



FISCAL PRESSURE CAUSES MAJOR PROBLEMS TO ROMANIAN ECONOMY: UNDERGROUND ECONOMY AND CORRUPTION

Sorin Adrian CIUPITU¹, Daniela TUDORACHE²

¹Faculty of Finance, Banking and Accounting, Christian University „Dimitrie Cantemir”, Bucharest, Romania, E-mail: ciupitu.sorin@yahoo.com

²Valahia University of Targoviste, E-mail: dtudorached@gmail.com

Abstract Fiscal pressure in Romania was, is and will continue being a current problem. Romania feels at high peak the lack of foreign investments that create stable and well-paid jobs and. Incomes of most part of the taxpayers, coming particularly from salaries, are badly affected by excessive taxation which discourages investors, and encourages tax evasion instead. Corruption can be spotted anywhere both in the political environment and in health, education, public institutions etc. If we manage to limit these phenomena, the country will recover in all aspects.

Key words

Tax evasion;
underground
economy;
corruption

1. Introduction

Fiscal policy must be, as its name implies, a policy that increases the nation's welfare. Introduction of new taxes generates fiscal pressure both for individuals and legal entities. Public institutions are run by managers appointed by the political class ruling the Government. If the governing party changes, the manager also changes and thus we meet people occupying key positions but who know no better than spending public money, not in the people's benefit but in the parties who appointed them.

Improving the living standards means better nutrition, a different lifestyle, access to medical treatment (many Romanians do not afford to buy the medicines their lives actually depend on), lower taxes, etc. But for the people to live better – in the end, this is what we all hoped for in 1989, you must remove „barons” who afford surgeries abroad, buying luxury cars and owning land and houses they did not recorded in the wealth statement.

These phenomena influence negatively the level of taxation, economic growth and lead to further increase of the budget deficit and, further on, to increase of public debt of Romania.

Corruption infiltrated at all levels of public administration and state financial control bodies, led our country on a top position in the EU in terms of tax evasion.

For Romania to get out of this economic and financial crisis and to meet the criteria set by the EU in terms of public finances we should diminish these phenomena and to increase the collection level for of public funds.

2. Tax evasion and underground economy

Decreasing tax receipts reported by ANAF (National Agency for Finance Administration) are mainly due to tax evasion.

Tax evasion can be defined as “the sum of lawful or illegal processes by which those interested steal, in whole or in part, their taxable material as obligations under the tax laws” (Văcărel, 2008, Rădulescu, 2007).

Fiscal evasion can be:

- lawful (permitted) or,
- illegal (fraudulent)

Most of the time, in practice, we can see continuity between legal and illegal, the taxpayer trying to take advantage of the deficiencies of the law. By its nature and under the influence of psychological factors, Man resists taxation.

Take for example renting a house, or an apartment. The taxpayer (owner) collects from the tenant an amount that varies between 200-600 euros per month, depending on the area where the apartment is located, but declares in the tax statements a fictional amount around 100-150 lei since no low limits are imposed.

Another example is the salary. Most of the employers pay salaries between 1000-2000 lei but declare the minimum wage to avoid paying high contributions and employees agree, happy they remain with more money in their pockets but ignoring the implications once they retire or when they go to a bank to get a loan.

Tax evasion can also be classified as follows:

- identified and

- unidentified.

We run into tax evasion in the surface economy, but mostly in the underground economy.

Literature presents underground economy under various names such as: occult, hidden, disguised, parallel, associated, dangerous, ghost, invisible, unofficial dual, cash, informal, secondary, illegal, gray, shadow, unmeasured economy or counter-ntraeconomy.

Pierre Pestieau provided a definition of the underground economy according to which it is "the sum of all economic activities that are carried out outside criminal, social or fiscal laws or escaping the inventory of national accounts"

Possible causes of the underground economy encountered in literature could be:

- fiscal pressure exercised by taxation (Caballé, Panadés, 2007);
- pressure exercised by regulations imposed by the state (Levaggi, 2007);
- tax morality: citizens' attitude towards the state (McGee, 2005, Torgler, Valev, 2007).

According to the EC, Romania has the largest underground economy in the EU relative to the economy size.

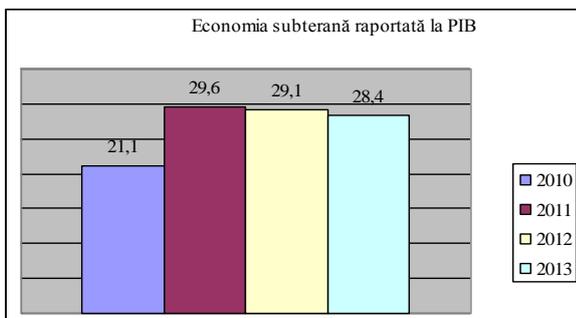
As such, according to the European Committee, for the year 2010 the non-taxed economic activity relative to GDP was of 21.1%. In 2011 a significant increase of 8.5% compared to 2010, occurred, followed by a slight increase of 0.5% in 2012 compared to 2011 and of 0.7% in 2013 compared to 2012.

Increased underground economy in the period 2010 - 2011 was based on the crisis that reduced revenues and encouraged illegal activities paid under the counter, thus people trying to compensate their loss.

Table 1.

Country	Underground economy relative to GDP			
	2010	2011	2012	2013
Romania	21,1%	29,6%	29,1%	28,4%

Underground economy relative to GDP



Graphic 1.

Source: European Committee

High figures for the underground economy have as main negative effects the decrease and diminish of growth rate of the official economy. For Romania there are alarming statistics regarding this phenomenon and the negative effects of high underground economy are strongly felt at GDP level and the level of tax revenues.

3. Corruption

Corruption should not be confused with tax evasion. Corruption involves a public official and tax evasion means hiding taxable material by a private company.

Corruption can take the following forms:

- at the level of public funds collection,
- at the level of budgetary expenditures allocation,
- at the level of privatization activities.

Corruption at the level of public funds collection happens by:

- direct theft of public funds,
- allowing taxpayers to avoid paying taxes in exchange for bribes.

Corruption at the level of budgetary expenditures allocation

If corruption goes up, then the underground economy also goes up, so budget collection is affected.

Corruption from privatization activities

All state-owned companies that were privatized were sold at a lower value so that the difference to the true value (updated) gets into the pockets of those who were part of those committees.

Today in 2015 when DNA (the Anti-corruption National Department) finally does their job, we witness to a number of politicians, old and new, being called and then handcuffed and taken into custody. These carton millionaires of Romania, who got rich by doing business with the state and were placed in the top 300 richest Romanians and gave us examples on the TV about how smart they were, and how they did the first million of euros or dollars now complain about prison conditions and suddenly suffer of all kinds of diseases.

These millionaires have put us in debt that we citizens have to pay in many years from now. Ceausescu was accused of undermining the national economy and shot dead. But what do these people who stole tens and hundreds of millions of euro deserve? The death penalty was good only for Ceausescu, but for those who have closed hospitals, while older people and even children of this country were suffering from serious illnesses and had no money for medicine, what punishment do we have?

Corruption in our country has amplified greatly in the past 10 years. In most of the public institutions one must give bribe if they want to solve a problem and avoid being passed from an office to another. In hospitals bribe is natural. If you want to be noticed someone or be hospitalized, you have to give bribe

because otherwise they say they do not have beds and you are sent to private clinics. If you want to be hired in a public institution it goes the same. On the internet there is a bribe mercurial about whose truthfulness I doubt, and yet I tend to believe when I see with my own eyes that people who do not know the domain very much enter the tax autonomy, notaries public, boards of directors of public companies and so on. Therefore, this is the country we live in.

A recent survey published in the Romanian press indicates that 10% of our politicians are corrupt and 90% correct. I personally think that if DNA will do their job to the end these percentages will reverse.

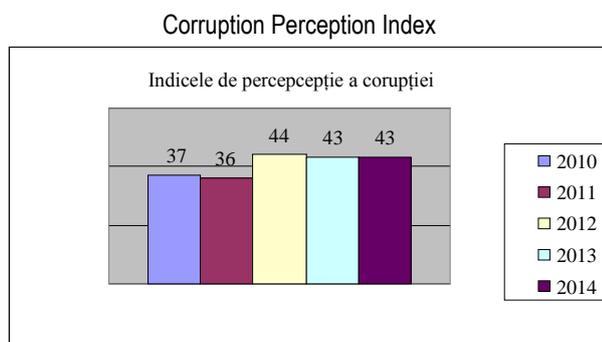
Looking at corruption as a whole, by means of the Corruption Perception Index (CPI), Romania is perceived as one of the most corrupt countries in the EU, along with Greece and Bulgaria (see annual reports of *Transparency International in 2010 and 2014 on Corruption Perception Index (CPI)*).

Table 2.

Rank	Country	CPI 2010	CPI 2011	CPI 2012	CPI 2013	CPI 2014
69	Romania	3,7				
75	Romania		3,6			
66	Romania			4,4		
69	Romania				4,3	
69	Romania					4,3

2010 was a better year for our country than for Greece and Bulgaria, countries that recorded worse rating than our country's, so that Romania climbed two positions compared to 2009 (meaning, it was no longer last in the EU, but on position 25 out of 27).

2015 is a landmark year for our country. If you do not invest in schools and hospitals, at least we should invest in prisons and escape for good of the millionaires who made their fortunes fraudulently and allow those who deserve to be in the top 300 remain, if someone left.



Graphic 2

Source: *Transparency International*

4. Conclusions

The behavior of economic agents as to not pay taxes or contributions because they are not sanctioned by the state is equivalent to increasing taxation on the shoulders of those who are honest and pay these obligations. Reducing tax evasion and corruption as well as tax arrears will amount to actual tax reduction.

Tax evasion or the big corruption, not sanctioned by the competent bodies, has degraded our society and morally speaking, and it is abnormal that those who break the rules to succeed, and those who are correct pay for those who are not.

Corruption and tax evasion are therefore major problems of our society, more so in the current economic and financial crisis. These negative phenomena should be prioritized and administrative and legislative reforms must be supported by a close monitoring of these phenomena and their reduction.

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