

## ARE THERE ANY „POSITIVE” CONSEQUENCES OF THE UNDERGROUND ECONOMY?

**Adrian Florea, Cristian Șchiop**

*University of Oradea, Faculty of Economics*

*1st Universităţii Street, postal code: 410087, Oradea, Bihor county, Romania*

[aflorea@uoradea.ro](mailto:aflorea@uoradea.ro); [schiop14@yahoo.co.uk](mailto:schiop14@yahoo.co.uk)

**Keywords:** *Underground economy, discrimination, fiscal evasion, public investments, economic growth.*

**Abstract:** A raise of the underground economy occurs when citizens are condemning government's policies through their economic behavior. Thus the efforts to limit the underground economy are considered a manifestation of totalitarianism. However there are although positive effects of the underground economy. The earning generated by the underground economy is quickly spent in the formal sector contributing to refreshment of the economy. The underground sector is more enterprising than the regular one because of the prompt reply to the customers' requests, because in the underground sector prices are formed without any influence of state bureaucratic regulations. Being more entrepreneurial and more competitive underground sector will determine the increase of the innovation

The positive or negative influence of the underground economy is an ample phenomenon, mainly stated, that the underground economy effects are usually negative, but on the other hand there are also positive effects as the refreshment of the economic branches, elimination of the stiffness or the increase in the state stability.

Since 1998 economist Fr. Schneider has shown that over 66% of the earnings generated by the underground economy are quickly spent in the formal sector, with positive effects which have to be taken into account at the analysis of the economic growth, as the indirect incomes of the state. A study led in Great Britain between 1960 – 1984 [1] demonstrated that the underground economy influenced the usual consumption spending, and mainly those for long term purpose.

Even if for someone may sound bizarre, the underground economy may sustain a hide-bound economy [2]. Thus, in Germany the foreigners that work illegally did not limit to works specific to their qualification, proving flexibility and adopting modern technics. Informal economy let companies to get off the stiffy formal economy, creating new jobs and prosperity [3].

According to the Fraser Institute studies, a growing underground economy is the sign that the democracy works bad, citizens condemning governments policies through an economic behavior, protesting to the law and regulations. The efforts to limit the underground economy, are considered a manifestation of totalitarianism, the informal economy represents a real democratic process [4]. We also have to keep the opinion that the foundation of liberal market, economic rationalization that react mainly in the lack of waste and unefficiency resulting from a restrictive governmental regulation appear as a result of the existence of worldwide underground economy. Individualism, the lack of state interventionism, the complete freedom of contraction of the hidden economy represents sides of the efficiency of underground economy. It was mentioned that the subordinate economies of the countries of the former Eastern Coalition were the main reason of the collapse of communism [5].

If the underground sector is more enterprising than the regular one and by a prompt reply to the consumers' requests by means of products that satisfy their expectations acting without bureaucratic regulations it will determine the increase of innovation. It is considered that the official sector needs more time in order to adapt to the changes that

appear in the business cycle. The underground economy refreshes some areas of the official economy, supporting those who are discriminated or marginalized (women, ethnical minorities, the poor etc.) to launch in business [6].

We can also talk about the increase of the state's political stability, by giving opportunities to those who are economically marginalised (by jobs, cheaper goods, the support of local communities etc) with no state intervention.

Thus the underground sector becomes a safety valve which allows the economic and politic system to work in case of some structural transformations made by globalization, unindustrialization, decentralization etc.

In the case of illegal work, the increase in underground activities makes the waste of resources greater, because of the fact that the dissimulation of illegal workers is money-consuming and the ways of controlling adopted by the states in order to limit the phenomenon require higher and higher costs. For instance [7] in Germany, advertising illegal jobs is punished with sums up to 50,000 euro and the fines for this kind of work were rised in 2002 from 100,000 to 300,000 euro. Although these measures make illegal work involve a high risk, the possibilities for punishment are reduced, the phenomenon being either partially tolerated, or difficult to prove. On the other hand the under optimal exploitation of manpower through combating strategies of unemployment, of reducing the working time, has as an effect the diminution of welfare and the encouragement of the migration to the underground sector. Usually, companies want to hire former underground sector workers, as they are more flexible and bring some new experience to the company.

An increasing underground economy implies also the reducing of the economical growth, because of the lack of financing; the public investments couldn't be achieved in the time being necessary for tax dodging. While the financial situation of the state deteriorates, the underground economy direct proportionally increases. Also, due to the increase of the underground economy the official sector cannot be characterized as one with a perfect competition described by flexible prices and production efficiency. In the underground sector price is formed without any influence of state regulations, the resource allocation conditions being most favorable. That is why this system is used, especially, by small companies in developing or transition countries. On the other hand, underground activities allow the increase of the division of labor, by the appearance of some non-existent or too expensive services in the official economy. This situation exists due to the avoidance of official laws and to the acquirement of some superior incomes. Usually the underground economy modifies competition, due to the fact that the goods obtained here have low prices as an effect of fiscal evasion. As a result the motivation of these companies' belonging to this sector occurs, the resources necessary to the process of production being targeted here and sometimes generating the accelerating-multiplying effect.

Following the system character [8] and taking into account that the national economies are in a permanent interaction, world economy presumes the existence of stability. Stability on world market is a result of demand and supply fluctuation, but it also extends on domains like production, repartition or consumption, and it is based on an equitable division of labor among the national economies, simultaneously with the elimination of the unprofitable productions and of the international economical gaps. We can conclude that the stability of world economy is a relative one, trying to equalize the contrasting elements, but it is also dynamic, which gives it a relative stability. It makes up the most complex form of manifestation of the general economical stability, totalizing the economical stabilities from the level of national, sub-regional and that of international economies.

It is also interesting [9] that every year thousand millions of dollars of the exported wares cannot be found. We notice that the imported wares are also missing from world

statistics. In the main, there is a stability among international exchanges. A mysterious black hole was created pointing out a hidden side of world economy which agrees with the underground economy, clandestine transactions like complaisance pavilions, drug and weapon trade, corruption, stock exchange manipulation, tax dodging.

The underground economy can be found both in industrialized and developing countries. It became adjusted to its environment getting rid of the economical and social regulations and it also resisted to evolutions and recession. This ability of adjustment appears nowadays in the East European countries by means of the so called subordinate economy. Smuggling in our system is represented by drug and weapon trade and other prohibited or regulated acts. Slave trade disappeared and was substituted by that of clandestine workers' manpower. In industrialized countries the regulations referring to the compulsory length of working time encouraged domestic work with all its forms. Usually, there is a dual attitude of the states on the underground economy, the latter being tolerated in the Eastern or Southern states and limited or tacitly accepted (Spain and Italy) in the industrial ones.

The cyclic character of economy evolution is also strongly affected by the existence of underground economy, modifying the economical indicators. The economical stabilization policies has a goal the reducing of cyclic fluctuations or the structural changes by using fiscal or currency tools like GNP, economical or inflation rise rates, unemployment, as long as they are correct. We can consider that the underground economy has an anti-cyclic function; becoming a flexibility reserve, compensating the economical disorder resulted from the governmental failures. The achievement of the flexibility of prices and profits can create a safer background in case of some shocks like foreign policies or technological changes, or the outburst of tax system. The higher the inflexibility in the official economy the bigger the importance of the informal sector. A positive fact could be the correction of the structural inconsistency of the official sector for a short period of time. Also, it can be noticed that in the ascending periods of the long or ascending cycles the underground economy faces a period of involution because of the investment policies, the increase in the degree of manpower occupation and the rise in living standards. The appearance of the economical crisis manifestations, specific to the descending or recession phases, are followed by the accelerated increase of the situations of tax gadget, corruption, illegal labor etc. specific to this phenomenon.

The way in which the underground economy manifests itself determines the reaction modalities of the citizens when facing economical policies. The direct influence on their living standards will be visible either in the avoidance of law barriers and their orientation towards the underground sector, or in making pressure on the leading political parties. The economical policies can be influenced, by using, in a democratic way, the public channels of communication, the referendum, the trade-union, the pressure groups, the free elections or the citizens' initiatives. Without some favorable results, the citizens can make their option to use the underground mechanism or to change their fiscal address by migrating to other states, or by moving the residence in the situation of the companies. Lately, the pressures for the correction of the national economical policies increase due to globalization, as well, a fact that led to increase of mobility. To protect the companies it is recommended, firstly to reduce the taxes and a higher transparency in this system, so that a migration of manpower towards the underground sector could be avoided. In the same time the struggle against corruption and loss of funds in the public system, the reducing of quantitatively excessive regulations and the encouragement of real competition can diminish the attraction of the underground sector.

Provided that certain theories on state sustain the conception according to which the individual interest can be limited by the general interest of the society, in fact the fiscal

bounder paid by those who are liable to pay duties is justifiable. Thus it is recommended to use in priority the directly democratic tools like the referendum and in this way the direct participation of the citizens to the legislation mechanisms in the fiscal domain. The impression that the income taxes are unjust would diminish, and the underground economy could be limited. Sweden [10] managed to limit the underground phenomena due to the direct democracy, an unaccomplished situation in the O.E.C.D. states.

Another theory of limiting the growth of the underground economy takes into account the authentication of certain simple forms, like illegal labor. In some states numerous forms of labor in the underground sector are already tolerated through the existent blanks in labor legislation, controlling especially the illegal employment or social frauds.

Even if for a short period of time the profits of underground economy can be checked, an increase of it will finally lead to the negative influence of the economic growth. Even the technological innovations are lost in a capital missing market. From an economical point of view, it is considered that equality between efficiency and social justice should be done. But, in the main, each of them thinks of itself as discriminated by the system and tries to correct it personally through tax gadget or illegal work, or, if they try to eliminate the budgetary deficit the regressive effect appears. This regressive effect will be felt by those who cannot benefit of other sources of income from the underground sector. The attempt of some states to reduce in a short period of time the underground economy on the grounds of the fact that its effects are mostly negative, could have positive consequences for a longer period of time, but it will surely have repercussions on those who are not favored by a concurential background and thus finding a refuge in the informal sector. We consider that limiting the underground phenomena should be accompanied by a clear analysis of the development and absorption capacity existent in the legal capacity.

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