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"Non-compliance with Social Security Legislation and the Role of Control Mechanisms: The Dialectical Evolution of Forms of Non-compliance in Relation to the Evolution of the Institutional Control Framework"

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Labour, Inequality, Welfare

For the

32nd annual conference on alternative economic policy

Is the fight against letterbox companies a matter of social policy?

September 2026

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> Justice *is the first virtue of social institutions, as truth is of systems of thought. A theory however elegant or economical must be rejected if it is untrue. Likewise laws and institutions no matter how efficient and well-arranged must be rejected if they are unjust* (Rawls, 1972)

Introduction

This paper addresses the issue of circumvention of tax, labor, and social security laws by corporate structures that are legally established for precisely this purpose. They achieve this either by seeking out the "most favorable" country in which to register their—real or fictitious—business or economic activity to avoid taxation, or by concealing the identity of the person actually in charge, or to avoid any civil or criminal liability arising from the non-payment of taxes, social security contributions, and/or wages they do not intend to pay. These are so-called "letterbox companies," which are "set up" to exploit the loopholes in the very legislation they seek to circumvent. And while the purpose of a business is theoretically to maximize profits in a place of competition, companies of this type are created with the specific intent of avoiding payment of some or all of their financial obligations, changing the play's rules altogether.

Through a review of the literature and the author's auditing experience, this paper will present the structure of letterbox companies and how they operate, on the one hand, and the challenges faced by the auditing mechanism in identifying them, on the other.

The paper approaches the issue from the perspective of the economic and social harm caused by the activities of letterbox companies, through the deprivation of economic resources and, simultaneously, through the erosion of social rights and, as a consequence, the entrenchment of mistrust toward government agencies that seem to be ineffective in addressing a situation that threatens social justice.

Definitions of letterbox companies:

According to Katrin McGauran (McGauran, 2020):

"*Letterbox companies are legal entities set up by businesses to benefit from a regulatory framework in a jurisdiction in which they have little or no material operations. They enable 'regime shopping' for lower taxes, wages, labor standards, and social contributions, as well as different legal rights under bilateral treaties*."

According to the definition by the EFBWW (EUROPEAN FEDERATION OF BUILDING AND WOODWORKERS, 2019):

"*A letterbox company is a firm established with the intention of circumventing legal and contractual obligations. These so-called companies do not actually engage in any socio-economic activities, despite claiming to do so. Letterbox companies are increasingly being used as a means to avoid paying workers' social security contributions and wages. The EFBWW observes this type of exploitation primarily in the context of temporary cross-border employment.*

Free competition in the EU is giving foreign letterbox companies free rein to get away with not paying billions of euros in social security contributions and freely exploiting workers in the process. This is clearly a European problem that must be solved!"

According to the European Commission's definition (EUROPEAN COMMISSION, 2013), letterbox companies are:

"*… companies that have been established for the purpose of taking advantage of legislative loopholes …*".

The literature offers many different definitions of the phenomenon, a fact that is primarily due to its diversity. However, the common thread among these definitions is the "intentionality" behind the establishment of letterbox companies and their limited or non-existent business activity. In any case, therefore, regardless of whether a specific definition exists or not, there is the "intent"—the purpose behind the strategic formation of every company of this type. The “subjective elements” (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuster, 2021)—of their purpose, as these ultimately emerge from their “behavior,” that is, from their very operation, which is initially structured as lawful but ultimately and in essence unlawful.

The “real” company

Many member states have not legally defined the “real” company (Poliak, Tomicova, Simurkova, & Jaskiewicz, 2019) (Hastings & Cremers, 2017). The need for such a definition arises from business practices themselves, as companies are often structured with the aim of circumventing tax, labor, and social security laws—and thus their corresponding financial obligations.

Letterbox companies are legally incorporated and registered with the relevant authorities but exist only on paper, and are used either directly—primarily in the service sector—or indirectly as part of a broader network of companies, providing or producing little to no actual work. The primary purpose is to conceal the actual employer and the party liable to third parties. By using a letterbox company as a vehicle, the “actual owners” are able to “declare” as their registered office the country that offers them the most favorable—and therefore most advantageous—tax and social security contribution rates, the one with the lowest taxes and social security contributions, as well as the lowest wages and labor standards. (McGauran, “THE IMPACT OF LETTERBOX-TYPE PRACTICES ON LABOR RIGHTS AND PUBLIC REVENUE,” 2016). They can also designate a third party—who has no assets and is not involved in the company’s operations—as the company’s legal representative, so that any civil and/or criminal liability is attributed to the apparent/designated legal representative.

It may indeed be a “paper” company used solely for tax evasion purposes, established in a tax haven, or it may function as an “intermediary” company to circumvent and evade labor and social security laws. It may, as is often the case in Greece, actually operate in a particular sector—such as the restaurant industry—employ staff, collaborate with suppliers, etc., but fail to fulfill its financial obligations to the state, and sometimes to individuals as well. This is because the person actually in charge has taken care to remain hidden by designating a “straw man” as the company’s legal representative— that is, a third party who possesses no assets and has no involvement in the company's operations, its staff, suppliers, etc. The purpose of this action is to effectively avoid any liability, civil and/or criminal, and thus prevent such liability from being attributed to the person actually responsible. Any debts incurred by this company can be recovered only from the person designated as the legal representative —that is, the "straw man"—will, with mathematical certainty, become uncollectible by the tax authorities, the social security agency, and any other affected third party. The hidden and actual parties responsible will create another company in place of the one that incurred the debts, in order to continue the same pattern, further complicating the web and attempting to avoid detection—phoenix activity (Knobel, 2022).

For example, a genuinely operating business—let's call it "A"—which operates in the restaurant industry, might establish a letterbox company, "B," with the stated business activity of a "Recruitment Agency," which "A" then uses to hire its staff. They may have agreed in a private contract that "B" is responsible for paying salaries, taxes, and social security contributions. "B" fails to settle its financial obligations to the state as for tax and social security contributions. When it is eventually traced by the competent authorities, the individuals truly responsible who are hiding behind "A" and "B" will set up another company, "C," which will hire the same staff for "A" and leave unpaid the debts it incurs from failing to pay taxes and social security contributions. Once "C" is also identified, "D" will be created, and so on. As part of the author's academic research, it is argued that this scheme was originally devised to circumvent the high fine—€10,500.00—imposed since 2014 on employers who hire undeclared workers.

The Spread of Letterbox Companies

The European Labor Authority (EUROPEAN LABOR AUTHORITY) notes that, since the late 1990s, court rulings have shed light on cases of illegal practices by letterbox companies at the expense of workers and their impact on labor rights. Cases of bogus self-employment in the international transport sector have exposed a strategy of evading taxes and social security contributions, circumventing labor laws, regarding rules on pay and working/driving hours, as well as the concealment of the actual party liable to third parties. One such case involves a company that was compelled by a ruling of the Luxembourg Court to change the employment and insurance status of its drivers from self-employed to salaried employees. Another case involves the move by certain BENELUX companies to transfer their workforce to intermediary companies based in Cyprus and Liechtenstein, so that the former would act as “clients” receiving invoices for services rendered, while the truck drivers would continue to work on behalf of their original employer. Their aim was to present the drivers as allegedly subject to Cypriot law, despite the fact that they neither resided nor worked in Cyprus. A Danish court ruled in 2015 that the Cypriot company, which was owned by a Dutch businessman, could not be considered the employer. The transfer of the employees to the Cypriot company was therefore recognized as a sham arrangement intended to circumvent and avoid the employer’s financial obligations, with regard to taxes and social security contributions. The relevant Danish social security agency determined that this constituted an illegal act, a finding that was upheld following an appeal in March 2016 (Hastings & Cremers, 2017).

In her report for the Centre for Research on Multinational Corporations (SOMO) and the European Trade Union Confederation (ETUC), McGauran documents and analyzes specific cases of “letterbox companies” in the construction, transportation, and meat processing sectors in Europe, and concludes that the rapid spread of these practices undermines national legislation, as it leads European Union Member States to compete on the level of social security contributions, wages, and the level of job insecurity. This constitutes a form of negative competition aimed at promoting the “most attractive” labor markets. At the same time, European legislation regarding the POSTING OF WORKERS DIRECTIVE is being circumvented.

Identifying letterbox companies

It is very difficult to quantify (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuster, 2021) the extent of this phenomenon, a fact stemming from the difficulty of identifying this deliberately illegal operation, since even this is still revealed and documented indirectly, through data related to the number of employees in relation to profits, for example, or through the address itself that is declared as the tax domicile.

The nature of their activities depends on the field in which they operate and the purpose for which they were established. If the goal is tax avoidance, then financial data can serve as criteria for identifying and distinguishing them from a genuine company; if the goal is to circumvent labor and social security laws, then the criteria are the number of employees and labor costs (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuster, 2021).

According to a study by the Centre for Research on Multinational Corporations (SOMO) (Fernandez, 2018), it appears that in 2018 there were more than 14,000 letterbox companies in the Netherlands, which were used as intermediaries or vehicle companies by multinationals for tax avoidance purposes. These companies took advantage of the Netherlands' tax-friendly corporate framework, which reduces the corporate tax base and simplifies the process of establishing new companies (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuster, 2021).

The European Commission's 2021 Final Report (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuster, 2021) concludes that there are no official quantitative records of this phenomenon at the national, international, or geographic levels. It did emerge, however, that a single address may serve as the tax domicile for many companies, whose majority shareholder is based in the EU-28; for example, in the United Kingdom, an address was found where 4.296 companies were registered, and in Lithuania, an address was found with 467. In Greece, at the time of the investigation, an address was identified where 55 companies were registered, with a majority shareholder in an EU-28 country.

According to a specific case currently under investigation by the author, an address has already been identified where more than 80 greek companies have been registered. These companies were registered between October 2024 and the present; they were not found to be operating at that address. Of these, 28 are under investigation; 15 of them have primarily listed their activity as an "EMPLOYMENT AGENCY" or operate as contractors providing cleaning services, and they already owe the social security agency more than 322.000,00€ in social security contributions for 432 employees.

The Greek social security agency (e-EFKA) is taking measures to address the issue of strategic non-payment of social security contributions. For companies that fail to pay the monthly social security contributions for their employees, it revokes their ability to submit monthly insurance declarations. This measure is circumvented by those who set up new companies—a practice known as "phoenix activity." However, it can be used as a statistical indicator. According to the latest update, 1.271 companies have been identified from March 2019 through June 30, 2026.

The Audit Aspect

The research has revealed a multitude of cases of circumvention of labor and social security legislation by letterbox companies, which manifests itself in the form of underpayment, illegal overtime, and failure to comply with occupational health and safety regulations (Hastings & Cremers, 2017).

Poliak et al. identify the activities of letterbox companies in the transportation sector as a major problem for the Slovak Republic, since this is the country most often chosen by European transportation companies to set up such businesses. The researchers conclude that the operation of letterbox companies has a significant negative impact on other firms in the same industry—and beyond—due to the competitive advantage these companies gain for themselves over compliant firms. Their research highlights the need to strengthen the means of monitoring these companies, as they operate within a highly complex network both within and outside the borders of the Member State where they are registered, a factor that requires enhanced administrative capacity and cross-border cooperation.

Auditors and inspectors within audit mechanisms face specific challenges related to the very attribution of liability, making it more difficult to shut down such a business (Hastings & Cremers, 2017). In the transportation sector, auditors must verify whether a company has a VAT number in the country where the audit is taking place, whether the company's billing address matches the address of its registered office, where the staff are employed, in which country the vehicles are registered, and whether there is a reasonable correlation between the reported number of trucks and parking spaces and the reported number of parking spaces, whether there is a reasonable correlation between the number of trucks reported as operational and the reported number of staff, whether there is a reasonable correlation between the size of the company and the number of trucks; whether specific documents and data—such as contracts and travel times—are available upon request by the competent authorities; and whether there is any infrastructure in place for the staff. In other words, the audit conducted by the auditors constitutes a special circumstance. In the case of letterbox companies, the auditors do not examine whether the formal declarations comply with the law or whether the company meets its formal obligations, since these are usually met; rather, they seek to uncover the flow of funds in order to document circumvention of the law. In this context, a definition of a "real" company as opposed to a "shell" or a "letterbox" company would serve as an investigative tool for auditors (Poliak, Tomicova, Simurkova, & Jaskiewicz, 2019).

A similar case involves a German-Lithuanian employment agency that, claiming a shortage of trained personnel in Lithuania, hired workers from the Philippines, whom it placed with other companies to work as drivers. The Filipino drivers were paid €2.36 per hour. The German-Lithuanian Employment Agency changed its name, filed for bankruptcy, and proceeded with liquidation. None of the companies involved held the necessary certification to operate as contractors, and none were registered as employers (Hastings & Cremers, 2017).

In the case of Greece, in the labor market, as mentioned above, this phenomenon manifests itself in the form of "phoenix activity," involving the creation of companies that serve as debt generators, in which the sole legal representative, person in charge, and liable party is a third party—typically an elderly person or a foreign national, and in any case someone without assets—who has no involvement in the company's operations.

Because the formation and operation of such companies are formal and lawful, auditors must conduct time-consuming and multi-layered investigations to determine, through indirect means and evidence, their ultimately illegal activities and to uncover those truly responsible.

Some red flags include:

1) ADDRESS: Declaring a tax domicile is a prerequisite for establishing a company. Often, multiple companies are registered at the same address without any actual business operations. Hence the term "letterbox companies." There are online advertisements for spaces and/or services offering registered office addresses for rent.

2) FINANCIAL INDICATORS: Another indicator of a letterbox company's non-existent economic activity can be identified by examining financial results in relation to the number of employees. In the study by Morel et al., financial metrics were analyzed in relation to the number of employees, such as turnover per employee, pre-tax corporate profit per employee, and loans per employee, and a significant difference was found in these ratios between domestic and foreign companies, with the latter showing the higher average. The vast majority of companies with a controlling shareholder based in the EU-28 were located in the United Kingdom, Ireland, Portugal, and Belgium, with reported activities in real estate, construction, business support, and electricity (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuste r, 2021).

3) DATA AVAILABILITY – ANNUAL ACCOUNTS: Often, when these companies are established, only minimal information is disclosed, though it is unclear whether this stems from the deliberate choice of their "anonymous" founders or because it is facilitated by the minimal level of information required for registration (Morel, Mathonet, Gounev, De Wisperlaere, De Smedt, & Schuster, 2021).

The Response

BEST PRACTICES:

The following are some examples of best practices as drawn from the European Labor Authority's platform;

Belgium:

According to the report by the Belgian Federal Labor Inspectorate (FEDERAL LABOR INSPECTORATE BELGIUM, 2018) on best practices titled "(Inter)national institutional cooperation for the investigation of letterbox companies, Belgium," published in October 2018 on the European Labor Authority's website, the Belgian authorities have been implementing a strategy to combat the phenomenon of letterbox companies since 2015, in collaboration with the Labor Inspectorate, the police, foreign labor inspection authorities, employees or self-employed individuals involved in undeclared work, Belgian companies, and social partners, in order to improve methods for identifying these companies, documenting their irregular operations, and protecting the labor rights of their employees. In practice, the Belgian authorities, in cooperation with their foreign counterparts, were able to gather the necessary evidence to document each case through interviews using specialized questionnaires tailored to each different sector of activity (transport, construction, meat processing industry, etc.), with employees—whether salaried or allegedly "fictitiously employed"—with Belgian clients of the audited letterbox companies, in order to review their contracts of cooperation or other relevant documents, and with social partners in each sector. The evidence gathered for each case was forwarded to the competent prosecuting authority, which has special investigative powers, such as conducting home searches, cooperating with corresponding agencies abroad, and intercepting telephone conversations, etc. Those under investigation were brought before a judge. Employees were encouraged to assert their rights, and Belgian companies were discouraged from collaborating with letterbox companies. A quantitative assessment of the outcome cannot be derived from the investigation due to a lack of data and its complexity; however, it is considered successful overall, as it provided the auditing authorities with tools and methods for effectively utilizing the collected data. The conclusion drawn is that investigations are conducted on a case-by-case basis, and that cooperation between domestic and foreign competent authorities, as well as political will, are key factors in the success of the endeavor.

Norway:

The Norwegian tax authority adopted as a best practice the strategy of discouraging compliant businesses from partnering with non-compliant businesses by giving the former access to business compliance indices, so that they can exclude from their partners, suppliers, etc., that have a history of violating tax and labor laws (THE NORWEGIAN TAX ADMINISTRATION, 2025).

Beneficial Ownership Registration

The European Union is addressing the issue of complex corporate structures through the Anti-Money Laundering Directives (Transparency International EU, 2026), with the 6th Directive having been adopted in 2024, through the Beneficial Ownership Register. The effectiveness of the directive depends on the adoption and effective and comprehensive implementation of the relevant legislation at the local and global levels, both in terms of registering obligated entities in the Registry and updating their information. According to Knobel (2022), this is not the case. The findings of the TAX JUSTICE NETWORK study showed that, of the 137 countries examined under the OECD, 37 had loophole-free frameworks for the registration of legal ownership of companies, and 44 had loophole-free frameworks for the registration of beneficial ownership, while only 25 had loophole-free frameworks for both legal and beneficial ownership registration. Consequently, the system is not fully effective, since a registration can always slip through the cracks (Knobel, 2022) (TAX JUSTICE NETWORK, 2020).

European Labor Authority

The European Labor Authority is exploring ways to address the circumvention of labor and social security legislation in the labor market and organizes awareness campaigns for workers, joint inspections with officials from the Member States' enforcement agencies, workshops, i.e. a workshop on the aviation sector, where occupational safety is threatened by practices in which pilots are registered as self-employed or where identifying the responsible employer can be a challenge (Rasnaca, et al., 2026).

Policy and Legal Framework

Letterbox companies exploit key provisions regarding FREEDOM OF ESTABLISHMENT and FREEDOM TO PROVIDE SERVICES, which govern the legal framework of the European Union. The first principle stems from Article 52 of the EEC Treaty and Article 49 of the TFEU, and is the key that those in the know use to set up letterbox companies, since, based on this principle, a person who is a national of an EU Member State may establish a legal entity—a company—in one

Member State and conduct the company's business operations in another Member State. Based on the second principle, which stems from Article 56 TFEU, it becomes possible for a natural or legal person to engage in professional activities in a Member State where they are not required to carry out a primary or secondary professional activity (Hastings & Cremers, 2017).

Furthermore, letterbox companies are facilitated not only by efforts to simplify company formation procedures in Member States but also by technological advancements and the ability to access official online platforms anonymously and remotely. Setting up these companies always requires the services of professionals, such as accountants and lawyers.

Diving into the classics

In Political Sociology (Lagroye, Francois, & Sawicki, 2008), Lagroye, referring to power relations, identifies a "relationship" in every form of power. The exercise of power in a given field does not concern a "thing" that one person possesses while another does not. He also draws on Norbert Elias's concept of "formation" (quoted from Lagroye's book):

"*Just as in chess, every action carried out with a certain degree of independence represents a move on the social chessboard, which inevitably provokes a counter-move by another individual (on the social chessboard, there are in fact many counter-moves made by many individuals), thereby limiting the first player's freedom of action,*"

to refer to the "chains of interdependence" into which every interaction is embedded.

Parsons reminds us of Max Weber's concept of "action," which introduced the idea of action oriented toward habit, self-interest, or the legal order. Action based on self-interest does not take into account the interests of others and thus provokes their reaction. Orientation toward the legal order, however, considers not only compliance with its rules as a basis for action but also the avoidance or disregard of those rules (Parsons, 2015, p. 798).

To paraphrase Parsons, we can consider that the current circumvention of legislation regarding the freedom of establishment for entrepreneurship and the simplification of procedures for establishing new companies means that the original institutional meaning of this legislation is subject to the influence of an exogenous factor—the circumvention itself—which was not included in the formulation of the original idea and concept (Parsons, 2015, p. 345).

In Parsons's *Structure*, we read about the question that preoccupied Pareto regarding the concepts of utility and usefulness of economic action for the collective and in relation to public policy: " Based on what assumptions can we decide which of two alternative measures will contribute most to the overall utility for the collective? The answer is that this depends on the distributive model according to which power operates" (Parsons, 2015, p. 354).

Parsons refers to Pareto's thinking on violence and fraud: "Fraud is the extreme opposite at which cunning—associated with 'foxes' and speculators—is weakened. 'Getting something from others' is no longer a matter of cleverness in devising ways and means, but crosses over into deception. Both violence and fraud are means to an end. They are means which, regardless of their differences, share an important common feature—the absence, when it comes to choosing effective means, of certain restrictions imposed by the ethical consideration of others' rights. Except in cases where violent coercion is used as a means of enforcing commonly accepted rules—such as by the state—which does not appear to be a central focus of Pareto's discussion —the emergence of either on a large scale can be regarded as a symptom of a lack of social integration. Fraud is a symptom of a kind of individualization, the dissolution of social bonds. Violence and fraud are thus significant both in and of themselves and as symptoms of the state of the deeper-lying forces, which, according to Pareto, "determine social equilibrium" and which, in a somewhat different context, could be said to determine the degree of integration within a society."

Social Harm

The literature includes the concepts of "social harm" and "Zemiology," as a continuation of the concept of "social crime" (Canning & Tombs, 2021) in an effort by researchers to conceptualize the parallel harm that has been and continues to be inflicted on society by the neoliberal transformation of the economy that has been taking place over the past 40 years (Mitchell et al., 2019). As fields of study, they seek to uncover and reveal the socially harmful dimensions of institutions, structures, policies, decisions, and practices that reinforce social insecurity (Yingxi, 2022) and the collective impact they may have, with the primary goal of achieving social justice. In this context, it recognizes and examines the social harm caused by the violation of laws and rules against the members of society who are subject to them (Canning & Tombs, 2021). Societies, such as Greece's, that have undergone violent economic transformations suffer the consequences of fragmentation and social inequalities, which may prove to be the most harmful forms of social organization (Mitchell, et al., 2019). In wage labor, the employer and the employee are in a relationship in which the former exercises power over the latter, and their motivations for tax evasion differ, with varying impacts on the financial outcomes for each party (Davidov, 2010). In fact, during an audit, employees often adopt a negative attitude toward the auditors and, conversely, an attitude of "sympathy" toward their employer. Punta (2021) notes that employees may give testimony before a judge that differs from what they stated to the inspection authorities. The need for work and the fear of unemployment can be sufficient reasons for accepting a lower level of exercise of an acquired social right, a factor that may be considered a result of the harmful social impact of unequal capitalist relations in the labor market.

Pemberton, referring to Slapper and Tombs (1999), notes that capitalism transforms all relationships from social to economic ones. In this sense, the development of capitalism is synonymous with the commodification of human life. The workplace is transformed into a site of social harm where the fear of job loss produces increasingly unequal relationships (Pemberton, 2015). Within a framework of freedom to establish a business and provide services, workers act in a rather unfree and restricted manner, as they do not appear to enjoy the same degree of freedom in their choices.

The nature and intensity of social harm depend on the type of capitalism that has taken shape within a socio-economic-political environment and the level of (de)regulation of social protection mechanisms. The role of the state is regulatory and interactive. It can serve as the primary arena where social forces can be exercised (Pemberton, 2015). However, with the issue of letterbox companies and the pattern of strategies to evade and refuse to pay financial obligations to the state, we see states conforming to the capitalist relations of commodification—which are harmful to society as a whole—that are developing and through which unequal relations and a peculiar social hierarchy are reproduced.

Freedom of Establishment and Labor Transformation

The freedom to engage in "regime shopping" comes with economic power, and one reinforces the other. Workers, on the other hand, who theoretically have the same freedom of movement, operate within a limited and restrictive framework. Work in the 21st century has been transformed into a clear-cut commodity. Workers are shuffled from company to company, depending on the prevailing interests of whichever company has undertaken to employ them. Labor, viewed as a wage cost or an expense, not only undermines the institution of work itself but also devalues the individual's dignity in the workplace. The refusal of financial consistency from those that strategically manage to avoid their financial accountability toward the state is tantamount to a refusal to accept accountability toward society as a whole. The autonomy they exercise makes them even more powerful and further privileged compared to those for whom the search for work is a matter of survival. Inequality is growing, and with it, social injustice is deepening, through the reproduction of a model that seems to have been allowed to spread so widely that it has become a new norm.

The social security system is suffering a severe blow, as it is based on intergenerational solidarity. Economic deprivation amounts to draining resources from the future. Today's refusal to act with fiscal responsibility not only causes economic harm but also erodes social cohesion.

States are not simply dealing with a form of delinquency or default on payment. They need to resolve a social problem, a source of social injustice.

Conclusion

The state, as an institution within which and through which public power is located and exercised, might be a positive force within modern societies with the potential for benevolence (Social Democratic Perspectives on the Welfare State, 1997).

To resolve an issue concerning the application of formal procedural rules of a public policy, it is important to involve the relevant agencies that have in-depth knowledge of the field. Thus, awareness of procedural rules is a necessary condition for reaching decisions that resolve the issue. How the issue is defined largely determines both how it will be addressed and which institutional and/or social groups will take action to resolve it (Lagroye, Francois, & Sawicki, 2008).

Legislation regarding freedom of establishment and the simplification of the framework for incorporating a company is implemented in practice through the parties' compliance—or lack thereof—with formal procedures and substantive obligations. In the case of letterbox companies, it is precisely the adherence to formal procedures that reveals their circumvention. And it is the competent oversight mechanisms that can uncover them. One might easily argue that non-compliance is a matter for the competent authorities to resolve. However, as we have seen from this brief analysis of the issue, addressing it requires more than just oversight or inspection. We need to align our oversight methods with the motivations of violators, utilize technological tools for the immediate identification of red flags, and conduct investigative inquiries to address each unique case as it arises. It requires a holistic approach and a reorientation. But, even strengthening mechanisms with technological tools and collaborative decisions requires clear political will. There needs to be a shift in political philosophy toward a society that protects its institutions. Consequently, toward a mix of economic and social policies and decisions that will establish safeguards and not leave the weak links in the social chain without freedom of choice. Perhaps a shift in policy toward tax collection at the source—that is, at the place where wealth is generated rather than where it is declared—would be a groundbreaking decision. In the labor market, and in order to ensure that social security contributions are being paid in a given country –or in any country regarding posting or contracting workers-, the joint liability/chain responsibility of all companies involved in the chain, including temporary employment agencies on one hand, and the requirement for insurance coverage in the host country rather than in the sending country, regarding POSTING OF WORKERS DIRECTIVE,—might be measures that could effectively contribute to the financial recovery of social security systems, as well as to addressing the problems caused by social dumping (EUROPEAN TRADE UNION CONFEDERATION, 2017).

Social policy aims to create conditions of social protection. Its implementation and the measures taken by governments are governed by the ideological principles of those in power regarding how state revenues are collected and redistributed. Whether conservative or social democratic, communist or center-left—regardless of the approach or differences—one factor appears to influence the effectiveness of its implementation. The systematic circumvention of legislation regarding the collection of taxes and contributions distorts the very fabric and essence of every measure and undermines the intended outcome (Andros, 1997).

Social policy is not just about benefits. In the modern capitalist environment, social policy must provide safeguards to protect society as a whole from unfair practices at all levels. This paper argues that the issue of letterbox companies requires further research to highlight the problem in all its aspects, to collect sufficient data, and to select the bold policy decisions that will address it with a view to safeguarding social rights, social cohesion, and strengthening trust in institutions.

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