

Tackling Informal Employment: A Critical Review Of The UK Public Policy Approach

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Abstract

Although tackling informal employment is being accorded ever greater priority by governments across the western world, critical reviews of how public policy is addressing this issue are notable by their absence. This paper begins to bridge this gap. Providing a typology of the various public policy approaches available for tackling informal employment, ranging from those more repressive in orientation and grounded in deterrence measures through to those that seek to stimulate formalisation through the provision of incentives, a case study is then undertaken of the UK so as to understand the nature of its policy approach towards informal employment and the direction of change. Unlike other policy spheres where it is widely accepted that positive reinforcement of 'good' behaviour is more effective at eliciting change than negative reinforcement of 'bad' behaviour, the finding is that UK public policy towards informal employment remains heavily embedded in a repressive approach with deterrence measures continuing to dominate the policy landscape. The paper concludes by beginning to outline a way forward for public policy.

Introduction

Throughout the world, tackling informal employment is being accorded ever greater importance (European Commission, 1998, 2002, 2003a,b,c; Grabiner, 2000; International Labour Office, 2002; OECD, 2000). Although perhaps traditionally viewed as more of an issue for third ('majority') world nations, the past decade or so has seen the issue of tackling informal employment move further up the public policy agenda not only in post-socialist societies, where it is sometimes cited by governments as the top public policy priority (e.g., Mission of Ukraine to European Communities, 2005; NRCU, 2005), but also in the advanced market economies. Indeed, at the 2003 Lisbon Summit of the European Council, tackling informal employment was named by the European Union as one of its top ten priorities for action with regard to employment reform (European Commission, 2003a,b,c). Constituting somewhere between 7-16 per cent of GDP in advanced economies and growing (European Commission, 1998), informal employment has thus

moved to the top of the public policy agenda not only in the third (majority) world and the transition economies of East-Central Europe but also in the western world.

Until now, however, and despite the priority being accorded to tackling informal employment, few if any attempts have been made to critically review how public policy is addressing this issue in western economies. The aim of this paper is to begin to bridge this gap. In order to do this, the first section will briefly outline why western governments are paying so much attention to tackling informal employment. Following this, and to provide a conceptual framework for understanding the various ways of dealing with this issue, I will provide a typology of the public policy approaches available for tackling informal employment, ranging from those that are more repressive in orientation and grounded in deterrence measures through to those that are more enabling in orientation and seek to stimulate formalisation. Having provided this typology of approaches, I will then take a case study of the policy measures being adopted in the UK so as to understand the approach being pursued along with the direction of change. Unlike most other policy spheres where there is widespread acceptance that the positive reinforcement of 'good' behaviour is more effective at eliciting change than the negative reinforcement of 'bad' behaviour, the finding is that UK public policy towards informal employment remains heavily embedded in a repressive approach with deterrence measures continuing to dominate the policy landscape. The concluding section of the paper then begins to outline a way forward for public policy.

Before commencing this critical review, it is important to define what is here meant by informal employment or what is sometimes referred to as the 'undeclared', 'cash-in-hand', 'black', 'underground', 'hidden' and 'shadow' economy/sector. Despite the diverse array of terms used to denote this sphere, a strong consensus exists on how to define such work. Informal employment is widely accepted as involving the paid production and sale of goods and services that are unregistered by, or hidden from the state for tax, benefit and/or labour law purposes but which are legal in all other respects (European Commission, 1998; Feige, 1999; Portes, 1994; Renooy et al, 2004; Thomas, 1992; Williams, 2006a,c; Williams and Windebank, 1998). As such, informal employment is legal in all respects besides the fact that it is not declared to the state for tax, social security and/or labour law purposes. Those activities in which the goods and services themselves are illicit (e.g., drug-trafficking) are not included, nor are non-cash exchanges, including favours.

Rationales for tackling informal employment

Over the past decade or so in western nations, a significant re-reading of the character of informal employment has taken place. While in a third (majority) world context, informal employment has long been seen as a realm of enterprise and entrepreneurship, and thus as a potential asset if harnessed (Browne, 2004; Cross, 2000; De Soto, 1989; Franks, 1994; ILO, 2002; Rakowski, 1994), until recently the dominant representation in western economies of informal employment was of a sphere primarily composed of informal employees engaged in 'sweatshop-like' low-paid exploitative employment (Castells and Portes, 1989; Gallin, 2001; Portes, 1994; Sassen, 1997). During the past few years, nevertheless, this representation has started to be transcended. It is now recognised that

although some informal employment is of an ‘organized’ variety conducted by informal employees for a business that undertakes some or all of its activity off-the-books, some of which is conducted by marginalised populations working under degrading, low-paid and exploitative ‘sweatshop-like’ conditions as informal employees (e.g., Bender, 2004; Espenshade, 2004; Hapke, 2004; Ram *et al*, 2002, 2003), not all informal employment is of this kind. More ‘autonomous’ forms of informal employment conducted by individuals on a self-employed basis also exist and in many western nations, represents the vast bulk of all informal work (Evans *et al*, 2006a,b; Jensen *et al*, 1995; Renooy *et al*, 2004; Williams, 2006a; Williams and Windebank, 1998). Indeed, a view has come to the fore that since much of this autonomous informal employment is conducted by fledgling entrepreneurs using this sphere as a launch pad for their business ventures, the sphere of informal employment represents an important platform for new enterprise creation and development (Bàculo, 2001; Evans *et al*, 2006a,b; Small Business Council, 2004; Tabak, 2000; Williams, 2006a). Indeed, one recent study of Ukraine estimates that some 90 per cent of all new business ventures start-up conducting some or all of their trade off-the-books (Williams *et al*, 2006) The outcome has been a re-reading of those engaged in autonomous forms of informal work as constituting a hidden enterprise culture.

Recognising this emergent view of informal employment as comprised of not only low-paid exploitative employees but also those engaged in entrepreneurial endeavour, it might be asserted that informal employment is not always a ‘problem’ and that talk of ‘tackling’, ‘fighting’ and ‘combating’ such work is both negative and value-laden. However, this is seldom, if ever, argued either by academics or policy makers. Entrepreneurial endeavour in the informal sector is only ever viewed as an asset if it can be brought into the formal economy (Evans *et al*, 2006a,b; de Soto, 1989, 2001; Williams, 2006a). Few, if any, commentators anywhere in the world view it as an asset *per se*. Whether informal employment is viewed solely as low-paid ‘sweatshop’-like work conducted by informal employees or as endeavour conducted by self-employed entrepreneurs, therefore, the widespread consensus is that such work needs to be eradicated. Why, therefore, is this asserted?

To understand this, it is necessary to review the negative consequences that arise from the existence of informal employment for the individuals supplying such work, their customers, informal and formal businesses and society at large. Individuals supplying informal work: lack access to health and safety standards in the workplace; do not have various employment rights such as annual and other leave, sickness pay, redundancy and training; have low job security; are unable to get an employer’s reference; lack access to a range of other legal rights such as the minimum wage, tax credits and the working hours directive; are unable to gain access to credit and loans; cannot build-up rights to the state pension and other contributory benefits, and lack access to occupational pension schemes; lack bargaining rights; lose employability due to their lack of evidence of engagement in employment; and suffer a constant fear of detection and risk of prosecution due to their activities being illegitimate. Customers employing informal labour, meanwhile, find themselves without: legal recourse if a poor job is done; insurance cover; guarantees in relation to the work conducted, and certainty that health and safety regulations have been followed.

For formal businesses, meanwhile, there are also strong rationales for eradicating informal work since it results in: an unfair competitive advantage for off-the-books

businesses over legitimate businesses; micro-level de-regulatory cultures enticing law-abiding firms into a local ‘race to the bottom’ and away from regulatory compliance; and situations of ‘hyper-casualisation’ as more legitimate businesses are forced to turn to informal work to compete effectively. Informal businesses, meanwhile, find themselves in a disadvantaged position operating outside, or at the margins, of the formal sector, resulting in their: pressurisation into exploitative relationships with the formal sphere; lack of legal protection relative to formal businesses; and an inability to develop and grow due to structural constraints with regard to gaining access to capital and securing the support available to formal businesses.

There are also broader societal costs in that informal employment: is fraudulent activity that causes a loss of revenue for the state in terms of non-payment of income tax, national insurance and VAT; has knock-on effects on attempts to create social cohesion at a societal level by reducing the money available to governments to pursue social integration; results in weakened trade union and collective bargaining; leads to a loss of regulatory control over the quality of jobs and services provided in the economy; and if a significant segment of the population is routinely engaged in such activity, may well encourage a more casual attitude towards the law generally.

For these reasons, therefore, the near universal agreement is that informal employment needs to be eliminated. More open to debate, however, is how this is best achieved.

Tackling informal employment: a typology of the public policy options

To understand the different ways of tackling informal employment, this section reviews the various policy options available so as to provide a conceptual lens for understanding the specific approaches adopted in particular nations. As will become apparent below, there exists a continuum of approaches for tackling informal employment ranging from those that are more repressive in orientation grounded in deterrence measures at one end of the spectrum through to those that are more enabling in orientation and seek to facilitate formalisation at the other end.

In order to eradicate informal employment, which is the objective of all perspectives, that is, three broad approaches can be pursued: the repression of informal employment through the use of deterrents; a de-regulation of formal employment so that informal employment disappears as all legitimate employment comes to resemble what is now deemed informal employment because the regulations attached to formal work are stripped away; and/or the facilitating of formalisation through the use of positive incentives to enable the transfer of work from the informal into the formal economy.

For several decades, and largely due to a widespread reading of informal employment as low-paid sweatshop-like work conducted by employees for unscrupulous employers (e.g., Gallin, 2001; Grabiner, 2000), it has been the eradication of such work through its repression using deterrents that has been the dominant public policy approach in most western nations (e.g., Grabiner, 2000; Hasseldine and Zhuhong, 1999; Sandford, 1999). The overarching intention has been to change the cost/benefit ratio confronting those engaged or thinking of engaging in such work. This has been done by seeking to increase the actual and perceived risks and costs associated with participation. Deterrence

measures have sought to increase not only the perceived or actual likelihood of detection but also the penalties for those caught. As Table 1 highlights, policy measures that come under the auspice of this repressive approach that seeks to deter engagement thus include the use of sanctions and fines for those caught and the development of a whole manner of measures to improve the likelihood of detection, not least through improving the coordination of strategy, operations and data sharing.

Table 1 Approaches for tackling informal employment

Approach	Measures	Examples of Initiatives
Repressive	Improving detection	Cross-department data sharing Cross-national data sharing Joining-up strategy Joining-up operations
	Increasing penalties	‘Working whilst claiming’ fines increased Increasing penalties for tax evasion Increase penalties for flouting labour law
Enabling	Preventing informal employment	Reduce regulations Reduce taxation Simplification of taxation Simplification of regulatory compliance
	Facilitating formalisation	Demand-side incentives - service vouchers/labour subsidies Supply-side incentives - business advisory & support services - society-wide amnesties - individual-level amnesties - smoothing transition from unemployment to self-employment - introducing new categories of legitimate work Improving tax morality

A repressive approach using deterrents, however, is not the only means available for tackling informal employment. Indeed, one of the principal driving forces underpinning the need to rethink whether repression is the appropriate way forward has been the above mentioned recognition that much informal employment is conducted by the self-employed engaged in entrepreneurial endeavour. This has resulted in more attention being paid to whether it is sufficient to solely seek to repress such work or whether greater emphasis needs to be placed on enabling this work to move into the formal economy. The outcome has been greater discussion of how this transfer can be facilitated.

Enabling approaches, however, have taken various forms. On the one hand, and for those of a neo-liberal economic persuasion, the need for an enabling approach directly arises from their reading of informal entrepreneurs as heroes who are casting off the shackles of an over-burdensome state and their view of informal employment as the ‘essence of liberalism’ (de Soto, 1989, 2001; Sauvy, 1984). For De Soto (1989: 255) for instance, ‘the real problem is not so much informality as formality’. As one of the last bastions of untrammelled enterprise culture in an over-rigid economic system, neo-liberals view in the recent growth of informal employment evidence of a resurgence of the free market against state regulation and union control and for them, ‘enabling’ means adopting a laissez-faire approach towards informal employment and a de-regulatory approach towards the formal economy. With fewer regulations, the notion is that the distinction between formal and informal employment will wither away since all activities would be performed in a manner now called ‘informal’, although such activity would be legitimate since it would not be breaking any rules. For these neo-liberals, therefore, informal employment should be tackled by stripping away the regulations that differentiate formal and informal employment. In this variant of the enabling approach, therefore, measures to be pursued include a decrease in taxation and a drastic reduction in the regulations attached to formal employment.

However, a more enabling approach is not only advocated by neo-liberals. On the other hand, there is also a strand of social democratic thought that again views informal enterprise and entrepreneurship as an asset, but only if this endeavour can be harnessed and moved into the existing formal economy (ILO, 2004; Renooy et al, 2004; Small Business Council, 2004; Williams, 2006a). Such enterprise, if formalised, would contribute to the development of an enterprise culture and the achievement of fuller-employment. As the ILO (2002: 8) state, therefore, the key policy issue is ‘how to move workers and entrepreneurs currently in the informal economy upwards along the continuum [*sic*] into formal decent jobs and how to ensure that new jobs are created in the formal and not in the informal economy’. Indeed, in western nations, this discourse is clearly expressed in the European Commission’s Employment Guideline no. 9 on undeclared work. As Anna Diamantopoulou, Commissioner for Employment and Social Affairs, so clearly puts it,

Member states must increase efforts to quantify undeclared work, to cut it down *and to transform it into regular employment*. This is vital because of the direct link between combating undeclared work and hitting the Lisbon target of full employment by 2010 within a sound macroeconomic environment (European Commission, 2002: 1) [my emphasis].

Unlike repressive approaches where the objective is solely to eradicate such work and neo-liberal enabling approaches where the intention is to de-regulate the formal economy, this emergent social democratic enabling approach seeks to facilitate the transfer of such work into the existing regulatory environment. To achieve this, deterrents or push measures (‘sticks’) are seen as necessary but insufficient. They need to be combined with ‘pull’ initiatives or ‘carrots’ (e.g., European Commission, 2003a,b; Mateman and Renooy, 2001; Renooy et al, 2004; Small Business Council, 2004; Williams, 2005a,b 2006a,b,c). Again, this is clearly expressed in the European Commission’s Employment

Guideline no. 9 on undeclared work, adopted on 22 July 2003, which asserts that there is a need for not only deterrents (or ‘sticks’) in the form of ‘improved law enforcement and the application of sanctions’ but also a range of pull initiatives (‘carrots’), namely a ‘simplification of the business environment’ and the provision of ‘appropriate incentives in the tax and benefits system’ (European Commission, 2003b). As Table 1 displays, these can range from measures that seek to change the compliance system such as by simplifying taxation and regulatory compliance (rather than reducing it) through to a whole range of measures that seek to stimulate formalisation by targeting either customers or suppliers of informal employment and providing them with incentives or help to move into the formal economy.

Although this typology of approaches for dealing with informal employment presents three discrete approaches, it is important to state that in practice, it is likely that governments will adopt some mixture of all three and as such, a continuum of approaches needs to be conceptualised with wholly repressive approaches at one end of the spectrum and wholly enabling approaches at the other. Moreover, those governments towards the enabling end of the continuum may be to varying degrees either de-regulatory in their approach or orientated towards providing incentives to help those engaged in informal employment transfer into the existing formal economy.

Given this, the next section uses this typology to explore what approach has been, and is being, adopted in the UK towards informal employment. Does UK public policy remain entrenched in a repressive approach? Or is it adopting more enabling measures? If so, is it primarily de-regulation being used in the form of reduced taxation and regulation or is it more ‘pull’ measures (‘carrots’)? Where, in other words, does UK public policy sit on this spectrum and what is its trajectory?

Evaluating the nature and direction of UK public policy towards informal employment

In order to evaluate the nature and direction of UK public policy towards informal employment, the intention here is to identify the emphasis given to various types of measure. This, however, is not a straightforward task. In the UK, numerous government departments have policies for tackling various aspects of informal employment and as such, responsibility is fragmented across numerous government departments with no one government department taking the lead.

The result is that if a full and comprehensive portrait of UK public policy towards informal employment is to be provided, the nature of public policy in each and every central government department with an interest in informal employment needs to be reviewed. Below, therefore, firstly, the use of deterrence measures across the relevant government departments will be analysed and secondly, the use of incentive measures so as to stimulate formalisation. The outcome will be a broad sketch of where UK public policy sits on this spectrum along with the direction of change.

UK public policy: deterrence-oriented measures

In the UK, the last major government review of how to tackle informal employment was conducted in 1999. Stimulated by a growing concern about the negative consequences of a large and growing informal sector, the Chancellor of the Exchequer requested a report by Lord Grabiner on the most appropriate way forward. Its conclusion was that,

As long as people can profit by not declaring their work, it will be impossible entirely to eradicate the informal economy. Therefore, the most effective way of tackling the problem is significantly to improve the likelihood of detecting and penalising offenders. What is needed is a strong environment of deterrence (Grabiner, 2000: 19).

The result was the recommendation of a whole series of tougher penalties and improved detection methods. These included: increasing sanctions for employers and/or employees; stepping up controls; increasing the level of punishments; increasing co-operation and data exchange between authorities both on a national and international level; field checks; introducing fraud hotlines; increasing registration and identification requirements; and arranging house visits or appointments with benefit claimants unannounced (Grabiner, 2000).

Since this report, the UK government has been busy implementing its recommendations. To detail the types of measures introduced, a review is provided of UK public policy with regard to firstly, improving the rate of detection and secondly, penalising offenders. The outcome will be to reveal not only the continuing existence of a repressive-orientated approach based on deterrence measures but the further strengthening of such measures over time.

Improving detection

As mentioned above, in the UK, numerous government departments have responsibilities for tackling various facets of informal employment. Her Majesty's Revenue and Customs (HMRC), formed out of a merger of the Inland Revenue (IR) and Her Majesty's Customs & Excise (HMCE) in 2005, has as its focus the evasion of direct and indirect taxation (VAT and excise duties), while the Department for Work and Pensions (DWP) is primarily concerned with those working whilst claiming benefits. Most of the other government departments are responsible for those facets of informal employment resulting from the flouting of labour law. The Department of Food and Rural Affairs (Defra) concentrates on organised providers of informal labour in agriculture and fisheries (known as 'gangmasters'), the Home Office on illegal workers, the Health and Safety Inspectorate with health and safety standards in the workplace and the Department of Trade and Industry (DTI) and Small Business Service (SBS) with regulatory compliance in the workplace.

Each government department, in consequence, focuses upon, and has responsibility for, various facets of the informal economy. The result is that informal employment has different meanings to various departments and that what is of interest to one department is not relevant to another. Those claiming benefits whilst working as a

pay-as-you-earn (PAYE) employee, for example, are of interest only to the DWP. They are not of interest to HMRC. If claiming benefits whilst working on a ‘cash-in-hand’ basis, however, they will be also of interest to HMRC. Similarly, if somebody is an illegal worker using a falsified national insurance (NI) number to gain formal employment, then HMRC is not interested because they are paying their taxes but they will be of interest to the Home Office.

Given this fragmentation, numerous initiatives have been pursued in the wake of the Grabiner report to improve coordination at the level of strategy, operations and data sharing based on the belief that working together, departments can be more effective in tackling the problem (Grabiner, 2000; Select Committee on Environment, Food and Rural Affairs, 2004; Select Committee on Public Accounts, 2003, 2004).

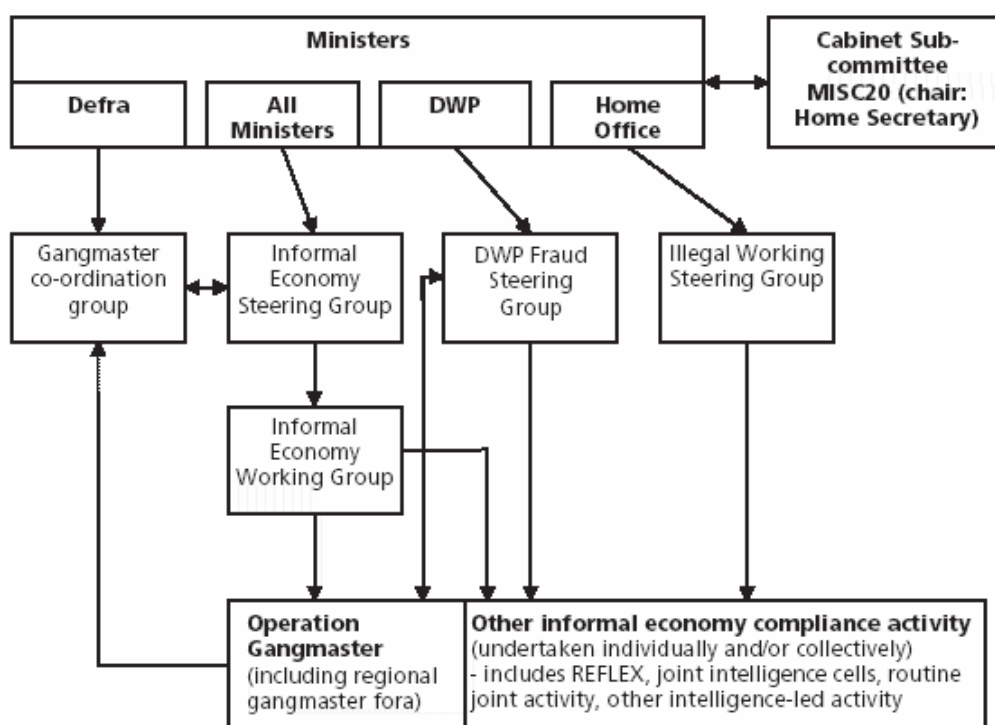
At the level of strategy, there are now a multitude of cross-departmental and inter-agency committees, forums, steering groups, working groups and coordinating groups, each of which addresses various strategic aspects or has wider strategic responsibilities. Figure 1 provides a structure of the various groups and the inter-relationships between them in the form of an organisational chart. Following the provision of this organisational chart in May 2004 in evidence to the Select Committee on Environment Food and Rural Affairs, a good deal of concern was expressed about its complexity. Although there is now greater clarity that the Informal Economy Strategy Group (IESG) takes overarching responsibility for strategy, there remains no one Minister or ‘lead’ department responsible for tackling informal employment.

At the level of operations, meanwhile, coordination occurs through the ‘Grabiner Steering Group’ formed in March 2000 (and now named the Informal Economy Steering Group). This has implemented a range of coordinated actions, including: Joint Shadow Economy Teams (JoSETs) which bring together officers from the DWP and HMRC to tackle four priority sectors - construction and building services; taxi operators and couriers; catering, including takeaways, licensed restaurants and tenanted public houses; and hotels and guest houses; Joint Fashion Industry Teams (JoFITs) which bring together officers from HMRC, DWP and the health and safety executive to target the clothing and fashion industry; the Multi-Agency Team (MAT) project set up in October 2000, staffed by HMRC, DWP, Jobcentre Plus and the Child Support Agency, whose objective is to improve tax, benefits and employer compliance across a wide range of businesses and customers so as to increase direct and indirect tax yield, reduce benefits abuse against central and local government and reduce child poverty; and Operation Gangmaster which targets the sixth priority sector identified by the ‘Grabiner Steering Group’ (now IESG), namely the agriculture and fisheries sector. This targets illegal labour providers (gangmasters) who organise the supply of labour to employers requiring short-term (often seasonal) labour such as crop-pickers.

Besides using such ‘on-the-ground’ teams to improve the rate of detection, greater coordination has also occurred in the realm of *data matching and sharing*. Since the turn of the millennium, the legal-gateways to enable data sharing between departments have expanded considerably. DWP, for example, sources data on NI contributions and tax credits as well as on hidden capital that may affect benefit entitlements from HMRC. It also sources data held by banks and other financial institutions in relation to those considered to be at high risk of committing fraud. Indeed, some 72 different data matching runs now take place at intervals ranging from weekly to six monthly (depending

on the refresh rate of the data), of which 34 take place weekly to identify anomalies (e.g., customers claiming income support whilst their partner is working, children being claimed for by more than one customer and a customer claiming JSA whilst in employment). Between April 2003 and February 2004, for example, 217,510 inconsistencies in data for further investigation were identified by the DWP's data-matching service with a total saving of £39 million, although not all related to 'working whilst claiming benefits' (DWP, 2004a,b,c).

Figure 1 Co-ordinating actions on informal employment: an organisational chart



There are, however, significant barriers to the use of data matching and sharing in order to improve detection. Legal authority is needed before government departments and agencies can share data and any legally authorised data exchange must be in accordance with the principles of the Data Protection Act 1998 and its usage must not breach the requirements of the Human Rights Act 1998. For example, government was unwilling to give provision in the Social Security Fraud Act 2001 for DWP to obtain information from banks and other financial institutions on benefit claimants judged to be at high risk of committing fraud. Instead, power was limited to cases where reasonable grounds for suspicion of fraud exist.

In sum, recent years have witnessed a significant strengthening of measures to detect informal employment through greater coordination at the level of strategy,

operations and data sharing, based on the belief that by departments working together, they can more effectively detect participation in this sphere.

Penalties

There has also been a toughening up of the penalties for those caught engaging in informal employment since the turn of the millennium. During the late 1990s, for example, a contrast was drawn between the penalties applied to those caught claiming benefit whilst working and to those evading tax (Cook, 1997). In 1998/99, some 6,000 people were prosecuted for failing to declare earnings whilst claiming benefits whilst the Inland Revenue prosecuted just 50-100 cases for evading taxes (Williams, 2005b). Although such comparisons ignore that HMRC is entitled to recover money owed whilst the DSS is not, in 2000, changes were made to resolve these differences (for an in-depth discussion, see Williams, 2001). Rather than weaken the DWP penalties, or just strengthen those of HMRC, both were markedly toughened. Those caught working whilst claiming benefits can be now requested to attend the Jobcentre more frequently, and at unpredictable times, as a condition of receiving their benefit. More use is also made of a warning procedure such as to employers reasonably suspected of colluding with fraudulent benefit claims, that if they do not clean up their act, they will expose themselves to more detailed investigation and possible prosecution. And if other measures fail to work, the option is available of punishing persistent fraudsters by removing, or heavily reducing, their right to benefit for a specific period. To resolve the inequities in prosecution rates between those failing to declare taxable income and those 'working whilst claiming', meanwhile, a new statutory offence of fraudulently evading income tax to be tried in the magistrates' court was introduced.

It is similarly the case that punishments have been toughened when it comes to flouting labour law. For example, during 2004, legislative action was taken to tighten the laws preventing illegal working using secondary legislation in relation to section 8 of the Asylum and Immigration Act 1996, the main preventative check on the use of illegal labour by employers. This strengthens the types of document that employers are required to check at the point of recruitment to comply with section 8 and makes it easier for the Immigration Service to identify and prosecute non-compliant employers. An employer can now be fined up to £5,000 for each employee who has no right to be employed.

In sum, in the UK since the turn of the millennium, both the measures to detect informal employment have strengthened and the penalties toughened, signifying that the UK continues to use repressive methods. Before concluding that UK public policy is grounded in a repressive approach, however, it is necessary to investigate the degree to which enabling-orientated measures have been adopted. All that is so far known from this review of repressive measures is that UK public policy is not at the purely enabling end of the continuum of approaches. What is not known is the relative strength of deterrents relative to enabling-orientated measures, and thus where on the continuum UK public policy lies.

UK public policy: enabling-orientated measures

To see that UK public policy is not purely repressive in approach and adopts measures to stimulate formalisation, one has only to look at the Department of Trade & Industry (DTI) and Small Business Service (SBS), the latter not being a policy-making department, who increasingly pursue regulatory compliance through the provision of advice and incentives rather than punishments and view the informal realm as a seedbed for entrepreneurship that needs to be harnessed (Small Business Council, 2004; SBS, 2005; Williams, 2006a). The Department for Communities and Local Government Office (DCLG) similarly has taken an enabling rather than repressive approach towards tackling informal employment in deprived neighbourhoods (Evans et al, 2006a,b). Is it the same, however, across UK government as a whole? Until this is understood, no assessment can be made of the degree to which UK public policy is grounded in such an approach and the direction of change. To evaluate this, the degree to which each of the two types of enabling approach outlined in the typology have been adopted will be evaluated in turn.

Preventing informal employment

To prevent informal employment from occurring, there are several public policy options available for governments to pursue in the realms of regulatory compliance and taxation. Firstly, regulatory and tax compliance can be encouraged by providing information to help people start businesses within the existing rules and regulations. This has been heavily pursued in UK public policy, as shown by the *Starting up in Business* campaign along with the Helpline for the newly self-employed and the provision of guides such as *The Right Way to Start Your Business*. Secondly, attempts can be made to change the regulatory environment by reducing taxation and regulations or thirdly, by simplifying taxation and the regulatory environment.

Although it is open to debate whether the tax and regulatory changes that have been pursued in the UK reflect the de-regulatory approach of the neo-liberals or the simplifying approach of social democratic discourses, what is without doubt is that a great deal of attention is currently being paid to changing the regulatory and tax environment by making it more straightforward for businesses to start up and operate legitimately.

An example is the 2005 merger of the IR and HMCE in the newly formed HMRC, which has resulted in a simplification of the regulatory environment and the introduction of an on-going simplification of tax administration such as for small businesses (e.g., the number of tax forms and returns, pursuing an integrated approach to audit with a single visit to inspect records rather than separate inspections for different taxes) and improving support and education to improve the capacity of firms and individual tax-payers to comply.

There have also been a host of other changes to the regulatory and tax environment which could be read either as simplifying measures in line with the social democratic enabling approach or de-regulatory measures more in line with the neo-liberal approach. That is, a host of exemptions and graduated inclusion into the regulatory and tax environment have been introduced which could be read in either of the above ways. Keter (2004) provides a useful, although slightly out-dated, summary of the employment and tax

regulations from which small firms, which constitute the vast majority of all firms, have been exempted either previously or currently.

So far as employment regulations are concerned, small firms have been exempted from:

- Trade union recognition - for firms with fewer than 21 workers;
- Maternity and parental leave - some exemptions for employers with less than five employees;
- Disability discrimination - until October 2004, firms with fewer than 15 employees were exempt;
- Consultation on collective redundancies - exemptions for firms with fewer than 20 employees;
- Statutory maternity pay - firms can recover 100 per cent of these payments and an additional 4.5 per cent compensation for administrative costs if their annual liability for Class 1 national insurance contributions is £45,000 or less;
- Written statement of disciplinary procedures - firms with fewer than 20 employees were exempt until 2004;
- Stakeholder pension - firms with fewer than five employees are exempt from the requirement to provide access;
- Health and safety - undertaking with less than five employees do not have to prepare a written statement on health and safety;
- Information and consultation - undertakings with less than 50 employees are not covered by the EU Directive on informing and consulting employees.

Previous exemptions that have applied to small firms, meanwhile, have included legislation related to:

- Unfair dismissal - people working for firms employing less than 21 employees had to wait two years before qualifying for protection against unfair dismissal, while those in larger firms had to wait only one year;
- Sex discrimination - the 1975 Sex Discrimination Act excluded employment in private households and firms employing fewer than six people;
- Redundancy rebates - when the redundancy payments scheme was introduced, employer were able to claim substantial rebates from the Redundancy Fund. Over time, these were reduced until they were abolished for all but firms with fewer than 10 employees. Today, all rebates have been abolished;
- Statutory sick pay - small firms once received preferential access to recovering payments for employees on sick leave.

Small firms are also exempt from various aspects of the tax system. For example, firms with a turnover below a threshold level are exempt from registering for VAT and there is a zero rate corporation tax for start-ups and small companies. Similarly, from April 2005, rate relief was introduced for small businesses on a sliding scale as well as for rural shops, and some small firms are exempt from the same company audit and reporting requirements as larger firms.

In sum, although a whole raft of repressive measures have been taken to deter informal employment, the UK government has also sought to change the regulatory and tax systems to make it easier to comply. These mostly involve offering exemptions and graduated inclusion into the full regulatory and tax system, which might be seen as de-regulation à la neo-liberal approach but can also be read as pursuing the more social democratic approach of simplifying the system so as to enable formalisation. These measures, however, are not the only way in which a more enabling environment has been created in the UK.

Facilitating formalisation

Besides reducing and/or simplifying taxation and regulations, a whole host of other measures are potentially available to governments seeking to facilitate formalisation. Such measures include:

- offering amnesties on either a societal level as has been the case in Italy (Ghezzi, 2006) and Spain (LópezLaborda and Rodrigo, 2003) or an individual level as in Italy (Meldolesi, 2003);
- the provision of voucher schemes to encourage customers to use formal rather than informal employment to get work completed as used in Belgium (Rubbrecht and Nicaise, 2003; Smets, 2003) and France (Adjerad, 2003; Guimiot and Adjerad, 2003; Labruyere, 1997; Le Feuvre, 2000);
- the introduction of new categories of legitimate work as seen in Germany with Ich AG (Williams, 2006a);
- smoothing transition from unemployment to self-employment by creating initiatives to enable this transformation;
- the provision of business advisory and support services to those seeking to formalise their endeavour as in Italy (Baculo, 2005; Williams, 2005a, 2006b); and
- the creation of awareness raising campaigns to improve tax morality.

Reviewing UK public policy for whether such measures have been implemented, it becomes quickly apparent that only a limited range have been adopted and with one or two exceptions, those that have are very often piecemeal and small-scale in their nature.

In the UK, that is, there has been no attempt to offer amnesties either at the societal or individual level to enable those engaged in informal employment to legitimise their operations. Indeed, not only was this rejected in the Grabiner (2000) report but departments such as HMRC have displayed resistance to offering individual-level amnesties to those coming forward and declaring their informal employment, even when they do so through a ‘formalisation service’ and agree to a formalisation plan (see below). Similarly, the idea of introducing subsidies, such as in the form of service vouchers, to individuals using formal labour in sectors where informal employment is rife (e.g., domestic cleaning), has not been even piloted in the UK, despite such schemes being well-established in other EU nations. Nor has there been any consideration of introducing new categories of legitimate work in order to enable the transfer of informal into formal employment, as has been the case in Germany for example, where a new category of

'mini-jobs' was created that allows individuals to legitimately engage in sporadic piecemeal paid work for others (see Williams, 2006a).

However, this is not to say that measures to facilitate formalisation are absent in a UK context. Other measures, such as the provision of a 'formalisation service' which offers tailored advice and support to off-the-books traders who wish to formalise their business ventures, has started to be not only widely discussed in public policy circles (Copisarow, 2004; Copisarow and Barbour, 2004; Evans et al, 2006a.b; SBC, 2004; SBS, 2005) but there has also been a pilot initiative implemented in Hartlepool by HMRC during 2005/06 to evaluate its feasibility. Beyond central government, in addition, Wandsworth Borough Council in London in 2006 created a formalisation service to provide business advice and support to informal traders in the borough.

Another area in which an enabling approach has been adopted is that of improving tax morality. Here, awareness raising and information campaigns have been used that emphasise the benefits of formalisation rather than purely adopt the deterrence approach of highlighting the costs of informality. An example is the 'Red Box' educational game developed by the Inland Revenue for citizenship classes in schools that promotes the benefits of paying tax. On the whole, however, tax morality campaigns have more often than not sought to deter engagement by emphasising the costs of informal employment, as reflected in the 2006 HMRC television advert that focuses upon how customers have no recourse when an informal worker is employed to do work for them.

It is perhaps in the realm of smoothing the transition from unemployment to self-employment, nevertheless, that measures to facilitate formalisation have been most actively pursued. Firstly, there is the 'test-trading' initiative of the DWP which occurs at the New Deal options stage 3 and involves the participants test trading their business for up to 26 weeks (Kellard et al., 2002). Secondly, there is the 'back to work' bonus introduced in October 1996 with the aim of encouraging individuals and where relevant their partners to 'keep in touch' with the labour market by undertaking small amounts of work whilst still claiming Income Support (IS) or Jobseekers Allowance (JSA) (Ashworth and Youngs, 2000; DWP, 2003a,b; Thomas et al, 1999). And third and finally, there is 'twin track', a DWP pilot initiative running in two Government Office Regions (Wales and the North West), whereby under certain conditions a 'lighter touch' is taken with people working whilst claiming benefit in an effort to get them into formal work via contact with a Personal Advisor.

Such an emphasis, however, is based on the assumption that it is the unemployed who conduct the vast majority of informal employment. Nearly all of the studies conducted in western economies, however, display that this is not the case. Instead, they reveal that the registered unemployed conduct only a very small portion of informal employment (e.g., Jensen et al, 1995; Pahl, 1984; Renooy, 1990; Williams, 2001). These enabling initiatives, therefore, will have only very marginal impacts on both helping business start off on a formal footing and shifting the hidden enterprise culture into the legitimate realm. When pursuing an enabling approach, therefore, the emphasis in the UK has been on a limited segment of the informal economy based on an erroneous assumption that this constitutes the vast majority of informal employment.

Discussion and conclusions

This critical review of UK public policy towards informal employment has revealed that deterrence is the prominent approach, especially measures to increase the likelihood of detection. Little attention has been paid to more enabling measures that seek to facilitate formalisation by providing incentives to those engaged in informal employment to legitimise their endeavour. However, although UK public policy is heavily skewed towards the deterrence end of the continuum of approaches, there is evidence in some limited spheres (e.g., simplifying regulations and taxation, smoothing the transition from unemployment to self-employment) that a more enabling approach has been pursued. The extent to which attempts have been made to facilitate formalisation rather than simply repress informal employment, however, should not be exaggerated. On the whole, the policy approach is heavily focused on repressing such work through the use of deterrents.

This emphasis on deterrents is perhaps surprising. It is widely understood that to elicit changes in human behaviour, punishing people for doing something wrong (i.e., negative reinforcement) is relatively ineffective compared with positive reinforcement or rewarding good behaviour. Indeed, there is now a vast body of research that this is the case in fields ranging from how to motivate employees and provide effective leadership in organisations (e.g., Prewitt, 2003; Romero and Kleiner, 2000), through such diverse subjects as effective toilet training (Cicero and Pfadt, 2002), smoking cessation (Glautier, 2004) and effective personal management of diabetes (e.g., Parra-Medina et al, 2004), to the mitigation of anti-social behaviour in schools and classrooms (Beaman and Wheldall, 2000; Luiselli et al, 2002). In all these fields and many others, it is now very rare to find punishments rather than rewards being used to elicit changes in behaviour. When developing policy to tackle informal employment, however, this lesson does not appear to have been taken on board. The overwhelming emphasis is on using ‘sticks’ to punish bad behaviour rather than ‘carrots’ to reward those who display ‘good’ behaviour.

How, therefore, might UK public policy move towards such an enabling approach? This rewarding of ‘good’ behaviour, namely formal employment, rather than punishing ‘bad’ behaviour, requires at the simplest level a shift in emphasis away from using ‘sticks’ to punish those engaged in informal employment and towards ‘carrots’ to encourage people to engage in formal employment. All sticks and no carrots, as is well known in so many other spheres of public policy, seldom provides an effective means of achieving the desired outcome and there is no reason why combating informal employment is any different. Indeed, numerous carrots have been outlined above which could be piloted in a UK context.

The objective in so doing, however, must not be simply to continue with an external locus of behaviour control which merely shifts away from the less effective punitive measures that seek to push people away from informal employment and towards direct rewards or incentives to pull them into the formal economy. Instead, a broader rethinking of approach is perhaps required in a way that more fully reflects contemporary management thought on how to elicit behaviour change. In recent decades, that is, there has been a concerted shift in management thought away from direct to indirect control; from compliance to commitment (Guest 1987; Legge, 1989, 1995; Watson, 2003). Various referred to as a shift from ‘hard’ to ‘soft’ human resource management, or from bureaucracy to post-bureaucracy, there has been a move away from seeking compliance

through externally imposed bureaucratic control systems which generates reactive behaviours, and towards seeking commitment through internalised belief, generating constructive pro-activity on the part of people. Although normally applied at the organisational level, there is no reason why such an approach could not be implemented on a society-wide level in order to tackle problems such as informal employment.

How could this be achieved? To answer this, it is necessary to adopt a more critical lens towards the contemporary management literature. Reading this literature, it is often the case that the direct and indirect management control methods are seen as mutually exclusive, even as descriptive of some linear and uni-dimensional evolution of management thought whereby the trajectory of managerial practice has been universally from direct to indirect control. Here, however, and in line with the more refined emerging understandings, the argument is that such a view of direct and indirect methods as either mutually exclusive or some evolutionary trajectory so far as managerial practices are concerned, is far from the reality. In practice, direct and indirect management methods are often practiced alongside each other in order to elicit behaviour change in organizations. One outcome of this recognition has been that a great deal of contemporary discussion has revolved around the emergence of 'hybrid' forms of managerial practice (e.g., Du Gay, 2005; Reed, 2005; Thompson and Alvasson, 2005).

It is not difficult to see how such a hybrid approach could be employed to tackle informal employment that combines direct and indirect methods alongside each other. The use of direct compliance methods or bureaucratic controls involves using either punitive measures to prevent 'bad' behaviour and/or direct incentives to elicit 'good' behaviour. There is no reason why these cannot be employed alongside and in combination with more indirect methods to capture the hearts and minds of the population with regard to the benefits of formal work. Indeed, if direct methods are combined with indirect ones, then direct controls are much more likely to be effective. After all, to pursue purely indirect control, without at the same time offering rewards for those seeking to transfer their informal employment into the formal economy and punishing those continuing to work informally is unlikely to be as effective as using direct and indirect methods combined. Direct and indirect management control methods, therefore, are not mutually exclusive. It is not an either/or choice but rather, a both/and approach that is necessary if such work is to be effectively transferred into the formal realm.

Indeed, such a combined approach would be perhaps nothing new. Although contemporary management studies, to repeat, has interpreted their combination in organizational control methods as some new emerging hybrid, so far as public policy towards informal employment is concerned, a combination of direct control methods to elicit behaviour change (albeit mostly in the form of punitive measures) has for some time been combined with indirect management methods to change tax morality. What is perhaps new about the proposal here is the shift towards rewarding good behaviour rather than punishing bad behaviour using both direct and indirect control methods.

Whether this is the appropriate and most effective approach for tackling informal employment is beyond the scope of this paper. Evaluations of the effectiveness of each and every measure would need to be conducted. What is certain, however, is that the currently dominant deterrence approach cannot continue. To do so not only means that UK public policy will with one hand deter precisely the entrepreneurship and enterprise

culture that with another hand it is so desperately seeking to nurture but also will fail to take positive steps to transfer informal into formal employment so as to move closer to its goal of fuller-employment. If this paper thus encourages greater consideration amongst both public policy-makers and academics on alternative ways forward for public policy, and a more open mind to alternatives beyond deterrence, then it will have achieved its objective.

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