



# Potential implications of the cost-of-living crisis on the risk of undeclared work

**Report from the Platform  
webinar**

**6 July 2023**



European Platform  
tackling undeclared work



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European Platform  
tackling undeclared work



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# 1.0 Introduction

The European Platform tackling undeclared work (hereafter ‘the Platform’) held a webinar on “Potential implications of the cost-of-living crisis on the risk of undeclared work” on 6 July 2023 with 28 participants from 16 countries, among Platform members and observers representing labour inspectorates and other relevant authorities, the European Labour Authority (hereafter ELA), European Commission, social partners, academia, and other stakeholders.

The aim of the webinar was to provide an opportunity to exchange knowledge about the potential implications of the cost-of-living crisis on the risks of undeclared work, as well as how it can be addressed. The main objectives of the webinar were to share insights on how the cost-of-living crisis affects (i) the extent and nature of undeclared work, the types and groups of undeclared workers that may be most vulnerable, and (ii) the measures and actions which could be taken by enforcement authorities to tackle the problem.

Following an introduction by ELA on the aims of the event, an independent expert presented an overview of the theme and potential issues. The webinar was structured in one session with three presentations to explore the potential implications of the cost-of-living crisis for tackling undeclared work and to evaluate changes in the extent and characteristics of undeclared work:

- ▶ “The rising cost of living in the EU: findings from Eurofound’s Living and Working e-survey” – by Eurofound;
- ▶ “Has the cost-of-living led to a growth of undeclared work?” – by a thematic expert;
- ▶ “What types of undeclared work and groups of undeclared workers are driven into undeclared work out of economic necessity, and which are not?” – by a thematic expert.

The presentations were followed by a Q&A session and closing remarks by the thematic expert and by the European Labour Authority.

# 2.0 Background

## 2.1 Overview of the cost-of-living crisis

The compounding factors of COVID-19, the energy crisis and Russia’s war on Ukraine have exacerbated concerns regarding a reduced standard of living and the fear of poverty and social inclusion in the EU. In 2021 – 2022, the global economy experienced the most significant supply shock since the early 1970s, accompanied by the effects of faster increase in the cost of living. The EU economies faced an exceptionally turbulent external environment, placing households, firms, and governments under acute stress. According to the European Parliament Eurobarometer survey, conducted in October 2022 – November 2022: “The rising cost of living is the most pressing worry for 93 % of Europeans, followed by the threat of poverty and social exclusion (82 %). [...] In every EU Member State, more than seven in ten respondents are worried about the rising cost of living, with peak results in Greece (100 %), Cyprus (99 %), Italy and Portugal (both 98 %). [...]



Figure 1. The rising cost of living concerns



© European Union / EP Autumn 2022 Survey (EB 98.1): Parlemeter 2022

Source: <https://europa.eu/eurobarometer/surveys/detail/2932>

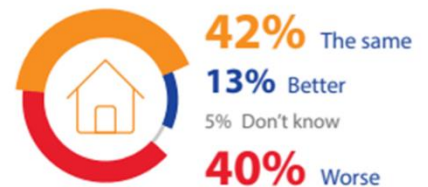
The rising prices, including for energy and food, are felt across all sociodemographic categories such as gender or age as well as all educational and socio-professional backgrounds.” Furthermore, the cost-of-living crisis encompasses not only economic aspects, but also psychological ones, such as the fear of poverty and social exclusion. Furthermore, as the Eurofound data shows, the cost-of-living crisis has strong implications on people’s mental health, as well as physical health, housing conditions (poorer insulation, risk of accidents) and social discontent (with decreased trust in governments).<sup>1</sup>

Figure 2. The rising cost of living effects on households

Consequences of current affairs on the global economy:  
your standard of living...



Expectation of improvements in one year:  
your living conditions...



© European Union / EP Autumn 2022 Survey: Parlemeter

Source: <https://europa.eu/eurobarometer/surveys/detail/2932>

<sup>1</sup> Eurofound (2022), Fifth round of the Living, working and COVID-19 e-survey: Living in a new era of uncertainty, Publications Office of the European Union, Luxembourg. Available at: <https://www.eurofound.europa.eu/publications/report/2022/fifth-round-of-the-living-working-and-covid-19-e-survey-living-in-a-new-era-of-uncertainty#tab-01>



## 2.2 Definitions

Eurostat defines the cost-of-living index (COLI) as a measurement of “the change between two periods in the minimum expenditures that would be incurred by a utility-maximizing consumer, whose preferences or tastes remain unchanged, in order to maintain a given level of utility (or standard of living or welfare). As consumers may be expected to change the quantities they consume in response to changes in relative prices, the COLI is not a basket index. The expenditures in one or other, or possibly both, periods cannot usually be observed. COLIs cannot be directly calculated but may be approximated by superlative indices.”<sup>2</sup>

In a more general approach, Encyclopaedia Britannica defines the cost of living as “the monetary cost of maintaining a particular standard of living, usually measured by calculating the average cost of a number of specific goods and services required by a particular group. Measurement of the cost of a minimum standard of living is essential in determining relief payments, social-insurance benefits, family allowances, tax exemptions, and minimum wages. Measurements of change in the cost of living are important in wage negotiations. It is difficult, however, to make precise comparisons over time, because consumer tastes and the availability of products change. Cost-of-living measurements are also used to compare the cost of maintaining similar living standards in different areas.”<sup>3</sup>

Both definitions emphasise the complexity of comparing changes in living costs over time and places. In practical business terms, within the same area and a short period of time, the cost-of-living is usually associated with inflation. In the EU, inflation is monitored using the Harmonised Consumer Price Index (HCIP) by Eurostat and the Consumer Price Index (CPI) by national statistical offices. When the CPI or HCIP rises, the typical European consumer spends more for the same living standard, assuming other factors do not change.

The European Central Bank (ECB) has concluded that HCIP increases in 2022 affected income groups unevenly, with low-income households spending proportionally more on essential items. This widened the gap in inflation rates between the lowest and highest incomes, reaching its highest level since 2006.<sup>4</sup> This disparity grew significantly between September 2021 and September 2022, mainly due to the increase of prices of energy and food. In addition, low-income households struggle more with cost increases due to having fewer savings to rely on.<sup>5</sup> These analyses demonstrate that the cost-of-living crisis in 2022 is a macro-level event with potentially significant implications for the motivations of households, workers, employers and consumers to engage in undeclared work. However, given that both undeclared work and the cost of living are complex multidimensional phenomena, understanding the implications of the latter on the former requires careful theoretical and practical consideration. This Platform webinar has provided a starting point for such considerations, exploring the potential impact of the cost-of-living crisis on undeclared work and on approaches of tackling it effectively.

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<sup>2</sup> Eurostat. (2023). Metadata Classifications Available at: <https://ec.europa.eu/eurostat/web/metadata/classifications> [3 August 2023].

<sup>3</sup> The Editors of Encyclopedia Britannica. (2023). Britannica Money Glossary: cost of living. Available at: <https://www.britannica.com/money/cost-of-living> [3 August 2023].

<sup>4</sup> European Central Bank. (2021). Inflation Measurement and Its Assessment in the Ecb’s Monetary Policy Strategy Review. Occasional Paper Series, no. 265. Available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op265~a3fb0b611d.en.pdf> [3 August 2023].

<sup>5</sup> European Central Bank. (2021). Inflation Measurement and Its Assessment in the Ecb’s Monetary Policy Strategy Review. Occasional Paper Series, no. 265. Available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op265~a3fb0b611d.en.pdf> [3 August 2023].



### 3.0 Extent and character of undeclared work and effective strategies to minimise the impact of shadow economy

The latest updates with regards to the size and development of shadow economy in Europe were presented during the webinar. The shadow economy, as a source of undeclared work, encompasses all legal production and provision of goods and services intentionally concealed from public authorities for the following four reasons:

- ▶ to avoid paying income, value added or other taxes;
- ▶ to avoid paying social security contributions;
- ▶ to avoid having to meet certain legal standards, such as minimum wages, maximum working hours, etc., and
- ▶ to avoid complying with certain administrative procedures.

The presentation identified the key factors that determine the size of the shadow economy, which are associated with either an increase or a decrease in its magnitude. The factors determining an increase can include: tax and social security contribution burdens; intensity of regulations; unemployment; self-employment. On the other hand, the factors determining a decrease can include public sector services, tax morale, quality of public institutions, and federal (direct democratic) system. The main indicators that reflect shadow economy activities include GDP, use of cash (reflecting an increase); and official employment rate (reflecting a decrease).

In Europe, the estimated average of the shadow economy as a percentage of GDP is 17.2 %.<sup>6</sup> In general, there is a downward trend in the size of the shadow economy in most European and OECD countries. This trend can be attributed to the increase of GDP and a corresponding rise in national incomes.

To successfully transform the shadow economy into the declared economy and tackle undeclared work, policy makers could prioritise policies that strongly increase incentives to transfer production from the shadow economy to the official sector.

There are several reasons for engaging in undeclared work in the EU-27. People may engage in undeclared work due to exclusion from the labour market (i.e. they do not have another choice, out of financial difficulties), exit (i.e. they have a rational choice, which can be also related to financial reasons) or due to mixed rationales covering both exit and exclusion drivers (i.e., integrated view/ beyond exit versus exclusion division). The participation in undeclared work of those having economic difficulties is much higher compared with those who don't have these difficulties. When other factors are included, the same holds true. Hence, it can be expected that the cost-of-living crisis does have an effect on increasing the motivation for engagement in undeclared work. The most vulnerable groups include women, the unemployed, housepersons/stay-at-home parents, and manual workers who engage in undeclared work because of exclusion reasons.

Effective strategies to address undeclared work require diverse policy approaches based on the underlying reasons that drive individuals to engage in such activities. For exit-driven reasons, policies could focus on

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<sup>6</sup> Schneider, F. (2022). New COVID-related results for estimating the shadow economy in the global economy in 2021 and 2022. *Int Econ Econ Policy* 19, 299–313. Available at: <https://link.springer.com/article/10.1007/s10368-022-00537-6#citeas>

<sup>7</sup> Williams and Horodnic (2020) - Trends in the undeclared economy and policy approaches / based on data from Special Eurobarometer 284 (Wave EB67.3, 2007), 402 (Wave EB79.2, 2013), 498 (Wave EB92.1, 2019).





implementing sanctions and detection measures to discourage undeclared work. Additionally, measures that make it easier and more beneficial to operate within the formal economy should be adopted, while also reducing the disparities between formal and informal institutions. This can be achieved through initiatives such as improving education and awareness and addressing shortcomings in formal institutions with the involvement of various social actors.

In contrast, for exclusion-driven reasons, targeted sanctions and detection measures aimed at employers can be effective. These efforts could be accompanied by comprehensive social protection and active labour market intervention policies that specifically target vulnerable groups, such as low-educated women residing in larger towns. The objective here should be to reduce the necessity for individuals to engage in undeclared work as a means of survival when no alternative options are available.

During the Q&A session, regarding vulnerable groups, UNI Europa pointed out that low-wage workers (e.g. in the cleaning sector) are particularly hit by the cost-of-living crisis, as their wages are not in line with inflation. As a result, these workers might opt for working undeclared or to carry out an undeclared activity, in addition to their regular job. These cases are difficult to detect, as they mainly occur in a household setting.

By implementing these multifaceted policies, authorities can work towards reducing the prevalence of undeclared work by addressing in parallel both the economic incentives driving individuals towards exit-driven reasons and the social factors pushing them towards exclusion-driven reasons.

## 4.0 Key learning and practical suggestions

Some key learning and practical suggestions for policy makers and enforcement authorities drawn from the webinar include:

- ▶ It is important to acknowledge the inherent challenges in measuring both undeclared work and the cost-of-living. These phenomena defy straightforward quantification, requiring a **nuanced approach that incorporates statistical data as well as subjective elements**, like individual preferences. When examining the cost-of-living crisis, it is essential to consider its impact on the underlying motivations that drive individuals to engage with undeclared work. Moreover, careful attention should be given to potential consequences on social benefits, minimal pay, etc. recognising the interconnectedness of these factors within the broader socio-economic context.
- ▶ **Identifying the groups, sectors, and geographic areas** that have been most impacted by the cost-of-living crisis can provide valuable insights for targeted interventions. Vulnerable groups, particularly those reliant on cash transactions and encountering difficulties in meeting financial obligations, are more susceptible to engaging in undeclared work as a result of the cost-of-living crisis. Providing assistance to these specific groups can help preventing further vulnerability and potential involvement in undeclared work.
- ▶ Fostering **collaboration and cooperation** with non-governmental organisations (NGOs), think tanks, and academia and establishing partnerships can facilitate a comprehensive understanding of the cost-of-living crisis and its implications on undeclared work, while also promote innovative solutions and policy development.
- ▶ Examine further the **causes of undeclared work**, in particular whether it is caused by exit-driven reasons. If so, implementing measures that incorporate sanctions and detection, alongside policies that facilitate and promote participation in the declared economy, is essential. On the other hand, if participation in the undeclared economy is found to be due to exclusion-driven reasons, then it is advisable to combine sanctions and detection measures with social protection and active labour market intervention policies targeting vulnerable groups.



- ▶ Implementing a **comprehensive approach**, combining direct government financial support for the lowest income groups with control and deterrence measures, might help alleviate financial burdens on some of the groups most at risk, while simultaneously discouraging engagement in undeclared work.
- ▶ Targeted inspections could be implemented in sectors known to be particularly susceptible to potential effects from the cost-of-living crisis. Moreover, policy measures focusing on increasing **incentives for transferring production from the shadow economy to the official and legitimate sector** can play an important role.
- ▶ Platform Members showed interest in the Platform **covering the potential implications of the cost-of-living crisis on the risk of undeclared work in future activities**.



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