

Sexual services, drugs and human trafficking, smuggling – in GDP figures: Quality of life indicators

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Abstract. In recent years different kind of antisocial and criminal activities, according to the EU regulations, are being included in GDP indicators. The activities, included in GDP indicators are as follows: those of criminal nature (drugs, arms and human trafficking, corruptive activities, etc.); illegal activities, which are not of criminal nature (businesses without licenses and special permits, poaching, etc.); legal activities, though the income from them is not taxed and not recorded (prostitution, alcohol production, etc.); illegal use of intellectual property objects (illegal use of unlicensed programmes). Estimates on the inclusion of illegal, among them criminal activities in GDP indicators are important not only to learn the actual size of GDP, but also to give a chance to the law enforcement authorities to pay attention to separate areas of unregulated economic activities. The author of the article outlines the approximate extent of illegal and informal economic activities and their share in GDP, describes the methods of determination of the economic sector, as well as analyzes some separate informal economic sectors, which should be included into GDP.

Key words: Gross Domestic Product (GDP), quality of life level, smuggling, drugs and human trafficking, prostitution

Introduction

The article has identified how, according to the Regulation of the European Parliament and the Council of Europe 549/2013 on the European National and Regional Account System in the EU or ESA 2010 (European Regulation), sexual services, including prostitution, sex tourism, smuggling of illegal drugs and psychoactive substances, human trafficking and smuggling of excisable goods and arms are included into GDP indicators. Those aspects are highlighted which could affect the population's quality of life and health. The informal economic sector, including also forms of criminal activities, comprises the area of uncontrollable economic and financial sector, the size of which was not earlier included in GDP.

Aim

To study the possible effect of criminal economic activities on GDP indicators and the level of population's quality of life.

Results

Despite certain economic uplift of the EU states in the present post-crisis period, GDP of some countries has not reached the figures of the pre-crisis stage. No doubt, illegal

economic activities, among them the prevalence of smuggling, such as excisable goods, human trafficking and illegal arms transportation, trafficking of drugs and psychoactive substances, as well as trafficking of new psychoactive substances are affecting the economic indicators of individual countries and, consequently, the quality of life. On May 21, 2013, the European Parliament and the Council of Europe adopted the Regulation 549/2013 on the European National and Regional Account System in the European Union. The demand to include also illegal activities into the estimates of national accounts was stated by ESA'95, nevertheless, the harmonized recommendations for the assessment of the basic principles of illegal economic activities were developed comparatively recently.

According to the Eurostat requirements, the national accounts at present have to include such activities as prostitution, drugs, alcohol and tobacco smuggling. In addition to these requirements Latvia has included smuggling as well. There is no doubt that the inclusion of illegal and criminal activities in GDP increases the GDP figures. To a certain extent it also gives possibilities to manipulate with the state budget indicators (the budget deficit, the inflation level, the indebtedness level) in relation to GDP. Proper GDP index calculation per capita appears to confirm higher standard of living. At the same time it should be mentioned that no methods have been developed, for example, for the determination of the extent of cigarette or drug smuggling and their inclusion in GDP. And still, the Central Statistical Office in Latvia, when making the assessment of illegal economy, concludes that its proportion increases the GDP amount on average by 1% (GDP methodology appendix).

It should be admitted that illegal activities, dealing with financial and economic relationships, are the indispensable component of any state functioning. Due to an insufficient control of informal economy and the largest profit acquired, it occupies more visible place in the national economic structure. At present in the greatest part of the European states, criminal economic activities are included in GDP. Thus, in such way GDP in the United Kingdom increases by 9 billion dollars at the expense of prostitution and still more by 7.5 at the expense of drugs trade (the world GDP will increase at the expense of sex and drugs). In 2011, in Italy, GDP calculations were done according to the new system, including in it the smuggling figures too. As a result, GDP got extra income by 59 billion EUR or by 3.7% greater result.

Within five years in Italy the incomes from criminal structures have increased by 212%. Similar results have been achieved also in other bigger EU countries – German GDP, according to the new system, is by 3.4% higher, in France it has increased by 3.2% (Iveta Korņejeva, 2014). In Greece the inclusion of criminal activities in GDP will increase it by about 2%. The Spanish National Statistics Institute has stated, that drug trading, prostitution, smuggling and illegal gambling in 2013 have increased GDP by 9 billion EUR. In the Netherlands 5% of GDP is made by sex industry (Daley, Suzanne, 2001).

In the EU countries the information about the criminal activity figures and their influence on GDP parameters was included in the National Reports on September 30, 2014. The novelty mentioned is an attempt, by means of a doubtful morally-ethical approach, to assess the economic processes, their sizes and trends, among them those of a criminal nature, more precisely. The position is evidently disputable analyzing the existing processes in economy, and also the inclusion of illegal criminal activities in GDP, giving a clearer view on the rise of the quality of life of the European population. The experts' opinion is that the increase of GDP by including activities of criminal nature in the National and Regional Account System can simultaneously decrease the financial deficit indices and for some countries much stricter, but not sufficiently grounded, to fulfil Maastricht criteria and essentially decrease unfavourable figures. In the countries with negative economic indicators, based on high criminal activity figures, it is possible "to mend", rather successfully, the growing budget deficit parameters of

these countries which must not exceed 3% of GDP. In addition, the new GDP accounting will help the EU to correct the distribution of 120 billion of the EU budget.

The assessment of the value-added tax (VAT) gap is included into the GDP data. VAT gap (correspondingly to the requirements of the National Account methodology) is the businessmen's unpaid state VAT, although the customer has paid the full price for the purchase (including VAT). VAT gap is made up by deliberate fraudulent cases, as well as by those cases, when the company for some reasons has not been able to fulfil their obligations to the state (e.g. the company's bankruptcy). VAT gap is not made up by the cases, when the deal has been made on the presence of both sides, agreeing on the price in which VAT is not included, i.e. both sides already initially know, that VAT will not be paid. The study of the shortfall of VAT in 27 member states, carried out by the order of the European Commission and published in July 2013, showed the highest shortfall of VAT from the GDP ("PwC" : In the world economic crime increases, in Latvia – the highest shortfall of VAT from GDP).

"PwC" study concluded that stealing is still the most widespread type of economic crime, as it was mentioned by 69% of respondents. It is followed by public purchasing fraud – 29%, bribery and corruption – 27%, cybercrime – 24%, book-keeping accounting fraud – 22%. The rest of crimes include fraud of human resources, money laundering, stealing of intellectual property or the data, mortgage fraud and tax fraud.

It is hard to determine the precise size of direct losses due to economic crime. However, 20% of crime victims think that the financial effect of economic crime on their represented organizations exceeds one million USD (0.725 million EUR). Two percent of victims, which represent 30 organizations, consider that this effect exceeds 100 million USD (72.5 million EUR).

Methods of accounting illegal economic activity

Methods of accounting illegal economic activity can be divided into two groups. First group of methods include the traditional economic activity accounting methods, which are adapted also by calculating the proportion of GDP of separate national economy areas. These methods include: balance accounting method; selection observation method; indirect indicator accounting method; monetary method; "mirror method", etc. Experts admit that the above-mentioned methods are not sufficient for accounting illegal activities of economic nature. For example, the balance accounting method and the management of appropriate book-keeping documents, being in line with the existing legal acts will not be useful when calculating drug and human trafficking. The monetary method does not give a clear picture on the size of smuggling, etc.

To the second method of illegal economic activity accounting belong measures by which in a certain unregulated economic area unrecognized income is obtained. In the group of appropriate methods there are two essentially important aspects: the accounting of the scope of production or services rendered (manufacturing) in the respective field; the scope of acquired income (profit) and its use. In each illegal economic sphere there are specific activities which have to be fixed and accounted. For example, in the field of illegal circulation (drug business) of drugs and psychoactive substances one can specify the following essential activities: cultivation of drug substances; processing of drug substances (processing of opium into heroin; processing of leaves into cocaine, etc.); transportation of drugs; storage of drugs (in wholesale facilities) and distribution; realization of drugs in wholesale and retail trade operations; legalization of financial means. In each illegal stage of circulation of drugs and psychoactive substances a new added value is formed and the price of the respective product increases.

According to the experts' estimates, the drug business is taking now the third place among the economic industries and is equal to the acquired income from oil and gas product realization. The profit, as a result of drug smuggling, is from 200 to 2000 %. In Afghanistan, the drug extraction and realization increase the state GDP by 15% (Matthieu Aikins, 2014).

Each year 1.5 trillion USD are realized in the world which makes 5% of the world's GDP. In respect to each country's "contribution" to its GDP, calculations of drug use are done sufficiently simply. The scope of drug trade is estimated by the number of consumers multiplied by the used drugs per year and their total price. We should not forget, that there are several groups which are active in the drug industry: the people who import drugs and psychoactive substances from abroad; the people who store the imported substances; the people who provide the drug business safety; the people who wrap (distribute) substances for wholesale and retail trade; wholesale and retail dealers; drug farmers. While in Afghanistan one gram of heroin costs on average 250 USD, in Northern European countries its price will grow up to 170 200 USD (Matthieu Aikins, 2014).

In the field of informal economic relations, not less important are sexual services and human trafficking. The estimates of the scope of sexual services can be based on the size of corresponding offers. The calculation is done by defining the approximate number of sexual service providers, the average price of services and expenses which deal with the provision of corresponding services (the apartments where sexual services are rendered, the rent and public utility expenses; expenses for cosmetics, hygienic goods, medical services; transport and advertisement costs, etc.).

It is necessary to divide sexual service providers into several categories, which set also the service quality and prices. Conditionally, the sexual service providers can be divided into the following categories: street prostitutes, territorial service providers (service to the bars, coffee shops, club customers); sexual service provision while moving, including the sexual tourism, sex-excort; sexually-erotic service provision in the massage clubs, relaxation saloons; sexual service provision in hotels, to foreigners, too.

Remuneration of the mentioned sexual service providers in respective categories is growing and is ranging in Latvia on average from 15 EUR to 500–1000 EUR. According to the portal sex-riga (<http://www.sexriga.lv/lv/latvian-prostitution-price-index>) data, the present average prostitute's price in Riga is 36.50 EUR per hour service. The appropriate price index is acquired by questioning 100 sexual service providers' average prices who are advertising their services through the Internet. There is no doubt that the sexual service field operates with considerably great financial means.

Let us turn to one more illegal economic field and its influence on the population level of quality of life and GDP – smuggling with a rather wide range of consumer goods – cigarettes.

In Latvia the turnover of tobacco products is about 500 million EUR. About 30–35% are in the illegal market sector, which makes up to 166–170 million EUR.

Every year national budget loses about 50–70 million EUR, which is not levied as excise duty for cigarettes. In 2014 in Latvia 1.86 billion cigarettes were shifted to the retail trade, the state budget collected almost 161 million EUR for them (for overall tobacco products – 166.2 million EUR). Estimates of the Ministry of Finances show, that the scope of the illegal market in 2014 was about 650 million cigarettes, the unpaid excise duty for them is about 56 million EUR. However, the data mentioned are only approximate and do not describe the real situation in the field of cigarette smuggling (Jānis Reirs: Cigarette smuggling is a threat to all EU safety).

The number of criminal proceedings initiated in Latvia gives proof on the increase of the amount of smuggled cigarettes. Due to the introduction of economic and political sanctions against Russia and the ruble fall, one can expect a drastic increase of smuggled cigarettes in

2015 and in the coming years to reach Latvia, and to be further transported to other countries, Sweden including.

On average it is increasing by about 30% per year. Conditionally, it is the approximate real increase in the amount of illegal cigarettes. Tendencies of smuggling are connected with low cigarette prices in Belarus, Russian Federation, Ukraine and other post-Soviet republics. A small part of cigarettes (10–15%) remain in Latvia, however, the largest part is reexported to North European and West European countries, where cigarette prices are twice to sixth times higher than in Latvia.

The Corporate Relations manager Marita Jansone from British American Tobacco Latvia admits that due to cigarette smuggling the country loses for about 80 million EUR. Not only national budget suffers from smuggling, but honest manufacturers as well. The spread of illegal cigarettes was one of the reasons, why the enterprise had to close down the production unit, which had been functioning in Riga since 1887, which initially was Maikapar tobacco factory, later changed to Riga tobacco factory. It had survived the tsar times, wars, the Soviet Union, but it could not stand against the consequences produced by smuggling. The problem of tobacco product smuggling has become very acute, by recklessly increasing the excise duty for tobacco products.

Trends in the field of distribution of smuggled cigarettes present the evidence on the increase in the illegal market and the transit of tobacco products. In Latvia the prevalence of illegal cigarette market in the European Union is the highest. The average level of consumption of cigarettes in the EU is exceeded in Lithuania – 27.5%, Ireland – 19.1%, Great Britain – 16.4%, France – 15.7%, Greece – 13.4%, Poland – 13%, Germany – 11.1%. Illegal “white” cigarettes, which are produced only in order to sell them as smuggled goods, make at present one fourth (24.3%) of counterfeit and smuggled cigarette consumption. In 2006 their prevalence was only 2.4%. At the head of legal cigarette manufacturing business administration (five factories) in Latvia, there are criminally and administratively convicted people, but these factories have not expanded an active business activity at present. In comparison – in Estonia there is no single legal tobacco factory, in Lithuania – only one.

In Belarus cigarettes with all tax surcharge is four times cheaper than in Latvia, and twelve times cheaper than in Great Britain. The price of Belarus cigarettes is worth to be transported from Grodno till Moscow region, by grinding boards for an ambush, by inserting Belarus cigarettes into them, and then taking them back to the market in Europe.

For example, in Grodno district in Belarus, there is a factory, which is producing four times more cigarettes, than the local market can realize. And approximately half of illegally available cigarettes in Latvia are produced just in Belarus. Law enforcement authorities in 2014 have taken out 130.1 million cigarettes from illegal marketing, and the totally greatest part of the illegal market is made of legally purchased cigarettes from Belarus and Russia’s retail chains and then smuggled into the country. From those cigarettes found in the illegal market, 87% are with Belarus excise brands.

An opinion exists that by working normally, the customs (in our case the Customs Criminal Police) detects 5%–10% of all administratively or criminally punishable transportation cases of illegal goods. It is a generally accepted norm, which shows, that the country can sufficiently effectively cope with this phenomenon. The profit, as a result of cigarette smuggling, is used to finance the terrorism, even more – military groups and activities, which causes a clear threat to the EU states, to overall democratic and civil values.

The tendency mentioned deals with series of total objectively determined conditions, including the high excise duty for cigarettes in Latvia, the high unemployment level in border regions, the developed transport infrastructure, the lack of actually producing companies, low cigarette prices in the Russian Federation and Belarus.

Cigarette smuggling, like a specific form of criminal business, has marked specificities:

1. Groups which deal with cigarette smuggling are strictly organized with a precise role and distribution of functions, which in some cases in illegal goods trafficking over the state border involves also persons, who are not conscious of their participation in cigarette smuggling.
2. Criminal groups, which deal with cigarette smuggling, are mostly transnational. They involve individuals from different countries and different ethnicity.
3. Criminal group members have criminal background (persons had been convicted or prosecuted for committing different crimes, including excise and other goods illegal transfer over the state border), which demonstrates the professionalism of the group members.
4. Different methods are used in cigarette smuggling (cigarettes are hidden in coal cargo, in furniture, foodstuffs, car frames, spare wheels, petrol tanks, etc.).
5. Modern technologies are used in cigarette smuggling, including GPS, which gives a possibility to follow the cargo movement route, without a human's assistance they provide the access in the necessary places (stations, terminals, ports, warehouses, etc.). GPS systems are used transferring smuggled cigarettes in coal cargo of railway carriages.

In cigarette smuggling complex logistics systems are applied, using various transportation types and places for cigarette storage. Logistics systems are developed depending on: the amount of smuggled cigarettes; the place of production; transportation type and transported volumes; a type of warehouse where smuggled cigarettes are stored; realization type; type of payment for production, transportation services, storage and realization; use of illegally acquired financial means through smuggled cigarette realization (bribing of corresponding officials, increasing the smuggling volume, investing means into production, buying securities or real estate, etc.). Precisely developed logistics schemes essentially reduce the unmasking risk of the organized criminal group, specializing in cigarettes. In logistics schemes are used: container transport, which can comprise up to 10 million cigarettes; trailer transport (Ro-RO), which can be used together with container transport.

In cigarette smuggling, not uncommonly, officials of competent services are involved - borderguards, customs officers, etc.

The state foregone income, due to delinquency, not only strengthens the shadow economy, but the power of criminal groups as well, the increase in their sphere of influence, economic, political and criminal potential. The state foregone income (in the form of taxes) is invested into the shadow economy and criminal business, in illegal trade of drugs and arms, in prostitution and casinos.

However, to what extent these illegal, among them criminal activity forms, are succeeding in the increase of the level of the quality of life? It is still important to understand, what the term "the quality of life" involves. There are many definitions of the given term. The aim of the article has not been not to go deeper into it. We agree to the view of E. Emerson, saying, that the quality of life is a measurable individual's value, aims and needs satisfaction through his/her ability of lifestyle's actualization (Emerson, 1985).

Just through a person's more complete satisfaction of needs and values, one can identify his/her quality of life. We should not forget, that values and needs can be not only pro-social (public supported), but antisocial as well. Thus, not only persons with different sexual orientation exist in the society (in relation to different forms of satisfaction of one's wishes or objects, with a wide orientation-satisfaction market), but there are also individuals with

a pathologic disposition to satisfy one's drug or alcohol dependence needs, the offer and demand of illegal goods and services, promoting smuggling.

The sphere of illegal goods and services, no matter how immoral or illegal it may be, still provides people with work (employment), those who for different reasons are not anywhere employed.

These spheres ensure them with income, those who in a legal way are not able to get it. Any person's behaviour, the criminal as well, can be explained by a deliberate intention for achieving certain aims; a person makes the choice by trying to a greater extent increase his/her benefits and decrease the losses (Sanford, F. S., Caterino B, 2006). Therefore, antisocial and criminal activities to a certain range of people also give a chance to increase their quality of life, even in rather limited public facilities.

Thereby, it is not a paradox, that sexual services (prostitution), drug, arms and human trafficking, and smuggling are included into GDP figures. From the common morally ethical norms, perhaps, to a part of the public it is not acceptable. And still, even such type of GDP increases, evidently depicts our growing security and prosperity level. To tell the truth, not for all. For a separate public group, in order to provide for their existence and a respective level of their quality of life, it is necessary to go in for sexual service field, to sell drugs, psychoactive substances, alcohol of smuggled cigarettes.

Conclusions

Inclusion of quantitative parameters of criminal activities in GDP indicators has not been sufficiently methodologically precisely worked out and is not objectively grounded. Activation of criminal economic processes (people trafficking, drug smuggling, etc.) reveals the lack of sufficiently developed and implemented programmes for the decrease of negative consequences of the processes mentioned. Drug and people trafficking, prostitution, smuggling offer only relatively financial provision for antisocial group participants' welfare; at the same time they are promoting socially unfavourable processes, and decreasing resources for support activities in marginal groups. Criminal activities, by nature, are legalized in a rather specific way.

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