

**PRELIMINARY RESULTS OF A PILOT TEST FROM A QUESTIONNAIRE SURVEY REGARDING  
THE ROLE OF SHADOW ECONOMY AND CORRUPTION IN GREECE (\*)**



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**ABSTRACT**

This paper presents the reasons that lead many taxpayers to the dissimulation of their income based on the level of taxes, tax system, level of imposed penalties, tax ethics, and compensatory expenses. From the whole survey with at least 2500 completed questionnaires, we will discover the causes of<sup>1</sup> the dissimulation of income. The questionnaire of this paper which was used as the pilot test took place in the Municipality of Thessaloniki in 2013. The study population is a segment of the wider population, which will be included in this research project. The Municipality of Thessaloniki has a population of 375.276 people, according to data of 2001 (325.182 people - data of 2011). The size of sample is determined according to the size of the error estimation in proportion of the level of importance of 95%. According to the proportional stratified sampling we used completed questionnaires 151 from the five municipal quarters of Thessaloniki and we discovered error estimate  $e=8.14\%$ . The taxpayers to whom the questionnaire was addressed to are professionals and businesspeople, wage earners and pensioners, farmers and unemployed who are responsible for the completion of tax statements in the household. Also, the “other”, reflects someone belonging to the remaining tax categories.

**KEYWORDS**

Greece, Shadow Economy, corruption, tax morale

**JEL CLASSIFICATION CODE**

O17 - Formal and Informal Sectors; Shadow Economy; Institutional Arrangements

**1. INTRODUCTION**

Schneider and Enste (2000) determined the development and size of the shadow economy over an extended period of time for several countries. The authors highlight the necessity for further research in the case of single country studies that should clarify the determinants of the shadow economy, its impact on the official economy, and its interaction with corruption. This section of the paper provides a background on the notion of the shadow economy and discusses its interaction with corruption.

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As stated in the aforementioned working paper, a precise definition of the shadow economy seems unattainable since it evolves over time. Nevertheless, a rough approximation is not that demanding, as it is all economic activities that would be taxable, if they were reported to the authorities. A definition that was commonly used in the past (e.g. Schneider, 1994) states that the shadow economy comprises all unregistered economic activities that can contribute to official GDP. A more thorough definition is presented in this paper and is derived from Schneider and Enste (2000: 79): The shadow economy includes all legal production and provision of goods and services that are deliberately concealed from public authorities for the following four reasons:

- (a) to avoid payment of income, value added or other taxes,
- (b) to avoid payment of social security contributions,
- (c) to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety standards, etc., and
- (d) to avoid compliance with certain administrative procedures, such as completing statistical questionnaires or other administrative forms<sup>3</sup>.

## **2. THE LINK BETWEEN THE SHADOW ECONOMY AND CORRUPTION**

Corruption is commonly defined as the misuse of entrusted power for private benefit (Pope, 2000: 2). Corruption is one of the greatest obstacles to economic and social development. It also distorts the rule of law, weakens the institutional foundation, and severely affects the poor (see World Bank Anticorruption focus at <http://web.worldbank.org>). It is a structural global phenomenon that involves both private and public sectors and affects both developed and developing countries. It is not within the scope of the paper to discuss the determinants of corruption, but rather to present its relation with the shadow economy.<sup>4</sup> As mentioned in the paper of Bardhan (2006) that economic studies on corruption emphasize incentives and organisations and that in general:

- (a) personal and country characteristics determine the risk of exposure to bribery (Mocan, 2008)
- (b) increased bureaucracy<sup>5</sup>, the regulation of entry in terms of setting up new businesses (number of procedures to be completed and the time involved in meeting these requirements) is associated with higher corruption (Djankov et al., 2002), and
- (c) variation in policies and regulations across industries explain the incidence of corruption (Svensson, 2003).

The pioneering work of Sleifer and Vishny (1993) indicates that a centralised and less expanded bureaucracy results in lower bribes.<sup>6</sup> Further studies published in the 1990s indicate that corruption has a positive impact on the size of the shadow economy, and that a growing shadow economy has a negative effect on official GDP growth (Schneider and Enste, 2000). As government officials may collude with entrepreneurs and taxpayers in exchange for a bribe (Hindriks et al., 1999), it can be easily assumed that corruption enhances the shadow economy. As the latter expands from the effort of agents to avoid further complications with bureaucracy, so does so corruption (Friedman et al., 2000).<sup>7</sup>

In Bitzenis, Schneider and Vlachos (2013) corruption and bureaucratic inefficiency amount to a tax on all firms that operate in Greece's formal sector. A recent OECD (2011: 83-86) survey<sup>8</sup> indicates that inefficient tax collection and the size of tax evasion is due to activities in the realm of the shadow economy together with bribery and corruption result to losses of fiscal resources between 2-4 percent of GDP per annum. An increase in tax revenue, which requires a great deal of reforms both in the efficiency of collection and in combating tax evasion, is necessary for the consolidation needed to place the public finances on a sustainable path. The reforms required are explicitly related to personal income tax, e.g. the self-employed declare incomes near the minimum taxable threshold. Of equal importance is also the inefficiency in collecting the VAT and social security contributions. The often annual practice of tax amnesties adopted by Greek governments is likely to have encouraged people not to pay taxes when they are due as the expected penalties are low. The most important issues of tax evasion in Greece and the size and nature of the Greek shadow economy have been discussed in the literature in the previous two decades. This section presents a survey of the particular literature in order to analyse the peculiarities of the Greek shadow economy.

The most common cause of capital flight is an expected devaluation of the domestic currency, in order to search for greater stability or increased return of the capital. Mainly, it is a symptom and therefore not a cause of a financial crisis. Of course, rumors for devaluation may cause capital outflows creating this way an economic instability, since the devaluation expectations can become self-fulfilling (Darryl McLeod). According to Eriksson (2009) illegal capital flows from the developing countries are estimated at 641 to 941 billion U.S. dollars, which is

considered excessive (too much) because even the lowest estimate exceeds the statutory net inflow in poor countries and represents approximately ten times the total development aid given. He also estimates that the rich (people, families, corporations) withhold their capital in, the so-called, "tax havens", corresponding to the whole U.S.'s GDP and only 5% of those who have their deposits in "tax havens" declare their deposits (Eriksson). According to the Evidence Based Research (EBR) the International Monetary Fund estimates that the funds which "left" from Greek banks to London, Switzerland, Luxembourg and some to the Cayman Islands totaled from the beginning of the crisis until January 2012 around 80 billion euro. This amount of money represents approximately 25% of Greek government debt and 36% of the total savings of the country by the end of 2009. A large part of the funds that "left" the country to London was invested in real estate and a part was invested in hedge funds which were betting on the euro's depreciation against the U.S. dollar or serving campaigns in Greece to return to the drachma currency and Greece's exit from the eurozone (Papadopoulos, 2012). Many depositors move their capital to subsidiaries of the Greek banks outside of the country, in countries such as Cyprus and Luxembourg, or in domestic subsidiaries of foreign banks. Certainly, in times of economical crisis, it seems that many citizens hold larger stocks of cash outside the banking system, of fear or for the processing of daily transactions, because of the large deceleration of loans, the high cost and intensity of evasion ([www.in.gr](http://www.in.gr)).

Over a decade later and despite the positive externalities of the euro experience to European integration, low tax morale and mistrust in public institutions is still a major cause for the inability of fiscal authorities to meet projected tax receipts. Tax morale in Greece is not only related to mistrust in public institutions. This form of tax morale, which has been frequently termed by the Greek media as the "sport of tax evasion", describes the norm of evading taxes for personal gain and can be understood through the absence of the "social norm" of tax compliance. Although tax administration improvements and strict tax enforcement can lead to higher levels of tax morale, nevertheless significant improvements will materialize in the long-term. Since the level of tax morale is greatly affected by the efficient use of resources in the public sector, it would be difficult to have considerable improvements in short-term. In view of the fact that the Greek crisis has also political dimensions (i.e. rent-seeking) and the inefficient use of public resources is deeply rooted.

### 3. QUESTIONNAIRE AND DETERMINATION OF THE CONTENT OF QUESTIONS

The questionnaire has a specific order of the questions and it consists of two parts: the title and an introductory note, as well as, the questions. The questions are about the shadow economy, tax evasion and corruption. We also have at the end the demographic data information of the respondents about sex, age, work, income and education.

The content of the questions was based on questions that have been used in previous surveys and are included in the book "Shadow Economy and Tax Evasion" by Tatsos (2001). The reasons that make many taxpayers conceal their income must be sought in the level of the tax charged, in the taxation system, in the probability of detection, the height of the imposed penalties, as well as, other factors, such as tax morality and compensatory expenses.

Through this questionnaire we attempted to determine what are the causes to conceal income. Not all the taxpayers have the same tendency for tax evasion. To be more precise, through the stated questions we tried to determine what extent the tendency for tax evasion is influenced by the level of the tax and the perception of citizens about the taxation system. The process and possibilities for tax evasion are different in each professional group. The possibility of detection of those who tax evade depends on the quality and efficiency of the tax administration. Question E3 in the questionnaire refers to the efficiency of the tax mechanism and question E16 to tax administration. Furthermore, the question E4 demonstrates how unbiased are the tax controls. Tax morality is a factor that affects the tendency to tax evasion and we attempt to disclose this information in the questions E5, E6 and E12. The questions E7 and E8 show the frequency in which citizens transact in various sectors of state activity, as well as the frequency in which the phenomenon of corruption is presented in the public sector.

Through the questions E13 and E14 we try to evaluate the importance that penalties have in relation to other factors which deter tax evasion. In addition, citizens often ignore the disposition way of the expenses that taxes cause due to government negligence or due to indifference towards the state. They believe that the state does not spend its income in prudence, to which they themselves have contributed through the taxes. That is what is examined in question E15.

The population of the survey is part of the wider population that will be included in the survey. The Municipality of Thessaloniki according to the inventory of 2001 has a population of 375,276 inhabitants (325.182

inhabitants -data of 2011). Moreover, the Municipality of Thessaloniki is divided into 6 municipal blocks, which according to the Kalikratis Program, is typically divided into two municipal units (Thessaloniki and Triandria). While the city of Thessaloniki is divided into 5 municipal communities (widely known as municipal blocks according to the plan Kapodistrias). The first municipal block comprises the Down Town (Historical Centre) and the area of the Mars Field and has 53,017 inhabitants, which corresponds to almost 14% of the total population of the municipality. The second municipal block comprises the area of Bexinari (In Greek: *Μπεζινάρι* ή *Μπεχ Τσινάρ*) and has a population of 35,962 inhabitants which corresponds to almost 10% of the total population municipality.

The third municipal block comprises the areas of the Ano Poli and Eptapyrgio (Acropolis) and has a population of 31,805 inhabitants which corresponds to almost 8% of the total population of the municipality. The fourth municipal block comprises the area of Toumba and has a population of 92,882 inhabitants, which corresponds to almost 25% of the total population municipality. The fifth municipal block comprises the areas of the (wider) Faliro, the areas of Charilaou and Depau (Warehouse) and has a population of 150,321 inhabitants which corresponds to almost 40% of the total population of the municipality. Finally, the municipal unit of Triandria comprises the former Municipality of Triandria and has a population of 11,289 inhabitants, which corresponds to almost 3% of the total population municipality.

The size of sample and sampling error is at 95%. Based on proportional stratified sampling we took 151 completed questionnaires from the 5 municipal blocks of Thessaloniki and thus we have evaluation error  $e = 8.14\%$ .

The professional groups surveyed are self-employed and business people, wage earners and pensioners, farmers, as well as unemployed, all who are responsible for the completion of the tax form of the household. Finally, there is the option of "other" in case the taxpayer is in another category like, public servant, landlord etc.

The survey took place in the Municipality of Thessaloniki in December of 2012, first quarter of 2013 with respondents being of aged 25 and over, who are responsible for the completion of the tax form in the household. They were 151 completed questionnaires, which were registered in the statistic program SPSS 19.00 to analyze and present the necessary statistical data.

Conducting empirical study aims to establish the reliability of theoretical models. If, therefore, the empirical data coincide with those proposed by the theory then the theory is verified. The application of an appropriate sampling plan ensures optimum conditions to ensure the representativeness of the sample and also the possibility to generalize the results of that research. The population of this survey is the wide range of subjects based on which we derive conclusions. The choice of a sampling technique depends on the extent to which this is possible and also the costs in relation to the research budget. Also, in order a sample to be representative, it requires both availability of the required number of members of the population for the establishment of an adequate sample and the members' willingness to be questioned. The sample size is determined in relation to the size of the estimation error ratio at 95% significance level. A very small sample is not sufficient to cover the whole possible range of values of the variables of our interest and is also difficult to accurately detect small differences between conditions of the experimental groups (Manola, 2007). To make the sample representative of the population, the sampling frame has to include all (or almost all) members of the population. We based our study on stratified sampling, 151 completed questionnaires from all five districts of Thessaloniki and so we have estimation error  $e = 8.14\%$ . The method used in our research was valid, and counted correctly described what we wanted to measure because those results fit with previous research in this investigation. We believe that the diversity from the previous research was in ethical issues for the taxes due to the general political-economic environment of the country. The sample size has value as an absolute number and is chosen based on the sampling method, the dispersion of the population and according to the desired maximum error estimation. For example, by using simple random sampling with a sample size of 500 individuals, we can have maximum estimation error  $\pm 4.47\%$ , for sample size 2,500 participants the error will be  $\pm 2\%$ , and for a sample size 10,000 persons the estimated error to be  $\pm 1\%$ . The last, is considered very small and therefore it projects the sample accurately and it is used in the exit polls prediction of the election result.

Half of the 151 people questioned are men and the rest are women (Table 3.1). Four out of 10 are between 41 and 50 years old and a quarter of them are between 51 and 60 (Table 3.2). Furthermore, a quarter of them are business people – self-employed and most of the half are clerks (Table 3.3). In addition, most of the half of the respondents have university education or possess a Master or a PhD and the rest are graduates of High School or University (Table 3.4).

**Table 3.1 The Sex of the Respondents**

	Frequency	Percentage
<b>Men</b>	73	49,7
<b>Women</b>	74	50,3
<b>Total</b>	147	100

**Table 3.2 The Age of the Respondents**

	Frequency	Percentage
<b>20-30</b>	22	15
<b>31-40</b>	26	17,7
<b>41-50</b>	58	39,5
<b>51-60</b>	36	24,5
<b>60 -</b>	5	3,4
<b>Total</b>	147	100

**Table 3.3 Professional Groups of Respondents**

	Frequency	Percentage
<b>Professional / Business people</b>	33	22,8
<b>Wages earner private company</b>	26	17,9
<b>Wages earner public service</b>	58	40
<b>Pensioners</b>	12	8,3
<b>Farmers</b>	2	1,4
<b>Unemployed</b>	14	9,7
<b>Total</b>	145	100

**Table 3.4 Education Frequency**

	Frequency	Percentage
<b>Primary education</b>	3	2,1
<b>High School education</b>	28	19,2
<b>College education</b>	32	21,9
<b>Univestiy education</b>	51	34,9
<b>Master/PhD</b>	28	19,2
<b>Refused to anwer</b>	4	2,7
<b>Total</b>	146	100

Following, we notice for the questions of E1 and E11 that examine the tendency for tax evasion due to the level of tax for the people questioned, in majority, they believe that taxes are too high and that is the response that is shared by more than 9 in 10 people questioned (94,6%). Particularly about the question E1 more than 5 out of 10 answered that the level of taxes is much higher and more than 4 out of 10 that is high enough. Furthermore, in reference specifically with the question E11 more than 7 out of 10 believe that the reduction of tax factors would restrict of tax evasion (Table 3.5).

**Table 3.5 Means and formal divergences for the question E2**

<b>Opinions round the tax system</b>				
	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>	<b>Formal divergence</b>
<b>All the tax burden falls on the middle class.</b>	1	5	3,99	1,30
<b>There are many “windows”</b>	1	5	4,34	0,96
<b>The taxation rates of income are very high</b>	1	5	4,34	0,82
<b>The system of taxation is very complex in order to it is comprehensible</b>	1	5	4,04	1,12

As far as, the process and the possibilities for tax evasion (question E9) are concerned we notice that more than 7 out of 10 of the people responded (71,1%) that they are often recommended a lower price when they purchase without a receipt and more than 2 out of 10 not that often (Table 3.6).

**Table 3.6 Response Frequency E9**

<b>They suggest to us to buy in lower price without receipt</b>		
	<b>Frequency</b>	<b>Percentage</b>
<b>Very often</b>	52	34,9
<b>Often</b>	54	36,2
<b>Not so often</b>	33	22,1
<b>No often</b>	10	6,7
<b>Total</b>	149	100

As already mentioned, the possibility of detection of those who tax evade depends not only on the quality of the tax administration, but also on the efficiency of the tax mechanism to collect the taxes. We notice that 8 out of 10 (49,3%+32,4%=81,7%) believe that the Public Financial Services that collect taxes are not efficient (Question E3, Table 3.7) and that the tax controls are unbiased few or sometimes (60,3%+20,5%=80,8%) (question E4) while finally more than half of taxpayers responded that there is no tax control (question E16).

**Table 3.7 Responses to question E3**

<b>How effective are the Public Services</b>		
	<b>Frequency</b>	<b>Percentage</b>
Very effective	2	1,4
Effective	14	9,5
Lesser effective	73	49,3
No effective	48	32,4
No comments	11	7,4
<b>Total</b>	<b>148</b>	<b>100</b>

Also, 7 out of 10 respondents agree that the announcement of the names of tax evaders is effective (E13, Table 3.8).

**Table 3.8 Responses to question E13.**

<b>The announcement of names of individuals that avoid to pay taxes contributes to the restriction of tax evasion</b>		
	<b>Frequency</b>	<b>Percentage</b>
Yes	101	67,3
No	49	32,7
<b>Total</b>	<b>150</b>	<b>100</b>

#### **4. CRITICAL ANALYSIS OF RESEARCH FINDINGS**

The cause for the tax evasion is the tax that is high and perhaps a factor that would help tax evasion reduction would be the decrease of taxation rates and the lowering of the tax scales and a reform of the taxation system. The taxation system is too complicated to be understood by taxpayers, and there is a continuous change of taxation system which surprised tax payers and creates adjustment problems. Also, the allocation of the tax weights is negatively progressive. Another factor that would contribute to the reduction of tax evasion is the publication of names of tax evaders, as well as the imposition of heavy fines. The Public Financial Services have to be effective, the tax controls have to be intensified, actually there has been some improvement in tax controls, and the tax officers have to be unbiased. We come across to cases of corruption to a great extent in the sectors of health, urban planning, Customs and DOY (Public Economic Service). As for tax conscience, we notice that in contrast to the results of older surveys, it is considered immoral for taxpayers even to conceal a small part of their income. In addition, although opinions are different about the voluntary conformity that characterizes taxpayers, there are many who believe that we must report to the tax authorities anyone who deceives the authorities.

Moreover, there is a disagreement of responses that since someone has used the law they cannot be accused on a moral level when they do not pay taxes. Tax evasion in the sector of services is widely spread due to the nature of the profession, which does not allow an efficient control providing the possibility for an agreement between the buyers and sellers with or without a receipt. Finally, the taxpayers believe that the state does not spend its income prudently, so transparency must be reinforced. The results of previous surveys match these results of the present paper. However, the differentiation in relation to previous surveys is based on issues of tax morality as the result of the general political-financial and economic environment of the country.

In our survey, we chose a sample from the Municipality of Thessaloniki and the questionnaires were answered by the people themselves. The state should, in the future, take measures having the political will to

reinforce the trust of the taxpayers, since the results of empirical studies, demonstrate that the corruption level of the country exerts negative influence on its financial development and the distribution of income.

Additionally, the larger the possibility of disclosure of cases of corruption, the more it reduces the phenomenon of corruption. There should also be an increase on the possibilities of detection of the people that have activities in shadow economy, mostly through tax controls. This is where technology can help, as well as, the transparency of the state mechanisms. We should also bear in mind that the system of penalties, so as the state could take measures to increase or decrease of the tax penalties, otherwise there is a danger of an increase of tax evasion and not its decrease.

### **5. Direction in Policy Making and concluding remarks**

Greece as country generally characterized by a) instability in the legal framework with frequent changes in the laws b) failure to implement laws c) discrimination in law enforcement and/or the sanctions, d) lack of transparency in the application of laws e) lack of appropriate laws f) the existence of " windows " in the implementation of laws g) bureaucracy h) lack of significant penalties deterrent to any law violation and illegal action, i) bribery and corruption in law enforcement j) lack of control mechanisms or lack of existence of fair control mechanisms and k) there are facts which give space for bribery, corruption and bureaucracy (Bitzenis, 2009).

The size of shadow economy in all EU Member countries estimated at almost 2 trillion euro total or one-fifth of GDP on average. Tax evasion and avoidance have a significant cross-border dimension and form a complex problem that requires a coordinated and multifaceted approach by the EU and are global challenges which no member country can face alone, even if there is political will. Individual national efforts to address this problem will not work because we live in a globalized economy where national mismatches and "windows" (loopholes) are tools for those seeking to evade taxes despite the existence of technological progress. So at national level, member countries need to improve their administrative capacity and the ability to collect taxes, but there should be also an administrative cooperation between member countries.

Appropriate policy measures to reduce the shadow economy are needed, but also the conversion of shadow economy activities in the formal economy. Measures need to be introduced to significantly increase the incentives to shift production from the informal economy to the formal economy. Although the effective strategies introduced should control rather than eliminate the hidden economy. This is because a large part of the income generated in the informal economy returns through spending on goods and services, so the government will have to decide the informal rate in the economy to a tolerable level. A government which aims at reducing the informal economy should analyze the complexity of the relationships that exist between the official and the shadow economy and also to analyze the consequences of its own policy decisions. So, governments are faced with a double challenge: taking policy measures to make work less (or more) attractive to the shadow (or formal) economy and moreover, to have effective political institutions, as an obstacle for selfish politicians. Despite of course the crackdowns there is a need for an in-depth treatment of this phenomenon.

Growing tax consciousness is desirable. The tax consciousness is a subset of a broader consciousness that is essential to social consciousness. It underlies the view that the informal economy and tax evasion is an antisocial phenomenon. Social consciousness is created through education in the broadest sense. There should be incentives for citizens to have greater confidence in the government and to work in the formal economy. So, there will be gains for the country, but this will also benefit citizens through social benefits. There need to be some incentives to comply, for example, in following the accounting procedures without requiring major changes in legislation. We should determine which mechanisms operate more efficiently. Research is needed to take place in order to find the causes that people work in the informal economy and why they follow that kind of behavior.

In Greece there is a mismatch between corruption and poor governance, so the Greek citizen essentially considered it as an infringed in the contract that is has with the government. The Greek taxpayer does not perceive the services that it receives are in line with what he/she pays in taxes. In an economy shrinking at a rapid pace, recovery can only exist if there is a national effort, involving the government in order to resolve these very difficult problems. There should be justice for the average citizen to feel that it is a fair system and treated fairly. These are all very important factors to fight tax evasion and corruption. If people have a bad perception about taxes, do not pay taxes, it is not possible to have someone behind every citizen to police them.

One of those measures that can be introduced in Greece according to Schneider (2012) is to stamp out tax evasion and for better tax collection is the provisional application of the tax amnesty for incomes which has been withheld and tax them with a single rate of 25-30% followed by severe penalties for future violations. The tax



amnesty is a very sensitive issue and requires great attention because firstly, in such ways, if this repeated every time, it would be rewarding bad behavior. Nevertheless, it is required to increase tax collection mechanisms in the public sector, to strengthen them with appropriate equipment and to be introduce perhaps a cash incentive depending on the tax matter that is captured. Provide incentives for households to declare the value added tax and professionals and entrepreneurs to be forced to give receipts and therefore pay VAT. It is still needed to increase the insecurity for potential tax evaders with the release from the tax authorities mass media of tax evaders with the publication of their names. Also, sending letters to taxpayers informing them that they are suspected for tax evasion and imposed as a condition, the payment of an amount to the tax office, otherwise there will be a tax inspection and, if proved evasion, then the applied fine will be twice or three times the amount. Those who want to avoid all these issues are likely to admit their unacceptable behavior to ensure a lower penalty. For the country the main advantage in this case is that with limited resources and small staff extra tax revenue will be generated though a tax amnesty. It could even be decided that for small businesses to pay a fixed amount as tax, a fixed amount of their turnover.

The fight against corruption is also not simply a matter of legislative provisions but political culture and will (Skiadas, 2005). One solution is the strict blockade, without exclusions, from participation in public contracts for three to five years to companies which bribe or take bribes. As well, there should be more support to whistleblowers of unacceptable behavior in companies. Another solution is when there is proven corruption scandals, the redundancy of those involved in public services or the deprivation of pension rights for civil servants and politicians (Schneider, 2012). Even public prudency can be an important tool for corruption. Because often the rich can buy their innocence, the imposition of imprisonment irredeemable, even for a period of three months may be a disincentive. The establishment of an independent regulatory authority, without permanence, with good pay, time-limited mandate and the economic stranglehold of those who serve in it, with targets not the income per se but achieving almost universal compliance of businesses and citizens with a fair, simple and balanced tax structure (Kathimerini, 2012). In order for all measures to be effective in the long term, they should be combined with a change of perception of citizens, political authorities and government officials about the role of the state and state power.

Undeclared work and evasion of labor taxes is also an economic problem that creates obstacles to funding of social services, reduces the system of social protection of individuals and the labor market outlook, affects the conditions of competition and contravenes to the ideals of solidarity and social justice. To remedy this we should reduce the economic incentives that promote this behavior and to change the way of dealing with this issue. It is therefore necessary to design a comprehensive policy and strategy. Involves both the conversion for a job in a “social job” and the intensification of controls and repressive measures to reduce undeclared work and evasion labor taxes. There is a need to simplify the business environment, by removing the disincentives and provide appropriate incentives in the tax and social benefit systems and to improve the ability of law enforcement and the application of sanctions. Also proposed to reduce the amount of taxes and social contributions and a general labor market liberalization. According to Tatsos (2001) that there are social, economic and political costs to be taken into account in the proposals to solve these problems. It is therefore proposed:

- As equitable as it can be the tax treatment of individuals to eliminate differences gross and net earnings which increase incentives for use of undeclared employment.
- Reform of the social security system where both high contributions for social security and other benefits and the lack of return leads to indiscipline and insurance contribution evasion.
- Improve and simplify inspection procedures of enterprises with qualified personnel, equipped with appropriate computers to save time and focus on the quality control and not only on the number of controls.
- Supporting employment for both by limiting institutional infringements labor market and secondly, secondary work.
- Establish a clear institutional framework and apply coordinated immigration policy.

According to Bitzenis and Vlachos (2011) there are thirteen host economies absorbing 99% of the total outward stock of foreign direct investment from Greece in 2009 and they are mainly small open economies. First in receiving foreign direct investment from Greece with 28% is Cyprus, followed by Netherlands, Turkey and Romania accumulated total of 40%, Serbia, financial offshore centers, Bulgaria and the United States accumulate 23%, and Albania, FYROM, Germany, Hong Kong (China) and Austria accumulating a total of 8%. The main motivation is the attractiveness of host economies, with the exception of the Cayman Islands and Bouvet that are financial offshore centers where the low taxes are the incentives (Bitzenis, and Vlahos, 2011).

In December 2012, the Commission presented an action plan to combat tax fraud and evasion in the EU which covers both direct and indirect taxation and provides a series of actions designed to strengthen administrative

cooperation and promote good governance policy. In this plan, there are thirty-four measures for the present and the future and are intended to help member countries to safeguard their tax bases and get back what legally owed to them. They must ensure that all member countries will result in the maximum level of compliance by taxpayers, facilitating the management of transboundary risk and combating fraud and that will stimulate and enhance cooperation between the member countries. Between these measures is the providence for the establishment of measures designed to encourage third countries to apply at least minimum standards of good governance in the tax area. Thus, the Commission recommends member countries to adopt a set of criteria for the identification of third countries which do not meet the minimum criteria of good governance in the tax area and a series of measures that will be applied to non-member countries, depending on whether or not it meets these standards. The measures include the possibility of establishing a "black list" of countries that have not complied and of a renegotiation, the termination or concluding of double taxation conventions. The measures are designed to persuade countries which are not members of the EU and are considered "tax havens" to implement the consolidated standards of governance (European Commission, 2012). Under the coordination of efforts to combat tax evasion and avoidance, the Commission launched in April 2013 a new platform that will consist of approximately 45 members (one senior representative from the tax authority of each member country, and a maximum of fifteen representatives of non-governmental organizations) that will monitor the progress of member countries in counter the aggressive tax planning and also the "tax havens".

Thus, the sample of research which took place in five districts of Thessaloniki cannot be representative for the whole Greece. The proposed research will include a sample size of at least 2,500 people in order to have error  $\pm$  2%. The method often used in Greek national surveys are multi-level sampling. This method is a variation of the sampling block and is particularly suitable for creating samples in cases where there is high dispersion of the population and lack of sampling frame of the population. Certainly, the use of several methods may be particularly useful in a survey, because of the combined benefits of each method, but the process is certainly more time consuming and costly (triangulation) (Zafiropoulos, 2005).

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**ENDNOTES**

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<sup>2</sup> We are grateful to Marios Stavrakakis for the excellent research assistance and to an anonymous referee for the valuable comments.

<sup>3</sup> For an extensive discussion on the definition of the shadow economy see Schneider and Enste (2000) and Feld and Schneider (2010).

<sup>4</sup> For the determinants of corruption see the macroeconomic analysis of Treisman (2000) who argues that democracy has a negative impact on corruption only in the long-run. Openness has to be radical in order to make a noticeable difference, and institutional traditions have a more significant impact than current state policies.

<sup>5</sup> Bureaucrats are bribed either for doing their duty effectively, or for not performing their duty (Bardhan, 2006).

<sup>6</sup> For example, the decentralization process in Germany has created new opportunities for corruption (Von Marivic, 2007). However, the type of centralization is of primary importance (see Echazu and Bose, 2008), as there are studies that reach contradicting conclusions. There is a positive relationship between local autonomy and tax morale, which in turn indicates a negative relationship between local autonomy and the size of the shadow economy (Torgler et al., 2010).

<sup>7</sup> The correlation between high levels of corruption and a large shadow economy implies that corruption drives enterprises out of the formal sector in order to be more competitive. As a result, the development of the formal economy is undermined and the depletion of the tax base diminishes state revenue (Le, 2007).

<sup>8</sup> The issues of the shadow economy and tax evasion have also been the subject of past OECD surveys on the Greek economy (see OECD, 2009: 58-65).