not a probable situation because the worker has a high risk of losing their job.

- **Joining-up Strategy / Joining-up Operations / Data Matching and Sharing**

Lack of coordination between agencies both at an operational level and a strategic level has been a constant (Williams and Renooy, 2008: 22). This implies the ineffectiveness of detecting undeclared work. Therefore, an appropriate policy is the coordination of strategy and operations and an increase of data sharing between agencies. As a result, it has been very common to create coordinating institutions with competences over different departments and over different territorial levels related with undeclared work. Secondly, another new kind of coordinated institutions are central data banks, where all kinds of information is collected in order to prevent undeclared work (for example, social security data).

From the perspective of domestic work, the coordination of different departments and sharing information might be necessary. However, as long as undeclared domestic work remains undetectable, these actions cannot have any impact.

### 6.1.2 Penalties

- **Increasing Penalties for Evasion**

Given the total amount of resources spent on detecting undeclared work, it is usual to

increase the penalties for those participating in undeclared work. This measure is also aimed at reducing the cost/benefit ratio performing undeclared work. The risk of a higher penalty reduces the interest for undeclared transactions (Williams and Renooy, 2008: 24).

However, as a deterrence measure, it stills has the dead-end problem of detection in the domestic sector.

## 6.2 – Enabling Compliance

### 6.2.1 Preventative Policies

- **Simplifying Compliance and Administrative Burdens**

Compliance to regulations may be lowered due to their innate complexity. There are two main reasons that explain this fact: the more complex and diffuse a regulation is, the less it is known, understandable and applied; secondly, greater complexity generates a higher cost of compliance, which may lead to non compliance in order to avoid those costs.

Administrative regulations have to be accessible to their target population. This is a key question within households, which do not have the same legal tools as businesses. In addition, a family cannot be expected to always acquire the behavior and mechanisms of a firm. Regulations for domestic services imply that household members are employers who contract an employee. The administrative steps to contract a domestic worker are not simple. Currently, they are also too complex for common businesses. In fact, this policy has been highly recommended by the European Commission (2007).

Service vouchers are an effective form of simplifying the regular contract of a domestic worker. A simple system of checks is used to pay the employee and to justify the payments made by the employer<sup>4</sup>. The Netherlands has also established a registration system for house-cleaning workers.

- **Developing Technologies to Prevent Undeclared Transactions**

The appearance of technological developments has improved the systems to prevent non-compliance. These advancements have been focused on the control of cash registers and their manipulation, as in Sweden for example (Williams and Renooy, 2008: 28). This method has been used extensively in sectors where the use of cash transactions is widespread. Consequently, the domestic sector would not be able to profit from these kinds of new technologies.

- **Direct and Indirect Tax Incentives**

A generalized tax reduction is a well-known policy to prevent people from entering the undeclared realm. There are two main options: Firstly, the reduction of value-added tax; secondly, the reduction of income tax or social contributions. However, it is unclear whether this has a significant effect and, moreover, if these reforms impact other aspects of the system. Consequently, it is preferable to use these policies in a more targeted and restrictive way.

- **Reducing the Financial Advantage of Undeclared Work – Subsidies**

Systematic subsidization is the most direct solution to compensate for the cost difference between undeclared and declared work. Any tax reduction or deduction is not capable of offering lower costs than undeclared work, only subsidization.

4- Further development of the service voucher can be found in “Curative Policies”.

Subsidies may have three objectives (Larsen et al., 2011: 30): a) keeping prices affordable for the demand side; b) offering more attractive wages for employees; c) and reducing the impact on the costs for providing declared products and services.

Subsidization, along with tax incentives, is one of the main tools to combat undeclared domestic work. It is capable of offering competitive prices. Also, the expenditure on subsidies may be compensated for by the costs saved on the social benefits earned by unemployed people who were working in undeclared circumstances.

- **Introducing Healthcare Incentives**

Entering into declared work schemes can be rewarded with special incentives related with healthcare provision. Those countries which do not have universal provision as a general rule have the possibility of offering healthcare advantages to those who engage in declared activities. This is an opportunity to attract domestic workers to regularization. The results of declaring work are explicit and tangible and make a huge difference in contrast with undeclared work.

However, this measure is limited by the existing national policies on health access. When access to healthcare is universally granted, there is not much margin. Nevertheless, this policy can be adapted to other areas of public services which could be of interest to domestic workers.

- **Introducing New Categories of Work**

The existence of occasional jobs or minor jobs has been a problem in all member states as regularization for such work has not been properly defined. The categories established by law do not usually provide adequate parameters for these cases and people believe that they cannot do anything else aside from conducting those jobs as undeclared work.

A possible solution is the normative definition of new categories of work. Depending on different salary ranges (starting from very low wages), workers could legitimize their work through specific categories (mini-job, midi-job, etc.), as in the German case. Their contribution to social security would be reduced proportionally.

Experiences in the domestic field have shown certain success, since the implementation of the measure leads to an increase in the number of private households declaring domestic workers (European Foundation for the Improvement of Living and Working Conditions, 2005: 9).

However, this measure has been criticized because it increases the flexibility for employers, which can be a setback for collective agreement wages. Furthermore, categories such as mini-jobs and midi-jobs can be combined with envelope wages to pay a minority regularly and the rest irregularly.

- **Creating Cooperatives and Worker Owned Companies**

The creation of cooperatives or worker owned companies is a specific solution for domestic workers. These types of firms consist of workers' associations with the purpose of offering services or products to the market. The responsibility for the firm lies with all the partner workers.

When attempting to regularize domestic workers, household members face the problem of becoming professional employers, even when they may just need to contract a few hours

of work per week or they have a close relationship with the worker. If this worker were a member of a cooperative or a worker-owned company, the household members would only have to pay for the service that a private firm provided them as a customer. The role of households would be simplified. And furthermore, searching for domestic workers would become much easier because households would only need to contact a cooperative or a company.

Workers also gain many benefits. They can work at their own business, but avoid the individual inconveniences of self-employed workers: the administrative procedure is managed collectively (not individually), reducing the total cost and complexity of the task; workers manage their own work while they also benefit from the same guarantees as waged workers. In addition, salaries are received more regularly; the firm may establish a limited range of prices in order to ensure fair salaries and more equity between workers; the cooperative or company may provide other services to the workers, such as employment searches, vocational training or legal advice; and it is easier for workers to offer their services to different households on a regular basis, even if they might work only a few hours in each household.

- **Smooth Transition into Self-Employment**

The purpose of this measure is to create incentives for unemployed people who are earning undeclared wages to become self-employed workers. They are offered to make a transition from unemployment to self-employment during a limited period of years. During this interval, they would receive part of the unemployment benefits, but each year, the total amount would steadily decrease. This limited subsidized period is the so-called “smooth transition”. In Germany, more than 400,000 businesses took advantage of this opportunity. Sixty per cent (60%) of them had already acquired their first customer before starting the smooth transition (Williams and Renooy, 2008: 31).

In the field of domestic work, smooth transitions to self-employment could be a step to the professionalization of the sector. People offering domestic services to different households could have the chance to start their own legal business. Household members would escape from the role of “employer” and all the inherent complex administrative tasks, thus becoming customers.

- **Micro-enterprise Development Programs**

Micro-enterprise development programs consist of providing “micro-credit”, support and training to start-up new businesses. These programs are aimed at promoting business growth, job creation, increasing income, self-esteem and community involvement. Additionally, they can help the transition from unemployment to self-employment (Williams and Renooy, 2008: 30).

As seen in the previous measure, the professionalization of the domestic work sector can be enhanced with micro-enterprise programs. Development programs focusing on domestic workers could generate the creation of domestic services businesses with the potential to offer professional services. Domestic workers could move from an informal job to a professional job with legal advice, credit and training.

- **Regularizing and Protecting Domestic Workers**

Regarding the fact that many European states have given domestic workers particular regulation with less rights and benefits than other workers, the European Parliamentary Assembly adopted a specific recommendation on domestic workers in 2004 (1663). All states should guarantee at least the following rights to domestic workers as a minimum: the recognition of domestic work as “real work” with full employment rights and social

protection; the minimum wage (where it exists); sickness and maternity pay and pension rights; the right to a legally enforceable employment contract; the right to health insurance; the right to health, education and social rights for the children of domestic workers; the right to leisure and personal time; the right for migrant domestic workers to obtain an immigration status; the right to change employer and travel within the host country and between all countries of the European Union; and the right to the recognition of qualifications, training and experience.

The intention of the Parliamentary recommendation is to reinforce these rights. But the application of this recommendation can also become an incentive for domestic workers to declare their work. Traditionally, formal domestic work has not always had the same recognition as other jobs. Consequently, the compensation for working in the formal market was lower than the benefits of not declaring the work. If the normative framework is capable of offering benefits to domestic workers, they will have incentives to abandon the undeclared sphere.

- **Professional Qualifications**

Domestic service workers share common characteristics: low skills, poor pay, precariousness and low-status limited career prospects. Interval (2011) calculated that in France 65.5% of domestic workers had no qualifications and they had a level of education which was half of the rest of the workers. As a consequence, both workers and employers suffer disadvantages. On the one hand, workers have few opportunities to improve their situation. On the other hand, employers face a lack of guarantees and availability of the service.

A possible measure to professionalize the sector and offer better working conditions and a higher quality of the service is the implementation of a professional qualification system with the appropriate vocational and educational training for domestic service workers. For instance, in France domestic workers may obtain professional qualifications through training or validation of experience and they have the right to 20 hours of training (Larsen et al., 2011).

A catalogue of professional qualifications with professional itineraries to follow is the key to creating career paths and ensuring quality standards for workers.

It is important to realize that a vocational and training system which offers training to domestic workers is a step toward abandoning undeclared work. Once regularized, they have the possibility and the interest to increase their qualifications and join domestic service businesses which need qualified workers. Moreover, households will have a greater chance of finding quality within the domestic services.

- **Quality Standards**

The black economy is especially competitive because it offers such low costs. But the regular market can offer other elements apart from low costs to compete, such as better quality of service.

In fact, the European Parliament (2004) has already recommended the member states to implement systems of accreditation for agencies placing domestic workers. The accreditation would guarantee certain minimum standards.

The report by Larsen et al. (2011: 13) shows a possible application of this measure carried out in France: domestic service providers have to be accredited by a specific institution created to evaluate them. There can be different forms of accreditation depending on the quality of the service (simple accreditation or high quality accreditation). Secondly, a system



of trade-marks is used to inform the population about the quality of the provider and the services offered. The use of special signs enables private households to easily recognize the services offered by the providers and their reputation.

Quality is an aspect to be stressed when we focus on domestic work as the informal domestic market is not capable of ensuring such a need. Household members have very complex and different demands and only a professionalized sector with multi-skilled workers will satisfy them. A low cost and low quality market can be substituted by professional services.

## 6.2.2 Curative Policies

### Purchaser Incentives:

- **Service Vouchers**

Service vouchers are service checks that allow people to employ and pay workers without requiring extended administrative procedures and labor contracts (European Foundation for the Improvement of Living and Working Conditions, 2005: 9). This measure was created ad hoc to combat undeclared domestic work.

Checks can be acquired at local banks by households or even by domestic service firms in order to pay their own employees. The attractiveness of the service vouchers is that social contributions are deducted automatically.

Service vouchers have the quality of being a specific tool to target the domestic service market. As long as subsidies, tax deduction and simplification are displayed through these checks, households will have more incentives to use them. This enables checks to establish certain controls on how they should be used. For example, a service voucher can only be used to pay specific domestic service companies which have a given quality standard (and regular professional workers). Another possibility is to guarantee a minimum wage to workers.

Belgium was one of the first countries to apply this method and by the end of 2005, 28,933 people had been employed with service voucher checks. Forty-nine per cent of these jobs were already regularized. The policy also led to the outcome of a surplus in social contributions and income tax and saving unemployment benefits. The total cost of the service voucher was €303.3 million with a return of €93.1 million (Williams and Renooy, 2008: 39).

In France, the use of checks doubled the number of domestic workers (reaching two million people) and more than 17,000 firms have made use of them (Larsen et al., 2011: 14).

- **Targeted Direct and Indirect Taxes**

Different targeted tax advantages strengthen the demand side or reduce the price of the supply (Larsen et al., 2011: 13). On the demand side, deductions on income tax may be established in order to compensate for the cost of a specific product or service. On the supply side, income tax may be reduced for employees engaging in declared work or firms may receive tax reductions if they pay legally.

Value added tax is another target: it can be lowered in order to facilitate access to certain products or services typically provided on an undeclared basis.

The final objective is to reduce the difference between the cost of undeclared work and declared work.

These measures are absolutely suitable for domestic services. The main cause for undeclared work in the domestic sphere is the lower cost that it has compared with declared work. Consequently, the key objective of policies against undeclared domestic work should be to reduce the cost of declared work. In addition, targeted incentives have the advantage that they serve particular sectors heavily affected by undeclared work and give special benefits to them.

However, these policies should be applied carefully, since they may only affect already-declared work if they are not capable of resolving undeclared work. The effectiveness of these policies can increase if they go hand-in-hand with other stimulation policies.

- **Wage Realignment**

This is a measure focused on reducing the labor costs of a job as a way to reduce undeclared work. During a limited period of time, a new wage may be established by the social actors of an economic sector. This new wage will remain under the standard national contract wage until the period ends. Tax and social contributions will be lower too. The objective is to facilitate compliance to regulations. When the limited period is over, standard regulations may be enforced again (Williams and Renooy, 2008: 38).

The domestic service sector is generally characterized as an unorganized sector. Employers and employees are not represented by trade unions and business associations. Hence, the choice for a wage reduction could only be made by the government.

Secondly, after the reduction period has ended, there is no evidence to support the idea that employers and employees would not go back to undeclared work.

Finally, this measure could be discriminatory if it were applied on a geographical basis.

## Supplier Incentives:

- **Society-wide Amnesties**

This is a policy addressed to those groups which have not paid their taxes during a past period of time. They are given a chance to pay a defined amount of taxes. In exchange, the total debt is forgiven and no interest or sanctions are applied. Once this chance has ended, penalties and sanctions are raised.

This formula is perceived as a way to address people engaged in undeclared work to bring them into the declared realm. It has been applied in the domestic sector, with a large incidence of immigrant workers.

However, this policy is controversial. It can send the message that non-compliance has more advantages than risks and compliance is unnecessary (Williams and Renooy, 2008: 32).

- **Voluntary Disclosure**

This is an individual version of the previously mentioned society-wide amnesty. Individuals may voluntarily recognize all the work done on an undeclared basis. In exchange, they can regularize their situation and have some benefits, such as paying reduced taxes and social contributions for a limited period of time.

This tool has also been used for irregular immigrant workers to regularize their situation. Hence, many immigrant domestic workers might take advantage of the measure (Williams and Renooy, 2008: 32).

- **Business Advisory and Support Services**

At a local level, it is perceived that in order to support businesses and workers moving from undeclared to declared work, special services are needed. Support and advice focused on the transition to declared work is not always available but is actually quite helpful.

Experiences in the domestic sector have been quite successful in formalizing services. The local level has the possibility of easily promoting existing domestic professional services such as in the Nazaret neighborhood in Valencia (Williams and Renooy, 2008: 35).

## Other Measures

- **Introducing a National Minimum Wage**

Within the domestic sector, the introduction of a national minimum wage aims to guarantee certain labor conditions similar to other workers. It is also common to establish different minimum wages depending on the qualification or the category of the worker.

A minimum wage is usually established to reduce the margin that envelope wages have. However, if the minimum wage is set too high, the response may be more informal work (Williams and Renooy, 2008: 30).

## 6.2.3 Commitment-fostering Policies

- **Promoting the Benefits of Declared Work, Education and Awareness**

Even though they may only constitute a minor tool, campaigns and appeals to promote the benefits of declared work and raise awareness have a potential to be explored. The European Commission recommends campaigns because “there is a scope for increasing awareness among the public [...]”. The Commission recommends both the diffusion of the risks associated to undeclared work and the benefits of taxes and social security contributions (2007:10).

Campaigns can inform about the costs and risks of undeclared practices or purchasing undeclared goods, the benefits of formalizing work, the advantages of formal labor and the individual and public consequences of persistent and widespread undeclared work, etc.

The message can have a negative or positive approach. The negative approach focuses on negative consequences, but this is less effective because people neutralize their guilt by comparing themselves to other people engaged in worst situations or by thinking that they are not going to cause negative consequences personally. The positive approach focuses on the benefits of declared work (Williams and Renooy, 2008: 42).

Campaigns can be addressed to specific population targets and all kinds of communicative and educational means can be used. It is a flexible mechanism.

Appeals are another possibility which put more effort on directly persuading their target, for example, with letters (here we can also find positive and negatives approaches).

The domestic sector could profit from these measures in different ways: domestic workers and household members are usually people with little knowledge about the duties and rights affecting them; domestic services firms with state accreditations could be popularized through campaigns; accreditation systems could be disseminated; etc.

- **Tax Fairness and Perceived Justice of the System**

Fairness of the system is a concept which has remarkable importance within populations regarding tax morality and compliance (Williams and Renooy, 2008: 44). When taxpayers believe that they pay the appropriate taxes compared to others, they will agree to comply with regulations. But in case they believe that the total amount of their contribution is not proportionally adjusted to the system, they will have the incentive to go undeclared.

Secondly, there are two more related concepts: procedural justice and redistributive justice. The former is the level of respect, impartialness and responsible management with which tax authorities have treated the population; the latter is the redistribution of goods and services received by the population according to the taxes they pay. If it is perceived that the authorities have a fair procedural and redistributive manner according to the people's opinion, taxes will be more easily accepted.

These are key concepts for domestic workers: if they do not perceive that the benefits of paying taxes compensate them, they will hardly have the intention to pay taxes.

## 6.3 – Implementation of Policies

### 6.3.1 Isolated Policies, Integrated Policies

Undeclared work is a thoroughly complex problem with an incredible amount of motives around it; hence, there cannot be any one simple solution which generates substantial changes. The only way to clearly reduce undeclared work and undermine all its causes is by developing an integrated framework of policies which attacks the issue on all sides.

Unfortunately, there has not been any research to determine whether there are combinations of policies that are more effective than others. In fact, such a study would require an analysis of each country, since their particularities may alter the effects of the policies. Nevertheless, what is clear is that an integrated scope is capable of combining the advantages of different policies and overcoming their disadvantages. See some examples below:

- Targeted tax reductions can be combined with service vouchers in order to reduce as much as possible the cost of domestic services and, in addition, simplify administrative processes (including the regularization of the contract and the justification of deductions).
- The implementation of a quality accreditation system for domestic services firms can be combined with diffusion campaigns. Campaigns would be useful to make the accreditation system more popular and understandable and help the firms promote their services.
- The introduction of a special category of work for domestic workers to facilitate the regularization of these jobs can be supported by special healthcare incentives for these workers. This would help to make the regularized category more attractive because it gives more benefits.

- A specific campaign addressed to people over 50 years of age can be reinforced with special incentives for this population. If they do not declare their work, they will have smaller pensions on retirement. Institutions should be aware of them and offer some kind of advantage to arouse their interest in formalized work.

When discussing the integration of policies against undeclared domestic work, the Borloo Plan is a reference. Jean-Louis Borloo, as Minister of Employment, Social Cohesion and Housing from 2005 to 2007, introduced this plan to promote formal employment in private households. The design of this plan is remarkable for its capacity for taking advantage of all kind of policies and involving a huge variety of related actors.

The domestic service sector in France faced several problems which led to the existence of permanent informal domestic work: services were too expensive; legal remuneration for minor services was too complicated; providers were not reliable enough; the quality of domestic services was unsatisfactory; and employment conditions and career prospects were unattractive (Larsen et al., 2011).

The plan had 3 different targets: households, domestic workers and domestic service firms. All the measures can be summarized as follows:

- Creation of a national agency to lead and manage the process with the collaboration of a wide range of partners at all levels.
- Service vouchers for households and firms.
- Different tax advantages: VAT reduced from 19.6% to 5.5%, flat rate income tax for the employee, tax refunds and reductions for firms.
- Subsidization of social contribution.
- Special means for the elderly: private households do not pay for domestic workers if they are aged 70 years or older.
- Multi-service structures and trademarks for domestic service firms: marketing tools to prove high quality services, diffusion of firms and more access to services.
- Accreditation by a public institution: quality assurance.
- Measures for better working conditions and career prospects: professional training, specialized courses, validation of experience, formal qualifications.

The results achieved have been remarkable: 500,000 new jobs were created in 3 years; the number of businesses using service vouchers increased dramatically; the value of the sector increased to €16 billion by 2008; nearly 2000 new businesses were established; professionalism has increased as international presence. But above all, illegal employment decreased by 70% (Interval, 2011).

### 6.3.2 The Actors Involved

As noted previously, the development of policies does not rely on just one governmental actor. Actually, it is far more efficient to involve several actors to increase the implementation capacity of policies, the resources and information available, the capacity to assess the project, the

political competences available, etc. Although it may be much slower and more difficult to reach agreements and start the implementation, in the longterm it brings about better solutions.

We can divide the partners into three categories: other political departments, multilevel actors and social partners.

- Other political departments: the implementation of public policies can be based on different competences which are not always concentrated in the same departments. The most common areas which lead the fight against undeclared work around Europe are labor, social security and finance (Williams et al., 2010: 16). Yet, this does not imply that the collaboration of other departments might not be helpful for specific purposes.
- Multilevel actors: although the state level may be seen as predominant, the importance of regional and local actors cannot be underestimated. According to the principle of subsidiarity, public services should be as close as possible to citizens. Currently, the local sphere has the ability to adapt the policies to its people and its territory because it has better first-hand information. It can also reach a greater degree of diffusion.
- Social partners: trade unions and employer associations are the most common partners for public policies against undeclared work. They can enhance policies by supporting them, providing better information for their members, promoting campaigns, and so on. However, as seen in the previous chapters, unions and employer associations are not significant in the domestic sector. Instead of these actors, policies should look for the collaboration of domestic service firms.

## • Tables

<b>TABLE 1.</b> Prevalence of Undeclared Work and Annual Earnings in the EU, by Country and Country Group ....	<b>10</b>
<b>TABLE 2.</b> Incidence of Undeclared Work in the EU-27, by Sector and Country Group (%).....	<b>9</b>
<b>TABLE 3.</b> Domestic Workers as a Percentage of Total Employment, by Sex (Selected Years).....	<b>11</b>
<b>TABLE 4.</b> Magnitude of Domestic Work in the EU-27 in 2008.....	<b>12</b>
<b>TABLE 5.</b> Estimations about Undeclared Domestic Work.....	<b>13</b>
<b>TABLE 6.</b> Reasons Cited by Consumers for Participating in Undeclared Work, by Country Group, EU-27 (%).	<b>17</b>
<b>TABLE 7.</b> Reasons Cited by Suppliers for Participating in Undeclared Work, by Country Group, EU-27 (%).	<b>17</b>
<b>TABLE 8.</b> Migrant Care Workers in Some EU Countries.....	<b>21</b>
<b>TABLE 9.</b> Classification of Policies against Undeclared Work.....	<b>27</b>

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The European Union is currently experiencing one of the most challenging periods of recent decades. Life expectancy has been increasing steadily, with the consequent growing demand for eldercare services, while changes to family structures have altered the distribution of household tasks. Thus, the provision of domestic work has been moving to the private sphere. Unfortunately, precariousness is the common factor in this sector in the form of undeclared work.

In addition to these ongoing transformations, the current global financial crisis is hindering economic growth and triggering the destruction of employment. However, solutions for the former would improve the situation of the latter.

The European Commission aims not only to exploit the job creation potential of the social care and household services sectors but also to transform undeclared work into regular employment. Otherwise, decreased tax and social security revenues will persist, along with poorer working conditions, lower productivity, weaker skills development and difficulties in access to basic social rights.

Thus, the domestic sector has particular potential for driving job-rich growth which must be exploited.

