The paper highlights the interaction between the underground economy and corruption, focussing on the regional dimensions of the problem in south-eastern Europe. It discusses the theoretical approach to underground economic activities and focuses on the determinants of the Greek economy, the tax and national insurance burdens and the intensity of the relevant regulations in Greece, concluding that Greece shows profound signs of a transition country in terms of the high level of regulation leading to a high incidence of bribery and a large shadow economy.

The taxation problems arising from high administrative-compliance costs and bribery indicate the urgent need for tax reforms designed to simplify the regulation framework. Improvement of the quality of Greek institutions and rationalisation of administrative-compliance costs are a prerequisite for successful and urgently needed tax reforms in terms of reducing the overall Greek shadow economy, through the simplification of the regulatory framework. The inability of Greek governments to tax underground activities, and the relevant impact on the scale of corruption, is related with a vast range of governmental activities distorting and weakening its allocative, redistributional and stabilising role. The paper finally argues that the strong and consistent relationship between the shadow economy and corruption in Greece is closely connected with the reflexes of those who are not willing or cannot afford to bribe central or local government bureaucrats, or who have no connections to these bureaucrats, systematically choosing the dark (shadow) side of the economy as a substitute for corruption (bribery) and making the shadow economy complementary to a “corrupt state”