

DEEPENING SOCIAL INEQUALITIES AND SLOWING DOWN ECONOMIC GROWTH DUE TO CORRUPTION, UNDERGROUND ECONOMY AND TAX EVASION

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The best knowledge is the one that gives you power to fight against the ignorance
Pythagoras, Greek philosopher and mathematician,
n. 580 î.Hr. - d. 495 î.Hr.

Abstract:

The article highlights some sources of inequalities in a globalized world which does not only generate positive impact. In the event it is mismanaged, globalization can give life to a mechanism facilitating tax evasion and, in the same time, ensuring for a small group of individuals, a power position not only when negotiating inside a company but also across the political life of a society. Moreover, the most important traits of corruption and underground economy are marked out in relation to the deepening of social inequality in Romania. These negative phenomena are also present due to the malfunctioning of the market, strengthened monopolies, hindered competition and excessive use of asymmetric information. In the current context of an economic and financial crisis, one much linked to trust, phenomena such as corruption, underground economy and tax evasion have become omnipresent, hot topics in both Romania and Europe. This is how the economy is taken over and significant resources of the public budget are missed by the state. The consequences are severe and can lead to incapacity to ensure a decent standard of living and ultimately social peace. A continuous attempt to curb these phenomena could and should be a priority and a method to settle the public financial equilibrium in Europe and in Romania in particular.

Keywords: *trust, economic crisis, underground economy, corruption.*

1. Introduction

The current economic and financial crisis may seriously affect, or restore the strength of the current democracy values, of human rights and the rule of law in many states, either by associating the current crisis with a crisis of Western-style democratic system, either by imposing any conditionality of Western-style democracy, to emerging powers, which are generators, at a different scale than ever before, of attractive resources.

One aspect, which must be regarded with a special attention is the relevance of human behavior's morality, in the area where the society has invested its highest confidence - the financial system. In fact all measures related to the regulation and supervision of financial markets hide, finally, the concern about this crisis' causes, less commented but crucial to what we call the confidence crisis. The crisis has unveiled the doubt about morality, the antithesis between greed and integrity, because what the risk's propensity is related is the appetite to win! If some people have it, why should others abstain? But forcing good luck, either in the real economy or in the financial economy is slipping from integrity to greed, the last one unfortunately prevailing. Does this sliding, marked by the financial crisis of 2007 can not raise a culture issue in the broadest sense, affecting moral values?

We want to remember that the great economist Adam Smith wrote his famous study "Wealth of Nations" when he was dean for moral philosophy at Glasgow University.

George Friedman, from the "geopolitics Intelligence Report" says that the economy can not be considered an independent science, but is closely related to politics, which means its approach from a moral perspective. After all, the wealth of a nation is based on

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the two pillars represented by the economic and the politics, whose decryption resorts to the assumptions about human nature and good behavior. We believe that the analysis of the current crisis can not ignore the human nature, which raises again the issue of unifying the subject and object in economic theory.

Admitting the hypothesis that a crisis can produce cultural changes, in the broadest sense, we must seek by default viewpoints from other professions about the nature and the crisis' manifestation. If the economy is the result of human action undissociated by the human nature and behavior and if cultural changes can generate new philosophical ideas, than the philosophers and historians opinion it is absolutely necessary. When crisis faces us with the doubt about the moral values of individuals, blinded by an exuberant attraction to risk, as side of greed, then an opinion of theologians seems necessary. From the perspective of the alleged multiple effects of the current crisis, having different nature, regarded as the world order resetting argument, the answer must appeal to a multidisciplinary approach effort.

But, the extension in time of crisis, despite significant political and financial efforts already made for its cleaning, leads many political analysts to construct the most unreliable scenarios. The probability that the world be thrown into a political chaos, similar to the 30s one, of the last century, seems to be great. The chaos expected for a not too distant future has an economic source, meaning either the disability of financial resources insurance or the ineffective spent of financial resources, with the risk of increasing social insecurity, which implies the necessity of a power intervention. In what form? It is not difficult to guess, at least for that part of the world where state interventionism inertia has not disappeared yet.

2. Corruption undermines confidence in economy

Generally, corruption makes its way on the background of development issues and finds a fertile ground in situations of transition from one form of organization to another, indicating the existence of a malfunction. More complicated are cases where political corruption meets the administrative and bureaucratic one, being the most visible and dangerous when is supported by specific conditions of political competition, of a slowly and uneven economic development and an underdeveloped civil society.

Political and administrative or bureaucratic corruption have slightly different characteristics, but both are in fact serious cases, becoming extremely destructive phenomena when are combined and when they meet in an organized, ubiquitous and monopolistic form.

Corruption, because this destructive disease is found in an organized form when there is internal coordination, transmission and exchange of information and benefits, facilitates the existence of internal savings, which is not always visible, known as the informal economy, black or underground economy, linking leaders of performers.

In a country corruption can have a very wide range of distribution, being found at substructures-levels too, so there are few alternatives to tackle corrupt officials issue, which gives its ubiquitous status.

From the political corruption can recall situations where acts centrally acts as laws, decrees, government orders, government decisions and local decisions such as local councils decisions, mayor provisions, are promoted and adopted taking into account the personal and group interests of political structures representatives.

There were plenty of situations in wich through legislation voted by politicians, were advantaged companies, firms or individuals to provide services, deliver goods, to be assigned preferential operating licenses, to be leased in a doubtful way services of local public interest, to unclearly returne property, all those without being followed by serious investigations to clarify the situation.

A very common form of corruption, mainly seen when citizens interact with government when they apply for permits, licenses, certificates, approvals, represent the bureaucratic one, and it's specific for the countries and economies moving from one organization system to another or during their transition's period.

If we add the decisive and almost inconceivable influence of political factors in appointing heads of central and local government, then we could understand the existence of the mechanism of propagation, maintenance and manifestation of corruption, and its endemic nature.

There were many situations where the access exams in some decision-making of the state have been hit by corrupt practices or by modified tests, or by changing the conditions for participation therein, in order to reduce or annihilate the competition of course with seriously impaired result. What followed is understandable, people came in such positions eliminated potential competitors in those structures, imposing their well known practices.

In these circumstances it is hardly conceivable that highly trained young people will be able to find a place in the central state or local government, or those who still have their place, are usually subjected to pressure from those who got unfairly and dishonestly these functions, which stills propagate dishonesty, evil deeds, almost unbearable to those who enter in the system correctly.

Those who resist and continue the fight could be considered rare flowers, fruit trees in a field covered with weeds. These rare flowers and fruit trees, although are found in small number, are the true followers of good works spreading.

It seems that in our time the parables are missing. In the old days, when there were difficulties and everyone was trying to follow the other one, evil and indifference could not find their place. Back then there were many virtue parables, but as I said there were difficulties, and people became united to overcome them. Therefore one can note that the careless one could not remain among the best because it was crawling taken from them, but today the vice versa is becoming valid. It would be better to heed the wise teachings of **Venerable Paisie Aghioritul**¹ so beautiful exposed in his spiritual work *Spiritual words I, with pain and love for contemporary man*² where he shows "... I remember once, in Thessaloniki, waiting at traffic lights to pass from one sidewalk to the other. At one point I felt like a wave that pushed me forwards, because everyone went in that direction. As soon as I raised my foot, I have forwarded. I mean to say that when all people go to one side and one would not want to go though, he couldn't not to go because it is lead by the others. Today, if someone wants to live honestly and spiritually, no longer fits the world, it's hard. And if you do not take heed, you will go down the path of worldliness. Once was more good, more virtue, as well as the parables and the evil was drown in good and the little disarray that exists in the world or in monasteries, not see, nor hurt. But what happens now? Example hurt much, and the little good that exists is despised. Now the contrary is used: some good drowns in evil and so much evil reigns. " Here he says too that "... We have to take good heed to it, because people have got contemporary, unfortunately, to a

¹ Venerable Paisios (Greek Γέρον Παΐσιος ο Αγιορείτης, born Arsenios Eznepidis) (25 July 1924 - 12th July 1994) was an Orthodox father who lived at Mount Athos. It is buried in the monastery "St. John the Evangelist" in Suroti near Thessaloniki. Paisios is most famous for his spiritual teachings. Many people around the world, particularly in Greece and Russia, they greatly revered Paisios and is expected was formal canonization as a saint in the near future. He made many prophecies about World War III and end of the world, according http://ro.wikipedia.org/wiki/Paisie_Aghioritul. Paisios (Eznepidis) the Elder Paisios of Mount Athos (Greek: Γέροντας Παΐσιος ο Αγιορείτης) (25 July 1924-12 July 1994) the monastery of Mount Athos WAS. An ascetic, HE WAS known by His gentle manner and visitors for His acceptance of Those Who Came To receive His advice, counsel, and blessing. His words of counsel continue to be published, http://orthodoxwiki.org/Paisios_%28Eznepidis%29.

² Venerable Paisius Aghioratul - spiritual words I with grief and love for the contemporary man evangelismos Publishing House, Bucharest, 2012, p. 19-20.

point, as they do soften laws and require the needy to comply ...". After the Blessed Elder Paisios assessment, quoted above, the current times are not marked by peace and consensus, the saying that "*... his years traversing very heavy and very dangerous ...*"¹ anxiety being expressed by a number of economists and others in the world, feeling an increased pressure which urges us to attention, care and which is best resort to wisdom, and by appealing to the moral teachings of theologians note that opinion is essential, they urged us that the temperance, prudence, moderation can be reached by faith.

Corruption is seen as a complex, multi-structural and multidimensional phenomenon an economically, socially and politically phenomenon, whose complexity is determined by various factors, which can be grouped into economic, institutional, legal, political, social, educational and moral.

Regarding the **corruption's consequences**, official statistics and those provided by non-governmental organizations specialized in the field of scientific and socio-criminology research results, , law enforcement data, statistical data judicial and media draw the conclusion that corruption affected areas as: political and institutional, economic, judicial and law, training and education, social and medical assistance, investment and international trade, severely undermining state authority, citizens losing confidence in state institutions.

This phenomenon is generating tax evasion too, because the honest citizen or trader is not motivated to pay taxes seeing that the money collected in special funds and budget sources are spent badly and in an ineffective way. The economic impact of corruption is manifested in various ways.

The documents bureaucratic delay, the state's inability to provide manufacturers security, but also lobbying, protectionism, trading in influence, unfair competition, excessive government regulations and controls, affect the market economy mechanisms and free competition, discouraging potential investors and entrepreneurial initiative, lead to an increase of the public projects costs, to an economic efficiency loss, to tax evasion extend, reduce payments to the budget and economy development.

Social and political effects of corruption are manifested by functional, political and moral central and local authorities degradation, which is the result of the expansion of political corruption by reducing the competence of a transparent and accountable political, the impoverishment of the population and increasing social tension.

In the executive activity, corruption has the following effects: reduces the public administration's quality, a informal decision's system, tied links between organized crime and the corrupt officials and politicians etc.

The corruption effects externalizes in the international relations, manifested by the incompetent, irresponsible, provocative and conventional subjective behavior of persons in responsible positions, which in relations with foreign partners, promotes personal and corporate interests primarily, to the detriment of national interests, which irreparably undermines the country's image and credibility in its capacity as a partner of international relations.

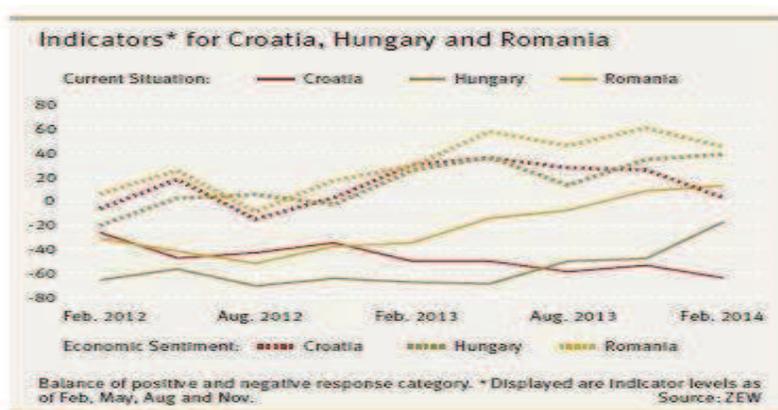
In my opinion all those are due to the failing to adopt a prudent attitude from the part of decision makers or at streamlining the belief that deregulation would be a condition of development and increasing capital. Thus was heavily relied on increasing profitability elaborating development models and formulas, without taking into account the individual's behavior, its inclination towards greed, its trying by any means to obtain gain, regardless of the assumed risk, even by practicing and promoting attitudes that sustain the underground economy, tax evasion, maintaining it even through corruption.

¹ Ibid. 2

To this is added the promotion to administrative or political decisions of some people to defend and support such practices, which in many cases support the incorrect legislation or appointments of poorly prepared people or blackmailed to support such negative phenomena.

Also such practices were extended to the judiciary, where appointments to various structures were marked by scandals, in which the media widely reported, but were seized international bodies such as European Union's structures. Along with obtaining the membership status in the European Union on 1 January 2007, when Bulgaria and Romania joined the European Union countries, these countries still had to solve certain objectives related to judicial reform to reduce corruption in state institutions and putting under control the organized crime. In order to help the two countries to resolve these serious problems, the European Union decided to establish a "*mechanism for cooperation and verification*" specially designed to ensure a harmonious joining process and also bringing protection for the policies and institutions. So starting December 2006, the European Commission has established a number of criteria ("benchmarks") for assessing progress in these areas. So in order to limit phenomena acknowledged mentioned above phenomena, was set the Mechanism for Cooperation and Verification that is a process that regular checks the progress that Romania and Bulgaria have in terms of judicial reform, corruption and organized crime. Since Romania has applied to join the Cooperation and Verification Mechanism, regular assessment processes occurring about the described above phenomena, so their progress is constantly monitorized, aiming to reduced those facts to a reasonable level. The latest Report from the Commission to the European Parliament and the Council, presented in Brussels on January 22, 2014, about progress in Romania¹, noted some progress, but many efforts are needed especially regarding independence of the judiciary, reform of the judiciary, the integrity, the fight against corruption.

They result in decreasing confidence in the economy, so raising funds to support investments is complicated because of the increased risk, and when embodied is performed at high price, meaning high interest due to environmental uncertainty in the economy that is affected by corruption, shadow economy and tax evasion. The confidence evolution in the economies of the three countries neighboring Croatia, Hungary and Romania positioned our country in a better position, all though it has to take many efforts especially in some sectors vulnerable to corruption.



Picture no. 1 Degree of confidence in the economy

¹ Report from the Commission to the European Parliament and the Council on Progress in Romania under the Cooperation and Verification Mechanism, Brussels, 22.01.2014 COM (2014) 37 final, {SWD (2014) 37 final}, http://ec.europa.eu/MCC/docs/com_2014_37_ro.pdf.

Confidence in the economy is measured by the ZEW indicator, ZEW investor sentiment (ZEW Economic Sentiment).

This indicator is published by Zentrum für Europäische Wirtschaftsforschung (Center for European Economic Research). The indicator expresses the institutional investor sentiment. Participants are asked if they feel optimistic or pessimistic about state investment and economic situation in the next six months. The indicator compares the percentage of investors who feel optimistic about the economy, to those who feel pessimistic and then those who do not expect any change. If 40% of investors are feeling optimistic about the economy, 30% are pessimistic, and 30% expect no change, the indicator will be 10. The investors feeling - particularly institutional investors - may affect general economic sense, such a positive trend in this indicator has a positive influence on the economy and the currency region.

3. Asymmetry of information can cause vulnerable areas to corruption in Romania

Corruption in Romania has preoccupied long time our society undergoing a long process of transition from centralized economy, existing before the end of 1989, to the market economy, the process of continuous development today.

Corruption makes its way on the background of development issues and find a fertile ground in situations of transition from one form of organization to another, society and economy, indicating the existence of a malfunction. More complicated are cases where political corruption meets the administrative and bureaucratic one, it is the most visible and dangerous when is supported by specific conditions of political competition, by a slowly and uneven economic development and underdeveloped civil society.

Political and administrative or bureaucratic corruption have slightly different characteristics, but both are in fact serious cases, becoming extremely destructive phenomena when are combined and when they meet in an organized, ubiquitous and monopolistic form.

The fact that some individuals, some entities have a number of privileged information in the competitive processes positioned them from the start as winners.

Information asymmetry is an approach that has been brought to the forefront of prestigious economists like George Akerlof, Michael Spence and Joseph Stiglitz who won the Nobel Prize for analysis of markets with asymmetric information, may be an argument that this area should be carefully investigated towards different segments of the economy and because it's based on economic analysis might aim to optimize competitive strategies. The fact that business models based on the idea that access to information is perfect has been shown that are often inaccurate.

In daily life, some market participants have bilateral transactions and often use superior information, which is known as the information asymmetry.

By understanding this concept must be improved the way it is perceived the functioning of markets and it should be undertaken a theme that leads to optimize competitive strategies and especially in drawing attention to the importance of transparency.

So the concept of information asymmetry is not new it has its origins in the fact that one of the parties to a competition holds more information than the other one, it is known as the phenomenon of information asymmetry. The fact that it succeeds as a part of those who participate in the competition to have incorrectly more information than the other participants shows that for real the competition is not manifested, its place being taken by monopoly abuse.

Competition is the activity in which economic agents are engaged when they are bidding or offering goods competition of any kind on the market. It is a manifestation of

private initiative and reflects the specific interest of economic agents behavior, that through their actions and respecting the rules of the market game, always looking to gain maximum benefits.

Since resources are limited and have alternative uses it's needed a criterion for appropriate (effective) allocating. Further reactions of economic agents to changes of goods demand and supply conditions on the market or prices, provides such a criterion for the allocation and efficient use of other resources, essentially defining the role of competition. Competition stimulates economic performance and overall progress. It incites to creativity and innovation that leads to supply's diversifying and reducing costs, increasing overall economic efficiency and a better meeting the needs. Competition differentiates economic agents, favoring the creative and enterprising ones and eliminates or redirects the immobile and ineffective to other fields.

Logically, we can not compete without competitors or forbid them to take action to promote their interests and to maximize their results, then we promote inefficiency and ineffectiveness which is suppressing the best possible use of existing resources. Moreover, actually we destroy the self efficient economic activity, we place them in a weak position that causes destruction of the engines that provides the national economy growth.

The bid and competition offer has rules of the game that involves providing equal opportunities and freedom of action of economic agents, including the available information and control and use of their resources to promote their own interests. Specific competitive market economy system, characterized by the dominance of private ownership of resources is the free price formation process. Only in such an auction system to buy and offers to sell to competition interact to determine prices to guide the choices made by all economic agents, their behavior in the efficient use of economic resources and ultimately lead to economic growth.

In the administrative corruption a vulnerable area is that of public procurement of goods and works, often unnecessary, ineffective or exorbitantly priced, being noted the ineffective use of state resources. An increased vulnerability is found in the acquirement of some medical devices that can not be operated in the areas for which they were purchased, the purchase of construction works for which opportunity is being seriously questioned - land unsuitable sport locations, parks existing in forests at a large distance by the settlements, for wich is not provided security and so the facilities disappear or purchasing some of them dishonestly transactions suspected of impropriety and illegality, of course, with the complicity of state officials in public administration.

All these in the manifestation of an immoral, incorrectly and greedy behavior, that is unconsciously promoted.

Unfair practices that state resources are appropriated by some companies participating in procurement processes in conjunction with unpaid taxes to consolidated budget in all kinds of illegal or improper practices leading to social inequality in Romania.

This contributes to social insecurity increasing, economic sustainability endangering and finally leads to social tensions increasing.

4. Conclusions and recommendations

Eventually it has to be highlighted the importance of credible institutions has meant to fill gaps where governments are unable to provide accountability and to promote and protect the rights of citizens. These institutions include independent and vehement press, an independent judiciary, independent overseers such as ensuring financial control of the state, a functioning parliament, which is not influenced or controlled by the ruling party, and an executive or head of State decided to show good governance.

For the public procurement by the State to increase the transparency by involving in the process of procurement of civil society in the sense that the public procurement beyond a

certain value to be announced mandatory on the websites of acquiring institutions and the process to be transparent throughout over it. To be allocated for a sufficient period of time to allow binding and expression and publication of opinions regarding that acquisition of the interest and motivation of the acquisition committee appointed to decide that acquisition.

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