

THE ECONOMIC CRIME, SOCIAL COSTS AND ECONOMIC GROWTH

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Abstract: Economic crime is one of the most serious threats to the security and stability of the countries and regions in the world. The crimes are growing at an alarming rate, and they are connected to the growing integrity of the world's economy. Many scientific studies prove that expenses for dealing with economic crime, along with its social expenses from the negative consequences are enormous and inhibitory to societies that are willing to achieve a sustainable level of economic growth and development. This scientific research through using inductive and deductive methods, analysis, and synthesis, as the comparative analysis of historical trends, aims to illustrate the problem with economic crime as a regional and global problem, to give its review for the conditions with these offences in the Republic of North Macedonia, to strengthen the connection between the number of evidenced economic offences and the growth of GDP through tendentious processing of data and analysis for the period of 9 years, and to collect pieces of advice for preventing and lowering of economic offences.

Keywords: economic crime, world economy, social costs, economic growth and development.

INTRODUCTION

Economic crime is a multidimensional occurrence. Its multidimensionality is reflected primarily in the sociological, economic, financial, political, cultural, psychological, legal, security and criminological components that it incorporates. The development of propulsive technique and technology has a

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proportional impact on the overall level of economic and financial crime. Technology is increasingly being misused as an instrument for economic and financial crime, making the crime more sophisticated and more difficult to notice. With the processes of globalization and financial liberalization, national boundaries for incriminating actions are becoming irrelevant as world economies and financial systems become more integrated. The determinants and characteristics of economic crime indicate a wide range of criminogenic actions with a sophisticated manner of execution, difficulties in their defining, determination and recording. All of this entails difficulties in measuring the social damage and the consequences on economic growth from economic crime. In this paper, starting from the determinants, characteristics, international framework and models for combating economic crime, the authors will point out the weaknesses in identifying this type of crime, define its transmission channels of influence in the economy, give visibility of the difficulties in measuring the impact of economic crime in society, and underline the problems and needs of developing countries, with a special focus on the Republic of North Macedonia, while proposing measures to improve the situation.

DETERMINANTS OF ECONOMIC CRIME

There is difficulty in establishing a comprehensive definition of economic crime, as well as in measuring the social costs and losses of such crimes. The difficulty to give a clear and unique definition stems from the fact that it is one of the basic determinants of the structure not only of total crime, but also of the structure of society. It arises and is determined by the economic, social, legal, political and social component of society. As a consequence of the vague definition of the term, numerous other problems appear, such as theoretical ambiguities and the perception of economic crime as a crime of the upper social class. Economic crime is a socially-negative criminal phenomenon committed by persons who possess a certain amount of knowledge in the field of economics, finance and payment operations and who in a criminal way, by using the entrusted powers and positions, acquire certain economic and financial resources, thus causing damage to the state budget and the citizens as a whole. It also includes financial crime.

E.H. Sutherland (1949) defines this phenomenon as a crime that occurs in the field of economic operations and whose forms of offenses are related to the purchase and sale of various shares, false advertising goods, false expression of financial condition of individual corporations, bribery of business partners, direct or indirect bribes of civil servants, in order to provide favorable arrangements, embezzlement, misappropriation of funds, tax evasion and the like. According to the recommendation R. (81) 12 adopted by the Council of Ministers of the Council of Europe, the following offenses are defined as economic crime defines: cartel offenses; fraud and abuse of the economic situation by multinational companies; fraud by obtaining and misusing state and international grants; cybercrime (data theft, breach of confidentiality of data; establishment of fraudulent companies; falsification of financial statements of legal entities or book-keeping offences; fraud – false representation of the economic situation and corporate capital of companies; violation of employees' insurance and health protection standards; fraud to the detriment of creditors (fraudulent bankruptcies, breach of banking or industrial rights); consumer fraud; unfair competition; fiscal offenses and public procurement fraud; customs offenses; According to document A/CONF.203/7 of the Eleventh United Nations Congress on Crime Prevention and Criminal Justice, economic and financial crime is generally defined as nonviolent act resulting in financial loss (Mojsoska, Nikolovska Vrateovska & Vitanova, 2012).



CHARACTERISTICS OF ECONOMIC CRIME

Economic crime contains three important properties that define it, namely: the occurrence of large-scale damage, special status of perpetrators as bearers of responsible activity, and a special modality of enforcement that implies a complicated manner of enforcement. The main features of economic crime are: low visibility, complexity, difficulties in detecting the process, mild punishment policy, legal inaccuracy and problems with the status of delinquents. The importance of economic crime can be discussed in terms of the severity of the consequences, i.e. the damage caused primarily financially and socially, as well as the fact that this type of crime causes distortive processes that lead to destabilization of social relations. The complexity of economic crimes stems from the fact that for a long time neither the duration of these acts nor the perpetrators, and most often the consequences, are known; they do not manifest themselves immediately, because they are skillfully concealed. Economic crime is constantly changing its manifestations, resulting in poor detection results. Such crimes do not have a direct impact due to their non-violent nature. Hence, they do not attract direct public attention. Typically, perpetrators of economic crime are educated and sophisticated, using financial resources to build connections with law enforcement officials. Authorities often have to deal with the influence of officials and corrupt public servants, which complicates investigations and makes them even more expensive. Therefore, economic and financial crime is often referred to as “white collar crime”. The forms in which white collar crime manifests itself are as varied as the ways in which it is carried out. Acquiring huge illegal profits is a common motive that connects organized and economic crime. When talking about economic crime, one must emphasize that an area that requires special focus in the analysis is money laundering. Money laundering is linked to other areas of illicit activity in the economic and financial system, such as the final activity involving criminally obtained finances in the legal system by organized crime groups. Because dirty money is the easiest to recognize when entering the financial system, entities that have an initial insight into financial transactions are essential to tackling this crime. Estimates show that about \$1.5 trillion is laundered annually worldwide. This striking figure, as well as the fact that money laundering directly affects the integrity and functioning of financial systems, financial stability, economic and overall social development, show why concerns about this phenomenon are growing worldwide (Mojsoska, Nikolovska Vrateovska & Vitanova, 2012).

INTERNATIONAL FRAMEWORK AND MODELS FOR FIGHTING ECONOMIC CRIME

Economic crime poses a serious threat to the development of democracy, the rule of law and human rights, as well as to national security, stability and economic development. Strong political will, perseverance, comprehensive knowledge, interdepartmental and international cooperation and commitment of the authorities, are necessary in fighting such crime. Modern industrial societies are characterized by dense interaction of global business relationships, new and fast communication trajectories, and increased opportunities for manipulation and fraud. The growing pressure from domestic and international competition is proportionally dependent on the use of illegal methods and instruments to make more money.

As existing basic international instruments in the fight against organized crime, in the subfields of which the authors will include economic crime and in its context – financial crime (Sulejmanov, 2000), are the four United Nations conventions: Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, The Convention against Transnational Organized Crime, The Conven-



tion against Corruption, and The Convention for the Suppression of the Financing of Terrorism – all of which include provisions for the fight against economic crime and money laundering. At the OECD Summit in Paris in July 1989, the Financial Action Task Force (FATF) was formed. The creation of this body is a result of recognizing the real threat to the security and stability of the world financial system from money laundering, and the determination of the seven most developed countries to take steps to protect their financial institutions from abuse by crime. The 40 recommendations defined by the Tasks Force were approved and recognized as the sole international standard by the International Monetary Fund and the World Bank.

The following channels of international cooperation have been established:

- Global, multilateral cooperation through INTERPOL (international criminal police organization established in 1923 in Austria and with 186 member countries);
- European multilateral police cooperation through EUROPOL (European Police Agency established by the Maastricht Treaty in 1992, as an information exchange body);
- Bilateral and regional cooperation between the states through ratified treaties, agreements, conventions and memoranda of cooperation of the given institutions and bodies, in the specific states mentioned in the agreements.

In May 2006, the Convention on Police Cooperation in Southeast Europe was adopted in Austria, whose signatories are Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Romania, Montenegro and Serbia. This international act is a step forward for the signatory countries in order to strengthen police cooperation and coordinated action in the fight against crime.

In practice, two types of international cooperation are recognizable:

- First model: *Administrative (intermediary) model* (independent government body as a link between financial institutions and the bodies of justice and prosecution); *Police model* with a special unit in the Police for cooperation with INTERPOL; *Court model* (interaction: institution-prosecutor – investigation – indictment) and *Mixed police-court model* (institution – coordination of the Prosecutor's Office and the Police);
- Second model: *Judicial Unit, Administrative Unit and Unit of Law Enforcement Authorities* (Police, Customs, Financial Police).

DETERMINING AND MEASURING THE IMPACT OF ECONOMIC CRIME ON SOCIETY

Difficulties and inaccuracies in defining economic crime imply problems in defining the methodology for monitoring and statistical recording of such crimes. In the fight against crime, not only the existence of a functional system of unified recording of economic crimes is essential, but also the existence of a system for identifying the consequences of economic and financial crime and determining the further impact on society of such consequences. Crime has a significant impact on society. On the one hand, the criminal activity allows the consumption of illicit goods or services which could not otherwise be consumed. On the other hand, crime imposes great costs to the public and private actors, such as stolen and damaged goods, lost lives, security spending, pain, and suffering. The estimation of such social cost of crime has become an important field of study in the last few decades (Czabanski,



2008), which shows how crime imposes a significant burden onto society. For example, Brand and Price (2000) estimate the total crime costs in Wales and England for the Home Office, through using survey data. They estimate a total expenditure that equals 6.5% of the Gross Domestic Product (GDP). Anderson (1999) finds that the total annual cost of criminal activity in the United States accounts for 11.9% of the GDP. A recent work of Brandano, Detotto, and Vannini (2018) evaluates the burden of a subset of criminal offenses in Italy (about 65% of all criminal offenses) during the year 2006. The estimated total social cost exceeds 2.6% of Italian GDP. Although the identification and the estimation of crime costs have received wide attention in economic literature, the detrimental effect of crime to the (legal) economic activity is still neglected.

TRANSMISSION CHANNELS OF THE IMPACT OF ECONOMIC CRIME ON THE ECONOMY

Economic crime negatively affects economic performance. Defined transmission channels of influence are: reduced positive rational expectations of economic agents, reduced motive for investment from domestic and foreign investors, reduced competitiveness and productivity of companies, distrust in the justice system, distrust in the overall social system, flight of existing investments, outflow of capital out of the country, improper allocation of resources, declining productivity, declining economic growth, rising unemployment, outflow of available labor from the country, etc. Some econometric researches have shown that on average, a 1% increase in crime rate reduces real economic growth by 0.005% per year. The negative impact of crime also has a cyclical component of influence, i.e. it is 5% stronger during recessions relative to its impact during economic expansion (Detotto, Otranto, 2010).

THE PROBLEM OF DEVELOPING COUNTRIES

Experience shows that criminals target those countries where there is a lack of strong regulations. Criminal organizations transfer significant amounts of money through countries where regulation does not provide for effective cash flow monitoring. Therefore, in addition to international cooperation, harmonization of legislation in all countries will be a key imperative in the global fight against economic crime. To effectively prevent the wave of financial and economic crime, developing countries need to receive adequate financial, educational and technical assistance from developed countries in harmonizing national regulations, measures and instruments with international ones. The fight needs to be conducted through both a repressive approach and a preventive approach. It is necessary to have legal expansion of the scope of illegal and incriminating activities and report suspicious transactions, improve the effectiveness of the analysis of transactions in the international financial markets, define models for information flow management, strengthening and expanding the power of bodies that supervise financial transactions, establishing additional measures and instruments for combating economic and financial crime, and in the context of the need for international cooperation – providing adequate legal and human resources that would respond to the requests of other countries. The international community would also have the task to consider the issue of economic exploitation of smaller nations and to set appropriate game rules in order to protect their interests. The international community needs to coordinate its efforts and work more closely together to tackle transnational organized crime. The enhanced international approach should include coordinated action and cooperation supported by free exchange of information, exchange of experiences, mutual legal assistance and extradition measures.



THE CASE OF THE REPUBLIC OF NORTH MACEDONIA

The existing domestic regulations and the established available instruments and mechanisms for fight against economic crime in the Republic of North Macedonia have the following nomenclature:

- The first pillar is represented by the so-called subjects. Subjects are persons who are obliged to take measures and actions to prevent money laundering and terrorist financing provided by the Law on Prevention of Money Laundering, namely financial institutions, real estate agencies, auditors, accountants, notaries, lawyers, casinos, citizens' associations and others. According to the activity they perform, they can be financial subjects and non-financial subjects.
- The second pillar is presented through the Financial Intelligence Unit, originally established in 2001 as a Directorate, in 2008 it was transformed into the Office for Prevention of Money Laundering and Financing of Terrorism, and in 2012 it was renamed the Financial Intelligence Unit (within of the Ministry of Finance).
- The third pillar incorporates the law enforcement agencies: Public Prosecutor's Office, Ministry of Interior, Financial Police Directorate, Customs Administration, Financial Intelligence Directorate and State Commission for Prevention of Corruption, as well as indirectly competent bodies: Public Revenue Office, State Foreign Exchange Inspectorate, State Audit Office, State Market Inspectorate and State Labor Inspectorate.

The concise understanding of the phenomenon (manifestation forms) and the etiology (reasons for committing) of economic crime are in function of their more efficient detection and processing. The legal framework for the phenomenological analysis of economic crimes in the country is in Chapter 25 of the Criminal Code of North Macedonia: crimes against public finances, payment operations and economy, and in Chapter 30: crimes against official duty (Criminal Law, Official Gazette RNM, 2014). Among the emerging forms of economic crime in our country, according to their frequency and harmfulness, the following stand out: embezzlement in foreign trade and banking activities by violating the regulations on business, foreign exchange and credit-monetary system of the country, illicit trade in large quantities of excise goods (oil, coffee, cigarettes, alcohol, etc.), abuse of official duty, forgery of documents, tax evasion, embezzlement, financial fraud, causing bankruptcy (as a form of economic crime, as a consequence of economic crime and as a form of cover-up of economic crime), subsidy fraud and credit fraud, abuse of tax regulative and tax evasion, misuse of the system of export subsidies in trade in food products, competition violations, fraud, bribery, usury, counterfeiting, counterfeiting commissions and avoiding their reporting, etc. (Sulejmanov 2000).

The registered economic crime in the country in the period from 2005 to 2010 is in stagnation with small variations from year to year, in the interval from 2010 to 2013 it is decreasing (when the total volume of crime is increasing), while from 2014 and 2015 there is a slight growth trend, followed by a slight downward trend until 2017. Economic crime in the period from 2010 to 2014 averaged 5.1% of the total crime in the country (MOI, 2020).

To illustrate the correlation between economic crime and economic growth in the country, for the purposes of this paper, a series of data were processed in a time interval of 9 years on the number of registered acts in the field of economic crime at the Ministry of Interior of the Republic of North Macedonia (for the purposes of this paper, to be graphically workable and comparable, the absolute figures are divided by 100), as well as data on GDP growth rates in the country, also analyzed within the same nine-year time frame.



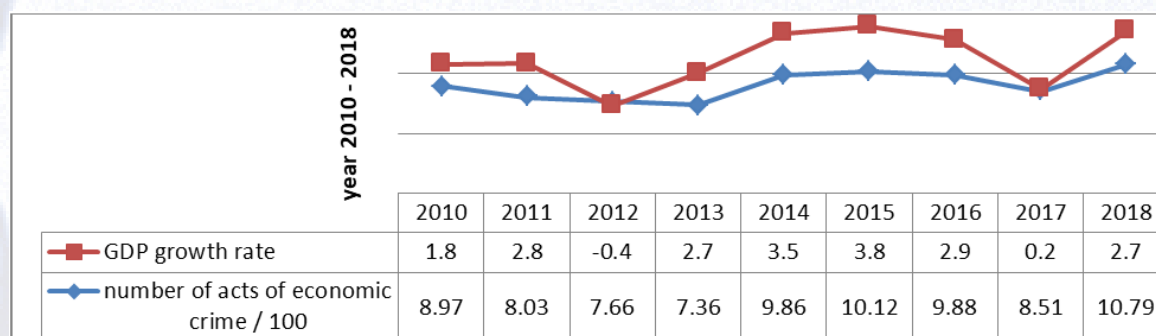


Chart No. 1. *Trend analysis of economic crime and GDP growth rate in the interval 2010–2018 in the Republic of North Macedonia Source: MOI, SSO, processed by the authors*

The trend analysis indicates a proportional relationship between the number of recorded economic crimes and the GDP growth rate, which is visible from Chart 1. From the graphic presentation it can be concluded that the intensification of the economic activity in the country is followed by a proportionally adequately increased growth in the number of registered acts in the field of economic crime. From this it can be concluded that the Republic of North Macedonia is facing the challenge of effectively tackling economic crime. Economic crimes in the country as an organized form of action are continuously present and represent a serious destruction not only for the rule of law, democracy and human rights, but also for the correct economic flows, the normal and smooth functioning of the economic subjects and for the sustainable economic growth and development.

CONCLUSION

Medium- and long-term economic crime continuously undermines effective economic governance, transparency and the rule of law. It also negatively affects the level of security, human well-being, equality and the degree of respect for human rights and freedoms. It benefits only a small number of individuals, leaving the majority poorer and with fewer resources. Determining the notion of economic crime, its phenomenology and etymology are important because their determination is the basis for planning and taking operational measures for its prevention, detection and sanctioning. The need for a serious comprehensive national, regional and international approach in both prevention and early detection and prosecution, stems from the enormous societal costs of tackling this type of crime, as well as the far-reaching negative impacts that economic crimes reflect on the social system as a whole. The difficulties in understanding the economic crime occur in the case of the Republic of North Macedonia, reflecting in the difficulties to introduce a single data bank that will aim to keep an eye on economic crimes, but also to generate data that will enable efficient and accurate monitoring and measurement of social costs for dealing with this type of crime, as well as for measuring the costs of the consequences it causes within the political, legal and economic system. All this entails the need to establish mechanisms at national, regional and international level to improve the collection of data on economic crime by creating models for measuring the overall social costs of this crime, providing effective technical assistance to developing countries in order to improve their capacity to solve the problem, and by strengthening international cooperation and the global legal framework for combating economic and financial crimes.

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