

## Social Cohesion and Development

Vol 14, No 2 (2019)



### Social security compliance in times of crisis. Evaluating the factors for non-compliance in the HORECA sectors in Greece

*Evangelos Koumarianos, Apostolos Kapsalis, Nikolaos Avgeris*

doi: [10.12681/scad.25742](https://doi.org/10.12681/scad.25742)

Copyright © 2021, Evangelos Koumarianos, Apostolos Kapsalis, Nikolaos Avgeris



This work is licensed under a [Creative Commons Attribution-NonCommercial-ShareAlike 4.0](https://creativecommons.org/licenses/by-nc-sa/4.0/).

### To cite this article:

Koumarianos, E., Kapsalis, A., & Avgeris, N. (2021). Social security compliance in times of crisis. Evaluating the factors for non-compliance in the HORECA sectors in Greece. *Social Cohesion and Development*, 14(2), 105–122. <https://doi.org/10.12681/scad.25742>

# Social security compliance in times of crisis. Evaluating the factors for non-compliance in the HORECA sectors in Greece

Evangelos Koumarianos, *Panteion University*  
Apostolos Kapsalis, *University of Peloponnese*  
Nikolaos Avgeris, *University of Manchester*

## Η συμμόρφωση στους κανόνες κοινωνικής ασφάλισης σε περίοδο κρίσης. Αξιολόγηση των παραγόντων μη συμμόρφωσης στον κλάδο Επισιτισμού-Τουρισμού στην Ελλάδα

Ευάγγελος Κουμαριανός, *Πάντειο Πανεπιστήμιο*  
Απόστολος Καψάλης, *Πανεπιστήμιο Πελοποννήσου*  
Νικόλαος Αυγέρης, *Πανεπιστήμιο Μάντσεστερ*

### ABSTRACT

This article studies the impact of the economic recession, labor market deregulation and social security reforms on the level of non-compliance in Greece. It examines the theoretical framework of non-compliance in post-industrial economies, as well as the design of social security systems in preventing contribution evasion. To assess the evolution of non-compliance, especially under conditions of crisis, we examine the results of the INE-GSEE survey on the HORECA sector. According to our research findings, employers follow non-compliant practices in order to maximize their profits, taking advantage of the precariousness of workers, whereas workers accept or collude with non-compliance as a survival tactic within a highly competitive environment. Non-compliance in the Greek labour market appears to be a multi-factor phenomenon that cannot be explained exclusively in terms of a unique perspective.

**KEY WORDS:** Non-compliance, contribution evasion, HORECA sector

### ΠΕΡΙΛΗΨΗ

Το άρθρο αυτό ερευνά τις επιπτώσεις της οικονομικής ύφεσης, της απορρύθμισης της αγοράς εργασίας και των μεταρρυθμίσεων της κοινωνικής ασφάλισης στον βαθμό μη συμμόρφωσης στους κανόνες της κοινωνικής ασφάλισης στην Ελλάδα. Εξετάζει το θεωρητικό πλαίσιο της μη συμμόρφωσης στις μεταβιομηχανικές κοινωνίες και την πρόληψη της εισφοροδιαφυγής σε σχέση με το σχεδιασμό συστημάτων κοινωνικής ασφάλισης. Η εξέλιξη του φαινομένου της μη συμμόρφωσης σε περίοδο κρίσης αξιολογείται εξετάζοντας τα αποτελέσματα της έρευνας του ΙΝΕ-ΓΣΕΕ στον κλάδο επισιτισμού-τουρισμού. Σύμφωνα με τα ευρήματα της έρευνας, οι εργοδότες υιοθετούν πρακτικές μη συμμόρφωσης για να μεγιστοποιήσουν το κέρδος τους εκμεταλλευόμενοι την επισφάλεια των εργαζομένων, ενώ οι εργαζόμενοι αποδέχονται ή συναινούν σε αντίστοιχες πρακτικές ως στρατηγική επιβίωσης σε ένα ιδιαίτερα ανταγωνιστικό περιβάλλον. Το φαινόμενο της μη συμμόρφωσης στην ελληνική αγορά εργασίας εμφανίζεται ως ένα πολυπαραγοντικό φαινόμενο που δεν μπορεί να ερμηνευτεί αποκλειστικά από μία και μοναδική προσέγγιση.

**ΛΕΞΕΙΣ-ΚΛΕΙΔΙΑ:** Μη συμμόρφωση, εισφοροδιαφυγή, κλάδος επισιτισμού-τουρισμού

## 1. Introduction: Description of objectives and methodological issues

**N**on-compliance with social security or labor rules is a phenomenon of growing concern for researchers and policy makers that leads to unfair economic competition and the “opportunistic actions of employers to reduce labour costs” (Goveia & Sosa, 2017, p. 90). Assuming that during an economic crisis competition accentuates, non-compliance is expected to rise in times of economic crisis as well, thus reducing social security protection, compromising financial sustainability and leading to a disrespect for decent working conditions. Tackling issues of non-compliance is a “wicked” endeavor, according to Williams (2014), in the sense that it involves complex problem-solving along with their interrelated factors and unintentional side-effects. “Wicked” problems are difficult to formulate and there is no definitive solution to them. They are also interrelated with other problems and implicate various actors (Rittel & Weber, 1973). Therefore, articulating suitable measures and combining them with other policy measures constitute delicate tasks that should be adjusted for each labour market separately.

This study attempts to examine the causes of non-compliance practices in Greece. Greece has been viewed since 2009 as an economy that has experienced deep economic recession, which has deregulated its labour market and profoundly reformed its social security system. The estimated size of the Greek informal economy during the period 2003-2017 steadily decreased from 28.2% to 21.5% (Schneider, 2017). According to Medina and Schneider (2018) this decrease was smaller in 2018, from 26.1% to 21.5%, although still leaving Greece well above the OECD average (11.6%).

In an effort to contain the expansion of the informal economy and wage the fight against undeclared work, appropriate measures must be designed. A deeper understanding of the factors that generate non-compliance practices and behaviours is of outmost importance in order to design and implement appropriate policies, whether they entail prevention, deterrence or the redesigning of incentives and motivations. To evaluate non-compliant behaviour in the context of labour markets and social security systems in deep crisis, Sections 2, 3 and 4 provide an overview of the different approaches towards the informal economy and the literature on contribution evasion. This sets the theoretical framework to discuss the results of a survey conducted for the Research Institute of the General Confederation of Greek Workers (INE GSEE) in Section 5. The questionnaire for this research was designed to target workers in the HORECA sectors. These sectors are of considerable interest because comprise the third largest sector of workers in Greece: they employ up to approximately 400,000 workers during the summer months, according to ELSTAT (2017-2018). Furthermore, they have a large enough demographic range and they present the largest number of social security and labour violations (SEPE, 2018; ILO, 2016).

## 2. Different approaches to non-compliance and theoretical framework

**W**ithin a non-compliance approach, error, evasion and fraud can be tackled through prevention, detection and deterrence (Goveia & Sosa, 2017). In terms of contribution evasion, non-compliance normally refers to non-registration according to social security rules and the

underreporting or misreporting of earnings or the nature of the work offered. Non-compliance practices are considered to be a sign of labour market flexibility and insecurity and are therefore expected to apply mostly to more insecure categories of workers, such as young workers or migrant workers, the low paid and those in non-standard employment. The more flexible and insecure a labour market is, the more non-compliance practices will spread.

Different remedies have been proposed as solutions, reflective of the acknowledged causes. The modernization perspective considers the informal economy as a side effect of an under-developed economy. The informal economy is viewed as a traditional sector that has not yet been modernized (Geertz, 1963), based on the assumption that the informal economy is larger in less developed economies, even though the informal economy is not a by-product of under-development. An informal economy is, rather, an inherent aspect of market economies and the deregulation of globalized economies (Castells & Portes, 1989; Davis, 2006). Beyond the legal approach that defines informality as not formal work (Daza, 2005), informality is an intrinsic part of the reduction of costs, the intensification of national and international competition and, finally, the flexibilization of production and work methods (Dibben & Williams, 2012, p.566).

The neoliberal approach recognizes regulation as a burden to economic competition and the labour market (Becker, 2004; De Soto, 2001; London & Hart, 2004). Consequently, undeclared earnings and non-compliance could be remedied through deregulation (De Soto, 1989) and the distinction between compliance and non-compliance is meant to become obsolete or at least less relevant, since there will be no social security and labour rules left to comply with (Williams, 2014). The neoliberal perspective incriminates high taxation, corruption and excessive state regulation for the extent of the informal economy. According to this perspective, the real problem is the extent of regulation and not informality (De Soto, 1989) and non-compliance practices as well as informal economy trends "are a rational response by micro-entrepreneurs to over-regulation by government bureaucracies" (Becker, 2004, p.10).

Another approach is based on the classical utilitarian theory. Stake holders are viewed as rational actors that maximize their utility between the cost of non-compliance and the gains of compliance, a balance connected to the probability of inspection controls and the severity of sanctions (Becker, 1968). A further approach focuses on the lack of deterrence disincentives and non-compliant behavior, where the advantages of contribution evasion are greater than the expected cost of inspection policies (Allingham & Sandmo, 1972; Grabiner, 2000). The deterrence approach focuses on the cost side of the equation, increasing the probability of control and the severity of sanctions (Grabiner, 2000) in the search for a kind of negative reinforcement (Williams, 2014). The approach that focuses on the shift from non-compliant to compliant practices (Evans et al., 2006; Williams & Windebank, 1998) relies on the benefits this brings for businesses and workers (ILO, 2002; Adom & Williams, 2014). Respect for the quality of employment is maintained and compliance with social regulation has a positive impact (Gallin, 2001; Polese, 2014). This is thus another approach that entails positive direct controls that render declared work favorable for workers (Williams, 2006; Renooy et al., 2004).

Besides direct measures, indirect measures are proposed that are not based on self-motivation according to one's interest, but on societally-directed motives such as morality, the perception of justice and redistribution or reciprocity (Alm, 2011). This approach considers stakeholders as social actors and counts on their cooperation (Williams, 2014, p.20). The disparity between formal and informal values and norms can be challenged by adapting formal institutions to the values and norms of society (Murphy, 2008). Indirect measures attempt to

align what legal entities define as acceptable and what could potentially be socially acceptable. Regarding tax evasion as well as social contribution evasion, the existence of redistributive justice for citizens, that is to say taxes and social contributions, are deemed just costs for the public goods and services provided by the government or social security scheme (Richardson & Sawyer, 2001; Kirchgassner, 2011). Participants are expected to be compliant if the tax or social security system is perceived to be fair, whereas in a system that is perceived as unfair non-compliance is expected to be high (McGee, 2005).

In contrast, the political economy perspective explains the expansion of non-compliance as a product of inadequate state regulation and intervention. This perspective considers that the informal economy is “an integral component of the new down-sizing, subcontracting and outsourcing practices emerging under deregulated global capitalism” (Williams, 2015). Undeclared work provides the economy with a non-institutional method of flexibilization of production and cost reduction. Undeclared work is therefore viewed as another form of unregulated low-paid and insecure work that is performed by workers as a survival tactic (Davis, 2006; Gallin, 2001). Non-compliance is a result of insufficient intervention in work and social security arrangements (Slavnic, 2010). According to this perspective, reinforcing labor market intervention and social protection can minimize non-compliance.

As these actors develop strategies beyond the reach of formal regulatory frameworks in order to cope with their vulnerable situation, they contribute to a reproduction of irregularity that results in growing informalization (Slavnic, 2010, p. 4), because the informal economy is not in principle a marginal economic phenomenon nor a negation of the formal economy (Harding & Jenkins, 1989). In fact, the informal economy can only be understood in relation to the formal economy. The economic and institutional opportunities for the expansion of the informal economy may be the outcome of the composition of advanced economies. Economic restructuring is linked to the decline of the manufacturing-dominated industrial complex of the post-work era and the rise of a service-dominated economic complex (Sassen, 1994). This new complex is oriented towards global markets and generates high profits (Sassen, 1994). The expansion of the informal economy should not be viewed as an anomaly but as a necessary outcome of advanced capitalism (Sassen, 1994). Social security and labour regulations were designed according to the old manufacturing-dominated industrial complex and the expansion of the informal economy leads to economic processes that diverge structurally from the old model. As Sassen observes: “The shape of the informal economy changes according to the opportunities created and constraints imposed by the formal economy” (Sassen, 1994, p.2292). Workers in low profitability sectors are precarious and consequently inclined to evade social and labour legislation in order to reduce operating costs and become more competitive. The informalization of the economy is therefore a result of the need for businesses to reduce costs and to increase flexibility and profit margins (Sassen, 1994, p.2299).

Economic informalization is a consequence of economic, political, and social changes which are often seen as “post-Fordist transformations” (Sassen, 1994; Slavnic, 2010). Traditional regulatory frameworks are considered obstacles to capital accumulation (Slavnic, 2010). These processes of flexibilization and deregulation were promoted by state intervention (institutional deregulation) and by state abstinence (deregulation through non-compliance). From one point of view, informal work signifies a clear breach with state regulations although from another point of view non-compliance signifies continuity with the trends towards the deregulation and flexibilization of the formal economy, from less regulation to no regulation. The weakest workers are

mostly affected by the informalization of work and they “become both object and means of the flexibilization strategies” (Slavnic, 2010, p.15). They develop survival strategies that reproduce the informalization process. The process of informalization is directly associated with the exacerbation of economic exploitation, social and institutional exclusion (Schierup et al., 2006). In such circumstances, engaging in the informal economy is a kind of adjustment or survival strategy for those economic actors who otherwise would not be able to survive (Slavnic, 2010, p.6).

### **3. Factors of non-compliance related to the design of social security institutions**

**I**t is believed that in order to evade social insurance contributions employers usually collude with workers and that compliance success relies heavily on participants (McGilivray, 2001). Employers have several incentives for evading social insurance contributions, but the principal reason is to increase their income after taxes and contributions (McGilivray, 2001, p. 4). Another reason can be traced to the complexity of social insurance and labour law procedures, given the low risk of being caught due to inefficient detection mechanisms and the severity of the penalties imposed by inspection authorities (McGilivray, 2001, p. 5-6). Prioritization of current needs in the expenses set aside for future use or of unforeseeable needs might lead to non-compliance practices, but this behavior also depends on the adequacy of (net) wages, the level of social insurance contributions and the characteristics of the insured social risks. In labour markets where wages are considered low, employers are thus supposed to have an additional incentive to evade social insurance contributions in order to meet their pressing current needs, in particular if the level of social insurance contributions is considered relatively high. This tendency is assumed to be accentuated for long-term risks in particular, such as old-age insurance, that facilitate short-term behavior (McGilivray, 2001). In contrast, for health insurance contributions, employers are expected to be less eager to lose their acquired rights.

Scheme design features are also believed to be crucial to the incentives of employers not to comply with social insurance and labour regulations. McGilivray mainly distinguishes social insurance pension schemes by the tight or loose link that is fixed between old-age contributions and retirement benefits, which is another important factor of non-compliance. Following this criterion, he assumes that the tighter the link the stronger the incentive to contribute for employers (2001, p.6). The first element of pension scheme design is the salaries to be included in the calculation of pension replacement rates. Final salary schemes provide little incentive for the full declaration of earnings. They are thus liable to irregular manipulation and may result in underreporting of earnings. Instead, calculation formulae that incorporate the entire lifetime earnings are considered to produce individual incentives for the regular reporting of earnings. These characteristics are by default incorporated into DC pension schemes, whereas DB schemes are not considered suitable for safeguarding compliance.

Depending on the design features of social insurance pension schemes, non-compliance and contribution evasion have diverging effects on different actors. In DB pension schemes, contribution evasion normally leads to the fixing of higher contribution rates, the fixing of lower replacement rates or both by the scheme's administration in order to assure its financial sustainability. The scheme's administrators bear the risks, whereas adjustments weigh on all participant contributors,



pensioners or both irrespective of their compliant or non-compliant behavior. On the other hand, DC programs, notional or funded, by default reflect the risk of inadequate pensions on workers according to their compliant or non-compliant practices. Non-reporting or under-reporting of earnings leads to lower pension rights or no insurance-based pension rights at all. Normally, the scheme's administrators are not faced with the financial sustainability risk that is embedded in the calculation formula, yet pension schemes are nevertheless expected to assume more responsibilities through the recourse to minimum pension financing (Arenas de Mesa, 2000).

Bejakovic (2016) considers that contribution evasion in Croatia is associated with the loose link between contributions and benefits. However, this "rational choice" assumption is not verified in practice (Schulthess, 1998, p. 139; Mesa-Lago, 1998, p.782). In fact, the experience acquired by pension reforms in Latin America implies the opposite results (Gillion et al., 2000, p. 255), leading the research into the major factors for contribution evasion practices back to the preference for short-term benefits and the maximization of current earnings (McGilivray, 2001, p. 7).

Minimum pensions are considered as another element of pension schemes that are related to the accentuation of non-compliance practices. Minimum pension income guarantees aim at eliminating the risk of pensioner poverty and mitigating pension income inequalities at the lower level. According to this approach, minimum pensions limit the need for workers to declare work that exceeds the minimum contributory period, thus creating a so-called "moral hazard" (Spraos, 1997). But the choice to eliminate minimum retirement income guarantees exposes low-income workers to the risk of poverty, refuting the promises for adequacy and challenging the confidence of the participants in the social security scheme. In this case, the tight link between contributions and pensions operates mainly as a disincentive for participants, as a way out of old-age poverty, provided that they can work and contribute enough to receive an adequate retirement income.

In DC schemes, when non-compliance results in inadequate pension benefits, contribution evasion may force workers to stay longer in the labour market, thereby increasing the average real retirement age (McGilivray, 2001, p.9). This is the main reason why mandatory multi-pillar schemes supposedly control non-compliance and specifically social contribution evasion in a more efficient manner, compared to PAYG pension schemes (Demarco & Rofman, 1998, p. 5-6). But the architecture of a social security system and its embedded incentives are not irrelevant to the generosity of the contributory element and the minimum guarantee component. If replacement rates for long and shorter careers are at the level of social assistance benefits for old age, eventually low-wage workers, precarious and NSE workers could find that it is not worthwhile for them to contribute to the pension system, as their NDC pension entitlement will be lower, equal or not much larger than the social assistance minimum they would be entitled to anyway. Workers who will be entitled to a pension marginally greater than social assistance benefits will not be motivated to contribute efficiently (Marano et al., 2012).

Financial sustainability is not the only issue, however. Social security is a societal institution that must ensure its social and political sustainability. In general tax theory, the level of public taxes is inversely connected to the workers' willingness to pay their taxes (Williams, 2011). In order for social contributions to avoid such a disincentive correlated to public taxes, a tight link must be established. Other scholars believe that trust in the welfare state is correlated with a greater willingness to help the needy (Habibov et al., 2017), focusing on redistribution rather than on the adequate replacement of accrued contributions.

For the ILO, trust in the social security system is essential for its success and the good governance of social security schemes reinforces trust in them and guarantees their legitimacy (ILO,

2001). One of the major concerns for the financial sustainability and the adequate social protection of workers is the continuing informalization and de-standardization of work, which deprives social security institutions of the necessary means with which to protect the working population and their families (Standing, 1999; ILO, 2004). There is a self-sustaining virtuous circle of legitimacy and high levels of compliance (Enoff & McKinnon, 2011, p. 103), which may potentially transform into a vicious circle of non-compliance and lack of legitimacy.

Consequently, besides the issues of embedded “carrots and sticks”, the belief and confidence of workers in a social security institution are assumed to be just as crucial. The support of the workers participating in social insurance schemes is critical for the schemes’ financial viability (Demarco & Rofman, 1999, p. 2). The extent of non-compliant practices may threaten the system’s social and political legitimacy, with repercussions for the financial sustainability of a social insurance scheme and the social protection of its participants (Goveia & Sosa, 2017, p. 88). Similarly, social security institutions must gain the trust of participants and have legitimacy, otherwise the question of their financial sustainability may arise (Enoff & McKinnon, 2011). The extent of non-compliance phenomena on labour markets is therefore variously correlated with the low credibility and legitimacy of social insurance schemes.

## 4. Labour Market and Social security reforms in Greece 2010-2018

Our attempt to examine the causes of the non-compliance phenomenon in Greece focuses on the evolution of the formal labour market and in the design of the social security system along with its probable effect on the informal economy. During the period in question (2010-2018), a radical reform agenda for the Greek labour market and social security system was designed and implemented. Due to the severe economic and public debt crisis, the Greek labour market underwent a profound restructuring. The austerity policies of internal devaluation generated a 25% GDP recession, 30% unemployment rates, 20% nominal reduction of minimum wages and 40% average reduction of public pensions (Robolis & Betsis, 2016). Labour cost devaluation was accompanied by a vast program of labour market deregulation and public sector privatization. At the same time, non-compliance with social security and labour regulation rose significantly. Collective bargaining and mediation procedures were deregulated (Ioannou, 2011). The Greek labour market has been submitted to a process of flexibilization, through easing the cost of dismissals and through the spread of Non-Standard Employment (Koutroukis, 2017). Besides deregulation and flexibilization, the Greek labour market has been largely recommodified in the sense that the main role for establishing wages and the terms of employment has been transferred from the social partners and the state to market rules (Zamparloukou, 2014).

The social security reforms carried out during the same period have been characterized by unprecedented cuts to benefits and the sweeping restructuring of the organization, values and mechanisms of social security (Koumarianos, 2018). Large-scale interventions were implemented in an effort to move from a unique public pillar system to a multi-pillar one (Palier, 2005, Hinrichs & Jessoula, 2012). Among the numerous reforms, we focus on the public pension reform and specifically to the strengthening of the link between pensions and past contributions, the abolishing of minimum pensions and the establishment of a new poverty alleviation mechanism.



Against the backdrop of these structural reforms, the legitimacy of the Greek social security system was undermined and the trust that workers have in it gravely challenged. The political and social context of the reforms was highly conflictual due to the absence of a political consensus and the urgent way in which the Memoranda of Understanding were imposed (Sakellaropoulos, 2019). Social security expectations were set aside and retrenchment reforms were introduced every six months, leaving participants in social security schemes feeling insecure because of the constantly changing arrangements. Suffice it to say that almost all of these reforms were conducted without any substantial social dialogue. Regardless of the political and social context, the reforms had an enormous impact on social security benefits, leading to an average reduction in pensions of 40% (Robolis & Betsis, 2016). This social benefits retrenchment was accompanied by a recalibration of social security values and priorities and a new architecture for the public pension system, both main and auxiliary.

The backbone of this restructuring in Greece is based on a new balance between redistribution and the contributory principle. As regards the non-contributory part of pensions, minimum pensions have been abolished and a distinct section of the main pensions has been institutionalized to provide protection at the level of social assistance endowments under strict circumstances. The contributory part of the main pensions, on the basis of actuarial equity, is designed so as to establish a tight link between contributions and pensions, while auxiliary pensions operate under the generic NDC rules (Palmer, 2003). Replacement rates, however, are significantly low for the contributory part of the main pension, reaching only 42.8% after 40 years of contributions and limited to only 11.5% after 15 years of contribution. In this context, social security incentives are inadequate, while inspection mechanisms cannot be relied upon to provide appropriate incentives. Consequently, in Greece low-income and NSE workers are must now contribute in order to access a contributory pension that is marginally above social assistance allowances for the elderly and those without an adequate standard of living.

## 5. The study on HORECA: identity of the study

**T**he sample of 506 workers consisted of workers who were anonymously or randomly informed of the research and who answered electronically, so as to assuage any concerns and to mitigate any anxiety they may have had about giving sincere answers. The questionnaire was designed in collaboration with the Panhellenic Federation of Workers in HORECA (POEET). Before conducting the study, several trial questionnaires were completed in order to trace possible miscomprehensions and ambiguities in the questions. The final form of the questionnaire was made publicly available to the workers from December 2018 until September 2019 and during this period 506 workers from the HORECA sector participated anonymously in the research.

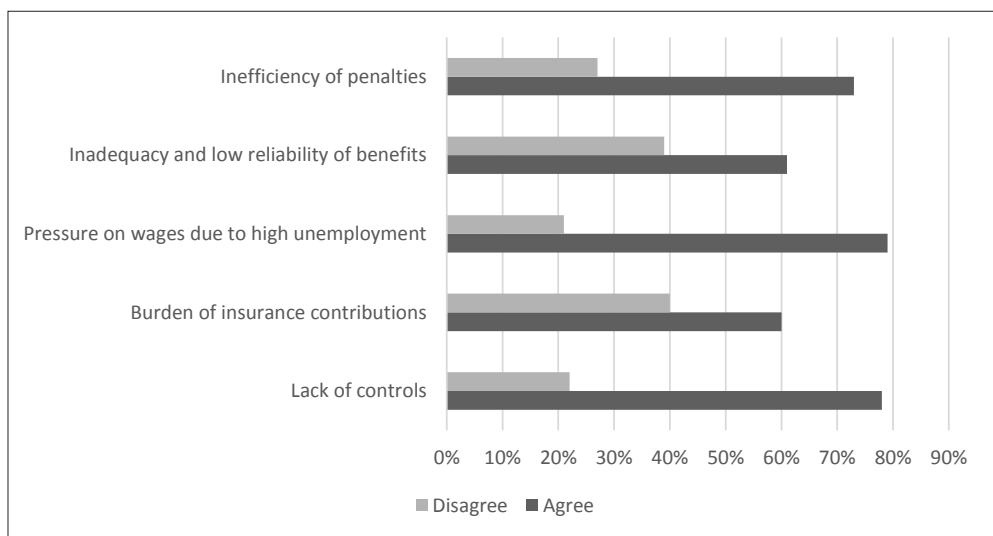
A share of 51.4% of participants stated that they had worked in the alimentation sector while 63% did so in the tourism sector in the years 2017-2018. The participants were 48% male, 51.78% female and 0.2% "other". The age groups 25-34, 35-44 and 45-54 represent 84% of the total participants, while the ages of 18-24 and 55+ together do not exceed 16% of the participants. Quantitative comparisons with ELSTAT data verify that the age distribution of the sample that participated in the research was similar to the age distribution of the population of workers in the sector. The large majority of participants in the study are of Greek origin (97.43%). These

participants do not reflect the real image of foreign worker participation in these sectors. The non-participation of foreigners in the online study can be explained by the difficulties in translating the questionnaire into the most common foreign languages and to the reduced use of electronic platforms by the trade unions of the foreign workers. According to recent ELSTAT data for the year 2018, 13% of workers in the sector were foreigners and they constituted 40.12% of undeclared workers (Kapsalis, 2019). For this reason, non-compliance rates recorded in the present research constitute a minimum level of non-compliance rates. As regards the geographical distribution of the sample, participants covered the whole territory of Greece, reflecting in a sufficient manner the real distribution of workers in the HORECA sector. As for how long they had worked in this sector, 54% of the total participants stated that during the period examined (2017-2018) they had been working in them for at least one year, 26% for 7 to 12 months and the remaining 20% of workers for less than 6 months of occasional employment during the years in question. According to the Eurobarometer No 402 conducted in 2013, 64% of the participants knew someone who has been working undeclared but only 2.9% stated that they themselves did undeclared work. This study has been designed so as to ensure the absolute anonymity of the participants and its irrelevance to any deterrence measures, in order to obtain sincere answers and realistic results.

## 6. Evaluating the causes of non-compliance

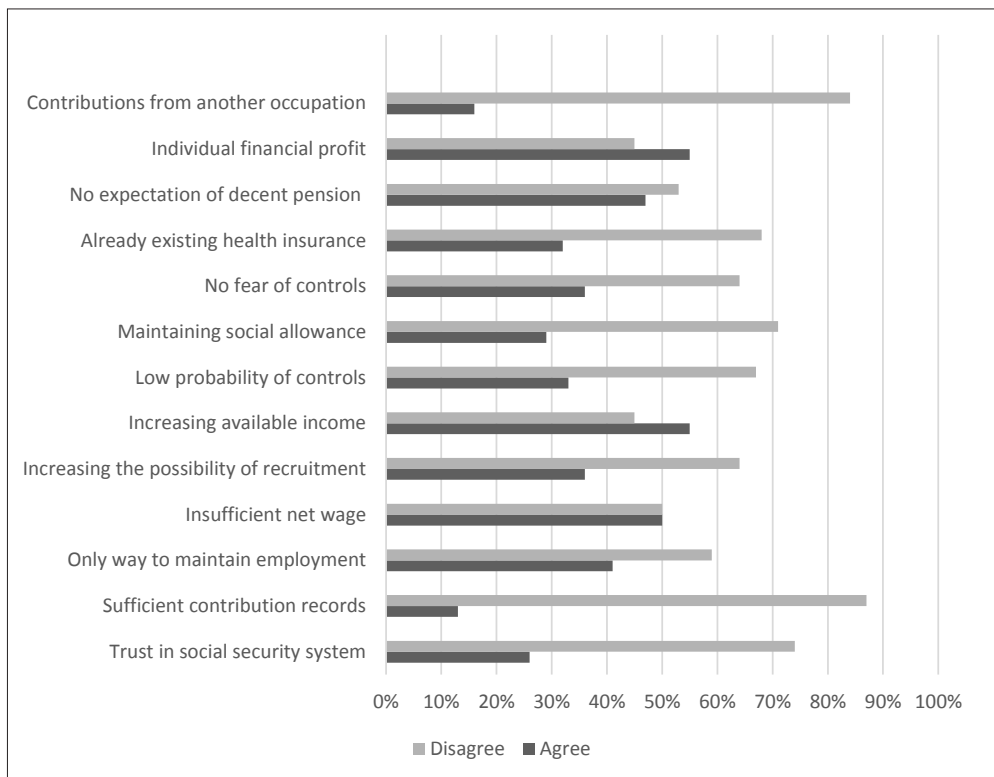
**W**orkers in the HORECA sector were asked if they had been forced to engage in or if they colluded in non-compliance practices during the period 2017-2018. According to their answers, workers that had participated in non-compliant employment were asked to evaluate and explain their behaviour, while workers who stated that they were employed in a manner that fully respected social and labour legislation were asked to evaluate only the factors that contribute to the development of the informal economy in Greece.

All participants in the study, whether they had worked undeclared, under-declared, mis-declared or declared themselves fully compliant with social law arrangements, were asked to evaluate the underlying causes for and the actions to be taken against non-compliance in the Greek labour market. Most participants (79%) acknowledged the importance of the pressures on wage costs exercised by employers, especially during a period of high unemployment (Sassen, 1994). An equally important factor, according to the participants, is the absence or inefficiency of controls and deterrence measures (77%) (McGillivray, 2001). A related factor, that of inefficient or inappropriate penalties, also had a high level of participants in agreement (72%). The inefficiency and low trust in social security benefits is considered one of the main reasons that generally contribute to non-compliance (Enoff & McKinnon, 2011), as is the excessive level of social insurance contribution rates (60%).

**Table 1: Evaluation of the causes of non-compliance in Greece**

The findings of the INE-GSEE study direct our attention to the increased pressures on employers in times of crises, when workers, collectively and individually, lose their bargaining leverage (Schierup et al., 2006). These pressures are not counterbalanced by deterrence policies by the state, and there is an absence of efficient inspection mechanisms and appropriate penalties. These main factors for non-compliance are accentuated by a growing mistrust of the social security institutions, mainly as regards their adequacy and they indicate that workers consider social insurance contributions rates to be too high in relation to their low earnings and the expected low adequacy of benefits accrued. Participants' responses on the overall factors related to non-compliance phenomenon were compared to answers on the evaluation of specific personal non-compliance practices.

After evaluating the phenomenon of non-compliance in Greece, participants were asked to explain the reasons for their non-compliant behavior. They had the opportunity to evaluate their choices in relation to a range of factors that are connected to undeclared work and contribution evasion. Their answers have been divided into two groups: the factors that contributed to their collusion or consent to non-compliant practices; and the factors that contributed to the behavior of their employers. It is worth underlining that these evaluations were made by workers who, according to their statements in the study, were working in situations of non-compliance with social security and labour arrangements in the period 2017-2018 and that they were asked to evaluate their own behaviors and their employers' specific behavior and not simply to express their opinions about the overall causes of the informal economy or undeclared work.

**Table 2: Evaluation of personal non-compliance practices**

*Lack of trust and confidence in the social security system:* 74% of participants who admitted having worked in a non-compliant manner and having either colluded with their employers' proposal or made such a proposal themselves show a general trust in social security institutions and believe that social insurance contributions are worth the value. In contrast, 26% of non-compliant workers appear to mistrust the social security system and for them this lack of confidence contributes to their acceptance of non-compliant practices at work. This finding verifies the importance of trust in social security institutions for the compliance of participants but also reveals that there is still confidence in the role and the efficiency of social security in Greece. Nevertheless, it has been demonstrated that 3 out of 4 workers are willing to participate in non-compliant practices despite having declared their confidence in the Greek social security system. This implies that the legitimacy of a social security system in the eyes of participants is not a sufficient factor for compliance. Additionally, the fact that they do not anticipate receiving a decent pension at the end of their working lives appears to be an important factor for the non-compliance of workers. Nearly 1 out of 2 workers (47%) believe that the expectation that their pensions will not be adequate has contributed to non-compliance practices. Specifically, 23% of participants answered that they absolutely agree with this assumption. It is useful to examine these answers in relation to the age groups of participant workers. It is interesting to note that the absence of the anticipation of a decent pension affects younger age groups to a great extent

but the effect on older age groups is even greater. In fact, 75% of workers above the age of 55 consider this factor as being very important for their compliance behavior as they believe they will be faced with an insufficient pension in the near future (McGilivray, 2001).

The large majority of participants (87%) who admitted having worked in a non-compliant manner appear not to be affected by the existence of sufficient or insufficient contribution records in order to access pension benefits. The existence of adequate contributions does not seem to be a decisive factor (disincentive) in the choice of non-compliance with social security labour arrangements. Despite the fact that the old-age insurance schemes have been profoundly remodeled in order to maximize compliance incentive and strengthen contribution evasion disincentives, the assumption that reforming a DB pension scheme to a DC one will improve incentives cannot be verified. On the contrary, assuring health insurance coverage is more important, since 1 out of 3 workers (32%) responded that they accepted non-compliant practices in their work because they had already secured access to health insurance for themselves and their families. The assumption that there is a lower incidence of short-term risks in insurance myopia is thus reinforced.

*Insurance coverage by other/parallel economic activity:* 16% of workers claimed that they accepted non-compliant practices because they had no motive to comply since they already had insurance coverage through another economic activity. In contrast, 84% of participants in the study were accepting of non-compliant behaviors even though they had no other social insurance coverage.

*The need to maintain one's job and earnings:* 40% of participants who admitted having worked in a non-compliant manner and that they either colluded with their employers' proposal or proposed this themselves stated that this was the only choice available in order to keep their job. The existence of high levels of unemployment and the deregulation of dismissal arrangements have reinforced the bargaining power of employers. This has led to 4 out of 10 workers being forced to accept non-compliant behavior. In contrast, 6 out of 10 workers have accepted non-compliant practices in their work, although they believe that even if they had not this would not have endangered their position. Additionally, 1 out of 3 workers (36%) who admitted having worked in a non-compliant manner and that they either colluded with their employers' proposal or proposed it themselves stated that agreeing to undeclared or under-declared work was the only way to avoid dismissal by their employer.

The precariousness of workers in the Greek labour market after the economic crisis is vividly depicted in the participants' answers. Contribution evasion clearly appears to be a survival tactic used by workers within a highly insecure and deregulated institutional framework. 55% of workers who admitted having worked in a non-compliant manner stated that they accepted non-compliant practices because they wanted to increase or sustain their available income. Additionally, 1 out of 3 workers (29%) responded that they accepted non-compliant practices in their work because full compliance would result in the loss of an essential benefit or allowance of either a contributory or non-contributory nature. Usually, fully undeclared workers can claim unemployment allowance and under-declared workers can claim social solidarity allowances for poverty reduction. In this case, non-compliance is combined with social benefit fraud (NAO, 2006).

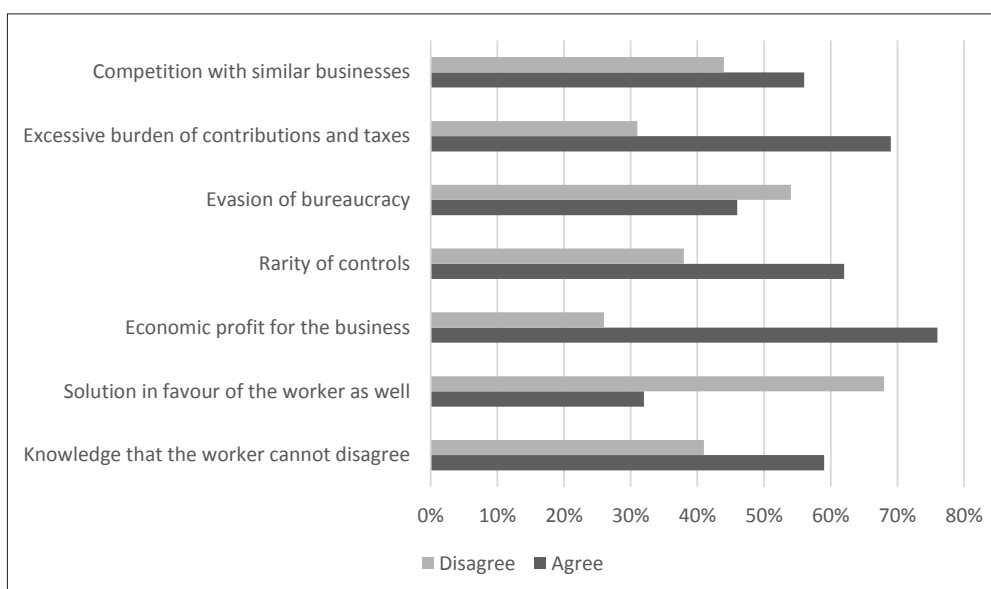
*Limited or insufficient net earnings:* 1 out of 2 workers that developed some form of non-compliant behavior were affected by the inadequate level of net earnings. Insufficient net earnings are usually the result of excessive rates of tax and social contributions or a result of a wider reduction of wages, net or gross. Individual economic interest seems to contribute to the non-compliance of 55% of workers who are willing to increase their net earnings in the short term by non-complying to labor and social security legislation. Non-compliance is regarded as an eco-

nomically favorable solution within a highly deregulated and insecure economic and institutional environment, where individuals cannot rely on the state or their trade union.

*Inefficiency of deterrence measures:* As for the deterrence policy adopted by the state, the approach that believes that the informal economy and contribution evasion can efficiently be contained through increased regulations and the intensification of inspection mechanisms (McGilivray, 2001) seems to be verified. One out of 3 workers responded that they accepted non-compliant practices in their workplace because they were not afraid of inspection controls and did not consider them probable. This finding reveals the inefficiency of control mechanisms in the Greek labour market. At the same time, it was interesting to find that 2 out of 3 workers responded that they accepted non-compliant practices in their workplace even though they considered that the controls implemented by the competent authorities were probable. A wider conclusion can be drawn that the overall deterrence measures are inefficient as disincentives to undeclared work and contribution evasion if state policies are limited solely to them. Additionally, 1 out of 3 workers responded that they accepted non-compliant practices in their work because they are not afraid they will suffer during a possible eventual inspection. In conclusion, the overall inspection mechanisms combined with the associated penalties have been inefficient in Greece.

Elsewhere in the questionnaire, participants were asked to evaluate possible factors that lead employers to the unilateral imposition of non-compliance practices.

**Table 3: Unilateral imposition of non-compliance practices by employers**



The most important factors according to participants were the need to increase the profitability of the business (76%) and their belief that tax and social contribution rates were excessively high (69%). Other important factors are the awareness of employers that workers will be obliged to accept the proposals (59%) and that they will not be subjected to labour or social security inspection controls as well as the need to compete with other businesses in the same



sector (56%). Lastly, time-consuming and complex bureaucracy is considered as an important factor for 46% of participants while 32% of participants responded that employers believe that non-compliance is equally beneficial for workers as well.

## 7. Conclusions

According to the neoliberal perspective of rational individual response, the 2010-2018 reforms would contribute to the containment of the informal economy, undeclared work and non-compliance practices with social security arrangements. Nevertheless, the results pointed in the opposite direction. The shadow economy has expanded during the first years of the Greek economic crisis and it started to deflate from 2015 onwards, although only marginally meaning that there is still a significant problem of non-compliance.

In this article, we have tried to trace the factors behind non-compliance in the Greek labour market and particularly in the HORECA sector. The analysis of the evolution of the Greek labour market during the economic crisis as well as of the social security reforms describes a deregulated, flexible, precarious and insecure labour market. In this respect, we can observe that inadequate deterrence policies were undermined by austerity policies. According to the findings of our research, employers follow non-compliant practices in order to maximize their profits, taking advantage of the precariousness of workers, whereas workers accept or collude with non-compliance as a survival tactic within a highly competitive environment. The state's role does not seem to limit itself to the deregulation of the labour market, because it individualizes social risk in pensions, rendering workers more insecure, while failing to implement efficient inspection mechanisms. The fight against non-compliance in social security and labor arrangements depends on the power of the authorities to impose compliance and on citizens' trust in those same authorities (Williams, 2014). Governments may choose to focus on deterrence policy measures or measures enhancing citizens' trust. Normally, though, where there are high levels of non-compliance, authorities lack capacity in both fields, as is the case in the Greek labour market.

Non-compliance in the Greek labour market appears to be a multi-factor phenomenon that cannot be explained exclusively in terms of a unique perspective. On the contrary, our research supports the assumption that the fight against non-compliance is a "wicked" problem (Williams, 2014). The design of social security institutions in Greece and particularly those covering long-term risks, such as old-age insurance, may be blamed for not providing appropriate incentives for compliance and for losing the trust of insured workers. Tightening the link between contributions and benefits individualizes social risks and reproduces income inequalities from work to retirement (Hinrichs & Jessoula, 2012). In Greece, the virtuous circle between compliance and legitimacy (Enoff & McKinnon, 2011) has evolved into a vicious circle of low levels of trust that generate non-compliance.

## Bibliographical References

- Adom, K. & Williams, C.C. (2014), Evaluating the explanations for the informal economy in third world cities: some evidence from Koforidua in the eastern region of Ghana. *International Entrepreneurship and Management Journal*, 10, p.p. 427-445.

- Allingham, M.G. & Sandmo, A. (1972), Income tax evasion: a theoretical analysis, *Journal of Public Economics*, 1, p.p. 323-338.
- Alm, J. (2011), Designing alternative strategies to reduce tax evasion. In M. Pickhardt & A. Prinz (eds), *Tax evasion and the Shadow Economy* (pp. 13-32). Cheltenham: Edward Elgar.
- Arenas de Mesa A. (2000), El sistema de pensiones en Chile: resultados y desafíos pendientes. *Serie semanarios y Conferencias*. Santiago: ECLAC.
- Becker, K.F. (1968), The economic dimensions of crime, *Journal of Political Economy*, 76(2), pp. 169-217.
- Becker, K.F. (2004), *The informal economy: Fact finding Study*. Stockholm: Swedish International Development Agency.
- Bejakovic, P. (2016), The evasion of retirement insurance contributions in Croatia, *Studies of Transition States and Societies*, 8 (1), p.p. 20-35.
- Castells, M. & Portes, A. (1989), World Underneath: The Origins, Dynamics and Effects of the Informal Economy, in A. Portes, M. Castells & L. Benton (eds), *The Informal Economy: Studies in Advanced and Less Developing Countries* (p.p.11-39). Baltimore, MD: John Hopkins University Press.
- Davis, M. (2006), *Planet of Slums*. London: Verso.
- Daza, J.L. (2005), Informal Economy, Undeclared Work and Labour Administration, Social Dialogue. *ILO Labour Law and Labour Administration Department, Paper No. 9*. Geneva: ILO.
- Demarco, G. & Rofman, R. (1998), Supervising Mandatory Pension Funds: Issues and Challenges. *Social Protection Discussion Papers No.9817*. Washington D.C.: The World Bank.
- Demarco, G. & Rofman, R. (1999), Collecting and transferring pension contributions. *Social Protection Discussion Papers No. 9907*. Washington DC: World Bank.
- De Soto, H. (1989), *The Other Path: the economic answer to terrorism*. London: Harper and Row.
- De Soto, H. (2001), *The mystery of capital*. London: Bantam Press.
- Dibben, P. & Williams, C. (2012), Varieties of Capitalism and Employment Relations: Informally Dominated Market Economies. *Industrial Relations*, 51 (S1), pp. 563-582.
- Enoff, L. D. & McKinnon, R. (2011), Social security contribution collection and compliance: improving governance to extend social protection, *International Social Security Review*, 64 (4), pp. 99-120.
- Evans, M., Syrett, S. & Williams, C. (2006), *Informal economic activities and deprived neighbourhoods*. Project Report. London: Department of Communities and Local Government.
- Gallin, D. (2001), Propositions on Trade Unions and Informal Employment in Times of Globalisation, *Antipode*, 33(3), pp. 531-549.
- Geertz, C. (1963), *Old Societies and New States: The Quest for Modernity in Asia and Africa*. New York, NY: Free Press of Glencoe.
- Gillion M., Turner J., Bailey C. & Latulippe D. (eds) (2000), *Social security pensions: Development and reform*. Geneva: International Labour Office.

- Goveia, L. & Sosa, A. (2017), Developing a compliance-based approach to address error, evasion and fraud in social security systems, *International Social Security Review*, 70 (2), pp. 87-107.
- Grabiner, L. (2000), *The informal economy*. London: HM treasury.
- Habibov, N., Cheung, A. & Auchynnikava, A. (2017), Does trust increase willingness to pay higher taxes to help the needy? *International Security Review*, 70(3), pp. 3-30.
- Hinrichs, K. & Jessoula, M. (2012), *Labour market flexibility and pension reforms: flexible today, secure tomorrow?* New York: Palgrave MacMillan.
- ILO (2001), *Social security: A new consensus*. Geneva: International Labour Office.
- ILO (2002), *Resolution and Conclusions concerning decent work and the informal economy*. Geneva: International Labour Office.
- ILO (2004), *Economic security for a better world*. Geneva: International Labour Office.
- ILO (2016), *Diagnostic report on undeclared work in Greece*. Geneva: International Labour Office.
- Ioannou, C. (2011), Tectonic changes in the system of wage formation, *Review of social research*, 134-135 (A'-B'), pp. 133-164 (in Greek).
- Kapsalis, A. (2019), *Greek trade unions in front of the challenge of current migration flows*. Athens : INE GSEE (in Greek).
- Kirchgassner, G. (2011), Tax morale, tax evasion and the shadow economy. In F. Schneider (Ed.) *Handbook of the Shadow Economy* (pp. 347-374). Cheltenham: Edward Elgar.
- Koumarianos, V. (2018), Greek social security in the era of crisis. In K. Dimoulas & G. Kouzis (Eds.), *Crisis and social policy: deadlocks and solutions* (pp. 151-171). Athens: Topos (in Greek).
- Koutroukis, T. (2017), The Greek labour market after the 2008 crisis deregulation reinstitutionalization (anathemisi) and decentralization, *Social Policy* 7, pp. 1-13 (in Greek).
- London, T. & Heart, S. (2004), Reinventing strategies for emerging markets: Beyond the transnational model, *Journal of International Business Studies*, 35(5), pp. 350-370.
- Marano, A., Mazzaferro, C. & Morciano, M. (2012), The strengths and failures of incentive mechanisms in notional defined contribution pension systems, *Giornale degli Economisti e Annali di Economia, Nuova Serie*, 71(1), Special Issue Papers from the XXII SIEP Annual Conference (October 2012), pp. 33-70.
- McGee, R.W. (2005), *The ethics of tax evasion: a survey of international business academics*. Paper presented at the 60<sup>th</sup> International Atlantic Economic Conference. New York: Springer.
- McGillivray, W. (2001), Contribution evasion: Implications for social security pension schemes, *International Social Security Review*, 54(4), pp. 3-22.
- Medina, L. & Schneider, F. (2018), Shadow economies around the world: What did we learn over the last 20 years?, *IMF Working Papers*, WP/18/17.
- Mesa-Lago, C. (1998), Comparative features and performance of structural reforms in Latin America, *Brooklyn Law Review*, 64(3), pp. 771-793.

- Murphy, K. (2008), Enforcing tax compliance: to punish or persuade? *Economic Analysis and Policy*, 38 (1), pp. 113-135.
- National Audit Office (2006), International benchmark of fraud and error in social security systems, HC 1387 Session 2005-2006, 20 July.
- Palier, B. (2005), *Gouverner la sécurité sociale : les reformes du système français de protection sociale depuis 1945*. Paris : PUF.
- Palmer, E. (2003), "What is NDC", in R. Holzmann & E. Palmer (eds), *Pension Reform: Issues and Prospects for non-financial defined contribution skims*. Washington, DC:World Bank.
- Polese, A. (2014), Informal payments in Ukrainian hospitals: On the boundary between informal payments, gifts and bribes, *Anthropological forum*, 24(4), pp. 381-395.
- Renooy, P., Ivarsson, S., van der Wusten-Gritsai, O & Meijer, R. (2004), *Undeclared Work in an Enlarged Union: an analysis of shadow work – an in-depth study of specific items*. Brussels: European Commission.
- Richardson, M. & Sawyer, A. (2001), A taxonomy of the tax compliance literature: further findings, problems and prospects, *Australian Tax Forum*, 16(2), pp.137-320.
- Rittel, H. & Weber, M. (1973), Dilemmas in a general theory of planning, *Policy Sciences*, vol. 4, pp. 155-169.
- Robolis, S. & Betsis, V. (2016), *The social insurance Odyssey*, Athens: Livanis A. (in Greek).
- Sakellaropoulos, S. (2019), *Greece's (un)competitive capitalism and the economic crisis*, Palgrave MacMillan.
- Sassen, S. (1994), The Informal Economy: Between New Developments and Old Regulations, *The Yale Law Journal*, 103(8), Symposium: The Informal Economy (June, 1994), pp. 2289-2304.
- Schierup, C.-U., Hansen, P. & Castles, S. (2006), *Migration, citizenship and the European welfare state: A European dilemma*. Oxford: Oxford University Press.
- Schneider, F. (2017), Prognose zur Entwicklung der Schattenwirtschaft 2017: Anhaltend positive Beschäftigungslage und steuerliche Entlastungen führen zu einem weiteren Rückgang der Schattenwirtschaft, *IAW*, Johannes Kepler University Linz.
- Schulthess, W. (1998), Latin America - An overview, in the future of social security. *Stockholm Conference, 29 June-1 July, Federation of Social Insurance Offices*.
- SEPE (2018), *Action Plan for the fight against uninsured and undeclared work, "Artemis", Period 2013-2018* (in Greek).
- Slavnic, Z. (2010), Political Economy of Informalization, *European Societies*, 12(1), pp. 3-23.
- Spraos Committee (1997), *The economy and pensions: a contribution to a public debate*. Athens: National Bank of Greece.
- Standing, G.(1999), Global feminization through flexible labour: a theme revisited, *World development*, 27 (3), pp.583-602.
- Williams, C. (2006), *The hidden enterprise culture: Entrepreneurship in the Underground Economy*. Cheltenham, UK: Edward Elgar.
- Williams, C.C. (2011), A critical evaluation of competing representations of informal employment: some lessons from England, *Review of Social Economy*, 69 (2), pp.211-237.

- Williams, C. (2014), Policy Approaches Towards Undeclared Work: A conceptual framework. *GREY Working Paper No.4, University of Sheffield*. [https://works.bepress.com/colin\\_williams/38/](https://works.bepress.com/colin_williams/38/).
- Williams, C.C. (2015), Explaining the Informal Economy: An Exploratory Evaluation of Competing Perspectives, *Relations Industrielles / Industrial Relations*, 70(4), pp. 741-765. <https://doi.org/10.7202/1034902ar>.
- Williams, C.C. & Windebank, J. (1998), "The unemployed and informal sector in Europe's citizen regions", in P. Lawless, R. Martin and S. Hardy (eds) *Unemployment and social exclusion: Landscapes of labour inequality*, 141-153. London: Jessica Kingsley.
- Zabarloukou, S. (2014), "Social dialogue and collective agreement before and after the crisis", in S. Zabarloukou and M. Koussi, *Social views of the crisis in Greece*. Athens: Pedio, 247-272.

## Biographical Notes

**Evangelos Koumarianos** holds a Master in Public Finance Law, a Master in Public Law and a PhD in Law from the University of Paris 1, Pantheon-Sorbonne. He has completed his postdoctoral research at the Social Policy Department of the Panteion University. He teaches social security policy at the Panteion University and at the National Institute of Public Administration. His research and his publications are focused on social security policy (contact [ekoumarianos@yahoo.gr](mailto:ekoumarianos@yahoo.gr)).

**Apostolos Kapsalis** holds a Master on Labour Law, is PhD in Social Policy and a postdoctoral researcher in industrial relations at Panteion University (state fellow/ IKY). He teaches migration policy at the University of Peloponnese and industrial relations & non-compliance in the labor market at the National School of Public Administration. As industrial relations researcher at the Labor Institute of the National Confederation of Labor of Greece (INE / GSEE) he has published articles and studies in social policy, industrial relations, discriminations, migration policy and trade unionism.

**Nikolaos Avgeris** holds an MSc in development economics from the university of Manchester. He specialises in quantitative analysis on the field of labour economics. As an economist, he has worked with the International Labor Organisation and the World Bank advising governments on active labor market reforms. He has also conducted research and published articles in macroeconomics and labour economics.