

# The Underground Economy in Romania

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**Costantin Roman**

*Conferențiar universitar doctor*

**Aureliana Geta Roman**

*Lector universitar doctorand*

**Cleopatra Șendroiu**

*Lector universitar doctor*

Academia de Studii Economice București

***Abstract.** Underground economic activities exist in most countries around the world, and they usually have the same causes: inadequate tax systems, excessive state interference in the economy and the lack of coordination in establishing economic policies. Through this paper, we aim to offer certain recommendations, which, in our opinion, would lead to solving the issue of inadequate allocation of resources and would also contribute to restoration of the worldwide economy.*

**Key words:** Local public administration, underground economy, public, corruption.

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## The system transition – an encouraging environment for the development of the underground economy

The year 1990 finds the past socialist states in a clear process of awareness in respect to the international economic reality and to some basic principles regarding the economy's work, principles that have been rejected or at least treated with lack of concern for a long period of time. Beyond the obvious peculiarities, such as the stage of economic growth, geographical position, traditions, culture, the socialist system left behind an impressive industrial capacity, building sites, land improvements that have been in many cases designed and built without a realistic, scientifically grounded efficiency study.

Against the background of the total lack or the limited offer of consumer goods and under the circumstance of the obstruction of the citizens' right to free circulation, all these states have become in a very short time a tempting sale market, profitable for goods of everyday use, textile materials, household goods, food products, drinks,

cigarettes, coffee etc. In this context, the ramifications of the underground economy have subtly penetrated and gained important segments of these huge markets, which were generally willing to spend.

The abandoning of the principles of the socialist economy, the endeavour of solving some major problems concerning property, the appearance of unforeseen political issues, going as far as the division of some states, the interethnic issues, the armed conflicts have represented the structure on which the underground economy has built its strength.

The contraband trade with alcohol, tobacco, coffee has gained proportions due to the vast space these states have placed at disposal, but specific to the '90 was the loss of control over some important quantities of radioactive materials and armament which have entered the game of the underground economy, leading to the circumstance in

which some of its very dangerous conducts (that were formerly, in most of the cases, just an element of theoretical debates) have become a hazardous reality.

Moreover, considering the problem of the production, marketing and consumption of drugs that in certain areas have found conditions of growth, we can conclude that the ex-socialist economic space represents a territory in which the criminal component of the underground economy has received dimensions formerly not detected.

Whereas in the other countries from this area of Europe, the detachment from the socialist system has taken place gradually and without violent demonstrations, in Romania, the break from the system was violent and took place against the background of a general economic crisis, of the whole society's wear and fatigue.

The self-imposed international isolation and the lack of cooperation at all levels had as consequence the escalation of the economic and social disorder. Under these circumstances, many of the economic measures proposed immediately after the beginning of 1990 were arbitrary, contradictory or, because of the lack of knowledge concerning the mechanisms of the market economy, their implementation was sequential and inefficient.

The reality turned to be much more complex and harsher, and demonstrated that the implementation of the market mechanism is only possible concomitant with building a favourable socio-economic context.

The economic legislation appeared with delay, was not adjusted to reality, trying awkwardly to reconcile the enormous bureaucratic state machinery and at the same time to promote measures for the encouragement of private initiative.

Furthermore, the civil servants from the state machinery had no knowledge about the principles of the market economy, and, moreover, these professional categories were invaded by corruption; all these elements have led to an economic-social environment that was encouraging for the underground economy.

In the evolution of the underground economy during the past decade, three stages can be differentiated: the building process of the underground structures, the development of the networks and the decision's focalization.

From the sociological point of view, the concept of "deviation" signifies every act, conduct or manifestation that violates the written or unwritten norms of society or of a social group. Defined as a type of behaviour that is opposed to the conventional one, the deviation includes not only infringements of the law (offences or felonies), but also any "deviation" from the rules of living in a community and from the order imperatives of a social form (society, group, organisation, institution, culture). However, in its essence, as manifestation that offends the community's feelings and expectations, the deviation

differs from abnormality, which characterizes the incapacity of the individual to adapt to the exactness of the social life and to exercise adequately the social roles.

In the years of transition appeared criminal acts of great complexity and diversity in respect to the number of participants, the methods used, the caused harms and the importance of the economic agents and institutions involved. During this period, the countries in transition faced the existence of a far-reaching "underground" economy, characterized by the fact that the offending structures infiltrated the financial-banking markets and tried to take control over some important economic sectors.

At present, the business criminality tends to become an antisocial phenomenon, materialized at a level of organization and specialization that expresses itself as a formal and informational network of organizations and individuals who, through the most diverse and sophisticated means and methods, manage to corrupt decision factors situated at highest levels in the areas of politics, legislation, justice and administration.

No matter if we deal with illegal transfer of patrimony towards businessmen, with theft, fraud or embezzlement to the detriment of the public property, or if they have to do with illegal capital export or contraband trade, the unlawful actions are committed in new forms and ways which are more or less sophisticated, but which really illustrate the term of "organization of the economic-financial criminality".

During its entire evolution, the underground economy has speculated each opportunity generated by unsynchronized situations and lack of determination and has had as purpose the infiltration in any space left vacant by the official economy. In this way, in a relatively short period of time, the economy has evolved from completely uncovered forms of expression to a concealed activity. The transition was made from the traffic with goods of the size of a luggage rack to the contraband trade with vans of oil products, alcohol, and timber.

In the process of building the underground structures, and later on, in the phase of growth and consolidation of the networks through tacit delimitation of action zones, the involved groups of interest had few moments of real competition or of major conflicts of interests, all of them against the background of the real professionalizing process of their criminal activity. The involvement in the big businesses, the transactions with important sums and the connection to the international circuits of organized crime have meant the fulfilment of some conditions, namely: involving professionals, concentrating the traded values, eliminating competition through specific means and consequently focalizing decision.

The banking-financial field is a main interest area for the criminal groups and forms their object of activity – not only at the level of exercising its financing attributions

with the purpose of insuring the necessary financial resources by obtaining credits under illegal conditions or by dilapidating funds, but also in regard to the payment and deduction system that has to allow the recycling, namely the money laundry by reintroducing this money into legal circuits.

Nowadays, the society is more and more dependent on computerized systems, and the international expansion of high-capacity computer networks and the possibility to have access to complex communication systems increase the vulnerability degree and allow altering the information or permit the criminal activity.

The financial crimes division from Washington estimates that the annual losses in the world amount to about 5 billion American dollars, from which 2 billion come from the United States only. At the same time, it is emphasized that this is just an approximate evaluation, because in reality, the level of losses is double.

The most used forms of crimes pointed out at international level are the computers' manipulation, spying, sabotage, unauthorized use and unauthorized access at the computerized system. These embezzlements consist usually in fraudulent interventions into an operating system, in the manipulation of input data, in the unauthorized disclosure of reserved data, in intercepting transmissions on a communication line, in destroying data by inserting instructions that run only if a certain condition is true, in the use of identification codes by a person other than the titular, in the parallel connection (that permits the interested one to observe the information stream and to become active when the stream breaks), in introducing an illegal terminal in the telecommunication network, in introducing or altering some instructions in the programmes, in order to systematically reduce the current accounts, in infecting the computers with viruses and so on.

The increasing number of embezzlements carried out through computers alerted the authorities in many states, which initiated investigation techniques and special training programmes in order to avert and struggle against this type of crime. At the same time, as a consequence of connecting to international markets, a certain part of the criminality tends to develop from organizing crime to "organized crime", as it has new ways of expressing itself.

In time, the organized crime has proved a great ability to adjust to different changes in conditions and situations by choosing those economic territories that offer high immediate gains, but also possibilities for the penetration of social and law institutions.

This became possible because besides the already "traditional" segments (illegal production and distribution of drugs, alcohol, coffee and other products, stolen cars, guns and radioactive materials, smuggling with toxic waste, money laundry, illegal migration, traffic with human beings

and with organs, illegal trade with works of art and antiquities), the organized crime approached new areas of "prosperity" such as forging industrial products, hacking and cracking and so on.

We reached the paradoxical situation in which the sums of money rolled by the criminal organizations are sometimes bigger than the budgets of certain developed countries, while the inflation and the instability of the national currencies these criminal activities generate can lead the financial institutions to collapse.

Through its proportions and consequences, the organized criminality – sometimes joined by terrorism – represents an issue that concerns the specialists from all over the world and the international organisms, including the United Nations Organizations.

The relevant forecasts of the experts in this field reveal that the situation will considerably worsen in the not so distant future, unless measures will be taken against "the main enemy of the world's stability", the organized crime, which will come to influence and to dominate the social, economic and political life. It will achieve this influence through the control exerted by some organizations over some leaders, through the increasing control gained over mass-media that later on is transformed into a very efficient instrument for the protection of group interests or for attacks against the inconvenient ones.

Thanks to that, the organized crime represents a major threat for all the fundamental elements of democracy, because it can even create an alternative political class, endangering the social stability and the harmonious development of that country where it is present.

Although the causes of criminality are extremely numerous and diverse, the studies and researches on this subject show that the sources of crimes are being permanently maintained by perpetuating the deficient economic, political, social structures which are unable to alleviate the economic difficulties, the social tensions and conflicts, the economic crises and the inflation, the poverty and unemployment, the social inequalities and inequities among individuals and social groups.

As only a small part of these causes could be counteracted through social and economic reforms, in many cases, the acts of embezzlement, fraud and bribe are considerably increasing and the corruption became a real "plague" that strongly undermines the social, economic, moral and political state.

Until recently, the fight against organized crime was considered to be the traditional competency field of the political forces, because of the fact that this phenomenon is a threat against public order and safety. A series of significant events from the past decade have made imperative the re-evaluation of the phenomenon called organized crime in respect to its negative effects on the security of the world's nations.

## Methods of fighting against corruption at national and international level

The Romanian service against corruption and organized crime has two offices (special investigations office and the office of fight against economic-financial criminality), with eighteen prosecutors each. The followed objectives were to strengthen the capacity of the Public Ministry to face the corruption cases from all over the country and on the other hand, to solve with priority the most important corruption files. By creating the National Institute of Criminal Investigations (Government Decision no. 368 from the 3rd July 1998), the activity of criminal examination was reorganized and simplified, and its material possibilities were enlarged.

1999 was grounded the National Office of Prevention and Fight against Money Laundry (Law no. 21/1999), which is formed by representatives from the Ministry of Finances, of Justice, of Interior, from the Parquet near the Supreme Court of Justice, from the National Bank, the Romanian Banks' Union and from the Accounts. The office was grounded as a government organ for this area of expertise, had as object of activity the prevention and the fight against money laundry, and for this purpose it obtains, analyzes and processes data and informs the competent authorities.

The international participation to the fight against corruption was approved through the Government Order no. 46/1999 at the Group of States against Corruption (GRECO), set up through the Resolution of the Council of Europe no.99 from May 1999.

Founded at the initiative of the representatives of the Committee of Ministers from Belgium, Bulgaria, Cyprus, Estonia, Finland, France, Germany, Island, Ireland, Lithuania, Luxembourg, Romania, Slovenia, Spain, and Sweden, GRECO was considered capable of supervising in a flexible and efficient manner the observing of the "Guiding Principles" and the implementation of the international juridical instruments adopted at the Council of Europe with the purpose of struggling against corruption. This organism was set to function on an initial period of three years, but its existence can be prolonged at the end of the period, after a revising process.

In February 2000, Romania took part at the Initiative of Fighting against Corruption from the South-Eastern Europe, as part of the Stability Pact (SPAI). The precise objective of this initiative was to help and to support the countries in the region in their efforts to adopt an efficient legislation, to create institutions and to develop adequate habits of the civil society – efforts having as purpose the struggle against corruption.

The initiative followed five directions that included:

- 1) taking efficient measures on the basis of the existent relevant international instruments, especially those

of the Council of Europe, of the European Union, of the Organization for Economic Cooperation and Development (OECD), of the United Nations Organization (ONU) and the Work Group for financial action concerning the issue of money laundry;

- 2) promoting a good government through legislative, structural and management reforms, a greater transparency and responsibility of the public administration by developing the institutional capacity and by establishing superior ethical standards for the civil servants;
- 3) strengthening the legislation and supporting the democratic state by insuring the real separation of the executive, legislative and judicial forces and by guaranteeing the independency of the investigating and judicial corps and by increasing the capacity of investigation;
- 4) promoting transparency and integrity in business, by adopting and implementing laws regarding bribery and the acceptance of bribe, insuring transparent conditions for the internal and external investments, establishing the corporative responsibility (of the firms) and implementing the international accounting standards;
- 5) promoting an active society by empowering the civil society and the independent mass-media to generate political commitment, to create an example of honesty in transaction, and to establish a climate of legality in the society.

As consequence of the participation to this initiative, the Romanian Government made a series of pledges concerning:

- a) adopting and implementing the European instruments and other international instruments;
- b) supporting an efficient government and a trustworthy public administration;
- c) strengthening the legislation and promoting the democratic state;
- d) promoting transparency and integrity in business;
- e) promoting an active civil society.

The first category of commitments means:

- signing, ratifying and implementing the penal Convention of the Council of Europe concerning corruption, the civil Convention concerning corruption and the Conventions regarding money laundry and confiscating the incomes from criminal activities;
- the implementation of the 20 guiding principles for the fight against corruption that have been adopted by the Committee of Ministries of the Council of Europe and the active participation in the Group of States of Europe that struggle against corruption (GRECO);

- the implementation of the 40 recommendations of the Operative Group of Financial Action against Money Laundry (FATF) and the active participation in the Selection Committee of the Council of Europe for the evaluation of the fight measures against money laundry (PCREV);
- taking into consideration the instruments, the legislation, the standards and the practice of the European Union;
- taking measures for applying the principles proposed in the OECD Convention for Fighting against Bribing Public Dignitaries in the International Transactions and the implementation of others recommendations of OECD;
- taking into consideration the Guiding Principles for Fighting against Corruption and Maintaining the Integrity of the Dignitaries from the justice and national security system, principle signed at the Global Forum from 1999 concerning the Fight against Corruption, which took place in the U.S.A.;
- approving the closure of the negotiation of the ONU Convention concerning the “International Organized Crime” and permanently paying attention to the ONU global initiatives against corruption.

Promoting an efficient government and a trustworthy public administration includes:

- strengthening the national legislation concerning acquisitions and procedures in order to support an efficient, open and transparent acquisition process that respects the European and international standards;
- improvements of the efficiency, the transparency and the responsibility concerning the preparation, the fulfilling and the control of the budget in order to comply with the international practices established by the European Union;
- grounding public services that are stable and professional and where the criteria for the selection of personnel are the professional merits of the candidate;
- maintaining legality, integrity and transparency through efficient legal corps;
- the juridical revision of the administrative decisions in accordance with the international practices and promoting the implementation of the recommendations regarding ethics in the public service and the behaviour codes;
- founding efficient external audit institutions and instituting practices at the level of the international practices and with the standards created by the European Accounts Court and the Members of the EU;
- strengthening the parliamentary supervision by institutions such as the People’s Attorney;

- endowing the investigating organs with enough financial and human resources;
- guaranteeing the transparency in respect to sponsoring the political parties and the election campaigns.

Strengthening the legislation and promoting the democratic state takes place under the following circumstances:

- taking measures so that the corruption and the money-laundry are incriminated according to the European standards; the legislation must punish the corruption inside the elected organs, the public administration and generally, the corruption from society;
- guaranteeing that the victims of corruption are indemnified;
- the efficient implementation of the legislation against corruption;
- grounding units specialized in the fight against corruption, endowing them with well trained staff and with the legal and financial means necessary for investigating and judging the cases of corruption; the members of these units must have independency, autonomy and protection during the fulfilment of their attributions, they should be under no inappropriate influence and they should have efficient means for gathering proofs and for protecting those persons who help the authorities to fighting corruption;
- strengthening the investigation abilities of the institutions of the penal justice by promoting the cooperation among agencies and by supporting common investigations; the financial investigations should have an important role due to their connection to embezzlements, frauds and economic crimes; appropriate conditions for special investigation methods should be insured, but the fundamental human rights should be respected.

The following things are necessary for promoting transparency and integrity in business:

- efficient measures must be taken against bribery inclusively against the corruption of the public dignitaries, by adopting and implementing laws concerning bribery and by taking into consideration the instruments of OECD, EU and those of the Council of Europe;
- establishing transparent conditions for the external and internal investments, by respecting the principles from the Compact Investment Plan of the Stability Pact;
- promoting corporate responsibilities on the ground of international principles and standards, inclusively the development and implementation of the modern accounting standards, adopting codes of conduct and establishing communication

channels, and also the guaranteed protection of the employees that report cases of corruption;

- encouraging the partnership between the public and private sector and sustaining the reform measures.

Promoting an active civil society can be realized in the following manner:

- initiating adequate actions against corruption at regional, national, and local level, where the public dignitaries and the representatives of the civil society and those of the private sector participate and share their experience;
- organizing – together with mass-media and non-profit organizations – campaigns that increase the level of the public awareness in respect to the economic and social damages corruption causes;
- developing measures in order to encourage the victims of corruption – public dignitaries and public members – to cooperate with the authorities and this way to prevent corruption and funds extortion;
- implementing instructive programmes with the purpose to promote in the society an anti-corruption culture;
- emphasizing the role of mass-media by creating laws in order to guarantee the freedom of being informed, to improve the ethical and professional standards of journalism, to promote the professional training of the investigative journalism, and to offer information to the public opinion.

Romania is part of the OCTOPUS programme developed by the Council of Europe together with the European Committee. Moreover, a regional Centre for fighting against corruption, organized crime and international criminality was established in Bucharest, as part of the South-Eastern European Cooperation Initiative (SECI). Six countries from this region have signed the cooperation protocol for preventing and fighting criminality: Moldavia, Turkey, Bulgaria, Macedonia, Albania and Romania. The regional centre is responsible with realizing studies, the elaborating strategies and projects for the prevention and fight against criminality. At the same time, the regional centre assists the participant countries in resolving some specific cases of corruption and organized crime.

Romania's plans of action in respect to the integration in the European Union stipulate a series of measures against corruption, because joining EU depends a great deal on the efficiency of the undertaken actions.

Until 2001, the main critical remark of the EU-experts was that although there are efforts of the government to eliminate corruption, these are not subdued to a well-defined national and long-term strategy. It is well known that this fight against the phenomenon of corruption cannot reach an end over night.

In January 2002 was ratified the “Penal Convention concerning corruption”, convention adopted in Strasbourg, on 27<sup>th</sup> January 1999. It represents also a consequence of adopting “the Resolution of the Committee of Ministers of the Council of Europe” concerning the 20 guiding principles for the fight against corruption.

### **The people's perception over corruption in public administration**

In 2001 the World Organization against Corruption *Transparency International* made a study concerning the index of perceiving corruption (IPC) published by the Romanian Association for Transparency (its Romanian section). In this study, Romania is placed on the 69<sup>th</sup> place and suffered a fall from 2.9 to 2.8 on the IPC-scale (a descending scale from 10 to 0).

In 1990, the local administrations from Romania were at the same level or at similar levels of development as the other countries that endured totalitarian regimes. But the centralism and the egalitarianisms were valued appreciated a long time after the fall of the communism. In the name of these values, the badly managed and badly organized local institutions were supported to the detriment of the institutions that had been demonstrating efficiency, flexibility and adjustment.

Although it was a declared priority of all the governments after the communism, the modernization of the public administration has been made so far at law pace.

In order to reduce this discrepancy, in the past few years the central authorities have adopted a series of laws, decrees, orders and decisions in the name of some values such as: decentralization, autonomy, privatization, and transparency – values for which serious political battles were fought.

The implementation of these laws had not had the expected outcome. One of the reasons and perhaps the most important is that modernizing the public administration should be seen as having two parts: an institutional part and a cultural one.

The steps undertaken so far for the reform of the Romanian administration referred to the first component. New laws were adopted, new structures and departments were grounded, new developing programmes were introduced, and they all were copying successful occidental models. The second component means having a new mentality, adopting values, principles and norms that guide the conducts in the administration. This aspect was often ignored, because it was assumed that people would react favourable to the structural changes and mould their attitudes with pretty much ease.

This study has as object the proportion corruption gained in the local public administration and especially in the city of Bucharest. A reason for choosing Bucharest is its position: it is the biggest city in the country,

the place where all the economic resources concentrate, where a great machinery of the public administration exists and where a complex interaction between the public and private sector takes place at central as well as at local level.

An opinion research was made for the year 2005, with the purpose to determine the way the population of Bucharest perceives the proportion, the frequency, the causes and the ways of diminishing corruption.

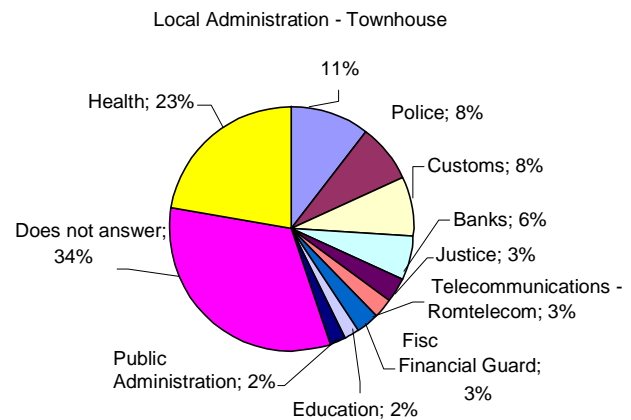
It is important to emphasize that the research does not measure the real level of corruption, but it establishes the way people perceive this phenomenon. As the sample is representative for the “normal” population of Bucharest, this research is relevant mainly for the so-called “small-corruption” or “corruption of surviving”. At a certain extent, the level of corruption is underrepresented in this research, because there are certain categories of institutions with which the citizen has seldom contact (judges, attorneys, custom-house officers, governmental civil servants etc.).

We specified the fact that the realized opinion research is relevant for the “small corruption”, because the studies that had as subject the corruption emphasized various types of corruption. There is this “corruption of surviving”, the “administrative corruption” and – the most severe form – the “state capture” (the state is captured by private interest groups). The expression “state capture” refers to the actions of some persons, groups or firms from the public and private sector that are made in their own interest, with the purpose of influencing the content of some laws, regulations and other types of governmental acts; these persons, groups or firms offer personal advantages to some public persons, but in an illegal way or through other non-transparent mechanisms. The state’s institutions that can be “captured” by the mechanisms of corruption may belong to some very diverse areas: the legislative, the executive, the judicial area. The “actors” of this capture process can be private firms, important political figures, or different well-defined groups of interests. The common denominator of these two aspects – the “prayer” institutions and the “actors” – refers to obtaining advantages from the state for a small number of persons, firms or activity areas, by means of distorting the laws and regulations, which leads to potentially high costs for the entire society.

While “state capture” materializes through advantages for certain persons or groups from the legislation or regulation area, the “administrative corruption” refers to deliberately distorting the implementation of the existent laws, norms and regulations in order to create advantages for some actors, by offering illegally or non-transparently personal incomes to authorities. The classic example of administrative corruption is the poor shop owner that has to bribe an almost endless series of official inspectors so that they ignore small (or big) violations of the existent regulations. Besides these forms, the administrative corruption includes also the bribe paid for obtaining

licences, for lightening the customs proceedings, or for winning contracts of public acquisitions or for giving the property right in exchange for a variety of governmental. Moreover, important official characters can redirect the public funds they control to their own financial interest or for the members of their family. At the root of this type of corruption stands the power these public characters have – power to give preferential exemptions, to establish the priority order in supplying public services or to apply norms and other regulations with discrimination.

In order to establish the way the population from Bucharest perceives the proportion of corruption, the respondents were asked to answer the following question: “How frequent do you think corruption is in Romania?” The prevailing opinion is that all or most civil servants accept bribe (figure 1). More than 7% of the respondents preferred a more differentiated answer (“only the servants from certain areas are bribed”) and specified the following main areas in which bribery has come to general use:



**Figure 1.** How the population in Bucharest perceives corruption

The administration and the health system were referred by the citizens as being the areas where the proportion of corruption is at highest level. The good work of the public administration depends on the legal stipulations, too. The more clear and efficient they are, the less present will be the subjectivity and the illegality in this field.

### A possible econometric model for measuring the fiscally undeclared economy (the underground economy)

The underground economy is different from the surface economy only by the fiscal regulations. The surface or declared economy respects the fiscal regulation, whereas the other ignores them. The fiscal regulations build a very thin and slippery layer between the two economic situations. This layer can be eliminated with the right measures, by joining the economy that defies fiscal norms to the normal economy.

The cash-flow from the underground circulates on short routes only, the relationships are more trustworthy and the deals are almost every time respected, although they are just verbal ones. The money circulation only in cash and on short routes increases their circulation speed and leads to increasing profits.

The main characteristics are:

- As it is an undeclared economy, its dimension cannot be correctly measured;
- The profits compensate the risk exposure in comparison to the taxes they elude;
- The deductions support parallel transactions – a “surface part” and an “underground part” among the same partners;
- The risk supported by the participants leads to forming the prices and the monopolistic relationships;
- The prices of the products are lower (the fiscal component of the price misses).

The underground economy is the target of the political speeches and therefore it is deliberately over evaluated by the politicians. Financing opportunities that are salutary for the politicians can be found here.

In the past years, the concept of underground economy has characterized the speech of some Romanian specialists from the social and juridical areas and from mass-media – more than the speech of the economists. Besides the underground economy, that probably has become an acknowledged term, there are works that tackle the same subject – the evil in the economy – and that use a series of expressions such as hidden, parallel, occult, secondary, informal, unobserved economy etc. It should be noticed that a part of these collocations have been used by some authors to localize and individualize negative economic phenomena, specific for some groups of countries.

A common aspect – probably the only one – among these activities that form the underground economy is the illegal, hidden character of the incomes they generate. Considering the need to respect the limits imposed or suggested by the European Union, the only possible attitude towards the underground economy is the *strong fight against it* (Allais, 1990).

The weight of the underground economy in GDP of Romania, according to the scenery of eliminating the underground economy.

**Table 1**

Year	2001	2002	2003	2004	2005	2006
The weight of the underground economy in the GDP	18,6	18,0	17,5	17,0	16,0	15,5
The rate of the total fiscal pays (including the social ones) % from GDP	28,3	28,8	27,9	27,8	28,0	28,5

Source: The Minister of the Public Finances.

The rate of the total compulsory taxes suffers a variation independent in a certain extent of the fiscal measures. The slight increase of the fiscal pays at the end of the analyzed interval can be the sign showing that reducing the underground economy is about to materialize into increases of the budgetary incomes that originate in the fiscal sources.

Luckily, the Romanian underground economy consists especially in undeclared activities and not in illegal activities. From declarations and registrations are eluded (partially or totally) especially those activities and incomes for which taxes, social dues must be paid. But this does not happen deliberately (because of the wish of a higher profit or out of an anarchic spirit), but from misunderstanding, negligence or lack of knowledge.

The phenomenon of fiscal fraud is influenced by two categories of factors:

- endogen factors (the fiscal authorities: parliament, government);
- hexogen factors, expressed by economic, social, cultural and psychological variables.

The specialized literature proposes for the fiscal fraud a general function that has an empirical character and whose value varies from a country to another and from a period to another.

This function is:

$$E = F(u, x, y) \quad (1)$$

where:

E = the function of the fiscal fraud;

u = a representative variable of the grade in which the taxpayer is inclined towards fiscal fraud (this depends on the culture, the state of the economic and social state of the society);

x = a representative variable of the fiscal policy (the dimension of the fiscal pressure, the strictness of its implementation);

y = a representative value of the real variables of the economy (GDP, national income).

Starting from the general function of the fiscal fraud, some particular cases can be illustrated. So, if we assume that the taxpayer's inclination towards fiscal fraud adapts spontaneously to any modification of the fiscal policy (especially through the variation of the fiscal pressure and of the strictness in applying the fiscal legislation), the variable “u” is not an independent value in the function anymore.

It can be written that:

$$u = u(x).$$

The function of the fiscal fraud changes and becomes:

$$E = f(x, y) \quad (2)$$



Because the real values (noted “y”) are assumed to be always constant on short periods of time, the relation (2) expresses the reaction of the phenomenon of fiscal fraud in the variation of the fiscal policy. It is a medium or long-term relation.

Continuing this logic, we can renounce to considering the variables y as being hexogen variables, admitting they depend on the fiscal policy.

$$y = f(x),$$

The function of the fiscal fraud will have the following form:

$$E = f(x) \quad (3)$$

This last relation is valid for a long period of time.

Although the empirical verification of the presented formulas raises complex static problems, on the basis of statistical investigations, it can be found a tight connection between the fiscal fraud and the mentioned variables, with the help of the correlation coefficients. Besides the general function of the fiscal fraud, the literature gives a great importance to some other function, drawn up from the perspective of the human conduct.

The necessity of this kind of plan is justified by the fact that a relevant analysis of the fiscal fraud is realized with the help of an approach of the human behaviour and from the economic point of view. The opinions of the specialists regarding the relation (2) support this approach by taking into consideration the marginal utility of the money, the taxes and the fiscal fraud.

It is a known fact, and the law of the decreasing marginal utility confirms it: the more the quantity of a good (or of a service) increases, the smaller is the value conferred on the additional units from this good.

Besides the illegality of this phenomenon and the consequences it has in the fiscal policy, the fiscal fraud, as action of the individual, is not totally irrational. Many of the peoples’ difficulties come from the relation “utility (pleasure) – cost”. But on the other hand, it is much better without any cost, without paying taxes or with the smallest taxes possible.

In order to establish the optimal way of fighting against fiscal fraud, it is very useful to develop a model that takes into consideration the following elements: the harms, the cost of discovering the fiscal fraud, the number of crimes:

a) The harms produced by committing fiscal fraud are the sums of money that should feed the budget and that are taken by the taxpayers.

The proportion of the harms caused by the fiscal fraud tends to increase proportionately with the level of the activity, according to the relation:

$$H = H(A),$$

where:

H = the dimension of the harm caused to society;

A = the level of activity (of the fiscal fraud).

On the other hand, the social value of the profits the offenders have gained from fiscal fraud tend to increase with the number of contraventions:

$$G = G(A),$$

where:

G = the value of the gains obtained by fiscal fraud.

On the ground of these two above-mentioned elements, it can be established the loss of the society due to fiscal fraud, according to the relation:

$$D(A) = H(A) - G(A),$$

b) The cost of discovering the fiscal fraud and subsequently the cost of punishing the criminals is bigger if the spending for fisc, justice and specialized equipment is bigger.

In this case there is the relation:

$$C = C(I)$$

where:

C = the cost of discovering the fiscal fraud;

I = the level of the spending caused.

If we assume that the function “f” is the one that resumes the endowment degree against fiscal fraud, the following relation is valid:

$$I = f(u, m, c)$$

where:

u = the use of human resources (energy);

m = the use of material resources;

c = the use of financial resources.

c) In the opinion of some specialists, the bigger the number of crimes is, the lower is the probability to convict that person.

The area in which the fiscal fraud activates is as large as the large and various field of tax implementation.

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