

Unemployment benefit fraud

Motives, extent and preventive measures

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Phone +46 (0)8–690 91 90, fax +46 (0)8–690 91 91, e-mail order.fritzes@nj.se

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Phone +46 (0)8–401 87 00, fax +46 (0)8–411 90 75, e-mail info@bra.se
Brå on the internet www.bra.se
Authors: Johanna Hagstedt, Annika Persson, Håkan Malmer, Lars Korsell
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Contents

Introduction	5
Methods	5
Theory	6
Results	7
Estimate of the extent of fraud	10
Crime preventive measures	13
Summary	18
References	22

Introduction

Our knowledge about the factors that make it possible to defraud the unemployment benefit system and how such fraud takes place in detail is only fragmentary. The investigations that have been conducted to date have only highlighted certain types of fraud and only part of the problem. Types of fraud exist that have not been studied to such a great extent, and that we consequently do not know as much about (Korsell, 2003). It is known that the control measures that are implemented by the disbursing authorities are often targeted at the types of fraud that are the easiest to discover. This contributes to an uneven knowledge about the nature of different types of fraud, which makes it difficult to reform the regulatory system and to develop and prioritise control operations to counteract fraud (Korsell and Nilsson, 2003).

The hope is that, using two different methods, this study will be able to highlight a new area of fraud. More specifically, the type of fraud whereby unemployment benefit is paid out at the same time as wages from black market labour,. Fraud involving unemployment benefits and illicit work is one of the forms of fraud that is most difficult to control, and knowledge about this is consequently very limited. At the same time, it is particularly serious, as it affects both the welfare and the tax systems and leads to unfair competition between businesses.

Objective and research questions

The purpose of the study is to interview individuals who themselves have fraudulently claimed unemployment benefits or received unemployment benefit during the year 2006, to ascertain which factors make it possible to commit fraud, how fraud can take place and what kind of attitudes exist towards unemployment benefit fraud. An attempt will also be made to estimate how extensive the fraud that takes place as a consequence of black market labour is. This increase in knowledge will then form the basis for the report's proposals for preventive measures to reduce fraud.

The research questions are therefore:

- What attitudes towards fraud exist?
- Why do people commit fraud?
- How do people defraud unemployment insurance and how is the fraud made possible?
- How extensive is this kind of fraud?
- What can be done to reduce the extent of the fraud?

Methods

Quantitative interviews

Both quantitative and in-depth interviews have been conducted. Within the quantitative investigation, telephone interviews have been carried out with individuals who have received unemployment benefit during 2006. The focus has primarily been on investigating the occurrence of illegal work in combination with received unemployment benefit. The interviewees have also been asked how they view fraud by others and, where applicable, fraud that they themselves have committed. They have also been asked how extensive they believe fraud to be, as well as the reasons for people committing fraud. Calculations have then been

performed using the answers and other sources (presented below) to estimate the extent of fraud among those who receive unemployment benefit.

The interviews were carried out between 3 May and 5 June 2007, and a total of 1,691 completed interviews were conducted. The response rate was 63 percent.

The high external non-response consists of individuals who did not want to participate, who could not participate due to illness or linguistic difficulties, who did not answer, or whose telephone number could not be identified. There is probably also a group of people who did not participate because they are not inclined either to take part in a telephone interview or to call in response to an advertisement in the newspaper, which is the other method that has been used. It is probable that this group comprises those who secure allowances and benefits through deception in a more systematic way, and who possibly also have a criminal lifestyle. We cannot gain access to these people with the aid of the two methods we have used.

In-depth interviews

Qualitative, in-depth interviews have been used to capture types of benefit fraud where the perpetrators have not been discovered by the authorities. The disadvantage with using this method is that it is not possible to know if the attitudes and the types of fraud committed are representative of a larger population. This shortcoming is however counterbalanced by the quantitative interviews.

In order to make contact with individuals who themselves have defrauded the unemployment insurance system, and at the same time ensure voluntary participation and anonymity, interviewees have been sought through advertisements in various newspapers. These advertisements presented the purpose of the interviews, i.e. to make contact with people who have defrauded unemployment insurance in combination with black market labour. Individuals who have experience of this were asked to call the Swedish National Council for Crime Prevention (Brå) and tell us more. The advertisements were placed in all editions of the newspaper Metro, as well as in the evening newspaper Expressen.

A total of twelve in-depth interviews were conducted. Out of those interviewed, seven people have themselves committed fraud. That so few interviewees who had committed fraud were inclined to call is probably due to the fact that the subject of fraudulent behaviour is considered taboo. The remaining five interviews have been conducted with people who have called because they know somebody that is committing fraud or have experience of fraud in some other way. The people who have been interviewed constitute a very heterogeneous group regarding background variables such as age, gender, status and socio-economic background.

Theory

The routine activity approach

According to the routine activity approach, three factors must be fulfilled in order for a crime to be committed (Cohen & Felson, 1979). It requires a likely offender (the fraudster), a suitable target (opportunities to defraud unemployment insurance and the absence of capable guardians (deficiencies in the control systems). Unlike many other theories, which are often based on different types of personalities, this theory is based on the principle of rational choice, i.e. the approach whereby people are viewed as rationally acting individuals who consider both the advantages and disadvantages before deciding to commit a crime.

According to the theory, all people should be viewed as potential perpetrators, and crime is largely deemed to be a structural problem. The level of criminality is determined on the basis of the opportunity structure, and changes that affect each of the three variables have the potential to deter or encourage individuals to commit a crime (Sarnecki, 2003). Raised penalties contribute to fewer motivated perpetrators, for example, while more suitable objects provide more opportunities for crime and fewer controls (perceived or actual) result in increased criminality.

The report follows this structure in accordance with the three factors and the results are therefore divided into three parts: motives and attitudes (likely offenders), structure and opportunity (suitable targets) and absence of control (capable guardians). After this, calculations of the extent of fraud are presented, and finally measures for preventing fraud are proposed.

Techniques of neutralisation

The theory of neutralisation was developed by Sykes and Matza (1957) to help explain how law-abiding people can commit certain crimes, despite the fact that they normally sympathise with the law. Neutralisations are legitimising arguments that excuse the criminal behaviour. This means that the perpetrator can regain his or her self-image of a respectable citizen by justifying the behaviour and suppressing feelings of guilt and shame. According to the theory, there are five different techniques of neutralisation: the denial of responsibility, the denial of injury, the denial of the victim, the condemnation of condemners, and the appeal to higher loyalties. The theory has been used in a number of other studies of economic crime (Cressey, 1953; Henry, 1978).

Results

Motives, neutralisations and attitudes

The interviewees' primary motive for committing fraud is financial. This has also been observed in other studies (Eriksson & Larsson, 2000). A majority have stated that their financial situation has been difficult although one should keep in mind that the perception of financial hardship is subjective. One aspect of having financial difficulties is that the interviewees experience a fear of not being able to maintain the standard of living they have had previously and to which they are accustomed.

These statements are confirmed by the fact that 45 percent of benefit recipients who have taken part in the study through telephone interviews respond that they have had difficulty meeting the ongoing expenditure for food, rent, bills, etc. The people who have had difficulty keeping their finances in shape were asked what they have done to meet their financial requirements. For the purposes of this study, it is interesting to note that 17 percent of those who have had problems with their finances state that they have "earned a little extra money on the side".

Even though most state that the motive for committing fraud has been financial, there is a need to legitimise and neutralise the criminal behaviour. The interviewees' view of their own fraud is somewhat ambivalent. All agree that it is actually wrong to fiddle allowances and benefits, and that they themselves have therefore done wrong. At the same time, some believe that such fraud is so widespread and therefore less reprehensible since "everyone does it", a neutralisation that is often used by fraudsters and people who are active on the black market (Dean & Melrose, 1997; the FUT delegation (delegation on incorrect payments

from the social security systems), 2006; Henry, 1978; RRV 1998:29), as well as by embezzlers (Cressey, 1953).

In order to investigate how extensive this fraud is perceived to be, the interviewees from the telephone interviews were asked what proportion of people who receive unemployment benefit they believe to be defrauding the system. The opinions of the respondents vary widely. Some believe that basically nobody is acting fraudulently, while others believe that more than 50 percent are doing this. Almost a third believe that the proportion of people who commit fraud lies between 20 and 50 percent. This is a remarkably high figure, considering that there is no research indicating that the extent of fraud is anywhere near this level.

Other neutralisations relate to the interviewees distinguishing between different types of fraud, with some types being deemed more objectionable than others. Similarly, a distinction is drawn regarding amounts. Small amounts are not considered to be as fraudulent as large amounts. References are made for example to cases where famous and influential people have purchased services from black market labourers to much larger amounts (condemnation of condemners). Another factor that is claimed to make fraud less serious is that people consider they have a right to take a little money because they have paid tax their whole lives or because they have never previously been dependent on benefits or allowances (denial of injury).

Despite the fact that the interviewees draw a distinction between different instances of fraud, and in some cases do not believe that they have done anything wrong personally, they are very aware that it is basically illegal to defraud the unemployment insurance. At the same time as many explain how unproblematic they perceive committing fraud to be, many state that they would rather not commit fraud or have committed fraud if they had considered themselves to have another option. The advantages of legal work have been highlighted, for example being covered by workplace injury insurance and receiving a proper pension, but also being relieved of feeling guilty or shameful. The overall impression is therefore that fraud is something people would rather avoid.

Opportunity and structure

In the study, those who take the opportunity to commit fraud can be divided into two categories. The first category comprises individuals who have “happened” to commit fraud. In the study, these people have been termed “passive opportunists”, as they initially have not been looking to commit fraud, but rather accepted the offer to do so when they were given the opportunity.

The second category consists of those who have considered fraud to be the best thing to do out of several different alternatives. A rational decision has then been taken. Positive consequences (primarily better finances) are weighed against negative consequences (the possible risk of being caught, the disapproval of others etc.) This group has therefore been termed “active opportunists” (cf. Weisburd et al., 2001).

A third category of fraudsters that is not relevant here comprises individuals who could be termed designated opportunists. People in this category are those who seek more actively to defraud, securing allowances and benefits through deception in a more systematic way. As has been mentioned, however, these individuals are probably not inclined to take part in interviews and are therefore not included in the study.

Regardless of how the interviewees became involved in fraud, there are indications that structures exist at some workplaces that make fraud both possible and easier to commit. The impression given is that all people in certain workplaces are in agreement with the informal systems that exist. Several interviewees

describe that they have worked or are working at workplaces where the majority of the employees are illegally employed, and several also state that the fraud involving e.g. unemployment insurance, income support and health insurance in combination with illicit labour is common. Workplaces where professions are carried out where black market labour is usual consequently constitute arenas for many different types of fraud, which should be taken into account when suggesting preventive measures against benefit fraud. Some of the responsibility lies with the employers, who not only provide a workplace where illicit labour is carried out, but also in certain cases encourage benefit fraud by adjusting the number of legal hours according to whether or not the employees are in need of legal hours to acquire new benefit periods. This indicates a degree of organisation among both those who accept and those who supply this type of work.

Absence of control

The absence of control is something that all the interviewees in the in-depth interviews have mentioned and according to the responses from the telephone interviews, the absence of control is deemed to be one of the main reasons that unemployment benefit is paid out incorrectly.

The issue of control exists on two levels: informal and formal. This refers both to the control that is exercised through norms and in close relationships, as well as the control that is exercised through laws and official measures.

When it comes to informal control, it has emerged in the interviews that, despite internal stress, people often do not experience difficulty in telling others about their own fraud since they do not view fraud involving benefits and allowances as seriously as other types of criminal offences. To a large extent, they also perceive that fraud by others is extensive. 46 percent of respondents in the telephone interviews think that fraud is the main reason that unemployment benefits are paid out incorrectly. The consequence of the informal control being low is that the stigmatisation that often results from criminal actions, and the potential deterrent effect that the fear of this stigmatisation brings with it, is absent.

In the in-depth interviews, the interviewees maintain that something primarily needs to be done about the formal absence of control. These problems range from the absence of a built-in control system in the payment routines, to the employment office not following up matters sufficiently. It is pointed out that the penalties are too lenient for this type of offence, and that there is insufficient information about the consequences in the event fraud is discovered.

It has emerged in both types of interviews that people perceive that officials at e.g. the employment office and the unemployment benefit societies lack control, and do not receive people in the way they should. The result of this is that the trust in the employment office is low, which should be taken seriously. For benefit recipients, contacts with the employment office, and to some extent with the unemployment benefit societies, represent the entire welfare system. It is important to ensure that officials establish a personal relationship with those seeking employment, as this can be assumed to have other preventive effects such as increasing confidence in the welfare system as a whole.

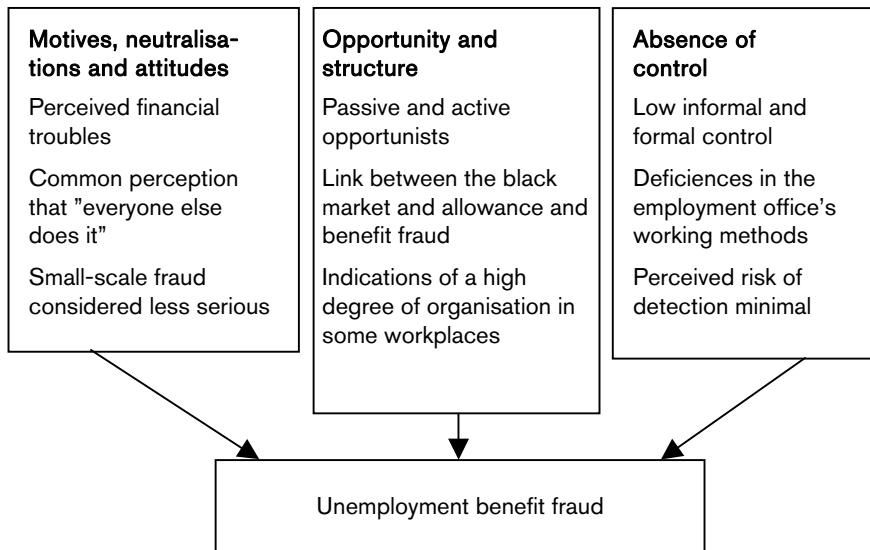
When considering whether to defraud the unemployment insurance, many interviewees state that they did not feel there was any particular risk of detection. It was considered to be very low. The responses from the telephone interviews give the same impression: 41 percent state that the belief that the risk of detection is small is one of the primary reasons for people defrauding the unemployment insurance. Almost four out of ten also state that one reason for committing fraud is that the penalties are too low.

People who themselves have admitted to defrauding the unemployment insurance agree to a higher extent (50 percent) than others (41 percent) that there

is a small risk of detection. The same is true of individuals who know somebody who has committed fraud in this way.

The tightening of the penalties and the increased control measures that have been introduced in the past year in Sweden have however had an effect on the small group of people who have been interviewed. In fact, a couple of people state that they have stopped committing fraud because of the increased penalties.

Figure 1. Model of factors that facilitate unemployment benefit fraud.



Estimate of the extent of fraud

In the study where telephone interviews were used, people were asked whether they personally knew anybody who had performed black market labour, defrauded the unemployment insurance, or both¹. Out of all the benefit recipients, 41 percent stated that they personally knew somebody who had worked illicitly in the past 12 months. This is a lower figure than that obtained in previous studies when asking the general public (Swedish National Tax Board 2006:4). This shows that the proportion who know people who have performed black market labour in the past year is higher among the general public than among those receiving unemployment benefit. The reason for this is probably that presence and participation in the legal economy generates contacts with potential purchasers of services from illegal employees. Unemployed people tend to a certain extent to lose contact with the labour market, including the illicit labour market, resulting in a difficulty for unemployed people to obtain customers or assignments. A person who is employed or owns a company also has the opportunity to use the equipment that is used within the workplace, to which an unemployed person does not have access.

Of those asked, 29 percent state that they know people who have received unemployment benefit *at the same time as performing black market labour*, while the proportion who know people who have received unemployment benefit *at the same time as receiving income from work that they have not disclosed to the unemployment benefit society* stands at just 13 percent. This difference is

¹ The word *personally* in the formulation of the question has been used in order to, if possible, eliminate people citing cases that they have only heard about, for example through the media or acquaintances.

very interesting, and in our opinion supports the notion that the money that is earned from illicit labour is not perceived by most people as an actual income, but instead is viewed as money “on the side”. Unemployment benefit constitutes a regular income, while payment from illicit labour only constitutes a supplement, which people do not consider they need to disclose to the authorities.

The study also shows that people who themselves have performed black market labour tend to know other people who have done the same, to a greater extent than people who haven’t. This relationship appears to be similar when it comes to fraud involving unemployment benefit. It can be seen from the results of the investigation that 73 percent of those who admit to have committed fraud personally know someone who has performed black market labour in the past year, compared to 37 percent of those who have not themselves defrauded the unemployment benefit system. Out of those who know somebody who has defrauded the unemployment insurance, 64 percent know somebody who has performed illicit labour, whereas only 17 percent of those who do not know anybody who has defrauded the unemployment insurance know somebody who has performed illicit labour.

In the study, an attempt has been made, with the aid of four different methods to estimate the magnitude of incorrectly paid benefits in conjunction with black market labour among individuals who have received unemployment benefit. These estimates are based on data from the telephone interviews conducted in this study, the Swedish National Tax Board’s mapping of black market labour (2006:4), the Swedish National Audit Office’s estimates of fraud and black market labour (RRV 1995:32) and calculations based on aggregated information regarding social economics (macroeconomic information).

The first method that has been used is consequently a calculation based on one of the questions that was asked during the telephone interviews, where the respondents themselves stated for how many days they had received unemployment benefit to which they were not entitled because of illicit labour.. Five percent of the respondents stated a number of days. If the days are added together and are allocated a value corresponding to the average daily wage in 2006, i.e. SEK 581, this amounts to SEK 120 million in excess payments. This corresponds to approximately 0.5 percent of the payments of unemployment benefit in 2006. This should be viewed as a minimum estimate because there were a large number of non-respondents to this question consisting of people who have performed black market labour but refused to specify how many days they had done this.

During the autumn of 2005, the National Tax Board conducted an interview study targeted at the general public regarding performed and purchased black market labour. Of those interviewed, four percent (89 people) classified themselves as unemployed. Out of these unemployed individuals, nine percent (8 people) stated that they had performed illicit labour. In average they had performed an average of 144 hours of illicit labour each. If all their working hours are summed up, irrespective of remuneration form, and scaled up to a national level based on the number of unemployed people, this would correspond to approximately 900,000 days and SEK 500 million.

The third estimate is based on a model that was developed in the National Audit Office’s (RRV’s) report “FRAUD – system deficiencies and fraud in the welfare system” (1995:32). In order to estimate how large a proportion of the black market labour that was carried out by unemployed individuals a theoretical model was constructed in RRV’s report that took into account possible job opportunities and the demand for black market labour performed by people receiving unemployment benefit. For example, consideration was given to professional expertise and sector allegiance. The benefit recipients were then divided up into high and low risk groups, depending on how likely they were deemed to be to

participate in the black market. It was estimated that between 10 and 16 percent of the people who received unemployment benefit in 1991 also conducted illicit labour, which meant that between SEK 0.9 and 1.5 billion (equivalent to 6-10 percent of unemployment benefit paid out) had been paid incorrectly as a consequence of illicit labour *alone*. In today's numbers, this is the equivalent of SEK 1.8 - 2.7 billion.

The fourth method is based on the assumption that people who are unemployed conduct as much black market labour as the employed. We have however stated above that individuals in the legal economy are more likely to conduct illicit labour, therefore this estimate gives an upper limit as to how much money may be disbursed from the unemployment societies incorrectly. Again, assigning a value of the average daily wage to the number of days in question gives a value of SEK 2 billion.

The table below summarises the results of the four different estimates².

Table 1. Summary of calculated volumes of incorrectly paid unemployment benefit.

Method	Incorrect payments due to participation in black market labour	
	Amount, SEK billion	Percentage of total amount of disbursed benefits
1. Response to direct question to individuals receiving benefits regarding the number of days in the past 12 months they themselves have received unemployment benefit to which they were not entitled	0.12	0.4%
Response to question regarding illicit labour for those individuals who claimed to be "unemployed" in the National Tax Board's charting of black market labour	0.15–0.5	0.6–2%
Calculations in RRV's report "FRAUD – system deficiencies and fraud in the welfare systems" from 1995	1.8–2.7	6–10%
4. Proportioning of black market labour performed by the unemployed according to the National Tax Board's charting of everyone in the labour force	2.0	7%

Our conclusion is that participation in black market labour among individuals who receive unemployment benefit is higher than declared in the direct interview questions, but less frequent than among people employed in the legal economy in other words the maximum and minimum values in the intervals estimated are less likely to be correct. The amount that is paid out incorrectly due to people who have received unemployment benefit at the same time as performing illicit labour is therefore estimated to be in the region of SEK 1–1.5 billion. In other words, between 4 and 6 percent of disbursed unemployment benefits are estimated to be incorrect as a consequence of black market labour.

The effects of fraud

Illicit labour can be counteracted and reduced, but it is more or less impossible to eliminate. However, one question we can ask ourselves is what would happen in practice if all work of this kind was detected and the payments from the unemployment benefit societies were corrected. In some cases, the illicit labour

² The results are presented in the form of specific estimate for the first and the last methods, and an interval for the remaining two methods.

would become legal instead. In other cases, benefit recipients would increase their efforts to find work in the legal economy. Others would become dependent on income support, while a further proportion would find other ways of receiving financial support (for example through relatives or by studying).

The effects would not only be evident for individuals who have acted fraudulently, but they would also have consequences for the social economy. If the earnings from black market labour were disclosed and included in taxation, this would entail that the profit after tax would be so low that the work would not be carried out in some cases.

At present, unemployment benefit fraud contributes to the possibility of selling and purchasing illicit labour particularly cheaply. If the amount of money paid out in benefits is reduced, there will be an increase in prices on the black market. This will in turn decrease the demand for illicit services and illegal employees and thereby lessen the harmful effects for competing legal companies.

Crime preventive measures

In this concluding section, crime-preventive strategies are formulated on the basis of the presented results. One important starting point is that the interviewees clearly expressed a positive attitude towards efforts aimed at preventing fraud. In the quantitative telephone interviews, no less than 88 percent of the participants agreed with the statement: "it is important that something is done about fraud involving unemployment benefits". In the in-depth interviews, the desire to suggest preventative measures to reduce fraud have been one of the reasons for individuals to call and describe their own transgressions. In other words, there is support even from those who currently do or have in the past received unemployment benefit to prevent this type of fraud. This commitment also applies to measures that can be perceived to threaten peoples personal integrity. For example, 83 percent of the respondent in the telephone interviews agree that different disbursing authorities should be able to exchange and compare information about individual cases in order to prevent both fraudulent behaviour and administrative errors.

A structure for preventive measures

For the crime prevention proposals, we have applied the theoretical framework used in situational crime prevention, which, among other things, is based on the previously mentioned routine activity approach (Clarke, 1997)³. In other words, it is taken for granted that there are some people who want to commit fraud, although the degree of motivation may vary. As the theory assumes that the fraudsters are rational, various preventive measures will entail that the "cost" of committing a crime will become excessively high, i.e. that the crime becomes so unprofitable that they decide to stop committing fraud (active oportunists). Those who have simply adopted an industry culture, without reflecting more closely on the circumstances, may instead be receptive to information (passive opportunists). This means that there are no standard solutions to fraud, but instead a variety of measures ought to have the best effect.

³ Situational crime prevention has been developed primarily to more traditional crimes such as theft. It has also been applied successfully against economic crime (Lehtola and Paksula, 2000; Brå 2003:1; Brå 2007:21), errors and fraud in the benefits system (Korsell and Nilsson, 2003) and organised crime (Brå 2007:4; Brå 2007:7).

According to Clarke (1997), preventive measures can be divided into five blocks:

- making it easier and creating incentives for those who want to do the right thing
- Increasing the perceived difficulty of committing crime
- Increasing the perceived risk of committing crime
- Reducing the perceived profitability of crime
- Counteracting excuses that make crime easier.

The crime-preventive proposals will be structured in accordance with the five blocks.

Making it easier and creating incentives for those who want to do the right thing

Simplifications, immediate economic aid, information and service

Research exists that shows that if the state authorities and their officials act correctly and the standard of service is high, trust and confidence will also be built up (RSV 2000:2). We also know that the way people are received by authority officials is extremely important for their behaviour and attitudes towards officials and authorities (RSV 1998:3; Brå, 2007). One study proposed that an appropriate measure for reducing fraud in the social security system is to create personal relationships between benefit recipients and their officials (Eriksson and Larsson, 2000); this has also been suggested by the interviewees. Therefore it is important for officials at the employment offices and the unemployment benefit societies to receive unemployed individuals in a positive way and to create relationships with jobseekers so that trust can be generated, since trust in the legislation and the authorities influences the desire to abide by the laws and regulations (Korsell & Nilsson, 2003). A sympathetic and understanding attitude, is therefore a vaccine against the abuse of regulatory systems and a step towards preventing fraud.

A larger proportion of people engaged in the legal economy reduces fraud

It is important to look more closely at how changes in the extent of unemployment influence the black market and the number of benefit recipients. This area of research has been neglected, both in Sweden and in other countries, as people tend to view social benefits and tax issues as two separate entities (Bajada, 2005). Bajada believes that the risk of getting trapped in the black economy is greater when combining benefits with black market labour is more profitable than participating in the legal economy. Our interviewees do not agree with this, however, as many feel that they would much rather have a legitimate job if they could find one. The topic has also been mentioned in the 1997 study by Dean and Melrose, where the conclusion is drawn that a discussion regarding benefit fraud should be closely linked to a debate regarding economic politics and labour market policies in general.

A policy that increases the incentive and the profitability of legal work, and which leads to more people entering the legal economy, is one method for reducing the extent of fraud involving unemployment benefits and black market labour.

Increasing the perceived difficulty of committing crime

Introducing a common disbursement routine

Both the in-depth and telephone interviewees state that, in their opinion, it is easy to defraud the benefit system. The background to this is that, over the dec-

ades, the disbursing systems have been built on the assumption that the recipients are honest and that the information they provide when filling in forms is correct. The systems therefore have no built-in checks or control (RRV 1995:32).

The ability to see whether several different kinds of benefits and allowances are being paid out to one person at the same time is one aspect that was mentioned during the interviews. For example, one person stated that there should be a centralised system for all benefit payments, which is an idea that has also been proposed in various investigations (RRV 1995:32; SOU 1997:111). This would provide a full insight into which benefits are actually being paid to whom, making it more difficult to commit fraud, for example by receiving several benefits and allowances at the same time. The National Tax Board (2007:1) has developed this idea and proposed a simpler way of reporting paid salary (Skatt.se), as well as proposing that all benefits and insurances should go through a central disbursement system (Utbetala.se).

Increased number of contacts with the employment office

In Sweden, measures in recent years have been largely targeted at increasing the risk of detection through “reactive control”. Resources have been used to employ fraud investigators and to ensure that the police and public prosecutors are available to deal with and prioritise potential cases of fraud. Preventive and deterrent measures also known as preventive control should however also be introduced. For example, it is possible to target structural factors that result in a reduction in opportunities or “chances” to commit fraud.

One way of making it more difficult to commit fraud through structural changes is for the employment office to follow up the unemployed. Requirements can be stipulated regarding frequent visits to the office and participation in different courses and activities that also have the advantage of making it easier for benefit recipients to leave unemployment and find work.

The unemployment benefit societies also have a role in making fraud more difficult. They have a responsibility to make sure that payments are received by those people who are actually entitled to them. There is therefore reason for them to ensure that control procedures are implemented and executed in order to prevent fraud on their behalf.

Increasing the perceived risk of committing crime

Increased control

One important factor, which strengthens our belief that the system is working, is the perception of effective control. If we feel that there is a functioning control system in place, it is natural to assume that it is difficult to commit fraud and that only a small number of people will be inclined to break the rules. Control is therefore not only important for detecting fraudsters, but it also reinforces the perception among law-abiding individuals that most other people are also doing the right thing (Ahrne, 1990; Hechter, 1987). Control should therefore be highlighted, in its capacity of strengthening group solidarity, as an important preventive measure.

As was recently mentioned, it can be seen from the investigations that there is a widespread perception that the controls are not good enough and that it is too easy to commit fraud. At the same time, some interviewees have described that they stopped committing fraud because they perceived that the controls had been strengthened and that the penalties had become more severe. Quite simply it was not “worth” committing fraud any longer. These attitudes reflect the fact that a not insignificant proportion of those who commit fraud do so because they do not perceive the risk of detection to be high enough. There are therefore

many indicators that preventive control can reduce fraud among those who have stated that the decision to commit fraud was a rational, thought over decision.

Relatively small changes in the risk of detection can bring people to stop committing fraud. The reason for this is that many do not view themselves as criminals, but rather consider themselves to be honest members of society, particularly if their fraud is fairly marginal (Henry, 1978). The fraudsters are sensitive to an increased risk of detection, as they have a lot to lose if they are found out. This applies both to passive and active opportunists. They will then be converted from what they perceive to be “marginal fraudsters” legitimising their behaviour through arguments such as “everyone else is doing it”, into criminals in the eyes of the general public and the judicial system. Being convicted affects self-esteem and the image of themselves as basically law-abiding people, and can cause social stigmatisation when knowledge about the conviction reaches family, friends and community. Increasing the perceived risk of detection is therefore an effective method against those who are prepared to take risks, as long as they are not too large.

Efforts against black market labour

The interviewees have committed fraud at the same time as performing black labour. Measures against this are therefore essential for reducing not only unemployment benefit fraud but also fraud involving other types of benefits, allowances and insurances. It can therefore be said that the National Tax Board, with its control activities targeting black market labour, is a major participant in counteracting fraud involving unemployment benefit and other allowances. The Board's control measures should consequently be developed.

One method that cannot be considered too intrusive of personal integrity relates to the issue of reporting salaries and tax every month on an individual level. The regulation existed in the 1980s before the entire salary and tax system was computerized but was taken away due to the large administrative burden. Today, withheld tax from salary payments are reported by employers at the end of each year. It is only then that it is possible to ascertain whether a person who is working is actually receiving legal wages, and the income tax that has been paid can be from work performed at any time during the year.. This naturally makes control in the field difficult, and it makes it very hard to prove that somebody has performed black market labour during a certain period during the year if they have also been active in the legal economy. Over the years, various investigations have therefore proposed that wages or withheld tax should be reported monthly on an individual level (RRV 1998:29, SOU 1997:111, Brå 2007). This is something that we also agree to.

Unannounced control visits

Black market labour is difficult to deal with as it leaves few traces in business records, account withdrawals and accounting documents. Payments are made in cash, and various criminal arrangements have been developed within businesses who have illegal employees to bring in unreported income to use for black wages (Brå, 2007:18). In order to get a better understanding of these problems it is necessary for checks to be carried out in the field where illicit labour takes place.

The Tax Board has recently been given the permission to do this within hairdressing and restaurant sectors. The Board's experiences of this relatively new legislation are positive, and it is an effective method to use against both black market labour and benefit fraud. One proposal is therefore to expand the control opportunities to other sectors, such as construction and transport, which have been pointed out by a number of interviewees as high-risk sectors. It would also be useful if the information gained from visits to workplaces could be sub-

mitted to the disbursing authorities so that individuals found to be fraudsters can be reported and cut off from receiving future payments.

Provide information about control measures

Another way of increasing the perceived risk of detection is to provide information about the control efforts that take place (Örnemark Hansen, 1995). The Fairplay project in Denmark is one example of how engaging the media can be very effective. Efforts have been made to target businesses that hire but do not declare employees. When workplaces are found where black market labour is being used the story is circulated in the media. This visibility has resulted in restaurant owners reporting that they have a larger number of employees (Danish Government, 2004).

Reducing the perceived profitability of crime

Information about the disadvantages of fraud

The interviewees have mentioned several disadvantages that can reduce the perceived profitability of fraud. There are economic arguments, such as receiving an inferior pension and the risk of not being insured in the event of injuries at work. In addition to this, interviewees describe mental stress, feelings of guilt and reduced self-esteem when committing fraud, feelings that have proved to be of decisive importance for people to stop their fraudulent behaviour (Rowling, 1997). There are also many different penalties that can be used in the case of detection. Fraudsters can be forced to repay incorrectly paid funds, go without future unemployment benefit, have their tax ratings raised, pay tax surcharges and also be punished through fines or imprisonment.

This shows that there are a number of disadvantages associated with fraud. These factors reduce the perceived gains from crime for those individuals who also take into consideration the consequences that may arise if they are found out. By providing information about these and highlighting the costs and effects of fraud, it is possible to get some people to stop committing fraud as they no longer consider it to be profitable.

Administrative sanctions

The risk of getting caught increases if decisions regarding sanctions can be taken without the need to go through a legal process. The sanctions that the unemployment benefit societies use at present should therefore be applied more often and information about the sanctions should be made available to the members. It is our impression that the public knowledge about the sanctions that actually exist is poor, and that the sanctions, in practice, are not used very often.

One preventive measure might also be to introduce financial sanctions in the form of fees that the disbursing authorities can demand from benefit recipients who have received payment to which they are not entitled. How such a system can be put into practice must however be investigated separately.

Counteracting excuses that make crime easier

Everyone else is doing it, aren't they?

It is clear from the investigations that a large proportion of those who receive unemployment benefit have an incorrect impression of the extent that fraud is committed. They believe that fraud is much more usual than is actually the case. Our results also show that individuals who themselves commit fraud believe that fraudulent behaviour is widespread.

The fairly common misconception about the actual extent and true nature of fraud is a problem, as it leads to neutralising arguments along the lines of “everyone else is doing it”. With such excuses, it is possible to reduce the internal tension associated with breaking the rules and to retain the self-image of a law-abiding citizen. In addition, the desire to act correctly diminishes when the perception is that many other people are not following the rules; group solidarity is weakened.

Accurate information about the actual extent of fraud therefore has a preventive effect. One measure should therefore be for authorities, research institutes and the media to distribute factual information about the extent of fraud. There are positive experiences of this from countries such as the UK, where information and advertising campaigns regarding the actual extent of fraud have produced an effect on levels of benefit fraud (Department for Work and Pensions, 2007).

Information can also correct the impressions mentioned previously that fraud is actually taking back your own money. Campaigns should also be able to highlight various cases of benefit fraud that have been uncovered, in order to eliminate the impression than nobody gets caught because the level of control is low.

Receivers of unemployment benefit are less likely to perform black market labour than people who are part of the legal economy

One perception is that people who receive unemployment benefit in particular are highly active in the black economy. This belief also generates neutralising arguments such as the perception of the extent of fraud mentioned above. The results show that individuals who receive unemployment benefit are in fact less inclined to participate in the black economy than people in general. Information about this situation could strengthen the legitimacy of the system and reduce the possibility of using neutralisations.

If the misconceptions presented above are eradicated through information campaigns, this could contribute to changed attitudes in the form of the general public starting to view fraud involving benefits more seriously. Facts reduce the number of neutralising and legitimising arguments, and hence reduce the inclination to commit crime. Changed attitudes also increase the informal social control that, in addition to formal sanctions, has been shown to be important in reducing fraud. As mentioned previously, the contempt of others and the risk of social stigma can be considered worse than penal punishment for people who consider themselves to be law-abiding citizens.

Summary

Aim and method

The purpose of the study has been to find out more about the fraud that takes place as a consequence of unemployment benefit recipients simultaneously performing black market labour. Attitudes towards fraud and the structure of fraud have been studied through telephone interviews with 1,691 people who have received unemployment benefit during 2006, as well as 12 in-depth interviews with people who themselves have committed fraud or who have knowledge about somebody who has done so. The in-depth interviews have also formed the basis for investigating how it has been possible to commit fraud, while the telephone interviews have been used to estimate the extent of this type of fraud.

The extent of fraud has been narrowed down with the aid of four different methods: telephone interviews, an earlier questionnaire that was part of an investigation into the black market economy made by the National Tax Board, the National Audit Office's estimates from 1995 regarding the level of illicit labour carried out by the unemployed, and by calculations based on the amount of black labour carried out by people employed in the legal economy.

Extent of fraud

In 2006, SEK 27 billion was paid out in unemployment benefits. Out of this amount, it is estimated that between SEK 1 and 1.5 billion has been paid out incorrectly as a consequence of "unemployed" people conducting illicit labour, which corresponds to 4–6 percent of the total benefits paid.

Fraud is less extensive than many believe

A third of the people who have been interviewed in the investigation believe that between 20 and 50 percent of the people on unemployment benefit receive payments that they are not entitled to because of black market labour. These high percentage rates are not supported in this study, where "only" 5 percent of the interviewees admitted that they themselves had done this. Even though the figure of 5 percent is believed to be an underestimation, there is no evidence in other research to indicate that fraud is being committed to the extent stated by the interviewees either. In fact, the investigation shows that many people don't want to cheat the system, and can see many advantages with working in the legal economy.

The widespread perception regarding extensive fraud is a problem since others use it as an excuse to commit fraud. In order to reduce fraud, it is therefore vital to distribute information about the actual extent and nature of fraud. If this knowledge can be conveyed to the general public, this should have a crime-preventive effect.

Reception important

The employment office and the unemployment benefit societies are among the most important representatives of the social security and benefit systems. Simplified rules, immediate economic aid and better service and reception of claimants by officials have a crime-preventive effect, as it gives confidence to the welfare system as a whole.

Own fraud and fraud by others

Individuals who personally know somebody who has committed fraud are more likely to commit fraud themselves, and people who commit fraud or know somebody who has done so also tend to believe that fraud is more common than it actually is. Personal experience of own fraud and fraud by others can contribute to the extent of fraud increasing, as people find neutralising arguments through contacts with others.

There are some workplaces, particularly within certain "risk sectors", where black labour in combination with fraud involving various benefits and allowances is extensive. In order to reduce the number of workplaces where fraud occurs, targeted control measures ought to be an effective method.

Those to do well in the legal economy also do well in the black economy

The results from the study show that unemployed people perform black market labour to a lower extent than people who are employed and that the stronger the connection a person has to the legal economy, the more frequently do they know

somebody who has worked illicitly. This can be explained by the fact that black labour is integrated into the legal economy, where contacts are made and where equipment and materials are available. This assessment corresponds with the National Audit Office's earlier mapping of the black market economy.

The chicken or the egg?

Which comes first: fraud involving unemployment insurance or black market labour? There is support for both. Or rather, there is a link between the two. By receiving unemployment benefit, free time is released that is needed to perform illicit labour. At the same time, unemployment benefit provides a legitimate income, which also makes it possible to work at a particularly low hourly rate.

The combination of illicit labour and fraud involving the unemployment insurance makes it easier to detect if somebody is illegally employed. The National Tax Board's checks of the black economy therefore constitute an opening for detecting cases of fraud as well. If the Board is given extended right to conduct unannounced visits to workplaces, and if the ongoing reporting of payroll tax and withheld preliminary tax is linked to individual employees on a monthly basis, these will be effective weapons against the problem at hand. By counteracting black market labour, it will also be possible to deal with fraud involving the unemployment benefit as well as other benefits and insurances.

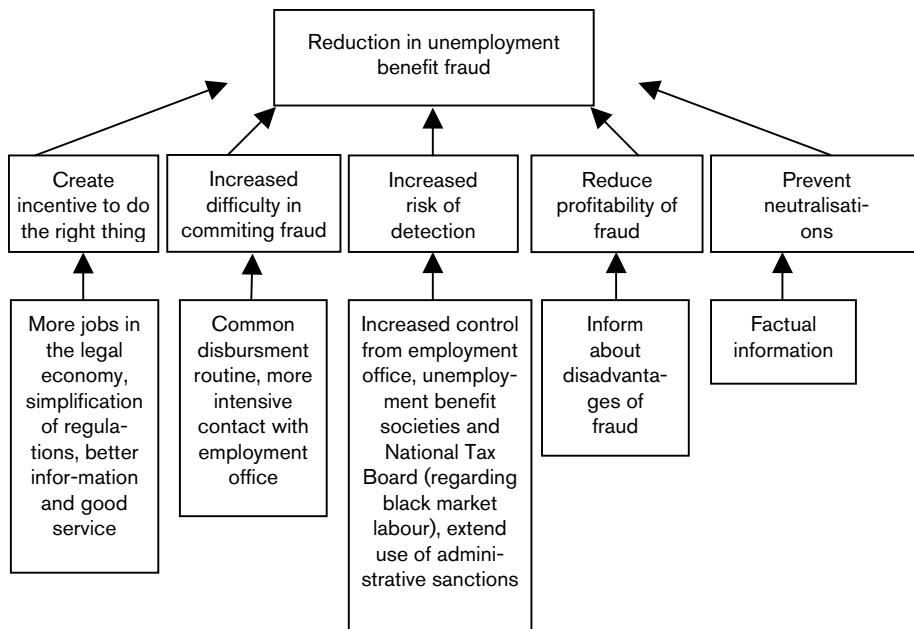
It is also possible to target unemployment benefit fraud more directly. One proposal is the introduction of a common disbursement routine in order to gain an overview of the benefits and allowances that are paid out. Another proposal is to increase control by means of the employment office maintaining contact and placing demands on benefit recipients and exchanging information with other benefit societies to a greater extent.

Who cares?

As has been mentioned, many people believe that fraud is much more extensive than is actually the case. Out of those interviewed, 46 percent believe that one of the reasons for incorrect benefits being paid out is that "people are cheating the system". The natural conclusion is therefore that many believe that the controls are insufficient and that the risk of detection is low. Some interviewees believe that they are only taking back their "own money" and that fraud involving unemployment insurance is less serious than other types of fraud. Our conclusion is that these factors reduce the legitimacy of the welfare system, which in the long run can do the same for other societal institutions and hence there is a risk of reduced abidance with the law.

The proposal is therefore that controls should increase, not only to increase the risk of detection, but also to bring about the perception of a benefit system that functions well and where the recipients are law-abiding.

Summary of proposed measures



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