

The Mimetic Principle in the Underground Economy

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***Abstract.** There has been in the recent years an increased preoccupation at international level for the research of the mechanism of development of the underground economy. The numerous vain attempts to measure the dimension of the underground economy persuaded us to embark on a qualitative research of this economic phenomenon. In our investigation on the roots of the underground economy we drew very close to the psychological and sociological aspects of the phenomenon itself. The process of humanizing that has at its origin components of the mimetic principle, like acquisitive mimesis, prompt us to ponder over J.M. Keynes' words: „The avoidance of taxes is the only intellectual ambition that one feels rewarded for.”*

Keywords: underground economy; mimetic principle; acquisitive mimesis.

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JEL Codes: A14, B22, H26.

REL Codes: 3B, 5B, 13I.

“Man (...) imagines he can arrange the members of society as easily as he arranges the pieces of chess on a chessboard. He does not take into account the fact that the piece on the chessboard have no movement principle other than that the hand imprints on them; but on the great chessboard of society, each piece has its own movement principle, totally different from the one that the legislator may choose to imprint on it...”

Adam Smith, *The Theory of Moral Sentiments*

The sterility of the attempts of measuring the underground economy

“Understanding is, after all, the purpose of science – and science is much more than mechanical calculation, lacking understanding.”

Roger Penrose

We consider that underground economy is the product of some general factors, as well as of some specific ones. When we speak of a phenomenon of such importance and that is present in our daily lives, our responsibility increases. It is difficult to accuse but it is even more difficult to clear the blame. It is a great responsibility to cast the blame, as long as every one of us has been at least once direct participants at an economic activity with an underground characteristic.

Two types of economy as they are presented in literature and that have an identical composition have no reason for functioning separately and to be analyzed as occupying rival positions. Both types of economy are part of the real economic life and both exist due to people’s real needs, both are capable of satisfying a set of real needs for them.

Others have tried as well

Taking into account the perception at a global level on the evolution of the level of corruption and of the activities of the underground economy in general, one can justify the increased interest in this phenomenon which is ever more present in contemporary economy. According to the Global Report on Corruption⁽¹⁾ made by Transparency International, 54% of the respondents maintain that the acts of corruption will increase in the following years.

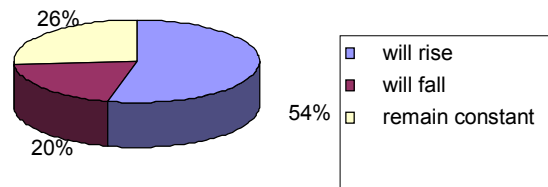


Figure 1. Global perception of corruption for the next 3 years

Official data

The interest for more in-depth research was not random, it was triggered by the concerns among the economists regarding the following deficiencies that exist in the economy of one country (Popa, Cucu, 2000, p.10).

- the evidence, in official statistics, of errors that were hard to explain;
- errors in governmental policies due to the faulty perception of reality;
- unrealistic conclusions of the selective research regarding the households of the population that passed unnoticed by the users of the data resulting thus in the distortion of reality;
- disorder in the system of taxation and fees etc.

The analysis is done with respect to Romania. Thus, the official data about the estimated dimension of the underground economy in Romania is the one offered by the National Institute of Statistics, using the method of the labor force, used initially in Italy and generalized for all the countries in the European Union. The *constitutive elements of the underground economy* specified in the analysis done by the National Institute of Statistics are: *the under-utilization of the labor force; tax evasion through unreported added value; tax evasion through unreported income; unreported informal activities*. Also, we took into consideration the activities done by legally registered companies, in the formal or informal sector, but unreported with the purpose of avoiding taxes, social security payments, regulations on the labor market, as well as the activities done by unregistered enterprises, that belong to the informal sector. It was estimated that the under-reported added value is the most important way of tax evasion, the main source of the underground economy.

In order to achieve a greater degree of objectivity we took into account both the activities of the legally registered companies, in the formal or informal sector, but unreported (with the purpose of avoiding taxes, social security contributions, regulations on the labor market), and the activities of the unregistered enterprises that belong to the informal sector. It is nevertheless estimated that the under-reported added value is the most important way of tax evasion, the main source of underground economy. According to the estimates of the National Institute of Statistics and of the National Bank of Romania, the proportion of the underground economy in the GDP shows a rising trend in the interval 1990-1998, when it reaches the highest level, after which it diminishes till the year 2005, when it starts growing again, as Figure 2 shows. Although in absolute sum the underground economy increased permanently, the percent evolution had also descending trends. This evolution is due to a more rapid rate of growth of GDP compared to the value of underground economy.

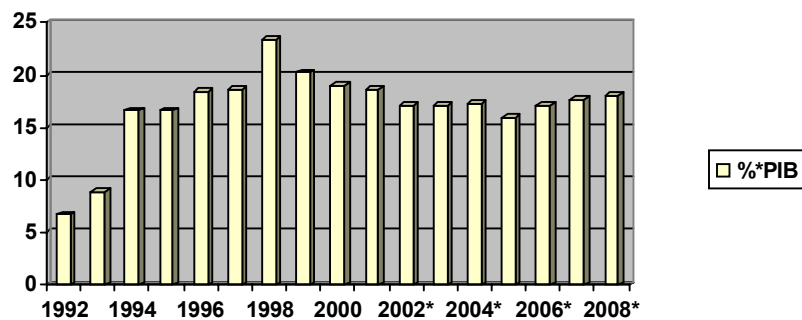


Figure 2. *The proportion of underground economy in Romanian GDP between 1990 and 2008⁽²⁾*

The Public Finance Ministry used the monetary method to evaluate the underground economy during the period 1993-1998. The estimates were made for the

domestic economy and imports, comparing the official part with the underground one. The results of the application of the monetary method showed a rate of growth of the

underground economy of 56% in 1994 and of only 13% in 1997. The monetary method is not very suitable for the Romanian economy. The main argument is that the Romanian economy is strong demonetized; only a small part of the population uses currency as the main means of exchange.

The data above can be easily contradicted by other studies carried out with respect to the underground economy, so that in the year 2008 the underground economy is estimated at 33% of GDP, occupying the 5th place in Europe, and on the first places were Bulgaria (36%), Latvia (36%), Estonia and Croatia (35%), according to the study carried out by the AT Kearney company⁽³⁾.

The sterility of the quantitative in the absence of the qualitative

One of the greatest challenges for the researchers is the measurement of the dimension of the underground economy in relation to the GDP, to the underground economy of other countries and also to its evolution, while the sociologists are interested more in the structure of the members, of the ones that participate at the formation of the underground economy.

After analyzing several specialist works, in which the authors tried repeatedly to do this without obvious success, I decided *to deal mainly with qualitative research*. In order to motivate my choice I will present, in parallel, the attributes of the two methods of research according to the classification in Table 1 (Grix, 2001, p. 34).

Qualitative research presupposes a microeconomical approach and implies the investigation of knowledge. This method of research does not reside in the

accomplishment of numerical measurements, but it can use them in analysis. Qualitative research implies the interpretation of data and often the elaboration of new theories. Therefore, by comparison to the quantitative research, the researcher is not detached, on many occasions he even interacts with the researched topic. Quantitative research presupposes a macroeconomic approach relying on testing the existing theories.

The quantitative-qualitative dichotomy

Table 1

Quantitative approach	Qualitative approach
Macroeconomic approach	Microeconomic approach
Implies the deductive research strategy	Implies the inductive research strategy
Has its origin in the positivist tradition	Has its origin in the interpretive tradition
Relies on testing the theories and offering predictions	Generates theories
Has the role of identifying general notions and making connections between them	Has the role of interpreting events of consequence in time

I consider that the domain of the underground economy cannot be approached only at a microeconomic level or only at a macroeconomic level. The microeconomic level is essential in order to understand the whole, and the macroeconomic level is very important in order to identify edifying solutions.

As one can see from the comparative analysis put forth by Jonathan Grix, the quantitative analysis specific to the macroeconomic approach relies on testing the theories and even on offering predictions. Our proposed analysis belongs to the American economist A.B. Laffer⁽⁴⁾ together with V.A. Canto and D.H. Joines, who formulated the idea according to which an increase of the fiscal pressure does not necessary determine an equal increase of the tax collections, but, on the other hand, the diminishing of the fiscal pressure creates

favorable conditions for the increase of the tax collections.

The demonstration starts with a Cobb-Douglas function that contains the factors labor and capital, rewarded by rapport to their marginal income:

$$Y = K^\alpha \times L^{1-\alpha}; 0 < \alpha < 1 \quad (1)$$

where:

α and $1-\alpha$ - the elasticity of the production factors K and L;

Y – production;

K – capital;

L – labor.

The targeted taxes refer to:

- Rewarded rates of the production factors “capital” (R_K) and “labor” (W_L) are done at their marginal value and are expressed as function of the value of production (Y):

$$R_K = \delta Y / \delta K \text{ si } W_L = \delta Y / \delta L \quad (2)$$

- The net reward of the factors differs from the gross reward, due to the taxation rates applied (t_K) and (t_L)

$$R_K = R \times (1 + t_K)$$

$$W_L = W \times (1 + t_L)$$

- The functions of the offer of the factors “capital” and “labor” are:

$$K_0 = (R/W)^a \times R^e, a < 0, e > 0; \quad (3)$$

$$L_0 = (W/R)^b \times W^e, b < 0, e > 0 \quad (4)$$

cu $a + e > 0$ and $b + e > 0$.

with $a + e > 0$ and $b + e > 0$.

The conclusions that can be drawn from here are the following:

- any change in the gross reward rates of the factors “capital” and “labor” for a certain level of production modifies the enterprises’ demand for necessary factors;

- any change in the net reward rates of the R and W factors modifies the offer of

the households providing that a factor can be substituted for another in a certain proportion.

$$\text{so: } K_0/M_0 = (R/W)^\beta, a + b + e > 0 \quad (5)$$

where:

β - the elasticity of substitution of the supply of factors.

- The state budget is completely balanced and financed on the account of the taxes applied to the utilized factors:

$$IB = t_K \times RK + t_L \times WL, \quad (6)$$

where:

IB – the sum of the fiscal returns to the state budget;

RK – the income made by the K factor;

WL – incomes made by the L factor;

t_K, t_L – taxation rates on capital and labor.

The relation between the factors offered is in balance with the factors demanded by the market

$$K_0/L_0 = K_c/L_c \quad (7)$$

On the basis of the previous hypotheses and of the mathematical reasoning we can draw the following conclusions:

- When the total income is divided in proportions a and (1-a), the functions of the demand for the “capital” factor and for the “labor” factor are:

$$K_c = \alpha \times Y/R_v;$$

$$L_c = (1-\alpha) \times Y/W_v \quad (8)$$

- the relation between the requested factors K_c/L_c is influenced by the taxation rates

$$K_c/L_c = \alpha \times Y / (1-\alpha)Y \times (1+t_L) / (1+t_K) \times W/R \quad (9)$$

- the relation between the gross recompensation of the factors is influenced by the taxation rates;

$$W_v/R_v = (1-\alpha)/\alpha \times [(1-\alpha)/\alpha \times (1+t_K)/(1+t_L)]^{\beta} \quad (10)$$

where:

$\gamma > 0$ - the elasticity of the substitution of the factors demanded by the market.

Considering the facts presented above I support the predilection of the analyzed theme for qualitative analysis, bearing in mind that the individual is the one that acts in the sphere of the underground environment, and the amplitude of the activities of the underground economy depends considerably on the capacity of the individuals to imitate, innovate and experiment with new methods of evading the overbearing structures of the state.

Past, present, future: the same fundamental cause

“Each age is a transition age. We know just one sure thing about the future or rather about the future ages: that they won’t resemble the present.”

Jorge Luis Borges

The overbearing fiscal system is the main cause of the underground economy in the world. In Romania, the main form of manifestation of the underground economy is black market labor that spreads also on the account of a pressure of unbearable impositions both on the employee and on the employer.

The history of fiscal system in Romania

Ever since the ancient times taxation has existed under different forms, even if it bore another name, the constraining principle was functioning just like today. The first Romanian tax attested in the documents dates from the age of the hospodar, in the 13th

century, these being the customs duties of the customs placed on the borders of the kingdoms. In the 14th century, besides the customs duties the tithe is also mentioned – “one out of ten”. In the 15th century the tribute in money appears, that was paid only by the “lower people” and was collected by tributes.

A drastic coercive measure, but an effective one, stipulated that the one paying the tribute to the other would immediately acquire the right of property over the wealth of their debtor. In the following centuries many other dues were introduced: quarter, tribute, tithe, beekeeping (taxes on keeping bees), hearth-money, sheep breeding (taxes on sheep), etc. The heaviest were the taxes set in order to meet the Turks’ requirements.

Dating from this period, there are two ways of avoiding taxation that constitute, in fact, methods of transition to the underground economy. Thus, the vassals that considered themselves too overwhelmed by the taxes imposed by their senior (the boyar) could move with the entire family on the estate of another senior, to whom they would then pay the dues established by him. From the point of view of the first collector of taxes, that is, of the boyar from whose estate the peasants run away, the tax payers go into the underground economy, a thing for which he considered himself in the just position of taking measures in order to keep them in the official economy. This is the reason for the issuance of the laws to “bind to the land” the peasants on one’s estate, laws that caused nevertheless, the most violent uprisings in the history of the Romanian states. The second situation is somewhat similar to the first, although, at first sight, it involves

aspects of international politics, and religious and military aspects. Moldova and the Romanian Country were not transformed into Turkish Pashalic and they retained their autonomy to a certain degree, but they were integrated as conquered territories in the system of taxation practiced in the Ottoman Empire. Almost all the military campaigns for liberation from the Turkish domination started with a symbolic act: gathering all the Turks who were in charge with collecting the taxes and killing them. So did Stefan cel Mare and Vlad Tepes, Ioan Voda cel Cumplit but also Mihai Viteazul. This way, the passing into the underground economy – from the point of view of the Ottoman Empire, an act with an economic character – turned into a declaration of independence of the Romanian rulers.

The first reform in the history of the Romanian fiscal system took place in Muntenia in 1739 under Constantin Mavrocordat king, on the basis of the principles of generality, proportionality and individual responsibility towards the fiscal institution. But the growth of the demands of the Turks prevented the state from obtaining positive results following this process of reform. In 1859, at the beginning of his reign, A.I. Cuza manifested his intention of establishing taxes only “gradually and these following some deep taxes”. In 1863 the “*Controllers’ Code*” was adopted, through which it was established that the tax collectors be accompanied by fiscal agents. *In the year 1910* E. Costinescu initiated a fiscal reform characterized by the preoccupation towards fiscal justice. This reform marked *the first attempt in Romania to introduce the unique income tax.*

The union of 1918 meant also the necessity of unifying the fiscal system, because, for example, in Ardeal there were ten types of direct taxes and in Basarabia two different fiscal regimes, in the northern counties compared to the southern counties, all these in their turn contradicting the fiscal regime in Romania. The fiscal union was completed in the period 1923-1927, initiated under the leadership of Nicolae Titulescu, who proposed a progressive tax on possessions and on getting rich over the war. This tax was imposed due to the pressure of the public opinion, unhappy because of the dramatic increase of the underground economy that led to the fabulous fortunes of the speculators that provided the army with supplies during the First World War. Also, the tax on luxury and turnover was introduced, representing at that time a novelty in the Romanian fiscal system. Beginning with 1929, the Romanian fiscal legislation diminished constantly the sphere of applicability of the direct method, through the use of the declaration of the tax payer and its replacement with the system of minimum imposition.

The first law dedicated to the fight against underground economy was adopted in 1933, the so-called “Law of direct taxation”, through which the deviations were classified in simple contraventions and qualified contraventions, being sanctioned with fines that raised to up to four times the tax on the assessed undeclared income.

In the 1940s C.N. Tăutu wrote “*The education of our tax payer is today so little articulated that they have but only one preoccupation: to pay as little as possible and, if possible, nothing at all.*” It was

considered that to cheat the tax collecting institution, in the current mentality, was a test of ability, not of dishonesty; to pay what the fiscal organism demanded was a proof of naivety, not of integrity” (Craiu, 2004).

After Second World War there were profound transformations in the fiscal system, starting with the agrarian reform in 1945, the reform and the monetary stabilization from 5th August 1947 as well as the nationalization of the main means of production on 11th June 1948. But, generally speaking, *in the years of the communist dictatorship there was a fiscal regime based on progressive taxes on salaries as well as on the other incomes*. Starting with 1st July 1977 they introduced the *tax on the total salary fund of the socialist state enterprises* that replaced the tax on individual salaries.

In the communist period they resorted to taxes not for economic reasons, but rather for political and social reasons. The treaties that defined the fiscal regime were:

- Taxation targeted only the incomes derived from property that did not belong to the state – communal organizations, craftsmen, corporatist organizations. After 1977 the tax on the salary of the employees was paid by the enterprises;

- The main purpose of taxation was the liquidation of the capitalist system through taxes and fees applied to those that were still operating after the nationalization of 1948.

The investments of the economic agents, the goods and public services as well as the social security of the population were managed through the state budget, subordinated to planned production and to industrialization at any cost. Moreover, investments were directed to sectors that

presupposed long periods of time for amortization. All these led to a double complete isolation of the Romanian economy: an isolation at international level from the global and European economic circuits (including the ones in the communist space); but also isolation on an internal level, an alienation of the citizens from their own economy that no longer had any connection with their needs or with a normal evolution of society. Although tax evasion was inevitably reduced, *the underground economy prospered*. From a conceptual point of view it may seem paradoxical, but *during the communist period there was, in Romania, an underground economy of significant proportions, generated by the general lack of consumer goods as well as by the people’s resentments towards the totalitarian state*. In fact, the kind of illegal acts comprised in the sphere of the underground economy and especially tax evasion were often considered as acts of protest against the communist system. Moreover, there was an important parallel market of the unregistered economic activities.

Law no. 344 from 29th December 1947 tried to fight against tax evasion through some tough regulations but which gave the tax dodger the possibility of going legal and to liquidate their fiscal obligations. Art. 268 index36, introduced in the Penal Code in 1953, introduced the punishment for tax evasion through hiding the object or the sum taxed, through destroying and hiding the obligatory evidence established by the fiscal laws.

After 1980 the underground economy took even more seriously its role of “the second economy”, as the imports were

drastically reduced and limited to the raw materials necessary for the functioning of the industrial areas. At the same time, the official economy was channeled almost exclusively to producing goods destined for export, and it was by no means prepared to replace the consumer goods that were no longer imported. Practically, in the last years of the communist regime there was a complete renunciation to the import of some products considered luxury products, such as high quality spirits, tobacco and alcohol, and the supplying to the population of these products was left, on purpose or not, to the underground economy. In this way there were created underground structures that were “criminal” from a penal point of view but necessary from an economic point of view and that constituted the seeds for the growth of the underground economy after 1989.

Fiscal system in Romania after 1989

Romania’s transition from a centrally-planned economic system to a capitalist one, of market economy, was done on the basis of three distinct realities: communism, capitalism and post-communism. These three are symbolically called by Vladimir Pasti: the “bad” reality, the “good” reality and the “purifying” reality, that makes the transition from the “bad” reality to the “good” reality⁽⁶⁾. The first reality, communism, was considered to be “bad” with respect to all the components of life, from roads, foods, literature to the institutions of the state and the political class. The second reality, capitalism, was considered “good” from all points of view, a thing that made the understanding of the true aspects of

capitalism to be considered old-fashioned. Post-communist reality is seen as the messianic redemption of the Romanian people that has to bear the cross of the past on the road full of purifying suffering. These incomplete approaches can construct but an incomplete future, founded on the misunderstanding of the “communist legacy” (Pasti, 2006, p. 207). The lack of a theory that would lay the basis for the explanation of the true aspects of communism, even in the period when it manifested itself as a form of directing the masses, significantly contributed to the fragile construction of the future after the revolution.

On the background of the monotony of the consumer goods, of the penury on the verge of crisis, especially in the foods domain, the change of system was the opportunity for the immediate organization of some structures of the underground economy mainly in the domain of commerce, in the service industry, but also in some industrial fields that produced foods and consumer goods.

Of the three main components of the underground economy (tax evasion, black market labor, criminal activities), the most common in the first years after 1989, in our country, were the unregistered activities, *tax evasion* and *black market labor*.

Regarding Romania’s classification on a global level (according to the data provided internationally), with respect to the level of the underground economy, one can notice that the OECD countries have a reduced level of the phenomenon, unlike the former socialist states and the ones in Africa, Asia and Latin America. Thus, Austria, with 10.6%, Belgium with 22%, France, with

15%, Germany with 16.3%, Great Britain with 12.5%, Holland with 13% and Sweden with 19.1% are under the level of 33.4% registered by the underground economy in Romania. Among the former socialist states, Romania is surpassed only by Latvia with 39.6% and Bulgaria, with 36.4%, and is ahead of other states such as Croatia with 32.4%, Lithuania with 29.4%, Slovenia with 26.7%, Czech Republic with 18.4% or Slovakia with 18.3%.

Starting from this statistics, and taking into account at the same time the conclusions of some institutions with role of controller, but also the international experience, it becomes clear that the dimension of the underground economy in Romania, like in all the countries that come from the planned economic system, is truly worth taking into account. Many are the ones that overload the legislative frame in Romania with more attributions than pertain to it. A perception fuelled by the fact that for each of the components of the underground economy the Romanian legislation tried to counteract them, formulating a series of laws and decrees that made the legislative system to be even more complicated creating thus multiple legal loopholes.

The factors that permitted the excessive development of the underground economy in Romania after December 1989, according to a material elaborated by the European Institute from Romania, are (Fudulu et al., 2002, p. 23):

- the legislative uncertainties that accompanied the economic mutations;
- the uncontrolled economic division, the apparition of some small enterprises with speculative temporary activity;

- decentralization, the division of power through the distribution of responsibilities leading to the increase in the number of corruptible individuals;

- the tolerant attitude of both the authorities and the population towards the violation of the regulations, a certain reserve towards discipline;

- the immediate junction made by the representatives of the parallel market in existence in the socialist period with circles with similar preoccupations in the neighboring countries, and thus, the connection to the international structures of the underground economy.

We consider that the main factors that support the underground economy in Romania were: 1) *the process of privatization*, 2) *the delay in the structuring of the public attitude on norms* and 3) *the distribution of wealth without rules and equivalence at the level of social production*.

Past attempts possible solutions for the future

The Wicksell-Lindhall model⁽⁷⁾ is the one that tries to analyze the creation of the reserves of public goods⁽⁸⁾, offering a series of justifications based on a consensus between the beneficiaries, that is, without coercion, through voluntary exchange. Such an approach is in contrast with the real ways of operating used until now, ways in which the reserves of public goods are financed through obligatory taxation and not through voluntary contribution. The voluntary type of approach was for the first time put forth by Knut Wicksell, who showed that each public good should be financed through an identifiable separate tax. The consensus of

the members of society should be required when they should decide on (if there is any) the volume of the good that will be offered. In the end, the individuals would be aware of the parts (quotas) of each tax that is collected, that will be allocated to finance each public good. The only problem that should still be solved refers to the level of the reserve of goods. This analysis was later extended by E. Lindhall, who perfected a model in which both the value of the taxes

and the volume of the reserves of one good are put forth for debate. In Lindhall's model, reaching a balance demands that each individual pays a tax rate equal to the individual marginal unit obtained of the consumed good. In the following diagram we take a community constituted of two persons (A and B). On the abscissa we represent the quantity of the public good, and on the ordinate the quota-part of the tax paid by each individual.

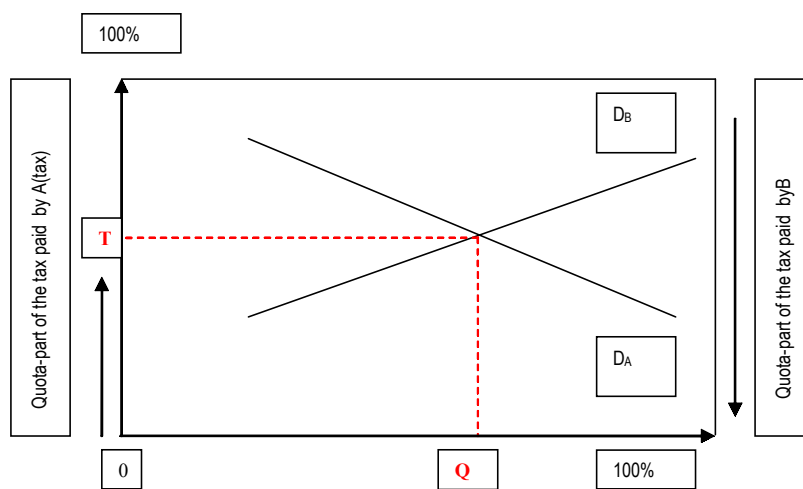


Figure 3. Lindhall balance

One can notice that the part of tax that belongs to A increases from bottom to top, while that of B increases from top to bottom. D_A and D_B represent the demands for the public good that each individual would have function of the tax level. Lindhall's equilibrium presupposes the production of quantity Q of the specified public good at a level of taxation T . In Wicksell's and Lindhall's models the public goods are offered in a way that ensures to each individual earnings from their own reserves, in other words this constitution of reserves is always a Pareto improvement. Additionally, with Lindhall there is the

condition that each individual consumes their own optimal volume of the public good, corresponding to their part of the tax.

The lack of realism of the proposed model is visible precisely from the perspective of the *variables* that it describes and analyses. Despite the temptation that the model represents, there are difficulties when one applies it. Particularly, the problem of consensus and the possibility that the *individuals* may not indicate their real preferences undermine the utilization of the model. According to the definition of public goods, the exclusion from the utilization of a public good of some potential consumers

is impossible, even if their contribution to the production of that good is null. So, what will be the authorities' argument for the tax payer, as long as, through definition, *anybody can have access to the public goods*? I mention again that the model starts from the premise of the voluntary exchange and eliminates the power of coercion. *What would be the reason for which the individuals would consider their contribution as being justified?*

The conclusion of this subchapter is best expressed by Knut Wicksell's words in his work "A New Principle of Just Taxation": *Neither the Executive, nor the Legislative...are really what theory tells us they should be, that is, pure organs of the community, with no other purpose than that of promoting general welfare.*"

Mimesis of appropriation or Acquisitive mimesis

"There is nothing or almost nothing in human behavior that has not been learnt, and any learning process is nothing else but imitation."

René Girard

The process of humanizing at whose origins lies the components of the mimetic principle, like acquisitive mimesis, almost prompt us to introspection on J.M. Keynes' words: "The avoidance of taxes is the only intellectual ambition that one feels rewarded for." Can we ever hope that these words will lose their meaning seven decades from now? The mimetic principle almost convinces us of the everlasting validity of these words. In his work "Things Hidden since the Foundation of the World", René Girard

explains in a simple and coherent reasoning that people since they are born feel the need to appropriate as many things from the ones that surround them as they can. R. Girard starts his analysis from the example of some children who, being brought in front of a large number of toys, will try to acquire as many of them as they can, starting an ample phenomenon of rivalry, such as we can observe many times in the case of adults. This thing happens in the activities of avoiding paying fees and taxes. These behaviors that constitute the object of the underground activities are examples of the adults' acts of politeness that learnt how to repress mimetic rivalry. Thus, the adults choose to step aside from the authorities' means of constraint, through non-payment, hiding or omitting to pay their dues, especially when they feel that their interests are not protected or, even more so, when they feel that there is an aggression on their property. That "acquisitive mimesis" manifested since birth accompanies us throughout our lives, taking many forms.

Why is there underground economy?

A question to which very few tried to find an answer. The answer can come forth from the rendering of the main causes that support the activities in the underground economy, such as: fiscal pressure, legislative inconsistency and incoherence, bureaucracy, global phenomena like poverty, wars, globalization, the contribution of the transfer prices, psychological causes, social, economical, political and community causes; local and global causes; poverty generating competition; the discouraging business environment; the lack of specialists in the

field; an increased tolerance towards underground economy.

Attempting to give some answers we can claim that the existence of underground economy draws its strength from both the incapacity of the market and from the incapacity of the state authorities.

- *Underground economy exists because it provides economic goods that correspond to some real needs of society.* Without the existence of demand, the suppliers from the underground market would not exist.

- *Underground economy exists because it proved to be an efficient method for controlling the global powers.* The control of global powers is achieved more easily through hidden and corrupt operations.

- *Underground economy exists because it offers the chances for the manifestation of entrepreneurial spirit in a market economy.* The entrepreneurial spirit that any economy that wants to be a developed market economy needs is inhibited by the fiscal pressure and by the red tape in a country.

- *Underground economy exists because it can exist and it is encouraged to exist.* The lack of a well-developed system of control allows for the development of the activities of the underground economy and for the appearance of new ones.

- *Underground economy exists in order to offer ways of access to the ones who find the doors to the state authorities closed.* Coercion produces ideas that help avoid the barriers imposed by the authorities.

Acquisitive mimesis and the underground economy

The underground economy proved to have a functional economic system

throughout history. At any time, and in any economy, regardless of the level of development, the underground economy was present in different proportions. According to R. Girard, acquisitive mimesis lies at the origin of all things. The main interdictions, the ones on objects such as drugs, sexual interdictions, and even some regarding foods, refer always to the closest objects, the most accessible ones, the ones that belong to the whole group. These objects are forbidden because they are at all times available to all the members of the group, and they can become the target of rivalries that might destroy the harmony of the group. According to an article from “the Economist”⁽⁹⁾ the countries with the highest vulnerability to corruption are the new members of the European Union: Romania and Bulgaria. Even though the rate of economic growth appeared to be very powerful during 2008, there were nevertheless threats, so that Bulgaria’s current account deficit was at the end of 2008 at 24%. Low quality borrowings will make the bank system very prone to bankruptcies so that the issue of how much foreign assistance the two countries will receive will be raised. Moreover the Baltic States are well known for the high level of corruption due primarily to the incapacity of the authorities to end organized crime and corruption. Corruption and incompetent policies are considered the most severe problems that the East European countries have to face, and not the financial problems. The political leaders have had problems in operating with these problems even when the economy of these countries followed a favorable pattern. The question that arises naturally is: what will

happen when foreign investors will become skeptical towards the economy of these countries, and economic growth will slow down or stop? From the moment when communism stopped, in 1989, the eastern half of Europe has continuously fought to reach the level of economic, social and cultural development of the west. East-European reconstruction started in some cases even from the letter of the law. The standards of living increased, foreign investors soon appeared and the policies gained coherence. These things made the fears of some, that they will be affected by negative externalities from their neighbors like: poverty, instability, the export of hunger and crime, appear unreasonable, even ridiculous. For very many of the ex-communist countries the efforts of meeting the requirements of the European Union will become visible in the costs generated by these pledges in the following period. The economies of the East-European countries will face hard times that will also influence the evolution of the level of corruption and of organized crime which are considered the underground activities with the highest degree of growth in the periods of economic crisis. *“If you walk in Belgium at the weekend, you will see more activity in the domain of constructions than during the week”*. The words of Friedrich Schneider

an economist at Johannes Kepler University in Austria are quite telling; he claims that the revival of the underground economy follows a period of 15 years of decline and it appears in the context in which EU’s real economy might compress with 2%. From here we can draw the conclusion of the existence of a rapport of reversed proportionality between the official economy and its underground component.

The fundamental cause of the underground economy lies in the very structure of the human being, the process of humanizing presupposes both: learning, imitation, association, collectivity, reason and rivalry, prohibition, sacrifice, feelings. The failures in combining them can be seen in the very components of the underground economy, components that are a natural reaction of mimetic rivalry. From the human desire of appropriation, assimilation the underground economy is born, and that is why we advocate the impossibility of eradicating it. The refusal of accepting this reality comes from the incapacity of the contemporary world to understand that “simplicity” and “clarity” are essential concepts indispensable in any presentation that wants to be scientific.

“Simplicity and clarity are not fashionable.”

René Girard

Notes

- ⁽¹⁾ Data are taken from the *Global Corruption Report* in the year 2007 by Transparency International and processed by the author.
- ⁽²⁾ Share of shadow economy in GDP, for the marked (*) is estimated on the basis of reports from the National Institute of Statistics of the author.
- ⁽³⁾ The article “*Romania, ranked five in Europe as a share of the economy in GDP in 2008*” published on 10 June 2009, available on www.hotnews.ro.
- ⁽⁴⁾ Laffer, Arthur, American economist, university professor. He attended the University of Chicago, and then became professor at Los Angeles. He leads a consulting firm in Boston. A. Laffer is one of the main representatives of the supply current economy. He is well known theoretician of anti-fiscal revolution of the 1980s. The curve that illustrates the relation between total tax revenue of the state and tax rate is named by him. Starting from scratch, he says, an increase in the tax rate can increase tax revenue. A. Laffer believes that yields are descendent in this area too. Thus, there is an optimum rate of taxation beyond total tax revenue will decrease if the tax rate will continue to rise. From this moment the discouraging effects of tax will cause a reduction in production. In particular, entrepreneurs and high-income owners will devote more energy to look for “shelters” tax. An unequal oppressive tax explains the difficulties of modern economies and slowing production. A decrease in the rates of progressive taxation and reducing the income tax are required to stimulate supply and boost production.
- ⁽⁵⁾ The analysis is taken by Laffer, AB, Canto, VA, Joines, DH, in the paper “*Taxation.GNP and Potential GNP*”, Proceedings of the Business and Economics Etatistics Section.
- ⁽⁶⁾ The ideas are outlined in the paper *New Romanian capitalism*, Vladimir Pasti, Polirom Publishing House, 2006, pp. 205-235.
- ⁽⁷⁾ Presentation Lindhall-Wicksell model comes from the Dictionary of Economics Department of Economics and Economic Policy, Second Edition, 2001, Economic Publishing House, p. 295.
- ⁽⁸⁾ Public goods are characterized by economic nonexclusive and non-rivalry. A nonexclusive public good can be used simultaneously by multiple people. Excluding the use of a public good to potential consumers is impossible, even if their contribution to production asset is equal to zero. Non-rivalry of public goods is the fact that social marginal cost for an additional consumer is zero. The offer of a public good does not diminish if the good is the subject of individual and collective consumption. A public good can provide equal benefits for individual regardless of the number of consumers. The two characteristics are met only by pure public goods, such as national defense and street lightning (Dictionary of Economics, Department of Economics and Economic Policy, Second Edition 2001, Economic Publishing House, p. 72).
- ⁽⁹⁾ The Economist, October 25th 2008, Easter Europe Briefing, “The price of corruption”, p. 31.

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