

# UNINSTITUTIONALISED EMPLOYMENT AND SELF-EMPLOYMENT

## Forms of uninstitutionalised employment and self-employment (UESe)

The employment and self-employment as a form of economic activity can be considered uninstitutionalised when it is conducted:

- without regulating the employer-employee relationship with a labour contract and both sides intentionally conceal their relationship;
- without regulating their principal-agent civic legal relationship with a civil contract without a contract and both sides intentionally conceal their relationship;
- without registering under the Commercial Code;
- without registration according to Executive Regulations;
- without a social insurance.

The households' UESe can be considered significant because it exceeds 25% of the monthly/annually household expenses.

## Evaluation of UESe and its economic and social outcome

### *Evaluation*

The empirical sociological survey distinguished two kinds UESe: primary (as a basic job) and extra employment (as additional activity). The forms of UESe are studied according to the legal regulation of the labour relationship (employees-employers) or registering economic activity (for the self-employed).

The result of resuming the acquired data is the following basic **conclusion: almost one third of the active labour force in the country is employed through the “black” (entirely hidden) or “shadow” (partly hidden) employment. Every tenth person employed receives from the employer additional remuneration that both sides conceal.** Revealing the UESe size of the hired work force will recover the one of the additional UESe. The results analysis points that over 23% of the employees interviewed were occupied in additional economic activity. About 10% of them have been hired, 14% work in their own or family company, 7% - freelance activities and 8% - productive co-operatives. All this shows that this category of labour force prefers to combine their basic job with additional work. On the other hand this is an indicator of a constant low payment being transferred into a compulsion to additional work.

The share of the unemployed individuals that have been working during the last week<sup>1</sup> was around 13% which outlines the probable UESe among them. They were engaged mostly without a written contract and for a short term (less than a month). The branches where was easier to get employed were the agriculture, construction and trade. This defines the employment as periodical. The share of unemployed, owners of a company is insignificant — about 2%, while one third of them point that the company is not functioning. Approximately 2% is the share of the self-employed, occupied in activities of their own or family company without social security. The **conclusion** is : as far as for individuals engaged in UESe they are mainly hired employees without written labour or civil contract. In the same time 23% from the unemployed declare that they produce agricultural goods for themselves, and 3.3% of them - for themselves and the market as well. This underlines once again the role of the agriculture and particularly the family business for surviving of a great part of the Bulgarian household in the current environment.

The survey outlines the extremely big portion of the hidden employment among the self-employed. About 80% of them point that their activity remains unregistered. Also, around 80% from the individuals self-employed are not declaring their income. These results are

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<sup>1</sup> Of the survey on field.

twice higher than the data in World Bank's study, in which " according to rough estimates around 35-40% of all individuals working freelance are involved in the informal sector".

### *Macroeconomic outcome*

#### *Quality evaluation of the UESe outcome*

As a result of its involvement in the "black" or "shadow" labour market, the UESe gets entirely or partially unregistered income. This way the population avoids entirely or partially payment of Income Tax of social security remittances. At the same time most of the participants in the "black" or "shadow" labour market receive from the state budget and/or Social Security Fund (SSF) aid for unemployment, temporary incapability, etc. The lack of social insurance allows a big number of individuals, receiving income from UESe to use health service without paying a single Lev to the state treasury. The free-riders' kids profit from those health and education services as well. The only potential revenue for the budget or social security funds from the ones who are involved in UESe are some potential sanction for undeclared income to be taxed or amounts restored from illegal aid received and securities remittances.

The other party to the "black" or "shadow" labour market - the employers, are contracting cheaper work force and save a lot of their liabilities to the employees, such as annually paid vacation, some compensation in case of curtailments, clothing costs. At the same time the illegally hired are not importing the obligatory SSF and Qualification and Unemployment Fund (QUF) remittances, thus seriously impeding those funds. Securing the minimum salary while paying much bigger remuneration as a common practice of plot against the State and the social funds. Such fraud is casual between employers and pensioners usually being contracted for no more than two minimal salaries and actually paid much more.

The only one to lose from this scheme is the State. The budget and the social funds are impeded both from employers and UESe employees. Nevertheless, these conclusions are valid only using only rudimentary criteria. Practically the State is forced to increase taxes and social security fees for compiling the necessary revenues for the budget and the funds. The high level of security fees forces the employers to keep the salaries at a comparatively low level. At the same time the employees are forced to seek chances for additional income from the "black" or "shadow" labour market or through illegal and/or partly illegal self-employment. This way the vicious circle is locked up and actually the criterion of "losing" and "winning" party becomes much more complicated. Thus the general engagement of the labour force in different kinds of additional forms of UESe leads toward lowering the productivity of the labour of the ones in the basic employment, toward ineffective usage of the professional potential of the work force. The more an economy applies additional employment, the less are the effective work room and the more is deprives from effective employment.

The above mentioned negative qualification of the spreading out of different forms of UESe should not be absolutised. With the lack of the needed flexibility of the labour, taxation and social regulations and the unfavourable economic situation, the "black" and "shadow" labour market are the only alternative for surviving of a considerable part of the population. This market reveals work room and employment abilities that can hardly be developed under the current labour and security regulations. Of the employers were following strict rules and laws, this work room could never be developed practically.

#### *Quantity evaluation of the UESe outcome*

The data received through the empirical sociological survey of the UESe scales and forms facilitates the evaluation of the macroeconomic outcome (See Table 1.). The data in the Table shows the level of the employment and unemployment and the economic structure of the active population, very close to the levels of the National Statistics Institute (NSI) observation. Probably because this survey was conducted during mostly favourable for

UESe season, the information show a correlation of economic activity higher than 3 percentage points <sup>2</sup>.

**Table 1.**

**Basic data on the economic status of the Bulgarian population over the age of 16.**

Indicators	Indicators value	
	in percentage from the empirical study	in absolute figures
I. Economically active individuals, from which:	55.5	3,831,837
<b>1. Employed, including:</b>	<b>81.8</b>	<b>3,134,443</b>
1.1. Hired employees, from which:	67.5	2,586,186
1.1.1 Working under labour contract	86.9	2,247,396
1.1.2 Working under civil contract	6.3	162,930
1.1.3 Working under oral agreement	2.8	72,143
1.1.4 Working under other contract	0.9	23,276
1.1.5 Working without a contract	3.1	80,172
1.1.1.1 Hired employees receiving extra remuneration — cash money —	10.2	263,791
1.1.1.2 Hired employees engaged in extra labour activities	23.1	597,407
1.2 Self-employed, from which:	6.9	264,397
1.2.1 Non-registered activity	80.1	211,782
1.2.2 Non-declaring income	79.7	210,724
1.2.3 Engaged in other activities	10.1	26,704
1.3 Employers	1.2	45,982
1.4 Unpaid family business employees, including	2.4	91,964
1.4.1 Without social insurance	87.8	80,744
1.5 Members of producing co-operatives	1.4	53,647
1.6 Other economic activity	2.4	91,964
<b>2. Unemployed, from which:</b>	<b>18.2</b>	<b>697,394</b>
2.1 Engaged in labour activity	12.9	89,963
2.2 Registered as owners of a company	2.2	18,343

The bigger number of the economically active individuals (approximately 200,000) of the one of the survey comes from the unemployed self-determined as such<sup>3</sup>. As it can be seen at the Table, more than 100,000 individuals from the unemployed point out that they conduct some work or have their own company. That's why in the sociological study there is 2.4% higher share of the ones, shown as an activity "other".

The study allowed for the first time to be gathered generalised information on the number of individuals involved in UESe. Based on this information some approximate estimations were made of the size of the population income being hidden from the social security fees (See Table 2.). Only because of the ones engaged in the "black" market activities are around 176,000 monthly according to the observation (June 1996) there are 98 mln. BGL lost for the state budget from Income Tax, 420 mln. BGL for SSF and 54 mln. BGL for QUF. According to approximate estimations for the whole year of 1996 as a result of the UESe there are revenues to be lost estimated 31,235 mln. BGL, including 6,815 mln. BGL for Income Tax, 23 bln. BGL for SSF and 1,420 mln. BGL for QUF. To this amount of

<sup>2</sup>While observing labor force in June 1996, the correlation of the economic activity is 52.5% and the number of the economically active individuals was 3,602,600.

<sup>3</sup>By the end of June 1996, the number of the unemployed according to the NSI survey it is 488,700 (correlation of unemployment - 13.5%), whereas according the empirical sociological survey it is 697,394 (correlation - 18.2%).

losses should be added the illegally received social aid from the state budget and QUF form individuals that are practically employed. It should be noticed that the estimates conducted of the revenues omitted for the state budget and the Social funds are lowered. Apart from the fact that the ones interviewed new the goals of the study, the information on the size of the income and the share of the income uncollected can not be considered reliable. Additionally a big portion of the households - some 46.3%, are cultivating land and produce goods for their own consumption.

It is to mentioned that according to the statistics, households' budgets form around 25% of the income. This serious naturalisation of the households practically leads to severe limitation of the taxable income of the population.

**Table 2.**

**Evaluation of the income of UESe and the revenue lost for the state budget and social funds**

<i>Participants</i>	<i>Number of participants and income from UESe</i>			<i>Income missed in:</i>		
	<i>Number of participants in UESe</i>	<i>Average monthly income per person in BGL</i>	<i>Total income yearly in mln. BGL</i>	<i>State budget Income Tax mln. BGL</i>	<i>SSF mln. BGL</i>	<i>QUF mln. BGL</i>
1. Employees without labour contract	175,860	6,120	12,915	1,182	5,036	645
2. Employees being paid in cash	263,791	4,900	15,507	4,641	6,048	775
3. Employees engaged, not declaring their income	439,691	4,230	10,419	144*	—	—
4. Self-employed, not declaring their income	210,724	10,550	26,677	848**	10,404	—
5. Family business without social insurance	80,744	4,000***	3,876	—	1,511	—

\* The degree of additionally employment for the year was evaluated as well as the Income Tax missed under clause 13 of the Income Tax Law.

\*\* Only for the income not declared and self-employed out of the agriculture.

\*\*\* Minimal average monthly insurance income. There is a twist that according the Regulations social insurance for this category of employees is not obligatory.