

RELIGION, ETHNICITY AND FAMILY NON-ECONOMIC FACTORS OF INFLUENCE OF THE UNDERGROUND ECONOMY

PhD Student **Corneliu Sorin BAICU**

"Ștefan cel Mare" University, Suceava, Romania
baicu_sorin@yahoo.com

Professor PhD **Cristian Valentin HAPENCIUC**

"Ștefan cel Mare" University, Suceava, Romania
valentin@seap.usv.ro

Abstract:

Most of the times, the etiologic perspective on the underground economy is given by the economic, quasieconomic factors and issues concerning the reference of economic subjects to the criminal and fiscal standard. The noneconomic factors such as religion, ethnicity and family were either minimized or constituted the object of summary analyses. The comprehensive evaluation of the phenomenon "underground economy" cannot be made in the absence of taking into consideration of all determinant factors. The composite and multidimensional nature of the underground economy is the result of action and manifestation of economic actors seen as individual or group entities and in which family, ethnic groups (minorities) or religion play an important role. The concepts of family, ethnicity, religion function by reference to norms, codes or economic, social or cultural standards. The violation, tampering and misappropriation of the meaning of some norms can have social, legal and last but not least economic consequences. In our opinion the fiscal-economic, institutional and law-marking consequences that generate and sustain the underground phenomenon could be explained and understood better if they were deciphered in a manner closer to the social context depicted by family, ethnicity and religion. Having as background the "underground economy", some concepts such as fraud behaviour, tax morality, ethnic conflicts or entrepreneurial development (by formalizing informal activities) can be interpreted with more pertinence through analysis tools: family bonds, religious habits and characteristics of ethnical groups. This paper represents a pleading for an integrative, multi causal approach of the underground phenomenon.

Key words: underground economy, tax morality, economics of religion, entrepreneurial development, amoral familism, ethnic conflictual behaviour.

JEL classification: O17, A12, Z12, J12, H26.

1. INTRODUCTION

The underground economy has won after long controversies the right to exist as a sub-branch of the economic science, the recently acquired status is the result of multiple tries of conceptualizing and theorizing (Baicu, 2014). The definitions of the underground economy are more diverse and reflect the points of view of authors and researchers: "The underground economy represent the entirety of the economic activities that are realized at the edge of the criminal, social or fiscal law or that escape (massively) to the inventory of national accounts" (Pestiau, 1989); "the totality of unofficial, commercial and noncommercial economic activities, conducted in an organized form that do not constitute the subject of the evidence of a state organism, legal or illegal, dangerous or not dangerous to the economic and civil society" (Voicu, 2012).

A holistic perspective and a thorough analysis of the underground economy's anatomy cannot be made in the absence of the analysis of all factors that generate and maintain insidiously this economic rod. Taking into consideration some noneconomic factors like religion or ethnicity constitutes one of the most efficient modalities to evaluate the underground sector as accurately as possible.

Referring to the norms (personal, individual, social), the integrative, multi causal approach and understanding of relationship citizen (tax payer)-government (state, authority) represents a serious condition in understanding the underground area (Baicu and Hapenciuc, 2015). The context

given by the analysis vectors family, religion, ethnicity and multi causal interaction with the underground economy represent the best analysis ground of this study.

Taking into consideration the methodological approach, combining the deductive aspects with inductive ones and considering the controversial relationship between noneconomic factors and the underground economy, this paper falls under the category of conceptual research.

The paper is focused on the three noneconomic factors: 1. The ethnicity factor underlines the importance of the underground economy as far as triggering ethnic conflicts is concerned and the identification of entrepreneurial opportunities in the transition countries; 2. The religion factor, religiousness and the relationship church-state can lead to larger or smaller informal areas depending on the religious specific; 3. Family factor through family bonds, family power and by understanding of "the mother's purpose" inside the family can influence the social capital, the trust in public institutions and economic results.

2. THE ETHNIC FACTOR

The underground economy can represent a generator model of ethnic conflicts. Within the pale of the approaches of this type it is examined the role that the underground economy has in initiating the conflictual ethnic behaviour. The informal sector and specifically, the illegal activities affect the inclination of the minority groups towards initiating violent actions that result in the damage of the smooth functioning of state institutions. The underground economy can be used as an analysis instrument by taking into consideration its forms of expression, to evaluate the causalities and effects on the conflictual behaviour.

Defining a conflict as an ethnic conflict can cover a wide range of behaviours and factors. Most of the times by conflictual ethnic behaviour we understand a conflict between common or public groups that identify themselves from an ethnic point of view rather than by social class, geographic position etc. By reference to the underground phenomenon, the terms minority and ethnic are used inter exchangeable. By taking into account minority rights, ethnic tensions can be reduced, social integration can be promoted and as a result it can be obtained a decrease of the underground economy (Thießen, 2010). Minority refers to being part of a group that is outnumbered in a civil society. The conflictual ethnic behaviour consists in several forms of protest or revolt in which at least a part of the dispute is an ethnic group. The multiple perspectives of the concept-term ethnic had as a result understanding the conflictual ethnic behaviour in several ways. Thus, for example the Catholic-Protestant conflict, the conflicts between black and whites are conflictual ethnic behaviours. The classification of conflictual ethnic behaviour categories in: religious, racial, linguistic or sectarian is the most widespread. At the basis of this classification is the idea that group identity (real or imagined) is the foundation of the conflictual behaviour. Some theories regarding conflictual ethnic behaviour start from the premise that security issues exist. The security of a group is threatened by the lack of access to resources, the lack of economic opportunities or losing the rights and freedoms sanctified by the law. The access to resources can be missed due to the political actions of the state, of other competing groups or due to the general lack of resources in society. The competition between groups is in most of the cases a good thing for development and for a productive and innovative economy to the extent in which it complies to the legal and moral norms. In the event in which competition is bias or illicit in the favour of a group or a set of groups and another group or set of groups is intentionally or unintentionally disadvantaged, the conditions for increased risk of conflict are created.

The variables: ethnic, ethnic conflict, conflictual ethnic behaviour as well as the political and economic aspects specific to the underground economy had generated in the area of research the premises of some construct-theories or explanation models of conflictual ethnic behaviour.

The theory conceived by Joseph J. St. Marie et al. regarding the underground economy and its effects on the conflictual ethnic behaviour revolves around the idea that an increase of the underground economy creates the conditions in which the conflictual ethnic behaviour becomes much more probable (Joseph J. St. Marie et al., 2006) [1]. Consequently, an increase of the factors

that contribute to the development of the underground economy will determine an increase of the probability of manifestation of conflictual ethnic behaviours. The reasoning and basis logic of the underground economy theory as a factor of ethnic conflicts can be found in figure 1.

The theory states that a public sector is larger and larger or that several actions of the state on the taxpayers resources (official sector) such as bigger taxes or more burdensome regulations create the premises and the necessary incentives so that individuals (members of the ethnical groups) can develop a conflictual behaviour and to defect in the underground economy. States revenues will decrease in consequence of the underground economy's growth and the increased taxation will cause even greater increases of the underground economy. The result of increased taxation will consist in diminishing the public sector due to the fact that the underground economy makes collecting taxes impossible.

The model has some limitations: firstly, it does not establish the causality direction, the hidden economy determines the conflictual ethnic behaviour or the conflictual ethnic behaviour causes the hidden economy and secondly, the underground economy consists of a hybrid of legal and illegal activities and it is hard to determine to what extent these activities may result in an increase or decrease of the underground economy or the conflictual ethnic behaviours.

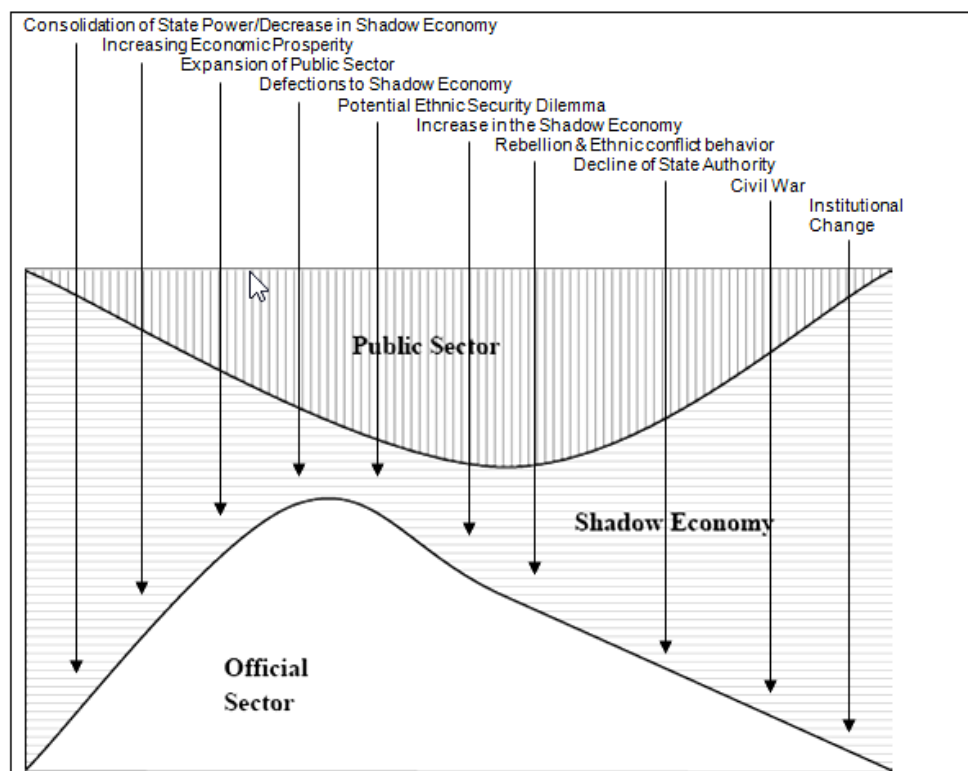


Figure 1. Diagram: Shadow economy model of ethnic conflict

Source: Joseph J. St. Marie et. al, 2006, p.11

Ethnicity can also be seen by the following elements-analysis criteria: 1.ethnic diversity; 2. entrepreneurial development (in the sense of outputs, inputs in the business sector); 3.underground economy. In some circumstances, the underground economy can contribute to the increase of opportunities, ideas and chances to engage in business thus increasing the number of individuals who aspire to become entrepreneurs and the ethnic diversity represents a positive factor for entrepreneurial inputs, both directly and as a moderator (mediator) of identifying development opportunities. The multi-level model realized by Pathak et al. targets the relationship between {recognizing opportunities} and {entrepreneurial inputs} for the transition economies and suggests that ethnic breach together with the dimension of the underground economy represents the mediators and moderators at an individually level in order to recognize business opportunities (Pathak et. al. 2013). In this context it can be said that ethnic heterogeneity in transition economies

can be a valuable factor of entrepreneurial input while informal economy makes easier the recognizing of opportunities.

It has been noticed in the contextual frame given by ethnic diversity that the underground economy moderates (in the transition economies) the effect of recognizing opportunities by increasing the probability of individuals to enter into entrepreneurship; as the underground economy increases in size, the positive effect of recognizing opportunities becomes stronger (figure 2). For the interaction {underground economy, at a national level} and {the opportunity of recognizing chances at an individual level} the underground economy is associated negatively with the risk to enter in entrepreneurship for the people with a decreased level of recognizing opportunities, but it cannot be said the same thing for those with a high level.

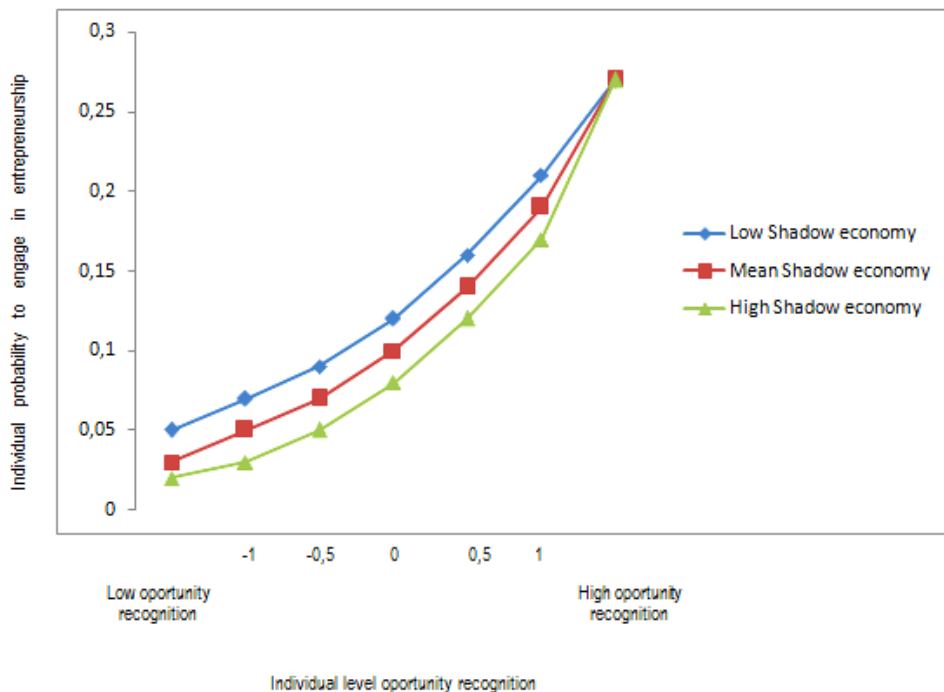


Figure 2. Interaction between Country-Level Ethnic Fractionalization and Individual-Level Opportunity Recognition

Source: Saurav Pathak et. al, 2013, p. 247

3. THE FACTOR “RELIGION”

There is not a more expressive quote belonging to a religious founder that can express the ethics of secular tax legislation than the declaration of Jesus in the Gospel after Mathew(22:21) “Render to Caesar the things that are Caesar's, and to God the things that are God's.” [2]. From this quote with a strong relevance for the internal ethic debates of religious communities it can be identified a significant fiscal-economic relevance. It is obvious that religion put its mark on the ethical convictions having an indirect impact on believers by shaping and influencing the preferences and economic behaviour. The connection between religion and informal economic activities have been supported indirectly in the literature through the analysis of the concept of fiscal morality (Torgler, 2006).

The relationship between religion and morality reveals a face of the potential of influence of the underground economy dimension. Studies showed that in the fiscal space, the overall picture is much more complex in the sense that religion has an impact beyond morality and ethics. Moreover, religions differ in terms of their precise ethical messages and have a different degree of flexibility regarding the secular laws; the proximity between religion and state differs according to the specific national conditions. A close alliance between religion and state can determine under certain

circumstances religious institutions to use their influence on their followers to protect the interests of the state.

Religion interacts biunique with the political economy. Seen as a dependent variable, the question that arises is to what extent the economic development and political institutions affect religious participation and faith; seen as an independent variable, the question that arises is to what extent religiousness affects individual features (work ethic, honesty etc.) and influences thus economic performance (McCleary and Barro, 2006).

Some studies showed that religious organizations seen as moral communities could act as intermediary control institutions between markets (formal and informal) and state in order to limit the specific activities of the hidden economy (Smoczynski, 2015). According to some authors it is considered that religion influences the economy, being viewed as part of the social ethos, along with cultural features, public attitude, corruption, urbanization etc. (Wan Jie Sim et. al, 2015).

Studies carried out by Heinemann and Schneider regarding the classification of the medium size of the underground economy depending on their majority religions revealed some interesting aspects (Heinemann and Schneider, 2011). Most of the dominant religions - at country level - correspond to a 30-35% range of the GDI. Exceptional situations that do not relate to this range refer to the countries dominated by Orthodox believers (with larger underground economies) and Protestants (with smaller underground economies).

The “caeteris paribus” hypothesis according to which higher the religiousness of the population is, the higher the underground economy of the country should be, has been confirmed in a series of analyses and complex researches (Schneider et. al., 2014). The countries that have more religious citizens have higher underground economies. It is presumed that religiousness and religious norms simplify informal transactions by delivering options or sometimes replacing the legal frame and contractual enforcement norms ensured by the state and its institutions.

The size of the underground economy should differ from a country to another depending on the specific type of religion. Protestant-dominated countries are associated with smaller underground economies in comparison to Christian-Orthodox countries. Also, all other religions seem to favour smaller underground economies in comparison to the Orthodox Christianity.

The stable relationship church-state can lead to smaller or larger informal economies depending on religion. The researches realized in this area are supported by the Religion and State Project (RAS). The research platform (RAS) provides information regarding the relationship between religion and state in more than 170 countries and its purpose is to offer general indicators and sizes that quantify the connection between government and religion [3]. One of the most important indicators is the religion-state index. On the one side, the relationship between the underground economy and on the other side the religion-state index, defined as the closeness between religion and state is represented in figure 3. We can notice that for the Christian countries, tighter connections between state and religious institutions tend to increase the underground economy (represented by the positive slope of the “Christianism” curve). For the Muslim countries and countries with other majority religions, closer ties have the tendency to reduce the underground economy (represented by the negative slopes of the curves “Islam” and “Others”. Despite the relatively mild tax ethics, the Islam is associated with smaller underground economies. An explanation of these results resides in the facts that smaller underground economies are rather the result of the closeness between Islam and the secular government. Secular and religious authorities have closer ties in Islamic countries and this proximity has a stronger effect on the underground economy in comparison to the Christian countries. The more religious population in the Muslim countries leads to a smaller underground economy and not the Islamic ethics as such.

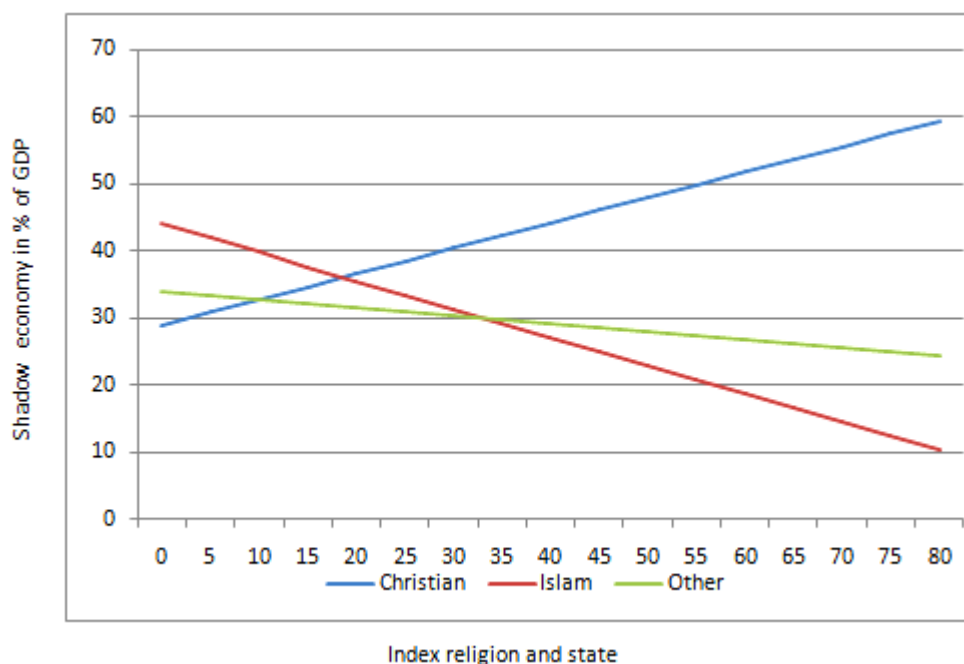


Figure 3. Relationship between the shadow economy and the closeness between religion and the state for the three broad categories of religious denominations

Source: Schneider et. al., 2014, p. 21

4. FAMILY FACTOR

A series of depth studies support the hypothesis that family ties should be mentioned among the main causes of tax evasion and implicitly the underground economy. Family-underground economy interaction context is given by political scientists, economists, lawyers and other specialists in the sphere of socio-human, who stressed the importance of family ties in explaining social capital, trust in public institutions, political participation and economic outcomes. Multidimensional approaches of the family generated a series of studies on the links between family and social capital and support the idea that {strength of family ties} is negatively correlated with {the quality of social capital, trust in public institutions, political participation, and economic outcomes} - (Alesina and Giuliano, 2010, 2011, 2014).

Analytical instruments like, social capital, public institutions, tax morality, fiscal behaviour led to a series of researches that have had as a finality relationship between the family and the underground economy. Family ties should be recognized as an important cause of the underground economy and tax evasion, as this influences the tax morality; societies where power family is very large, the quality of public institutions is low and this affects strong civic values individuals-taxpayers by modeling a particular behavior of noncompliance generator and formative of underground economy activities (Marè et. al, 2015). Interpretation of the relationship between family ties and the underground economy, involves a series of preliminary analysis on the importance of family, the role of mother and modalities for submitting social values.

Various current research analyzed the family as a vector for the transmission of social values emphasizing the role and function of the family as a model of cultural transmission (Kitayama and Cohen, 2010), especially for the transmission of social status and cultural features (Bisin and Verdier, 2010).

Family ties and family power have been described by E. Banfield in his studies on values and orientation of rural communities in southern Italy (E. Banfield, 1958). One of the concepts used (and which may assist in understanding informality) is the concept of *etos* (ethos) - defined as the sum of specific skills, ideas, standards and codes, which give a special character and individual group compared with other groups. The studies of the same author revealed that, groups and rural communities in southern Italy focuses on the family's financial interests and refusal to act together

for the common good. This type of social orientation is described as "amoral familism" and is represented by norms of conduct that regulates social relations. Accordingly with this concept the society is made up of concentric circles, family and relatives represents the inner circle, forming the nucleus, friends and associates form the next circle, random friends fall into the circle broadest s.a.m.d. The dominant feature of the principle of coexistence involves the ability of individuals to work together to solve public issues and breaking the link between any abstract principles (ideology) and moral behavior in everyday situations.

In light of the above we can say that the influences of family and family power over people tend to affect their level of political and civic participation. It therefore follows a low level (with a tendency to generalize) and a decline of civic engagement in public life confidence in the quality of political institutions.

Regarding the relationship mother and family ties, in certain societies the family power seems to depend largely on "the mother" in the family. Studies have emphasized the importance of maternal mentality in Italy and most countries in Southern Europe, similar characteristics clearly being found in China and the Hebrew tradition. "Maternal Mentality" tends to produce a specific collective attitude, which strengthens blood ties between family members, it involves a low level of civic and results in a low level of trust in people outside the family sphere and in public institutions.

The econometric analysis performed by Marè et. al. provides three key findings: first, provide empirical evidence evidence of a causal relationship between family ties and the size of the underground economy (for example, where family ties are stronger degree of economy is bigger); in the second, it provides empirical evidence of a negative relationship between family ties and tax morality; thirdly, confirms a positive relationship between the strength of family ties and the level of perceived corruption (Marè et.al., 2015). The positive relationship between family ties (the importance of family) and the underground economy (figure 4) underlines eloquent that with the increase of family ties, over the high level (= 1), increases and the underground economy.

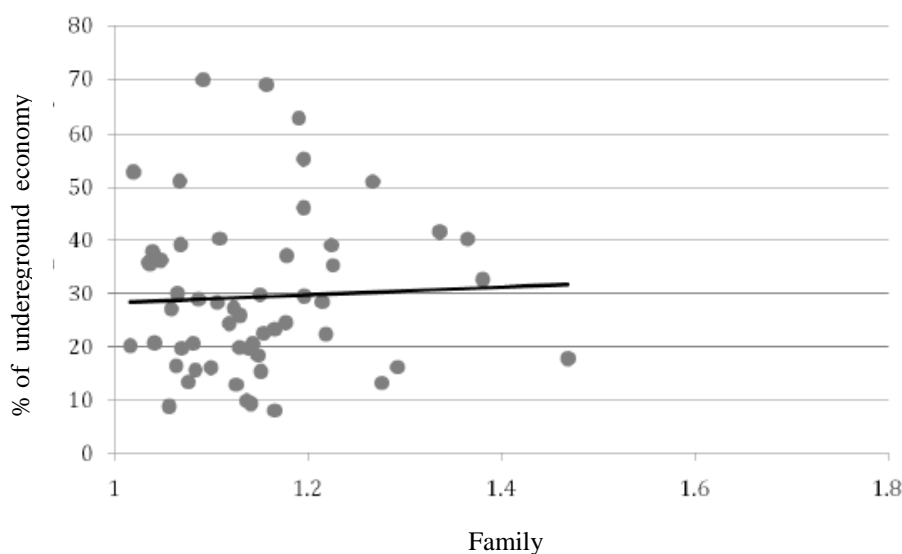


Figure 4. Relationship between importance of family and the shadow economy (measurement scale, 1 = high family ties), average 1990–2007

Source: Marè et. al, 2015, p. 42

In our opinion, one of the key factors that should be considered when developing policies to reduce tax evasion, is represented by family. We believe that the achievement of a balance between family trust and confidence in public institutions is a prerequisite for implementing serious social and moral values. Socio-economic reality had shown that these values greatly affects the tax morality, the size of the underground economy and corruption.

5. CONCLUSIONS

Multidimensional and multi causal approach of the underground economy are needed to reveal the complexity and importance of economic informality in a general context.

Religion can be a partner for secular government in ensuring a coherent regulatory framework and an acceptance (compliance) reasonable tax. In Romania, we pleade for a closer relationship, especially in the fiscal area, between the state and the Orthodox Church, similar to that between the State and the Catholic Church in western states. This approach would lead to rethinking the relationship between Christian morality and the morality of tax and would result in diminution of the importance of underground economy into Romanian society.

Recently research highlighted that family ties is one of the factors influence of the shadow economy alongside fiscal morality and corruption. For understanding and explaining underground economy, in addition to considering the etiological factors so-called "classics" such as tax burden, tax rates should take into account a number of other subjective factors, noneconomic, such as the power of family ties, tax morality, trust in institutions and politics.

Interaction ethnicity - underground economy underlines the importance of the informal sector in economic development by identifying business opportunities in the context of transition strategies from the informal to the formal sector. Misunderstanding of the state of the rights and socio-economic dimension of ethnicity in the context underground could lead to ethnic conflict behaviors with devastating effects on social and economic development.

In the absence of some complex connections with influence factors noneconomic or quasi-economic, the underground economy cannot be fully understood. The current paper aims to be an analysis tool in the application of institutional and economic policies that relates to underground economy, religion, ethnicity and family.

6. ENDNOTES

- (1) In this scenario (figure 1) we observe that the consolidation of state power and economic growth creates conditions for economic prosperity and reducing the size of the underground economy. Development and economic prosperity leads to expansion of public sector and creates so-called phenomenon of "institutional sclerosis" building the premises of "desertion" to the economy. The desertion towards underground economy and grievances of minority groups activated and bring to the forefront issues of ethnic security. The next steps of the model are reflected through: increasing the underground economy; developing a conflictual behavior because ethnic minorities are considered deprived of civil rights; a decline of State authority unable to restore order and socioeconomic balance, followed by civil war and finally an institutional change.
- (2) Asked by the Pharisees if paying taxes to the Roman Emperor is legal, Jesus gave his famous answer.
- (3) The Religion and State (RAS) project covering all countries with a population of at least 250,000 inhabitants and western democracies with populations smaller, for details see: www.thearda.com/ras/, (accessed 31.07.2015); SAR indicator (composite) - includes the following dimensions: official support or repressing religion of the majority and minority religions, religious rules, restrictions and the extent legislation based on religious doctrine; for details see: Jonathan Fox, April 3, 2004, Religion and State codebook, http://isites.harvard.edu/fs/docs/icb.topic107502.files/Fox_Religion_and_State_Codebook.pdf, (accessed 31.07.2015).

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