

#### **1.4. Shadow Economy**

The shadow economy (illegal non-registration with the social insurance system, illicit employment, work on the side, business without receipt) represents an unfair competition both for enterprises and employed persons. Small and medium-sized enterprises particularly suffer from competition with the shadow economy more strongly than from global competition.

Capital mobility has considerably increased the possibilities of tax evasion. The attempt to compensate tax loss by taxation of the relatively immobile factor of labour increased the burden on labour compared to other production factors. The present tax and fiscal charges burden incites both, provider and demander of such services, to escape into the shadow economy. Stricter controls alone will not solve this problem. However, when easing the burden on the labour factor, the question of financing the social system must also be taken into account,.

It is typical of illicit employment that the demand for transfer payments and insurance benefits (social affairs, infrastructure) remains constant or even increases, while the financial basis weakens due to the expansion of the shadow economy and the pressure for tax increases gets stronger. High unemployment figures, therefore, often do not indicate a scarcity of work, but misallocations by the tax and fiscal charges system: Financing the welfare state by imposing taxes on economic performance and thus on legal employment makes it attractive to evade taxation to an extent as access to the welfare system is still guaranteed. Opportunity for tax evasion is offered particularly in the field of personal services.

#### **1.5. Deregulation and Privatization**

The integration of sheltered sectors into international competition should result in price reductions for buyers, both consumers and enterprises, but it also means a painful adjustment of the employment level to the conditions of international competition.

The forthcoming liberalization of the energy and telecom market (removal of the line monopoly as of 1.1.1998) may produce short-term drops in employment, for which in case transitional assistance should be foreseen. Foreign examples in the telecom and media branch show, however, that competition and additional suppliers can create new jobs in the longer run.

When privatizing and restructuring key industries of the Austrian economy, commercial criteria as well as the safeguarding of strategic owner function in Austria must be taken into account to prevent an emigration of headquarter functions and competence centres important for Austria as an industrial location (see study of Advisory Council „Industriepolitik III“ – Industrial Policy III, 1991)