SOCIAL CAPITAL AND UNDECLARED WORK: AN EMPIRICAL ANALYSIS IN ITALY FROM 1998 TO 2008

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ABSTRACT

The issue of irregular work has been well known in Italy since the early seventies. Undeclared work is a particular facet of shadow economy where employers evade tax typically by underreporting either the numbers of workers or the hours worked or both and, by this mean, they avoid paying the legally due social security contributions. As any form of shadow activity, undeclared work introduces important biases in the economic system. That is why, it is of paramount interest for policy makers to understand which are the factors influencing undeclared work. The Italian National Institute of Statistics has developed a methodology in the vanguard to estimate the rate of irregular work and today we have time series long enough for a review of the phenomenon. When looking at regional rates of irregular work it's stunning how dissimilar they are and this dissimilarity is kept over time. This paper aims to understand the reasons of this heterogeneous dynamics and to identify it's determinants, focusing in particular on the role of social capital. We use a dynamic panel model to measure the impact of social capital and of some other relevant variables on regional irregular work rates. We find that social capital ha a significant effect. It reveals itself to be a key factor in hindering the use of irregular workers.

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