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Full length article

Hidden workers and the hidden worker potential in the Netherlands<sup>☆</sup>

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## ABSTRACT

Statistics Netherlands conducted several surveys on the size and the structure of the hidden labour market in 2006. Face-to-face surveys yielded the best results of all methods tested, with the least non-response and the most people admitting hidden activities. Nine to ten percent of the respondents admitted that they did not report all of their income to the tax or social security authorities. Nevertheless, the decision was made to continue the surveys online in 2007–2010 for budgetary reasons.

The survey included questions on the supply of hidden labour (contractors), and on the demand (customers): house cleaning and home maintenance. The outcomes do not differ between face-to-face and online surveys: in either case the demand based estimates were 3 to 10 times higher than the supply based estimates. Moreover, the outcomes are matched by the results of other research. So ideally future survey research should focus on the demand side of the hidden labour market.

About 30% of all respondents said that they would work off the record if they had the chance, but most did not. The people who do are mostly young, have technical skills, small jobs or regular work in agriculture, construction, sports, recreation, hotels, cafés or restaurants. Having debts affects the willingness but not the opportunity to work off the record. Perceived high probability of detection may act as a deterrent. In contrast to the mid-eighties, people on social benefits participate no more in the hidden labour market than others. Another difference is that women are as well represented as men.

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## 1. Introduction

According to a special issue of the Eurobarometer (European Commission, 2007) on undeclared work in the European Union, the Netherlands has one of the highest percentages of people working off the record (13%). Other leading countries are Denmark (18%), Lithuania (15%), Estonia (11%) and Sweden (10%).

These results are surprising and contrary to the results of other research. The prevailing view is that undeclared work is common in Italy, Portugal and Bulgaria. In the Eurobarometer, however, these countries score remarkably low at 3%, 3% and 5%.

Renooy (2007) explains these findings by stating that two different phenomena were measured. Undeclared work in the north of Europe mainly consists of work for private individuals: small jobs, brief periods, and small amounts. In Southern and Eastern Europe undeclared work is more structural, with employees getting a substantial part of their regular wages paid in unrecorded 'envelop wages'. Research conducted by Statistics Netherlands supports the analysis of Renooy for the Netherlands.

<sup>☆</sup> The views expressed in this article are those of the author and do not necessarily reflect the policies of Statistics Netherlands.  
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In the 1980s, Statistics Netherlands conducted extensive survey research on undeclared work, see for example Kazemier (1984), Kazemier and van Eck (1986, 1992) and van Eck and Kazemier (1988, 1989). There was a follow-up in 2006 due to the adoption of the “Draft council resolution on transforming undeclared work into regular employment” (Council of the European Union, 2003). The aims were to determine whether survey research can be used to monitor the size of the underground economy, especially the changes over time (Kazemier, 2003a), to identify the sectors in the economy with significant undeclared activities, and the distribution of undeclared earnings over these sectors.

After four years of experimentation the results were still too limited to draw firm conclusions, or estimate the size of the hidden economy (in euros). The experiments were stopped because there were serious doubts about whether online surveys could monitor the size of the hidden economy. Whether face-to-face surveys can be used instead requires further investigation. Another aim was to determine whether the insights in the hidden labour market, as derived from our investigations in the 1980s, were still valid or whether they should be revised.

This article reports on the methodological issues faced and the most important results of the surveys. The article starts with the methodological issues. Section 2 presents a classification of the methods used to estimate the size of the hidden economy. The conclusion is that surveys generally yield the lowest estimates as well as the most detail on hidden economic activity and on the personal characteristics of its workers. Section 3 presents the main results of the experiments in 2006. Different survey modes were tested. The conclusion is that face-to-face surveys yield the best results of all modes tested. Nevertheless, for budgetary reasons it was decided to continue with online surveys. Online surveys have become very popular over the last decade, mainly because they are cheaper than other survey modes. But there are some caveats. The representativeness of these surveys is often cause for concern. Section 4 elaborates on this.

Section 5 reports on the main result of the online surveys between 2007 and 2010. Besides questions on the supply of hidden labour (contractors), questions were asked on the demand for hidden labour (customers): home maintenance and house cleaning. People who pay for these activities are not obliged to report these payments to the tax and social security authorities. Therefore, the answers to these questions are considered to be more reliable than the answers on hidden income.

A comparison of the supply and demand side estimates of these activities led to the conclusion that the supply side estimates of all hidden activities may be underestimated by a factor 3–10. Such margins are far too large to monitor the size of the hidden economy over time, which was the main goal of the experiment.

In the Dutch income tax system, some of the hidden income reported in the surveys would not have been taxed anyway, such as small amounts earned by people without other income. Section 6 highlights the main characteristics of the Dutch income tax system.

The second part of the paper deals with the more detailed outcomes of the surveys. Sections 7 and 8 describe the characteristics of the respondents who did and those who did not but were prepared to do undeclared work. Almost 30% of all respondents said they would participate if they had a change, but only one fifth of them actually did. Compared with the mid-eighties, things have changed a bit. People on social benefits no longer participate in the hidden labour market more than anyone else and women are as well represented there as men. Section 9 deals with the main conclusions of the research.

## 2. Classification of methods

Hidden activities are not easily measured, as people seek to avoid detection. Therefore, researchers have to be very inventive to come up with a reliable estimate. Many have been very creative using methods ranging from macro-model, to micro to other methods to estimate the size of the hidden activities.

The macro-model methods include the often used monetary methods and the unobserved variables method. Monetary methods assume that there is a relation between monetary developments and official GDP estimates, using regression techniques and some hypotheses on the cash character of underground transactions, on tax burden etc. It is assumed that all monetary developments that are not explained by the particular model are due to under coverage of the official GDP. Early examples of monetary methods can be found in Gutmann (1977), Feige (1979), Tanzi (1980) and Mogensen et al. (1995). Several of these methods were also applied for the Netherlands, with significantly different results. The estimates ranged from 6.3% to 17.5% of GDP in 1980 (Boeschoten and Fase, 1984) and from 1.5% to 23.5% of GDP in 1983 (Fase, 1984).

Many methods used to estimate the underground economy ignore the backgrounds and circumstances that lead to its existence. This is not the case for the so-called unobserved variables method. Frey and Weck (1983) were the first to apply it to the underground economy. They estimated its size by means of the variables that affect the size and growth of the underground economy (such as tax burden, unemployment, regulation burden, available income per capita) and by the traces that the underground economy leaves in the economy (such as less official labour force participation, fewer weekly working hours, less GDP growth). They used a technique known as LISREL (Linear Interdependent Structural Relationships) that allows for a cross-section or time-series analysis of the relationship between a not observed independent variable on the one hand and one or more explanatory variables on the other hand. As the unobserved variable is not known, it is replaced by a set of indicators.

The method was improved by Giles (1999a,b) using the MIMIC model, which is a variant of the LISREL model. Schneider uses a similar model to estimate the size of the underground economy in almost all countries world wide. (e.g. Schneider and Enste, 2000, Schneider, 2005, 2006, Enste and Schneider, 2006). His estimate for the Netherlands was 13% in 2001/02.

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