



## MIGRATION POLICIES AND THE INFORMAL ECONOMY: A SYSTEMATIC REVIEW OF THE LITERATURE

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# Abstract

Economic informality remains a persistent challenge within the European Union and is increasingly related to the governance of labour migration. This systematic literature review examines how migration policies—ranging from restrictive entry regimes to inclusive integration measures—influence migrants’ economic incorporation and the dynamics of the informal economy. Following the PRISMA 2020 guidelines, a systematic search of Scopus and Web of Science identified 38 peer-reviewed studies published between 2015 and 2024. The evidence was synthesised using a qualitative thematic approach. The review identifies a consistent “regulatory paradox”: restrictive migration policies, including limited entry quotas and residence permits tied to specific employers, are associated with higher levels of informal economic activity by increasing administrative precarity and excluding migrants from formal labour market protection. In contrast, regulation and inclusive integration measures—such as access to employment rights, collective bargaining, and vocational support—are shown to reduce participation in the shadow economy. However, these effects are highly context-dependent and mediated by enforcement capacity, institutional quality, and sector-specific labour demand, particularly in agriculture, construction, and domestic care. The findings suggest that exclusive migration governance often contributes to informality rather than its reduction. While the evidence base is heterogeneous and largely observational, the review highlights the structural role of migration policy design in shaping informal labour markets. The study concludes that reducing informality in the EU requires a shift from restrictive control-oriented regimes toward rights-based regulatory frameworks, including the decoupling of residence permits from single employers and the expansion of accessible legal migration pathways.

**Keywords:** Migration policy; Informal economy; Systematic review; PRISMA 2020; Economic inclusion; European Union.

## Chapter 1 Contents

1.	Introduction.....	3
2.	Methodology.....	4
2.1	Eligibility Criteria.....	4
2.2	Data Collection.....	4
3.	Results.....	5
3.1	Quality Assessment rules (QARs).....	6
3.2	The Relationship Between Migration Policies and Informal Economic Activities	10
3.3	The Relationship Between Restrictive Policies and the Size of Informal Economies	11
3.4	The Relationship Between Mediating Effects of Enforcement and Labor Market Conditions	11
4.	Discussion.....	12
4.1	Policy Implications.....	13
4.2	Limitations.....	14
4.3	Conclusion and Future Research.....	14
5.	References.....	14

## 1. Introduction

Economic informality is a persistent feature of contemporary labour markets in both advanced and developing economies. In OECD countries, the informal economy represents a considerable share of total output, ranging from an estimated 17% of GDP to nearly 30% in some Southern European countries (Schneider & Enste, 2002). Informality encompasses different forms of economic activity, including undeclared work, small-scale entrepreneurship, and unregulated labour arrangements. While it provides a source of income for vulnerable groups, informality undermines the collection of tax revenues, social protection systems, and regulatory compliance (Schneider & Asllani, 2023). The drivers of informality are multifaceted, spanning the regulatory burdens, weak enforcement, and labour market segmentation. Entrepreneurship and informality often overlap, as regulatory constraints can either discourage business creation or push new ventures into unregulated domains (Kong & Qin, 2021).

Migration policies represent another critical dimension determining informal economic activities. By defining legal channels of entry and access to labour markets, migration policies influence the opportunities available to both migrants and native workers. Restrictive policies—such as strict entry quotas, limited work authorizations, or barriers to asylum—expand the informal sector by pushing migrants into unregulated forms of employment (Donato et. al., 2006; Bjerre-Nielsen, 2019). Evidence suggests that undocumented migrants often participate disproportionately in informal labour markets due to their exclusion from regular employment opportunities (Farré et. al., 2011). Conversely, inclusive migration and integration frameworks have been associated with higher rates of formal employment and entrepreneurship among migrant populations (Naudé et. al., 2017; OECD, 2021). The effectiveness of migration policies, however, does not solely depend on their formal design but also on the intensity of enforcement and the broader labour market context. Policies may be ineffective in settings with limited inspection capacity or high demand for low-skilled labour, which creates structural incentives for informality (ILO, 2022). For example, weak enforcement correlates with larger informal sectors and elevated environmental and social costs (Abid et. al., 2024). At the same time, active labour market programs and integration measures—captured, for instance, in the Migrant Integration Policy Index (MIPEX) scores—can mitigate informality by fostering pathways into formal employment (OECD, 2021). The current evidence shows substantial variation in how migration policies interact with labour markets across EU member states (Farré et. al., 2011; Naudé et. al., 2017; OECD, 2021). In economies with persistent demand for low-skilled or seasonal labour, restrictive regimes often drive employers to rely on undocumented workers, reinforcing informality (ILO, 2022; Abid et. al., 2024). In contrast, integration measures such as language training and vocational support foster migrants' entry into formal employment (OECD, 2021). Yet, findings remain fragmented, emphasizing different factors—from weak inspection capacity to institutional quality—making it difficult to draw general conclusions about policy effectiveness. Therefore, a systematic review of this evidence is required to clarify how migration policies influence labour informality. By systematically reviewing the existing evidence, this study integrates dispersed findings and that can contribute to designing migration frameworks that promote formal employment and social inclusion in the EU states.

We systematically review the evidence on how migration policies influence the size and dynamics of the informal economy. While several studies have investigated specific migration regimes, enforcement practices, and their consequences for informal labour markets, no systematic review has consolidated these findings for EU countries. As a result, policy debates in the EU often

rely on fragmented evidence. We therefore identify, screen, and synthesize published research and to evaluate whether restrictive regimes contribute to higher levels of informality, and whether inclusive integration measures facilitate economic incorporation. We address the following questions: 1) What does the existing evidence show about the relationship between migration policies and informal economy? 2) Do restrictive policies consistently correlate with larger informal economies? 3) How do enforcement practices and labour market conditions mediate these effects across different contexts? This paper is structured as follows. Section 2 describes the methodology and data collection of the study. Section 3 presents the results of the review, summarizing the characteristics and findings of the included studies. Section 4 discusses the implications of these findings for migration policy and labour market regulation in the EU.

## 2. Methodology

We systematically reviewed the evidence on how migration policies influence the size and dynamics of the informal economy in the EU countries from 2015 until 2025. The Preferred Reporting Items for Systematic Reviews and Meta-analysis (PRISMA 2020) framework is used to ensure transparency, replicability, and methodological rigor.

### 2.1 Eligibility Criteria

The primary inclusion criterion required studies to explicitly analyse the interaction between state regulatory frameworks and informal economic activities. Eligible "regulatory frameworks" included entry policies, enforcement mechanisms, and integration measures (e.g., regularization programs). Studies were required to link these policies to economic outcomes, such as undeclared work, the size of the shadow economy, or precarious labour market integration. Regarding the geographical scope, the review was strictly limited to the European Union (EU-27) and the United Kingdom, ensuring the comparability of welfare regimes and labour market structures. The review period spans from 2015 to 2025. The start year of 2015 was selected to capture the significant shift in European migration governance triggered by the "Refugee Crisis," which prompted new legislative approaches and enforcement challenges across the continent, and it ends in 2025 to ensure that the included literature is complete and based on fully available and peer-reviewed evidence. Eligible designs included quantitative analyses (e.g., MIMIC models, regression analysis), qualitative fieldwork (e.g., ethnographies, semi-structured interviews), and mixed-methods research.

Studies were excluded if they focused solely on social or cultural integration without an explicit economic dimension. Research cantering on non-European contexts (e.g., North American or Australian migration systems) was removed to maintain contextual validity. Furthermore, editorials, opinion pieces, non-peer-reviewed blog posts, and studies lacking a clear methodological framework were excluded from the analysis to ensure the quality and reliability of the evidence.

### 2.2 Data Collection

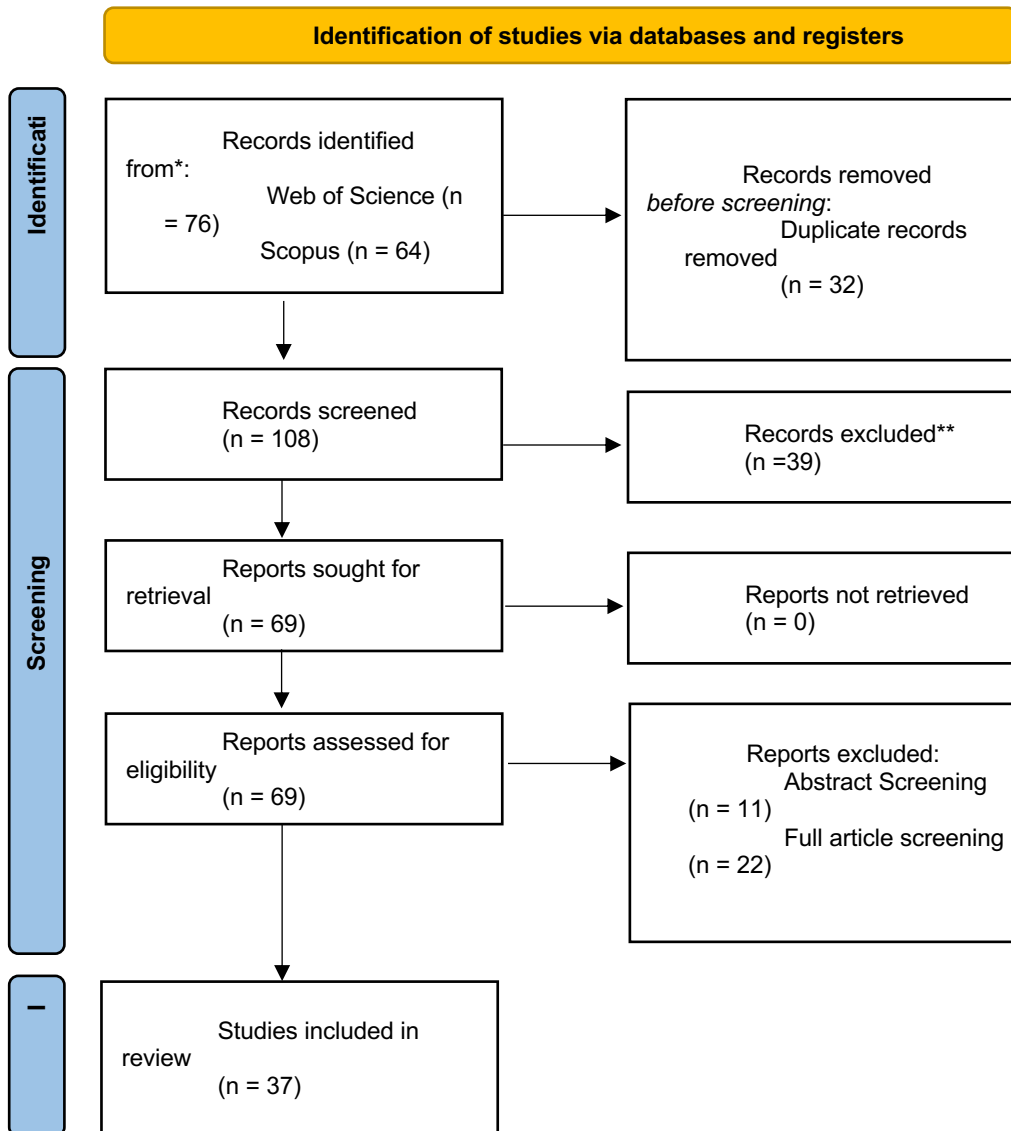
A systematic search was conducted in Scopus and Web of Science, for studies published between 2015 and 2025. The search strategy combined key terms related to *migration policy*, *informal economy*, and *European Union labour markets* (Appendix A). For screening the literature, we firstly checked the title and abstract: Irrelevant studies were excluded, and then we assessed the

full text: Articles meeting the inclusion criteria were collected. Data extraction was performed using a structured Excel matrix, recording for each study: author(s), publication year, country, dataset, methodology, migration policy measure, informal economy indicator, enforcement or labour market context, and key findings. In total, 140 records were collected. After removing 32 duplicates, 108 records were screened by title and abstract. Seventy records were excluded at this stage, leaving 37 full-text articles that were assessed for eligibility and included in the final synthesis.

### **3. Results**

The systematic literature search identified a total of 37 studies that met the eligibility criteria for this review. While quantitative studies (e.g., Mutascu & Hegerty, 2022; Williams et. al., 2017) utilized pan-European datasets covering the entire EU-27, specific national case studies were concentrated to ten member states. The final sample includes quantitative econometric analyses (e.g., Cichocki & Torój, 2023; Mutascu & Hegerty, 2022), qualitative case studies (e.g., Dimitriadis, 2018; Vianello & Sacchetto, 2016), and comparative policy reviews (e.g., De Lange & Falkenhain, 2023; Verschueren, 2018). Geographically, the research covers the EU-27 widely, with specific clusters of research focusing on Italy (Di Caro & Nicotra, 2016; Talani, 2019), Central and Eastern European countries (Iacobuță-Mihăiță et. al., 2022; O. Schneider, 2022), and the Nordic states (Arora-Jonsson & Larsson, 2021; Refslund, 2016). To ensure the robustness of the synthesis, the reliability of the included studies was appraised based on the clarity of their methodological frameworks, the transparency of their data sources, and the validity of the analytical approach used to link policy variables with economic outcomes.

In adherence to the PRISMA 2020 statement for transparent reporting, the study selection process is visually summarized in Figure 1. This flow diagram delineates the multi-stage screening protocol, tracking the attrition of records from the initial identification phase through to the final inclusion.



**Figure 1.** Diagram of the Identification and Selection Process of Articles.

### 3.1 Quality Assessment rules (QARs)

Following the final selection of 37 articles (Figure 1), we applied the five Quality Assessment Rules (QARs) to ensure methodological rigor and relevance to our objectives. Each study was rated on a 5-point scale: “fully answered” (5), “above average” (4), “average” (3), “below average” (2), and “not answered” (1). The final quality ranking was determined by summing the scores across all five QARs. Only studies achieving a score above 3 were retained for the final synthesis, ensuring that all included research met high academic standards. (Appendix B)

The five Quality Assessment Rules (QARs) are as follows:

- QAR1: Are the objectives and research questions clearly stated?
- QAR2: Is an appropriate methodology used to address the research questions?
- QAR3: Are the findings supported by data and evidence?

- QAR4: Are limitations and implications discussed?
- QAR5: Does the study contribute to knowledge in the field?

The quality assessment of the 37 selected studies demonstrated an overall high level of methodological rigor and relevance. Most articles achieved scores between 4.0 and 4.8, indicating that the majority clearly stated their research objectives, employed appropriate methodologies, and provided evidence-supported findings. Several studies received the maximum score of 5.0, reflecting exceptional quality across all QAR criteria. Only one study obtained an average score of 3.0, while a small number of studies scored between 3.6 and 3.8, suggesting comparatively weaker discussion of limitations or methodological consistency. Overall, the results confirm that the final sample consisted predominantly of high-quality studies that made substantial contributions to the field and were suitable for inclusion in the final synthesis.

To systematically analyse the studies, data were extracted using a standardized extraction matrix (Appendix C). This matrix served as the primary tool for organizing and synthesizing the empirical evidence. For each study, information was coded into five distinct dimensions: (1) Bibliographic Details (author, year); (2) Geographical Context (specific country or EU-wide focus); (3) Methodological Design (qualitative, quantitative); (4) Population/ Group Studied; (5) Key Policy Variable/s (e.g., specific laws, entry quotas, or permit regulations analysed); (6) Key Outcome Variable/s; and (7) Main Findings. This structured extraction method allowed for a cross-case comparison, enabling the identification of recurrent themes—such as administrative precarity and sectoral exclusion—across different national contexts. (See Appendix C). The quality assessment of the 37 selected articles confirms a high standard of methodological rigor, with all studies meeting the inclusion threshold of a 3.0 or higher. The dataset achieved a strong overall average of approximately 4.4/5.0, with two studies (Cichocki S.; Torój and Schneider O.) attaining a perfect score of 5.0. Performance was highest in QAR1 (Objectives) and QAR5 (Contribution), where perfect scores of 5 were nearly universal. While methodology (QAR2) and data evidence (QAR3) remained consistently strong with scores primarily between 4 and 5, QAR4(Limitations/Implications) exhibited the greatest variability, with scores ranging from 2 to 5. Despite this minor fluctuation, the results validate a robust empirical foundation for the final synthesis.

Table 1 presents a thematic synthesis of six mechanisms linking regulatory frameworks to informal economic outcomes. Rather than viewing informality as a consequence of unauthorized border crossings, the synthesized literature demonstrates that legal, administrative, and institutional architectures directly shape the shadow economy (e.g., Iacobață-Mihăiță et. al., 2022; Manolova, 2022; Verschuere, 2016). First, the literature establishes that rigid legal barriers and bureaucratic friction act as primary drivers of informality. Under Direct Policy Restrictions, when state-mandated entry quotas fall short of structural labour market demand, a "feedback loop" emerges that naturally pulls excluded migrants into the underground economy (Talani, 2019; Williams et. al., 2017). This push into the shadow economy is further exacerbated by administrative precarity. For many migrants, the sheer complexity of "bureaucratic bordering"—such as exorbitant renewal costs, rigid documentation requirements, and processing delays—forces even documented individuals into cash-in-hand work or bogus self-employment simply to survive administrative waiting periods (Dimitriadis, 2018; Manolova, 2022). Beyond the point of entry, migration policies dictate the conditions of stay, frequently creating systemic labour market traps. Tied-Visa Vulnerability legally binds a migrant's residency to a single employer, generating an asymmetric power dynamic. Unable to change jobs freely, workers are trapped in exploitative "grey zones" where they must endure unpaid overtime and abuse to avoid losing their

legal status (De Lange & Falkenhain, 2023; Verschueren, 2018). When the state's public welfare system fails to provide affordable social services the informal economy expands to meet the demand for cheap, unregulated labour. In countries relying on "*familialist*" care models, the structural demand for cheap, live-in labour sustains a persistent grey market—primarily heavily reliant on migrant women as care providers—that even targeted formalization policies struggle to eradicate (Salaris & Tedesco, 2020; Schmidt et. al., 2016). Finally, the synthesis highlights that policy design is heavily mediated by institutional quality. Laws and regulations are only effective if the state has the resources to enforce them. Enforcement capacity determines whether laws function in practice or merely exist on paper; under-resourced labour inspections allow firms to bypass regulations using complex transnational subcontracting chains, while street-level bureaucrats often rely on informal workarounds to manage rigid systems (Borrelli & Lindberg, 2025; Wagner, 2015). Conversely, the literature offers a clear corrective pathway: Inclusive Integration. Proactive measures, ranging from state-led regularization programs to strong union density and collective bargaining, are proven to significantly reduce the size of the shadow economy by offering migrants viable, protected routes into formal employment (Mutascu & Hegerty, 2022; Refslund, 2016).

Thematic Mechanism	Description of Relationship	Supporting Evidence
Direct Policy Restrictions	Restrictive entry quotas and limited legal channels create a "feedback loop" where labour demand is met through the underground economy.	Talani (2019) demonstrates that the <i>Decreto Flussi</i> quotas in Italy fail to match structural labour demand, acting as a "push factor" into irregularity. Williams et. al. (2017) further identifies that stricter immigration enforcement without concomitant legal pathways significantly increases the probability of informal employment among excluded groups.
Administrative Precarity	Bureaucratic complexity, residence permit renewal costs, and delays push even "regular" migrants into undeclared work to survive or maintain status.	Manolova (2022) describes how "bureaucratic bordering" in the UK strips EU citizens of formal rights, forcing them into cash-in-hand work. Dimitriadis (2018) finds that strict renewal requirements in Italy lead migrants to purchase falsified contracts or engage in bogus self-employment to satisfy administrative criteria.
Tied-Visa Vulnerability	Policies tying residency to a single employer prevent migrants from leaving exploitative conditions, fostering "grey zones" of underpayment and abuse.	De Lange and Falkenhain (2023) argue that the inability to change employers freely increases vulnerability to exploitation. Verschuere (2018) notes that migrants often endure informal conditions (e.g., unpaid overtime) rather than report abuse, solely to avoid losing the residency status tied to their permit.
Sectoral Exclusion	Gaps in formal welfare/care provision create a structural reliance on informal migrant labour (especially women) in domestic and care sectors.	Salaris and Tedesco (2020) show that the "familialist" welfare model creates a structural demand for low-cost, live-in care that formal policies fail to meet. Schmidt et. al. (2016) finds that even formalization attempts, such as Austria's "24-hour care" regulation, fail to eliminate grey markets in private households.
Enforcement Capacity	Weak or discretionary enforcement mediates policy intent; laws exist on paper but are circumvented in practice due to lack of resources.	Wagner (2015) reveals that weak labour inspection in the German construction sector allows firms to use transnational subcontracting chains to conceal non-compliance. Borrelli and Lindberg (2025) observe that "street-level" bureaucrats often use informal practices to make rigid migration control systems function in daily practice.
Inclusive Integration	Regularisation programs and inclusive integration measures (e.g., language/vocational support) effectively reduce shadow economy size.	Mutascu and Hegerty (2022) provide quantitative evidence that regularisation programs effectively move migrants from the shadow economy into formal employment. Refslund (2016) highlights that strong union density and collective bargaining in Nordic states mitigate precarious employment outcomes for migrant workers.

**Table 1, Thematic Synthesis of Findings: How Regulatory Frameworks Shape Informality**

The analysis identifies distinct pathways where restrictive policies—specifically entry quotas, administrative barriers, and tied work permits—systematically produce informality by stripping migrants of legal protections and fostering dependency (Talani, 2019; De Lange & Falkenhain, 2023). Beyond direct restrictions, the findings highlight how structural gaps in welfare provision and enforcement capacity mediate these effects, often necessitating reliance on the shadow economy in sectors like domestic care and construction (Salaris & Tedesco, 2020; Wagner, 2015). Conversely, the table contrasts these exclusionary drivers with evidence that inclusive measures, such as regularization programs and collective bargaining, effectively reduce the size of the informal economy by facilitating formal labour market integration (Mutascu & Hegerty, 2022).

The synthesis of the selected literature reveals three primary thematic dimensions corresponding to the research questions: the nature of the relationship between policy and informality, the specific impact of restrictive regimes, and the mediating role of enforcement and market conditions.

### **3.2 The Relationship Between Migration Policies and Informal Economic Activities**

Of the 37 analysed studies, 21 explicitly confirm a correlation between migration policy frameworks and the informal economy (Wagner, 2015; Dimitriadis, 2018; Manolova, 2022; Suleman, 2015; Hamedanian, 2022; Salaris & Tedesco, 2020; De Lange & Falkenhain, 2023; Simona Talani, 2019; Schneider et. al., 2015; Hasanaj, 2018; Marie Borrelli & Lindberg, 2025; Refslund, 2016; Škuflić et. al., 2018; Verschueren, 2018; Mutascu & Hegerty, 2022; Williams et. al., 2017; Verschueren, 2016; Trojanowska-Strzeboszewska, 2018; Vianello & Sacchetto, 2016; Martin & Tazzioli, 2023; Fradejas-García et. al., 2022). 14 of these studies report a significantly positive correlation, demonstrating that increasingly restrictive migration regimes are systematically linked to higher levels of informal economic activity (Wagner, 2015; Dimitriadis, 2018; Manolova, 2022; Salaris & Tedesco, 2020; De Lange & Falkenhain, 2023; Simona Talani, 2019; Williams et. al., 2017; Verschueren, 2016; Trojanowska-Strzeboszewska, 2018; Vianello & Sacchetto, 2016; Martin & Tazzioli, 2023; Fradejas-García et. al., 2022). The literature indicates that migration policies influence informal economic activity through three distinct mechanisms: direct regulation, unintended regulatory loopholes, and structural exclusion. Policies that directly regulate labour market access have the most immediate impact on informality levels. Research consistently demonstrates that regulation programs—amnesties granting legal status to undocumented migrants—effectively reduce participation in the informal economy (Mutascu & Hegerty, 2022). By formalizing the status of migrants, these programs facilitate entry into the official labour market, thereby shrinking informality (Mutascu & Hegerty, 2022). Conversely, policies that restrict access to work permits directly correlate with increased participation in undeclared work, as migrants facing administrative barriers are forced to seek employment in the informal sector (McKay, 2014; Verschueren, 2016). Several studies highlight how nominally inclusive or neutral regulatory frameworks can unintentionally create "grey zones" of informality. For instance, the EU's Posting of Workers Directive, designed to facilitate labour mobility, has been found to enable transnational subcontracting chains where firms exploit regulatory complexity to conceal non-compliance and wage underpayment (Wagner, 2015). Similarly, in Italy, strict requirements for residence permit renewals have paradoxically pushed regular migrants into informal practices, such as purchasing falsified employment contracts or engaging in bogus self-employment to maintain their legal status (Dimitriadis, 2018). Informality also flourishes in sectors where formal policy frameworks are insufficient. In the care sector, the reliance on family-based care arrangements combined with a lack of formal service provision channels migrant women into informal domestic work (Salaris & Tedesco, 2020). Even attempts to formalize this sector, such as the "24-hour care" regulation in Austria, have struggled to fully eliminate grey-market practices due to the inherent nature of private household labour (Schmidt et. al., 2016). Furthermore, asylum governance systems that restrict asylum seekers from accessing the labour market often necessitate reliance on unpaid or voluntary labour, effectively embedding informality into the reception system itself (Martin & Tazzioli, 2023).

### 3.3 The Relationship Between Restrictive Policies and the Size of Informal Economies

The review finds substantial evidence that restrictive migration regimes are positively correlated with larger informal economies, primarily by channelling migrants into irregularity and precarious employment. The analysis reveals that 15 studies suggest a positive correlation between restrictive policy frameworks and the size of informality (Achim et. al., 2023; Wagner, 2015; Dimitriadis, 2018; Manolova, 2022; Salaris & Tedesco, 2020; De Lange & Falkenhain, 2023; Simona Talani, 2019; Williams et. al., 2017; Suleman, 2015; Hamedanian, 2022; Verschueren, 2016; Trojanowska-Strzeboszewska, 2018; Vianello & Sacchetto, 2016; Martin & Tazzioli, 2023; Fradejas-García et. al., 2022). According to the literature, restrictive and limited legal channels for migration do not necessarily reduce the number of migrants but instead increase the proportion of those operating without authorization. In Italy, for example, restrictive policies like the *Decreto Flussi* have been linked to a "feedback loop" where the lack of legal entry paths pushes migrants into the underground economy, which in turn acts as a pull factor for further irregular migration (Talani, 2019). This is supported by findings from the UK, where strict policies or "bureaucratic bordering" was observed to strip EU migrants of formal rights, pushing them toward cash-in-hand employment (Manolova, 2022). Additionally, policies that tie residency rights to a specific employer create a structural dependency that heightens the risk of informality. De Lange and Falkenhain (2023) argue that restrictive rules preventing migrants from changing employers freely – such as those debated in the EU Single Permit Directive recast – increase vulnerability to exploitation. Migrants in these tied arrangements may endure informal working conditions rather than risk their legal status by leaving their employer (De Lange & Falkenhain, 2023). While migration policies are a significant factor, broader macroeconomic and institutional conditions also drive the size of the informal economy. High tax burdens and weak institutional quality are consistently identified as primary determinants of the shadow economy across the EU (Achim et. al., 2023; Iacobuță-Mihăiță et. al., 2022). However, migration restrictions exacerbate these issues by creating a specific stratum of workers – migrants – who are systematically excluded from formal protections (F. Schneider, 2022).

### 3.4 The Relationship Between Mediating Effects of Enforcement and Labor Market Conditions

The impact of regulatory frameworks is mediated by the capacity for enforcement and the specific structural conditions of local labour markets. Of the 37 studies, 22 studies have suggested that weak enforcement capacity has positive correlation with informality (Schneider et. al., 2015; Hasanaj, 2018; Marie Borrelli & Lindberg, 2025; Schmidt et. al., 2016; Wagner, 2015; Manolova, 2022; Suleman, 2015; Hamedanian, 2022; Quintano & Mazzocchi, 2020; Salaris & Tedesco, 2020; De Lange & Falkenhain, 2023; Simona Talani, 2019; Williams et. al., 2017; Suleman, 2015; Hamedanian, 2022; Verschueren, 2016; Trojanowska-Strzeboszewska, 2018; Vianello & Sacchetto, 2016; Martin & Tazzioli, 2023; Fradejas-García et. al., 2022; Verschueren, 2018; ). Particularly in sectors like construction and agriculture, employers are allowed to ignore regulations with impunity (Wagner, 2015). Conversely, strong enforcement mechanisms, such as rigorous labour inspections and tax compliance measures, have been shown to effectively reduce undeclared work among migrants (Schneider et. al., 2015). However, enforcement is also characterized by discretion; Borrelli and Lindberg (2025) note that "street-level" officials often rely on informal practices and tacit toleration to make structural labour markets function, inadvertently creating spaces of informality within the state itself. Structural

labour market conditions significantly shape policy outcomes. High demand for low-skilled or seasonal labour in sectors like agriculture and domestic work creates a strong pull for informal labour that often overrides restrictive policy intent (Refslund, 2016; Vianello & Sacchetto, 2016). In contrast, strong labour market institutions, such as high union density and comprehensive collective bargaining, can buffer these effects. For instance, in Denmark, strong unions were found to mitigate the pressures of intra-European labour migration, protecting sectors from spiralling into precarious and informal practices (Refslund, 2016). However, migrants are not passive subjects of policy; they actively navigate regulatory constraints apply different strategies. Fradejas-García et. al. (2022) argues that migrants utilize transnational social networks to bypass bureaucratic hurdles and access informal employment when formal routes are blocked. This agency allows migrants to survive within restrictive regimes but simultaneously entrenches their participation in the informal economy (Fradejas-García et. al., 2022).

The analysis reveals that while migration policies are ostensibly designed to regulate labour market access and ensure legality, they often produce the inverse effect when characterized by restrictiveness and bureaucratic complexity. The empirical evidence highlights a persistent tension: exclusionary regulatory frameworks, when interacting with structural labour demand and variable enforcement capacities, frequently entrench rather than eliminate informal economic activity

#### 4. Discussion

The findings of this systematic review challenge the conventional policy narrative that stricter migration controls lead to orderly labour markets. Instead, the synthesized evidence suggests a "regulatory paradox": restrictive frameworks intended to curb irregularity often exacerbate the very informal economic activities they aim to suppress. The informal economy functions not merely as a residual category of evasion, but as a structural outcome of exclusionary migration governance. The review corroborates the theory that informality is often state-manufactured rather than purely market-driven, and the relationship between migration policy and the informal economy is mediated by the legal construction of "illegality" and the creation of vulnerability. A critical finding of the study is the existence of a feedback loop between restrictive entry regimes and the underground economy. As Talani demonstrates in the Italian context, restrictive quotas (such as the *Decreto Flussi*) do not align with the structural demand for low-skilled labour. Consequently, the underground economy acts as a "pull factor" for irregular migration, while restrictive policies provide the "push factor" into irregularity. This aligns with McKay's analysis, which posits that stricter enforcement of immigration laws without expanding legal pathways effectively "illegalizes" the workforce, forcing migrants into undeclared work to survive. Thus, restrictiveness does not eliminate the labour supply but merely deregulates it, stripping the state of tax revenue and workers of protection. While the weight of evidence suggests that restrictive policies drive informality, a subset of the literature presents a more nuanced view. Some studies indicate that strict regulations can effectively reduce the informal labour supply, but only when paired with robust institutional capacity. Schneider et. al. (2015) argue that strong enforcement mechanisms, such as rigorous labour inspections and tax compliance measures, are necessary to suppress undeclared work. However, the broader review suggests that such 'successes' are often limited by the specific structural context. In the absence of high-quality institutions and consistent monitoring, restrictive measures frequently fail to address the underlying demand for low-wage labour, ultimately displacing informality into more clandestine sectors rather than eradicating it.

The review also nuances the binary distinction between "formal" and "informal" economies. Findings regarding the EU Posting of Workers Directive and the Austrian care sector reveal that even legal migration channels can produce "grey zones" of informality. In these instances, regulatory complexity and weak transnational enforcement create opportunities for "concealed non-compliance," such as wage underpayment or bogus self-employment. This supports the institutionalist view that without robust enforcement capacity, complex regulations can be as damaging as restrictive ones, as they provide a façade of legality while permitting informal practices. Contrary to views that treat migrants solely as victims of policy, Fradejas-García et. al. (2022) and Vianello and Sacchetto (2016) describe informality as a strategic "livelihood strategy." When formal systems are inaccessible due to bureaucratic bordering or tied-visa constraints, migrants utilize transnational networks to navigate the informal economy. This suggests that informality is a rational economic response to institutional failure; migrants adapt their behaviour to "make a living" within the constraints of a hostile regulatory environment.

The review highlights that migration policy does not operate in a vacuum; its effects are heavily stratified by local institutional quality and sectoral conditions. Macro-level studies emphasize that the size of the shadow economy is fundamentally driven by broader institutional factors, such as tax burden, government effectiveness, and corruption and migration policies act as an accelerator within this context. In countries with lower institutional quality or higher tax burdens – often observed in Southern and some Central Eastern European states – restrictive migration policies are more likely to result in high levels of informality because the structural incentives for undeclared work are already entrenched. Refslund and Salaris and Tedesco highlight that the persistence of informality in specific sectors – namely agriculture, construction, and domestic care – rely structurally on low-cost, flexible labour. Restrictive policies that limit migrants' rights or mobility (e.g., tied permits) serve to maintain this flexibility by creating a captive workforce. This dynamic is particularly evident in the care sector, where the "*familialist*" welfare model in countries like Italy necessitates low-cost in-home care, creating a structural demand that formal policies fail to meet, thereby channelling migrant women into the informal sphere.

#### 4.1 Policy Implications

Based on the synthesis of evidence, several concrete policy recommendations for EU and national policymakers emerge:

1. Transition from ad-hoc amnesties to earned regularization mechanisms: Instead of relying on sporadic, emergency amnesties, states should implement permanent, transparent mechanisms for earned regularization. Empirical evidence supports policies that allow undocumented workers to regularize their status upon proof of employment and social integration (e.g., language proficiency), thereby structurally shrinking the shadow economy and securing long-term tax revenues.
2. Decoupling Residency from Specific Employers (The "Single Permit" Reform): To reduce the vulnerability created by tied visas, the EU Single Permit Directive should be reformed to decouple residency rights from a single employer. Concrete measures should include granting migrants the right to change employers without losing their permit and establishing a "job-seeker grace period" (e.g., 3–6 months) that allows unemployed

migrants to remain legally while searching for new work, preventing their slide into irregularity.

3. Digitization and Automatic Extension of Permits: Administrative complexity acts as a barrier to formality even for those willing to comply. To mitigate "bureaucratic bordering," immigration authorities should implement fully digitized renewal systems to reduce processing friction. Crucially, legislation should mandate the automatic extension of legal status during administrative processing delays to prevent migrants from falling into a "grey" irregularity gap while awaiting decision.
4. Implementing "Firewalls" in Labor Enforcement: Effective enforcement must prioritize labour standards over immigration control. States should establish "firewalls" between labour inspectorates and immigration authorities. This ensures that migrants can report exploitative employers or unpaid wages without fear of immediate deportation, thereby empowering workers to leave the informal sector and exposing non-compliant firms.

## 4.2 Limitations

While this review offers comprehensive insights, several limitations must be acknowledged. First, the measurement of the informal economy is inherently difficult; studies relying on indirect estimation methods (e.g., MIMIC, electricity consumption) provide approximations rather than precise data. Second, the geographic coverage is uneven, with a preponderance of studies focusing on Italy, the UK, and Central Eastern Europe, potentially limiting the generalizability of findings to other EU member states with different welfare regimes. Finally, many of the longitudinal studies cover the post-2008 financial crisis period; the dynamics of the post-pandemic economy may present new forms of informality (e.g., platform work) that are underrepresented in this dataset.

## 4.3 Conclusion and Future Research

This systematic review concludes that restrictive migration frameworks are a significant, albeit mediating, determinant of the informal economy in Europe. By limiting legal pathways and creating administrative precarity, such policies inadvertently incentivize the very informality they seek to eradicate. Future research should prioritize the analysis of digital and platform-based informal labour among migrants, as well as comparative studies on the long-term economic impacts of recent EU instruments like the Temporary Protection Directive. Ultimately, moving toward economic inclusion requires shifting from a paradigm of restriction to one of rights-based regulation, where the focus lies on eliminating the structural vulnerabilities that fuel the shadow economy.

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