

Explaining workers' role in illegitimate wage underreporting practice: Evidence from the European Union

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Abstract

Despite substantial endeavours of international institutions and governments around the world to promote decent work, recent years have witnessed resurgence of non-standard and precarious labour practices. This article scrutinises one of the most recently described types of non-standard work, which is known as quasi-formal or under-declared employment. Companies relying on this illegitimate strategy, which is particularly prevalent in Europe, deliberately misreport the take-home pay of their formally employed workers. Alongside the officially declared wage, a quasi-formal worker thus receives an additional cash-in-hand payment which remains untaxed. To explore why so many European Union workers accept quasi-formal jobs in spite of obvious limitations, we report the evidence from interviews with 616 workers who were surveyed within the Special Eurobarometer 284/Wave 67.3. A two-level cumulative logistic regression emphasises tax morale and the exact function of the cash-in-hand payment as the key factors in this respect. On the other hand, neither perceived detection risk nor expected penalties are found to affect the readiness of quasi-formal workers to keep obeying an illegitimate arrangement with their employer. These findings therefore endorse recent studies on the matter, which illuminate low trust in the state and fellow citizens as the main reason for many workers to voluntarily misreport their income.

JEL Codes: E26, H26, J46

Keywords

Cash-in-hand wages, envelope wages, EU, non-standard work, precarious employment, quasi-formal employment, under-declared employment

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Introduction

The current discussion about precarious work has been mainly focused on the development of the ‘gig economy’ (Lewchuk, 2017; Stanford, 2017). Yet there is more to informal work (Quinlan, 2012). As explained by Harvey (1999), there has been a growing trend of labour commodification by increased reliance on relations in which ‘the exchange between purchasers and sellers of labour is for work and work alone, rather than for employment’ (p. 29). While the blurring of the exact link between employers and employees is evident in the emergence of numerous platform-based businesses utilising on-call labour and piece-based compensation (Knox, 2018; Stanford, 2017), further signs of detachment from standard employment relations can be found in the upsurge of bogus self-employment and pyramid subcontracting, which mainly embrace low-skilled individuals and vulnerable groups of workers (e.g. immigrants) (Harvey, 1999; Quinlan, 2012; Wise, 2013).

The rising popularity of atypical work among business owners has led some commentators to conclude that ‘traditional “jobs” will come to an end’ (Stanford, 2017: 383). Those believing that we are to witness a further loosening of the standard employer–employee relations describe this process as the resurgence of exploitative strategies which are as old as capitalism itself (Quinlan, 2012; Stanford, 2017). There are indeed obvious economic, psychological and legal motives for labour purchasers to prefer ‘contractual labourers’ over standard employees. Besides the direct decrease of labour costs and circumvention of certain labour directives (e.g. severance pay and remuneration for periods of sickness or interruptions of work due to weather), non-standard labour relations also alter the power balances between the two stakeholders (Harvey, 1999; Shields and Grant, 2010; Wise, 2013). It is thus not surprising that the terms ‘wage theft’ and ‘underpayment’ are commonly encountered in most recent discussions about precarious work (see Clibborn and Wright, 2018; Macdonald et al., 2018; Milkman et al., 2010).

However, the increasing reliance of employers in Europe on so-called ‘quasi-formal employment’ highlights yet another direction for possible developments of precarious work in future. Also known under a more illustrative name of ‘under-declared employment’, this practice is based on business owners splitting the take-home pay of their formally declared dependent employees into two parts, only one of which is then reported to the authorities (Organisation for Economic Cooperation and Development (OECD), 2008; Williams and Padmore, 2013a; Woolfson, 2007). Negotiation about the financial aspects of a quasi-formal job is thus a two-step process: only after setting the exact size of monthly/yearly take-home pay and per hour remuneration for overtime work, the two parties will go on to decide what portion will be reported to the tax administration. As a result, every month the worker actually receives two different wages for the same job. The amount paid into a bank account forms a basis for calculation of personal income tax and social security contributions, while the remaining cash-in-hand payment circumvents tax legislation (Kedir et al., 2011).¹ Yet, since the whole arrangement is strictly verbal, workers usually have very limited legal protection in cases when business owners fail to pay the undeclared part of the wage (Sedlenieks, 2003; Williams et al., 2015).

Unlike previously described forms of precarious work, this illegitimate practice is essentially embedded in standard employer–employee relations. Quasi-formal workers are dependent (commonly permanent, full-time) employees holding otherwise regular jobs, hence ranging from construction and agriculture workers to highly educated

professionals (Williams and Horodnic, 2016). As Williams and Padmore (2013a) put it, this practice seems to be ‘ubiquitous – few, if any, social groups are exempt’ (p. 421). Also, quasi-formal workers have all the same statutory rights as their completely formal counterparts and enjoy certain level of social protection, which is most often not the case with agents operating within the gig economy. While other emerging forms of precarious work indicate detachment from traditional employment, quasi-formal work therefore illustrates how things can go in a completely opposite direction.

It is estimated that some 11.6 million people in the European Union (EU) have been employed on a quasi-formal basis (Williams, 2013), which clearly shows that this practice has already become a constituent part of labour markets around Europe. Although somewhat more prevalent in post-socialist economies, underreporting of wages represents a significant obstacle in all EU member states (Williams, 2013; Williams et al., 2015). In fact, the rising popularity of this sophisticated employment strategy among employers has urged the European Commission to start actively seeking efficient policy responses (see European Commission, 2018; European Foundation for the Improvement of Living and Working Conditions (Eurofound), 2013; Mineva and Stefanov, 2018; Williams, 2018).

However, despite increased efforts to dissect the causes and functioning of this illicit practice, there are still many missing pieces in the perplexing puzzle. All these relate to the limited understanding of why so many European workers give their consent to wage underreporting, regardless of all the risks attached to this type of employment. This article aims to fill this gap by analysing the attitudes of quasi-formal workers towards their own position. This is done by utilising data from the 2007 Special Eurobarometer on undeclared work, which is the first, and so far the only, source of information on the matter (European Commission, 2007).²

The rest of the article is organised as follows. After a short discussion of the issues related to quasi-formal employment, there is an overview of the scarce body of literature on the main drivers of this phenomenon. The section ‘Data and variables’ then provides a detailed description of the methodology used, while the section ‘Findings’ presents and elaborates the most important results from the conducted analysis. The concluding part gives recommendations for a more successive fight against quasi-formal employment.

Economic, social and legal side effects of quasi-formal employment

Regardless of the possible short-term financial gain for some participants, the practice of quasi-formal employment, involving a mix of declared and undeclared or ‘envelope’ wages, is in fact highly detrimental for all stakeholders involved. The detriment is particularly severe in the case of workers, given that underreporting of wages entails lower retirement income, reduces the amount of social benefits received in the case of unemployment and leads to problems with access to loans and mortgages (Round et al., 2008; Sedlenieks, 2003). However, the precarious nature of quasi-formal employment from the perspective of workers is above all evident in the aforementioned lack of protection in situations when the business owner fails to fulfil their part of the deal. Since the whole arrangement resides strictly on a verbal agreement between two parties, employers can

easily manipulate the size of cash-in-hand payment or even decide not to pay it without any legal consequences. It is therefore not hard to realise that this form of employment introduces additional uncertainty for workers and makes them ‘fully subject to the manager or owner’ (Woolfson, 2007: 555).

Yet, quasi-formal employment has an adverse long-term effect for business owners as well. For companies adopting it, this illicit strategy to reduce labour costs provides additional room to decrease the price of delivered goods and/or services, thus giving them an advantage on the market. Such an unfair competition can in turn force other companies to rely on this identical scheme or to seek other illegitimate means of cost reduction, which can result in a vicious circle of deteriorating business ethics (Gërxhani, 2004; Sepulveda and Syrett, 2007).

When it comes to wider economic and societal issues related to this practice, the list goes far beyond lower levels of taxes and social security contributions collected. For instance, deliberate wage misreporting also distorts official macroeconomic and microeconomic figures (e.g. estimates of the gross domestic product and labour market statistics), thus undermining long-term economic and social policies of the government (OECD, 2003). What is more, it distorts the trust of compliant taxpayers in their fellow citizens, as well as the overall confidence in the capability of the state to secure fair business and social environments (Frey and Torgler, 2007; Torgler, 2004).

However, the fight against this deleterious economic and social phenomenon represents a substantial challenge for the authorities (OECD, 2008). Not only are both the employer and their quasi-formal employee officially declared, but also the former (seemingly) fulfils all obligations towards the state and the worker.³ What is more, no written trace of agreement between the two stakeholders exists, which makes it extremely hard for surveillance bodies to identify violators and to prove that the worker receives a higher wage than reported (Meriküll and Staehr, 2010). Prevention thus seems to be a more viable policy solution for tackling quasi-formal employment than repression. Yet, such an approach requires profound understanding of the key reasons for economic agents to engage in this ‘envelope wage’ practice. These reasons are still not sufficiently understood.

Drivers of quasi-formal employment: A literature review

While evasion of taxes and social security contributions is acknowledged as the most important reason for employers to underreport the wages of their workers, it is certainly not the only one (Hazans, 2005; Sedlenieks, 2003; Woolfson, 2007). For instance, this practice represents quite an efficient tool to get rid of workers who are not needed anymore. Since non-payment of the undeclared part of the wage inevitably ignites dissatisfaction on the part of the worker, this commonly results in their quitting the job and thereby rescues the employer from severance pay and administrative hassle (Williams and Padmore, 2013b). Knowing this, one can anticipate that quasi-formal employment can also be used to oppress and exploit workers (Hazans, 2005; Woolfson, 2007). By threatening not to pay the cash-in-hand part of the wage or by decreasing it for every mistake, employers can easily create a situation of uncertainty for their workers, which makes the latter more prone to manipulation (Woolfson, 2007).⁴ This goes in line with

the argument of Shields and Grant (2010), that for employers ‘the primary agenda is not one of [labour] commodification but of objectification’ (p. 62).

It is thus not surprising that employers paying under-declared wages were, until recently, widely depicted as abusers (Hazans, 2005; Round et al., 2008), while quasi-formal workers were assumed to be hapless victims. Such reasoning is completely legitimate since there are no obvious positive long-term benefits of this practice for workers, while the list of negative aspects is quite long (as explained). The lack of formal employment had thus been recognised as the main factor behind the decision of workers to accept such arrangements (Hazans, 2005; Kriz et al., 2007; Woolfson, 2007). Indeed, since under-declared jobs provide at least minimum social protection, they certainly represent a more appealing option than fully undeclared work. In line with this, there has been a prevalent belief that workers mostly perceive under-declaration only as a temporary survival option, which they may escape from as soon as they find a completely regular job (Woolfson, 2007).

Nevertheless, some recent studies based on large-scale representative surveys have challenged the generalisability of this depiction.⁵ An insight into the causes and nature of informal activities in South-East Europe, for instance, revealed that 3 out of 10 quasi-formal workers in those countries either personally initiated under-declaration or this was a mutual idea of theirs and their employer’s (Bezeredi and Williams, 2017; Franic and Williams, 2017). In fact, almost one-half of quasi-formal workers surveyed were more or less satisfied with receiving their take-home pay in two different parts. While not refuting the existing theories on the exploitative character of quasi-formal employment, these findings indicate that there are probably some other important drivers of this practice from the perspective of workers which are not necessarily associated with their employment prospects.

In their search for an explanation of such a state of affairs, Williams and Franic (2017) identified the quality of the ‘psychological contract’ with the state and the ‘social contract’ with other taxpayers as the key features underlying behaviour of a great many workers in this respect.⁶ A similar conclusion was also reached by studies in Baltic and other post-Soviet countries (see Round et al., 2008; Sedlenieks, 2003; Williams and Horodnic, 2015b). As a matter of fact, the close link between the lack of trust in the state and the decision of workers to hide one part of their wage was further illuminated by some recent cross-national studies (see, for instance, Williams and Horodnic, 2015a; Williams et al., 2015). Vast and expensive state apparatuses, unsustainable pension systems, pervasive corruption, low cultures of tax compliance and inefficient judiciaries have been therefore getting increased attention in discussions about the main reasons why EU workers enter such illegitimate wage arrangements (Round et al., 2008; Torgler, 2004; Williams and Martínez, 2014). However, one should also not neglect possible financial motivation for workers. Namely, given that wage underreporting results in savings from personal income taxes and social security benefit contributions, some employers can offer to share them with workers so as to ensure their cooperation. If true, this would certainly explain why that many workers personally initiate quasi-formal employment.

To add to this ongoing debate on the main drivers of the phenomenon from the perspective of workers, this article evaluates what lies behind their readiness to keep obeying the unwritten agreement once they have entered this realm. This issue is quite important as most workers discover inherent disadvantages of the scheme only upon commencing the job. For instance, a certain proportion of them face problems with employers failing to

meet their part of the verbal agreement, which not only reduces the worker's willingness to persevere in that particular job but also to accept similar employment offers in future. As well, some workers presumably become aware of their personal wrongdoings only after they start receiving cash-in-hand-payments, which could potentially alter the moral dimension of their reasoning and bring out the fear of being detected and prosecuted by the authorities. In line with this, in the rest of this article we design and estimate a cumulative logit model of determinants of workers' satisfaction with their quasi-formal job.

Data and variables

Being the first EU-wide study on the demand and supply of undeclared goods and services, the Special Eurobarometer 284/Wave 67.3 survey provided an extensive insight into the prevalence and nature of quasi-formal employment.⁷ Every respondent who identified themselves as an officially registered dependent employee was asked if their take-home pay was being split into two parts. A total of 616 individuals who admitted their involvement in this practice were then further questioned so as to grasp more details about that particular job. One of these supplementary questions was structured as follows:

Were you happy getting part of your salary without having it declared to the tax or social security authorities or would you have preferred to have had your total gross salary declared?

Every interviewee could express their level of satisfaction choosing one of the three options: 'I would rather have preferred full declaration'; 'It depends'; and 'I am happy with this'. The resultant variable can thus be perceived as an ordered categorical, given that every subsequent answer represents a higher level of contentment. To evaluate the factors shaping one's satisfaction, we thus use a random intercept cumulative logit model defined as

$$\ln \left(\frac{P(y_i \leq m)}{P(y_i > m)} \right) = \alpha_{mj} + \sum_{k=1}^K \beta_k X_{ijk}, \quad m = 1, 2, 3 \quad (1a)$$

$$\alpha_{mj} = \alpha_m + u_j \quad (1b)$$

where y_i represents the level of satisfaction expressed by the individual i , m denote the three possible answers, $X_1 - X_K$ are explanatory variables and $u_j \sim N(0, \sigma_u^2)$ are the level 2 random effects.

It is important to note that the data are essentially given on two levels (i.e. individuals nested within countries), and therefore multi-level analysis is required so as to obtain unbiased estimates (Hosmer et al., 2013; Hox, 2010; Snijders and Bosker, 1999). As can be seen from equation (1b), this is done by adding a random intercept (note the presence of a country indicator $j = 1, 2, \dots, 27$ in both the equations).⁸

The thresholds α_m in equation (1b) represent the log-odds of the individual with $X_1 = X_2 = \dots = X_K = 0$ and $u = 0$ having a response in category m or lower. These intercepts vary from country to country, which is enabled by including the group-level residuals u_j . Every parameter β_k quantifies the effect of a unit change in determinant X_k on the log-odds that a response is m or lower, when the country effect u is held

constant. Owing to the multi-level character of the analysis, each β_k is essentially the effect of the accompanying predictor for individuals in the same country.

Given this definition of the model, one can realise that the interpretation of coefficients in cumulative logit modelling is counterintuitive. That is to say, a negative value of β_k would suggest that a one-unit increase in the corresponding explanatory variable entails a decrease in the propensity of being dissatisfied with receiving cash-in-hand supplements (i.e. an increase in the likelihood of expressing higher level of contentment).

Turning to the variables that could explain why some individuals are happy with their position while others completely oppose this form of employment, we start with the afore-elaborated issues of horizontal and vertical trust. These are assessed by checking whether there is any link between the tax morale of a worker and their satisfaction with their own quasi-formal job. The tax morale index was constructed by applying factor analysis on variables conceptualising the respondents' tolerance towards the following four types of non-compliant behaviour: receiving welfare payments without entitlement; partial or complete non-declaration of income by a self-employed individual; undeclared work by a firm for a household; and tax evasion in company-to-company transactions. For each of the four situations the respondents were asked to express their views on a 10-point Likert-type scale, with larger values indicating greater level of tolerance. Owing to the properties of factor analysis, the resultant predictor is therefore an interval variable with values ranging from 1 to 10. It is important to note that the tax morale index is essentially given on an opposite scale, since larger values signify more permissive attitudes towards tax evasion (i.e. lower tax morale).

To further elucidate the direction in which the fight against this phenomenon should go, it is also important to evaluate the role of deterrence in this respect. The effectiveness of repression is hence examined by including individuals' assessment of the detection risk, as well as the sanction they expect in the case of this happening. Explicitly, every survey respondent was asked to evaluate the risk of being caught by the authorities, with the following answers being possible: very small, fairly small, fairly high and very high. Likewise, three options were offered for expected penalties: only tax and social security contributions due; tax and social security contributions, plus a fine; and prison.

Another thing which ought to be scrutinised is how the exact function of cash-in-hand payments within the arrangement affects the viewpoints of workers. Every quasi-formal worker was asked whether the undeclared part of wage served to remunerate strictly overtime/extra work, whether it was part of the payment for regular work or whether it covered both. This variable is quite important as its effects on one's satisfaction could signal possible financial drivers of this practice on the part of workers.

To control for socio-economic and demographic peculiarities of one's happiness with receiving partitioned wages, we also include age, gender, marital status and occupation as explanatory variables in the model. In total, eight potential determinants are scrutinised, with their detailed description given in Table 1. Before proceeding to the results, it should be mentioned that the issue of missing data was addressed by applying the multiple imputation procedure (Newman, 2014; Rubin, 1987). For every non-existent value in the dataset 10 simulations were produced using the REALCOM impute software. The coefficients of the two-level random intercept cumulative logit model were then estimated following the Markov Chain Monte Carlo method in MLwiN.

Table 1. Summary of individual-level covariates used in a two-level random intercept cumulative logit model on satisfaction with quasi-formal employment.

Variable name	Description	Values
Gender	A dummy variable for respondent's gender	0 – male 1 – female
Age	An interval variable indicating the exact age of a respondent	Values representing exact age
Marital status	A categorical variable denoting the civil state of a respondent	1 – single 2 – married 3 – cohabiting 4 – divorced/separated 5 – widowed
Occupation	A categorical variable describing the job position of a respondent	1 – manual worker 2 – employed position, at desk 3 – employed position, service job 4 – employed position, travelling 5 – supervisor 6 – employed professional 7 – manager
Type of payment	A categorical variable denoting the exact function of envelope wage payments	1 – part of the payment for regular work 2 – payment for overtime, extra work 3 – payment for both regular and overtime work
Detection risk	A categorical variable for perceived risk of being detected when engaged in unregistered activities	1 – very small 2 – fairly small 3 – fairly high 4 – very high
Expected sanctions	A categorical variable measuring anticipated penalties when caught in carrying out unregistered activities	1 – normal tax or social security contributions due 2 – normal tax or social security contributions due, plus a fine 3 – prison
Tax morale	An interval variable measuring respondents tax morale	'1' denotes the highest level of tax morale and '10' the lowest level

Source: Author's own work based on the Special Eurobarometer 284/Wave 67.3.

Findings

The results of the Special Eurobarometer survey show that 4 out of 10 quasi-formal workers in the EU27 were happy with receiving additional cash payments alongside their official wage (Figure 1). On the other hand, less than 30% would prefer full declaration, while 16% were indecisive. As can be seen from Figure 1, workers in Poland, Lithuania and Greece were the least positive about underreporting of their wages, followed by their fellows in Slovakia, Hungary, Sweden, Italy, Spain and Romania.

On the other hand, this practice seems to have been highly approved by quasi-formal workers in Malta, the United Kingdom, Luxembourg and Denmark. In a few countries, undecided individuals actually represent a substantial share of quasi-formal workers.

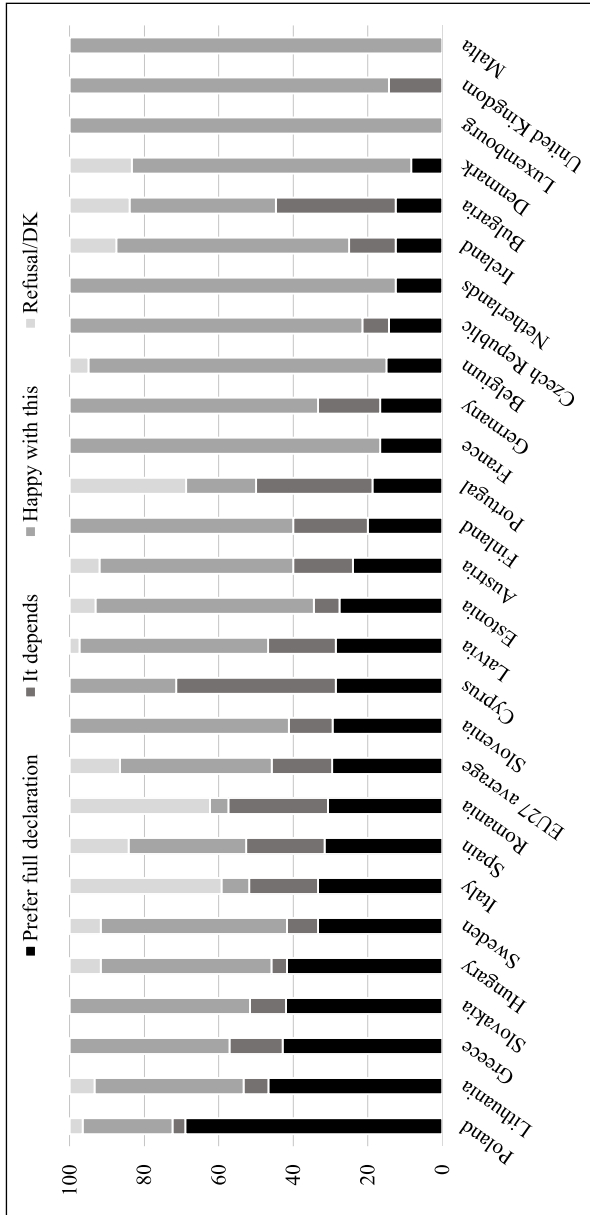


Figure 1. Spatial distribution of attitudes towards receiving envelope wages, percentage of quasi-formal employees in 2007.
 Source: Author's own work based on the Special Eurobarometer 284/Wave 67.3.

Table 2. Two-level random intercept cumulative logit model on satisfaction with quasi-formal employment, in 2007.

	β_k	Standard error
Female	0.255	0.190
Age	0.014	0.009
Marital status (RC: single)		
Married	0.340	0.242
Cohabiting	0.117	0.295
Divorced/separated	-0.089	0.353
Widowed	0.758	0.821
Occupation (RC: manual worker)		
Employed position, at desk	-0.163	0.281
Employed position, service job	0.332	0.270
Employed position, travelling	-0.507	0.307
Supervisor	-0.525	0.723
Employed professional	0.046	0.353
Manager	0.321	0.305
Type of payment (RC: payment for regular work)		
Overtime, extra work	-0.442*	0.226
Both regular and overtime work	0.417*	0.200
Detection risk (RC: very small)		
Fairly small	0.036	0.212
Fairly high	0.146	0.240
Very high	0.513	0.389
Expected sanctions (RC: tax + social security contributions due)		
Tax + contributions + fine	-0.196	0.184
Prison	0.249	0.385
Tax morale	-0.250***	0.043
alpha1	-0.958**	0.358
alpha2	-0.004	0.356
σ_u^2	0.369	0.217
level_2 units	27	
level_1 units	616	

Source: Author's own work based on the Special Eurobarometer 284/Wave 67.3.

Estimates based on multiple imputation technique with 10 imputations.

RC: reference category.

* $p < 0.05$.

** $p < 0.01$.

*** $p < 0.001$.

Such examples are Cyprus (with 43% of recipients being neither happy nor unhappy with this arrangement), Bulgaria (32%) and Portugal (31%).

The results of the two-level random intercept cumulative logit model on the factors shaping attitudes towards this employment scheme, which are presented in Table 2, reveal that tax morale and the function of cash-in-hand payments were the only important determinants in this respect. Given that previous studies identified tax morale as the central

element behind the decision of a great many workers to enter this realm in the first place (Francic and Williams, 2017; Williams et al., 2015; Williams and Horodnic, 2015b), these findings further reinforce the key role of intrinsic willingness (or unwillingness) to pay taxes in the development and continuation of quasi-formal employment.

When it comes to the exact function of the cash-in-hand part of take-home pay, the cumulative logit model reveals that individuals who received cash strictly for overtime and/or extra work were most likely to express unconditional support for wage underreporting. This is actually not surprising given that such workers find it much easier to draw a clear line between invested efforts and received remuneration. Since an additional labour input results in higher cash supplements, those individuals undoubtedly have a strong motivation to work harder.

This reasoning can also help in explaining why individuals receiving cash for both regular and overtime work were most likely to express dissatisfaction with their position (Table 2). However, besides the inability to draw a line between invested efforts and income, this could also be due to cash-in-hand payments representing a much larger portion of the total earnings. If true, this would mean that such individuals have lower formally declared wage in comparison to other quasi-formal workers, which then entails lower expected pension, more emphasised problems with obtaining loans and mortgages, much lower welfare benefits in case of losing their job and so on.

On the other hand, perceived detection risk and expected sanctions seem not to have played an important role. Although the obtained coefficients mostly had expected signs, none of them was found to be statistically significant (Table 2). These findings are also in line with the above-mentioned studies on the key reasons for workers to enter such employment arrangements, thus offering further evidence against the use of repression in the fight against this phenomenon.

Finally, it should be mentioned that none of the demographic and socio-economic variables seemed to exert influence on the satisfaction of quasi-formal workers. Despite substantial dissimilarities with respect to the propensity to enter such labour relations in the first place (see Kadir et al., 2011; Williams et al., 2015; Williams and Padmore, 2013a), there appeared to be no difference between genders when it came to the levels of satisfaction expressed. The same also held true for an individual's age and marital status, as well as for their occupation.

Yet, these rather unusual findings regarding the role of demographic and socio-economic characteristics can be easily explained by their interconnection with tax morale. Numerous studies have revealed that women commonly express higher moral values than men, while older people find it harder to justify tax evasion in comparison to young individuals (e.g. Frey and Torgler, 2007; Lago-Peñas and Lago-Peñas, 2010). Similarly, high-income earners are found to have more permissive attitudes towards non-compliant behaviour than those with average and below average income (Alm and Torgler, 2006).

Discussion and conclusion

This article offers the very first insight into the attitudes of quasi-formal workers towards their own employment arrangements. As demonstrated, only 3 out of 10 workers expressed dissatisfaction with wage underreporting, while more than 40% were happy with this. The two-level random intercept cumulative logit modelling identified tax

morale and the exact function of cash-in-hand payments as the key determinants of one's contentment. On the other hand, repression seems not to be a viable policy option for tackling this phenomenon, as neither perceived detection risk nor expected penalties were found to be relevant for workers.

The limited role of deterrence certainly has a lot to do with the very nature of this scheme, given that hidden wage arrangements are extremely hard to disclose and prove. Yet, there is also a possibility that workers actually do not perceive themselves as blameable for their position. If an individual believes that only their employer is to be held responsible and prosecuted by the authorities, deterrence then becomes a completely irrelevant issue from their perspective. However, one should also not neglect the role of intrinsic willingness to contribute to the state budget in this respect. Numerous studies have shown that individuals expressing mistrust in the state institutions and/or other citizens are more likely to support and personally engage in non-compliant behaviour regardless of the accompanying risks (see, for instance, Feld and Frey, 2002; Frey and Torgler, 2007; Levi, 1988).

However, while the theory on institutional weaknesses can help in clarifying high approval rates among quasi-formal workers in the post-socialist economies, it is of limited use in the case of the older EU member states. Given that the problems with the quality of state institutions in Western democracies are not as salient as in transition economies, there certainly must exist other important factors underlying the behaviour of workers. Although restricted to a rather small set of explanatory variables, our analysis managed to identify a direction in which future research in this respect should go. Namely, given the significant association between the function of cash-in-hand payments and one's satisfaction with this form of employment, it is highly plausible that many workers are actually led by purely financial motives.

Indeed, since wage underreporting reduces the amounts of taxes and social contributions paid, business owners can easily trick their prospective employees into this realm by offering to share with them the money saved this way. As it is in human nature to attach greater importance to the present state of affairs than to the distant and uncertain future, some workers most likely eagerly accept such offers due to somewhat higher take-home pay. However, this is just a theory which has to be evaluated by subsequent studies. If this article inspires other scholars to further investigate financial aspects of this detrimental economic and social phenomenon, then it will have fulfilled one of its broader intentions.

In any case, it is important to stress that our findings do not refute the available theories on the reasons for workers to participate in this realm. There is no doubt that a great many quasi-formal workers are oppressed, manipulated and exploited by their employers, as described by previous studies (e.g. Hazans, 2005; Woolfson, 2007). Indeed, those 3 out of 10 research participants expressing dissatisfaction would certainly have much to say about the precarious character of their employment, had they been asked. However, the conducted analysis does indicate that the quasi-formal workforce is probably not as homogeneous as has been believed so far.

Apart from opening new horizons about the key mechanisms behind quasi-formal employment in the EU, this article is also expected to have some practical significance. First and foremost, the conducted analysis showed that workers play a more important role in the process of wage underreporting than had previously been assumed. In line with this, more emphasis should be given to addressing the main motivations of workers

if greater success in the fight against this phenomenon is to be achieved. The second important practical contribution of the article refers to questions posed regarding the effectiveness of efforts to repress quasi-formal employment. If it encourages governments in the EU to recognise wage underreporting as arising first and foremost from low vertical and horizontal trust, then this article will have achieved its main intention.

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Notes

1. Besides the unreported part of wage for regular working hours, cash-in-hand payments also commonly cover income from overtime work, holiday allowances, various bonuses and other non-standard transactions.
2. Although this EU-wide questionnaire survey on illegitimate economic activities was repeated in 2013, this particular topic was omitted from the second wave.
3. This practice actually represents a hybrid type of work residing somewhere between the formal and informal realms.
4. It should be also mentioned that under-declaration can sometimes serve as a pure survival strategy for employers. For instance, the shift from fully regular to quasi-formal employment can help to reduce expenditures of the company and therefore save jobs in the time of crisis (Williams and Padmore, 2013a). On the other hand, this practice can also be applied in the case of temporary increase in demand. Instead of hiring new workers, an employer can opt to increase workload for the existing ones and pay all additional effort in cash (Meriküll and Staehr, 2010).
5. The pioneering inquiries into this phenomenon were mainly case studies, which seem to have led to an incomplete account of the state of affairs. For instance, the study by Woolfson (2007) elaborates the story of one whistle-blower from Lithuania, while Hazans (2005) discusses labour conditions in nine Latvian companies.
6. Interestingly, the authors did not find any effect of the perceived detection risk nor expected sanctions on one's propensity to engage in under-declared employment. This peculiarity was also detected by some other studies (see Williams and Bezeredi, 2017; Williams and Horodnic, 2016).
7. The survey encompassed 26,659 individuals from 27 member states, approximately 1000 per country. Croatia was not included in the survey as it was not a member of the EU at that time.
8. Due to rather small within-country samples for certain EU member states, inclusion of country-level predictors was not possible. The list of explanatory variables is given later in the text.

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