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## THE DEVELOPMENT OF THE SHADOW SECTOR IN THE "NEW ECONOMY"

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### РОЗВИТОК ТІНЬОВОГО СЕКТОРУ НОВОЇ ЕКОНОМІКИ

The shadow economy is an extremely topical and painful issue for the world economy as a whole and for the Ukrainian economy in particular. A significant obstacle to the sustainable development of the economy is due to the spread of the shadow economy in the countries of the world. The functioning of the shadow economy leads to a significant reduction in the revenue structure of the budget portion of tax revenues, which jeopardizes the implementation of important state programs. Therefore, the most promising direction of income expansion is to attract shadow turnovers into the legal business. That's why the purpose of the article is the analyzes of the reasons of the growing level of shadow economy of the countries of the world and detailed characteristic of the level of shadow economy of the USA, EU and Asian countries. The task is to come up with the place of the national tax system in the questions of the regulation of the shadow economy.

Тіньова економіка є надзвичайно актуальною і болісною проблемою для світової економіки в цілому та для української економіки зокрема. Значна перешкода для сталого розвитку економіки пов'язана з поширенням тіньової економіки в країнах світу. Функціонування тіньової економіки веде до суттєвого зменшення структури надходжень до бюджетної частини податкових надходжень, що ставить під загрозу реалізацію важливих державних програм. Тому найбільш перспективним напрямом розширення доходів є залучення тіньових оборотів до юридичного бізнесу. Саме тому метою статті є аналіз причин зростаючого рівня тіньової економіки країн світу та детальна характеристика рівня тіньової економіки США, країн ЄС та країн Азії. Завдання полягає у висвітленні місця національної податкової системи у питаннях регулювання тіньової економіки.

*Key words: shadow economy, economic development, national tax system, regulation, USA, European region, Asian region.*

*Ключові слова: тіньова економіка, економічний розвиток, національна податкова система, регулювання, США, європейський регіон, азійський регіон.*

#### RAISING OF THE PROBLEM

At the beginning of XXI century the problem of shadow economy is actual not only for the countries of post-soviet space but also for the leading economies of the world, such as the USA and European countries. The most widespread types of shadow activities are: the optimization of taxes, the labor of illegal emigrants, the illegal return of tax value-added and salaries "in envelopes". Therefore, it is necessary to analyze the reasons of the shadow economy in order to prevent its growing in the times of globalization and internationalization.

#### ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

Philosophers and research workers have a discussion conducted the relation to a necessity and efficiency of the minimization of the level of shadow economy. Considerable payment in a process researches of factors, that have influence on the tinization of economies, belong to the group

of scientists, in particular D. Ashvorz, I. Blagun, T. Varin, E. Saveliev, O. Sala-I-Martin, however much afore-mentioned scientists in the researches have examined only limited amount of factors which influence the growth of level of tinization of national economies, avoiding researches of efficiency of activity of the national tax systems. At the same time such scientists as Y. Bairachnyi, I. Egert, D. Mackey, A. Tolkushkin, N. Turgenev spared attention only on the external factors of the shadow economy. At the same time unsolved are the questions related to the efficiency of the tax system in the solving of problems of minimization of shadow economy of the countries.

#### THE AIM OF THE ARTICLE

The main aim of the article is to analyze the level of the growing of the shadow sector in the new economy and to come up with the specific characteristics of the american, european and asian model of regulation of the growth of the shadow economy.

**PRESENTATION OF THE MAIN RESEARCH MATERIAL**

The modern stage of the development of national economies is accompanied by the intensification of shadow processes in all spheres of public activity. However, exactly the shadow economic activity results in serious deformations in economical, social and political spheres of any country and has a threat on economic safety on the whole. Such threat appears in: the defect of the budgetary facilities on financing of state charges on the whole, soldiery, scientific, educational and social programs — in particular; subzero, in relation to potentially possible level of tax preludes of budgets of different levels; the necessity of increase of rates of taxation for taxpayers and forming the same tax reaction for the legal entrepreneurial and labour activity; the source of capitals for the limits of the country; insufficient level of development of productive sector; insufficient control after the entry of tax payments; prosperity of corruption, recreation of criminality, devaluation of authority of state power on the whole, law enforcement and tax authorities — in particular.

In scientific literature there is no unity in the determination of the structure of shadow economy, however lately there is the rapprochement of different points of view in relation to the types of activity, that is embraced to the concepts "the shadow economy". They, as a rule, embrace avoiding taxation, violation of custom rules, illegal employment, receipt of secondary access in a public sector and other forbidden types of activity ("washing of dirty money" in a legal sector).

The first researches sanctified to the problems of shadow economy appeared at the end of 1930-th of XX century, however only at the end of 1970th the intent attention began to be spared the this phenomenon of public life. At the beginning of 1980-th of XX century by the governments of row of countries task working forces were created on the study of shadow economy. From the year of 1984 such group, that investigates the spheres of existence, sizes and progress of shadow economy trends, appeared in Austria, France, Portugal and Holland. Congress of the USA distinguished the substantial assignments to scientific organizations and separate researchers of this problem. In 1983 in the city of Belfield the first international conference passed on the problems of study of shadow economy and the fight against it. One of the maiden attempts of the complex going the seminar organized by the university of Toronto (Italy) in 1987 also dedicated to the research of this problem. In the work of the seminar more than

30 scientists participated from the countries of East and Western Europe and USA. On a seminar the economic, social and cultural root of shadow economy was analyzed in the different socially economic systems. A conference on the problems of the fight against economic criminality took place in Saint Petersburg (Russia) in 1994 [1].

According to the researches there can be distinguished three groups of factors, that assist to development of shadow economy. The first group characterizes the economic factors, in particular heavy taxes, restructuring of spheres of economic activity, crisis of the financial system and influence of negative consequences on an economy on the whole; imperfection of process of privatizing; activity of unregistered economic patterns. Second group describes the social factors, in particular the low level of life of population, high unemployment rate and orientation of the part of population on the receipt of access by any method; uneven distribution of gross domestic product. And the third group characterizes the legal factors, such as the imperfection of legislation; insufficient activity of law-enforcement structures on stopping of illegal and criminal economic activity; imperfection of mechanism of co-ordination on the fight against economic criminality.

It is necessary to mention, that the leading expert on a shadow economy Frederic Schneider from University in Austria distinguishes four principal reasons of shadow economy: firstly, it the high tax loading, secondly absence of "state ethics" ( a shadow economy is considered the normal phenomenon wherein, as a rule, subzero quality of state institutes and low level of trust of population to them, thirdly, high distribution of cash payments, and fourthly, the subzero risk of discovery: subzero efficiency of the checking and penalty approvals system.

In a number of researches ponderable proofs are given that the tax mode that influence the shadow economy were educed. Basic methods avoiding tax payment, not dependency upon the type of tax: hiding the objects of taxation, reflection of financially-economic operations in a record-keeping, introduction of financially-economic activity without necessary registration, raising on an account in the state tax inspection or license, also the use of the counterfeited documents and non-existent organizations, introduction of financially-economic activity through the accounts of other organizations or structural subdivisions, elimination of book-keeping documents after realization of operation [2, p. 45].

It was set during research, that in Austria the load of direct taxes (including payments on social

providing) gives the most influence on the increase of shadow economy; on a next place the number of normative acts that touch companies and workers, and also the complication of tax system, costs on the level of action. In other researches analogical results are given for the Scandinavian countries, European countries and the USA. An analysis shows for the USA, that increase of maximum rate of federal income tax of physical persons on 1% being equal in the increase of shadow economy on 1,4%. Also in case of the USA the maintenance of overhead of business rate of income tax from an increase can prevent the further increase of shadow economy. The research on the example of Quebec (Canada) shows a high measure of mobility of population between official and shadow economy, and also as far as an increase of clean payments in an official economy the amount of busy in a shadow economy grows short. In addition, underlined in this research, that in the cases when a population counts a tax rate very high, the increase of tax rates results in the decline of tax entries.

Scales and features of shadow economy in different countries and world regions closely constrained with national economic models and measure of maturity of market relations. If to analyze a period of 2010—2016, it is possible to assert that in the developed countries the middle level of shadow economy folds, on different estimations, 12—16% of GDP, in those, that are developing, from 40 to 50% of GDP and in countries with a transitional economy — 23—25% of GDP. Thus, in the most developed countries specific gravity of shadow sector considerably less than in other groups of countries in a national economy. However, the developed countries are also heterogeneous, and among them there are countries with the highest indexes of shadow activity. By the state on 01.12.2016 the level of shadow economy of the countries and regions are the following: the countries, that are developing have 36,2%, Asia 42,9%, Africa 38,6 and Central America 30,1%. At the same time it is necessary to mention countries with a transitional economy (24,7 %), former soviet union countries (22,7%), western Europe (19,3 %) and developed countries have 11,9 % in GDP. On the whole there is a permanent increase of economic "shade". To the developed countries with the most high part shadow to the sector Greece (29% of official GDP), Italy (27,8%), Spain (23,4%) and Belgium (23,4%). A mid position is occupied by Ireland, Canada, France and Germany (14,9—16,3%). Most subzero indexes of part shadow economy in Austria (9,1%), USA (8,9%) and Switzerland (8%) [3].

The analyzes of the details of the shadow economy of the countries is better to start with the USA, that is conditioned by the lowest level of it in the whole world ( 8,8% of GDP) as the result of the year 2015. According to the analyses of the famous economist Richard Sabula and his colleague Edgar Feidjam from the university of Jacksonville, Florida declares, that in the year of 2015 — only 11% of the profit of habitants of the USA was not declared in tax returns. If to suppose that this percent will remain unchanging by the end of 2016, then a volume of shadow economy will be 2,6 trillion of dollars.

One of the main reasons of such low level of the shadow economy is the legal base, that was formed in the USA more than last 100 years. The legal base against the legalization of criminal access of the USA is folded by two levels of legislative acts, that are the federal acts and laws of the states. To the federal laws belong first of all "The Bank Records and the Foreign Transaction Reporting Act" (An act is dedicated to the bank records and accounting on international operations), BSA ("Bank Secrecy Act") — an act is about a bank secret and the Law on a fight against "white-washing" (1986). "Bank Secrecy Act" set norms, that touch documentation and accounting for private persons, banks and other financial enterprises. This law also regulates the use of the information for investigation of criminal, tax and other offences.

The law of the USA "On the fight against white-washing" (was formed in 1986 with amendments 1992, 1994, 1995 and 1996) set the row of other events necessary for an effective fight against legalization of criminal access. A law criminalize the operating under "white-washing". In accordance with the real normative act a financial operation is examined as white-washing, if a person knows that the facilities used in such operation bring illegal assets, and if this person carries out this financial activity or intentionally assists such illegal activity. And finally, starting from the year of 1986, the enterprises of retail business and private persons are under an obligation to fill the form of "Reports of Cash Payments over \$ 10,000 and the Trade of Business (IRS Form 8300) — report on available payments over 10.000 that turn out in trade and business.

Analyzing the countries of EU, it is necessary to mark that in European Union the attitude toward a shadow economy duals: from one side, it is on the right of every separate state to watch after the rightness of the economic politics, from another, EU considers a necessity to contest with those displays of shadow economy, that negatively

affect economy of EU in general. There can be formed three groups of the level of shadow economy. The best of all businesses goes in Austria, Luxemburg, Netherlands, France and Great Britain, in that sense, that a fate of underground and grey business in a national economy is lower than 10%. Farther goes Ireland with 12,8% of shadow economy, Finland and Germany — 13,7%, Denmark — 13,8% and Sweden — 14,7%. A few worse, but however far below one fifth — in Slovakia, Slovenia, Czech Republic and Belgium. In Slovakia and Slovenia — a 16% of shadow economy, Czech Republic — 16,4% and Belgium — 17,1% [4].

The second group includes Spain, Portugal, Italy, Greece and Hungary. For them the fate of shadow economy is substantially higher and consists the fourth of GDP. Indexes on Spain — 19,2%, Portugal — 19,4 %, Italy — 21,2%, Hungary — 22,8%. Greece locks a list with 24,3% [5].

The third group of the states runs into most problems and consists of Poland, Malta, Cyprus, Baltic countries, Romania and Bulgaria. In Poland, Malta, Cyprus and Latvia the level of shadow economy is higher, their indexes are 25%, 25,8%, 26% and 26,5% accordingly. In Estonia and Lithuania — 28,6% and 29%, that is arrived at by shade in a national economy.

Finally, a most alarm in EU is caused by Romania and Bulgaria. Here specific gravity of underground business sneaks up to one third of GDP (Romania — 29,6% and Bulgaria — 32,3%). An analogical tendency on the crisis for a post decline of fate of shadow economy was observed in the countries of European Union.

The decline of level of tinization of national economy happened in the conditions of completion of sharp phase of crisis and passing to the phase of proceeding in the growing economy. During 2014—2016 there were increases of level of the real GDP (on 4,1 and 5,2% accordingly) and decline of unemployment rate (to 8,1 and 7,9% accordingly). It was accompanied by the deceleration of inflationary processes in an economy, proceeding in the dynamics of increase of deposits and credits in the banking system, by the decline of tension in a budgetary sector in connection with narrowing of the deficit of budget [6].

### **CONCLUSION**

The load of the tax loading confesses to one the most important on the influence of shadow economy. This factor confesses to one of the most meaningful factors of stimulant that increase the shadow economy and activation of criminal

economic activity. It gives an action in countries with any type of market economy. At the same time its actions in every country distinguishes the features. For example, in the USA the special influence is rendered by the high rates of income-tax. The developing countries have the distribution of practice of concealment of access the high rates of withholdings to the funds of social security and high rates of tax promote value-added. In countries that carry out politics of protectionism, the special influence is rendered by the high rates of export and imported duties. In Greece, Italy, Belgium and Sweden the greatest taxes are in Europe (72—78%). In the same countries — a shadow sector is most developed. Therefore it is necessary to come up with the list of actions, that will be realized by all the countries in order to minimize the level of shadow economy.

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