

The social embedness of the underground economy

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Economic activities mean not only official activities but also the activities that belong to the so call underground economy. In this paper, I try to define the sphere of underground economy and to reveal the aspects of informal economy as part of it. Informal economy means those kinds of activities, which have predominant non-negative effects in the economic life of a country. There are several cases when informal activities belong to traditions or even culture and not to pure economy. But, if these kinds of activities are used as special events, it is possible to have a positive and stimulating role in the development of the areas where they are present. I try to reveal in this paper that several informal activities created very strong liaisons between members of small communities of Almaj Valley, liaisons, which create a process of social identification.

Keywords: informal economy, social identification, social and economic development

1. Introduction

A strong society can create a strong economy more often than a strong economy can create a strong society. Strong society means good and equitable rules, indiscrimination and equal access to resources and equal treatment in front of law. An economy will develop successfully in conditions offered by this strong society. All developed European countries have strong economy, Germany is the first economic power in the European Union, the basis of what is the fact that its society is strong. On the other side, there are many countries with developed economies, like Saudi Arabia or other economies based almost exclusively on extractions of natural resources, but society does not offer a real support for that. Unfortunately, Romania is a country characterized by a weak economy and society. Communism created certain specific rules and these rules function even today. These rules keep undermining normal human activities. All fields: economical, social, political and cultural were dominated by inadequate rules in time and space. Nevertheless, the essence of Romanian culture was not altered and it creates the ground for the reconstruction of this country.

Society affects economy through different aspects: economic structure, strong specialization in some economic fields, and the non-existence of some specializa-

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tions. The characteristics of society must influence the characteristics of economy. It is a wrong direction to import a successful structure of economy or only some parts if society is not prepared to accept and integrate this new structure in one who can develop the own economy and implicitly the society, but the worst direction is the lack of importing the elements of progress.

Economy is a social activity so relations in economic fields are social relations and the quality of these relations influences the quality of a society (during the times for examples: relations between masters and slaves, relations between owners and workers).

2. The underground economy

Economic reality means the existence of activities that belong to official economy, but it also means the existence of some activities that belong to an unofficial economy. In the specialized literature there are a lot of terms used to define this unofficial part of real economy. I cite some of these terms: bazaar economy (Geertz 1963), parallel economy, black economy (Smithies 1984), informal economy (Hart 1973), underground economy (Feige 1989), shadow economy, second economy, household economy, hidden economy, clandestine economy, unregistered economy, subterranean economy, criminal economy. I decided to use the term "Underground Economy" because it refers to some legal activities (such as coal extraction), but the term can also suggest some illegal activities (activities, which can undermine official activities). The aspects and characteristics of underground economy must be revealed because the targets of economic development of each country and especially of transition countries can become potentate with the help of efficient measures to combat the negative impact of underground economy in economics, politics, society and culture. Every economy has some strong sectors, or some sectors with high potential and the role of government is to encourage these sectors through political decisions. At the same time, there are some sectors of economy that create negative externalities (for example pollution industries) and government policies must discourage the development of these sectors. Nevertheless, there are cases when a government does not apply a discouraging policy owing to an inadequate structure of the economy, and the renouncement of some activities (in principal industrial activities) can create many social problems, the worst social problem being unemployment. The rise of unemployment can create a ground zone for the development of black labour, and that can contribute to the expansion of underground economy. Economy influences governmental policies starting from elections, when parties need funds to promote their image and the images of candidates. After the elections, politicians need funds to maintain the political power and all the privileges offered by their positions. In transition countries there is a specific characteristic: state property and the necessity of privatization create huge economical advantages for the leading class.

There are many possibilities for politicians to interfere with the state enterprise and those usually create losses for the enterprises and a redirection of financial fluxes to certain persons or firms. Economy may be used as an instrument to pay back some obligations that were assumed before the elections e.g. coalition between a great party and a small one or subsidies for certain economic agents. Governmental policy represents a principal means to influence economic activity and an inadequate policy can often create more losses than the gains of an adequate one. Governmental policy can also be used as an instrument to increase the wealth of the clients of a party, to pay the ones who created negative images for other parties in electoral campaigns or to diminish or even exempted to the tax-payment obligations. Europe will be the principal economical and cultural force in the world if it solves the problem of the unity of diversities and if it treats firmly and unitary the diversity of problems related to the negative effects of some phenomena. The activities that belong to underground economy can be very various. I have already mentioned that these activities can be legal or illegal activities, but they can also be semi-legal, or at the edge of law. Lippert and Walker (1997) mentioned, for example, that illegal activities can be represented by frauds, prostitution, the production or traffic of drugs, trade with stolen goods, smuggling, illegal gambling (all these activities imply the existence of monetary transactions) and the production of drugs and stolen goods for own use, barter with stolen goods, drugs, smuggling (these activities do not imply monetary transactions). Legal activities can be represented by unreported income from self-employment, income obtained from unreported activities related to the legal production of goods and services, employee discounts, fringe benefits, barter of legal services and goods, all do-it-yourself work and neighbor help. Semi legal activities can be the activities related to the politic influences according to some state-financing contracts, the nominations of incompetent persons or impostors in state or regional – decision-making positions. All undeclared activities like do-it-yourself activities, and legal activities made in collaboration with other persons, or the barter with legal services or goods can be called Informal Economy.

The factors of influence in appearing and developing underground economy are: the burden of tax (direct taxes and indirect taxes), the burden of social security contributions (occupational and retirement pension, health insurance, unemployment insurance), the intensity and implementation of regulations (regulation by law, regulation by decree or ordinances, licenses requirement, strength of law – severity of penalties, frequency of control, the unitary application of law in similar cases, disclosure probability-, and regulatory discretion), social transfers (income support or negative income tax, unemployment assistance, unemployment benefits), the specific conditions of labor market (unemployment rate, working time, the weight of labor force in total population), the importance of the public sector in economy (government efficiency, bureaucracy, transparency of government decisions in the public sector, public infrastructure) and corruption (state corruption and small corruption).

An increase in the size of underground economy is likely to result in reduced state revenues, which in turn reduces the quality and quantity of public goods and services. Ultimately this can lead to an increase in tax rates for firms and individuals, quite often combined with deterioration in the quality and administration of public goods such as internal security and hospitals provided by the government.

I can say that a large part of the income earned in underground economy is immediately spent in official economy. This can be a stimulation factor for official economy and may lead to additional overall economic growth. The growth of underground economy therefore affects everyone; even those who work in official economy or have activities related to underground economy.

Informal economy can have other types of influence factors. One of these factors can be the necessity of survival in difficult conditions. Another factor can be considered the geographical and historical conditions. For example, Romanian territories are situated at the crossroads of international paths of the exchange of goods between the West and East or between the North and South, also these territories mean the border territory between two types of civilizations (occidental and oriental civilizations) and that thing created some uncertain conditions for people who live here, in some periods they belong to occidental powers and some periods they belong to oriental powers (a special reference to Turkish Empire). Another factor of influencing informal economy is cultural and traditional specificity. Arbitrary leadership, laziness, obeying to the representatives of power and the spread of bureaucracy can contribute to the development of informal economy. Another factor is the degree of autonomy and flexibility of participants in the informal sector. Participants of the informal sector can find in this sector more freedom, autonomy and flexibility than in the official one. Another factor can be religious ethic. Some authors considered that a specific form of religious ethic could contribute to improving work incentives. On the other hand, another specific form of religious ethic (or non-ethic) diminishes the inclination of people for hard and productive work. Another factor consists of political turbulences that contribute to an attitude for working. In communism, the attitude to work was affected negatively because the differences in payment of a hard worker and a lazy worker were small. After 1989, in the transition period, the source of wealth was not work, but the special relations with the representatives of power (state or political power). The trust of Romanian people in the government was and is reduced. The problem of trust is very difficult to solve, because people have lost their trust in other people (especially in unknown people). Another factor is the phenomenon of "bad laws" or "missing good laws". Some laws or other types of measures are made only for few persons, with the purpose of increasing the wealth of these "few chosen". The non-unitary application of some laws can create the effect of distrust in legislative institutions and activities. Last, but not least, the (historical) problem of corruption creates strong barriers to creating legal associations of persons or capitals and, after that, to functioning in a normal market economy. Corruption is a serious threat to democracy. It weakens and eventually de-

stroys the moral foundation of the political system. By altering the notion of equality before the law, bribery and corruption undermine the building of trust between citizens and public officers. The problem is particularly severe for transitional democracy, because it creates an impediment to the consolidation of the rule of law. At the same time, it is well known that a link between corruption and poor economic growth exists. High levels of corruption are associated with low levels of income and growth. Corruption reduces the efficiency of industrial policies and encourages negotiations through unofficial channels, thus violating regulations and law. Additionally, foreign direct investment is discouraged since corruption implies extra costs. Both the institutional and economic consequences of corruption make this problem a central priority for new democracies and emerging economies. Given the complexity of corruption, policies aimed at reducing its influence should consider the particular economic, institutional and social environment of the host country. Though it would be difficult to assert the direction of causality with certainty, there are indications that the gains to firms come as a result of capture. First, bribing to influence rules and laws is more likely to be a voluntary transaction between the firm and state officials and, hence, unlikely to be a form of direct extortion by state officials. Thus, presumably, firms would not engage in it unless it brought clear advantages. Second, the gains to capture are strongly influenced by the nature of the broader environment in which capture takes place. Capture is associated with specific gains to captor firms only where some threshold of capture has been reached in the country. This strengthens the view that capture actually generates such gains. We can mention also the habits, historical evolutions, mentalities, the level of education like influencing factors in the appearance and development of the informal sector.

3. Watermills on the Rudaria Valley: a case study

Informal economy can be approached as the parts of economy that are officially unregistered, but the principal aim is not to avoid official registration because the activities implied exist before the necessity to register them appears. These activities became activities with a preeminent traditional characteristic and enter in the culture of the region. I can mention here activities like micro farms of animals (especially sheep and cows), farms which are not organized according to the actual laws, another activity is the tradition of pork scarification just before Christmas, the distillation of plum-brandy (named *tzuica*), the hand-making of carpets in winter (using the wool of sheep), the building of houses in a region (when almost the entire community of a village, for example, voluntarily contribute with labor force or even with raw materials). I will refer here especially to the production of wheat in watermills.

Twenty-two watermills with horizontal wheel and radial scoops located in the Rudaria Valley, have been preserved in Rudaria village (the name of the village

changed in 1972 to Eftimie Murgu, an important revolutionist from 1848). Once, as the villagers assert, there were over forty of them. Strung like pearls downstream the river for almost three kilometers, inside and outside the village, the watermills show great experience and ingenuity, reflected in their technical conception and construction. They proved to be remarkably creative in using the poor flow of the river Rudaria and its shallowness (as the difference of level is not significant).

Seizing the topographical conditions, the villagers cleverly corrected the disadvantages of their land by penetrating tunnels in the hard rock (the group who owned the Tunnel mill said that the tunnel was constructed by a bad man who killed a beautiful girl and a goddess punished him to penetrate the hard rock with his own hands), obstructing the river by lumber dams and also placing the watermills on both sides of the river and thus the admission of water being realized through both sides of the hydraulic wheel-shaft (the traditional, usual side for admission is the right side). Throughout centuries and generations the villagers from Rudaria built an everlasting mills complex, both monumental and picturesque as well as ingenious, efficient and able to supply with ground grains hundreds of families that are now living there and this is not only an economic activity but also a social one, and even a cultural one, an activity which implies socio-cultural relationship.

In the local dialect the watermills are named after the person (or family) that founded them. The watermills from Rudaria are built and used in the same system as all the other watermills located in the south of the Carpathians, an associative system by several families which contributed to the economic survival of the people who lived in this area.

Joint property was formerly a solid social structure, economically very efficient, and it was specific for the villages located at the foot of the mountains and in the south Carpathian plateaus area. This type of property, inherited from the Dacian and the Daco-roman communities, was depreciated after 1945 towards dissolution, because the associative relationships and the common law of shared properties were damaged. In time, joint property turned into a completely inefficient structure economically compared with other forms of property, but this joint property contributed to the creation of specific social relationships between the members of communities. In the communist era, authorities tried to destroy this kind of social relationship because they represented a potential danger for the exclusive masters of social relations (the new class or nomenclature). But, as I mentioned above, one of the factors that contribute to the appearance and development of informal economy was the necessity of survival in hard conditions. The social groups existing in Almaj Valley acquired in time a strong ability to resist different dangers and the abusive compartments of communist authorities were not the most dangerous. In some situations, when peaceful comportment was not enough to resist repressive authorities (represented especially by the members of political police – Securitate), the specificity of social relations permitted the creation of resistance groups, which fought even with weapons against those repressive authorities. They were defeated and the

members of these groups were executed, but their fight contributed to an increased peaceful, tacit not obvious, resistance to the authorities' abusive comportments. This kind of resistance made the relations between the members of these communities stronger and stronger, and the authorities never defeated the spirit of the social groups. It was interesting what happened in the agricultural sector. While production obtained in official agricultural cooperatives of production (CAP) was at a low level, the production obtained in the small surfaces of land was obviously higher because countrymen were paid very little and often they were not even paid (they were unpaid because they were forced to work for obtaining the permission to work their own small surfaces) and all harvestings of CAP were abusively transferred to state property. The communist era created a strong conviction and that conviction was that the state is an enemy, and with an enemy it is almost impossible to collaborate. Also, another conviction of people was that labor in the state sector must be done with superficiality (there was an interesting proverb which underlined that: who is diligent and hardworking, is either stupid or does not think), and if you can, you must steal something from your workplace (and this is not an informal activity, it is underground activity). These convictions created new premises for avoiding official activities and developing the activities that belong to informal economy and even to underground economy. The majority of people did not think about the means of improvement their work capabilities, they thought about the ways of acquire some goods without payment. In a lot of cases, they found the ways which permitted them that, and step-by-step they learnt how to work less and how to earn more. Without an increase of work productivity, these behaviors have driven to a catastrophic economic situation at the level of the country.

After the political and economical changes in 1989, Romania was an ill society, affected by a lot of viruses. I mentioned above only few of them, but the impact on people's minds is far from diminishing. The process of transferring the firms that belong to the state created new sources for losing confidence in state comportment and also in representatives of the state. That affected even the perception of joint property. Many watermills were abandoned and the ruins are threatening the entire site of mills complex. The danger of losing these original monuments of millenary folk technique was imminent. The owners' very limited financial power and the loss of confidence in the characteristics of joint property made the rehabilitation and maintenance of watermills very difficult to realize without external intervention. The specialists of the National Complex – "ASTRA" Museum, Sibiu, Romania, fortunately made that intervention. These specialists have been involved in and realized the restoration of these monuments of traditional technical civilization. They consider that "the water mills located in this area are a living testimony of the ancient, Oriental inventive spirit (the watermill with horizontal wheel known as the "Oriental" or "Greek" type, found in Asia Minor in the 2nd century B.C.), of their spreading in the Eastern-European area (in the Balkans and in the south of the Meridional Carpathians area) and of their bi-millenary permanence in an area strictly delimited

by the “Roman” or “Vitruvian” type of watermills specific for Western Europe. Thanks to these workers with true knowledge, a veritable cultural heritage can be presented to the following generations and proves that human ingeniousness can be presented to other people.

The people who belong to the area of Almaj Valley (it is possible that this name, Almaj, has Hungarian roots from the word *alma*-apple, long time ago in this valley existed a lot of culture of apple) have appropriate and similar behaviors and they created several specific life and comporment norms. Sometimes the members of groups think like a single individual, not like more individuals. The groups of people acting in this geographic areas are often rivals (of course in the peaceful sense of rivalry), but they also cooperate in order to realize a greater common purpose (like building houses). These kinds of economic and social collaborations were losing their original values, because the dangers of transition from socialism to post-socialism threaten the importance of joint property and activity. If in socialism the enemy was well known and the fight against it was the principal means of collaboration, in the transition the enemy hides in every member of the community. A lot of models are promoted in the media. And these models are, almost unanimously, negative models. If you want to get rich it is not enough to work hard and to have brilliant ideas. You must be situated in some specific political zone or you must spend a lot of time and money to be perfectly correct, otherwise the authorities will punish you.

All these specific activities can contribute to realizing an improvement of economic life in the region. Many occidental tourists, for example, never saw this kind of activities and the organization of some registered agro-touristy activities can create sources of income for the people of the region, and may also create some bridges above time and between civilizations, because industrialization had not a strong impact on the region, and tourists can see how people can work with ancient tools (some tools are even thousands years old) in the computer era. The appearance and development of knowledge society can create some kind of reservation of cultural activities or can improve the material standards of people living in this area, or both of them. Anyway, the informality of activities will not disappear in the immediate future, because the roots of these activities are too old to be eliminated in an easy way. Already the informality of these activities is a cultural part of human life not only a part of economy. The interference between economy and culture is very pregnant in this case, and workers must find a path to promote and develop the areas, which can really show how people were during the evolution of human society, but at the same time they can find a solution for improving the material situation of people who live in these areas. Knowledge society will even improve the characteristics of social groups and will create a new perspective for people who care about their past and dream about their future.

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