Cross-National Variations in the Under-Reporting of Wages in South-East Europe: A Result of Over-Regulation or Under-Regulation?

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Abstract:

This paper seeks to explain the cross-national variations in the tendency of employers in South East Europe to under-report the wages of their employees by paying them two wages, an official declared salary and an additional undeclared envelope wage. Reporting the results of a 2007 Eurobarometer survey of this practice undertaken in five South East European countries, the finding is that the commonality of this illicit wage practice markedly varies cross-nationally, with 23 percent of formal employees in Romania but just 3 percent in Cyprus receiving an under-reported salary. Finding that the under-reporting of wages is more prevalent in neo-liberal economies with lower levels of state intervention and less common in more 'welfare capitalist' economies in which there is greater state intervention in work and welfare, the resultant conclusion is that the under-reporting of employees wages by employers is correlated with the under- rather than over-regulation of work and welfare.

Keywords: undeclared work; informal economy under-reported employment; envelope wages; tax compliance; tax evasion; South-East Europe

JEL: E26, M26, O17, K42

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1. Introduction

Over the past decade or so, a small but growing literature has highlighted how formal employers sometimes under-report the wages that they pay to their formal employees by paying them two wages, a declared salary and an undeclared 'envelope' wage (Karpuskiene 2007; Meriküll and Staehr 2010; Neef 2002; Sedlenieks 2003; Williams 2007, 2008, 2009a,b; Woolfson 2007; Žabko and Rajevska 2007). Beyond highlighting that employers do this in order to reduce the social contributions they pay, there has been no attempt to explain why this wage practice varies cross-nationally. This paper, therefore, seeks to do so by evaluating whether it is more common for employers to under-report employees' wages in some economic systems than others. To do this, two competing economic perspectives will be evaluated.

From a neo-liberal viewpoint, it could be argued that the under-reporting of wages is a product of high taxes, over-regulation and state interference in the free market

and that the remedy is therefore to pursue tax reductions, de-regulation and to minimize state interference in the market. Viewed through this neo-liberal lens, therefore, the under-reporting of wages would be more common in countries with higher taxes and levels of state intervention in work and welfare systems. From a structuralist viewpoint, meanwhile, it could be argued that the under-reporting of wages is a product of inadequate levels of labour market intervention and social protection and that the solution is therefore to pursue greater state intervention. Viewed through this structuralist lens, in consequence, the under-reporting of wages would be less prevalent in countries with higher levels of state intervention in work and welfare. The aim of this paper is to evaluate these competing economic

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perspectives by analysing in the context of South-East Europe whether the under-reporting of wages is more prevalent in neo-liberal regimes with lower levels of state intervention or in more 'welfare capitalist' economies where there is greater intervention in work and welfare.

To achieve this, the first section will review the existing literature on the under-reporting of employees' wages along with the competing explanations regarding its cross-national variations that view it as the result of either over-regulation or under-regulation. To evaluate the validity of these competing explanations, the second section will then set out the methodology used to compare the under-reporting of wages in different economic and welfare systems in South-East Europe, followed in the third section by the findings. Finding that in more 'welfare capitalist' countries with higher levels of intervention in the labour market and greater social protection, the under-reporting of wages is less prevalent, whilst in 'neo-liberal' regimes with less intervention in the labour market and social protection, the under-reporting of wages is more extensive, the final section will then review the implications of the findings both for explaining the cross-national variations in the commonality of the under-reporting of wages and for how it might be tackled.

Before beginning, nevertheless, it is necessary to clarify what is being discussed in this paper. Based on the notion that a job is either formal or informal, the focus was upon work which is wholly hidden from, or unregistered by, the state for tax, social security and/or labour law purposes (European Commission 2007b; ILO 2002; Williams and Windebank 1998). There was little recognition that not all jobs paying an undeclared wage are entirely hidden from, or unregistered by, the state for tax, social security and/or labour law purposes. In recent years, however, an emergent literature has begun to discuss how formal employers sometimes under-report the wages that they pay to their formal employees by paying them two wages, a declared salary and an undeclared 'envelope' wage which is hidden from, or unregistered by, the state for tax and social security purposes (Karpuskiene 2007; Meriküll and Staehr 2010; Williams 2008, 2009a; Woolfson 2007; Žabko and Rajevska 2007). It is these jobs, where the wage packet paid to formal employees by formal employers is under-reported, that are the subject matter of this article.

2. Explaining the Under-Reporting of Employees' Wages by Employers: A Literature Review

Since the turn of the millennium, there has been a small but growing literature which has recognised that formal employers sometimes under-report the wages of their formal employees by paying them two wages, an official declared salary and an undeclared wage, or what is termed an 'envelope wage' which is hidden from, or unregistered by, the state for tax and social security purposes. Studies of this tendency for formal employers to under-report their formal employees' wages have been conducted in Estonia (Meriküll and Staehr 2010), Latvia (OECD 2003; Meriküll and Staehr 2010; Sedlenieks 2003; Žabko and Rajevska 2007), Lithuania (Karpuskiene 2007; Meriküll and Staehr 2010; Woolfson 2007), Romania (Neef 2002), Russia (Williams and Round 2007) and Ukraine (Round et al. 2008; Williams 2007).

Until now, these have tended to be mostly small-scale qualitative studies or more extensive surveys of a single country. For instance, Woolfson (2007) in Lithuania examines one single person whose wages were under-reported by his formal employer, albeit a *cause celebre*, whilst Sedlenieks (2003) reports 15 face-to-face interviews conducted in the city of Riga in Latvia. Single nation extensive surveys, meanwhile, include a survey of 600 household in three Ukrainian localities by Williams (2007), and a study of 313 households in three districts of Moscow in Russia (Williams and Round 2007). Neither, however, are representative national samples. The only known nationally representative sample survey of this subject is reported by Meriküll and Staehr (2010). They review the findings of 900 interviews undertaken in Estonia, Latvia and Lithuania. This study, however, was conducted between 1998 and 2002 at an earlier stage in the transition process.

The findings of these studies nevertheless provide strong indicative evidence that this wage arrangement is widely used in the countries so far studied. In Ukraine, Williams (2007) finds that 30 per cent of the formal employees interviewed in the three localities received unreported (envelope) wages in addition to their declared salary. In Moscow, meanwhile, 65 per cent of formal employees received unreported wages from their formal employer equating to anywhere between 20 to 80 per cent of their gross wage (Williams and Round 2007). In Latvia, meanwhile, the OECD (2003) report that 20 percent of private sector employees received unreported

wages as a supplement to their declared wage from their formal employer.

The main reason for formal employers under-reporting the wages of their formal employees by paying an additional unreported ('envelope') wage is so that they can evade their full social insurance and tax liabilities. This, however, is not the sole rationale for this wage arrangement. It can also be used by formal employers seeking redundancies. By not paying the undeclared component of an employee's wage, formal employers can encourage those formal employees they no longer wish to retain to voluntarily leave their formal job, and thus avoid social costs in the form of redundancy pay. Indeed, anecdotal evidence in several studies suggests that this is a common practice (Hazans 2005; Round et al. 2008).

Until now, however, no studies have sought to understand whether it is more common for employers to under-report employees' wages in some economic systems than others. This paper, therefore, seeks to do so. In order to achieve this, two competing economic perspectives will be evaluated.

From a neo-liberal economic perspective, it could be argued that the under-reporting of wages is a product of high taxes, over-regulation and state interference in the free market (Becker 2004; De Soto 1989, 2001; London and Hart 2004; Nwabuzor 2005; Small Business Council 2004). As Nwabuzor (2005: 126) asserts, 'Informality is a response to burdensome controls, and an attempt to circumvent them', or as Becker (2004: 10) puts it, 'informal work arrangements are a rational response ... to over-regulation by government bureaucracies'. From this neo-liberal viewpoint, therefore, the under-reporting of wages would be more common in countries with higher taxes and levels of state intervention in work and welfare systems. To solve the problem of the under-reporting of wages, therefore, tax reductions, de-regulation and minimal state intervention would be pursued.

Alternatively, and from a structuralist economic perspective, it could be argued that the under-reporting of wages is a result of the lack of regulation of labour markets and inadequate levels of labour market intervention and social protection provided to employees. For structuralists, the contemporary mode of production is one where employers are using informal modes of organising and organisation in order to achieve flexible production, profit and cost reduction (Castells and Portes 1989; Davis 2006; Gallin 2001; Sassen 1996; Slavnic 2010). From this perspective, the under-reporting of wages by employers is one manifestation of how this is

being achieved. Besides sub-contracting various stages in the production process to the informal economy, formal employers are also achieving flexible work arrangements, profit and cost reduction by paying formal employees some of their wage as an undeclared 'envelope' wage. Those employees whose wages are under-reported are thus seen as unwilling pawns who are forced into this illicit wage arrangement by unscrupulous employers (Ahmad 2008; Geetz and O'Grady 2002; Ghezzi 2010). The under-reporting of wages by employers is therefore viewed as having arisen due to the lack of regulation in the economy and greater regulation is required to resolve this problem. Viewed through this structuralist lens, therefore, the under-reporting of wages will be less prevalent in countries with higher levels of state intervention in work and welfare.

In this paper, in consequence, the aim is to evaluate in the context of South East Europe these competing economic perspectives by analysing whether the under-reporting of wages is more prevalent in neo-liberal regimes with lower levels of state intervention or in more 'welfare capitalist' economies where there is greater intervention in work and welfare. To achieve this, two hypotheses will be tested:

- that under-reported wages are more common in countries with higher tax rates; and
- that under-reported wages are more common in countries with greater levels of state interference in the economy and welfare provision.

3. Methodology: Examining the Under-Reporting of Wages in South-East Europe

To evaluate cross-national variations in the under-reporting of wages in South East-Europe and whether they are more common in countries with higher or lower tax rates and levels of state intervention, two sources of data will be used. To evaluate the prevalence of the under-reporting of wages, the findings of the 2007 Eurobarometer survey of undeclared work will be reported (TNS Infratest et al, 2006; European Commission, 2007a). This provides the results of 4,544 face-to-face interviews conducted in five South-East European nations, namely Bulgaria, Cyprus, Greece, Romania and Slovenia. Although these are all EU member states, and thus not representative of South-East Europe as a whole (which also includes Albania, Bosnia and Herzegovina, Croatia, Republic of Macedonia, Montenegro, Serbia, Moldova and Turkey), this survey nevertheless provides the first

insight into the under-reporting of employees' salaries in South-East Europe. To collect the data, a multi-stage random (probability) sampling method was employed with sampling points drawn with probability proportional to population size and population density according to the Eurostats NUTS II (or equivalent) and the distribution of the resident population in terms of metropolitan, urban and rural areas. Further addresses (every *n*th address) were subsequently selected by standard 'random route' procedures from the initial address. At the household level, meanwhile, the 'closest birthday rule' was used to select respondents.

The interview gradually moved towards more sensitive questions. It commenced by asking attitudinal questions with regard to participation in undeclared work, followed by questions on whether they had received undeclared goods and services. Questions then turned to the issue of whether those who were formal employees had received an additional undeclared ('envelope') wage from their formal employer and finally, questions were asked regarding their supply of undeclared work. Given the focus in this paper on the under-reporting of formal employees by formal employers, the questions asked on this issue are here outlined. Firstly, those who reported that they were formal employees were asked, 'Sometimes employers prefer to pay all or part of the regular salary or the remuneration for extra work or overtime hours cash-in-hand and without declaring it to tax or social security authorities. Did your employer pay you all or part of your income in the last 12 months in this way?'. Secondly, and in order to comprehend the nature of this under-reporting of the wages of formal employees, participants were asked 'Was this income part of the remuneration for your regular work, was it payments for overtime, or both?'. Thirdly, they were asked to estimate the percentage of their gross yearly income from their main job received as an undeclared ('envelope') wage and fourthly, they were asked whether they were happy to receive a portion of their salary in this manner.

To analyse the cross-national variations in tax rates and the level of state intervention in work and welfare, meanwhile, the data used is directly taken from the official sources of the European Commission. To analyse the variations in tax rates across these five South East European nations, three different measures of tax rates are analysed with the data in all cases taken from the official publications of the European Statistical Office (Eurostat, 2007, 2011). Firstly, the implicit tax rates (ITRs)

on employed labour are analysed, which is the sum of all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income divided by the total compensation of employees working in the economic territory. Secondly, the total tax revenue (excluding social contributions) as a percentage of GDP is analysed, which includes all taxes on production and imports (e.g., taxes enterprises incur such as for professional licenses, taxes on land and building and payroll taxes), all current taxes on income and wealth (including both direct and indirect taxes) and all capital taxes (Eurostat 2007). Third and finally, employers' social contributions as a percentage of GDP are analysed.

To evaluate whether the under-reporting of employees' wages by formal employers is correlated with different levels of state intervention, meanwhile, two indicators are used based on data again taken from official data sources of the European Commission. Firstly, the level of spending by the state as a proportion of GDP on labour market interventions to correct disequilibria is analysed (Eurostat 2011) and secondly, the level of state social protection expenditure (excluding old age benefits) as a proportion of GDP (European Commission 2011: Table 3).

Before reporting the findings from comparing these data-sets, it is important to highlight that one previous paper has used the 2007 Eurobarometer survey to describe the commonality of envelope wages in South-East Europe (Williams 2010). No attempt, however, was made to explain the cross-national variations in this wage arrangement. Here, therefore, by combining the data sets on cross-national variations in tax rates, labour market interventions and levels of social protection with the data-set on under-reported salaries, the competing economic perspectives can be evaluated critically. In other words, this paper for the first time begins to explain the cross-national variations in the under-reporting of employees' wages, rather than simply describing its existence.

4. Findings: Cross-National Variations in the Under-Reporting of Wages in South-East Europe

Of the 4,544 face-to-face interviews conducted in these five South-East European nations (Bulgaria, Cyprus, Greece, Romania and Slovenia), 1,657 participants reported that they had formal jobs. Of these 1,657 formal employees, one in ten (162 employees in total) had received an additional undeclared (envelope) wage from

their formal employer over the past 12 months. The prevalence of this illicit wage arrangement, however, is not evenly distributed across these South East European countries. As Figure 1 graphically portrays, there are marked cross-national variations, ranging from 23 percent of formal employees in Romania reporting that they receive an additional undeclared (envelope) wage from their employer to just 3 per cent of formal employees in Greece.

Figure 1: Prevalence of under-reporting of employees' wages in South East Europe

Neither is the nature of these under-reported wages the same in all five countries. As Table 1 reveals, across all five South East European countries, those receiving under-reported wages receive 38 per cent of their total wage undeclared, but this ranges from recipients receiving on average 86 per cent of their gross wage undeclared in Romania to 10 per cent in Cyprus. There are also variations in whether formal employees are paid an undeclared (envelope) component of their salary for their regular work and/or for overtime conducted. Across the five countries as whole, 34 per cent receive such a wage for their regular work, 30 per cent for overtime and 31 per cent for both their regular work and overtime. In Romania

and Bulgaria, however, the vast majority of employees receive envelope wages for their regular work and/or both regular work and overtime, whilst in Greece, Cyprus and Slovenia, around a half of recipients of undeclared (envelope) wages receive them for overtime or extra work conducted.

On the one hand, therefore, there are South East European nations in which this practice is extensive, paid to employees more for their regular hours and amounting to a considerable proportion of formal employees' wages (i.e., Bulgaria and Romania). On the other hand, there are South East European countries where such a wage arrangement is less common, paid more for overtime or extra work and amounting on average to around one sixth of employees' gross wages (i.e., Slovenia, Cyprus and Greece).

How, therefore, can the cross-national variations in the under-reporting of wages be explained? Is this employer practice more common in 'welfare capitalist' societies in which there is greater state intervention in work and welfare? Or is it more common in neo-liberal regimes where interference in work and welfare is much lower? To evaluate this, firstly, the relationship between wage under-reporting and tax rates, and secondly, between wage under-reporting and state intervention in work and welfare, will be evaluated. This will allow conclusions to be reached on the validity of the neo-liberal and structuralist explanations concerning whether the under-reporting of wages is correlated with over- or under-regulation.

4.1. Relationship between Tax Rates and Wage Under-Reporting

The neo-liberal perspective argues that employers under-report employees' wages due to high tax rates and that the resultant solution is to reduce taxes so as to decrease the commonality of this practice. To evaluate this, an analysis is undertaken of the relationship between

Country	No. of formal employees surveyed	% of gross income received as undeclared ('envelope') wage	Unreported (envelope) wage paid for:			
			Regular work	Overtime/extra work	Both regular & overtime work	Refusal or don't know
Romania	452	86	49	9	41	2
Bulgaria	415	30	48	16	34	2
Slovenia	357	15	12	41	29	18
Greece	247	15	29	57	14	0
Cyprus	186	10	14	57	29	0
All five	1,657	38	34	30	31	5

Table 1: Character of wage under-reporting in South East Europe

wage under-reporting and implicit tax rates (ITR) on employed labour in these five countries (Eurostat 2011). This summary measure of the average effective tax burden on labour income is calculated by totalling all direct and indirect taxes and employees' and employers' social contributions levied on employee income and dividing this by the total compensation of employees. Direct taxes on labour income cover the revenue from personal income tax, while indirect taxes on labour income are taxes such as payroll taxes paid by the employer. Employers' contributions to social security (including imputed social contributions) and to private pensions and related schemes are also included. The compensation of employees is the total declared remuneration, in cash or in kind, payable by an employer to an employee. It is thus the gross (declared) wage from employment before any charges are withheld (Eurostat 2007).

Figure 2 displays the relationship between the cross-national variations in the prevalence of wage under-reporting by employers and the cross-national variations in implicit tax rates on labour (i.e., the average effective tax burden on labour income) in these five South East European countries. Using Spearman's rank correlation coefficient (r_s), the finding is that there is no significant correlation between the cross-national variations in the average effective tax burden on labour income and cross-national variations in wage under-reporting by employers ($r_s = -.200$). Indeed, just 15 percent of the variance in the prevalence of wage under-reporting is correlated with the variance in implicit tax rates ($R^2 = 0.1471$). Consequently, the neo-liberal representation that wage under-reporting directly results from high taxes, and that the remedy is to therefore pursue tax decreases, is refuted.

Figure 2: Relationship between implicit tax rates on labour and under-reported salaries

This outcome, however, might purely be a product of looking at ITRs on labour income. To evaluate whether it differs when other measures of tax rates are analysed, the relationship between wage under-reporting and total tax revenue (excluding social contributions) as a percentage of GDP is analysed. Total tax revenue here includes: all taxes on production and imports (e.g., taxes enterprises incur such as for professional licenses, taxes on land and building and payroll taxes), all current taxes on income and wealth (including both direct and indirect taxes) and all capital taxes. As Figure 3 displays, there is again no significant correlation between cross-national variations in total tax revenue as a proportion of GDP and cross-national variations in the prevalence of wage under-reporting ($r_s = -.300$; $R^2 = 0.223$).

Figure 3: Relationship between total tax revenue and under-reported salaries

It is similarly the case when the relationship between the cross-national variations in the prevalence of envelope wages and the cross-national variations in the level of employers' social contributions as a percentage of GDP are analysed. Indeed, given that a major reason for employers paying envelope wages is to avoid paying their social contributions, this is perhaps the most relevant tax rate to analyse. The finding, however, as Figure 4 reveals, is that there is again no statistically significant correlation ($r_s = .800$; $R^2 = 0.2234$).

Consequently, whether one examines cross-national variations in implicit tax rates on labour, the total tax revenue as a percentage of GDP, or the level of employers' social contributions as a percentage of GDP, there is no evidence that cross-national variations in the prevalence of under-reporting of wages by employers are significantly correlated with cross-national variations in tax rates in the manner neo-liberals assert, namely that wage under-reporting rises when tax rates increase.

Figure 4: Relationship employers social contributions and under-reported salaries

4.2. Relationship between State Intervention and Wage Under-Reporting

Is it nevertheless the case that a relationship exists between cross-national variations in levels of state intervention and cross-national variations in the prevalence of wage under-reporting by employers? If so, is it the case that nations with greater levels of state interference have higher levels of wage under-reporting, as neo-liberals assert? Or is it that nations with greater state intervention have lower levels of wage under-reporting, as the structuralist perspective asserts? To answer these questions, the correlation between the cross-national variations in the prevalence of employer wage under-reporting and the cross-national variations in, firstly, the extent of state labour market interventions as a proportion of GDP and, secondly, the level of social protection expenditure as a proportion of GDP, will be analysed.

To evaluate whether welfare capitalist societies in which there is greater intervention in the labour market have a higher prevalence of wage under-reporting by employers, a bivariate analysis is conducted of the cross-national variations in the prevalence of wage under-reporting and the cross-national variations in the level of spending on labour market interventions to correct disequilibria, explicitly targeted at groups of the population with difficulties in the labour market, such as those who are unemployed, in employment but at risk of involuntary job loss, and inactive persons currently excluded from the labour force but who would like to join the labour market but are somehow disadvantaged (Eurostat 2011).

As Figure 5 displays, there is a strong statistically significant correlation between the cross-national variations in the proportion of GDP spent on labour market policy measures and the cross-national variations

in the prevalence of wage under-reporting ($r_s = -0.900^{**}$), with 74 percent of the variance in the prevalence of wage under-reporting correlated with the variance in the proportion spent on labour market interventions ($R^2 = 0.7415$). Examining the direction of this correlation, the finding is that the proportion of employees receiving under-reported wages decreases as the proportion spent by the state on labour market adjustments increases. Akin to tax rates, in consequence, there is no support for the neo-liberal explanation for the cross-national variations in wage under-reporting. Instead, there is strong support for the structuralist economic perspective, which asserts that the under-reporting of wages by employers is a by-product of a lack of intervention in the labour market.

Figure 5: Relationship between labour market policy expenditure and under-reported salaries

Analysing the relationship between cross-national variations in the commonality of wage under-reporting and cross-national variations in the degree of intervention in welfare, moreover, there is again a significant correlation. Analysing the relationship between the prevalence of envelope wages and the proportion of GDP spent on social protection benefits, excluding old age benefits (European Commission 2011: Table 3), as Figure 6 displays, there is a very strong statistically significant correlation ($r_s = -0.900^{**}$), with 54 percent of the variance in the prevalence of wage under-reporting correlated with the variance in the proportion spent on social protection ($R^2 = 0.5403$). However, it is not in the direction intimated by neo-liberal thought. Countries where a higher proportion of GDP is spent on social protection have fewer employees receiving undeclared (envelope) wages from their employers. In consequence, a higher level of state intervention in the form of social protection is correlated with a decrease in the commonality of undeclared (envelope) wage payments, as argued by the structuralist economic perspective.

Figure 6: Relationship between social protection and under-reported salaries

5. Conclusions

This article has sought to explain the cross-national variations in the commonality of wage under-reporting by employers in South Eastern Europe. To do so, two competing economic perspectives regarding the correlation between wage under-reporting and economic and welfare systems have been evaluated critically. On the one hand, a neo-liberal economic perspective has been evaluated which asserts that wage under-reporting by employers is a direct by-product of high taxes, over-regulation and state interference in the economy and welfare, and that wage under-reporting is therefore higher in more 'welfare capitalist' economies characterised by greater state intervention in the economy and welfare (Becker 2004; De Soto 1989, 2001; London and Hart 2004; Nwabuzor 2005). On the other hand, a structuralist economic perspective has been evaluated which views wage under-reporting by employers to result from under-regulation rather than over-regulation and thus depicts the under-reporting of wages to be more widespread in neo-liberal economies where there is less state intervention in economic and social provision.

No evidence has been found in this comparative analysis of five South East European nations to support the neo-liberal view that wage under-reporting by employers arises due to high taxes. This is the case whether one examines the implicit tax rates on labour (as a summary measure of the average effective tax burden on labour income), the total tax revenue as a percentage of GDP or the level of employers' social contributions as a percentage of GDP. Neither is any evidence found to support the neo-liberal notion that greater levels of state

interference result in higher levels of wage under-reporting by employers. Instead, the finding is that greater state intervention in the labour market and social welfare is significantly correlated with a reduction, rather than increase, in the prevalence of wage under-reporting by employers, as the structuralist economic perspective asserts.

In policy terms, therefore, decreasing the degree of state intervention is not correlated with a reduction in employer wage under-reporting. Instead, the under-reporting of wages employee wages by employers is most prevalent in those South East European countries where the degree of intervention is lower. These findings consequently raise considerable doubts about whether de-regulation, tax reductions and minimal state intervention would be a progressive way forward in eradicating the persistence of wage under-reporting in South East Europe. The problem is perhaps less one of over-regulation, but rather one of under-regulation.

To summarise, this study of employee wage under-reporting by employers in South East Europe has provided supporting evidence for a structuralist perspective that views such a wage practice to result from under-regulation. Meanwhile, no evidence has been found to support the neo-liberal depiction of this practice as a product of high taxes, over-regulation and too much state interference. If this article now encourages further research in other regions across the globe to evaluate whether the cross-national variations in the prevalence of wage under-reporting by employers can be similarly explained to result from under- rather than over-regulation, then it will have fulfilled one of its key intentions. If this paper also facilitates greater discussion both within South East Europe and beyond concerning how the state might intervene to deal with this wage practice, then it will have fulfilled all of its intentions.

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