

COULD THE PRESENT ECONOMIC-FINANCIAL CRISIS GIVE A NEW IMPETUS TO THE FIGHT AGAINST CORRUPTION AND THE UNDERGROUND ECONOMY?

Lecturer, Ph.D. Adrian Ducu MATEI

Athenaeum University of Bucarest

ducumatei@yahoo.com

“When circumstances change, even the strongest one seeks help from the
feeblest one”
Aesop, Father of the Myth, 625 BC

Abstract:

This paper reveals the main features of corruption and of the underground economy, giving consideration to the fact that a diminution of such phenomena could and should be one to restore the public financial equilibrium in Romania. When in a society the shameless win, when the abuser is admired, when no principles are valued and opportunism is praised, when the insolent lead and people tolerate this, when everything is corrupt and the majority is silent, when there are so many “when”, maybe it’s the time not to hide any longer, to cease the battle, to analyse our activity, to reevaluate the people around us and not to retreat inside ourselves. When corruption is systemic, we should counteract the harmful opinion that there is impunity. If not, then our efforts to combat corruption and improve the administration might not be taken seriously. People are cynical before corruption. The citizens, as well the bureaucrats, have heard all these nice words before. They have even seen some minor investigations. But the culture of corruption is persistent, just like the belief that high-ranked people are intangible.

Keywords: crisis, underground economy, corruption, sustainable economy

1. Introduction

The present crisis reveals several inappropriate behaviours, inconsistencies, some interests that differ both microeconomically with regard to individuals and macroeconomically at the state level. The interaction among institutions, their rules, the policies promoted and the area where the main actors work, as well as markets show that some failures, unless they are detected in time and correction measures

are taken, could cause what we identify today to be one of the severe economic crises.

To understand the present financial and economic crisis, and to get over some quite shocking comments and many conspirationist visions, we could resort to the science bequeathed to us by the great masters of economics to find the elements that could maintain equilibrium inside the new order that seems to come.

An example is C. C. Kirişescu³, an economist researcher and an appreciated analyst, who witnessed two international monetary reforms, i.e. the creation of the Bretton Woods system after World War II and the elimination of the gold standard in the 1970s, which he commented on, documented and even foresaw.

“Tomorrow’s world, Kirişescu says, cannot be grounded on sick national economies. And healthy national economies cannot exist without the aid of healthy currencies”⁴. But it is not only the currency health that we consider here.

An economy is healthy when diseases do not reach a level that could endanger stability. I am very sure that Romania is capable to promote political stability. I am very sure that Romania is capable to promote political leaders and public managers who have enough courage to name such diseases like corruption and underground economy, to recognize their symptoms inside the organisations where they work and to make necessary changes to cure them, especially when they are stimulated to do so.

We are quite anxious when we hear that in the world there were national or regional economies where the level of such diseases was so high that the whole body of the state was in danger. But researcher and practitioners, who later became strong personalities, succeeded in preventing such very severe phenomena that affected the purchasing power, the living standard, the poorest people and, in general, the quality of life.

It is easy to understand that the prevention of the two very destructive phenomena – corruption and underground economy – helps us to increase incomes, to improve public services, to stimulate confidence and the public to participate in winning elections, to make the two essential (political and economic) components

³ Costin C. Kiritescu (born on 25th May, 1908, in Bucharest – died on 13th December, 2002), economist, member of the Romanian Academy, the author of the monumental work *Sistemul banesc al leului si precursorii sai* (“The leu system and precursors”) cited by N. Pop *et al.* in *Despre criza, cu discernamant si fara manie*, Editura Expert, 2010.

⁴ C. C. Kiritescu, *Aspecte ale problemei monetare contemporane* (“Aspects of the contemporary monetary issue”), p. 27, Editura Enciclopedica, Bucuresti.

work together to the benefit of a third component, i.e. the social one, as we wrote above.

The seriousness of the present financial and economic crisis is revealed not only by abundant economic information but also by the action taken by the political circles to find solutions. It is man who plays a leading role in this financial and economic crisis: “The most serious economic crisis since the Great Depression is not a natural phenomenon, but a disaster caused by man, in which we all play a role”⁵. Here we cite Acad. Mircea Malița who – in April 2010, at the Romanian Academy – supported very convincingly the theory of the crisis that take place *only* on man’s mind. But, unhappily, it does not stay in there, said Mircea Malița.

Man’s role should not be ignored, because, in my opinion, the solution could be found just here. It would be very necessary to consider this for a strong economic construction, able to provide social occupations for the people, economic consolidation, social benefits, and better quality of life.

Always, in apparently desperate situations, resources come from inside, by better mobilization, by giving up excesses, greed, and the rush for more that one needs, in general, aspects, related mainly to man. Napoleon Pop, Amalia Fugaru and Valeriu Ioan-Franc in *Despre criză, fără mânie și cu discernământ*⁶ (“On the crisis without anger but with discernment”) say that moral conduct plays a major role: “Another aspect, to which one must pay – maybe – the greatest attention, is the relevance of a moral human behaviour in the area where the society invested most confidence – the financial system. In fact, all measures for regulating and monitoring financial markets hide, finally, a concern about this aspect of the crisis causes, less commented on, but crucial for what we call the trust crisis. This crisis unveiled the doubt about morality, the antithesis between greed and integrity, because what is the propensity for risk if not an appetite for gains?”...

If we are to find out what is the origin of the irreversible temptation to be corrupt and/or to obtain untaxed money from hidden activities, it is worth dealing with several causes mentioned by a Nicaraguan accountant, Francisco Ramírez Torres⁷, who widely discusses the fact that such behaviour of man is determined by factors such as family, school, attitude towards work, economic activity or religion, nation and international situation. As for the individual he mentions as causes of

⁵ *The Guardian*, January 29th, 2009.

⁶ Napoleon Pop, Amalia Fugaru, Valeriu Ioan-Franc – 2010, *Despre criza, fara manie si cu discernamant*, Bucuresti, Editura Expert, p. 14.

⁷ Francisco Ramírez Torres, *Los delitos económicos en los negocios*, Managua, Talles de Don Bosco, 1990, pp.22-26, 40-50.

corruption excessive drinking, extra conjugal affairs, losses caused by financial speculations, gambling, administrative disorganisation, thirst for illegal wealth a.s.o.

Very actual are the words of C.C. Kirişescu, who said in his work cited above that “Today we are in a world that, ..., is seeking equilibrium for the years to come. Mankind is seeking a finally peaceful settlement, one that should no longer be hindered by the fear of losing again ... elementary rights of human existence. The way to such settlement is not easy. Many problems of living together facing the people and the peoples occur always and everywhere, being both political and economic”.

These words have a special impact, especially when the world is facing a crisis that affects all national financial systems. In my opinion, if the two phenomena, corruption and underground economy, which are increasingly present in national economies, would be severely limited, close to zero, we could speak about services of higher quality provided by the state, public works to the general interest, better living conditions, a higher living standard.

2. Underground economy, hidden economy

Underground economy, also known as hidden economy, is increasingly mentioned by scientific and academic circles and mass media as well. We are aware that strong and urgent measures are needed against tax evasion – consisting in non-payment of duties or taxes on wage and on purchases of goods, services at very high costs, useless investments, which are more and more frequent even in developed countries – as well as against black labour. Tens of billions of euro, often undeclared and untaxed, are under offshore jurisdiction, thus diminishing national tax revenues. Because of the extent of this phenomenon, the intensification of the fight against fraud and tax evasion is not only a matter of income but also one of equity.

One part of tax evasion is undeclared labour in itself, having consequences for indirect tax diminution; the measures taken to combat undeclared labour were presented in COM (2007) 628. The advantage of dealing with this issue could be significant. According to estimates, only the recent initiatives of voluntary compliance, following the G-20 Initiative, could mobilize 10 billion euro for two years for the EU member states in question [3]. By diminishing fraud and tax evasion, member states could increase tax revenues, which will provide a larger

margin of action for restructuring their tax systems in a way to promote growth in accordance with the 2012 annual analysis of growth [4].

3. Corruption

Corruption affects the world, is everywhere and concerns the entire society. It equally occurs in developed countries and in poor countries, but to a greater extent in economies in transition from an economic system to another.

An example is Japan, where – according to a recent study – local administration has three times more employees than the national one and fifteen times more cases of corruption are reported and four times more civil servants are arrested.⁸

In New York City, the cost of corruption found only in school construction reached thousands of millions of dollars.⁹

What stems out of the two examples is the idea that administrations, especially local ones, are often blamed not only for inefficient management of funds but also for using public funds to fill the pockets of private companies.

The most serious forms of corruption are those represented by organized corruption as it is described in a report¹⁰ on the Hong Kong police in the early 1970s, an institution on the hands of drug smugglers, patrons of illegal games and pimps who paid the police not to interfere in their business.

If corruption is allowed to extend, it would conquer the whole system of the state.

Combating corruption may be economically approached by a strategy extended from the local level to the national one, leaving, of course, room for further improvement.

To be successful, first we should admit that there is corruption and we can combat it. So we have to understand corrupt systems, and for this we need concrete instruments, analysis and assessment of the mode of operation of some corrupt systems in specific circumstances, overcoming of political and bureaucratic obstacles and getting support, organisation of the fight against corruption by a plan

⁸ OECD, Symposium on Corruption and Good Governance, Paris, 3rd Session, March 13th - 14th, 1995, p.2.

⁹ Thomas D. Thacher II, "The New York City Construction Authority's Office of the Inspector General: A Successful Strategy of Reforming Public Contracting in the Construction Industry", unpublished case study.

¹⁰ Excerpt from *Second Report of the Commission of Enquiry under Sir Alistair Blair-Kerr*, Hong Kong, 1973.

in stages in order to cure corrupt systems (zones) and to eliminate the culture of cynicism and change the administration.

Also, corruption means abusive use of force for private purpose. Although there is a tendency to consider corruption guilt of the public administration, we can find it in the private sector as well. The private sector is mostly involved in corrupting public administration. When the state's financial resources are small, then we can justify the measures taken to severely limit transfers and allocations from the general consolidated budget to local administrations.

Every year, reports on the level of corruption are published and among them we find the report of Transparency International, a non-governmental organisation. This report shows that Romania is ranked 66th by the Corruption Perception Index (CPI) in 2012, after Rwanda, Namibia, Ghana, Kuwait as well as EU member states such as Poland, ranked 41st (score 58), Hungary, ranked 46th (score 55), and Croatia, ranked 62nd (score 46). The full list is given in Annex 1 (2012 CPI). Transparency International ranks countries on a scale from 0, the highest CPI, to 100, the lowest CPI.

In its most serious form, corruption destroys lives and communities, undermines countries and institutions, and stirs up popular rage, which further shatters societies.

4. Some important lines of action against corruption

As important areas where we can find corruption and hidden economy – but not the only ones – we consider the setting and collection of duties and taxes, granting of authorisations, approvals and licences, expenditure on public procurement.

Setting and collection of taxes and duties

In my opinion, measures should be taken to change the law concerning the setting and collection of local taxes and duties, that is simplifying the way they are set, and the transition from a complicated system in which someone almost needs direct help from the tax officer to determine the tax correctly.

The simplification of the setting of local taxes and duties diminishes the risk of interaction between the tax-payer and the public officer, which very often results in an “aid” provided by the officer not quite freely.

This change in the setting of local taxes and duties should result in simplicity and easiness for determining local taxes and duties and the assistance should be minimum, and when the latter is very necessary it should be provided by

phone, or in an electronic form so that the tax-payer and the officer should not interact directly. Also, the “honesty” of the tax-payer should be involved by promoting a self-declarative system usually based on the market price, and the taxation should be made in percentage of the declared value of property under the sanction that the town hall might buy that property at the declared price when the declared value is unbelievable low.

The tax-payer’s inappropriate conduct should be taxed more severely, going up to loss of property.

Similarly, in the case of the collection of local taxes and duties, changes should be made so that the collection should be made by banks.

Such a measure might result in a spectacular rise in incomes to the local budget along with a diminution in the national budgetary effort which would also make local administration more responsible.

Authorisations, endorsements, approvals and licences

The simplification of regulations, the elimination of authorizations for special cases could prevent bribing.

A simple book could be adopted for all applicants for authorizations and licences and the applicants should address to a registration office and not to persons directly involved in granting documents. Every application would enter a system to be monitored both by the applicant and by the management. Such a system could be beneficial because it would prevent a direct contact with officers that could be “influenced” to speed up or to slow down the case, thus eliminating a reason to bribe. This approach to the problem could also provide valuable information for assessing properly the performance of offices and of each officer as well. To speed up the granting of authorisations, endorsements, approvals and licences, a document – citizen’s handbook or guidelines – could be produced and published for detailing all procedures; this could help the citizens get familiar with rules and prevent officer to take advantage of people’s ignorance. Moreover, experts could be attracted from outside the administration to do better and faster work in justified cases.

Public procurement

If I would have to say which of the three domains is more corrupt, the public procurement certainly is the first, since it is the place where the largest amounts are used. The contracting department “where the money is”, if we have to

invoke William “Willie” Sutton¹¹, who, when referring to the reason for bank robbery, places public procurement before other domains where corruption is a permanent threat.

Among the main types of arrangements, we find the agreements between bidders which leads to cost or price rise for local administration, commissions offered by companies to “dodge” tender results, bribes to officials who determine the conduct of the winner (exaggerated extension of the terms of completion, no penalties for inappropriate fulfilment of contract obligations, etc.), which allow for underbidding, followed by additional expenditures and changes in contract specifications. Generally, public procurement contracts cost much money and often involve well-known and very powerful people both from the administration and from outside. The corruption caused by all above-mentioned is quite dangerous as regards public trust and the distribution of wealth and power.

To diminish corruption in the public procurement field, we can find solutions but only if there is a clear commitment of the leaders to stop the “naturalized” way of doing things and “oiling the system”. Also, the leaders should be aware of the cost of any anticorruption measure.

In my opinion, two aspects should be considered because of their importance: the first one should *ensure decent wages for public servants, promotion based on merits and a well defined career, i.e. a well defined system of promotion in career*. The second one refers to the *collaboration with agencies of investigation and law enforcement from outside the local administration* (prosecutor’s office, control and audit institutions, ONGs, the press).

Some of the measures I identify as producing good results regards corruption diminution in public procurement are the following:

- *Promotion of competitive conditions whenever possible*. To stimulate competition in fields that might be monopolies other than the natural ones. Both in theory and in economic practice we welcome the fact that several qualified suppliers eager to work will compete to win the contract, which will be granted to the most efficient one, in this way reducing the cost of procurement and providing the maximum utility for the public.

¹¹ William “Willie” Sutton (June 30, 1901 – November 2, 1980) was a prolific American bank robber. During his forty-year criminal career he stole an estimated \$ 2 million, and eventually spent more than half of his adult life in prison. For his talent at executing robberies in disguises, he gained two nicknames, “Willie the Actor” and “Slick Willie”. Sutton is known, albeit apocryphally, for the urban legend that he said that he robbed banks “because that’s where the money is”.

- *Simplification and clarification of rules and regulations.* The main reason is that the corruption in expansion makes us enforce new rules and regulations aiming first at preventing arbitrary decision-making, at promoting free access of all participants to market, at protecting equity and effectiveness by standardisation of procedures, so that they should be transparent, and the violation of the rules should be easily detectable.

Bibliography

1. **Aderinwale, Ayodele** (ed. 1994). „Corruption, Democracy and Human Rights in East and Central Africa”: *Summary Report of a Seminar Organized by the Africa Leadership Forum*, Entebbe, Uganda, 12-14 December 1994 (ALF Publications: Ibadan).
2. **Agarwal, A. and S. Narain** (1998). ”Corruption and the Environment: The Method Behind the Madness”, in: *Down to Earth* Vol./Issue Date: 7/31 October 1998, p. 01-04.
3. **Bierich, M.** (1997),”Ethische Aspekte wirtschaftlichen Handelns von Untemehmungen bei Internationaler Tätigkeit”, in: *Handbuch der Wirtschaftsethik*, p. 1-23.
4. **Kirițescu Costin C.**, *Aspecte ale problemei monetare contemporane*, p. 27, Editura Enciclopedica, Bucuresti.
5. **Elliott, K. A.** (1997). *Corruption and the Global Economy*, Washington, D.C., Institute for International Economics, p.1-244.
6. **Eser, A., Oberhofen M.**, et al. (1997). ”Korruptionsbekämpfung durch Strafrecht: Ein rechtsvergleichendes Gutachten zu den Bestechungsdelikten im Auftrag des Bayerischen Staatsministeriums der Justiz”. Freiburg im Breigau, edition iuscrim, p. v-xii, 1-795.
7. **Finn, Paul** (1993), ”Abuse of Official Trust: Conflict of Interest and Related Matters”, Australian National University, p.5.
8. **Fleischer, David** (1995), ”Political Corruption and Campaign Financing in Brazil” (paper delivered to the Workshop on Political Corruption in Latin America, North-South Center, University of Miami, Coral Gables, Florida.
9. **Frisch, Dieter** (1994), ”The Effects of Corruption on Development” a paper presented to the Africa Leadership Forum on *”Corruption, Democracy and Human Rights in Africa,”* Cotonou, Benin.
10. **Pop Napoleon, Fugaru Amalia, Ioan-Franc Valeriu** (2010), *Despre criza, fara manie si cu discernamant*, Editura Expert, Bucuresti, p. 14.
11. **Pop Napoleon and Ioan-Franc Valeriu** (2012), *Credinta si economie*, 2nd edition, Editura Expert, Bucuresti.
12. **Ramírez Torres Francisco** (1990), *Los Delitos Económicos en los Negocios*, Managua, Talles de Don Bosco.

13. Thomas D. Thacher II "The New York City Construction Authority's Office of the Inspector General: A Successful Strategy of Reforming Public Contracting in the Construction Industry", unpublished case study.

14. Transparency International (TI) (1997), *The Fight Against Corruption is the Tide Now Turning?* Report, Editor(s): Jeremy Pope and Carel Mohn. Berlin, TI (Transparency International). P: 1-192.

15. Thacher Thomas D., "The New York City Construction Authority's Office of the Inspector General: A Successful Strategy of Reforming Public Contracting in the Construction Industry", unpublished case study.

16. Werner J. Feld (1980), *Multinational Corporations and UN Politics: The Quest for Codes of Conduct* (Pergamon Press: New York).

17. *** *Corruption, Democracy and Human Rights in West Africa: Summary Report of a Seminar organized by the Africa Leadership Forum in Cotonou, Benin, September, 1994* (ALF Publications: Ibadan).

18. *** Organisation for Economic Cooperation and Development (OECD), "Symposium on Corruption and Governance", Paris, 3rd Session, March 13th-14th, 1995, p.2.

19. *** "Political Corruption in Brazil", in: *Crime* (1997), *Law&Social Change* Vol./Issue Date: P.: 297-321.

Annex 1

**The 2012 Corruption Perception Index by
Transparency International**

| Country Rank | Country / Territory | CPI 2012 Score |
|--------------|---------------------|----------------|
| 1 | Denmark | 90 |
| 1 | Finland | 90 |
| 1 | New Zealand | 90 |
| 4 | Sweden | 88 |
| 5 | Singapore | 87 |
| 6 | Switzerland | 86 |
| 7 | Australia | 85 |
| 7 | Norway | 85 |
| 9 | Canada | 84 |
| 9 | Netherlands | 84 |
| 11 | Iceland | 82 |
| 12 | Luxembourg | 80 |
| 13 | Germany | 79 |
| 14 | Hong Kong | 77 |
| 15 | Barbados | 76 |
| 16 | Belgium | 75 |
| 17 | Japan | 74 |
| 17 | United Kingdom | 74 |
| 19 | United States | 73 |
| 20 | Chile | 72 |
| 20 | Uruguay | 72 |
| ... | ... | ... |
| 41 | Dominica | 58 |
| 41 | Poland | 58 |
| 50 | Rwanda | 53 |
| .. | ... | ... |
| 58 | Namibia | 48 |
| ... | ... | ... |
| 64 | Ghana | 45 |
| ... | ... | ... |
| 66 | Kuwait | 44 |
| 66 | Romania | 44 |
| 66 | Saudi Arabia | 44 |
| ... | ... | ... |
| 165 | Chad | 19 |

| | | |
|-----|---------------|----|
| 165 | Haiti | 19 |
| 165 | Venezuela | 19 |
| 169 | Iraq | 18 |
| 170 | Turkmenistan | 17 |
| 170 | Uzbekistan | 17 |
| 172 | Myanmar | 15 |
| 173 | Sudan | 13 |
| 174 | Afghanistan | 8 |
| 174 | Korea (North) | 8 |
| 174 | Somalia | 8 |