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# The role of civil society in Tackling Hidden Economy, Existing Examples and Strategies for the future?

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# Typology of policy approaches

Approach	Method	Measures (examples)
Direct controls: Deterrents	Improved detection	Data matching & sharing Joined up operations
	Increased penalties	Increased penalties & sanctions
Direct controls: incentives	For businesses	Simplify compliance; tax incentives; support & advice
	For individuals	Supply-side (e.g., amnesties; voluntary disclosure; smooth transition to formality) Demand-side (e.g., service vouchers; tax incentives)
Indirect controls	Fostering culture of commitment/alignment of citizens with state	Change norms, values and beliefs
		Change formal institutions

# Role of Civil Society

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- From compliance to commitment?
  - Fostering a culture of commitment
  - Alignment of citizens with the state
  - Change norms, values and beliefs (informal institutions)
  - Change formal institutions
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# Commitment to tax morality

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- Increasing ‘knowledge bank – demonstrating that low tax morality leads to larger shadow economies (Alm and Torgler; 2006; Richardson, 2006).
  - Beliefs and attitudes towards the shadow economy more strongly correlate with compliance than do deterrence factors (Murphy, 2005; 2008)
  - Commitment to tax morality – involves moving beyond the ‘carrot vs stick’ policy options.
  - Moving from direct to indirect controls
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# Examples of indirect controls

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- **Public awareness and information campaigns**
  - Inform undeclared workers of the costs and risks.
  - Inform potential users of undeclared labour of the risks and costs.
  - Inform undeclared workers of the benefits of formalisation- increased credibility as business people and opening up business opportunities
  - Inform potential users of the shadow economy of the benefits of formal labour. (Williams and Scneider, 2013).
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# UK Example: HMRC

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- Effects of HMRC advertising campaign – 2007, 38,000 people registered formally providing an impressive 19:1 return on state investment in comparison with the 4.5:1 return on wider HMRC schemes to reduce hidden economy in the UK.
  - Such advertising campaigns seem to work? Do such normative appeals elicit compliant behaviour?
  - Danger that ‘negative’ advertising reduces the stigma of engaging in hidden economy as perception that it is the norm
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# 'Positive' advertising campaigns?

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- Demonstration that vast majority of population are compliant
  - Highlight the public services that result from tax earnings?
  - In doing so, such campaigns seek to nurture commitment to tax morality within society
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# Making the state relevant?

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- Evidence suggests that individuals often ‘exit’ from the formal economic spheres as they feel ‘excluded’
  - See the state authorities as doing little for them
  - Perceive themselves as gaining little benefits
  - What has the state ever done for me?
  - Civil society can play a role in demonstrating the benefits and entitlements that individuals receive from the state
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# International Examples

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- **Trade School Initiative, Canada (OECD, 2012)**
  - Proactive targeting of students/apprentices
  - Develop within young segments of society that payment of taxes is the 'norm' and outline the benefits for society
  - Results highlight improved perceptions towards tax and why it is important
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- **Changing consumer attitudes about informal goods and services, Canada**
  - Media campaigns outlining the dangers and risks of obtaining informal goods and services
  - Negative effects this can also have on government-run services
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- **Cash Economy Communications Strategy**
  - Awareness campaign to outline to society disadvantages of informal economy
  - Highlights how business and society can work together to reduce levels of hidden economy
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# United States

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- Low Income Food Entrepreneurs – East Harlem, NYC
  - Hot Bread Kitchen Bakery as a not-for-profit bakery provides business incubation services at below market rates and encourages businesses to register formally.
  - Freelancers Union – provides ‘new mutualism’ assistance to workers, thus reducing the risks of workers ‘exiting’ into the hidden economy
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# Future Strategies?

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- Role of civil society is alongside government and wider society to aid the transition of workers and entrepreneurs into the formal economy.
  - Civil society, through a range of different policy measures and ideas, can aid the step-by-step process
  - Civil society groups can act as a 'bridge' between formal and informal institutions
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# Future Strategies?

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- **Early Intervention?**
  - Civil society groups can pressurise for more government spending on tax education programmes within schools and target potential ‘risk’ categories of young people
  - **Invest in supporting civil society**
  - Seek to recruit and train ‘formalisation champions’ – from within communities
  - Start-Up Britain – encouraged informal entrepreneurs to seek to formalise
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# Conclusions

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- Traditional ‘deterrence’ approach has failed to solve the issue of hidden economy and can in fact exacerbate existing societal tensions
  - Formalisation is not a ‘one-off’ decision but in fact is a journey taking time
  - Civil society actors can positively contribute by working with state actors to improve tax fairness and perceptions of tax fairness
  - Work with informal workers and entrepreneurs and aid their journey into formal economic spheres
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# Thank you for listening!

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