

THE UNDERGROUND ECONOMY FROM THE PERSPECTIVE OF THE TRIAD ECONOMICS, SOCIOLOGY, PSYCHOLOGY

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Abstract:

Underground economy, in view of researchers, economists and jurists, is a theoretical complex construct, a phenomenon with profound social and economic reverberations. This study argues multidisciplinary integrative the sociological, psychological and socio-psychological approach of underground economy. The premises of this study are given by methodological individualism and rational choice theory through building in neoclassical version of Homo economicus able to interact in a multidisciplinary and multifaceted manner with the area of social sciences. For the nonce, we submit to analysis an integrative model of Homo Oeconomicus with Homo Sociologicus, aggregated with elements of social psychology. Synergistic effects of this integrative approach consist of the ability to give an answer as relevant on symptoms and forms of deviant behavior and thus to explain the development of underground economy. The finality of this paper, starting from the stated premises, resides in the explanation and analysis of deviant behavior in the framework of the morphology and causality of underground economy. Deviant behavior in the context of our analysis reveals the coherence perspective on the following issues: anatomy and etiology of underground economy (informal and underground activities, illegal labor, tax fraud, etc.); attitude towards rules, society and the state (tax mentality, tax morality, moral conscience); tax compliance or non-compliance (willingness to pay tax liabilities). This paper is intended to constitute a pleading for an interdependent approach, multi-causal and interdisciplinary of underground economy.

Key words: Economics psychological; Economic sociology; Tax behavior; Tax morality; Underground economy.

JEL classification: A12; Z13.

1. INTRODUCTION

Perspectives on the underground economy are often focused on one aspect of its development. From the perspective of our study, we found that most of the time, economists bases their analyses starting from neoclassical theories thus creating the conditions of quasi-unilateral approach. In generally researchers from social sciences field tend to focus on their scientific fields to the detriment of integrative and holistic approach. The underground economy can not be explained, as is natural in fact, only by economic theory but need an integrating vision. The research methodology of this study falls into the category of conceptual research considering polyvalent nature of the underground economy. Aggregation of conceptual research topic is based on the analysis of economics, sociology, psychology vectors and is made taking into account the internal logic of the research process. The methodology used combines in a dialectical manner aspect of deductive nature with ones inductive nature. In the first part of the study we aimed to the definition and contextualization an interactive model of Homo Oeconomicus with Homo Sociologicus able to reveal the specific human behaviors of underground economy. The second part of the study aimed to decipher deviant behaviors relevant in terms of fiscal and economic analysis using the tools of social sciences, sociology, psychology and socio-psychological economy.

2. INTERACTIVE MODEL HOMO OECONOMICUS-HOMO SOCIOLOGICUS - CONDITION OF ANALYSIS OF THE DEVIANT BEHAVIOURS SPECIFIC TO THE UNDERGROUND ECONOMY

The analysis of the underground economy from the macroeconomic perspective had sometimes proven to be simplistic and unsatisfactory argued. The introduction of social sciences in the attempts of resolving the underground economic equation had as purpose the explanation of several economic, social and institutional phenomena that accompany the field of hidden economy by studying and explaining the individual behaviour. Some researchers consider as imperative the macroeconomic analysis of the phenomenon by microanalyses and microeconomic and micro-sociologic theories. Another course of exploration consists in the interdependent approach at the border between economy and psychology by “the psychological economy” and “the behavior economy”. Some authors have showed that starting even reverse (emphasizing the biunique relations between the social sciences) - from the economy to the socio-psychology-that the application of the diverse economic models in the social sciences is useful to the analysis of the individuals’ reactions. In order to shape a coherent analysis of the underground economy, Schneider and Enste have integrated different elements of different social sciences in the neoclassical “income-leisure model” (Schneider and Enste, 2013).

The division and allocation of distinct relevant factors that influence the development of the underground economy taking into account the fields of social, economic, sociologic, socio-psychological and fiscal- psychological sciences is a good methodologic excuse of a thorough analysis. A strict confinement of these two domains is almost impossible this is why it is therefore necessary the analysis of the relevant factors of all disciplines taken into account in the field of analysis.

We appreciate that the foundation of the interdisciplinary approaches begins from the relations and connections between the macro and micro levels. This way the correlations, understanding by this the transformations and the changes at a macro level are the result of individual actions. As far as the micro and macro approaches are concerned, professor Pohoată underlines that these are not in a perpetual and irreducible position and when it is the case the two methods can be used simultaneously (Pohoată, 2011). At a macro level there can be made correlations between causes, rising taxation and the consequences, the growth of the underground economy activity. The microeconomic analysis has been a subject of controversy, heated arguments and vehement contradictions. More than that, in some cases the deviations in the human behaviour (criminality, tax evasion, illegal work, smuggling) don’t coincide with the concrete economic situations. By choice, most of the hypothesis open to criticism refer to the strict application of a “postulate of rationality” and the rule of maximization; employing likely targets; transitivity, consistency and stability in preferences.

The underground economy is based, in a principled way, on keeping the norms and as such, according to Schneider and Enste, Ordnungstheory, it has to be based on the methodologic individualism because the consequences and effects can be explained only on an individual plan (Schneider and Enste, 2013). With respect to individualism, viewed in the context of the equation individualism versus holism, the same professor Pohoata, having as reference Mises iterates that “the human action needs to be understood as a result of individual actions; that from the individual actions starts the understanding and explanation of things; that individuals, only them, are the ones that operate and not the state or the nation” (Pohoată, 2011, p.212). The concept of Ordnungstheory, as part of the economic institutions, in order to be well outlined should be analysed in an integrated manner and connected with the common methodological approaches having as background “rational choice theory” (RCT). RCT is a pretty heterogeneous theory that includes varied concepts over Homo Oeconomicus that are based on utilitarian theories. RCT offers the possibility of accomplishing different subject interdependencies to the detriment of highlighting the incongruences of the theoretical and methodical components of such areas as economy, sociology and socio-psychology. According to Cioca, the principle of rational choice theory is quite simple:

“taking into consideration the resources, costs and benefits relationship, the actor will choose the combination of those who will lead to best results”(Cioca, [web.adatbank.transindex.ro/...](http://web.adatbank.transindex.ro/)). The concept that differentiates the rational choice theory from other theories in sociology and has an economic relevance is the one of optimization. By acting rationally, the actor is engaged in an optimization operation, whether is about the utility maximization, the minimization of cost, or both. The concept of optimization gives power to the rational choice theory because actions are compared (e.g. Involvement in underground, illicit activities) depending on the expected result (the risk of sanction or the risk of non-sanctioning) by the actor and it postulates that the actor will choose the action with the best result. This means that the benefits and costs have to be specified for all action alternatives and then it postulates choosing the optimal action, which is the action that maximizes the difference between costs and benefits.

On the historical perspective, in the past there were two concepts regarding the human being. On the one side we had the Homo Oeconomicus neoclassical vision and on the other side we had the Homo Sociologicus perspective. These visions were treated different most of the times. Solid arguments in order to support the integrative approaches are offered by the researcher Larisa Batrâncea in the attempt to construct homo oeconomicus ludens. Therefore, starting from the concept launched by Johan Huizinga, Batrâncea offers the personal alternative of a “ludens” integrative synthesis; “one that should have the instinctual side of homo behavioralis, the moral features of a homo ethicus, the egalitarian learning of homo equalis, the membership character of homo parochicus, the turn for cooperation of homo reciprocas, the conformation inclination towards a normative system of homo sociologicus (Batrâncea, 2009, p 192).

Homo Oeconomicus is (super) informed, acts on a perfect market without rules and barriers and tries to maximize the utility without risks according the neoclassical theory. The relative prices are important to show the degree of rarity. His behaviour is characterized by complex analyses regarding the costs, the utility of different options, the best choice of alternatives that have as ending the biggest utility or in other words” rational choice”.

Homo Sociologicus is characterized by the restrictions imposed or self imposed by the rules, reliability, institutions and model behaviour. In an individual, sociological context the behaviour is influenced by the society’s expectations and the punitive, sanctioning forms anticipated as reaction coming from society. The economic, fiscal, social behaviour is influenced by the internalization of norms in a comprehensive process of socialization.

Apparently irreconcilable, the Homo Oeconomicus (HO) and Homo Sociologicus (HS) positions can be integrated in RCT if we regard the norms and values in combination with the evaluation and individual expectations even in the neoclassical context of the maximum utility theory. As a matter of fact, the neoclassical model can be modified by using concepts from different related subject areas and that have as starting point RCT. The model RREEMM is a combination between HO, HS and elements of socio-psychology (Esser quoted by Schneider and Enste 2013, pp. 60-74). In the tabel no.1 are mentioned the main elements of the integrative human concept RREEMM.

Tabel no.1 The integrative human concept RREEMM

Components	Homo Sociologicus	(Neoclassical) Homo Oeconomicus	(Social-) psychology	RREEMM (human concept)
Resourceful			X	X
Restricted		X		X
Evaluating	X			X
Expecting	X			X
Maximising		X		X
Man			X	X

Source: (Schneider, R. Enste, H.E., 2013, p. 70)

3. SOCIOLOGICAL, PSYCHOLOGICAL AND SOCIO-PSYCHOLOGICAL INTERFERENCES IN THE AREA OF UNDERGROUND ECONOMY

The concept of Homo Sociologicus can offer a fundamental approach on the human behaviour in a polluted environment by the underground activities and in which breaking the rules (social, personal, individual, societal, fiscal, penal) and the alteration of values define the real relations between citizen and state.

Psychologically talking, the behaviour designates what is objective and observable in the global reaction of the individual, irrespective of what he declares, of his thoughts and psychological attitudes. Sociologically talking, the behaviour is the subject's activity in a given social situation (Tănase, <https://www...../PSIHOLOGIE-ECONOMIC%C4%82>). Generally, the behaviour is a set of exterior reactions wherethrough the individual responds to stimuli. The individual is seen from the perspective of the restriction of the social norms (the attitude towards fiscal and penal norms) and from his expectations (low tax burden, better standard of living) as well as from the sanctions' perspective (administrative and penal sanctions) that he internalizes. The instruments by which sociologists try to explain human behaviour and that have an economic and legal-fiscal relevance refers primarily at demographic data and personal situations. In the attempt to highlight the sociological aspects, sociologist researchers tend to neglect the personal characteristics that are examined by psychologists.

In the following diagram (figure no. 1) are presented synthetically the underground economic determinants. The sociological, institutional and psychological factors offer the framework for a complex multidisciplinary analysis.

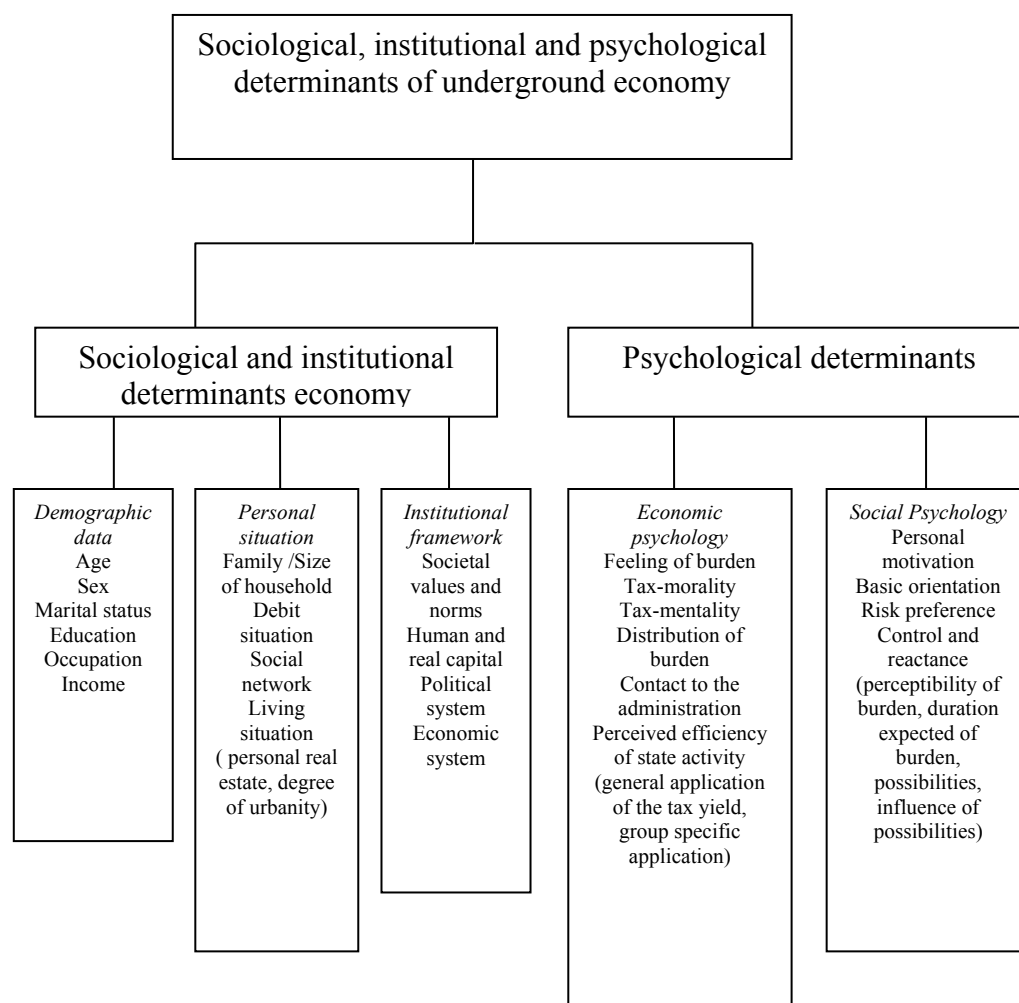


Figure no. 1 Sociological, institutional and psychological determinants of underground economy

Source: adapted by the authors after (Schneider, F., Enste, HE, 2013 pp.90, 107)

The underground economy is closely related with illicit work or moonlighting and tax fraud. Both of them being the core strengths, they need a closer look by using the instruments of economic sociology. Thereby, the analysis of the sociological variables or of the socio-psychological determinants is illustrated by the following ideas. Like some various investigations have proved that the socio-demographic variables have a direct influence over the individual decision making. Illicit workers can be characterized by specific descriptive criteria such as age, occupation, number of children that can be used at classification and defining various typologies. Depending on these typologies we can identify the engagement's motivations in activities of the underground economy. In a synthetic analysis the sociological and institutional factors refer to: demographic data (age, sex, occupation, income), personal situation (family, standard of living, debts) and the institutional frame (norms, political system, economic system).

External standards, seen as socio-institutional determinants and the internalization of norms have been decrypted in economic key by sociologists in the following manner. External norms, seen as informal institutions (traditions, customs, and values) can be perceived as restrictions. Analysed in a tax-criminal context these norms can be viewed as costs, part of the decision making process. Unlike the external norms, the internalization of norms (tax-moral consciousness) is seen from the point of view of the personal characteristics or preferences.

In a discussion that has as a main element the ternary social norm-norm personal-individual norm and has as guiding mark the influences on the underground economy, we can emphasize some

major problems. Between perceived personal norms (defined by values, individual tax ethics, the belief that everyone should respect a moral imperative) and social norms (defined as the perceived frequency or the acceptance of fraud in a reference group) there is a considerable overlap (Wenzel, 2005). Conceptualization of the socio-psychological field targeted the individual internalized standards (correct behavior), social awareness and acceptance of approved social standards concerning the model of correct behavior and cultural and societal standards which are aimed at imposing rules and laws. Individual rules can be strengthened when taxpayers are anticipating the feelings of guilt and shame resulting from breaking of rules (Grasmick and Bursik, 1990). From the point of view of Vogel and Torgler between strong individual rules and concepts of "honest taxpayers" and "intrinsic taxpayers" there are some links (Vogel, 1994; Torgler, 2003). Honest taxpayers are constantly cooperating, not seeking ways to reduce tax liabilities, behave honestly based on absolute ethical norms. Intrinsic taxpayers are receptive at the behavior of institutions, government and tax inspectors; their cooperation is dependent on tax conditions rather than the behavior of other taxpayers. According to some authors, there is still a category of taxpayers, namely "social taxpayers" (Kirkhler, 2013). The behavior of "social taxpayers" is given by social norms and their emotions. Assuming that the taxpayers are finding out that many of the others are evading from the payment of tax obligations or are developing informal activities, they will escape or will operate informally. In the event that their reference group disapproves the fraud, they shall comply. We can conclude that social contributors are motivated by social norms. According to Ajzen, social norms are developed according to the perceived expectations of the individual whether one or more members of the reference group like a certain behavior, and the extent to which the individual is motivated to conform to members' beliefs (Ajzen, 1991). In other words, social norm can be seen as a way of behavior, similarly rated by other members of the group, and supported by social agreement or disagreement.

Regarding the relationship between the social, personal and tax compliance rules, very important in illicit work and tax evasion, we distinguish the following cases. Personal rules of taxpayers determine their level of compliance, the impact of social norms on the level of compliance is less probative (Kirkhler, 2013).

At the individual level, the rules define internalized standards of behavior; at the social level, the rules express the behavior of a social group based on common standards and collectively or at national level, the rules become cultural standards, which are often reflected in the current legislation. Cultural standards translate the concept of cultural norms which are including within their analysis the tax morality and civic duty. Cultural norms and societal institutions are important in the process of complying. Compliance actually means cooperation, a permanent review of the relationship citizens, government, institutions, in order to reduce social distance and establishment of trust between citizen and political administration (Bergman, 2002).

Considerations of economic socio-psychology. In the situation of studying the human behavior, the economists observed a focus on analysis of restrictions and institutional framework. Psychologists are usually focused on preferences and motivations. Only combining the socio-economic and psychological visions can be obtained an integrative holistic approach, capable to provide the true "picture" of human behavior. Surely, the "utilitarian theory" and other economic theories can be viewed in another way, more attractive and deeper, if they integrate and psychological components of human behavior.

In analyzing the economic psychology of human behavior, can be noted the "reactance theory". "The reactance theory refers to the emotional state of discomfort caused by prohibition or threat of prohibition of some actions, situation in which people are trying to regain their freedom of action. The main assumption of this theory is that people feel the need for freedom" (Chelcea, 2010, p.64). The theory belongs to psychosociologist W. Brehm (1966). According to this theory reactance occurs when people appreciate that the restriction of their freedom of action (e.g. the taxation, restriction of the right to work) is illegal and unjust and that it is lower when the intensity of limitation is lower. Restoring of freedom of action (partially or total) is directly performed (n.a. by engaging in informal economy), by ignoring the attempts to restrict or indirectly by strong valorization of the prohibited activities (Chelcea, 2010). In particular, the reactance theory deals

with the influence of personal characteristics on deviant behavior. We remind the fact that the underground economy is based on the rule or regulation violated by the individual as a result of a *deviant behavior*.

For example, in illicit workers behavior is important the motivational structure (reasons, implications, intrinsic motivation) and primary guidelines (preference for risk, tax morality). It depends on personal characteristics, perception of concrete situations and the evaluation and selection of an alternative. Social issues have an indirect influence as they should be interpreted individually from individual to individual. Figure no. 2 presents explanations of deviant behavior. The workers illicit behavior can be easily influenced by individual perception on limiting personal freedoms and individual burden. Individual burden - meaning the length and weight of the tax burden and temptations evasion possibilities - can be explained by the theory of reactance.

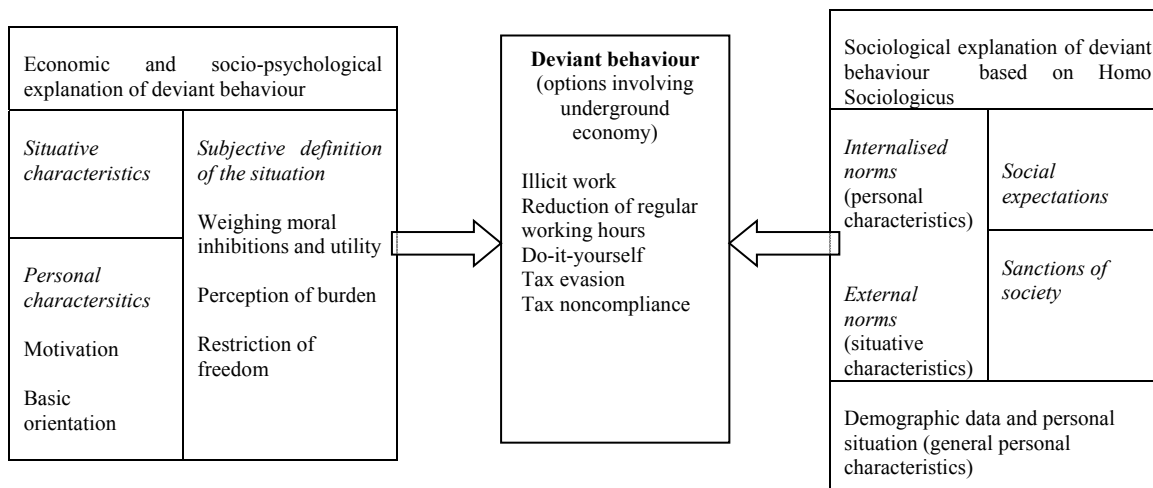


Figure no. 2 The factors of deviant behavior

Source: adapted by the authors after (Schneider, F., Enste, HE, 2013 p.89, 98)

Within analysis of underground economy from socio-psychological point of view it seems appropriate to introduce “control theory”. "Personnel control is the perception of an individual related to capacity, resources or opportunities to achieve positive results and avoid negative effects (n.a. tax burden, restrictions on labor market, involvement in fraud)" (Thompson and Schlehofer, <http://cancercontrol.....>).

Monitoring can be defined as a subjective perception of the possibility of influencing of certain events and actions by an action. Behavioral control, as part of cognitive control, is the subjective perception of an event or condition that can be influenced by changing behavior – e.g. reducing the burden / tax burden through tax evasion (exit option) or participation in decision-making process (voice option) (Thompson 1981).

In its various forms poses on control, loss of control on persons or situations, the control theory has been successfully applied in economic behavior. As regards the examination of illicit work or tax evasion, the reactance theory proved more effective. (Schneider and Enste, 2013).

Since the common factors of the two theories revolve around the elements tax burden, tax evasion, taxation, we appreciate that approach through psychology tax is a serious tool of analysis.

In general acceptance, fiscal morality is defined as the attitude of the group or the entire population of taxpayers to meet or neglect issues of payment of tax obligations. According to Lewis, attitudes towards tax liabilities (with inherent implications of the underground economy) are especially dependent on income (Lewis, 1979). From its studies it appears that income is the most relevant variable in differentiating attitudes towards tax obligations. People with higher incomes showed a greater reluctance to tax and to progressive rates in particular. Moreover, unlike people with lower income, they considered licit tax evasion to be justified and people which are committing fraud should be treated with indulgence.

In an evaluative analysis (figure no. 3) in terms of descriptive trichotomy (1) *ordinary taxpayer*, (2) *honest taxpayer* and (3) *tax fraud* revealed that: fraudsters were portrayed as more intelligent and work hard; ordinary taxpayers were perceived as lazy and less intelligent people; honest taxpayers were seen as workers, but not as intelligent as tax fraudsters (Berti and Kirchler, 2001).

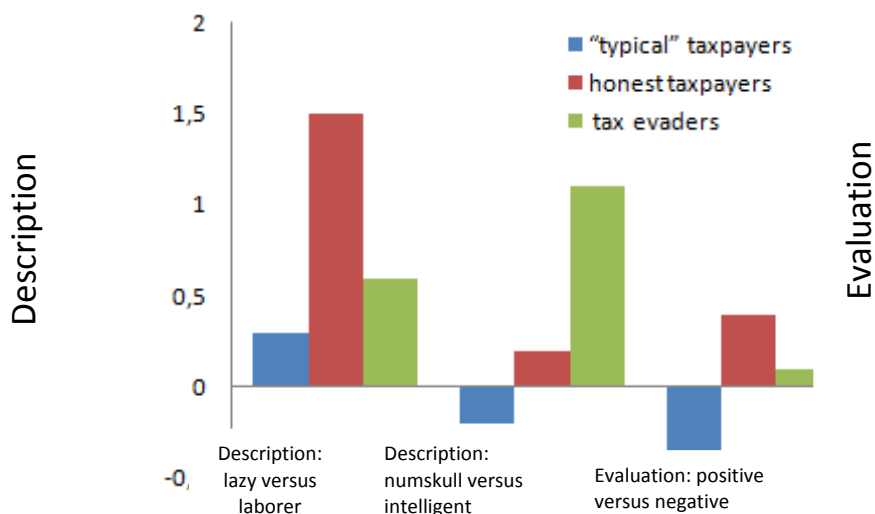


Figure no. 3: Description and evaluation of taxpayers (scale appreciations: -3 (lazy, numskull) and +3 (laborer, intelligent); scale evaluations: -1 negative, +1 positive)

Source: (Kirchler, 2013, p.68)

The concept of tax morality is not related only to attitude (meaning tax psychology). Some authors relate to tax morality as "internalized obligation to pay tax liabilities" or as "intrinsic motivation" of an individual to pay tax obligations and others connect with the concept of "civic duty" in the sense that people are not motivated only to maximize their own welfare, but also by the feelings of responsibility and solidarity to the state and nation.

Kirchler considers that there is a distinction between tax morality and tax mentality, based on an interpretation of studies of Schmolders. According to both authors, tax morality aims nation, while moral evaluations are focused on fiscal mentality of citizens (individually they integrate knowledge, attitudes towards public administration, taxation and subjective experiences related to government - taxpayer interaction). Fiscal mentality and morality are functioning as variables that influence the taxpayer's response (tax avoidance, tax evasion, tax flight / migration tax).

Between the high level of morality and tax compliance level there is a positive relationship, between the level of tax morality and the underground economy there is a negative relationship. Using underground economy assessments made by Schneider and Klinglmair, Alm and Torgler analyzed (figure no. 4) the linear relationship between morality and the underground economy and confirmed the negative relationship between them (Alm and Torgler, 2006).

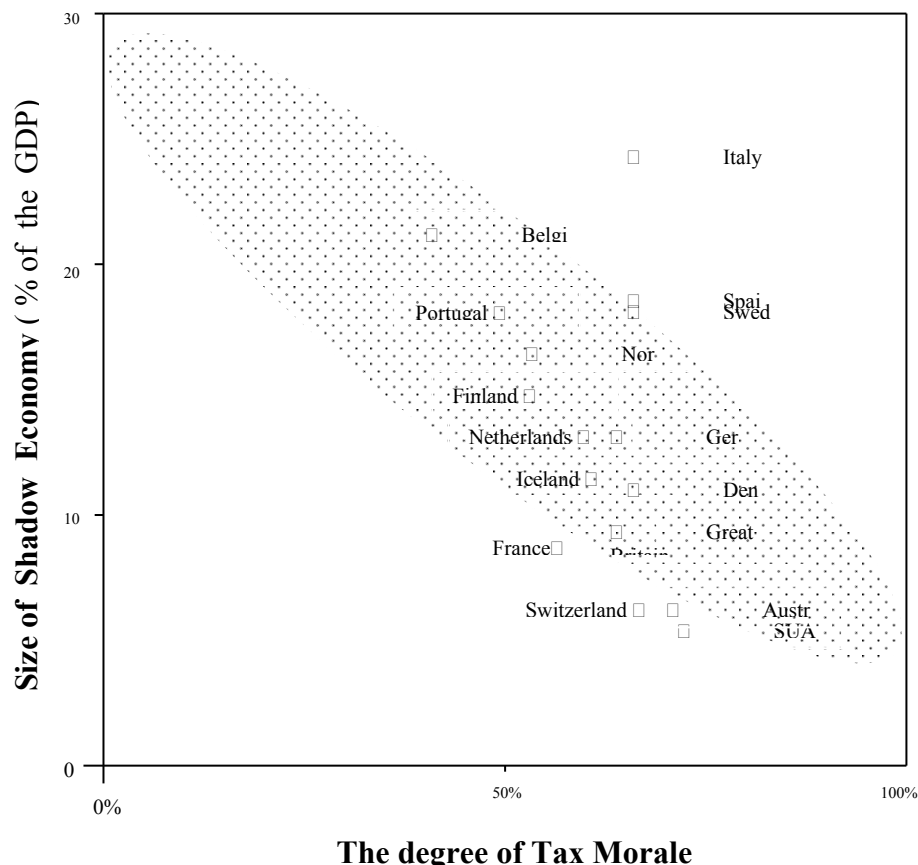


Figure no. 4. Fiscal morality and the level of underground economy

Source: (Alm and Torgler, 2006, p. 243)

4. CONCLUSIONS

The purpose and approach to explaining the underground economy using the deviant behavior analysis tool consists of the success aggregating of different concepts and scientific directions in an abstract integrative model that will support causal analysis of the economy. The interdisciplinary (economic, sociological, psychological) depicts the interrelationships and stresses that monocausal and unilateral approaches are not sufficient to study and explain this phenomenon. Psychology, socio-psychology and sociology can explain facts and things that are not understood by classical and pure economics. This study is intended to be the tool of analysis in economic policy measures that influence the underground economy. Particularly with reference to: a) the tax system, the level of taxation, identification and classification of the taxpayers, the degree of tax compliance; b) rules on working time, moonlighting, the informal sector; c) public administration: the relationship taxpayer / citizen – state/government / authorities; d) system election: relationship of mutual trust between elector - parlement / government / political parties.

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