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The Weight of Black Trade and Black Services in the National
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National Economy**

by
Imre Bóc - Mátyás Klauber

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Introduction

Kopint-Datorg Rt. has been conducting research on various segments of the black economy. According to our findings, retail trade, household services and foreign currency transactions linked to tourism are of outstanding significance here. In processing data collected from the population - carried out by TÁRKI between 27th November and 8th December, 1995 - non-registered purchases were taken as belonging to the shadow economy. Non-registered purchases were those that occurred in the street, in markets, from ad hoc sellers, in retail shops, without the vendors giving receipts or vouchers.

We also collected empirical data directly pertaining to the phenomenon among users (consumers). The surveys carried out beforehand, based on questioning buyers/users only targeted the certain limited segments of the market in consumer goods and services, and did not combine results of empirical research with the economic background. Consequently they were not suitable for drawing conclusions that would have been valid at the level of the macro-economy. The main objective of this study is to estimate the weight of the black economy using proportions and volumes that can be interpreted at the level of the national economy, and that are characteristic of non-registered goods and services.

The GDP generated in the black economy can, as revenue, be most readily realized in the form of cash through black trading of goods and services. Any opinion that sees a reduction of the black economy as an immediate and perceivable result of a policy of economic restriction, seems to be over-optimistic. In our view, such a result may only be achieved in the long run, through a substantial tax cut and through concerted action, supported by society as a whole, against the black economy.

Foodstuff

We considered markets as the main venue of black trading. However since in respect of foodstuffs, a significant portion of the traditionally legal trading of goods is also carried out in markets, we were not capable of realistically evaluating black trading in foodstuffs. Therefore we forego detailed estimates concerning foodstuffs, though for the sake of providing a complete picture, such data will be included in the summary tables.

The proportion of the black economy is substantial in the area of pleasure goods (ATC, alcohol, tobacco, coffee) and in that of goods subject to excise duty. Although excise supervision is being tightened, the black economy never ceases to look for and find new ways around it. In the total turnover of tobacco products, the black economy is estimated to be at 15-20%, in that of alcoholic beverages at 20%; the resulting tax loss is some *HUF 14-18 Bn* (HUF 8-10 Bn in the case of tobacco products and HUF 6-8 Bn in alcoholic beverages).¹ The two major channels of black trading are the smuggling into Hungary of counterfeit brands and the faked exporting of locally made cigarettes, to be followed by their re-importation and illegal sale in Hungary².

As a result of the rise on tobacco and alcoholic beverages taxes effected on 1st January, 1996, about two thirds of the price of *cigarettes* is tax. The measure of putting up taxes had failed in 1994, resulting in a 21% drop in sales in 1995; in addition, and owing to the tax increase, the market continued to contract³.

Following the introduction of the revenue seals, *counterfeit seals* appeared in the market. Domestic finished goods are also faked⁴. Part of the excise duty increase implemented in 1996 is pocketed by the producers of spirits, but it is still not certain whether the tax rise results in an increase of tax revenues or will facilitates the expansion of the black economy. According to expert opinion, the tax loss in the spirits market is HUF 10 Bn, in the tobacco market it is HUF 6-10 Bn, and in the wine market it amounts to HUF 1-1.5 Bn, all as a result of the black market⁵.

¹ See *Napi Gazdaság*, (Daily Economy, a daily paper) 10th June, 1995.

² The black trading for cigarettes has reached a level which has prompted manufacturers to resort to demonstrative measures. For instance, the Pécs Tobacco Factory, in order to break black trading, reduced its prices from March, 1995, by up to HUF 10 for its most popular products. The factory also intended through this price cut, to put pressure on the government to make it employ more efficient measures against the black economy, since the price cut also results in a drop of tax revenues, although the revenue loss of the factory was about twice as large as that of the state (*Világgazdaság* (World Economy) 3rd March, 1995)

³ *Népszabadság* (daily paper) 16th November, 1995

⁴ *Népszabadság* 13th December, 1995

⁵ *Népszabadság* 5th January, 1996

Besides the HUF 13 Bn of taxes paid by the *brewing industry*, the home breweries that are difficult to control, failed to pay in almost *half a billion HUF*, according to estimates⁶. For beer, tax makes up over 70% of its price; the share of the black market is at least 30%, and the tax loss in 1995 is estimated at HUF 10 Bn.⁷

According to Nestlé the black economy in the *confectionary*, black trade in coffee included, makes up about 30% of total turnover.⁸ According to Nestlé, some 20% of the coffee market, with a total of HUF 20 Bn in turnover, is realized in the black market, ever since the customs duty, the 20% excise tax, the 25% VAT and the revenue seal put up prices to unreasonable levels. Even in smaller shops, there are products priced 30-40% lower than local products, and these can only have originated from illegal sources. Nestlé cannot compete with that and so will withdraw from the roasted coffee roasting sector.⁹

Table 1.

The distribution of foodstuff's and of other consumable's purchase by market segment and the estimated share of non-registered trade (%)

Commodity group	Market-place or street vendor	Big shop	Small shop		Total trade	Estimated share of non-registered trade
			its total trade	non-receipted trade out of its total trade		
Fruits and vegetables	57.3	13.9	28.8	4.5	100.0	61.9
Meat	12.2	45.9	42.0	1.2	100.0	13.4
Other foodstuff	3.8	46.4	49.6	1.0	100.0	4.8
Cigarette	12.9	28.6	58.5	2.7	100.0	15.6
Alcoholic beverages	7.9	53.8	38.3	7.8	100.0	15.8
Coffee	8.5	43.0	43.0	0.5	100.0	9.0

6 R. Sz.: Home breweries difficult to control, *Népszabadság* 16th November, 1995

7 *Népszabadság* 7th December, 1995

8 Customs duty cut against the black economy (Feketegazdaság ellen vámcsökkentés), *Világ gazdaság*, 16th April, 1996.

9 *Népszabadság* 27th December, 1995

One of the characteristic methods the black trade employs is when the principal of the forwarder uses a counterfeit stamp to certify customs clearance, for the forwarder, on the basis of the TIR card, at the points of loading. This is primarily worth risking in the case of products subject to high tax (cigarettes, spirits). When, at a later stage, it turns out that the TIR card of the forwarder has been used for abuse by the principal, the company disappears or is turned into bankruptcy, the goods having been sold a long time before. In such cases the foreign customs authorities start proceedings against the forwarder, innocent though he has been. On a lorryload of cigarettes the customs duty on DM 2 Mn can be saved. This sort of manipulation started back in 1992 and was recognized in 1993 for the first time, when the discrepancy was noticed between goods arrived through the border and those cleared.

Manufactured Goods

According to the results of the questionnaire survey, non-registered purchases account for a significant portion of purchases; the percentage strongly varies by commodity group. Non-registered purchases were those that occurred in the street, in markets, from ad hoc sellers, in retail shops, without the vendors giving receipts or vouchers. We assessed the percentage of cases when the vendor does give a receipt, in retail shops and in the case of used clothing items. *According to the results of the survey, no receipt or voucher is issued for 11% of the purchases in small retail shops of clothing items, for 7% of purchases in shops selling of other manufactured goods and for 32% of purchases in shops selling used clothing items.*

It is assumed that the share of non-registered turnover varies by commodity group, therefore this share within purchases in shops was assessed by commodity group

Table 2.

Distribution of value of industrial commodities (%)

	Large shop	Small shop		Street, market seller	Used items			Total
			of which non-reg.			of which non-reg.		
Underwear	38.1	27.1	2.5	34.4	0.4	0.0	100	37.0
Overwear	36.9	34.6	4.0	24.7	3.8	0.9	100	29.6
Shoes	47.0	34.2	3.3	18.5	0.3	0.0	100	21.8
Cosmetics, parfumes	57.4	28.8	0.8	13.7	*	*	100	14.5
Detergents	54.5	34.9	0.8	10.6	*	*	100	11.4
Sports goods, toys	47.9	37.4	0.3	14.7	**	*	100	15.0
Tools	57.2	35.1	2.0	7.7	*	*	100	9.7
Plastic-, glassware	52.4	38.0	0.6	9.6	*	*	100	10.2
Video, audio cassettes	76.1	18.7	0.5	5.2	*	*	100	5.7
Batteries	43.7	48.3	2.0	8.0	*	*	100	10.0
CD s	53.9	44.3	4.0	1.8	*	*	100	5.9

* No such answer applicable to industrial articles

23% of the expenditures on *clothing items* was on goods bought in the street or markets from ad hoc sellers; another 2% was spent on used articles. *Non-registered purchases accounted for 27% of the total turnover of clothing items.* The majority of non-registered turnover is accounted for by products bought from ad hoc sellers, in streets and in markets. In the underwear category, this share is close to 40%, while for overwear it is near 30% and for shoes it is almost 22%. *In respect of the lower prices of non-registered goods, the volume percentages must even be higher than the above value percentages.* If it is agreed that black market prices are at least one third lower than legitimate prices, the statement may be ventured that over half of the underwear purchases, almost half of ready made clothing items and about one third of shoes are purchased on the black market.

The survey, on account of the limitations of the questionnaire method, only reveals non-registered purchases of end users. *Non-registered trade, however, is not limited to retail trading, it accompanies each phase in the chain,* from the producer, or crossing the border, from the importer, through wholesale and retail trading, to the customer. Indeed, *goods may cross sectors several times, from registered into non-registered, and back.*

The aim of retailers is to avoid paying various taxes. For them, it is immaterial which goods they sell without issuing certificates. Their primary target is to find the largest volume of goods, the illegitimate selling of which results in the saving of the largest volume of taxes, without attracting the attention of the tax authorities. Often, in their purchasing they combine legal and illegitimate sources, and in selling, they also alternately give a receipt or not. This stated, the source and the course of most of the goods may be traced or at least estimated.

For underwear, legitimate and illegitimate goods are, in the majority of cases, not distinguishable. The majority of items come from the Far East or Turkey, and cannot bypass customs, on account of the large volume and low unit value involved. However, in the customs documents, the price indicated is impossibly low, or the goods and the volumes are falsely declared. This is indicated by the fact that underwear items are sold in markets at a lower price than their realistic procurement price plus customs duty plus VAT. Accordingly, some of the underwear items that are customs cleared and sold with a receipt, include black elements. Underwear items include goods smuggled in the classical sense of the term (imported in the luggage), such as for instance the Romanian underwear sold in streets and in markets by illegal vendors. Taking all this into account, for this commodity group, as also for the categories of clothing items, *the*

results of the survey can only be regarded as the lower limit of the non-registered trade turnover.

For ready made overwear items, the assumed high proportion of non-registered local production is a new element, in comparison with underwear. In this category the proportion of Chinese and of used, bulk items is high.

In the category of *shoes* Italian, Turkish and Chinese goods dominate non-registered trade, but again, there is a high percentage of Romanian luggage imports.

Of other manufactured articles, 56% is purchased in large stores, 33.5% in small shops and 10.5% from street and market vendors. Accordingly, the share of non-registered trade is less significant than it is in the case of clothing items, and is a mere 12%.

The non-registered turnover of *perfumes and cosmetics* accounts for some 15% of the total turnover. Counterfeit and/or smuggled perfumes and cosmetics that do not meet domestic health standards account for a substantial portion of this 15%.

For *detergents*, some 11% of the turnover is black; the majority are manufactured in Hungary, put into circulation by the manufacturer or the wholesaler in a legitimate form, accompanied by vouchers, which, some retailers transfer to vendors selling without receipts, even at prices lower than the procurement price plus VAT. The gain in this form of transaction is realized through re-claiming VAT on the ostensibly unprofitable business.

The commodity group of *sports articles and toys* is highly diversified, the share of non-registered trade is relatively high here, being about 15%.

In the category of *dry batteries* (10%) there are brand names and no-names as well, and there is some "luggage import". The non-registered trade results in the loss of the VAT, of the customs duty and of the environmental product charge.

The 6% share of non-registered trade of *CD s* is a modest share, even within the commodity group. This product is still something of a luxury item in Hungary, and those who do own a CD player, are not motivated to buy black.

Of the turnover in *construction materials and fuels* some 6% is non-registered. In 1995, certain construction materials were in short supply and this also contributed to certain distributors favouring buyers who did not want receipts. But purchase without receipt also occurs in a situation of over-supply as well, when the constructor cannot or need not charge (book) the costs of construction. It must also be noted that the survey

was limited to household procurements, it did not cover public and institutional procurements and these account for a substantial share of turnover in this segment.

We performed a separate survey of procurements and issuance of receipts for certain *manufactured goods*, the black turnover of which we assumed to be significant.

Table 3.

Share of non-registered purchases of certain manufactured goods (%)

	Black sales as a % of the number of purchases	Portion of value of products sold in the black market as a % of the total turnover	Average black market price as a % of the legitimate market price
Wristwatch	41.3	23.1	45.5
Gold, silver jewellery	20.8	11.5	51.8
(Pocket) calculator	38.7	14.3	32.8

In 1995 over 40% of those who bought a *wristwatch* were not given a receipt, or letter of warranty. Since all wristwatches are imported, a good deal of smuggling may be assumed. The average price of wristwatches sold in the black market is somewhat less than half the price charged in legitimate shops (HUF 1,596, as opposed to HUF 3,510). As a result of the price difference, those buying without receiving a receipt, accounted for a far lower percentage in terms of HUF spent (23%), than their proportion in terms of the total number of watches bought. This, however, does not mean that the price level in the black market was so much lower than that of watches sold accompanied by receipt, since it can be assumed that there are a great many cheap, poor quality and, in some cases, counterfeit goods sold on the black market.

Over 20% of those who had bought *precious metal jewellery* reported not received any receipt at all. Since in the legitimate shops only hallmarked goods can be sold, it is assumed that the non-registered purchases were, for the most part, of goods smuggled from Turkey, Greece or Serbia, illegally sold for fractions of the legitimate Hungarian prices. The average price of jewellery bought black is barely over half of legitimate goods; however, conclusions may not be drawn concerning price levels, since the survey indicates the average price at the times of purchasing. At any rate, it is clear that the value of black trading accounts for some 12% of the total turnover here.

Almost 39% of the turnover *in pocket calculators* takes place in the non-registered sphere. The proportion of the black market in terms of value accounts for only 14% of all sales. This indicates both that prices are lower in the black market, which is where the majority of poor quality bulk goods are sold. All of these goods come from the Far East, which permits the presumption that a great many of them have been smuggled in.

Of *durable consumer goods*, according to the results of the survey, the buyers were given certificates of warranty only in some 78% of the cases. The question pertaining to this certificate was aimed at disclosing the frequency of illegitimate sales. The frequency varied by item. For articles where there is a significant difference between the local and the foreign price (computers, VCR s, cell phones) the percentage was higher than for those (washing machines, microwave ovens) where the prices charged locally are either not higher, or only a little higher, than the prices at which such commodities are available abroad.

Table 4.

Breakdown of purchases of durable commodities by registered and non-registered source

	Frequency of non-registered purchases(%)
Washing machine	5.9
Television	11.6
Computer	44.4
Camera	0.0
VCR	33.3
Microwave oven	5.0
Sowing machine	50.0
Heater	13.6
Furniture	21.0
Percolator	35.0
Hand mixer	37.5
Food processor	7.7
Toaster	30.0
Cell phone	37.5
Walkman	22.2
CD player	25.0
Other electrical appliances	13.7
Durable consumer goods, total	21.6

In the turnover of *entertainment electronic goods* (television set, cell phone, walkman, VCR) black market sales, and within them, those of smuggled goods, account for a considerable percentage. Although households are well supplied with these articles, their replacement rate is quite high, as a consequence of their planned obsolescence.

The decline in living standards does not restrict the market in precious metals, since acquisitions here are aimed at retaining profits. The share of the illegitimate trade in gold jewellery in Hungary is estimated to represent 40%, according to traders involved. The survey only reflected a small portion of that.

Taxes and other charges payable on imported gold make up some 150%. Consequently gold traders bought gold from the National Bank of Hungary, exported it - mostly to Italy - processed it and then re-imported as lease work for sale. Taxes could be saved and substantial profits made in this way. If more gold was imported in the form of jewels than exported unprocessed, the tax gap between the significantly lower foreign price and the higher local price could be retained as further substantial profit.

The proportion of illegally imports is extremely high from countries where gold is inexpensive. Since there is no Hungarian hallmark on such goods, these are hard to sell. As a result, smuggled goods are sold, increasingly often, with counterfeit hallmark. The authorities have confiscated some 20 kg of gold jewellery with fake hallmarks over the past three years, but it is estimated that the volume illegitimately sold was several times more. According to the head of the controlling department of the Nemesfémvizsgáló és Hitelesítő Intézet (Institution for Verification of Precious Metals) the only efficient way to restrict counterfeiting would be to reduce the taxes on gold to the European levels. A reduction of taxes would not only cut back black trade but would also increase the revenues to the treasury¹⁰. This course has been tried in Slovenia where taxes on precious metals were cut for a year, on a temporary basis. Traders in precious metals undertook to pay the difference if the revenues to the treasury declined over that period. They did not have to pay, the legitimate traders regained their market and the state got its revenues.^{11 12}

10 Zoltán Gaál: Fake hallmark of gold jewellery (Hamis fémjel az arany ékszereken) Magyar Hírlap (daily paper) 14th March, 1995.

11 *Népszabadság*, 22nd May, 1995

12 *Népszabadság*, 15th December, 1995

Services

Almost half (42.5%) of the respondents used *technical services* without asking for a receipt. The non-invoiced portion of such services, however, only accounted for about 30% of the total expenditure on such services, of which tips accounted to for 1.4%, related primarily to services provided accompanied with an invoice. This significant discrepancy indicates that, as in the case of other manufactured articles, in this range the value of the non-invoiced items tends to be far lower than that of those invoiced. This also results from the fact that some users of such services charge these expenses to their businesses, and demand a warranty on such services.

Table 5.

Frequency of purchase of certain services, and the percentages on non-registered incomes (%)

Type of service	Non-registered purchase as a % of the total of procurements	Portion of non-invoiced value *	Tips for the total of procurements*
Repairs of household appliances	32.5	28.8	2.5
Painting, wall papering	67.3	32.9	0.9
Water and gas supplies, repairs of	32.9	10.4	2.0
Electrical repairs	69.2	22.2	0.2
Brick layer's, joiner's	73.5	44.3	1.7
Car repairs	32.9	19.4	1.0
Forwarding	45.0	46.2	0.8
Technical type services, total	42.5	29.5	1.4
Hairdresser's beautician's	56.6	54.2	2.3
Shoe repairs	54.2	40.2	0.1
Laundry	10.3	23.8	0.0
Tailor	69.8	71.4	0.1
Personal services, total	57.2	52.3	1.9
Dentist	67.1	52.0	-
Physician, homeopath	94.6	76.7	-
Hospital	96.9	95.8	-
Health services total	89.3	62.9	-
Training/educational services total	69.0	46.4	-

* Not weighted, scaled up for a whole year

The proportion of black services of household repairs (except for water and gas repairs) is exceptionally high, generally over two-thirds. The exception is an indication of that the official regulations may restrict non-registered use of services.

Non-registered services account for an exceptionally high proportion in *personal services* - with the exception of laundry services. Here the use of the services of hairdressers, beauticians, shoe repairers, tailors is over 50%, in terms of frequency. The portion of tips, however, is negligible, not observed outside the category of hairdressers and beauticians.

This indicates that where there is no receipt issued, the tip is not separated in the view of the customer from the rest of the amount paid. This is especially true of *health services*, the majority of which are available free of charge, through the social security system.

The unofficial "fees" given in exchange for health care services are seen by the respondents not as tips, but as a consideration for the service. Accordingly, in 90% of the cases they report non-registered cash movements. This percentage was highest in the case of hospital care (96.9%), amounting to 95.8% of the total hospitalization expenditures. An exception to the general trend is dental services, where registered payments account for one third of the cases and only half of the costs of treatment go unregistered. This is an obvious sign of the fact that the majority of dental services have been taken off the list of free of charge health services, and the survey covered the period that happened.

According to estimates made by the profession, tips in the health care services may amount to some 0.6% of the GDP, or HUF 13-30 Bn. The estimate is that no more than some 10-20% thereof is stated in the income tax returns¹³.

In some two thirds of the cases *educational services* were used without asking for receipts. The prices of organized teaching/training forms are far above the level that has developed in the non-registered market, which is indicated by the fact that about half of the expenditures fall into the non-registered category. The survey also revealed that where the teaching method does not require any special material facilities, such as language teaching at home, coaching at home, non-registered use of the services is far more extensive than in the cases where facilities are required, such as sports or access to computers.

13 *Népszabadság*, 13th October, 1995

The survey did not cover financial services - banking, insurance - the frequency of which cannot be assessed using the questionnaire method.

Macro-economic Consequences

The data for each commodity type obtained from the survey, scaled up for a full year period, after summing up the results and weighting them, multiplying the cases of the number of the sample to the total number of families, the total value of the assessed goods and services could be macro-estimated.

Our estimates of the black economy are primarily aimed at establishing proportions. The actual development of the black economy can only be monitored through repeated performance of empirical surveys of identical or very similar methods, since these can show the dynamic of changes in the proportions of the black economy in the various sectors of the economy. The distortions of the results yielded by such repeated surveys, resulting from the methodology of the survey, are identical; therefore the results indicate changes with no significant distortions.

The *non-registered expenditures* indicated by the survey *include goods purchased and sold for the purpose of tax evasion, along with such services rendered for payment of consideration, tips and the whole of the turnover of the food sector.* Of the last category, only a small portion is seen as aimed at tax evasion, since the obligations of tax payment and to issue receipts on the part of agricultural producers is much narrower than those of all the other actors of the economy.

In markets, the buyer occasionally receives a receipt, especially in those units that operate there as shops. The range of the total turnover was not assessed, e.g. car purchases, fuel purchases and among services, residential construction and catering was not included in the questionnaire. The latter two would be hardly possible to separate on the basis of the statistics. In the case of turnover included in the retail trade but not assessed, we assumed proportions similar to those of the assessed turnover. This results in a slight distortion of the final results.

The assessment of manufactured articles does not cover all purchases; it asked questions pertaining to goods where the proportion of the black economy is higher than the average. This also results in some distortion of the results, but distortions in the opposite direction are also possible.

Table 6.

Estimate of the assessed segments of the shadow economy, from the aspect of the national economy

	Expenditure structure of households %	Estimated registered expenditures HUF Bn	Estimated non-registered expenditures HUF Bn	Breakdown of non-registered expenditures by expenditure group	Expenditures, total HUF Bn	Non-registered turnover as a percentage of the registered turnover
	1	2	3	4	5(2+3)	6(3/2)
Foodstuffs and ATC net of catering	34.5	1.096	177	20.6	1.273	16.1
Clothing items	7.7	244	84	9.8	328	34.4
Other manufactured goods	29.0	920	256	29.8	1.176	27.8
Retail turnover, total	71.2	2.260	517	60.2	2.777	22.9
Services	15.5	492	341	39.8	833	69.3
Total surveyed range	86.7	2.752	858	100.0	3.610	31.2
Catering	6.8	-	-	-	-	-
Residential construction and acquisition	6.5	-	-	-	-	-
Total	100	-	-	-	-	-

Source: Household budget 1989 -1991 CSO, 1993
Retail trade, catering, CSO, 1995/10
Statistical yearbook, 1994 CSO, 1995.

Using the proportions yielded by the survey, we made an estimate of the non-registered turnover not included in the assessed turnover. The basis of the estimate is the assumption that as a result of the survey we received relevant information on the non-registered turnover of certain products that also account for substantial portions of the black economy, and on the black use of certain services.

To calculate this, first the amount of the turnover in 1995 of the assessed commodity groups had to be defined, within the total expenditures of households. This was calculated by projecting the 1995 turnover for the retail trade at current prices, on the basis of the 1994 annual and the 1995 January to November data. We also assumed that the total range of the expenditures of households is better assessed by household statistics than by a single questionnaire assessment. Consequently, the structure of the registered sales turnover of the retail sector was calculated on the basis of household statistics.

For the retail turnover broken down by main commodity groups, we developed the estimated total values of non-registered turnover, using black market ratios. The same procedure was followed in the case of services.

In the evaluating the proportions, it should not be forgotten that these are value ratios, which cover far larger volumes, as a result of the lower prices prevailing in the black market.

The estimated non-registered expenditures come up to 31.2% of the registered expenditures; in other words, in the shadow economy in the assessed range of goods and services, shoppers spent about a third of the amounts spent in the legitimate economy.

Within the various main groups of expenditure, the proportion of non-registered turnover compared to registered turnover is between 17% and 69%, reflecting large differences. The survey revealed that in the case of food and ATC purchases, which account for the majority of the expenditures of households, some 14% is non-registered, while over one third of the total black expenditures are on foods and ATC.

Non-registered turnover is 34% and 27% for the clothing and miscellaneous industrial products markets, while the shares of these groups are over 14% and 16% of the assessed non-registered turnover, respectively.

The portion of non-registered expenditures compared to registered expenditures is highest in the area of services (69%). Services are not linked to movement of goods, therefore opportunities for tax inspection are limited. As the share of services in total expenditures is increasing, in line with world-wide trends, so is their weight within the shadow economy on the increase. This trend is intensified by the fact that some services formerly free of charge in Hungary have been transferred into the range of services to be paid for. According to the survey, services account for about half of the total assessed shadow economy.

The shadow economy had been present in the Hungarian economy prior to 1989. Indeed, even though its dimensions were smaller than they now are, it may be said that, under the conditions of the "shortage economy", that economy itself was supported by the hidden economy; the latter, in terms of its forms, differed from the current hidden economy, as a matter of course. At that time it was not recognized that the hidden economy can primarily be restricted, not through administrative means, but through the elimination of the causes that had given rise to it.

Along with the transformation of the system, with the expansion of the market economy, the dimensions of the hidden economy also increased considerably. But this is not primarily a result of the market economy; the market economy only provided new opportunities. **The expansion of the hidden economy is primarily a result of inflation and over-taxation.** Inflation figures since, with the inflation of wages and other incomes, the stratum of society which can only make ends meet through black purchases is increasing; over-taxation figures since, as a result of the high rates of VAT and personal income tax, the advantages in bypassing legal channels are substantial and clearly attractive.

The majority of GDP the hidden economy generates is generated in the private sector. According to the already cited GKI study (calculations by rvai-Vértes) this portion is almost 90%.

The majority of the black economy is realized in monetary processes. People are spending much more than what they earn officially. This is also reflected by the established high portion of non-registered turnover of retail trade and services.

Legitimate, illegitimate and semi-legitimate activities are almost completely mixed up in the economy, not only inseparably but also in a way that is hard to recognize. Although the choice of the methods and their features may seem to be of an ad hoc nature, it is nevertheless seen as important to study this segment of the real economy. This is what we have attempted to do.

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