

## CONCLUSION

The austerity and the depth of the global economic crisis renewed public interest in the hidden economy and its manifestations in Bulgaria and in Europe. The exposure of the deep penetration of hidden economic activities into the Greek economy, which is at the epicenter of the ongoing economic crisis in the Eurozone, triggered a debate among the media, international analysts, and European governments about introducing special measures to improve accountability and illuminate the role and the effects of the hidden economy:

- An important first step for Europe would be to establish **unified practices for reporting on the hidden economy** in each member – state's national statistics. A comparative assessment of the process of gathering information on the share of the hidden economy in each member state would be useful.
- So far, Brussels's primary focus has been undeclared work. The latter has been studied through direct observation of samples of the population and led to comprising a unified **Eurobarometer** on the size and manifestations of undeclared work in the EU-27. It is advisable that such a survey is carried out at least every four years in order to provide a reliable assessment of the dynamics of the observed phenomenon.

**The crisis changed the dynamics of the hidden economy in Bulgaria.** Between 2002 and 2008, there was a gradual but sustained decrease of all manifestations of the hidden economy, as captured by the *Hidden Economy Monitoring System* of the Center for the Study of Democracy. This tendency continued throughout 2009. An abrupt crisis-related drop in the economic activity of businesses forced many companies to cut down on both hidden and official employment. By February 2010, the official, registered unemployment doubled, despite the fact that over 30,000 people of those who lost their jobs did not register with the Employment Offices. In 2010, over 800,000 Bulgarians aged 15 – 64 remained economically inactive in the absence of any reported health problems or ongoing education. Bulgarians remain the most unproductive workers in the EU. The revival of economic activity in April 2010 led to a slight increase in the levels of hidden economy, as businesses started hiring again. This increase is expected to continue well into 2012 before dropping in 2013 in line with the long-term trend. All data show that **hidden economy remains a serious challenge to the financial and economic policies** of the country. An analysis of the Bulgarian government's measures to restrict the hidden economy in the past five years has led to several important conclusions and recommendations:

- The government should **adopt an official national estimate** of the size of the hidden economy, which should be used to correct all the relevant macroeconomic and fiscal performance indicators of the country. On the basis of such

an estimate, the government should present adequate measures to limit the negative effects of the hidden economy in at least a three-year framework.

- **Administrative control measures can only have a temporary and limited deterring effect.** The business cycle and the structural characteristics of the national economy have a much more significant effect on the hidden economy than government policies. Therefore, the adoption of wider financial and economic measures has to be sought to complement administrative control efforts. For example, the increase of excise dues on cigarettes in 2010 in practice offset measures tightening the control over smuggling channels in the country, thus in effect nullifying the impact of government policies on the hidden economy.
- **A priority should be given to positive (stimulating) measures over negative (punitive) ones in order to restrict the hidden economy.** The level of non-compliance with regulations in Bulgaria is so high, that the adoption of punitive measures deems the authorities' control efforts piecemeal, while leading to repeated violations and an increase of corruption pressure on economic actors, thus reinforcing the stimuli for hiding economic activity. This vicious circle of "violation – control/regulation – new violation – tighter control" can be broken by:
  - **Increasing the incentives for starting and developing official business activity**, while minimizing the regulation on the micro and small firms. The latter are more important for their social function of creating employment than for providing revenues to the state budget.
  - Implementing the **concept of the service character of the state administration**. The business, especially the micro and small firms, ought to see the administration not as a sanctioning authority, but as a service one. Fewer, but more focused, audits of high-risk activities than the current across the board approach, would improve the effectiveness of the control authorities and increasingly motivate their employees.
  - **Improving the quality of public services**, including various infrastructures. The Bulgarian society has no confidence in state institutions, which is reinforced by the proliferation of mass corruption and hidden economy. As a result, the culture of tolerating and even justifying these negative phenomena is resistant. Only a perception of constant and notable improvements of public service quality can restore social solidarity. The latter is a prerequisite for restricting the hidden employment and the hidden economy.
  - Carrying out more complex and strategically focused **structural reforms for reducing the tax and administrative burden**. Experience has shown that the introduction of popular, yet superficial, measures, such as a decrease of tax rates, have a limited effect unless they are accompanied by an improvement in services for citizens and businesses. For example, low tax rates do not help start up businesses if they cannot obtain a construction permit.
- The gray and black economy interact and blend with the official economy, giving rise to corruption, illegitimate influence on politics, and stimuli for reproduction of the hidden economic activity. Severing these links requires a complete **administrative reform of the control and juridical systems**. To achieve

this, the Bulgarian government should develop **systems for assessing the efficiency** of its administrative control authorities, which will allow public recognition of the work done and the accomplished results. Taking into account the ubiquity of the observed negative phenomena, these institutions must have working systems for risk assessment and prioritization of their activities.

