UNDERGROUND ECONOMY, INFLUENCES ON NATIONAL ECONOMIES

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Abstract
The purpose of research is to improve the understanding of nature underground economy by rational justification of the right to be enshrined a reality that, at least statistically, can no longer be neglected. So, we propose to find the answer to the question: has underground economy to stand-alone?

Keywords: underground economy, parallel economy, tax fraud, money laundering

1. Introduction
In respect of the underground economy, in the literature, there are several names under which it is known, that, for example, hidden economy, economy from the shadows, dual economy, parallel economy, gray economy, economy illegal, etc. [4].

In accordance with a concise definitions [5], underground economy consists of the activities that are not recorded in the government statistics, or another optical drive tells us that, the underground economy is composed of all economic activities not registered, which, otherwise, would contribute to gross domestic product calculated (or noticed) [10].

In another definition [6], underground economy includes activities that are the result of transactions in goods and services illegal or of some cases of tax evasion.

We can say so that underground economy - shall mean all the economic activities carried out organized, with infringements of the rules of social and economic laws, aimed at obtaining income which cannot be controlled by the state.

"Underground economy" is part of economic sciences branch, a component which should not be neglected in economic analysis, with an impact more strongly on economic indicators.

In addition, the economics "underground" is an unavoidable ingredient of the economy of the country, in most cases the most cost-effective part of economy being the underground.

Appearance determinants underground economy are shown in the following figure(1):

![Factors determinants emergence of underground economy](image)

Fig 1 – Factors determinations emergence of underground economy
Source: our representation
2. Tax evasion and money laundering

With regard to the participants to underground activities it is necessary to make this distinction, namely, we have encountered a number of people who work and obtain income only in the black economy as well as persons who obtain revenue from both legal sources, as well as of the subterranean economy.

Within the scope of coverage of underground economy are included following practices:

We'll times within the framework of this study on this type of practice which is incumbent on economic environment, namely tax evasion and money laundering. Tax fraud we can define that the assembly practices aimed at dodging in whole or in part of taxes and fees and other contributions owed to the state.

As regards the period of money laundering has begun to be used in 1920 when Al Capone and Bugsy Moran have opened laundries in Chicago to wash "dirty money". Money laundering is a complex process which go through several stages and involve several persons and institutions.

Recycling of funds is a complex process by which the revenue derived from a criminal activity are to be transported, transferred, converted or mixed with legitimate funds, for the purpose of concealing origin or ownership of the profits. The need to recycle their money arising out of a desire to hide a criminal activity. The two major elements of recycling process of funds are: hiding illegal income and convert them into money, in order to hide them from which he comes. As regards money laundering stages the most frequent classification, share this phenomenon in:

a. Placing
b. Stratification(Investing)

c. Integration

To have an overall picture of this phenomenon affecting economies of many states have recourse to the following diagram:
A. Placing

By placing understand initial movement of the money, in order to change the form or place thereof and to place out of coverage of the authorities of law-enforcement, i.e. placing means removing money physical cash.

The placement stage can be achieved by means of the following techniques:
- sums of money out of the country by smuggling;
- Currency storage in banks, casinos, scholarships, etc., in amounts less than those that require reporting to financial institutions;
- converting currency in bank checks or other negotiable instruments in banks or other financial institutions
- Conversion of banknotes of low value against euro banknotes of higher value;
- Converting money into goods, precious metals, etc.;
- Use of institutions which, by their nature, generates large amounts in cash, such as bars, night clubs, restaurants, hairdressing salons etc.

Technical the most widespread placement: - the creation of fictional circuit means to undertakings with a large amount of money in cash (for example: parks taxi, pizzerii, restaurants, bars and raise hell, the points of foreign exchange, casinos fictitious companies).

B. Stratification

- Is the process of movement of funds around to disguise the origin; separate illegal income of their source through the creation of complex layers of financial transactions designed to cheat control bodies and to ensure anonymity.
  - techics:
    ● Storing cash (taken out of the country by smuggling) to a bank from abroad;
    ● Fitting money coming from illegal sources with people coming from legal sources;
    ● Create an account a placeholder abroad, in order to receive funds and make payments with those funds;
    ● Electronic transfer of the money from a bank account national on one from abroad;
    ● Electronic transfer of the money from a bank account (or undertaking A) on a bank account B (i.e. undertaking B), then one C(undertaking C), etc.;
    ● Sale various forms of financial instruments, such as bank checks, money orders, etc.

C. Integration

- final stage of the process that is related to money laundering, stage when money, profit from criminal activity, are now used in financial transactions which appear to have a legal.
- Operating techniques to form a foreign undertakings (in the case of Switzerland, Panama, Caiman islands) and opening a bank account for this company, as well as later money has to be moved from this account in the form of a loan, payments, according to letters of credit, consultancy fees, salaries, commissions, etc; depositing money in cash in a bank account, by attributing apparent their means from sales; receive money from a casino or lottery schemes to make the funds to appear to be legal gains from gambling.

3. Aspects of underground economy in the European Union as well as in Romania

In the European Union developments in underground economy in the EU during the period 2004-2013, had swinging trend, trends generated by active measures taken by the countries States of this space, easy to be noted in the graph below:

![Graph 1 - Underground economy dimension in EU - bilions euros](image)

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Source: - Eurostat - Fridrich Schneider analysis 2013

To be able to have a picture with regard to which causes this relatively high level of the underground economy at the EU level, we are going to present graphically, dimension of underground economy in the principal countries of the European Union but also in Turkey, one countries who carries out intensive trade with EU countries. It is to be noted that countries with the highest rate of underground economy are a series of eastern countries, this fledgling
Bulgaria (31 %), Romania (28 %), and Croatia(28 %) with different levels of the most high underground economy but and the countries of Baltic area (Estonia, Lithuania 28 %). Also we notice a series of countries with very low rates of underground economy level, among them emphasize: Switzerland (7 % ), Austria (8 %) and the Netherlands (9 %).

Graph 2 – level of underground economy in countries of EU
Source: Eurostat - Fridrich Schneider analysis 2013

Analyzing the evolution of underground economy size in Romania, expressed as a percentage of GDP in the period 1999-2013, according to the estimates the National Statistics Institute (INS) and Schneider told me, it is to be noted that the two ratings differ significantly, along with wide differences of 14-17 percent in favor first estimates for the period 1999-2007 and of about 10 percent in favor same estimates for the period 2008-2013.

Graph 3 - Level of underground economy in Romania

Possible measures to be taken into consideration, in Romania, to lessen the impact of forms of underground economy, is likely to be:
- The decrease in tax indirect taxes for the purpose of reaching a level of equilibrium.
- Existence of a government that would be able to take action where problems become really serious.
- Replacing old staff, control bodies of Romania are slightly exceeded by the new technologies, officials being somewhat breaths.
- An increase in the number of employees in system: it seems to me that at present there are about 800 commissioner, under the circumstances in which, for example, in Belgium Fraud Squad has 60,000 people.
- Introduction to the control system of a mode of allocation of persons with control function type "sweep".
- The harsh punishment may traders who do not own houses of marked or which do not have tax coupons when the buyer acquires a good.
- Another solution which could be tried in Romania, not only to reduce the size tax evasion but even to put economy, it would be Tax amnesty. Tax amnesty appears as exceptional mode switches off the debts to the state budget. This applies but in the most extreme circumstances.

- Development of systems of the tax on the income complex, in order to allow increasing the degree of collection of taxes, without a broad but the taxation basis, and without prejudice to the possibility of people (ex: very small revenues to tax at all, as practice in many Western countries).

4. Conclusion

An estimate of underground economy is a difficult question for this purpose and can be used more than one method, which provides results that are different, sometimes, even more between them.

Also, the underground economy is a topic very controversial: there are disagreements with regard to the definition of activities, to the estimation procedures of dimensions themselves and to use these estimates in economic analysis (Schneider 2013).

Underground economy is present in all countries in the world, and reach sizes remarkable, since average value for 29 member representative in Europe reaches 19.3 percent of the GDP in 2013.

In the case of Romania, underground economy in GDP is about 28%, which represents a fact worrying. At the same time, it may be observed a slight decrease in size of underground economy of our country in the past few years.

In other words, it is clear that a great challenge for the Romanian government is to undertake effective policy measures to make it more less attractive business in the area underground economy, in such a way as to be more attractive economy activity in the area publication. Successful Implementation of these policies would result in a reduction in the size underground economy.

An impact on underground economy has a fiscal level, which in the case where it is too high, it has a negative influence on it.

Bibliography