

THE UNDERGROUND ECONOMY IN THE SERVICE SECTOR

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The Bulgarian statistical system defines the scope of the underground economy using the concepts and definitions of the System of National Accounts (SNA) 1993:

"Certain activities may be deliberately concealed from public authorities for the following kinds of reasons:

- (a) to avoid the payment of income, value added or other taxes;
- (b) to avoid the payment of social security contributions;
- (c) to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety or health standards, etc.;
- (d) to avoid complying with certain administrative procedures such as completing statistical questionnaires or other administrative forms.

All these activities are genuine processes of production..."

It is assumed that these activities are legal and the producers are licensed. So the statistical system does not estimate illegal activities.

The transition period of Bulgarian economy creates favourable conditions for the underground economy. This fact can be explained by the gap between the rapid growth of transformations and the clumsy organisation and operation of the economic infrastructure (law system, regulations, tax and custom systems, etc.).

From statistical point of view, the underground activities can be distinguished to statistical underground and economic underground. Statistical underground relates to such activities that are deliberately hidden from statistical authorities. Statistical underground is usually known

as non-response. In the transition period the non-response rate of statistical surveys is very high.

According to the Accounting Law, the enterprises can have single-entry bookkeeping or double-entry bookkeeping and they are obliged to respond annually to the statistical office and the tax authorities. Double-entry bookkeeping enterprises are obliged to present a full set of statistical and accounting reports to the statistical office plus a balance sheet to both tax and statistical offices. Single-entry bookkeeping enterprises present to the tax office a tax declaration and a statistical report for their costs and revenues.

Table 1 shows the non-response rate of some service activities in 1994.

Table 1

Non-response rate of some market and non-profit service activities in 1994

	Units in register	Active units	Response units	Non-response rate - %
Real estate	898	725	654	9,8
Hotels and accommodations	1502	1355	353	73,9
Hairdressing and beauty services	3462	3124	1938	38,0
Research and development	1947	1116	284	74,6
Secondary education	60	46	22	62,2
Higher education	16	11	7	36,4
Adult and other education	2004	1774	1071	39,6
Human health activities	1154	998	509	49,0
Sporting activities	2267	1817	380	79,1
Activities of political parties	99	78	6	92,3

There is also a group of units, (the so called "free professions" and the households as producers of services) that are obliged to show their

revenues only to the tax office. This group is entirely considered as statistical underground.

Economic underground relates to such activities, which are deliberately hidden from financial authorities in order to avoid taxation, social security contributions and etc.

Underground economy has not been an object of research studies by the National Statistical Institute so far. But its considerable scale imposes performing statistical estimates of its share in the generation of gross domestic product. A direct measuring of its scale is impossible. There are numerous interrelations between underground economy and the formal economy, that leave some traces allowing to analyse it and measure its scale.

The estimation of the underground economy in the service sector is done on the basis of a fragmentary analysis. The fragmentary analysis consists of applying different methods, estimations and evaluations to particular activities of underground economy.

One of the main tasks of the Bulgarian statistical system is to identify the activities whose revenues escape from statistical and tax observation. In the service sector, estimates of the following underground activities are compiled:

- real estate activities;
- hotels and other accommodations;
- hairdressing and beauty services;
- education services;
- human healthcare services;
- sporting activities;
- R&D activities;
- activities of political parties.

1. Real estate activities

An estimate is compiled for:

- letting of own property (dwellings);
- activities of real estate agencies.

1.1. The dwelling renters are obliged to declare their revenues in the tax offices. These revenues are underreported, in order to escape taxation.

A statistical estimate is elaborated using:

- data from population census on the number of dwellings rented (last population census was in 1992);
- data from the consumer price survey about average prices of dwellings rented (monthly survey).

About 20 % of the revenues are assumed as intermediate consumption (for current repair of dwellings). The estimates of gross output, intermediate consumption and value added of letting of dwellings are included in production and generation of income accounts of household institutional sector.

1.2. Most of the real estate agencies are not registered in the statistical register. An estimate is compiled, using:

- data from judicial files about the number of contracts for sale of land and dwellings;
- data from consumer price survey about average price of dwellings sold;
- data from household budget survey about expenditure/income from property sold;
- the average percentage of commissions per a contract.

About 98 % of the gross output of real estate agencies is measured on the basis of estimation.

An extrapolation is made for the intermediate consumption, using the information of agencies that have responded to the annual statistical survey. The estimates are included in the non-financial institutional sector of the production and generation of income accounts.

2. Hotels and other tourist accommodations

About 27 % of the gross output of hotels and tourist accommodations is due to estimation. The estimate is elaborated using:

- data about the number of nights spent in tourist accommodations and hotels (from the quarterly survey of the tourists);
- data about the average price per night in different accommodations (from the consumer price survey).

An extrapolation is done for intermediate consumption and the estimate for gross output, intermediate consumption and value added is included in the non-financial institutional sector of production and generation of income accounts.

3. Hairdressing and beauty services

These services are entirely consumed by the households. Two estimates are compiled:

- an estimate based on household budget survey (the expenditure of households for hairdressing and beauty services). This value is often underestimated due to the small number of sample units;
- an estimate based on data from population survey and consumer price survey. Separate estimates are made for the rural and the urban population and for the different age groups.

The Bulgarian national accounts assume the production of hairdressing services as a household production, as the surplus arising from the production usually represents a mixture of two kinds of income, described as "mixed income". The estimates for gross output, intermediate consumption and value added are included in the household institutional sector of production and generation of income accounts.

4. Education activities

Three separate estimates are made for market education services:

- for primary and secondary education;
- for higher education;
- for adult and other education.

4.1. An estimate (based on the number of pupils and the fees paid) is compiled for the output of some private primary and secondary schools. These estimate accounts for 17 % of the gross output of the activity.

4.2. Although obliged by the Accounting Law, some private universities (The American University, The Free University) do not respond to the statistical office. An estimate for their revenues is made, using information from the Ministry of Education about the number of students and the fees paid. Substantial part of their revenues are donations, but no estimate can be done for them.

4.3. Two estimates are compiled for the adult and other education activities:

4.3.1. An estimate is calculated for the so called "private lessons".(The producers of these lessons are mostly teachers employed in state schools. The lessons are given at home and the revenues are not declared to the tax authorities.) Every year about 100 thousand pupils are attending paid private lessons. These value amounts about 53 % of the gross output of these activities. The estimate is included in the household institutional sector of production and generation of income accounts.

4.3.2. An estimate for other education activities is compiled, using the following data sources (the Italian approach):

- household labour force survey (carried out quarterly since September 1993);
- enterprise survey on wages and salaries (carried out quarterly).

A problem arises from the fact, that due to social contribution evasion, most of the units declare wages lower than those actually paid (often minimal wages).

5. Human healthcare services

Most of the private healthcare units are not covered by the statistical reports. They conceal their incomes from the tax authorities (by underreporting revenues and overreporting costs). It often happens that the producers of these services are employed both in the state and private sector. The estimate is compiled from the household budget survey data and the information is included in the non-financial sector of the production and generation of income accounts.

6. Sporting activities

An estimate is derived from enterprise survey of wages and salaries data. A problem is the estimating of the transfer amounts paid and received for sportsmen (football, volleyball and other players). The estimate amounts for 31 % of the gross output of the sporting activities. The estimates for gross output, intermediate consumption and value added are included in the non-financial sector of the production and generation of income accounts.

7. Research and development

R&D activities are a typical example of statistical underground in the transition period. An estimate is compiled using enterprise survey on wages and salaries data and it is included in the non-financial sector of production and generation of income accounts.

8. Activities of political parties

A great part of the political parties' revenues are due to donations and membership fees. The estimate of their revenues is compiled on the basis of National Assembly information (number of members, transfers, fixed assets, donations, etc.). The estimate for gross output, intermediate

consumption and value added are included in the non-profit institutions serving households.

The above mentioned estimates do not cover all areas of underground service activities in Bulgarian economy, but the main goal of our work is to record and estimate the scale of production in these crucial areas, which have a significant influence on GDP level.

Table 2

Share of estimates in gross output of some market service activities in 1993 and 1994

	(Percents)	
	1993	1994
Real estate activities	77,9	86,9
Hotels and tourist accommodations	35,6	27,0
Hairdressing	92,3	93,0
R&D activities	.	26,8
Education activities	29,9	74,4
Human healthcare activities	70,4	80,4
Sporting activities	21,2	30,6
Activities of political parties	.	89,9

Taking into account the lack of information on the scale of underground economy, we would like to carry out the fragmentary analysis combined with the application of some special surveys (for example a sample survey of household expenditure within the underground economy will be suitable). Different methods and different information sources should be applied in order to analyse the underground activities. The estimates of these activities are always characterised by a wide margin of subjectivism. However, taking into account the big share of Bulgarian underground economy, it is better to have rather a proximate estimates than to omit these activities in the national accounts.