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## **THE CAUSES OF ECONOMIC CRIME AND THE REVIEW OF ITS EFFECTS IN THE BUSINESS FIELD**

**ABSTRACT:** Economic crime is a serious security risk, which is present in every country. The factors of current economic, social and broader societal conditions of global trends are considered to be the general factors contributing to the causes of economic crime. If a country's economic system is established on solid foundations, fully respecting the market economy laws, such a system is less exposed to various forms of criminal attacks. Bearing in mind the importance as well as the complexity of the matter of economic crime, this academic paper deals with the etiology of economic crime as a phenomenon. The study includes a general criminological review of the above-mentioned topic, with a special emphasis on the review of the economic crime causes in Republic of Serbia. It is evident that the emergence and development of new types of economic crime, as well as the refinement of already existing ones, have had a significant impact on the operations of business entities and on the national economy as a whole. The causes of economic crime that are deeply rooted in a particular society have an extremely negative impact on the trust given to business entities and their stable operations. The roots and causes of economic crime are based on the contradictions of socio-economic relations, which affect the outward forms of this kind of crime,

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and represent the result of a series of political, economic, geographical, legal, moral, cultural and other factors, which fundamentally negatively affects the overall economic stability.

**Keywords:** *business operations, economic crime, etiology, the Republic of Serbia.*

## 1. Introduction

Economic crime is a serious security risk, which is present in every country. Economic crime differs from conventional crime in its complexity and phenomenological diversity, the perpetrators' motives, as well as their specialization and professionalization. The existence of "personal predispositions – a tendency to commit criminal acts and circumstances that make it objectively possible to do so under given conditions, is crucial in this form of delinquency" (Đukić, 2016, p. 173). Whether someone will commit a certain crime "very often depends on the circumstances that person is currently in, their lifestyle thus far, personal and family circumstances, their health, financial and emotional state, as well as other factors" (Matijašević & Zarubica, 2021, p. 29). Thus, individual and group criminal behavior, in any sphere, can generally "be defined as the most severe form of social deviance" (Rašević & Jakovljević, 2022, p. 179).

Economic crime is a negative social phenomenon that is constant and very dynamic, and that skillfully adapts to the socio-economic and political circumstances in society. Throughout history, "economic crime has changed its outward appearance, but it has always been of a specific nature, and thus, with regards to the perpetrators of this kind of crime, has been characterized by the perpetrators' status and power derived from their position of privilege and/or relevant role in socio-economic and political structures. It is the role, status and power of economic crime perpetrators, that make this type of crime 'invisible' in a way, marking it as the crime of the 'privileged', who cunningly use their position to gain enormous wealth and power" (Nikoloska, 2014, p. 361).

The increasing social dangers of economic crime are "related to recent times, which are characterized by booming economic development and the establishment of numerous economic ties on the overall international scale. The material and other consequences of economic crime cause an increasingly strong social reaction, as well as increasingly frequent international cooperation in its prevention and suppression" (Đukić, 2016, p. 170).

Taking into consideration the views of certain authors (Milutinović, 1990; Ignjatović, 1998; Papeš, 1986; Bošković, 1995). Banović (2002) identified the following basic characteristics of economic crime: "latent concealment – the problem of 'dark figures', dynamism and complexity of phenomenology, specialization and professionalization of the perpetrators, specificity of clues and other indications, specificity of proof and means of proof, specialization in combating economic crime" (pp. 30-43).

Economic crime damages economic relations, disrupts the stability of business operations, and thus leads to one particular class of people accumulating wealth unjustly, which causes a weakening of the state's economic power, decrease in GDP, disrespect for law and moral decline. Additionally, economic crime has long ceased to pose a threat to national economy only (Lončar, 2021). Internationalization and continuous expansion to new areas and regions are some of the common traits of economic crime.

Bearing in mind the significance, as well as the complexity of the matter of economic crime, this academic paper will deal with the etiology of economic crime as a phenomenon. The study includes a general criminological review of the above-mentioned topic, with an additional review of the causes of economic crime in the Republic of Serbia, especially regarding the causes of modern forms of economic crime that have existed for several decades in our country.

Namely, economic crime exists in numerous forms. Modern living and working conditions, as well as IT literacy that is close to perfection, especially in business, have enabled the constant perfecting of existing forms of economic crime and the emergence of new ones, which are becoming increasingly difficult to detect.

## 2. The causes (etiology) of economic crime

The general factors that contribute to the causes of economic crime are considered to be "the factors of current economic, social and broader societal conditions of global trends. Additionally, they possess characteristics that are related to specific continents, regions and nations. Our country's economic conditions are a reflection of the majority of factors that have influenced social changes in the countries of Southeast Europe, the so-called transition countries. These factors primarily refer to the destruction of fundamental social institutions, the suspension of rights as the basis of social control and the replacement of legal regulations with ad hoc power relations. Widespread crime, which in various forms ranges from crime committed out of necessity

(crime caused by poverty) to organized crime, and which in one period affected most countries in post-socialist transition, brought about a huge concentration and influence of 'dirty money', the media and political love of power in one place, with disastrous consequences for social stability, not only in the economic, but also in societal, security and political spheres" (Bošković & Marković, 2015, pp. 211-212).

The roots and causes of economic crime are generally found in "social and material conditions and current economic relations in a society, i.e. in the contradictions of socio-economic relations, which affect the outward forms of this kind of crime, depending on political, economic, geographical, legal, moral, cultural and other factors. If a country's economic system is effective and established on solid foundations, with full respect for the market economy laws, such a system is less exposed to various forms of criminal attacks, because the legalities within it act as a security mechanism" (Bošković, 2009, pp. 23-24).

Therefore, in this context, the following causes of economic crime can be identified and are shown in Table 1 below.

**Table 1.** General causes of economic crime

Causes	Explanation
Errors in internal corporate governance	The most common errors of this type are: inadequate internal organization of the scope and methods of production and business; frequent law amendments which lead to new forms of corporate governance and which are not accompanied by appropriate bylaws; incomplete, non-existent or incorrect financial records.
Lack of control over business operations	The lack of internal and external control, or its weak management and functioning, regardless of the form of property, are what enables poor internal governance and financial records in companies, official bodies and organizations.
Inventory errors	Inventory is a form of control and one of the more effective property protection measures, which, whether it is regular or not, and regardless of the form of property, aims to determine the current state of goods and money in a certain facility and compare it with the book value. The common faults of inventory are manifested in the lacking expertise of the inventory commission members, in their irresponsible behavior, superficial approach to completing this important task, or in a certain coordination between individual managers or even between members of the inventory commission and the supervisor of the facility where inventory is to be taken.

Causes	Explanation
Insufficient property protection	All existing forms of property must have an effective security system, which would prevent organized attacks that can lead to appropriation, alienation, damage or destruction. The protection of all types of property that is more complete and effective is achieved through a combination of physical and technical security.
Transition process	Elections that are more frequent, the change of political parties that are in power, changing roles of government supporters and the opposition in each particular political system, the adoption of new laws, personnel changes in positions of responsibility and other important positions, changes in domestic and foreign policy, are just some of the factors present, which have a causal effect on the persistence of existing and the emergence of new forms of economic crime. In this context, the transformation of social and state ownership into private property is particularly characteristic as the dominant form of property in the newly formed economic system.
Economic liberalization	Economic liberalization on the global scale also contributed to certain new forms of economic crime emerging, because the trade between various countries became more free depending on their interests, and certain government bodies did not readily welcome such liberalization (e.g. the absence of legal and security mechanisms to direct control and prevent such crime).
Other factors	There are also other factors that enable the commission of economic crime, such as: inadequate personnel policy that has manifested itself in friendship, kinship and other networks, and placing untrained employees in positions of responsibility; non-compliance with the law; one executive holding several positions; being insufficiently informed; incomplete legislation and frequent changes in regulations; various other influences of certain economic and political institutions that are not law-related, etc.

Source: Bošković, M. (2009). *Privredni kriminalitet [Economic Crime]*. Bar: Fakultet za poslovni menadžment, pp. 23-28.

Certainly, the global economic crisis also had a significant impact on the increase and spreading of certain forms of economic crime. Although its influence on countries in transition was once described as indirect, under the influence of the major global market events and due to the unstable political situation in Serbia, there was a significant withdrawal of foreign investment from

our market, so the effects of the world economic crisis especially came to light within the stock exchange and banking sectors. As Gradojević and Carić (2017) point out, “the events that led to the financial crisis in 2008 were caused by a combination of behavioral, macroeconomic, regulatory and supervisory factors. The creation of such conditions and their interaction culminated in September and October of 2008, marked by unprecedented price volatility” (p. 16).

According to certain authors, “in addition to economic and socio-political circumstances, one of the significant factors that impact the existence of economic crime is the degree of social awareness, as well as the morality of the members of a certain community” (Nicević & Ivanović, 2012a, p. 93; Nicević & Ivanović, 2012b, p. 74).

While considering economic crime causes, in addition to the causes already mentioned, certain conditions that contribute to economic crime must also be taken into account.

Among the factors that contribute to economic crime, the following should be highlighted:

- frequent law amendments which introduce new forms of corporate governance, and which are not accompanied by appropriate bylaws, as well as the existence of legal loopholes and vagueness within the bylaws that regulate economic activity;
- incomplete, i.e. erroneous property records, as well as incorrect assessments of the status, i.e. transactions of property during all phases of a business entity's activity;
- the lack of internal and external control, or its weak management and functioning, which, regardless of the form of property, enable poor internal governance and financial records in business entities;
- inventory errors are also a factor which contributes to economic crime. Namely, inventory is a form of control that aims to determine the current state of goods and money in a certain facility and compare it with the book value. The common faults of inventory are manifested in the lacking expertise of the inventory commission members, in their superficial approach and irresponsible behavior when it comes to completing this important task, or in a certain coordination between individual managers or even between members of the inventory commission and the supervisor of the facility where inventory is to be taken;
- insufficient protection of the property of business entities, i.e. failure to take effective measures in physical and technical security;
- inadequate personnel policy that is reflected in various friendships, kinships and acquaintances, the consequence of which is giving

untrained employees roles that require a high degree of expertise and responsibility;

- non-transparency of decision-making in the privatization process, as well as one person taking on several incompatible roles, etc" (Nicević & Ivanović, 2012a, p. 93).

### **3. The causes of economic crime in Serbia**

According to Mitrović (2006), "the cumulative effect of various factors of widespread crime in current Serbian society is reflected, on the one hand, in the complex spectrum of crime, and on the other, in the deep roots that some types of crime in Serbia have. Systemic deviance is not an individual and personal phenomenon, but a structural and social one, as well as a social problem of a strategic and developmental nature. That means that it is not a transient phenomenon related to the personal traits of individuals, but originates from a 'construction error' in the implementation of the fundamental rules of a social organization. Typical systemic deviances arise from the inconsistency of the basic goals and the main ways and means of their realization within the framework of a formally organized and institutionalized structure of action and behavior. Achieving illegal, personal goals through public institutions is a model example, as well as achieving publicly proclaimed and socially verified goals through informal arrangements that public institutions make with problematic individuals. In that sense, corruption is a typical systemic deviance" (p. 115).

With the collapse of socialist systems, "favorable conditions for the so-called transition crime are created. The planned transformation of state (social) ownership into private ownership represents an epochal opportunity for those with political monopoly in former socialist societies to gain money incredibly fast and in enormous amounts. Large sums of money and an ineffective judiciary, on their part, contribute not only to burgeoning corruption, but also to open looting of public (natural and social) resources. In Serbia, as in other former socialist countries or republics of the former Yugoslavia, the nature and scope of criminality were influenced by all the above-mentioned systemic factors, as well as numerous elements of transition, but wartime conditions are what directly caused an anomic social environment. The pervasiveness of crime within the social life in Serbia is just one characteristic phenomenon that occurred even after the last war" (Mitrović, 2006, p. 116).

According to Bošković and Marković (2015), "substantial changes in our country in the recent years, numerous social problems, and economic crises and

developments in that area have contributed to various forms of economic crime, as well as to its scope. Besides general conditions, there are also specific ones that put certain political, economic and party structures and parts of the state apparatus in a favorable position which allows them to, using the privileges granted by changes and unregulated relations, and thus by the lack of state control and social control, enable various forms of illegal profit, both individual and of those types that can rightly be considered forms of organized crime" (p. 212).

The same authors also point out that "dynamic and insufficiently legally regulated ownership changes, the monopolistic position of certain business entities and state regulation, a system of privileged and limited stock and quotas for strategic products, business with commodity reserves in conditions of consumer goods shortages, privileges when it comes to obtaining a loan and the use of foreign exchange reserves, and the exploitation of the circumstances of the foreign exchange market, contributed to some forms of legalization of illegal business and of illegal money-making through tortious acts, which, regardless of whether they were considered criminal acts, economic offenses, misdemeanors or violations of common business ethics, certainly belong to classic forms of economic crime, no matter which definition one accepts" (Bošković & Marković, 2015, p. 212).

As Bošković Mićo (2009) remarks, "in the previous period, in the territories of Montenegro, Serbia and Republika Srpska, many phenomena occurred which at that time were characteristic as etiological factors of crime in general, including economic crime, the consequences of which are felt even nowadays, and many of which still serve as favorable conditions for the emergence and development of certain forms of economic crime. Among them, the most important are:

- wars fought in those areas,
- disruption of economic and political relations between the republics of the former Yugoslavia,
- economic sanctions of the international community,
- high inflation,
- inconvertible domestic currency,
- prices in dinars, marks (Deutschmark) and checks,
- ineffectiveness of border control,
- decrease in production and product supply,
- shortage of certain goods on the domestic market,
- low income and decline in the standard of living,
- unemployment and poverty,
- monopolistic position of certain business entities,

- long duration of court proceedings for economic crime cases and
- inadequate penal policy against economic crime perpetrators” (p. 28).

#### 4. Conclusion

Economic crime is a very complex criminological and legal category. Modern economic crime is characterized by a myriad of forms which are becoming increasingly better organized, which, among other things, makes it difficult to detect them, collect evidence and prosecute the perpetrators of specific criminal acts in this area.

Bearing in mind the significance, as well as the complexity of the matter of economic crime, this academic paper will deal with the etiology of economic crime as a phenomenon. The study will include a general criminological review of the above-mentioned topic, with an additional review of the causes of economic crime in the Republic of Serbia, especially regarding the causes of modern forms of economic crime that have existed for several decades in our country. Namely, the current trends in economic and business relations in our society, such as ownership transformation, a high percentage of the so-called “gray economy” taking part in the GDP, “money laundering”, misuse of computer technology, and other factors, create a real basis for completely new forms of economic crime. Two factors that have a significant impact on the new trends and the intensity of the forms of economic crime are certainly “the attraction of large profits, as well as the already well-established forms of criminal nature from the past” (Bošković & Marković, 2015, p. 212). Today, economic crime definitely “is a global phenomenon and is one of the biggest problems that modern society faces. It attacks all countries in the world, regardless of their economic, social or political structure, so it exists even in the most developed countries. However, it most often occurs in countries with unstable political regimes, i.e. countries with a noticeable absence of a legally regulated state” (Đukić, 2015, p. 272).

Thus, it is evident that the emergence and development of new types of economic crime, as well as the refinement of already existing ones, have a significant impact on the operations of business entities and on the national economy as a whole. The causes of economic crime that are deeply rooted in a particular society have an extremely negative impact on the trust given to business entities and on their stable operations. The roots and causes of economic crime are based on the contradictions of socio-economic relations, which affect the outward forms of this kind of crime, and are the result of a series of political, economic, geographical, legal, moral, cultural and other factors, which fundamentally negatively affects the overall economic stability.

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## **UZROCI PRIVREDNOG KRIMINALITETA UZ OSVRT NA POSLEDICE U OBLASTI PRIVREDNOG POSLOVANJA**

**REZIME:** Privredni kriminalitet je ozbiljan bezbednosni rizik, prisutan u svim državama. Opštim faktorima uzročnosti privrednog kriminaliteta smatraju se činioci aktuelnih ekonomskih, socijalnih i širih društvenih uslova globalnih kretanja. Ukoliko je ekonomski sistem jedne zemlje efikasan i postavljen na solidnim osnovama, uz potpuno poštovanje zakona tržišne privrede, takav je sistem manje izložen raznim oblicima kriminalnih napada. Imajući u vidu značaj, ali i kompleksnost materije privrednog kriminaliteta, rad se bavi etiologijom privrednog kriminaliteta kao pojave. Istraživanje uključuje načelan kriminološki osvrt pomenute tematike, a poseban osvrt je učinjen na uzročnost privrednog kriminaliteta u Republici Srbiji. Jasno je da pojava i razvoj novih vidova i usavršavanje već postojećih vidova privrednog kriminaliteta značajno utiče na poslovanje privrednih subjekata i nacionalnu privredu u celini. Uzroci privrednog kriminaliteta koji su duboko ukorenjeni u jednom društvu, izuzetno negativno utiču na poverenje koje uživaju privredni subjekti i njihovo stabilno poslovanje. Koreni i uzroci privrednog kriminaliteta temelje se na protivurečnostima društveno-ekonomskih odnosa, koji utiču na pojavnne oblike ovog kriminaliteta i posledica su niza političkih, ekonomskih, geografskih, pravnih, moralnih, kulturnih i drugih momenata, što se suštinski negativno odražava na ukupnu privrednu stabilnost.

**Ključne reči:** *privredno poslovanje, privredni kriminalitet, etiologija, Republika Srbija.*

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