



The Pandemic - The Disease of the Underground Economy

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Abstract: In the current international pandemic context, the risks of the underground economy through its most perverse forms, corruption, undeclared work, tax evasion, etc., have been greatly exacerbated by urgently favouring the restriction of freedoms, the infusion of important resources into the economy and not least the interest of Pharma. The turbulent and unprepared international framework has created the premise that in this unfortunate period an activity in the underground economy that influences all its forms, namely corruption, will flourish. According to press reports, the sale of masks, medicines and anti-pandemic health products was a real El Dorado of Romania. Fabulous surcharge purchases made by UNIFARM are known, as well as worldwide, according to a World Bank report, due to the elimination of normal public procurement control filters. The pandemic generated by the SARS-CoV-2 virus, both globally and nationally, has had various influences on the underground economy, some favorable for the public sector but most unfavourable for the private sector.

Keywords: corruption; Covid 19, drugs, physical distancing, economy, underground economy, fraud, undeclared work, pandemic, prostitution, state of emergency, state of alert

JEL Classification: D73; E26; H26

1. Introduction

The end of 2019 and the beginning of 2020 were marked worldwide by the pandemic generated by the SARS-CoV-2 virus, the negative effects leading, in a rather short time, to the significant increase of social and economic instability,

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This state of affairs has forced the WHO to proclaim it as a global health emergency from February 2020, creating a real hysteria of the conspiracy in the online environment and a total misinformation with influences in all strata of society.

Romania has also been affected quite a lot, not being prepared and without a historical experience regarding this type of pandemic, being forced to take as an extreme measure the decree of the state of emergency, followed consecutively by the state of prolonged alert until today. This state, in the conditions in which for over 30 years of searches and attempts to establish a functioning market economy, manifested itself for a period of time through legislative and administrative chaos, supplemented by the overlapping period of elections and parliamentary changes.

In view of this sanitary pandemic situation, one can naturally ask the question, what were the effects on the underground economy, both globally and especially nationally, how was it influenced?

The world, and especially the government, being too preoccupied with resolving the health crisis, and less concerned with the abrupt reduction or cessation of activity in certain sectors of the economy in general, has not been directly concerned with the answer to this question, which in time will be a subject of study for researchers.

As the transmissibility of the virus was favoured by communities, among the restrictions imposed were the restriction of human movement, social distancing and wearing a mask, restrictions that are the cause and effect of the underground economy in this pandemic period.

2. Data Analysis. Theoretical Fundamentals

The definition of the underground economy is suggestive to analyse the impact of the current international pandemic "The underground economy is the set of economic activities that are carried out outside criminal, social or fiscal laws or that escape the inventory of national accounts" and which has as reason or objective the money, obtained by many regardless of the ways and methods of obtaining, which also gives the connotation of criminal activity" (Huț, 2017, p. 25).

In this sense, the most pronounced forms of the underground economy that in my opinion have been positively or negatively affected are: undeclared work, tax fraud, criminal activities (prostitution, drugs, corruption, money laundering, etc.) that are directly related to these restrictions.

Regarding undeclared work and wage tax evasion, reduction or interruption of activities, of which HORECA as a headline example (it was more visible as media influence), it can be said that a blow was applied under the belt to the underground economy, because it is known that it is the field where it was a current practice of

workers without a contract or undersized facade contract and most of the revenues are not taxed.

During the state of emergency and alert, in addition to the reduction of income from the official economy due to limited traffic and distance, a major blow to the undeclared workforce involved in the informal economy, was generated by both wage benefits (technical unemployment) granted from the budget depending on the declared salaries as well as on the support scheme conditioned by the legal revenues registered in the 2019 turnover.

With undeclared business income and informal labour, the actors of the underground economy could not benefit from government aid, to support those affected by the pandemic. At first glance, it would be thought that the leaders and coordinators of the underground economy were affected, which is not true given that they have significant financial resources that were directed to profitable activities during this period.

The most affected were people who had jobs in the informal economy and were not in the social safety net. According to media reports (Cojocaru, 2020), the number of people involved globally in the underground economy is over two billion, lacking adequate social protection.

There are no exact statistics on the size of the underground economy, it differs depending on those who measure it and those who command it. According to JKU University Austria research and IMF data, the range varies, for Romania 27% -35%, Bulgaria 31% -38%, Hungary 23% -27% compared to Germany 10% -17%.

The HORECA sector mentioned above highlighted a paradox from which the necessary lessons can be learned. Being a sector used in normal times, with employees paid in the grey area of comfort, with minimum wages on the economy but with substantial earnings from tips and non-tax sales, it reached the pandemic period to not be able to capitalize. The events, which used to be the heart of the sector, were banned or very little allowed.

Criminal activities - prostitution and drugs, have been affected by regulating the physical distance and monitoring the movement of people during peak pandemic periods. If before the pandemic there were over 40 million practitioners in this old sport (Jordan, 2020), of which Romanian women held a record in Western Europe, after and during its period the number decreased significantly, so that by the end of 2020 there will be a recovery. However, the lack of financial resources for these people also has a negative effect, this situation exposing them to the forced practice of needs, implicitly to their position as carriers of the virus.

According to mediafax.ro (Jordan, 2020), sex workers were forced to give up this activity due to the risk of infection, and due to the illegality of work they did not obtain any technical unemployment benefits.

With regard to drugs, the situation is equally contradictory. If in the past physical channels of drug traceability were formed, according to the European Drug Report – 2021 (EMCDDA, 2021), the crisis started in 2020 significantly affected the entire traceability from production-traffic-distribution-consumption.

The population-induced drug challenges affecting public health and contributing to social insecurity have been doubled by those of the spread of coronavirus, in a state of emergency with a subsequent negative setback due to the interruption / reduction of health care in favour of the fight against Covid-19. In 2020 globally the number consumers amounted to about 275 million compared to the previous level of 269 million, the perception being that the danger is lower than the crown of the virus.

With regard to the tax fraud during the pandemic, the effect would also be to the detriment of the underground economy, with certain exceptions. Due to the pandemic, for tax evasion-prone economic sectors, the actual revenues obtained as a result of the reduction or cessation of activity were insufficient to cover debts, which led to their registration and taxation while expenses remained high.

Naturally, there were exceptions such as the construction sector and Brico sales, which saw increases in sales, and possibly indirect influence, due to the more free time of the population and household activities that are not declared and registered.

The use of cash as little as possible, as a vector for transmitting the virus, and the use of electronic banking transactions, has greatly reduced money laundering, and it is easy to check the source and bank traceability of money.

However, an activity in the underground economy can be said to have flourished during this unfortunate period, namely corruption. Corruption is not a new phenomenon, it has existed since antiquity "the notion of corruption comes from the distinction made by Aristotle between political constitutions that are «correct» or «just» because they represent the common interest, and those that are «wrong» or «perversities of the correct forms», because they take into account only the personal interest of those who enact them. Aristotle observed that the real purpose of the political community is for each member to live a good life." (Barker, 1948, p. 130)

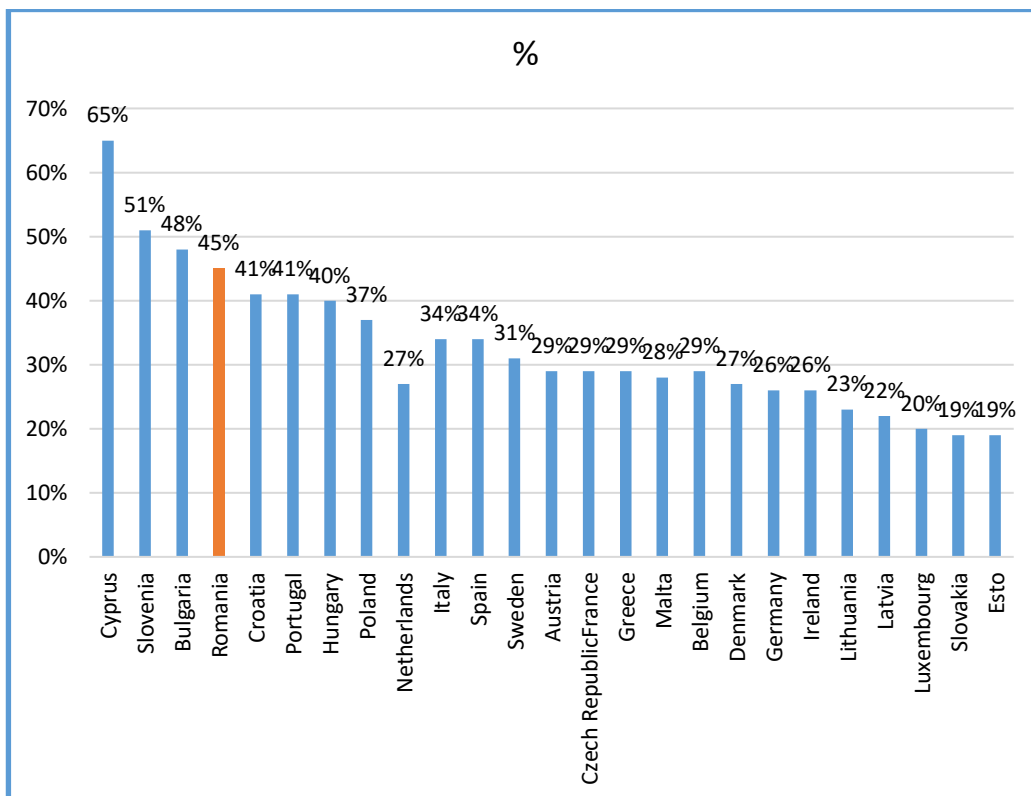


Figure 1. Corruption on the rise, by country

Source: Transparency International (Global Corruption Barometer EU: People worried about unchecked abuses of power, 2021)

Corruption may have manifested itself at both the seemingly legal institutional level and the illegal personal level in the form of bribes. The amounts in the form of bribes can be high for public procurement of consistent values, but also small, for example for priority medical services due to the insufficiency of the medical system to cope with patients.

Corruption seen as “a behavior of public officials who deviate from accepted norms, to serve particular purposes” (Huntington, 1973, p. 59) is confirmed by the rush for money generated by the crisis of drugs and products needed to combat the pandemic.

According to media reports, the sale of masks, medicines and anti-pandemic health products was a real El Dorado of Romania. The purchases at fabulous surcharges made by UNIFARM are known, as well as all over the world, due to the elimination of the normal filters for controlling public procurement and the intervention of politics in the health crisis.

In this international pandemic context, the risks of corruption have been greatly accentuated worldwide, having as favorable causes the urgency, the restriction of freedoms, the infusion of important resources in the economy and last but not least the interest of Pharma.

3. Conclusions

In conclusion, the pandemic generated by the SARS-CoV-2 virus, both globally and nationally, has had various influences on the underground economy, from effects more favorable to the underground economy related to the public sector and more unfavourable to that related to the private sector and population.

According to a recent World Bank report (*Eradicarea corupției în mijlocul pandemiei este mai importantă decât oricând, afirmă un raport recent/Eradicating corruption in the midst of the pandemic is more important than ever, according to a recent report, 2020*), although huge sums have been spent during the pandemic, the population and small businesses are becoming increasingly impoverished, a situation that requires a rethinking of the entire system to combat the underground economy, combining classical methods with new advanced ones, including with regard to the bodies implementing these methods and the necessary means of control.

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