

THE SOCIAL-ECONOMICAL CORRELATIONS OF ILLEGAL METAL TRADE

The main reason of the development and the existence of illegal metal trade is due to the fact that public regulations are not adequate. The advantages coming from illegal trade of different metals obviously surpass the possible costs of active participation in it. As far as the social and economical correlations of this phenomenon are concerned, one can define at least four elements which are the following: market regulation, tax system, different participants of metal trade and the government itself. The recognition of those disadvantages which affect society and certain social groups can serve as a base for legalization. The right treatment of these problems is a must in order to find a solution for the problem. Successful governmental action can result in positive effects if the efficiency of intelligence is intensified, if laws are made stricter, thus pushing back illegal participation and at the same time elevating possible costs associated with participation. Different studies on illegal metal trade indicate that the main reasons of the extension of trade in this sphere are due to inappropriate regulations on work-incomes, defects in administration, extended corruption, instability of the price of metals and finally, inadequate governmental work. To solve these problems, a complex package of measurements are needed.

Are there any methods by which the extension of illegal metal trade can be measured? Experts have elaborated a complex method that does not focus on certain separated units but treats the problem in its complexity and holistically. One possible method is indirect estimation, which is used on sample-countries. Researchers considered the profound studying of the demand of cash to be a very important factor, because the decisive majority of illegal metal trade payments are made in cash, thus creating demand for cash. If demand itself is separated from the elements which actually generate it, one can have a real picture of the real demand for cash. Recent research has developed this method and by taking into consideration the provoking reasons, it has made calculations that were extended to 120 countries (Schneider 2005). The weak point of this method is the demand for cash, because it depends on the institutional system and culture of financial brokerage. The change of the political system in Hungary and other ex-socialist countries has inspired researchers to elaborate methods that estimate the volume of illegal trade in an indirect way.

According to this idea, illegal trade can be measured by the difference between the total use of electricity and the GDP of the given country. Also, deductions can be made by analyzing the demand for electricity of households. (Kaufmann and Kaliberda, 1996, Lackó, 2000)

There is a widespread need to legalize illegal trade but there are, of course, disadvantages as well, which can have negative effects on certain individuals, companies and the whole society even. Enterprises not authorized by authorities are obviously not legal actors of the economy, thus, illegal ones are forced into a dependant situation and are exploited. (Williams and Winderbank 1998). Illegal enterprises are not protected by laws (ILO, Williams and Winderbank 1998) and they cannot develop in the market because they cannot apply for various resources that are legally available for their legal counterparts (ILO 2002).

At the same time, legally operating companies have to face and compete with illegal enterprises, which benefit from illegal activities (Renooy and co-authors 2004). Thus, legal enterprises are forced to give up legal practices and ways in order to avoid disadvantages in competition (Williams and Winderbank 1998, Renooy and co-authors 2004). One of the major consequences of this competition between the two spheres is that constant employees may become casual or illegal employees in certain cases (Renooy and co-authors 2001, Evans and co-authors 2004).

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Illegal economy and, illegal metal trade as a part of that, has significant social costs because actors engaging in such practices do not pay taxes. (Williams 2004, Evans and co-authors 2004). The quantity of the funds dedicated to social cohesion and social integration is diminishing. Illegal enterprise does obviously not respect laws (Renooy and co-authors 2004). In a legal economic environment there is collective agreement between unions and employees but in the case of illegal enterprises this agreement cannot be realized. (Gallin 2001).

Illegal economy has, of course, various advantages such as: unregistered incomes, unpaid taxes, and complementation of income by illegal activity. (Evans and co-authors 2006, Katungi and co-authors, 2006). Some social advantages can also be realized in the field of illegal activity, such as the shrinking demand toward social aid and assistance and also, the rate of crimes associated with subsistence tend to fallback.

It is the duty of the state to take into consideration elements and factors which may promote, inspire and enforce crime and the social reproduction of it. The economic and social processes of the 80's and 90's generated several negative changes which can reproduce not only crime but also the creation of illegal enterprises, such as illegal metal trade. The creation of the latter may be the consequence of radical impoverishment, marginalization and segregation of wider social classes. Inequalities between social classes are becoming consolidated and concentrated and there are big cities with zones with an ever growing number of people in a multiply disadvantaged situation. Low levels of education, and culture and unemployment together may be considered as a serious danger from the perspective of criminality. Homelessness is also an important social factor that can have a serious influence on criminality (Domokos 2000).

National researches tend to focus on the revealing of corruption and tax evasion. They try to examine these two phenomenons. At the same time, they do not analyze real attitudes. Political parties with ambitions to govern and replace the actual governing parties like to refer to corruption cases of the given administration and they make promises to restore public order after quick, profound and effective investigations and measures. An excellent example of this are the promises made just before the Hungarian parliamentary elections of 2010. Results are, however, not significant. The "big cases" generally lose their wind. The administration of the judiciary branch depends on measurable results and it can reach these by producing cheap products which are easy to produce. It is difficult to produce unique products, it is costly and only a limited quantity of them can be produced. The general consequence of this is that the administration of the judiciary which, understandably, deals with those "light" cases, gets "plugged up" easily by them, which paralyzes capacities crucial for investigating "tougher" cases.

Although a procedure law and a penal law corresponding more with the expectations and the sense of justice of the society can be more effective, it is also a true that this kind of change in model could go against the principles of a constitutional state. Intensifying the efficiency by giving up the principles and requirements of a constitutionality is a disputable solution. (Korinek 2003).

Individuals participating in illegal metal trade or in any other illegal enterprise may be affected by tax evasion either as consumers, producers, employees or employers. According to 2007 data, nearly 6% of households have incomes which have not been declared, meaning that nowadays, most of those cases are not related to illegal economy (Szabó 2008).

Studies made in Hungary confirm the relation between tax evasion and the tax environment in the illegal sphere of the economy (Semjén 2006). Attitudes toward tax paying significantly depend on the economic climate. Studying and investigating corruption is much more complicated than studying tax evasion, because both parties (the consumer and the retailer) are highly interested in hiding the transaction. The study of motives that generate certain types of corruption was conducted by (Köllő 1992).

National studies demonstrate reasons behind illegal economy and employment and they also indicate how the volume of illegal economy and "black work" could be dwindled by well prepared governmental measures (Leibfritz 2008). According to Leibfritz the principal reason for employment lies in the extremely high level of taxes on incomes. Due to these high

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tax levels there is a great incentive to hide incomes. The complexity of the Hungarian tax system and the unjustified treatment of certain types of taxes are offering possibilities to use certain tricks in order to evade taxes. Illegal metal trade is based on three fundamental elements: low levees of legal employment, income-hiding and consumption without providing invoices. The base of certain principal taxes is irrationally narrow and their tax rate is very high in order to finance the public costs. High tax rate foments tax evasion on one hand and impedes the extension of legal employment on the other. 105-110 thousand tons of aluminium wastes are produced in Hungary every year and more or less the same quantity of other metal waste is shown by statistics. Much of this is exported to other countries. It is almost impossible to recognize stolen metals in 40-ton wagons used for trade.

If the above mentioned illegal metals are loaded onto a truck with legal metal loads, no wholesaler is able to distinguish legal cargo from the illegal one. However, a lot may depend on the wholesaler's discipline. If he or she is observant and watchful enough, he can spot the illegal load of cargo. Illegal Foundries may win tenders against legal companies by simply bribing persons involved in the arrangement. An excellent example for this is that of company specializing in the disassembly of cars that won a tender which enabled it to take the car-wreckages to a place determined by local government. According to the contract between the company and the local government, it is the company's duty to transport the car-wreckages within 24 hours. In reality, it would not transport them, because in seven out of ten cases it cannot find cars as the information has been passed to invisible companies.

In a not her case a company operating legally could not buy back the wreckages of the product made by this company itself because they had been sold to illegal metal traders (ORFK Tájékoztató 2008).

Stolen railways are usually not taken to legal companies that deal with metals wrecks. As they are much more massive than Ferro-concrete, they are mostly stolen for constructions. Stolen bronze statues do not go into wreck-trade, but they usually end up in foundries where sculptors work and they prefer good basic material for their work. The receivers of stolen goods prefer bigger rates. Their victims are mainly electric suppliers, telecommunication companies and railway companies. Waste Sooner or later waste ended up in the hands of one of the wholesalers in Hungary before. Now, however, thousands of tons pass through borders without being seen by a professional company. The real problem is that the "exporter" disappears along with the goods.. VAT tax on metal wrecks was introduced on 01.01.2006. This tax can be reclaimed in Slovakia and Germany (ORFK Tájékoztató, 2008).

Transports leave the country undisturbed and invisibly. Before "open borders" the volume of metal exports of Hungarian companies was equal to what Slovakian companies declared to the EU as metal import. In the statistics of 2004 there were no contradictions, but in 2005 Hungary exported only on "paper", meaning that tax evasion was realized, as no actual goods went to Slovakia. In The so-called reversed VAT (ÁFA) was introduced and as a consequence of this, about 5000 tons of copper and copper alloy wreck were exported to Slovakia invisibly. Copper wreck was purchased in Hungary at a price which was above or under the officially determined commercial price and in Slovakia this wreck entered commercial channels as internal goods at a lower price. Official Hungarian export in 2007 could be transported in three wagons. Meanwhile, the Slovakian import remained the same quantity. In Hungary, where formerly legally operating wholesalers bought metal goods, the former metal volume is sold but not to official companies that provide invoices but to semi-illegal or fully illegal companies which pay from "pocket to pocket" (ORFK Tájékoztató 2008).

In our rapidly changing world emerging risks against the environment, the economy and the state are hard to handle. Stubborn insistence on facts, the force to demonstrate effectiveness and generally the formalism of the judiciary administration set limits to such efforts. The importance of this issue is sometimes questioned by politicians in order to gain prestige easily, but society would have to pay heavy costs in the long run, if those above mentioned factors were altered. The average citizen has already experienced that, in spite of the flowery language and the promised punishments, nothing is changing. Virtually nothing is happening, except for the fact that the prestige and the respect of

the administration of justice is diminishing and people are starting to realize that macro-crime and other common crimes are caused by the same factors: inappropriate regulations of the economy, short-sighted social policies, a flawed educational system and the unsolved problems of society in general (Korinek L.2003).

After a one and a half year long harmonization procedure the Parliament finally approved the so-called "law on metal trade" on 8. of June, 2009. The law LXI of 2009 was published in Magyar Közlöny (Hungarian Gazette) on 29 of June and it came into effect on 1 January, 2010.

Metal traders will face numerous new regulations which will impose significant administrative costs on them and new rules will regulate their operation more strictly. New regulations impose so many new additional costs and burdens on enterprises operating legally, that it will have positive results only if the volume of illegal metal trade and metal theft is drastically reduced or the problem itself completely eliminated (ORFK Tájékoztató 2008).

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