

THE DIMENSION OF THE UNDERGROUND ECONOMY, IN ROMANIA, IN THE PERIOD AFTER 1989

Stela Toader*

Abstract

In the period after 1989, the underground economy in Romania had a constantly ascendent evolution. In this article we think about the distinguishness of the underground economy level and of the real possibilities of Romanian economy through the dimension of the real total gross domestic product, providing a reason seriously enough to amplify the struggle against the phenomenon of the underground economy, especially as a result of our country's integration in the European Union. Practically, starting with the 1st of January 2007, the internal struggle against the underground economy and the fiscal fraude (as assimilated phenomenon) becomes one of the interests of the community, because they will affect, from so on, no only the public budget but also the community's.

The underground economy had drawn the attention of the specialists starting with the 60's, when this phenomenon took remarkable proportions. The first proceeding where the problem about the underground economy is grasped and made publicly, on a specialized level, belongs to the American P. Gutmann, who, in 1977, appreciated that the statistically unregistered economic activity can't be considered as a negligible entity anymore. In 1989, Pierre Pestieau defined the underground economy as „the whole of the economic activities realized out of the penal, social or fiscal laws, or which gets away of the inventory of the national accounts”¹.

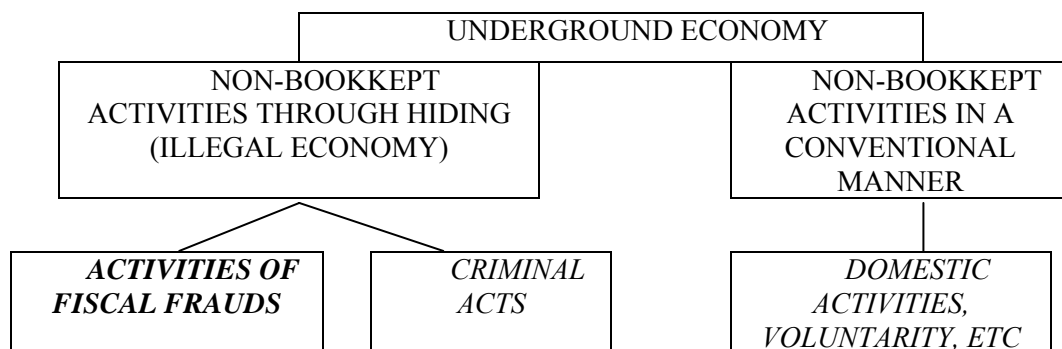
As concerns this motivation, V. Tanzi² sees the development of the underground economy as the product of two grand categories of parameters: those that imply the urge to avoid the taxes, and those that imply the urge to avoid governamental rules and restrictions. Therefore, everything that „gets rid of” the reglementations of the public power allows the possibility of including a variety of practicies under the mark of the „underground economy”: fiscal fraud, working on the black market, drug dealling, illegal trade with weapons, corruption, prostitution, robbery, but also gardening, domestic activities, etc.

* Stela Toader is Associate Professor of Finance at the Romanian American University in Bucharest.

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¹ Peirre Pestieau, „L'Economie Soutteraine”, Hachette, Paris, 1989

² V. Tanzi, „The underground Economy in the United States: Estimates and Implications”, Banca Nazionale del Lavoro Quartely Rewiew, 1980



Activities asimilated to the concept of underground economy structured according to the relation with national bookkeeping

The preponderance of a sector or another, the way of acting and the way in which it influences the official economy varies from one country to another, according to the economic and administrative system and also to the social and historical particularities.

Generally, it is noticed that, in those countries economically developed, the unstated legal activities, in order to elude itself from the payment of the fiscal bonds, form the most important part of the underground economy, meanwhile in non-developed countries, the unregistered production in a conventional manner (unofficial licit) is very important, frequently outrunning the official economy, because of the fact that the self-consumption is very strong, and the possibilities to register statistically all the activities are very low.

The area of all the activities that are included by this economy, but especially its extent, still is almost entirely unknown due to its fluidity, dynamics, flexibility up to economic reality.

It is doubtless that this area of activity develops in steps that are difficult to hit by the official sector, today attaining to represent a substantial part of the activity of the global economy, both in the East-European countries and the Western ones. That is why the importance of knowing its dimensions, causes and consequences over the official activities is unquestionable.

The dimension of the underground economy in Romania, like in all ex-communist European countries, is significant.

The Romanian underground economy was analysed and evaluated by numerous state institutions (National Institute of Statistics, The Ministry of Public Finances, Financial Guard, Romanian Intelligence Service, National Bank of Romania), non-governmental organizations (Romanian Centre for Economic Policies, The Centre for the Institutional Reform and the Informal Sector), independent researchers, the results being very different because of the diversity of the methods that were used.

According to the Romanian Intelligence Service, the illicit activities from Romania represent, in this period, 35-40% of the gross domestic product, which invokes the reality of a real parallel economy, just as vigorous as the official one.

Corresponding to a reasearch made by the Romanian Centre for Economic Policies from the National Institute of Statistics, in 2000, the underground economy represented 31% of the entire gross domestic product of Romania and approximately 45% of the gross domestic product of the official sector. For the same year, official dates presented by

the National Institute of Statistics showed that the underground economy succeeded in making 21% of the entire gross domestic product and 27% of the gross domestic product of the official sector. In the structure of the underground economy, evaluated by the National Institute of Statistics, for 2000, industry occupied the first place with 8,7% of the gross domestic product, followed by trade, public alimentation and tourism with 5,2%, transports with 3,2%, other services 2,3% and constructions 1,7%. The study of the Romanian Centre for Economic Policies shows that there is 72% of the entire underground economy in the formal sector, meaning in the economic structures organized as judicial persons, as enterprises, cvasi-enterprises and public institutions. From the amount of the underground economy, 51% is realised in the field of services, the same proportion as invoked in the data of the National Institute of Statistics.

The complete unpronouncement of the value added tax, with the evasion of the income taxes, represents the most important part of the underground economy, according to the evaluations of the National Institute of Statistics, which reported the following inadvertences: labour on the black market, evasion in the value added tax, the unofficial sector, formally unregistered by convention.

The conclusions of the study show that in Romania the underground economy is obviously a subsistence economy, the labour on the black market representing 46,5% of the entire underground economy.

According to some studies made by Friedrich. Schneider³, between 1990-2003, in Romania, the underground economy had an ascendance evolution.

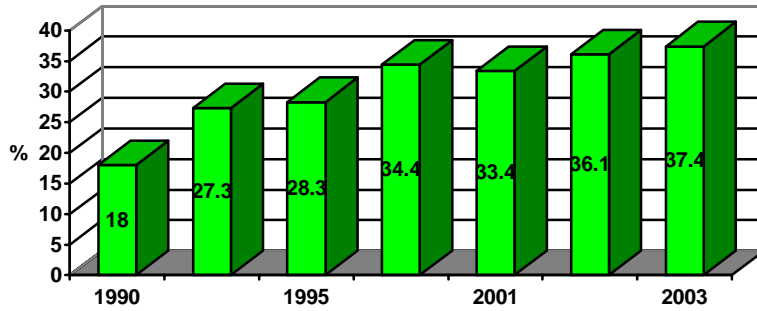
-% in oficial gross domestic product-

| | 1990 | 1990-1993 (average) | 1995 | 2000 | 2001 | 2002 | 2003 |
|---------------------|------|------------------------|------|------|------|------|------|
| Underground economy | 18 | 27,3 | 28,3 | 34,4 | 33,4 | 36,1 | 37,4 |

³ F.Schneider, D.Ernste, „Increasing Shadow Economies all over the World – Fiction or Reality? A Survey of the Global Evidence of their Size and of their Impact from 1970 to 1995”, The Institute for the Study of Labor (IZA), Bonn, 1998.

F. Schneider, „The Size of Development of the Shadow Economies and Shadow Economy Labor Force of 22 Transition and 21 OECD Countries: What do we really know?”, Institute of Public Finance, Zagreb, 2002.

F. Schneider, „Shadow Economies of 145 Countries all over the World: Estimation Results over the Period 1999 to 2003”, 2005.



■ The weight of the underground economy in the oficial gross internal product

We may see that in 2003, the estimated underground economy represented the double of the estimated one for 1990.

Supplied data of F. Schneider's study allow the estimation of the entire gross domestic product (created in the official and underground economy) and also its variation comparing to the variation of the gross internal product created only by the official sector.

| Index | 1990 | 1995 | 2000 | 2001 | 2002 | 2003 |
|---|--------|----------|------------|------------|------------|------------|
| $E_c / \text{oficial Gross Domestic P}$ | 18% | 28,3% | 34,4% | 33,4% | 36,1% | 37,4% |
| GDP_{oficial}^n (millions RON) | 85,7 | 7.213,6 | 80.377,3 | 116.768,7 | 151.475,1 | 190.335,4 |
| $I_{PIB_{\text{deflator}}}$ (fixed base 1990) | 100% | 9.376,6% | 111.524,1% | 153.234,1% | 189.090,9% | 225.774,5% |
| E_c^n (millions RON) | 15,42 | 2.041,44 | 27.649,79 | 39.000,74 | 54.682,51 | 71.185,43 |
| E_c^r (millions RON) | 15,42 | 21,77 | 24,79 | 25,45 | 28,91 | 31,52 |
| GDP_{oficial}^r (millions RON) | 85,7 | 76,93 | 72,07 | 76,20 | 80,10 | 84,30 |
| $\Delta GDP_{\text{oficial-year-report1990}}^r$ | - | -10,23% | -15,9% | -11,08% | -6,53% | -1,63 |
| GDP_{total}^r (millions RON) | 101,12 | 98,7 | 96,86 | 101,65 | 109,01 | 115,82 |
| $\Delta GDP_{\text{total-year-report1990}}^r$ | - | -2,39% | -4,21% | 0,52% | 7,8% | 14,57% |

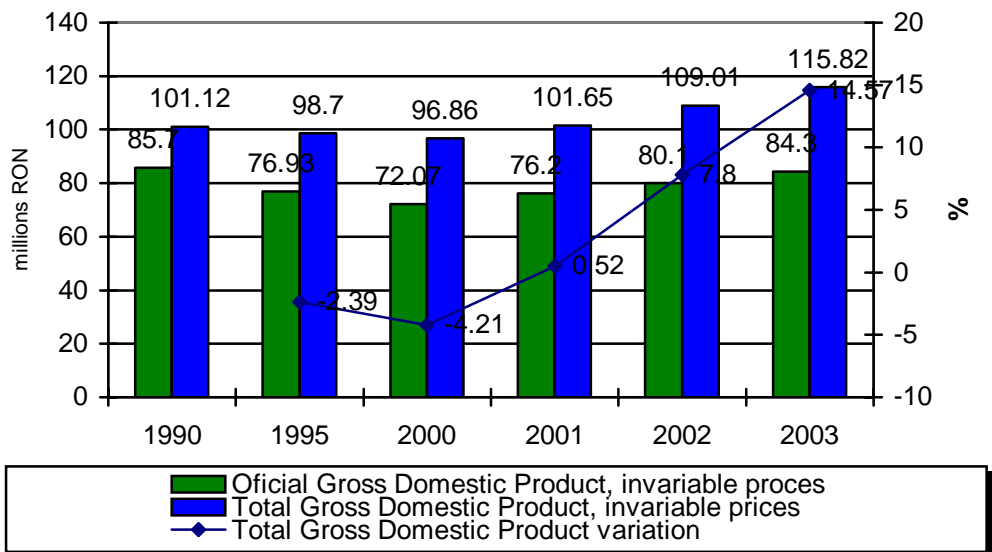
Official and total Gross Domestic Product of Romania, between 1990-2003(selected years) and their variation comparatively with the basic year 1990

From this analysis it is clear that the official gross domestic product, presented in

invariable prices, was situated, between 1991-2003, under its position in 1990. hence, its variation was negative in every year comparatively with the basic year, which means that Romania registered a real negative increase in the official sector, decreasing toward the end of the period.

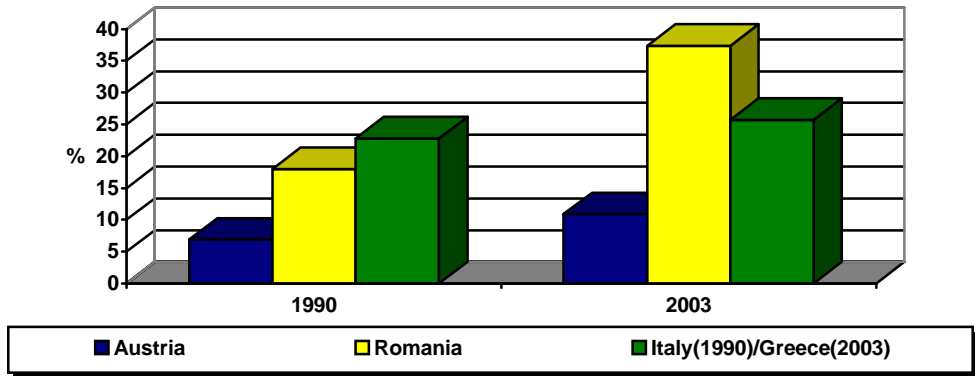
Total gross domestic product, expressed in current prices, was situated under the position from 1990, in 1995 and 2000 (and also probably in other years not comprised in the analysis because of the lack of data about the underground economy). Between 2001-2003, total gross domestic product registered real values over the position from 1990, due to the inclusion in its calculation of the value created in the informal sector. Therefore, starting with 2001, the total gross domestic product of Romania registered a real positive increase, that reached to 14,57%, comparatively with 1990.

These data give information about the real possibilities of Romanian economy, sustaining the assertion that the underground economy evolves erroneous signals to the factors of decision and hence induces inadequate macroeconomic strategies.



Official and total Gross Domestic Product of Romania, between 1990-2003 (selected years) and their variation comparatively with the basic year 1990

Comparatively with the state members of the European Union, according to the same data provided by F. Schneider, in 1990, the underground economy in Romania, was lower with 4,8 percentage than in Italy (22,8%), the country with the highest estimated level at that time, and with 11,1 percentage higher than in Austria (6,9%), where was estimated the lowest level. In 2003, the underground economy outrun with 26,5%, the lowest estimated level, for Austria (10,9%) and with 11,7 percentage, the highest estimated level, for Greece (25,7%).



The underground economy in Romania, comparatively with the states of the European Union (marginal estimated levels)

The increase of the underground economy generally produced the increase of the governmental concern for the cessation of this phenomenon, perceived not only as a „fiscal gap”, but even as a threat for the national security.

Even in Romania, the latter-year evolution of the underground economy must be a reason for a continuous concern and preoccupation for the decision parameters, because of the fierce involvements that this phenomenon has in the financial, economic, and social field.

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