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Boundary between self-employment and vulnerable work,
informal contracts and undeclared work.

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CONTENTS

1. SUMMARY	4
2. INTRODUCTION	5
3. IS SELF-EMPLOYMENT A DRIVER OF JOB CREATION?	5
4. THE HETEROGENEITY OF SELF-EMPLOYMENT	7
5. SELF-EMPLOYMENT: INCREASINGLY VULNERABLE?	8
6. HOW UNDECLARED IS SELF-EMPLOYMENT?	9
7. SELF-EMPLOYMENT: AN OPPORTUNITY OR A TRAP?	11
8. CONCLUSIONS	12
9. REFERENCES	13

1. SUMMARY

The economic and financial crisis, and their impact upon the functioning of the European Union's stability pact, are focusing the agenda of the EU debate. At the same time, the dramatic increase in unemployment has put the issues of labour market performance and job creation on the political agenda of both the individual Members States and the European Union.

Self-employment plays a very significant part in the EU labour market, as elsewhere in the global economy. Both self-employment and entrepreneurs have a particular role in job creation in the non-agricultural sector of developed countries, but several factors have contributed to a changing composition of self-employment and to an increase of marginalised forms of labour relationships.

Several important questions arise. How has self-employment changed in the last decade? Has self-employment contributed to reduce unemployment or to create more undeclared and vulnerable workers? Is self-employment an opportunity or a trap? Which are the most effective ways to create an entrepreneurship that can drive the job creation and stability in the next future?

This discussion paper sets the scene for self-employment in the EU by analysing and comparing data, currently provided by national and international institutions, and results of feasibility studies promoted by the EU on relevant issues in the labour market.

The main emerging points are as follows:

- Self-employment growth in the last decade has been driven by many factors related to supply of, and demand for, labour.
- The links between supply and demand motivations have contributed to making self-employment one of the main forms of atypical work.
- For many individuals (the supply), self-employment has represented the only opportunity for work in recent decades.
- Enterprises (the demand) have more recourse, than in the past, to self-employment as a means of reducing labour costs and increasing labour flexibility.
- The increase in part-time jobs and in false self-employment has contributed to extending the extent of vulnerable jobs.
- Entrepreneurs and own-account workers have gained from fiscal advantages operating in the underground economy.
- Labour market policy should, in the short and medium term, promote quality of work and flexicurity as important drivers for sustainable economic and social growth.
- The economic crisis and globalisation should be seen as an opportunity to implement significant policy measures for investment in human capital.

2. INTRODUCTION

This paper examines the relevance of self-employment in the EU and the characteristics that it has taken on in recent years. Data confirm that self-employment is an important driver of entrepreneurship across the EU and that its contribution to job creation is significant¹.

The economic crisis has interrupted a period of economic growth and of job opportunities for both the self-employed and for employees. In particular, reduced access to credit and liquidity constraints have generated an increase in unemployment also among previously self-employed workers. In the last two years, underground production has been considered by many as the only way to survive. The improper use of false self-employed contracts, used by enterprises for reducing labours cost contributions, has thereby increased.

Nowadays, self-employment jobs are differentiated in terms of wages, hours worked, social security rights and fiscal rules. All the above factors highlight the variation in quality of self-employment, in particular in the EU countries where the number of individuals and small enterprises is significant.

This paper aims to provide data and analysis on the boundary between self-employment and vulnerable work, undeclared work and informal contracts, in order to understand the capacity of self-employment to overcome crises and to promote a sustainable and innovative job creation strategy.

3. IS SELF-EMPLOYMENT A DRIVER OF JOB CREATION?

In 2009 self-employment (excluding family workers) accounted for 32.5 million people in the EU, corresponding to around 15% of all workers. The share is greater when public administration employees are subtracted from the total employment figures.

There are concentrations of self-employment in services and in agriculture due to the high levels of independent workers in southern European countries and in Poland. The share of self-employment in the non-agricultural services is 12.8%.

Self-employment is considered to be a potential driver of job creation, and more so now than in the past. It also generates a significant number of dependent jobs given that almost a third of the self-employed employ other workers and in itself it accounts for an important proportion of total employment.

Recent economic and social changes have contributed to extending the proportion of self-employment in the labour market. Such factors include the expansion of the services sector, the increase of female participation in the labour market, changes in the traditional work places and working organisation. In comparison with 2000, self-employment has increased by 4.8%.

All the above mentioned changes have not only contributed to the re-emergence of self-employment, but they have also affected its characteristics.

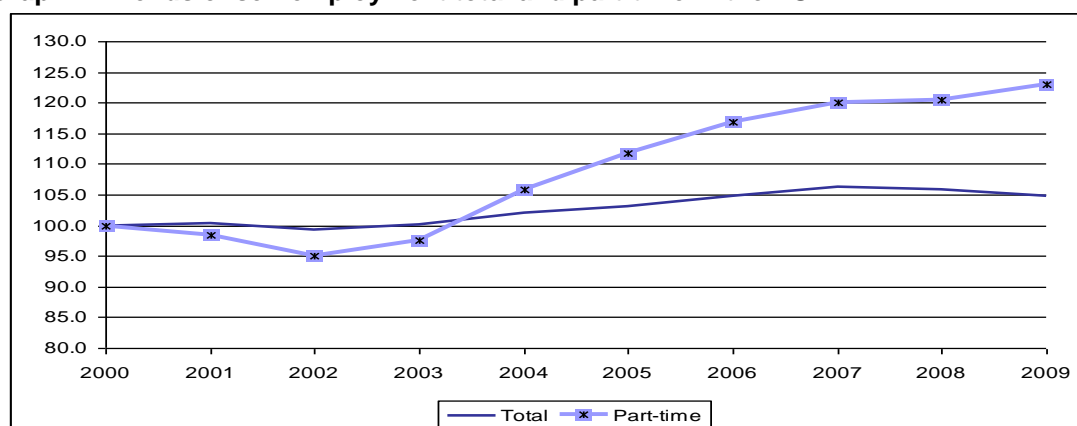
The composition between employers and the self-employed is changed. The share of employers is around 4.5% in the EU, reaching 8.4% in Greece and 6.7 % in Italy. The self-employed in Romania are 19.4% while their share, amongst employers, is 1.4%; in Luxembourg the share of self-employed is 5.2% and 2.8% of employers.

The prevalence of part-time work, amongst the self-employed excluding family workers, has increased a great deal during the period (considering value in year 2000=100) (Graph 1).

¹ The opinions expressed in this paper are the sole responsibility of the author and do not necessarily reflect those of Istat.

The positive trend has not been interrupted by the economic crisis years: in the period 2007-2008 part-time has increased of 2.5%.

Graph 1: Trends of self-employment total and part-time in the EU-27



Source: Labour Force Survey, Eurostat statistics database

In 2009, the share of part-time jobs was 15.8% of total self-employed against only 13.4% in 2000.

The rapid increase of part-time self-employment does not mean less job stability as indicated by the job tenure indicator (Table 1). Job tenure is typically measured by the length of time workers have been in their current job, or with their current employer, and so refers to continuing spells of employment rather than to completed spells. Job tenure, however, is a very sensitive to cyclical and demographic variations since newly created jobs and young labour market entrants always affect the number of short tenure jobs. Data show that job tenure in 2009 is mainly concentrated in the interval 10 years and over and that no apparent trend underlies job stability since 2003 in all the EU countries.

In 2009, 44.5% of the self-employed is medium-skilled and 27.5% is upper skilled. The crisis has had a significant impact on the low skilled (down by 547,300 since 2008), while a positive increase has been registered for the medium skilled (up by around 19,000) and the upper skilled (up by 204,000).

Different trends characterise low, medium and highly skilled self-employment amongst the under 40s at EU level: the low-skilled have decreased (down by 74,000 in 2005-2007, but with a significant acceleration to -367,000 in 2007-2009). The number of medium skilled has also fallen (by 60,400 in 2005-2007, and again a major contraction of -341,200 in 2007-2009). However, highly-skilled self employment grew by 223,000 between 2005 and 2007 and a further 31,600 between 2007 and 2009.

Self-employment amongst those aged under 40 is highest by far in Greece and Italy: respectively 21.1% and 19.5% of all workers aged under 40; and lowest in Denmark and Luxembourg (respectively 5.2% and 4.8%). Among the self employed aged under 40, the low skilled are in the majority in Portugal, Romania, Spain, Greece and Italy and in a minority in Hungary and the Czech Republic.

During the economic crisis, the figures show a decline of the self employed, under 40, with low (down by 221,000) and medium qualifications (down by 149,000). However, the more highly educated under 40s make up an increasing share of the self-employed, even though the crisis has produced a decrease of around 33,000 persons employed.

Some researchers have highlighted that economic fluctuations affect labour turnover and wage volatility of workers in a different way, depending upon the skill levels of workers. Workers with low skills and short tenures tend to bear the burden of adjustment cost processes that take place in response to foreign competition through an increased

probability of involuntary job loss and an increased sensitivity of the wages of on-going workers to external market conditions. More skilled workers do not appear to experience the impact of significant adjustment costs.

Increasing educational attainment and providing relevant skills and competences in a lifelong perspective is crucial for the EU, especially for the low skilled. This points to the need to increase competitiveness and employability in the near future.

Table 1: Self-employment by job tenure intervals – Years 2003 and 2009

Countries		<1 month	1 to <6 months	6 to <12 months	1 to <3 years	3 to <5 years	5 to <10 years	10 years and over	Total declared
Austria	2009	0,05	0,29	0,68	1,56	4,08	7,58	23,46	15,04
	2003	0,04	0,26	0,68	1,63	4,12	7,48	22,28	15,12
Belgio	2009	0,03	0,30	0,68	1,59	4,40	7,90	23,30	15,45
	2003	0,05	0,28	0,68	1,71	4,40	7,95	22,76	15,52
Czech Republic	2009	0,04	0,29	0,71	1,72	4,39	7,88	16,05	10,93
	2003	0,04	0,27	0,71	1,75	4,41	7,91	13,22	8,49
Denmark	2009	0,05	0,31	0,68	1,61	4,24	7,73	22,82	12,59
	2003	0,04	0,33	0,68	1,70	4,37	7,72	22,95	14,60
Finland	2009	0,03	0,31	0,72	1,63	4,42	7,72	22,65	14,26
	2003	0,04	0,29	0,68	1,62	4,36	7,95	22,04	14,51
France	2009	0,03	0,30	0,70	1,51	4,14	7,51	21,47	12,55
	2003	0,02	0,29	0,71	1,52	4,10	7,54	21,41	13,75
Germany	2009	0,04	0,29	0,70	1,66	4,40	7,75	21,29	13,07
	2003	0,05	0,29	0,71	1,65	4,37	7,72	21,28	12,75
Hungary	2009	0,06	0,30	0,73	1,81	4,50	8,06	17,82	11,58
	2003	0,07	0,29	0,71	1,72	4,44	7,85	16,43	9,64
Ireland	2009	0,03	0,29	0,72	1,66	4,40	7,85	25,21	15,98
	2003	0,05	0,27	0,71	1,60	4,42	7,54	24,92	16,33
Italy	2009	0,04	0,30	0,69	1,71	4,43	7,91	23,12	14,99
	2003	0,04	0,26	0,72	1,60	4,41	7,71	22,55	14,90
Luxembourg	2009	0,06	0,33	0,60	1,72	4,23	7,92	22,05	14,12
	2003	0,05	0,30	0,53	1,82	4,42	7,73	22,77	14,78
Netherlands	2009	0,01	0,30	0,72	1,65	4,35	7,83	23,38	14,42
	2003	0,02	0,30	0,68	1,69	4,39	7,71	22,85	14,30
Poland	2009	0,05	0,29	0,72	1,62	4,37	7,90	23,94	15,98
	2003	0,05	0,27	0,73	1,65	4,36	7,73	24,58	16,06
Portugal	2009	0,04	0,31	0,71	1,70	4,38	7,99	28,58	19,67
	2003	0,05	0,29	0,69	1,66	4,40	7,69	26,51	18,17
Spain	2009	0,04	0,29	0,71	1,65	4,36	7,70	22,43	13,89
	2003	0,05	0,28	0,68	1,70	4,37	7,70	22,14	13,96
Sweden	2009	0,04	0,30	0,71	1,68	4,36	7,81	22,55	12,81
	2003	0,05	0,29	0,68	1,67	4,36	7,76	22,64	13,93
United Kingdom	2009	0,04	0,29	0,69	1,65	4,40	7,66	22,92	12,31
	2003	0,05	0,28	0,70	1,58	4,35	7,61	21,66	12,33

Source: Data from OECD.Stat

4. THE HETEROGENEITY OF SELF-EMPLOYMENT

Self-employment has been assuming a higher degree of heterogeneity in recent decades and for this reason it is considered as a traditional form of non-standard employment. The main categories of self-employed are the following: a) professionals (the entrepreneurs); b) own account workers; and c) family workers. Nevertheless, persons involved and their motivations are more differentiated.

It is possible to recognise some types of demand-side-driven self-employed, such as the following:

1. economic refugees, unable to find permanent employment and who consider self-employment as a means of survival;
2. dependent contractors who mainly work for one employer, and who have accepted that status because the employer does not want to fund their wage costs.

A considerable amount of employees, in particular part-time workers, are multiple job holders and this explains the considerable overlap between this type of employee and other forms of non-standard employment, such as temporary employment and self-employment. The presence of multiple job-holders means that officially collected statistics on self-employment could be underestimated if multiple jobs are not considered.

Another type of self-employed is the out-worker or home-based process worker, a kind of work that appears to be increasing only for family considerations and cultural reasons.

However, in the last decade the number of self-employed has increased also as a result of supply-side-driven motivations. A number of newly self-employed are self-motivated independent contractors who have taken advantage of new technology, particularly information technology, to gain greater work flexibility and tax or other economic advantages. If in the past entrepreneurial activities were mainly oriented toward business activities, the changes in the productivity structure toward services, and the establishment of non profit organisations serving households have been offering a good opportunity to increasing the share of entrepreneurs in the labour market.

The question for which it is difficult to find an answer is how many of the new self-employed are demand-side-driven and how many are supply-side-driven. Official statistics generally do not provide differentiated data on self-employment and, more importantly, do not provide detailed information on self-employment income. In order to have data useful for policy makers and stakeholders, it is important to promote new surveys on this issue.

5. SELF-EMPLOYMENT: INCREASINGLY VULNERABLE?

The increase in the segmentation of self-employment has opened up the debate on the extent to which self-employment is vulnerable. There is growing recognition that specific groups of the self-employed are likely to be particularly vulnerable to low pay and job loss as a result of the increasing trend towards flexible working, sometimes known as contingent, precarious or atypical working.

According to the ILO, the degree of vulnerability can be measured by the degree of informalisation of labour markets. An indicator of the phenomenon can be measured as the proportion of own-account workers and contributing family members in total employment.

The ILO's annual report 'Global Employment Trends 2010' states that the share of workers in vulnerable employment worldwide may have increased by more than 100 million in 2009, bringing global poverty with it. The impact has varied across countries, depending on the national economic structure, the level of integration in global markets, and labour market and social protection institutions, among other factors.

Data show that a large percentage of self-employed and family workers, in particular women, are often in the situation of vulnerable workers characterised by inadequate earnings, lack of social protection, low productivity and difficult working conditions.

In developed economies with strong social protection measures, workers who lose their jobs can move into unemployment, generally resulting in an overall decline in total employment instead of an increase in the number of self-employed.

In 2009, the degree of informalisation is quantified in the share of 12% of family workers and self-employed of all self-employment. The share reaches 31.4% in Romania, 27.3% in Greece, 18.2% in Italy and 5.3% in Denmark.

In the last decade, vulnerable work has assumed an increasing relevance with the ageing of the workforce, as well as the trend towards greater flexibility in employment, particularly forms of engagement which allow rapid variation in labour utilisation (temporary work, variable hours, agency work and outsourced self-employment). Also, since it is well-established that older workers suffer discrimination in redundancy and hiring, the participation of older workers in precarious work may intensify vulnerability in the current world-wide recession.

Vulnerable work can be tackled only by ensuring equal access to education, credit and social protection schemes.

6. HOW UNDECLARED IS SELF-EMPLOYMENT?

Undeclared work is the term that refers to forms of employment that sidestep the norms of employment regulations. The concept is descriptive of all remunerated activities that are lawful, as regards their nature but not declared to fiscal and social security institutions.

The transformation of undeclared work into formal work is an important issue for the employment policy of the European Commission. Undeclared work risks undermining the financing of social services, decreases individuals' social protection status and labour market prospects and may affect competitive conditions.

Some countries' studies confirm that a significant share of self-employed work is hidden from the fiscal institutions because of the nature of the arrangements, often informal, or because the activity is completely hidden; in some cases what is irregular is the type of job offered that is mainly a subordinate kind of work.

A 2007 Eurobarometer survey 'Undeclared work in the European Union' represents the first attempt to measure undeclared work on an EU-wide basis. According to the harmonized survey, undeclared work is a widespread phenomenon in the EU. One in four EU citizens is thought to be involved – either as a provider of undeclared work (supply side) or as a buyer of undeclared goods and services (demand side). The phenomenon is particularly widespread in the southern and eastern Europe.

The groups of people which respondents most often associate with undeclared work (UDW) are the same in almost all countries: the unemployed, the self-employed and illegal immigrants. It has a higher incidence in the construction and households services sectors. Groups of people involved in UDW can be classified as follows: a) individuals working for private households (e.g. cleaning, baby sitting, gardening, small repair work), that can be involved as providers (supply side) and as buyers (demand side); b) firms for private households (e.g. house repair or maintenance work done by a firm without invoicing), that can be involved only as buyers (the demand side); c) individuals for firms (e.g. envelope wages, undeclared jobs in restaurants or harvesting) that are involved only as providers; d) firms for other firms (e.g. chains of subcontractors in construction sales).

The survey found that the level of participation in UDW is relatively low overall, with only 5% of citizens reporting to have undertaken UDW themselves within the past 12 months while just 11% of the EU population admitted to having bought goods or services that involved UDW. No specific data are available for undeclared self-employment.

In 2009 the European Commission, Directorate General Employment, Social Affairs and Equal Opportunities promoted a Study on indirect measurement methods for undeclared work in the EU. The aims of the study were to undertake a review of indirect methods and administrative sources available in the 29 countries covered and, based on the results of

such a review, to propose and test options for the most appropriate methodology to estimate undeclared work at the EU level. The study report has been disseminated by the Commission in 2010 (Final report on indirect measurement methods for undeclared work in the EU and Croatia and Turkey (2009), under 'Related Documents' at <http://ec.europa.eu/social/main.jsp?catId=647&langId=en/>).

The study has collected all the data available, mainly estimated using more than one approach. It has underlined that existing data on undeclared work in the 29 countries considered in the study are both rich and heterogeneous.

A few of the main findings of research undertaken in the study have been the following:

1. almost all the approaches generally use a definition of the underground economy (including both legal and illegal activities) that is too broad, leading to upper biased estimates of UDW;
2. results obtained applying the labour input method seem to be more exhaustive and in line with the international definitions. This method allows for a straightforward estimate of UDW – both in absolute terms and as percentages of total employment – and for informative and relevant breakdown in relation to several socio-economic and geographical dimensions.

Data derived by the application of the labour input approach, not detailed for status in employment, are reported in Table 2 for countries in which this approach is applied.

Table 2: Estimates of UDW according to the labour input method

Country	Labour input method
Italy	3 064 600 (average 2000-2003)
Romania ⁽¹⁾	20.2 % (UDW as percentage of GDP: 2006)
Spain ⁽²⁾	1 338 300 (2002)
Turkey	2 059 600 (average 2000-2003)

Notes: (1) The figure refers to the "Covered Wage Bill" method (share of the gross wage bill that is "covered" by contributions to the social protection schemes) and the use of the average wage for the computation of imputed contributions. (2) The figure is obtained by subtracting the number of ("adjusted") persons affiliated to social security from the employees according to the LFS.

The amplitude of the phenomenon in Italy can be explained by regional and sectoral imbalances and by a large extension of small and individual enterprises. Another aspect to take into account is that in Italy, self-employment is seen as an opportunity for multiple jobs mainly hidden to fiscal authorities; in this case, self-employed jobs are seen as an opportunity for increasing income.

The National Statistical Institute of Italy publishes, annually, detailed data on undeclared work expressed in full-time equivalent units (full-time equivalence of part-time and multiple jobs) and by persons employed. In 2008, there were 645,000 undeclared self-employed (9.2% of the total self-employed), mainly concentrated in the agricultural sector (13% of total) and in the services sector (9.7%). The weight of self-employed reaches 48.1% in the transport sector and 53% in the education sector. In the same year, the number of undeclared self-employed workers was 442,000; this means that self-employment measured in terms of full-time equivalents takes into account a relevant amount of undeclared part-time multiple jobs provided by self-employment and by employees as their secondary job.

The usefulness of the Labour Input method, as its high potential for relevant data breakdowns may be of great help in an attempting to provide a more detailed picture of the

UDW phenomenon. Usually, other methods such as inspection activity on contribution fraud cannot capture the entire phenomenon of the irregular economy.

The Labour Input method is particularly useful in countries where the number of small and very small units of production is very high, i.e. where the number of self-employed is particularly significant, and where there is relatively high reliance upon freelancers and sub-contractors who can be difficult for enterprises to recruit. The method is applied in order to estimate undeclared individual self-employment and undeclared turnover of enterprises employing undeclared employees. The total under-declaration of turnover is an important indicator of participation in the underground economy, even if its incidence varies by sector and by countries.

7. SELF-EMPLOYMENT: AN OPPORTUNITY OR A TRAP?

Self-employment can offer an opportunity for men and women, and in particular for young people, of finding a job with a good degree of independence, mainly in the service sector. Results of cross national research and national studies in advanced economy confirm that traditional forms of self-employment, such as skilled craft work and shop-keeping, are in decline. They are being replaced by self-employment in both professional and unskilled occupations.

For professionals and own-account workers, the 'trap' aspects refer to the danger of accepting second-class status in the labour market with regard to remuneration (lower or undeclared), training opportunities and promotion. The area of training is potentially one of the main areas where non-standard workers may lose out. Some authors show how training in a small firm strongly increases the probability of later becoming self-employed, most likely because the worker learns the skills required for operating a business.

For unskilled occupations, the trap aspects refer to the extent of marginalisation of the jobs and the lack of social assistance. On the contrary, it can represent an opportunity for women, students, retired and home-workers.

In the last decade, new self-employment traps have been created by employers who, in seeking flexibility and reduced labour costs, have taken recourse to false employment, freelance work and false VAT declarations.

In Italy, employers have been making extensive use of quasi-subordinated workers (a sort of freelance contract, the work for which is coordinated by employers) for reducing social contribution payments. This kind of worker is a subordinate worker who provides the same activity as an employee in the company, but who generally receives less remuneration and less social assistance. Recent new national rules state that 'quasi-subordinated' work should concern 'one or more specific projects or phases, determined by the employer and managed autonomously by the freelance worker who is responsible for the final result'. The above rule is going to decrease the total amount of 'quasi-subordinated workers'.

Another form of precarious work is represented by the so-called 'false VAT declarations', i.e. workers with a self-employed status who offer their services to a single client, thus hiding a dependent employment relationship. It is ostensibly used by employers to avoid the loss of temporary work by putting pressure on individuals to accept temporary subordinate contracts. This means that in VAT declarations such employees appear as self employed rather than dependent employees, thus reducing costs for employers. In such cases, workers become self employed at the request of their employers rather than out of free choice.

In looking to the future, it is clear that self-employment will continue to play a significant role. Policies need to engage the private sector with self-employment initiatives, including

apprenticeships and entrepreneurship monitoring programmes, to remove constraints that discourage self-employment and, finally, to regulate self-employment in national law.

Indeed, self-employment is set to continue as an EU policy priority. It is supported in the European Economic Recovery Plan through the micro-finance facility and with flexibility on state aid for micro-companies, while in the EU 2020 Strategy entrepreneurship is presented as a key element in achieving smart, sustainable and inclusive growth.

8. CONCLUSIONS

Considerable changes in the employment conditions of many workers have been taking place over recent decades. In particular, there has been a decline in the incidence of the 'traditional model' of permanent or life-time employment.

On the demand side, the increase of global competition, particularly in manufactured goods, and the removal of protective tariffs, have contributed to changing the traditional employment policies toward the affirmation of functional and financial flexibility. On the supply side, no rigidity with respect to hours worked and location of work, have enlarged the participation of a number of groups from the labour market.

All the above aspects have influenced the growth of self-employment in the labour market and the traditional model of control in the work relationship.

Employers use temporary employment contracts to explore the suitability of employees but in some sectors organisations prefer to hire independent contractors who are generally highly motivated and accept lower wages.

During the economic crisis, there has been an increase in the absorption of labour in the informal sector with the consequent reduction in average earnings. Undeclared work can be identified as a structural factor of self-employment that is becoming more sensitive than in the past to economic fluctuations due to the increase of flexibility in the labour market and to the new globalisation dimension of the economy. Part-time jobs, in particular involuntary part-time jobs, have increased, as well as casual work. All the above factors determine a drop in job quality.

In order to avoid the increase of involuntary or precarious self-employment, it becomes fundamental to identify clearly the segmentation of the self-employed labour market and then reduce one of the main distorting factors represented by undeclared self-employment, false self-employment and hidden VAT declarations.

The challenge for the future is that of encouraging self-employment by promoting different actions as follows: 1) to regulate access to credit and liquidity; 2) to promote formation and investments in the human capital of the self-employed, directly financed by governments; 3) to discourage the use of self-employed jobs as a means of reducing production costs; 4) to reduce involuntary or precarious self-employment (with appropriate access to social security support); 5) to promote entrepreneurship, encouraging intrapreneurship, that is the development of an independent job within a company with the objective of introducing innovation to revitalize and diversify its business.

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