

DETERMINED FACTORS OF ECONOMIC-FINANCIAL CRIMINALITY

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Abstract: *The economic-financial crime is based on three main pillars, namely the underground economy, corruption and money laundering. The underground economy has negative connotations that include a wide area of coverage. On the other hand, corruption undermines democratic governance and the rule of law, negatively affecting, along with money laundering, economic development, representing a major impediment to economic growth in any economy. In the following we will refer to theoretical approaches of the specialized literature regarding the main categories of determinants - economic, political and behavioral of the economic-financial crime. We aim to carry out a theoretical analysis of the factors that have the capacity to define the economic-financial crime, so that later we can continue the research by studying the real effects in the society of the phenomenon of the economic-financial crime. The studies in question will want to be established as a basis for understanding the phenomenon and we will propose concrete solutions to combat it, aiming at limiting it and the adverse effects in the economy and society. The use of the methodology of investigating the specialized literature, followed by the analysis and synthesis of the data, allowed us to group the determining factors of the economic-financial crime into three major categories, namely the economic, the political and the behavioral ones, aspects detailed in the article. If the economic factors can be somehow standardized for different types of economies, the political and the behavioral ones are characterized by certain particularities that manifest themselves differently, having a specific evolution according to a certain context. The purpose of identifying and classifying the determining factors is to increase the capacity to "diagnose" the national economy, to better understand the phenomenon of economic-financial crime, so that later it can provide specialized technical support within the reach of the decision-makers in order to act as effectively as possible in combating it. In the hope of creating a foundation for the study and understanding the complexity and dynamism of the economic-financial crime phenomenon, the present article proposes to bring attention to the possible causes, without pretending to exhaust them, constituting a challenge for new studies in order to sensitize the institutions enabled in its fight to act proportional to its magnitude and complexity.*

Keywords: *economic-financial crime; economic factors; political factors; behavioral factors; underground economy; corruption*

JEL Classification: *H26.*

1. Introduction

Economic-financial crime began to be investigated in the early twentieth century, Bonger (1905) being among the first researchers to study the crimes committed by traders and entrepreneurs on property. In time, both the phenomenon itself and the related studies have undergone a development in scale and complexity. The economic-financial crime is dependent on the change and the economic-social development of the company, being able to appear in the form of the innovations carried out by individuals as a way of adapting to the changes in the society (Merton, 1968). In the age of digital technology, innovations are closely linked to cybercrime regarding financial transfers, requiring superior skills and perseverance (Șcheau, 2018). In a dynamic society like the present one, the adaptation to the new conditions is differentiated by the individuals in the society. If businessmen invent and develop new methods of "white collar" crime, in the form of tax evasion and money laundering, the poorest in society are turning to illegal activities such as prostitution and drug sales (Aniței and Lazăr, 2016). The present research starts from the study of the economic-financial crime from the perspective of the underground economy, corruption and money laundering, as main pillars that compose it.

Underground economy generically refers to non-currently registered economic activities, without being included in the calculation of Gross National Product - GDP (Feige, 1989, 1994; Schneider et al., 2015), respectively the totality of the production of goods and services on the market, legal or illegal, which is not included in the GDP estimates (Smith, 1994), being made up of two main components (Schneider, 2013), namely undeclared work to avoid taxation and unreported income from business, in order to avoid fiscal burden. The term of corruption is associated with the giving and taking of bribes in order to obtain private benefits, the entrepreneurs aiming at avoiding taxation and regulating or winning some public contracts (Achim and Borlea, 2019). In a broad sense, money laundering consists of the money transfer from an illegal activity into a legal business, aiming to induce the idea of legality of the origin of the money (OECD, 2017).

Different studies of the specialized literature invoke the economic development and the economic crises (Aniței and Lazăr, 2016) as a factor of triggering the economic-financial crime, producing major changes in the society, being stimulating for the criminals through the reflux effects created by suspending the legislation and the time elapsed until the promulgation of new regulations. Globalization is appreciated by some specialists (Leția, 2014) as also a favoring factor of the economic-financial crime development, with multinational companies signaling their role, aiming to maximize profits at any price, speculating legislative deficiencies in different countries.

Also relevant are the researches of psychologists and sociologists from the judicial sphere in the fight against economic-financial crime, which highlight the major role of cultural factors in supporting this phenomenon (Durkheim, 1974; Merton, 1968). Durkheim (1974) introduces the term "anomia" as a consequence of social division. Anomia would represent a deterioration of the collective consciousness as a result

of rapid social changes. In the following we will deal with this issue under three distinct aspects: economic, political and behavioral.

2. Economic factors that influence the economic-financial crime

2.1. The level of economic development

One of the most important determinants of economic-financial crime is the level of economic development. A high standard of living can lead to better law enforcement, so incentives to pay bribes as well as underground activities are reduced. Various researches (Husted, 1999; Treisman, 2000; Kirchler, 2007) show that the highest rates of illegal economic activity and corruption are found in developing countries and countries in transition, at the opposite pole being the developed countries, taking into account as an estimator for the level of development the GDP of each country. A high level of economic development can lead to a better compliance with the law, while a low level of it can create the opportunity for the phenomenon of corruption to emerge, as an expression of the population's disagreement with regard to the provision of public goods and the welfare of the state (Achim and Borlea, 2019). In the same idea, the studies carried out by Treisman (2000) and Paldam (2002) show that the phenomenon of corruption is determined by poverty, which is considerably reduced when a country becomes richer.

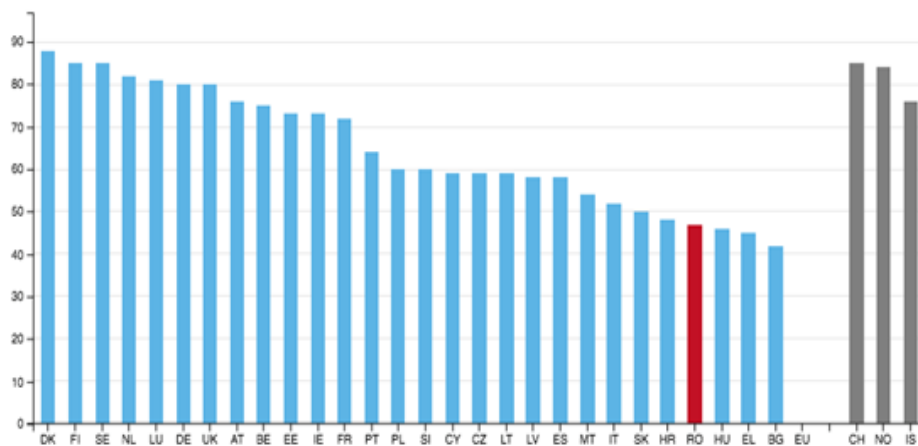


Figure 1: Corruption Perception Index, 2018, Europe; 0-100 scale, 0 most corrupt
Source: Transparency International

As shown in figure 1, a direct correlation can be made between the level of corruption perception index in the countries of Europe and their level of development. On the other hand, specialized studies have shown that a high level of economic development within a country generates a better ability to pay and collect taxes and a greater demand for public goods and services (Chelliah, 1971; Torgler, 2007). In

a study carried out in the countries of the European Union for the period 2007-2013, Achim, Borlea, Găban and Cuceu (2016) validate the hypothesis that, the richer a country is, the more the tendency of its citizens to engage in activities subterranean is lower, a fact also highlighted in figure 2, where a direct and inversely proportional correlation can be observed between the level of development of a country and the level of the underground economy (Schneider, 2015).

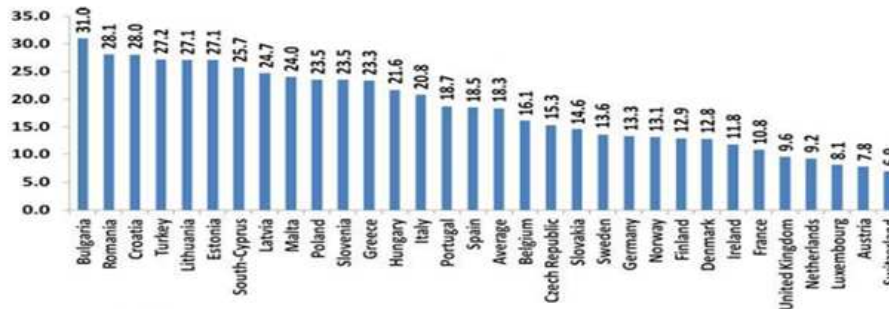


Figure 2: Underground economy level, 2014, Europe, percentage in GDP
Source: Schneider, 2015

2.2. Fiscal pressure

Fiscal pressure or fiscal burden is one of the most invoked causes of economic-financial crimes, considering that a high rate of taxation can lead to acts of corruption of civil servants for circumventing taxation or by engaging in underground activities. It is assumed that the fiscal burden is related to corruption, given that the bribing of officials is done by entrepreneurs to obtain some private gains, such as avoiding taxation and regulations or winning public contracts (Dreher and Siemers, 2009; Dreher and Schneider, 2010; Kaufman, 2010).

According to the assessments of Achim and Borlea (2019), the fiscal pressure reflects the volume of taxes and fees paid to the state budget and how it is felt by the taxpayer, from the perspective of their wealth. The influence of fiscal pressure on corruption must be analyzed in conjunction with other determinants for the level of corruption, respectively the level of economic development and institutional quality. The study carried out by Achim and Borlea (2019) highlighted the existence of differentiated results of the influence of fiscal pressure on corruption in the developed countries compared to the developing ones. For the developed countries it is found that, given the high quality of the institutions, a low fiscal pressure leads to a lower level of corruption, which corresponds to expectations. In contrast, in developing countries facing a low level of institutional quality, low fiscal pressure increases corruption, rather than low governance efficiency, whereby people can easily circumvent the law.

As a result, authorities should be aware of the need to adopt differentiated fiscal policies depending on the level of development of the country characterized by different levels of institutional quality (bureaucracy, quality of public services, ability

to collect taxes, etc.). Low fiscal pressure can reduce corruption in developed countries and may increase it in developing countries, depending on the existence of different levels of government efficiency. At the same time, it should be good to consider that high levels of taxation determine the migration of investors to other countries that are "tax havens", to obtain a more favorable tax treatment.

At the level of the European Union, the fiscal pressure is not very homogeneous, the member states having the freedom to promote their own fiscal policies. The analysis of Eurostat data (2016) highlights (figure 3) the fact that developed countries "allow" them to exert fiscal pressure above the EU average, having as a "ally" a system with a higher institutional quality, which also allows them to maintain the corruption at lower levels. In the category of emerging countries there is a level of fiscal pressure below the European average. This fact, however, coexists with a higher level of corruption, as an effect of reduced institutional quality.

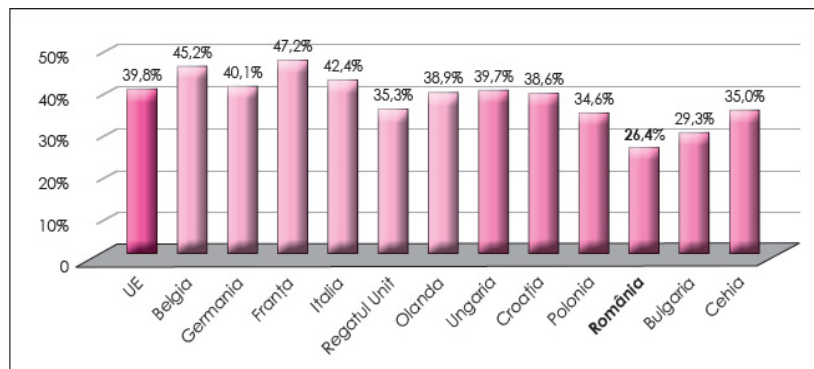


Figure 3: Fiscal pressure level, % of GDP

Source: Eurostat, 2016, ceccarbusinessmagazine.ro

Similarly, the study conducted by Achim, Borlea, Găban and Cuceu (2016) for the EU countries regarding the period 2007-2013, does not identify the fiscal pressure as a determining factor for the underground economy. Even if the results are contrary to expectations, it can be concluded that the fiscal pressure is not correlated with the underground economy, the explanation may be related to the different way of measuring the fiscal pressure for each country. This relationship should only be analyzed within a specific national framework, using as many variables as possible.

2.3. The solidity of the banking system

Because the banking system is the one that mediates the economic-financial transactions carried out in the economic activity, the literature and the specialized practice document the importance of the development of the banking system in the prevention and detection of the economic-financial crimes. The investigation of bank failures has led to the identification of accounting frauds and trafficking with internal information, considered to be important threats to any economy, raising big problems in terms of corporate governance and transparency. The existence of conflicts of

interest as well as a very large number of non-performing loans indicates extremely low bank strength.

The specialized literature (Parck and Blenkinsopp, 2011) highlights a very close relationship between corruption and the performance of the banking system. The study shows a significant direct influence of corruption on problems arising in relation to non-performing loans. Corruption distorts the correct allocation of banking sources, which leads to a decrease in the quality of private investments, respectively a decrease in economic growth. Corruption in the banking system is based on several reasons: firms can bribe politicians to obtain preferential loans, and banks can bribe politicians to obtain unjustified tolerance (Parck and Blenkinsopp, 2011). The effect of these policies will materialize in the misdirection of financial resources from performing projects to inefficient projects, resulting in an increase in the volume of non-performing loans.

Relevant results in investigating the relationship between the solidity of the banking system and corruption were also obtained by Barry et al. (2016), highlighting the existence of a link between corruption in the lending process and the ownership structure of banks. Thus, companies located in countries where state-owned banks offer a higher share of loans granted to the economy face a higher level of corruption engaged in lending, showing a significant level of corruption of public officials. The same study shows that when banks are controlled by other banks, the level of corruption in lending is reduced.

Regarding the analysis of the relationship between banking development and the underground economy, Berdiev and Saunoris (2016) identify that the financial development reduces the size of the underground economy, the institutionalized financial flows representing an "ally" of the institutions empowered to verify and regulate them, to the detriment of the underground economy.

Of course, in the direct relation with the soundness of the banking system there is also the process of "money laundering", the banking institutions being instruments used by the economic criminals due to the multiple services offered (Idowu and Obasan, 2012). Through the banking institutions the criminals transfer the illegally generated money, in national or international bank accounts, to receive a legal appearance. The first stage in the money laundering process consists in the payment of the amounts of money from illegal activities in the financial-banking system, namely the establishment of deposits or the purchase of financial instruments that are subsequently collected.

In conclusion, as shown by Achim and Borlea (2019), a high level of transparency in the banking and financial sector, a high degree of monitoring of financial transactions and bank accounts, as well as an adequate financial supervision are factors identified by the literature as a decisive role in reducing money laundering offenses (Leția, 2014). Poor banking supervision can be the right environment for the decision to launder money in a given context.

3. Political factors that influence the economic-financial crime

Public governance is identified as the main political factor with implications for the occurrence, maintenance and disclosure of economic-financial crime. As Achim and

Borlea (2019) point out, the accession of European countries to the European Union has raised the question of the importance of "good practices" in public governance, as key elements in explaining the degree of compliance with the accession provisions requested for EU member states.

Dimitrova (2002) emphasized that the greater the administrative or governmental capacity, the better the EU laws are implemented by the member states. The absence of EU unitary rules and the preferential adoption of administrative reforms lead to a marked variation in success in consolidating administrative institutions.

According to the recommendations of the European Commission and best practices in EU member states, the golden rule is that the smaller the number of institutions involved at different levels of governance, the higher the efficiency of governance. It is obvious the importance of the proper functioning of the public governance or the state apparatus on the corruption and underground economy phenomena. Aspects related to bureaucracy, regulatory framework, law and order compliance, trust, deterrent measures are important incentives for individuals' choice to engage in corruption or underground activities.

Specialized studies (Kirchler, 2007; Torgler and Schneider, 2009; Fritzen et al. 2014) highlight the importance of ensuring a high degree of trust in government institutions, in order to guarantee the proper functioning of the state. Corruption and trust are two important factors for the quality of public governance. Higher institutional quality determines citizens to have more confidence in the state and, therefore, they will be less interested in cheating. The government has a strong discretionary power regarding the allocation of resources, the role of the bribe being to avoid paying taxes or complying with legal regulations (Torgler and Schneider, 2009) and, therefore, companies with higher confidence in the state register in the same time and a lower level of corruption.

Confidence in government or in public services reflects the subjective judgments of citizens, whereby they consider the government competent, reliable and honest, able to satisfy their needs. Poor institutional quality leads to low trust in government, which leads to identification of the ways to circumvent the law (Kirchler, 2007). One of the most common ways is to bribe civil servants to avoid paying taxes, so corruption spreads. Moreover, it was pointed out that the influence of institutional quality on corruption is much greater in developing countries than in developed countries. Excessive bureaucracy, lack of transparency, ambiguous legislation stimulates a poor people who will become increasingly concerned about the corruption of officials for immediate benefits.

On the other hand, the studies carried out by Torgler and Schneider, 2009 demonstrate the importance of the quality of public governance over the underground economy. Direct democratic rights and local autonomy have a significant positive effect on the size of the underground economy. Analyzing various studies, Kirchler (2007) concludes that underground activities increase as confidence in public governance decreases, fiscal morality deteriorates and legal regulations regarding economic activities multiply. In addition, the study by Kogler et al. (2013) confirm the role of trust and power as important determinants of the degree of tax compliance, concluding that the highest level of tax compliance and the lowest

level of tax evasion are achieved under conditions of trust and high power in government activity.

Concluding the relevant aspects of the aforementioned studies, it can be hypothesized that an increase in the quality of public governance leads to a reduction in the level of the underground economy. A high level of regulation, a low level of trust in the rule of law as well as a low level of generation of public goods and services is an important impetus for employment in the underground economy.

4. Behavioral factors of economic-financial crime

Various researchers have conducted specialized studies in other directions than those strictly of economic or political nature, permanently seeking other explanations for economic-financial crime. The studies started from understanding how the state is reflected in the minds of its citizens, analyzing the civic and fiscal feelings of the citizens. In this regard, Kirchler (2007) seeks explanations regarding the economic psychology of taxpayers, how tax behavior is reflected through social representations of tax obligations and their connection with individual and social attitudes and norms.

Socio-cultural factors are considered among the determining causes of corruption and the underground economy. Regarding the individual norms and the attitudes of the citizens, greed is invoked as an important component in deciphering the legal compliance behavior (Bucharest, 2011), and religion and how it influences the values of a nation can also be relevant for the phenomenon of corruption (Faleye, 2013).

Husted (1999) pointed out that the phenomenon of corruption is significantly associated with the cultural phenomenon. His study was able to identify a cultural profile of a corrupt country, being represented by the existence of a great distance from power (the degree to which the less powerful members of a society accept and expect that the power will be unequally distributed), a high masculinity (concern for achievements, heroism, assertiveness and rewards for success) and a high degree of uncertainty avoidance.

In a culture with greater distance from power, the superiors favor the subordinates in exchange for their loyalty, and corruption can occur as a result of nepotism and favoritism. In countries with higher levels of masculinity, people prefer to receive money, titles or other material rewards or social positions, so that the level of corruption increases. Avoiding uncertainty expresses the degree to which members of a society feel uncomfortable with uncertainty and ambiguity. In a society with a high level of uncertainty avoidance, corruption can be regarded as a mechanism to reduce uncertainty, to obtain more reliable and immediate results.

Regarding the cultural factors, studies have been carried out that investigate the payment of debts. Statistics (European Payment Index 2012, European Commission, 2012) show that commercial debts are paid faster by debtors in northern Europe than those in southern Europe, with the differences existing, respectively Finland (27 days) and Italy (96 days).

On the other hand, religion represents the symbolic expression of a belief in the existence of an absolute reality on which man would depend, faith in the supernatural, which defines a certain moral code of individuals. The analysis of the

research carried out does not lead to the conclusion of the existence of certain results regarding the influence of religion on corruption.

The study conducted by Achim and Borlea (2019) shows that an increase in religiousness leads to an increase in the level of corruption. The findings contradict the fundamental assumption that religion encourages high moral values of individuals. It is noted that the least corrupt countries in the world are Denmark, Sweden, Finland and Norway, which also have the lowest degree of religiosity (about 30%). At the opposite pole of Europe are countries such as Italy, Romania and Greece, where the degree of religiosity exceeds 80%, these being considered among the most corrupt. The explanation given may be that in less developed countries, where people suffer from poverty, unemployment and insecurity, the corrupt lifestyle is more pronounced. As a result, people feel the need to compensate for their dishonesty and sins through religious activities, which ensures their emotional and spiritual satisfaction.

5. Conclusions, limits and directions of research

Due to the complexity of the manifestation forms of economic-financial crime phenomenon, the present article aims to capture certain aspects with obvious relevance, new determinant causes being investigated during other studies to bring new approaches to the phenomenon. Of course, the complex highlighting of the cases is a favorable element for the superior understanding of the cause-effect mechanism, with a decisive role in the process of combating the economic-financial crime.

We intend to continue the present research and to study the real effects in society of the analyzed phenomenon, so that afterwards, we will seek and propose, to the competent authorities, concrete solutions to combat the phenomenon, aiming at limiting it and the adverse effects in the economy and society.

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