Implications of Economic Criminality on Economic and Energy Policy in Countries in Transition

By Jerzy Michna*

Economies in transition (first of all, the Polish economy) are entering the stage at which the losses created by the economic recession at the beginning of the transformation process are being recovered. It is reasonable to say that the main impediments experienced at first have been overcome. At present the countries in transition are striving to optimize social-economic policy so as to develop their economies in the most effective way and as fast as possible (2,3).

Some impediments that originated at the beginning of the transformation processes in Central and East European countries, still exist (3), but their diagnosis, (particularly as far as the results and methods of quantification are concerned) is more difficult than ever (1).

This is because changes in management have been introduced without (or with very little) experience; in addition there are a great number of factors to be considered and the relation between them and the changes they describe are fuzzy in nature.

For further development of the system and its transformation it is very important to be able to estimate covert activities that do not comply with the principles of moral behavior.

The observance of these principles is deemed ethical. But in each society there are individuals and organizations who do not observe ethical principles and commit wrong-doings deemed punishable and criminal.

In each country economic activities, irrespective of the degree of economic liberty, are organized by a system of laws, including: economic law, property law, enterprise law, etc.

The activities of the government and other economic institutions designed to influence the level and distribution of social products are called economic policy.

In economic policy, it is possible to distinguish four main areas:

- **Order policy**, where the main goal is to create order in the economic system; the bases for such policy are the legal standards which create the long-term framework for the economic operation of the state (or other economic institutions),
- **Business conditions policy**, which influences long-term price and employment fluctuations,
- **Distribution policy of the state**, which creates and distributes social assistance benefits,
- **Structural policy**, which is determined by a system of laws that support the development of the economy and especially civil engineering activities.

In spite of the existing systems of principles and governmental activities, economic criminality can be observed all over the world, and in very diversified forms. The reasons, although different from country to country, may be generally divided into: political, economic and social. In analyzing criminality in each country, the following criminal activities may be observed:

- **Corruption**, the moral decay of political life whereby public position is used to achieve profit,
- **Speculation**, operation based only on simple facts (without any consideration given to scientific research results and analyses),
- **Manipulation**, the exerting of influence or control over some individuals without them being aware of it,
- **Protection**, supporting persons or institutions by special methods and behavior (preferential rights, priorities),
- **Monopolization**, control of the market by only one producer (or one buyer) and the resulting capability of dictating prices,
- **Organized criminality**, organised groups formed to achieve (punishable) activities; they can act openly (lobby) or clandestinely (Mafia), and
- **Grey economy**, part of the economic activities for which no (or not all) taxes are paid.

All the above criminal activities are very difficult to quantify, both as to their range and the effects they produce, as there is limited access to the required information and the possibility of obtaining falsified information. Therefore, the parameters describing them are fuzzy.

Practically, in the course of research and analyses – still not very numerous – it is not possible to quantify and project the dimensions of some parts of criminal activities. The applied methods do not provide generally accepted results. Therefore, results can only be estimated as a value in a probable time interval.

Despite the fuzzy nature of the above mentioned factors, research shows (2,4) that considerable economic criminality also occurs in developed countries. But, typically, there is a wide range. For example, Prof. F. Schneider's (1994) evaluation of the percentage of GDP obtained from the "grey economy" showed the following percentages:

- Italy - 23.4%, Belgium - 19.6%, Great Britain - 18.4%, Sweden - 16.7%, France - 14.2%, Netherlands - 13.9%, Germany - 13.1%, USA - 8.6% and Austria - 6.7%

It can be posited that for each country, the degree of economic criminality is influenced by problems experienced by the country. The differences between economic criminality in the developed countries and in countries undergoing a transformation from centrally-controlled to market economy result mainly from a different organization of social and economic life and the stabilization of some trends in the development of a given country. This means that there should be fewer sources of economic criminality in the transformed countries. Such a conclusion is confirmed by the results of the latest research carried out in some Central and East European countries concerning the estimation of the share of the "grey economy" in GDP (4). All results have stressed essential difficulties in obtaining data; nevertheless, the share of the "grey economy" in these countries is estimated to be in the range of 30 - 40 percent of GDP.

The economic conditions in the countries that have undergone the transformation process are influenced by the following factors (1,4):

---

* Jerzy Michna is Senior Advisor in the Institute of Environmental Engineering of the Polish Academy of Sciences, Zabrze, Poland.
Level of economic efficiency. There were great differences in the level of economic efficiency between economic entities operating in the centrally-controlled economies; it must be stressed that these differences did not arise due to inefficiency of work but arose as a consequence of applying the principles of central planning methods – especially in the area of distribution of investments, innovation and renovation funds.

- Destabilization caused by the introduction of change,
- Relative low level of products and services and the subsequent unstable position on the world markets,
- Extensive replacement of elites,
- Changes in economic policy objectives,
- Changes in external policies,
- Structural and legal changes,
- Industry restructuring,
- Dynamic development of environmental protection activities,
- Privatization of state property,
- Relative low income levels,
- Big diversification of economic offerings from institutions representing the developed countries,
- Considerable decrease of economic cooperation between former Comecon countries,
- Essential changes in statistical data,
- Low efficiency of control over some state institutions such as banks, tax offices and police forces,
- Low level of telecommunication systems,
- Uncertainty of references provided by local firms and enterprises, and
- Uncertainty of references provided by foreign companies and enterprises.

The influences of the above transition period problems are also observed in the directions of these countries’ energy policies. Consequently, (1,4) the observed implications of economic criminality to the energy efficiency sphere are as follows:

- Decrease of the official parameters of energy intensity of countries which transform their economies,
- Smaller state budget subsidies and fewer possibilities of supporting energy conservation activities,
- Implementation of solutions that are not most efficient and innovative,
- Development of non-competitive companies and enterprises,
- Opening the possibilities for the operation of external companies and enterprises without the best references,
- Inefficient privatization; the main concern being given to the price that could be fetched for the privatized company,
- Smaller support of efficient changes in the structure of the home economy,
- Inefficient use of capital directed to environmental protection activities,
- Strengthened power of monopolist companies by means of energy prices and tariffs construction,
- Essential share of speculation – making profits from energy policy,
- Increase of relatively inefficient decisions at the state and municipal levels,
- Lowered efficiency of using external capital sources,
- Support of inefficient and expensive services performed by foreign companies and enterprises,
- Lowered demand for research – especially with regard to home research institutes, and
- Considerable enrichment of some institutions and individuals whose achievements in the implementation of real innovation are questionable.

The discussed studies (1,4) have also shown that, in spite of the considerable impact of economic criminality on the economic growth of the countries in the transition period, there are few recommendations on how to decrease the sphere of criminal activities. To illustrate their range the relation between the level of economic criminality and energy conservation effects may be examined. The research results have also stressed the global character of economic criminality and its tendency to grow (also in the developed countries).

Therefore, for the sake of the common good it is necessary to develop research and studies that could contribute to the reduction of this negative phenomenon that occurs in the course of the global economic development.

References


(3) F. Krawczynski, J. Michna: External impediments to the formulation economic and energy policy by transition countries, GEJ, London 1996/5-6.


Asian Oil Demand (continued from page 25)


2 See, Chapter 1 of the World Energy Outlook for a detailed presentation and discussion of key assumptions for the projections.

3 For a discussion on the outlook for all fuel types in DARs, see also “Long-Term Trends in Asian Energy” by F. Birol and T. Inui, The OECD Observer, No. 201 August/September 1996.

4 For a detailed analysis of a medium term world oil supply outlook, see Global Offshore Oil Prospects to 2000, IEA/OECD (1996).

3 See, World Energy Outlook, Chapter 1, pp. 41-45.
Energy Economics

For Professionals Concerned with Economic Analysis of Energy Issues

NOW:

Increased frequency!
(from 4 to 6 issues a year)

EDITOR:
Derek W. Bunn
London Business School
Sussex Place, Regent’s Park
London NW1 4SA, UK

SUBSCRIPTION DATA
1997: Volume 19 (6 issues)
Subscription price:
NLG 850.00 (US$525.00)
ISSN 0140-9883

For members of the International Association for Energy Economics (IAEE) Special Member Price:
US$ 90.00

AIMS AND SCOPE

Energy Economics is the pre-eminent international journal in its field. For nearly twenty years, it has provided a respected and well-cited forum for papers concerned with the modelling and economic analysis of energy systems and issues. Contributions to this theme can arise from a number of disciplines, including economic theory, regulatory economics, statistics, econometrics, industry simulation, operational research and strategic modelling. A wide interpretation of the subject is encouraged to include, for example, issues related to forecasting, financing, pricing, investment, development, policy, conservation, regulation and the environment.

Recent and Forthcoming Papers in 1997:
* Open Access versus Common Carriage in Electricity Supply
* Domestic Merger Policy in an International Oligopoly: The Nordic Electricity Market
* Short and Long-run Elasticities in US Residential Electricity Demand
* Stabilising Energy Related CO2 Emissions for India
* Economic Growth, International Competitiveness and Environmental Protection
* Coal Subsidisation and Nuclear Phase-Out in a General Equilibrium Model for Germany

Special Issues Forthcoming on:
Climate Change
Electricity Restructuring
Position Available

Senior Fellow in Global Energy and Development Strategies

EPRI powers progress! Our network of great minds and strategic alliances provide innovative technological solutions for the electric industry. Join us as we reinvent the potential of electric power for the year 2000 and beyond.

EPRI announces a senior position to launch and guide a new research program in Strategic Global Energy Issues. EPRI seeks a highly qualified and internationally recognized researcher in economics or a related discipline, with a specialization in energy, environment and international development.

Responsibilities will include:

- Developing and directing a $2 million/year research program in energy issues related to sustainable global development;
- Engaging:
  - EPRI staff in the development and conduct of the program,
  - Principal external participants representing centers of excellence in the fields of economics, technology, social and political science, and the environment in sponsored research with specified deliverables,
  - Respondents to review and evaluate the research,
  - External organizations in cosponsorship of the research with contributions of effort, facilities and funds, and
  - Recruiting a leading figure from one of the fields of study above to chair a high-level annual progress seminar the Spring of each year, beginning in 1998, for the principal external research participants, respondents and a selected audience of decision leaders;
- Planning, facilitating and reporting program activities and events;
- Integrating and communicating research findings with appropriate audiences; and
- Providing program continuity for successive event chairs and participants, including maintaining a resource database for global energy and development.

Candidates will be evaluated on their:

- Quality and significance of research and its applicability to global development issues;
- Leadership accomplishments, networking and interpersonal skills; and
- Demonstrated ability to integrate input from multiple contributors and deliver timely results.

The position is a full-time, fixed term post for up to 3 years, with options to renew for subsequent periods, salary commensurate with qualifications and experience. EPRI will also consider applications for part-time, academic year, or sabbatical leave employment based on the excellence of their other qualifications.

The position is ideally suited to an accomplished individual in academic, institute or government service desiring a mid-career change in pace, perspective or location, with good visibility and opportunities for continued research, networking and professional advancement. Most important, this position offers a committed and caring person the chance to make a significant contribution to global sustainability.

The position will report to the Director of Strategic Research and Development, who reports directly to the President and CEO of EPRI, an advocate of this new program. Strategic R&D is an Institute-wide activity to promote creative, important and forward-looking research. EPRI is an equal opportunity employer; we actively seek to promote staff diversity.

Conference Proceedings

17th North American Conference
Boston, Massachusetts, October 27-30, 1996

The Proceedings from the 17th Annual North American Conference of the USAEE/IAEE held in Boston, MA, are now available from IAEE Headquarters. Entitled (De)Regulation of Energy: Intersecting Business, Economics and Policy, the proceedings are available to members for $65.00 and to nonmembers for $85.00 (includes postage). Payment must be made in U.S. dollars with checks drawn on U.S. banks. To order copies, please complete the form below and mail together with your check to:

Order Department, USAEE/IAEE Headquarters, 28790 Chagrin Blvd., Suite 350 Cleveland, OH 44122, USA

Name__________________________________________
City, State, Zip Code and Country___________________________

Please send me ___ copies @ $65.00 each (member rate) $85.00 each (nonmember rate).

Total enclosed $_________

Check must be in U.S. dollars and drawn on a U.S. bank, payable to IAEE.
Broaden Your
Professional Horizons

Join the
International Association for Energy Economics (IAEE)

In today's economy you need to keep up-to-date on energy policy and developments. To be ahead of the others, you need timely, relevant material on current energy thought and comment, on data, trends and key policy issues. You need a network of professional individuals that specialize in the field of energy economics so that you may have access to their valuable ideas, opinions and services. Membership in the IAEE does just this, keeps you abreast of current energy related issues and broadens your professional outlook.

The IAEE currently meets the professional needs of over 3300 energy economists in many areas: private industry, non-profit and trade organizations, consulting, government and academe. Below is a listing of the publications and services the Association offers its membership.

- **Professional Journal:** The *Energy Journal* is the Association's distinguished quarterly publication published by the Energy Economics Education Foundation, the IAEE's educational affiliate. The journal contains articles on a wide range of energy economic issues, as well as book reviews, notes and special notices to members. Topics regularly addressed include the following:
  - Alternative Transportation Fuels
  - Conservation of Energy
  - Electricity and Coal
  - Energy & Economic Development
  - Energy Management
  - Energy Policy Issues
  - Environmental Issues & Concerns
  - Hydrocarbons Issues
  - International Energy Issues
  - Markets for Crude Oil
  - Natural Gas Topics
  - Nuclear Power Issues
  - Renewable Energy Issues
  - Forecasting Techniques

- **Newsletter:** The IAEE *Newsletter*, published four times a year, announces coming events, such as conferences and workshops; gives detail of IAEE international affiliate activities; and provides special reports and information on an international basis. The newsletter also contains articles on a wide range of energy economics issues, as well as notes and special notices of interest to members.

- **Directory:** The Annual *Membership Directory* lists members around the world, their affiliation, areas of specialization, address and telephone/fax numbers. A most valuable networking resource.

- **Conferences:** IAEE Conferences attract delegates who represent some of the most influential government, corporate and academic energy decision-making institutions. Conference programs address critical issues of vital concern and importance to governments and industry and provide a forum where policy issues can be presented, considered and discussed at both formal sessions and informal social functions. Major conferences held each year include the North American Conference and the International Conference. IAEE members attend at reduced rates.

- **Proceedings:** IAEE Conferences generate valuable proceedings which are available to members at reduced rates.

To join the IAEE and avail yourself of our outstanding publications and services please clip and complete the application below and send it with your check, payable to the IAEE, in U.S. dollars, drawn on a U.S. bank to: International Association for Energy Economics, 28790 Chagrin Blvd., Suite 350, Cleveland, OH 44122. Phone: 216-464-5365.

Yes, I wish to become a member of the International Association for Energy Economics. My check for $60.00 is enclosed to cover regular individual membership for twelve months from the end of the month in which my payment is received. I understand that I will receive all of the above publications and announcements to all IAEE sponsored meetings.

**PLEASE TYPE or PRINT**

Name: ____________________________

Position: __________________________

Organization: ______________________

Address: __________________________

Address: __________________________

City/State/Mail Code/Country: ________

Mail to: IAEE, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122 USA
Publications List

The Guide to Electric Power in Texas from the Energy Institute at the University of Houston’s College of Business Administration. $20.00 to individuals and companies and $15.00 to nonprofits, government agencies, and universities. Contact: CBA Energy Institute, University of Houston, Houston, TX 77204-6283. Phone: 713-743-4860; Fax: 713-743-4600. E-mail: mmfoss@rics1.cba.uh.edu


CO2 Abatement and Economic Structural Change in the European Internal Market. (1997). 197 pages. Price: st 75. Contact: Ms. A. Anlauf, Physica-Verlag, P.O. Box 10 52 80, D-69042 Heidelberg, GERMANY. Phone: 487-462 Fax: 487-177 E-mail: anlauf@springer.de


Natural Gas & Power. (1997). 2 volume set. $1150.00. Contact: PetroCompanies, plc., Nightingale Centre, 8 Balham Hill, London SW12 9EA, United Kingdom. Phone: 44-181-673-673-5611. Fax: 44-181-675-3542. E-mail: paul@petco.co.uk


Calendar


4-5 September 1997, Setting the Stage: Canada’s Negotiating Position on Climate Change. Calgary, Alberta, Canada. Contact: Conference Division, Canadian Energy Research Institute, Suite 150, 3512-33 Street, NW, Calgary, Alberta, T2L 2A6, Canada. Phone: 403-282-1231. Fax: 403-289-2344. E-mail: ceri@ceri.ca


11-12 September 1997, Introduction to Electric Power Systems for Legal and Regulatory Professionals. University of Texas at Austin. Contact: College of Engineering, Continuing Engineering Studies, The University of Texas at Austin, PO Box H, Austin, TX 78713-8908. Phone: 512-471-3506. Fax: 512-232-1972. e-mail: postmaster@cesmail.utexas.edu


Conference Proceedings

19th IAEE International Conference

The Proceedings from the 19th International Conference of the IAEE held in Budapest, Hungary, are now available from IAEE Headquarters. Entitled Global Energy Transitions, with Emphasis on the Last Five Years of the Century, the proceedings are available to members for $55.95 and to non-members for $75.95 (includes postage). Payment must be made in U.S. dollars with checks drawn on U.S. banks. To order copies, please complete the form below and mail together with your check to:

Order Department, IAEE Headquarters, 28790 Chagrin Blvd., Suite 350 Cleveland, OH 44122, USA
Name ________________________________
Address ________________________________

City, State, Mail Code and Country ________________________________

Please send me __ copies @ $55.95 each (member rate) $75.95 each (nonmember rate).
Total enclosed $ __________ Check must be in U.S. dollars and drawn on a U.S. bank, payable to IAEE.

(continued on page 32)
Calendar (continued from page 31)

Centre Metro Manila, Philippines. Contact: Leverage International (Consultants) Inc., 8/F Suite 84, Legaspi Suites, 178 Salcedo Street, Legaspi Village, Makati City, 1229 Philippines. Phone: 632-810-1389. Fax: 632-810-1594. E-mail: irvgrey@worldtelphil.com

18-19 September 1997, Investing in Russia’s Oil Refineries, Hotel Baltic Kempinski, Moscow. Contact: Central & Eastern European Department, IBC UK Conferences, Ltd., Gilmoora House, 57-61 Mortimer Street, London, W1N 8JX, United Kingdom. Phone: 44-171-453-2160. Fax: 44-171-631-3214. E-mail: georgina.grant@ibcuk.co.uk

24-25 September 1997, Speeding From Concept to Profit: Cashing in on New Petrochemical and Energy Projects. University of Houston, Houston, Texas. Contact: Dr. R. Sukumar, Department of Marketing & Entrepreneurship, College of Business Administration, University of Houston, TX 77204-6283. Phoning: 713-743-4375. Fax: 713-743-4572.

24-27 September 1997, ENERGIA 97. Santiago, Chile. Contact: Cathy Doerr, 1325 W. First Ave., Suite 312, Spokane, WA 99204-0613. Phone: 509-838-8755. Fax: 509-838-2838. E-mail: slo.work@on-ramp.ior.com

29-30 September 1997, European Power Summit. Park Lane Hotel, London, UK. Contact: Peter Fusaro, Global Change Associates, 20 Harwood Avenue, White Plains, NY 10603. Phone: 914-949-6798. Fax: 914-948-5301. E-mail: 76111.424@compuserve.com

30 September - 1 October 1997, 1997 CERI International Oil and Gas Markets Conference. Westin Hotel, Calgary. Contact: Conference Division, Canadian Energy Research Institute, #150, 3512 - 33 Street, NW, Calgary, Alberta, Canada T2L 2A6. Phone: 403-282-1231. Fax: 403-284-4181.

8-9 October 1997, Exploring, Developing & Exporting Reserves in the Caspian. London, UK. Contact: Central & Eastern European Department, IBC UK Conferences, Ltd., Gilmoora House, 57-61 Mortimer Street, London, W1N 8JX, United Kingdom. Phone: 44-171-453-2160. Fax: 44-171-631-3214. E-mail: georgina.grant@ibcuk.co.uk


5-11 December 1997, The Fourth Asian-Pacific International Symposium on Combustion and Energy Utilization. Bangkok, Thailand. Contact: Energy Research Institute, Institute Building III, Chulalongkorn University, Bangkok, 10330, Thailand. E-mail: apiscceu@eng.chula.ac.th

16-21 December 1997, The Second International Non-Renewable Energy Sources Congress. Kish Free Zone Island, Hormozgan, Iran. Contact: Ali Haghitalab, Congress Secretariat, e-mail: u10215@ucvm.uic.edu

13-16 May 1998, 21st IAEE International Conference. Quebec City, Canada. Contact: IAEE Headquarters, 28790 Chagrin Blvd., Ste. 350, Cleveland, OH 44122. Phone: 216-464-5365. Fax: 216-464-2737. E-mail: IAEE@IAEE.org

IAEE Newsletter
Volume 6, Summer 1997

The IAEE Newsletter is published quarterly in February, March, August and November, by the Energy Economics Education Foundation for the IAEE membership. Items for publication and editorial inquiries should be addressed to the Editor at 28790 Chagrin Boulevard, Suite 350, Cleveland, OH 44122 USA. Phone: 216 464 5365; Fax: 216 464 2737. Deadline for copy is the 1st of the month preceding publication.


Advertisements: The IAEE Newsletter, which is received quarterly by over 3300 energy practitioners, accepts advertisements. For information regarding rates, design and deadlines, contact the IAEE Headquarters at the address below.

Membership and subscriptions matters: Contact the International Association for Energy Economics, 28790 Chagrin Boulevard, Suite 350, Cleveland, OH 44122, USA. Telephone: 216-464-5365; Fax: 216-464-2737; e-mail: IAEE@IAEE.org; Homepage: http://www.IAEE@IAEE.org

Copyright: The IAEE Newsletter is not copyright-able and may be reproduced in whole or in part with full credit given to the International Association for Energy Economics.