DEMAND-SIDE INCENTIVES TO COMBAT THE UNDERGROUND ECONOMY: SOME LESSONS FROM FRANCE AND BELGIUM

Jan Windebank
Department of French Studies
University of Sheffield

Abstract

This paper evaluates critically the currently dominant public policy approach towards underground work that primarily pursues supply-side deterrence measures and then investigates how demand-side incentives might be used to supplement this approach. To show how this could be achieved, the experiences of France and Belgium where voucher schemes have been used to encourage customers to use formal rather than underground labor are evaluated. Analyzing the Local Employment Agency and Service Voucher schemes in Belgium and the Cheque Emploi Service (CES) and Titre Emploi Service (TES) schemes in France, this paper finds that given the evidence of their apparent effectiveness in combating underground work in these countries, there is a case for other advanced market economies giving greater consideration to complementing their supply-side deterrence measures with similar demand-side incentives.

Introduction

The aim of this paper is to evaluate critically the currently dominant public policy approach towards underground work in advanced market economies that relies heavily on applying supply-side deterrence measures and then to investigate how demand-side incentives might be employed to supplement such an approach. To do this, the ways in which demand-side incentives have been used to combat underground work in France and Belgium will be evaluated. Firstly, the Local Employment Agencies scheme in Belgium will be evaluated, secondly, the Service Vouchers Scheme again in Belgium, thirdly, the *Cheque Emploi Service*

International Journal of Economic Development
Volume Six, Number 2, pp. 54-75
2004

scheme in France and fourth and finally, the *Titre Emploi Service* scheme again in France. The outcome will be to show that these schemes clearly display that there is perhaps a need in advanced market economies to move away from using solely supply-side deterrence approaches and for greater consideration to be given to supplementing such measures with demand-side incentives when seeking to combat the underground economy.

To reveal this, the paper firstly provides a brief review of how public policy towards the underground economy predominantly adopts a supply-side deterrence approach in most advanced market economies and how this has resulted in little attention being given to either demand-side approaches or incentive systems when tackling underground work. Following this, attention turns toward exploring the potential of a demand-side incentives approach by evaluating four initiatives that have been pursued. These are the Local Employment Agencies and Service Vouchers schemes in Belgium and the *Cheque Emploi Service* and *Titre Emploi Service* schemes in France. Having reviewed these initiatives, the paper will then conclude by evaluating whether demand-side incentive schemes might be adopted in other advanced market economies as a way of tackling the underground economy.

Throughout this paper, the underground economy is defined in the conventional and widely accepted manner as involving the paid production and sale of goods and services that are unregistered by, or hidden from the state for tax and/or welfare purposes but which are legal in all other respects (European Commission, 1998; Portes, 1994; Thomas, 1992; Williams and Windebank, 1998, 2001a,b). Underground work, therefore, includes only paid work that is illegal because of its non-declaration to the state for tax and/or social security purposes. It excludes paid work in which the good and/or service itself is illegal (e.g., drug trafficking).

From Supply- to Demand-Side Public Policy Approaches

In the advanced market economies, the predominant way in which public policy has sought to eradicate the underground economy is by pursuing supply-side deterrence measures. In other words, most of the effort of governments has been on curtailing people from supplying

off-the-books labor by constructing a range of deterrents. The principal way in which this has been achieved is by seeking to increase the probability of detection and the level of punishments meted out to those caught. Based on the assumption that such workers make a rational economic decision to engage in such work, the idea has been that by increasing the costs associated with underground work relative to the benefits, one can change the cost-benefit calculation for potential participants thus ensuring that suppliers decide not to engage in this work (e.g., Allingham and Sandmo, 1972; European Commission, 1998, 2003; Falkinger, 1988; Grabiner, 2000; Hasseldine and Zhuhong, 1999; International Labor Office, 1996, 2002; Milliron and Toy, 1988; Sandford, 1999).

To achieve this, most western countries have pursued some or all of the following deterrence measures: increasing sanctions for employers and employees; stepping up controls; increasing the level of punishments; increasing co-operation and data exchange between authorities; installation of cooperation networks; field checks; introducing fraud hotlines; increasing registration and identification requirements; arranging house visits or appointments with benefit claimants unannounced and/or during regular working hours; strict immigration policy; stricter border controls, and excluding businesses having made use of underground workers from business tenders.

On the whole, therefore, a rather narrow approach to combating the underground economy has been adopted. Relatively under-emphasized so far in public policy are on the one hand, incentives to encourage suppliers to work formally rather than on an underground basis and on the other hand, demand-side measures both of a deterrence and incentives variety. Such a narrow supply-side deterrents approach would be fine if western governments simply wished to eradicate the underground economy. What has become apparent over the past few years, however, is that this is not the case. Governments do not solely wish to eliminate such work. They also wish to transfer work currently conducted on an off-the-books basis into the formal economy (see Williams, 2004d in this volume]. To achieve this, deterring off-the-books suppliers is necessary but insufficient. Initiatives are also required to encourage suppliers and consumers to transfer this work into the formal economy, not least so as to enable western governments to move nearer to the goal of fuller-employment.

That is, rather than simply seek to ‘push’ suppliers out of the underground economy using deterrents, a range of other policy options

also need to be considered, ranging from 'pull' measures to enable suppliers to make the transition from the underground to the formal economy, to both 'push' and 'pull' measures to encourage consumers to use formal rather than underground labor (see Williams, 2004c). In this paper, the concentration is on demand-side measures that 'pull' consumers away from using off-the-books labor and encourage them to use formal labor instead. Put another way, the focus is upon the provision of demand-side incentives. This, of course, is not to say either that supply-side measures to enable underground workers to make the transition to the formal economy or that measures to deter consumers from using underground labor are not important. It is simply that investigations of how public policy needs to expand beyond the use of supply-side deterrence measures must begin somewhere. Here, the decision has been taken to explore 'pull' initiatives given the desire to transfer such work to the formal economy and within that, a decision has been taken to focus upon those pull measures that target the demand-side of the equation. Pull measures that target the supply-side are evaluated in a separate paper in this volume (see Williams, 2004d).

To start to review this option of using demand-side incentives as a means of combating the underground economy, this paper focuses upon the innovative social experiments that have been taking place in two western countries in this regard, namely France and Belgium. In these nations, and in order to reduce the demand for underground labor, public policy has sought to experiment with the use of voucher or check systems to reduce underground work in the domestic services sector, a sector of the economy in which underground labor is widely recognized to be rife (Cancedda, 2001; Le Feuvre, 2000; Pedersen, 2003; Williams, 2004a,b).

As Cancedda (2001) reports, most studies that have surveyed the use of underground labor in the domestic services sphere suggest that some where between 50 per cent and 80 per cent of domestic workers are employed on an underground basis. In Austria, for example, some 70 per cent of jobs in household services are conducted on an underground basis and it has been estimated that in Austrian households, underground employees number somewhere between 60,000 and 300,000, compared with only 5,000 formal employees registered with the authorities. In France, similarly, it was estimated that in 1997, there were five underground workers for every declared worker in the household services sector and in Germany, over half of household service workers (more than 2 million people) have been asserted to work on an underground basis. In Italy, the ratio of legitimate to underground

workers in this sector is estimated to be one to three (Cancedda, 2001: p. 21).

In what follows, in consequence, demand-side incentives that seek to reduce the demand for underground labor in the domestic services sector are focused upon. To do this, four initiatives will be evaluated, namely the Local Employment Agency and Service Voucher schemes in Belgium and the *Cheque Emploi Service* (CES) and *Titre Emploi Service* (TES) schemes in France. It will become increasingly apparent as this paper unfolds and these initiatives are evaluated, however, that such measures do not need to necessarily remain confined to the domestic services sphere. Such demand-side incentive schemes could be applied more widely.

Throughout the rest of this paper, each of these four initiatives will be evaluated in turn. In each case, answers will be sought to the following questions. How does this initiative to encourage consumers to use formal rather than underground labor work in practice? What is the magnitude of the scheme? Who engages in it? Is it effective at transferring work from the underground to the legitimate sphere? And what, if any, problems have been witnessed and how have these been overcome?

Local Employment Agencies (Belgium)

In the mid-1990s in Belgium, Local Employment Agencies (*Plaatselijke Werkgelegheidsagentschappen*; PWA) were introduced in nearly all municipalities. These PWA bring together the supply of labor of the long-term unemployed and the demand for labor in the domestic services sphere.

The PWA is a non-profit association, with local politicians and social partners on the executive board. It issues vouchers that can be bought by private persons, government bodies and firms. One voucher, with which one can pay for one hour of work, costs €7.45. When a household, government body or private firm needs a job done (e.g., some odd jobs), it makes its demand known to the PWA. The agency then searches its files for a suitable supplier. The worker receives the vouchers as payment and then exchanges them for money at the PWA. The worker receives €4.10 per voucher/hour. The difference between the buying and selling price covers the overheads and insurances involved.

The long-term unemployed who earn the money can keep it as extra earnings alongside their social benefits allowance. There is no reduction in their social benefit payments.

Not all unemployed people, nevertheless, are entitled to work in this scheme. It is reserved for:

- unemployed people over 45 years old and more than six months unemployed;
- unemployed people under 45 years old and longer tan two years unemployed; and
- people with no unemployment benefit, but living on a minimum social security grant.

In practice, it has been the case that it is mainly women involved in the scheme, reflecting the societal gender divisions of domestic work. In 1997, 82.6 per cent of the participants in PWE activities were women (17.4 per cent men) and people participated on average for 26 hours per month. Only 0.74 per cent of the participants were registered as unemployed who had not declared themselves as volunteers.

Over time, there has been a tendency to move towards obliging the unemployed after two years of unemployment to register with the PWAs scheme and then either to accept the jobs offered to them or to have their benefits cut (this was introduced in 1994). From 1995, the protection of the unemployed worker in the PWA has improved from the point of view of work rules and industrial injuries insurance. However, the jobs offered are still not yet seen as formal employment: the unemployed person still has the status of being unemployed, but is allowed to top-up unemployment benefit with earnings of up to BEF 7,000 a month for up to 60 hours work. As the ILO (2004) put it, however, any obligatory aspect of working within the PWE framework needs to be seen in context. It is applicable only to the registered long-term completely unemployed who must be available for the labor market. This category of unemployed is called upon only as a last resort, that is to say, after the unemployed who carry out the activities in mutual agreement with the user and after the voluntary categories. Moreover, the activity must be a 'suitable activity'. The suspension of the right to the unemployment benefits, moreover, is temporary. Indeed, until now, only one unemployed person has been suspended, for a four-week period, following the refusal to carry out a suitable activity within the PWE.

What services, therefore, can customers request? Over time, the answer to this question has changed and there is also some local

autonomy in determining what tasks can be undertaken. Generally, however, the following activities can be conducted:

- For private households:
  - Home assistance with all kinds of household jobs;
  - Assistance in taking care of children and sick people;
  - Assistance in doing administrative jobs; and
  - Small gardening jobs.
- For local governments:
  - All kinds of jobs answering the needs of the local community that are not taken care of through the regular labor market. In some municipalities, for example, the PWA scheme was used to create 'city-watches', a uniformed service that tackles anti-social behavior.
- For schools and not-for-profit associations:
  - All kinds of assisting activities as long as they are not competing with regular labor.
- For the agricultural sector:
  - Several activities, among others seasonal work.

In 1997, for example, some 51.52 per cent of the hours spent working for PWE's consisted of providing domestic household assistance, 3.60 per cent garden maintenance, 0.99 per cent the accompaniment of children and patients, 0.05 per cent administrative formalities and 43.84 per cent mixed activities (ILO, 2004). Take, for example, the Ghent PWA. Renooy et al (2004: p.162) cite several examples of the type of work that are quoted on its website:

> 'My grandparents are both pretty old. They have a house with quite a large yard. Because they could use some help in mowing the lawn and removing the weeds, they knocked on the door of the PWA. No, every three weeks, someone comes to help them out. And they are very flexible, When for example my grandparents are away, they just as easy come another day'

or

> 'Me and my husband both work. At best, one of us can be at home by 4.30 p.m.. But our children, in the ages of 5 and 7, need to be picked up from school at 4.00 pm. So now I found someone from the PWA to pick up the kinds, bring them home and keep them company until I come home'

By June 30 1998, 552 municipalities (i.e., 94 per cent of all Belgian municipalities) had a PWE. At the regional level, this percentage respectively accounts for 98 percent, 90 per cent and 100 per cent of the municipalities of Wallonia, Flanders and the region of Bruxelle-Capitale.

In total, some 7,640,535 hours of work were undertaken in 1997. This number of actual hours is equivalent to approximately 4,463 full-time jobs (ILO, 2004). By June 1999, however, 120,904 unemployed were registered at PWAs, 38,500 of whom were active and working an average of 30 hours per week. A little more than 80 per cent of these active PWA workers were women, mostly between 35 and 45 years old. The few men that were active in the PWA were mostly aged 45 to 55. Exactly 50 per cent of all the unemployed in the PWA schemes were very long-term unemployed (more than five years unemployed). Between 1994-99, 37 million vouchers were sold, almost two-thirds to private households (RVA, 2001).

An evaluation of this scheme found that 44 per cent of the work now conducted in PWAs was previously done on an underground basis, and 84 per cent of users of the PWA were glad not to have to turn to the underground economy (de Sutter, 2000). As such, it appears that PWAs have acted as an effective substitute for the underground economy.

However, this is not to say that PWAs have completely eradicated the underground economy either in the society at large or even in the internal operating environment of the PWAs themselves. On the latter issue, the PWA worker can easily raise his/her earnings by doing part of the work for vouchers and part of it of-the-books for cash. Indeed, and as Renooy et al (2004) state, through the PWA system, demand and supply are actually brought together to facilitate such underground transactions. The extent to which this occurs in practice, however, has not been monitored or evaluated.

Neither is it likely to be evaluated in the future. At the end of 2003, and because many of the unemployed decided to stay in this scheme rather than seek a formal job, the Belgian government decided to place more emphasis on another scheme and to transfer the vouchers sold to private households into a new ‘service vouchers’ scheme. The other purchasers of vouchers, however, namely government bodies and firms, at present remain in the PWA scheme.

Service Vouchers (Belgium)

In the service vouchers scheme, households can purchase special subsidized vouchers that they can use to pay for 'local community services' (e.g., childcare or household tasks such as cleaning). Like the PWA system, the service vouchers scheme was primarily created with the aim of combating underground work in the household services sector. A household buys vouchers for a price of €6.20 (for an hour of work) which it then uses to purchase services from a certified business. These companies hire the unemployed at first on flexible contracts but after six months, the business has to offer them a permanent contract of at least a 50 per cent full-time equivalent post.

An employee of a certified company is allowed to do the following activities: housecleaning; washing and ironing; sewing; errands; and preparing meals. The rationale for choosing this range of tasks is on the one hand, that the service vouchers scheme will not act as a substitute for formal firms since the proportion of these tasks conducted on a formal basis is currently relatively minor and on the other hand, that these are tasks where underground work is rife when it is conducted on a paid basis. As such, this service vouchers scheme adopts a targeted approach to combating the underground economy.

The household purchasing such services from registered companies pays with the vouchers. The cost price of a voucher is €19.47 (to be indexed from 2005). The difference is paid to the company by the federal government. Households can recover 30 per cent of the price of a voucher in their tax return. So for them the price of a voucher is €4.34, which is below the price paid in the underground economy (Rubbrecht and Nicaise, 2003).

The Belgian government hopes to create 25,000 jobs by the end of 2005 when a full evaluation of this scheme will be conducted. At present, however, what evaluations are available suggest that this scheme is an effective mechanism for stemming the use of underground work. The current system of service vouchers was implemented in May 2003. By July 2003, in Flanders alone, 10,000 checks had been sold (in three months) creating the equivalent of 350 jobs (Smets, 2003) and in November 2003, six months after its launch, the system of service vouchers had created 2,000 jobs (Rubbrecht and Nicaise, 2003).

In 2004, the vouchers previously provided under the PWA scheme to private households have been transferred into this service voucher scheme. All other purchasers remain in the PWA. In total, more than 40,000 users have bought 1.7 million vouchers from 600 certified companies, which has created 4,200 jobs (Renooy et al, 2004). Given that some 44 per cent of work in the PWA scheme (which includes government departments and private firms as well as private households) was previously conducted in the underground economy, this means that the equivalent of at least 1,848 jobs have been transferred from the underground economy into the formal realm. In reality, however, and given that private households would have been more likely to source services on an underground basis than government agencies and private firms (see Williams, 2004a), it seems likely that the total number of jobs transferred from the underground to the formal economy by this service vouchers scheme will have been much higher.

To finance the creation of 25,000 jobs in this scheme, the federal government has allocated €91 million in its 2004 budget and this will increase to €354 million Due to the recovery of some of these costs through tax and social security contributions, the real costs for the government are limited to €17 million in 2004 and €163 million euro in 2007 (Rubbrecht and Nicaise, 2003).

The status of the employee in this system is also determined by the federal government and is a compromise between flexibility and social guarantees for the employee. Unemployed people who have worked for six months in the system have to receive an employment contract of unlimited duration for a minimum of a part-time position. In the first six months, there is no commitment on the duration of the contract, nor the minimum number of hours worked.

Moreover, and akin to PWA, the service vouchers scheme has a confined range of activities that can be sold for vouchers. Primarily, it is intended to provide domestic work, namely cleaning, ironing, shopping and transport for people with mobility difficulties. However, every region has the freedom to decide whether to use the service vouchers scheme to recompense activity in other realms (e.g., child-care and elder-care). In this context, the Flemish authorities have already announced that they will be extending the scheme to include care for very young children.

Each regional government also has the freedom to modify the conditions of the employment contracts. For example, although those

provinces that wish to exclude temp agencies cannot do so, they can for example oblige service firms to give their workers employment contracts for at least a part-time job from the first working day. This way of working is less attractive for private firms (e.g., temp agencies) and may well discourage them from joining such schemes.

Employment on open-ended contracts for a minimum of half normal working hours is now considered the norm for work under this scheme. However, the agreement provides for a more flexible system during the first few months of employment. Fixed-term contracts involving a minimum of three consecutive working hours per day may be offered during the first six months of involvement in the scheme to workers in receipt of complementary social security benefits, while fixed-term contracts with no minimum number of hours may be concluded during the first three months for workers who do not qualify for complementary benefits.

In sum, although the use of service vouchers is relatively new and the detail continuously evolving regarding the tasks that may be undertaken and the employment contracts of those working in this scheme, the initial reports suggests that this initiative has been successful in stemming the use of underground labor in the domestic services sphere in Belgium. Although the decision on whether to replicate this scheme elsewhere should perhaps wait until the full evaluation has been conducted in late 2005, the preliminary evaluations intimate that this is a scheme that might well be considered by other western nations for adoption.

Cheque Emploi Service (France)

In France, in order to combat the use of underground labor in the domestic services sphere (e.g., as cleaners), the government in 1993 introduced the Cheque Emploi Service (CES) scheme. The main point of this scheme was to greatly simplify the process of hiring and paying a domestic worker and making social security contributions in a country infamous for its red tape. In this CES scheme, anybody can legally employ a domestic worker, without complying with the extensive administrative procedures and labor contracts usually required in French law, by paying his or her salary using a system of checks, which can be purchased at the local bank. The benefit for the purchaser is that

they can claim an income tax reduction of 50 per cent of the sum spent on purchasing the checks. For the supplier, meanwhile, the salary cannot be less that the national minimum wage, plus a 10 per cent indemnity for paid leave.

This demand-side incentive approach is thus a targeted response to the notion that the regulations and legislation required in order to employ formal workers results in many people employing somebody on an underground basis. Its approach is to target a sector, namely household services, in which the employment of underground laborers is rife and to simplify the formalization procedures in order to shift work from the underground into the formal economy. The way in which it has achieved this is by introducing a system of checks that can be used to purchase domestic services and the incentive provided to the customer/employer of such labor is that 50 per cent of the cost can be claimed back on one's income tax return. The net outcome, in effect, is that the French government has at least leveled the playing field for customers/employers so far as the benefits of using underground and formal labor is concerned in the domestic services sphere so as to encourage them to use formal labor.

By the end of 1995, just one year after its introduction, there were 250,000 permanent users of CES registered (Finger, 1997), 160,000 being new customers of domestic services. Indeed, by 2002, the number of households legally using domestic service workers had grown to 800,000 (Adjerad, 2003). In this sense, it appears that the CES scheme has helped formalize undeclared labor in the domestic services realm.

According to Labruyere (1997), after one year of experimentation (through 1995), it was used by nearly 25 per cent of household employers and has at the same time contributed to their increasing numbers. However, by May 1996, according to Finger (1997), the CES had created only approximately 40,000 full-time equivalent jobs (if the number of jobs are divided by the 39 hours normal working week at the time). At first glance, this appears a poor result given the loss of €91.5 million (600 million FF) in taxes. Even the €65.5 million increase in social security contributions (430 million FF) cannot make good the public deficit of some €1,200 per job created.

The latest figures put the number of full-time equivalent jobs created at some 88,000 (Adjerad, 2003), displaying the continuing growth in this scheme. As such, it appears either that this scheme has led to a

commodification of domestic services provision that was previously conducted on an unpaid basis (e.g., by household members) or that it has legalized some of the domestic service provision that used to take place on an underground basis. The reality is probably a mix of the two.

By 2002, the CES was continuing to grow and the number of users on both the demand and supply side had risen steadily since its creation. Almost one-third of the users were pensioners. Converting the hours worked into full-time equivalents, steady growth can be seen since 1996 (see Table 1).

Table 1
The Development of the Cheque Emploi Service Scheme

Year	No. of employers	Employers aged over 70	No. of employees	Hours worked	FTEs
1998	469,000	170,000	370,261	100,963,905	50,482
1999	556,000	193,000	344,389	124,739,193	62,370
2000	564,757	217,282	369,433	138,993,000	69,497
2001	666,228	251,036	381,993	153,756,612	76,879
2002	765,411	252,585	425,845	175,542,612	87,771

Source: Adjerad (2003)

On the whole, those participating in this scheme as consumers tend to be the relatively affluent, leading to an accusation that this is a tax break for the wealthy when employing domestic cleaners with all of the issues regarding social divisions that this results in. The CES, in addition, did not resolve the problem of quality control, nor did it contribute to the creation of a commercial market, as the CES only settles transactions between private individuals. As Le Feuvre (2000: p.1) concludes, 'The CES service cheques proved to be highly successful, particularly with the highly skilled, two-income households and the active and relatively affluent elderly population'.

According to Le Feuvre (2000), their impact on the underground economy in domestic services has been impressive. An estimated 20 per cent of those working in the underground economy are now officially employed. Indeed, by 2002, 53 per cent of all formal employers of domestic workers used the CES scheme (Adjerad, 2003) and this scheme is continuing to become more widespread.

Titre Emploi Service (France)

In 1996, a similar scheme was created to the CES, namely the Titre Emploi Service (TES) scheme. The essential difference between the TES and the CES is that the private person does not employ the domestic worker. Instead, the worker is employed by a business that acts as a service provider. The worker receives the TES from his or her employer as part of their salary. Hence, unlike the CES, the TES is not for sale in a bank.

Instead, vouchers in the TES can be obtained through work councils, regional and local authorities and welfare associations. These institutions provide the vouchers to their employees and members to enable them to hire formal domestic help. In consequence, rather than directly hiring domestic workers, as in the CES, in the TES, they are indirectly employed and this system is viewed as offering better guarantees both to workers (who receive support from the organization) and users (who are guaranteed better quality since the organizations that provide services are subject to government approval).

As Table 2 displays, six years after its introduction, in 2002, a total of 1.3 million TES had been used, representing a value of €15.7 million, which is roughly equivalent to the creation of 1,000 full-time equivalent jobs in this domestic services sphere (Adjerad, 2003). This is much less used than expected and it has not generated the volume of regular work expected. Indeed, it is just 5 per cent of the initially expected 20,000 full-time equivalent jobs.

Table 2
Growth of the Titre Emploi Service (TES)

	No. of vouchers sold	Value (in euros)	Average value in euros
1999	557,081	5,776,160	10.37
2000	863,889	9,485,949	10.98
2001	999,970	11,425,633	11.43
2002	1,255,148	15,668,315	12.48

Source: Adjerad (2003)

One of the principal reasons for the slower than expected expansion of the TES scheme is that it has been difficult to identify

sufficient service providers. In other words, there is a supply-side problem. This is because in the domestic services sector in France, provision tends to be fragmented and there are few organized businesses in this sector. The outcome is that organizations wishing to use the TES scheme have had problems finding providers and even when providers have been identified, there have been problems identifying both the services that they propose to deliver as well as the services which organizations within the scheme wish to receive (Guimiot and Adjerad, 2003).

Furthermore, it has not been the case that this more macro-level approach has guaranteed a better quality of work than the one-to-one relationship promoted under the CES scheme. This is because the direct relationship between the supplier and customer established under the CES scheme has tended in practice to prove more flexible with regard to the content of the work to be done and better nurtured a relationship based on mutual trust, which is important in the case of service provision in the domestic sphere (e.g., Renooy, 1990). The TES scheme has been unable to replicate the nurturing of this more informal side of the exchange relationship. The result is that TES service providers have had difficulties meeting certain needs on the demand side, such as urgent household support arising from hospitalization or small emergencies involving household maintenance. The formalization of the competencies requested by service providers is not conducive to the nurturing of the flexible employment contracts sometimes required in this domestic services sphere.

Moreover, one of the intentions underpinning the creation of the TES scheme was to provide access to formal domestic services for those groups who would not normally use such provision. TES, however, has not been effective in generating demand from this group. One of the main reasons are the cultural barriers that exist amongst these groups to the use of formal domestic service provision and the fact that the most frequently offered service, cleaning activities, is not a priority demand for them. Diversification of the breadth of the service provision available will be required to accomplish the needs of this category. For example, basic home improvement and maintenance tasks might be included within the TES scheme in order to meet the needs of this client group.

Finally, there remains an awareness issue concerning such schemes. As Le Feuvre (2000: p.2) points out, there remains an ignorance of both the CES and TES schemes as well as the financial advantages of

using them. This lack of awareness results in households opting for self-provisioning rather than availing themselves of the available commercial services.

Discussion and Conclusions

In sum, throughout most advanced market economies, the focus of public policy until now has been on using supply-side deterrents to combat the underground economy. Rather less emphasis has been put on developing either various incentives to help suppliers make the transition from the underground to the formal economy, or intervening in the demand-side to combat underground work. On the latter, in theory, one could introduce either deterrents to push consumers towards using formal services or incentives to make the formal sphere more attractive to consumers. In this paper, it has been this latter demand-side incentives approach that has been the focus of enquiry.

To evaluate possible public policy approaches that might be adopted in advanced market economies to provide demand-side incentives in order to combat the underground economy, the experiments taking place in Belgium and France with voucher and check schemes have been evaluated. Reviewing the use of Local Employment Agencies and Service Voucher schemes in Belgium and the *cheques emploi service* (CES) and *titre emploi service* (TES) schemes in France, the intention has been to evaluate the feasibility and effectiveness of using vouchers/checks as incentives for consumers to use formal rather than off-the-books provision in the domestic services realm where underground work is rife.

This has revealed that it is wholly feasible for such demand-side incentives to be introduced in advanced market economies on a scale that is sufficient to make significant inroads into the underground economy. Although these schemes in Belgium and France have suffered from problems that hindered their progress in tackling the underground economy, they all in their different ways have managed to transfer domestic service provision out of the underground economy and into the mainstream formal economy by making it beneficial for consumers to use formal provision. In theory, in consequence, there is no reason why such demand-side incentives cannot be replicated in other advanced market economies.

If this is to be done in an effective manner, however, then firstly the lessons from France and Belgium will need to be learned and secondly, the experiences of other countries in attempting to implement such schemes needs to be here considered. In this final section, therefore, each is considered in turn.

Starting with a brief review of the lessons learned from France and Belgium, this paper has revealed that although all of these initiatives appear to have been relatively successful at transferring work in the domestic services realm from the underground to the mainstream formal economy, problems have been experienced that need not be repeated. Local Employment Agencies, for example, can be criticized for obliging the unemployed to work on such schemes and thus read as a form of 'workfare'. If such an initiative is promoted primarily to eradicate the underground economy, however, there is no reason why participation should be compulsory for the unemployed or even suppliers only selected from the long-term unemployed. Nor is there any reason why the list of tasks should not significantly expand to incorporate for example, a range of home improvement and maintenance services. Similar lessons arise from the evaluation of the service vouchers scheme in Belgium. In France, meanwhile, the CES and TES experiments once again reveal the need to consider opening up the range of services on offer as well as the labor supply problems, albeit of a different sort, that sometimes arise in these schemes. If the range of services on offer expanded, then the suggestion is that a more representative range of socio-economic groups might demand services from these schemes (e.g., if essential home maintenance and repair work was offered). What seems certain from France, moreover, is that the more flexible CES scheme based on one-to-one exchanges is more popular and successful than the TES scheme that attempts to add further layers of formalization into the design.

When introducing such demand-side incentives into other advanced market economies, however, it is not only the lessons from France and Belgium that need to be considered. The previous experiences of other countries in attempting to implement similar demand-side incentive schemes need to be also considered.

In Finland, for example, in October 1997, an experiment was begun to subsidize domestic work in the form of lower taxes for customers (rather than checks). Originally, it was anticipated that some 10,000-12,000 new jobs would be created. However, only 208 full-time equivalent new jobs were created in 1998 and fewer than 400 in 1999.

About 24,000 households used the scheme. By April 1999, only 17 million FIM had been used out of the 200 million FIM allocated to this program's first two years. One of the principal reasons for its lack of success was that the subsidy was insufficient to make the sourcing domestic services from formal sources cheaper than underground services (Cancedda, 2001: p. 29). The lesson, therefore, is that unless governments in advanced market economies make the incentive sufficient enough to encourage households to formalize provision, then such demand-side experiments are likely to be ineffective. This, of course, raises problematic issues for governments. For them, there is a need to calculate the real cost of the initiative by calculating the cost of the incentive and the return in terms of additional taxes paid and reduced social security payments. The tendency will be to keep the cost of such an initiative to the minimum by providing as low an incentive as possible. The problem, however, as seen in Finland, is that the incentive offered can sometimes be too low to encourage consumers to make the transition.

In Germany, similarly, the same problems were confronted when a 'maid's concession' was introduced which allowed families to employ domestic workers and deduct from their taxes the cost of doing so up to a maximum of 18,000 DM. This measure did not produce the predicted 100,000 new jobs in the sector. In fact, only 1,200 additional individuals were employed because the tax break was again insufficient, except for higher-income families paying the highest band of income tax. Household checks were also another failed experiment in Germany. Instead of the 500,000 expected jobs, only 4,500 checks were used in 1997. This is because the checks were only designed to guarantee social security benefits, and did not allow workers to receive a net wage comparable to their earnings in the underground economy (Cancedda, 2001). In consequence, the lesson is that the price of vouchers needs to be set at a level which gives clear advantages not only for customers using formal rather than underground labor but also for suppliers shifting from the underground to the formal sphere. Unless the pricing is set at an appropriate level, voucher schemes are unlikely to be successful at shifting work from the underground to the formal economy.

When attempting to decide on the incentive necessary to transfer work from the underground to the formal economy, moreover, some consideration is required of whether there might need to be intra-national geographical variations in the level at which it is set. This is because there may be regional and/or local variations in the differential wage rate for underground and formal labor, not least due to the over-

heating of demand and/or supply shortages. Some regional and/or local flexibility in the level of incentive, wherever possible, might therefore need to be built into the design of such demand-side incentive schemes.

Furthermore, until now, these demand-side incentive schemes have tended to concentrate on a relatively narrow range of activities in the domestic services realm. Consideration might be given elsewhere to extending the activities for which vouchers/checks are available to suit local, regional and national circumstances. According to Pedersen (2003), for example, underground work is equivalent to 25 per cent of the formal hours worked in the construction industry in Denmark and the lesson from other countries is that such off-the-books labor is particularly concentrated in the home improvement and maintenance sector where the opportunities for providing underground work are somewhat greater (see Williams, 2004c). In theory, the rationale for not extending voucher schemes to this sector is that it might substitute for formal jobs. In reality, however, it appears that a large proportion of this sector is occupied by the underground economy so there seems to be a strong case for including such a sphere of activity within such schemes. Before doing so, however, further research is required to estimate the proportion of work in particular aspects of the home improvement and maintenance sphere that is conducted on an underground basis, so as to evaluate whether it is appropriate to extend such a voucher scheme to these sectors of the economy and which sub-sectors in particular.

In sum, this paper has revealed that even if supply-side deterrents have been predominantly used in most advanced market economies to tackle the underground economy, there is no reason why in future measures should continue to be confined to this narrow approach. Here, it has been shown that in France and Belgium, demand-side incentive measures that use vouchers/checks to encourage consumers to make the transition from the underground to the formal economy have managed to make strong in-roads into stemming the use of underground labor in the domestic services sphere. It is now perhaps time that other advanced market economies started to consider extending the types of method they use. Indeed, unless they do so, it is highly unlikely that they will achieve their objective of moving this underground endeavor into the legitimate realm.

References

Allingham, M. and A. Sandmo. 1972. "Income tax evasion: a theoretical analysis". Journal of Public Economics. 1: 323-38.

Adjerad, S. 2003. Dynamisme du secteur des employs familiales en 2002. Premieres Informations, decembre nr 51.1. Paris: DARES.

Cancedda, A. 2001. Employment in Household Services. Dublin: European Foundation for the Improvement of Living and Working Conditions.

De Sutter, T. 2000. Het Plaatselijk Werkgelegenheidsagentschap: regelgeving en praktijk. Leuven: HIVA.

European Commission. 1998. On Undeclared Work COM (1998) 219. Brussels: Commission of the European Communities.

European Commission. 2003. European Commission proposes 10 priorities for employment reform. Press release 0111. Brussels: European Commission.

Falkinger, J. 1988. "Tax evasion and equity: atheoretical analysis". Public Finance. 43: 388-95.

Finger, D. 1997. Service Cheques in Europe: a model for Germany?. Berlin: Wissenschaftszentrum.

Grabiner, L. 2000. The Informal Economy. London: HM Treasury.

Guimiot, A. and S. Adjerad. 2003. Le Titre Emploi Service: en mal de success. Premieres Dares, Septembre 2003, no. 39.1. Paris: DARES.

Hasseldine, J. and L. Zhuhong. 1999. "More tax evasion research required in new millennium". Crime, Law and Social Change. 31: 91-104.

International Labor Office. 2004. Local Employment Offices (ALE) (Agences locales pour l'emploi). Last accessed 1st November 2004. (www.logos-net/ilo/150_base/en/init/bel_7.htm).

International Labor Office. 2002. Decent work and the informal economy. Geneva: International Labor Office.

Labruyere, C. 1997. Services for persons at home: issues of professionalization. Paris: Centre d'Etudes et de Recherches sur les Qualifications.

Le Feuvre, N. 2000. Employment, Family and Community Activities: anew balance for men and women- summary of the French national report. Dublin: European Foundation for the Improvement of Living and Working Conditions.

Milliron, V. and Toy, D. 1988. "Tax compliance: an investigation of key features". The Journal of the American Tax Association. 9: 84-104.

Pedersen, S. 2003. The shadow economy in Germany, Great Britain and Scandinavia: a measurement based on questionnaire surveys. Copenhagen: The Rockwool Foundation Research Unit.

Portes, A. 1994. "The informal economy and its paradoxes". In N.J. Smelser and R. Swedberg (eds.). The Handbook of Economic Sociology. Princeton NJ: Princeton University Press.

Renooy, P., S. Ivarsson, O. van der Wusten-Gritsai and R. Meijer. 2004. Undeclared Work in an Enlarged Union: an analysis of shadow work - an in-depth study of specific items. Brussels: European Commission.

Renooy, P. 1990. The Informal Economy: meaning, measurement and social significance. Amsterdam: Netherlands Geographical Studies Association.

RVA. 2001. De Plaatselijke Werkgelegenheidsagentschappen. Beschrijvende analyse van 1995-199. Brussels: RVA.

Ruubrecht, I. and I. Nicaise. 2003. Service vouchers to create 25,000 legal jobs. Brussels: European Employment Observatory.

Sandford, C. 1999. "Policies dealing with tax evasion". In E. Feige and K. Ott (eds). Underground economies in Transition: unrecorded activity, tax evasion, corruption and organized crime. Aldershot: Ashgate.

Smets, J. 2003. Alle hens aan dek voor werk. Wergelegenheidconferentie, September 19th.

Thomas, J.J. 1992. Informal economic activity. Hemel Hempstead: Harvester Wheatsheaf.

Williams, C.C. 2004a. Cash-in-Hand Work: the underground sector and the hidden economy of favours. Basingstoke: Palgrave Macmillan.

Williams, C.C. 2004b. "Cash-in-hand work: unraveling underground employment from the moral economy of favours". Sociological Research On-Line. 9: 1-18.

Williams, C.C. 2004c. Small Businesses in the Informal economy: making the transition to the formal economy. London: Small Business Service.

Williams, C.C. 2004d. "Harnessing enterprise and entrepreneurship in the underground economy". International Journal of Economic Development. 6: 23-53.

Williams, C.C. and J. Windebank. 1998. Informal Employment in the Advanced Economies: implications for work and welfare. London: Routledge.

Williams, C.C. and J. Windebank. 2001a. Revitalizing Deprived Urban Neighbourhoods: an assisted self-help approach. Aldershot: Ashgate.

Williams, C.C. and J. Windebank. 2001b "Re-conceptualizing paid informal work: some lessons from English cities". Environment and Planning A. 33: 121-140.

Biographical Sketch

Jan Windebank is Senior Lecturer in French Studies and Associate Fellow of the Political Economy Research Center (PERC) at the University of Sheffield. Her recent books include with Abigail Gregory, *Women and Work in France and Britain* (2001, Palgrave Macmillan) and with Colin Williams, *Poverty and the Third Way* (2003, Routledge) and *Informal Employment in the Advanced Economies* (1998, Routledge).