

# ANALYSIS OF THE IMPACT CAUSED BY BLACK EMPLOYMENT ON THE STATE BUDGET IN THE CASE OF A ROMANIAN TRADE COMPANY THAT FIGURES WITH 20 EMPLOYEES

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## **Abstract:**

*The present research aims to analyze the impact of black work on the state budget, as well as on the citizen. Over time, undeclared work has received a number of terms in its definition, such as: "black work", "illegal work", "work without legal forms" and "gray work". Regardless of the formula specified in the specialized language, its consequences are devastating for the budget of a country, having a significant influence on the collection to the state budget of the contribution due by the employee and the employer. Another important aspect is the impact felt on the citizen, limiting access to certain rights, respectively, to a fair employment contract, social insurance and pension. Therefore, in the short, medium and long term, the repercussions of this scourge are significant. For this reason, I will analyze the impact of undeclared work in the case of a company with Romanian capital, with 20 employees. The present paper aims to study the influence of informal work on the state budget, as well as the consequences of this phenomenon on the employee.*

**Key words:** employer contributions, employee contributions, black jobs, minimum wage, state budget

**JEL classification:** E24, H24, H26

## **1. INTRODUCTION**

Black work remains one of the key issues Romania faces in 2019. The labor market in our country is in a continuous dynamic and has a significant impact on sustainable development. The European Union defines undeclared work as "any paid activity that is legal in nature, but not declared to public authorities, taking into account the differences between the regulatory systems in the Member States." A number of **changes** have favored a number of changes work without legal forms. This study aims to list and discover their origin and what was the basis of their appearance.

A first aspect is represented by Romania's accession to the European Union (2007) and the opening of borders led to the access to education, to new, more complex and better paid jobs, compared to the conditions offered on the Romanian labor market.

Secondly, technology has made it possible to eliminate some jobs and set up new professions that did not exist before the transition period. *Bhattacharyya and Nair (2019)* believe that the emergence of these technologies in India leads to job loss, rising unemployment, and social upheaval. India benefits from a young, technically qualified workforce. It is noted that the emergence of automatic technologies created new challenges and opportunities for this category of workforce, and citizens were forced to accept the conditions imposed by the employer, namely, the acceptance of black jobs. Another important aspect, which favors illegal work, is the multitude of legislative changes, such as the fiscal pressure installed among employers. In order to keep them on the market employers are using a number of illegal alternative ways, namely undeclared work.

A third factor that favors this work without legal forms is gender inequality in the labor market, as well as the degree of poverty felt in certain areas of the country. According to the data published by the National Institute of Statistics, the North East area has the highest poverty level in Romania. In 2017, the North-East region and the South-West region recorded a poverty level, totaling 33.4%. In some regions, individuals are forced to accept undeclared jobs because of the acute lack of jobs. Beyond gender inequality, we can also relate to race inequality. *Maciel and Oliveira (2018)* deal with this subject among the population of Brazil and have concluded that people of color are forced to accept informal work and have a low immobility of work. (*Kamasak et*

*al.*, 2019) discuss in their study racial discrimination at the workplace in the United Kingdom. They find that the most prominent form of discrimination is found in services such as auto and home care, trying to find ways to combat this phenomenon. *Martinez (2019)* addresses in his study the issues of productivity and quality of domestic services, as well as issues related to the social inclusion of this segment. *(Couch et al., 2018)* analyze the transition of the labor force from 1996-2012 and the racial differences in the labor market during periods of recession. *Fouskas (2019)* confirms the presence of discrimination, referring to Filipino emigrants from Greece. Therefore, race discrimination is not a utopia, even if the data on this subject are limited, as it is not desired to publicize this phenomenon.

A fourth element, extremely important, worth mentioning, which favors undeclared work, is seasonal work, especially in areas such as: construction (day laborers, apprentices), restaurants (waiters, cooks) or makeup and beauty services. *Wiltshire (2018)* discusses the seasonal work of agriculture in South Africa and converges on the idea that these workers face limited working conditions, socially and materially. Job insecurity is another disadvantage of informal work, practiced in poor environments. Seasonal services are needed only when the volume of work is very high and, frequently, the employees of these services appear without individual employment contracts. This segment is an important component of black work.

Undeclared work has existed since ancient times due to the huge profit made by entrepreneurs, as well as for keeping them on the market. *(Yap et al., 2018)* studied the ratio of income inequality to the underground economy. The paper targeted 154 countries, from 2000 to 2007, and the study showed that the relationship between wage inequality and the informal economy helps decision makers to solve both issues efficiently.

From the macroeconomic point of view, the impact of undeclared work is a destructive one for the state budget and is felt by decreasing the level of collection of contributions due by the employee and the employer to the state budget. From a microeconomic point of view, the consequences are found in unfair competition on the market and an inefficiency of labor productivity.

## 2. REVIEW OF THE SCIENTIFIC LITERATURE

According to a statement belonging to EU Commissioner László Andor, for employment, social affairs and inclusion. "The consequences of undeclared labor not only imply that workers are exposed to dangerous working conditions and lower earnings, but also that it deprives governments of incomes and undermines our social protection systems. It is necessary that the Member States implement policies to discourage undeclared work or to encourage it to be transformed into work with legal forms and to work more closely to combat this scourge."

Following the pressure exerted by the European Commission, over time, a number of analyzes have been carried out, at national and international level, to transform undeclared work into declared work. This problem is intended to be remedied and for these reasons a series of tests are carried out.

In their study *(Williams et al., 2013)* they tried to respond, to what extent, the European nations take into account the European Commission's suggestions for adopting innovative political measures, transforming undeclared work into declared work. Research has shown that repression measures remain the main saving policies, in such situations, for most states. At the same time, *Renooy (2007)* is trying through his debate, new ways, to transform undeclared work in Germany and Belgium, into declared work, observing and deepening a series of innovative policies in this regard. Similar to the first study, the impact is insignificant, with an insignificant impact, among the labor force declaration, in relation to the sample chosen.

According to a press release from the European Commission, from March 24, 2014, following the analysis of the Eurobarometer survey on "Black work in the EU", it was found that gray work exists and is accepted, in Southern Europe, in - a percentage of 69%, by Central and Eastern Europe, in a percentage of 29%, while the inhabitants of the Nordic countries register the

lowest percentage of acceptance of work in black, respectively 7%. Therefore, we can conclude by stating that poverty "pushes" the poor segments of the society to resort to undeclared work, and the state's attempts to intervene, through its public policies, are most often derisory. In their work, Williams and Kayaoglu (2017) discuss the importance of monitoring the countries of Southern Europe, notably Cyprus, Malta and Portugal. The public policy of a state must be adopted, according to all the inhabitants of a state, as well as their needs.

Simultaneously, recent studies have shown that countries such as (Haiti, Equatorial Guinea, Sierra Leone, etc.), where poverty is at huge levels, the scourge of black labor and corruption is extremely present. Poverty in such areas is between 70% and 77% and life expectancy is extremely low (according to World Bank reports).

Fouskas (2018) addresses in his work the problem of migrants from Bangladesh, the Philippines, Nigeria, Palestine and Pakistan and explains that employment, in poor environments, has a significant impact on people's lives. They benefit from a limited level of access to medical services. It was concluded that between migration and black employment there is a direct relationship. The emigrants work in miserable environments (unskilled labor, street sales, household services, gardening) and have false social perceptions (they are not fully aware of their rights).

Thus, it has been shown that migration and the poor environment favor the emergence of undeclared work, and the challenge of the states of the European Union, including Greece, is to stop this phenomenon. From a social point of view, migration and black work instill in the human behavior the feeling of discrimination, respectively unequal conditions in the labor market. Pfau-Effinger (2017) aims in his work to discover out who the vulnerable are in relation to undeclared work. His study showed that these people belong to the poor European category, such as the example of the Republic of Moldova. The results indicated that from this category are included, mainly, people from rural areas, low education individuals, young people and pensioners. Therefore, as we study the phenomenon of gray work, we find a number of causes and effects, which have a harmful role for both the European Union and the other states of the world. This issue needs to be monitored and resolved by individuals or groups of people with decision-making factor.

Mladen and Drăgoiu (2013) deal with another topic of workforce, namely the *quality of work*. In their paper was evaluated the quality of work in the states of the European Union. The study showed that Romania records among the lowest performances of the employees in the labor market, an analysis carried out based on the education of the training of the Romanian workers. The wage level is one of the lowest in the European Union, and a part of the population receive the minimum wage. Unfortunately, public policies do not encourage continuous education and training in the workplace, which leads to poor and unmotivated employees due to extremely low salaries. The support policies of the Romanian state are almost non-existent, if we refer to the access to continuing education programs offered by the state.

Therefore, the poverty level and the low level of education compel the individuals from poor environments, to accept the undeclared work, but their living conditions and of the whole generation, of which they belong, remain the same. The chances granted by the state, or even by society, in such situations are insufficient. Therefore, the quality of work is another effect of undeclared work in our country.

Shapland and Heyes (2017) focused their study on the analysis of formal work and informal work. They concluded that informal work can be found in all the illegal activities of a state (prostitution, drugs), as well as in other sectors of activity (household work, child care, entertainment, catering, retail, construction, seasonal work). Agarwala and Chun (2018) discuss the issue of informal work, trying to find optimal solutions for transforming it into formal work.

**Table no. 1. Previous related studies on undeclared work**

Author(s)	Period	Sample	Methodology	Findings
Amorim, W., Fischer, A. and Fevorini, F. (2019)	2011-2016	RAIS databases from the Ministry of Labor and Employment of Brazil	Quantitative and qualitative method	The group of workers over the age of 50 is present in Brazil and the profile of this worker is predominantly male, with studies above the market average. Data

				show that Brazil is facing an aging population, and people over 50 will grow considerably in the next years
Ezzat, A. and Ehab, M. (2019)	2012	12.060 households with 49.186 natural persons, of which 9.948 employees answer questions about salary level, paid leave and illnesses, medical and social insurance, job stability	Multinomial logit model	Empirical results indicate that wages and stability are determining factors for job satisfaction. The results vary according to gender and for women, the characteristics of the workplace are extremely important, than the monetary compensation.
Pfau-Effinger, B. (2017)	2006-2014	Data provided by the Rockwool Foundation and the special Eurobarometer on informal employment. Unique and accurate data for informal employment in the Republic of Moldova	LFS survey	The results show that informal work is made up of rural workers, low-educated workers, young workers and older workers. the main reason is the lack of alternatives on the labor market, especially in rural areas
Renooy, P. (2007)	2002-2007	Innovative work policies: the service voucher policy in Belgium and the policy recommendations of the Harz Committee, especially mini-jobs, in Germany	Observation, descriptive, explanatory method	The study showed that such initiatives to transform illegal work into legal work for Belgium and Germany have a relatively minor impact on the overall level of undeclared work for the labor market in these states.
Williams, C., Windebank, J., Baric, M. and Nadin, S. (2013)	2010	Electronic survey of 104 government departments, trade unions and employers' organizations in 31 European countries and 24 monitoring in-depth interviews	Survey, interview	Repression measures remain the main approach in most nations

Source: Author work based on literature review

### 3. METHODOLOGY

The research methodology consisted of a systematic review of the specialized literature, related to the phenomenon of undeclared work, in Romania and in other member states (or not) of the European Union. The descriptive method was used, namely: the description of the phenomenon, the legislation, the contributions due to the Romanian state budget, both employee and employer. At the same time, we analyzed the situation of undeclared work in the European Union (2013-2015), as well as the prevalence of informal work, by activity sectors. *The explanatory method* concerned a practical case related to the impact of undeclared work on the consolidated state budget. The novelty of this study is the fact that the salary analysis is treated at the level of 2019 and shows all the legislative changes regarding tax deductions as well as the taxation itself. The study focused on a company, with Romanian capital that has 20 employees, all of them receiving money in black, monthly, worth 1.737 net lei. The impact analysis on the budget was analyzed over a certain period of time (one month, one year, 5 years, 10 years). The empirical result regarding the non-payment of the contributions due to the state for 20 employees, over a period of 10 years, brings to the Romanian state a prejudice worth of 638.987 euros. If this money were to reach the budget, the state could invest in infrastructure, investments (schools, hospitals), as well as social actions. Therefore, this example illustrates the consequences of informal work in relation to a single trading company, in order to simplify the mathematical calculation.

#### 4. UNDECLARED WORK IN THE EUROPEAN UNION

As can be seen in the table below, Romania has one of the highest rates of the underground economy, totaling 28% of GDP, and in the undeclared work chapter, the percentage is also quite worrying. I would like to point out that the analysis below is carried out in the period 2013-2015, as the data on the underground economy, the undeclared work are extremely difficult to quantify and obtain, both for the situation of Romania and for the situation of other countries from the European Union.

**Table no. 2. The situation of undeclared work in the European Union**

-The amounts are expressed in percentages-

Country	Shadow economy (in % of GDP), 2015	Informal work (% of extended labor force)	Envelope wages (% of employees receiving envelope wages EBS 2013)/% of gross salary received as envelope wage
Austria	8,2	19,7	2/10/
Belgium	16,2	10,5	4/5/
Bulgaria	30,6	13,2	6/30/
Cyprus	24,8	53	2/50/
Croatia	27,7	There is no data	8/35/
Czech Republic	15,1	12,5	5/25/
Denmark	12	11,5	2/1/
Estonia	26,2	9,8	5/40/
Finland	12,4	11,2	¼
France	12,3	10,3	1/6/
Germany	12,2	11,9	1/30/
Greece	22,4	46,7	7/10/
Hungary	21,9	9,4	6/20
Ireland	11,3	33	2/8
Italy	20,6	22,4	2/65/
Latvia	23,6	8	11/50
Lithuania	25,8	6,4	6/20/
Luxembourg	8,3	There is no data	3/11/
Malta	24,3	There is no data	There is no data
Lower Countries	9	12,6	3/5
Poland	23,3	21,6	5/20/
Portugal	17,6	22,4	3/100
<b>Romania</b>	<b>28</b>	<b>11,8</b>	<b>7/9/</b>
UK	14,1	12,2	7/20/
Slovakia	23,3	14,1	4/20/
Spain	18,2	18,8	5/100
Sweden	13,2	8,2	1/5/
UK	9,4	21,7	2/20/

Source: Data processed by the author based on information published by the European Commission, European Semester - Thematic file. Undeclared work, pp.4, Site: accessed on: 02.09.2019

#### 5. ANALYSIS OF UNDECLARED WORK BY ACTIVITY SECTORS, THE CASE OF ROMANIA

In Romania the black work is reflected in the usual behavior of the citizens, completely ignoring the devastating effects that this phenomenon produces. According to a report made by the National Institute of Statistics (2016) the most common sectors of activity, where undeclared work is increasingly present, can be found in the following areas, as follows:

- ◆ Trade sector;
- ◆ Agriculture sector;
- ◆ Construction sector: building, installation and assembly services;
- ◆ Transport sector;
- ◆ Education sector: meditations;
- ◆ Household sector: cleaning services at the client's home, child care services, as well as elderly care services;
- ◆ Hotel sector: restaurants and catering services;

The National Institute of Statistics (2016) published a report regarding the phenomenon of black work in Romania (number of persons and sectors of activity). Therefore, black work is a current and present phenomenon in Romania. Given the fact that, in Romania, we have a large number of people who work in the labor market, without having a work contract and without the employer transferring the contributions due to the state, we can detach the following: a first aspect is the certainty that this scourge exists in today's society and that the numbers are worrying. A second aspect is the immediate effects of black labor: illegality on the labor market, discrimination, and unfair competition, economic and social imbalances.

Black work is not an ineffable phenomenon, and for this reason I will list the main disadvantages of the employee and the employer, as a result of this scourge.

***The disadvantages of black work from the perspective of the employee, compared to the current legislation, in 2019:***

- ◆ Limiting access to social protection: old age pension, early retirement, disability pension, survivor's pension;
- ◆ In the case of an accident at work, they do not receive material compensation, from the employer;
- ◆ Limiting access to the child-raising allowance (85% of the average of the net income for the last 12 months). They will only benefit from a fixed amount which, at this moment, is 1.250 lei.
- ◆ Limitation of the right to free courses, in order to qualify, retrain or for professional conversion;
- ◆ Reducing access for sickness allowance, unemployment benefit, etc.;
- ◆ Restrictions on sickness assistance, death aid.

***The disadvantages of black work from the perspective of the employer, compared to the current legislation, in 2019:***

- ◆ If the employer has more than 5 employees without employment contracts, this fact is a crime and he will be liable, before the law, for his actions;
- ◆ Its actions lead to unfair competition and microeconomic and macroeconomic imbalances in the market;
- ◆ Commits the crime of tax evasion (theft from the payment of taxes and fees due to the state budget, in this case, the social contributions due);
- ◆ The impossibility of manifesting the control of the worker who performs the black work;
- ◆ Jeopardizing the company's image in front of its employees, suppliers, employees, etc.

## **5. LEGISLATIVE FRAMEWORK FOR THE YEAR 2019**

The minimum gross wage in Romania, in the year 2019, is 2.080 lei (for people with high school education), 2.350 lei (for people with higher education and at least one year old in the specialty of studies) and 3.000 lei (for people who have is active in the field of constructions), according to the Decision no. 937 of December 7, 2018 for establishing the minimum gross basic wage in the country guaranteed in payment.

In the practical part of this study we will explain the way in which the state is defrauded, by not paying the contributions due to the consolidated budget of the state. We will analyze the example of a company Alpha SRL, with Romanian capital, which is represented by 20 employees with medium education. The employer Alpha SRL promises to its employees monthly the sum of 3.000 net lei, as follows:

- 1.263 net lei (individual employment contract according to the minimum wage on the economy in Romania, in the year 2019, respectively 2.080 lei. They have employment contracts for the minimum wage on the economy for the average studies, respectively 2.080 gross lei).

- 1.737 net lei (without employment contract, for which the contributions due to the state budget are not paid, respectively the money will be received monthly “in the envelope”).

**Table no. 3 Contributions owed by the employee and the employer for the minimum wage in the Romanian economy, in 2019, respectively 2.080 lei Gross (1.263 net lei)**

-The amounts are expressed in lei-

Gross salary	Suma
Salary	2.080
<b>Employee contributions</b>	
Social Security CAS 25%	520
Health insurance 10%	208
Personal deduction (standard amount 465 lei, according to Art.77 of the Fiscal Code) , it is granted up to the salary of 3.600 gross lei (regulations at the level of 2019)	465
10% salary tax (10% tax is applied after deducting CAS from the gross salary (25%), Health insurance (10%) and Standard personal deduction amounting to 465 lei, 2080- (520 + 208 + 465) = 887. At this tax base we apply the percentage of 10%	89
<b>Net salary [2.080-(520+208+89)]</b>	<b>1.263</b>
<b>Employer contributions</b>	
Work insurance contribution, 2,25%	47
<i>For the employee to be paid with 1.263 lei net, the employer spends 2.127 lei (1.263 + 520 + 208 + 89 + 47) lei, which means 59.38% employed and 40.62% the state budget</i>	

Source: Data processed by the author based on the legislation in force (the Fiscal Code) regarding the contributions due to the Romanian state budget

**Table no. 4 Contributions owed by the employee and the employer for the sum of 1.737 lei Net (2.933 lei Gross)**

-The amounts are expressed in lei-

Gross salary	Suma
Salary	2.933
<b>Employee contributions</b>	
Social Security CAS 25%	733
Health insurance 10%	293
Personal deduction (standard amount 210 lei, according to Art.77 of the Fiscal Code) , it is granted up to the salary of 3.600 gross lei (regulations at the level of 2019)	210
10% salary tax (10% tax is applied after deducting CAS from the gross salary (25%), Health insurance (10%) and Standard personal deduction amounting to 210 lei, 2.933- (733+293+210)=1697. At this tax base we apply the percentage of 10%	170
<b>Net salary [2.933-(733+293+170)]</b>	<b>1.737</b>
<b>Employer contributions</b>	
Work insurance contribution, 2,25%	66
<i>For the employee to be paid with 1.737 lei net, the employer spends 2.999 lei (1.737+733+293+170+66) RON, which means 57.92% employed and 42.08% the state budget</i>	

Source: Data processed by the author based on the legislation in force (the Fiscal Code) regarding the contributions due to the Romanian state budget

## 7. RESULTS

Following the analysis of undeclared work in Romania, in 2019, we have reached the following results, as follows:

*The impact of black work on the employee* is reflected, first of all, by limiting due rights. Secondly, his monthly contributions, totaling 1.262 lei, are not transferred to the state and, consequently, will not be taken into account at the pension.

*The impact of black jobs on the consolidated state budget*

**Table no. 5. Impact of informal work by not declaring the sum of 1,737 net lei (non-payment of contributions due to the Romanian state budget) in the short, medium and long term for 20 employees**

-The amounts are expressed in LEI and EURO-

<b>The impact of undeclared work by not declaring the sum of RON 1,737 net, non-payment of contributions to the Romanian state budget, in the short, medium and long term, for 20 employees</b>	<b>LEI</b>	<b>EURO</b>
The prejudice caused to the Romanian state budget for the amount, 1.737 RON NET / employees / month	1.262	266
The prejudice caused to the Romanian state budget for the amount, 1.737 RON NET /20 employees/month	25.240	5.325
The prejudice caused to the Romanian state budget for the amount, 1.737 RON NET /20 employees/month	302.880	63.899
The prejudice caused to the Romanian state budget, for the amount of RON 1.737 NET / 20 employees / 60 months (5 years)	1.514.400	319.494
The prejudice caused to the Romanian state budget, for the amount of RON 1.737 NET / employee / 120 months (10 years)	3.028.800	638.987

Source: Author work

## 8. CONCLUSION

The present study showed the impact of black work, for not paying the contributions of 20 employees with the minimum wage on the economy, having average education. It was concluded that for the amount of 1.737 net lei / employee, granted for a period of 10 years, the state budget is prejudiced by the amount of 3.028.800 lei, respectively 638.987 euros. At the same time, the study has shown and presented the disadvantages of the employee, respectively at the pension he will receive an amount that does not correspond totally with the work performed and the remuneration received over the years. So, I tried to find out the main causes for an employer to turn to the informal economy. The main reason would be the high taxes owed to the budget, respectively 40% - 42%. A first recommendation, from the author, would be to lower this percentage by at least 5 percentage points, to encourage formal work. The second recommendation, from the author, is to grant of higher deductions, namely the elimination of the ceiling set at 3.600 gross lei. The third recommendation would be to employ people with disabilities to solve social problems. A final aspect, which I would like to bring to the discussion, would be a balance in the labor market between the budget and the private sector, the remuneration being in terms of performance and removing this discrimination between the two categories of labor employees. Therefore, if some of these recommendations are adopted by the governors, we will be able to reach a lower level of black labor, higher labor productivity, and a shift from informal to formal work.



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