

# METHODS USED FOR TREATING THE UNDERGROUND ECONOMY IN ROMANIA

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*Abstract: Starting with the first days of the year 1990, there were created groups of interests specialized in contraband operations, both for exportation and for importation, in operations of speculation with scarce products, in performing some services of transport-taxi, public alimentation, etc. There were the first component elements of the black economy that appeared and developed in Romania, the incomes of which were important in most cases and constituted the necessary capital for initiation in legal organized businesses. Among the component elements of black economy, the most spread in our country were the activities performed without registering, tax dodging and black labour.*

*Key words: fiscal fraud, black labour, formal sector, informal sector*

The transition of Romania from the planned economy to the market economy favoured the appearance and the manifestation of the black economy. Corruption and activities characteristic to the black economy are realities to which all states fight against, including the transition economy of Romania.

The National Statistics Institute estimates the value of hidden economy at approximately 20 billions euro annually taking into consideration only black labour, the TVA fraud and the domestic industry, the weight being held by the first two. In Romania, black labour assures the necessary living incomes for over one million people. It is the effect of the economical development; the mass of the accumulated capital surpasses the absorption capacity of the unofficial sector so that the new rich from black activities officialize their role and new status through their penetration in illegal activities.

In the transition period, Romania implemented the national accounts in the Romanian statistical system starting with the calculation year 1989. The European System of National and Regional Accounts, version 1995/(SEC95) has applied in Romania starting with the year 1989. The methodology SEC95 is obligatory for the Countries Members of the European Union, being the compatible and coherent background at the international level with the revised of the National Accounts System 1993 (SCN93) used by the big international organization. The data obtained in the European System of National and Regional Accounts are used for:

\* giving subventions to the regions of European Union through structural funds for which the expenses are estimated on the data of the regional accounts;

\* the control and the orientation of the European monetary politics starting from the data provided by the assembly of the national accounts (public debt, public shortage, PIB, etc.);

\* the calculation of resources proper to the European Union on the basis of the data provided by the national accounts of the member states, thus:

- the totality of the resources of the European Union is determined as percentage from the gross national products of the member states;
- the contribution of every state to the third resource proper to the European Union (also called TVA) is much influenced by the national accountancy;
- the relative contribution of every member state to the fourth proper resource of the European Union is based on the national gross proper product.

In the methodology of national accounts elaborated by SNC 93 and SEC 95 are used the following concepts and terms concerning the hidden economical activities of the production units: illegal, hidden, informal.

The essential factors that allowed the exacerbated development of black economy can be, mainly, the following:

- legislative uncertainties which accompanied the economical mutations;
- the uncontrolled economical division, the appearance of some small enterprises with speculative, temporary activity;
- decentralization, division of power through the distribution of responsibilities, thus increasing the number of compatible individuals;
- the tolerant attitude, both of the authorities, and of the population to the breaking of regulations, a certain reserve to the discipline;
- the immediate junction realized by the representatives of the parallel market existent in the socialist period with circles of similar preoccupations to those in the neighbouring states and, in this way, the connection to the international structures of the black economy.

The problems referring to the black economy were noticed and made public by the American P. Gutmanu, who, in the year 1977, appreciated that the statistically unregistered economical activity can not be further considered a negligible entity. To the same problem V. Tanzi expresses himself and sees the development of black economy as product of two big categories of factors: those connected to the desire to avoid taxes and those connected to the desire to avoid the governmental rules and restrictions.

In the speciality literature, there appeared a multitude of definitions, wider or more reduced, as following the diversity of activities that black economy reunites but also a series of particularities in space and time of this one.

We can define under the concept of black economy those activities the existence of which is not officially known (bookkept) and the incomes of which don't make the object of fiscal statements.

The definition given by Pierre Pestieau: the black economy represents "the ensemble of economical activities that are realized outside penal, social or fiscal laws or of those which escape (massively) to the inventory of national accounts" – is considered by specialists the widest definition of the black economy.

The definition that circulates on the international level and which is also adopted by the countries in the European Union, classifies the activities connected to the sphere of the black economy in:

1. **Undeclared licit (legal) productive activities** (the black economy) including activities that are not registered at the level of state through the system of national accountancy (domestic activities, volunteer labour, community service activities, etc.) and those that are not declared at the financial administrations (fraud and tax dodging, black labour, tips, etc.) and
2. **Illicit Productive Activities (illegal) of goods and services** ( the production and the narcotic trade, the gun running, etc.) of course undeclared.

The System of National Accounts SNA from 1993 and the European System of Accounts ESA from 1995 are using the next concepts, which refer to the "invisible" economy:

- illegal production
- underground economy
- informal sector

Pierre Rosanvallon makes another classification of the activities of the underground economy, distinguishing between the underground economy and the secret economy like this:

\* The autonomous economy classifies the not tradable underground activities in: the domestic work ( self-consumption, taking care of children, housekeeping and gardening etc.), helping services between neighbors, friends, family, voluntary work for physical persons, legal persons, or communities in general;

\* The secret economy speaks about the tradable underground activities, like:

- undeclared legal activities: the production of the illicit enterprises, diminish reports of the production of the official enterprises, paid wages or undeclared or declared but diminished wages.
- delinquent activities: pimp activity, prostitution, gambling, swindle, corruption, bribery, insurance frauds, narcotic trade, usurious interest, money falsification, etc.

- illicit activities: work under the table, fiscal fraud, trade of labor force, etc.

Considering the divers definitions written in the specialized literature, and also knowing, for classification criteria, the report with the national accountability, the underground economy can be divided in two large sectors:

- a sector of the uncountable activities, because are hidden by those who practice them (illegal, illicit), and of course activities of fiscal fraud and criminal activities.
- a sector of legal activities, known, but which are not included in the national accounts: domestic activities, including self-control, secretariat work., etc.

Lippert and Walker made in 1977, a grouping of the assimilated activities of the underground economy concept, principally having the coinage and the legacy of the respective activities at the base:

***Grouping of the assimilated activities of the underground economy concept***

Type of activities	Monetary transactions		Not monetary transactions	
Illegal activities	Trade with stolen goods, narcotic trade, prostitution, gambling, smuggling and fraud, etc.		The exchange of narcotics, smuggling, production or cultivating drugs for self-consume, robbery for the self-consume, etc.	
Illegal activities	Illegal tax dodging (the undeclared incomes of those who become employed, the payment with cash or in nature goods from an undeclared job, bound to the deliverance of goods and legal services, etc).	Illegal tax dodging (the deductions given to the employees, the untaxed advantages received above the fee, etc.)	Illegal tax dodging ( the exchange of goods and legal services, etc.)	Legal tax dodging (domestic activities, the help given to the neighbors, etc.)

**Table 1**

Source : Lippert O., Walker M., "The underground economy: Global evidence of its size and impact", The Frazer Institute, Vancouver, 1997

In the creation process of the Gross Domestic Product, we can see in Romania a special given attention to the estimations of the unnoticed market economy. From the point of view of the national systems of accountancy, the SCN/93/SEC95 from the unnoticed economy we understand the sum of economical activities which are hidden from the statistical observations, comprehending that is about something else than the illegal and hidden economy. According to The System of National Accounts SNA and the European System of Accounts ESA the production is defined like an activity where the entries are used to produce outcomes.

The issue regards of course the identification and the estimation of the illegal production and of the hidden economy which are not current in the national accounts but they are influencing the economy of a country, member of the European Union and who misinterprets the international comparisons.

The "illegal" concept mentioned above, it refers to the illegal activities ( productive activities and unproductive activities) for which do not exists a general methodology accepted by the states of the European Union. The measuring and the introduction of those situations in the national accounts is different from a state to another. It's important to exactly delimitate the activities which can be illegal in an economy and who blocks the compatibility assurance of the production between countries.

We can mention some illegal activities: the production of drugs and the narcotic trade; prostitution; illegal trade with tobacco, bootlegger, illegal trade with stolen cars, gun running; gambling with no license;

corruption, usurious interest; money falsification; robbery of art masterpieces, jewelers, banks; fraudulency and kidnapping; legal activities productive and unproductive made by unauthorized persons.

Some of those activities can be found at the border of the production, according to the national accounts and they are not included in the estimation of the production from practical reasons and from lack of dates.

The hidden economy is represented by the activities legally made, but which are intentionally hidden by the public authority for reasons like: the non-payment of the contributions to the social insurances, the non-payment of the income taxes, of the value added tax VAT or other taxes, avoidance of administrative procedures like the filling in of the statistically printed form or of other administrative documents. The hidden economy contains activities intentionally hidden in the purpose of reducing the production costs ("hidden" from an economical point of view) but also unnoticed activities cause of the deficiency from the statistically system.

From a statistically point of view, in the unnoticed economical sphere can be included: unregistered activities; under-report; non-answer; default of the actualized informations.

To identify the hidden economy and its integration in the process of valuate the value added tax and the next aspects must be respected:

- the existence of some procedures which permit values for the total production for a specific activity without separately identifying the different types of the hidden economical activities.
- the efficient utilization of the known dates and using also additional dates, obtained separately
- the estimation should be based on specifically adjustments and detailed using available sources and normal bounds between indicators
- the insurance of the results reliability using alternative estimations which can be compared and analyzed
- the insurance of the ideas and the assumption reliability which are important for the estimation procedures and must be periodically revisioned and explicitly presented.

For the identification of the unnoticed economy it is made the classification of the entire economy in two sectors: formal and informal. In the estimation of the unnoticed economy must be used that method which respects the evaluation of the sources of the existent dates and of the practice of estimations, of the efficiency rise of the date collection and of the answer level to the statistically investigations existing in the system and also the utilization of the available dates for the estimation of the unnoticed activities with some indirect techniques and of the adjustments and the development of new date sources.

According to the national accountancy, statistically dates covers only a part of the production. For the estimation of the unnoticed activities, on the international level we can not find standard methods which can be applied in all the countries and in any case. In Romania, the Statistically National Institute has improved each year the method used for the estimation of the unnoticed economy, according to the new dates, existing because of the investigation of different possible ways, the methodology is the same and assuring the comparability of the dates.

The formal sector of economy characterizes:

- the under report
- the estimation of the black market of labor by
  - a) the evaluation of the labor force supply
  - b) the evaluation of the labor force demand

the estimation of the tax evasion, of the **Value Added Tax fraud**

**The non-financial societies, like institutional units from the formal sector are press hard by the National Institute of Statistic by the realized estimations of the under-report of the value added tax obtained using the underground force labor or using the tax evasion in the domain of the Value Added Tax.**

According to the International Organization of Labor, the informal sector reunites the production units who represents a small authorized capital, a reduce level of organization and it's work relations are based on the

family relations than on steady contracts. These units appear in the ménage sector, and their owners are totally responsible by the financial and non-financial obligations imposed by the production activity.

In SNA and ESA, the “informal sector” represents units that belong to the institutional sector “ménage” that contains developed activities, generally, by the members of the same family, artisans, craftsmen, etc. The owners of these units are totally responsible for the financial obligations relative at the production process. However, the activity of those units is, deliberately, hidden, entering in the sphere of the underground activities ( the hidden economy from an economical point of view).

According to the European system of national accounts, the informal economy includes only the work under the table and the fiscal fraud.

From a statistic point of view the estimation of the unnoticed economy it is being made for all the activities realized by the family associations and workers from their own. An important category of the unnoticed economy is being represented by the activity realized by the unregistered units from the informal sector and there we can find: house painters, plumber, tailor, mechanics, teachers that give private lessons, persons that land their house during the holiday, etc.

The unnoticed economy from the formal and informal sector is being calculated and estimated according to the informations about the economical and social phenomenon, using statistic methods previous mentioned to determined the rate of these activities in the added value and in the Gross Domestic Product.

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