



## ***Students Scientific Conference***

**Shadow Economy**

**Serhiy Odyntsov**

Supervisor :

Banská Bystrica

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## **INTRODUCTION**

It is impossible to imagine the development of any civilized society without a study of economic theory and its applications specific to each state. Describe all the processes in a single macro cannot work, so we decided to focus on the most pressing issues of our time.

In all countries with a market structure of the economy has been and, apparently, there will be a so-called underground economy. The scale of it can be different, but none country could not get rid of it altogether. It's like crime, the extent of the phenomenon can be reduced, but eliminated altogether - almost impossible. The shadow economy has many names - unlawful, illegal and covert - but the essence of this phenomenon does not change. The shadow economy is the concealment of income tax evasion, smuggling, drug trafficking, fake financial transactions. Revenues from these activities are truly daunting, they are tens of billions of dollars, however those actions which are stopped by law enforcement agencies are just the tip of a giant iceberg, to determine the size of which nobody can.

That is why these processes in the society of each state should be carefully studied, and only then make a well-designed measures to eliminate them. In our work we tried to highlight the main events of the shadow economy, as in our state, and the example of other countries, by comparing its manifestations in different regions.

Would be superfluous to remind the shadow economy as a negative impact on the socio-economic and political life of society, but in our work, we uncovered not only negative but also positive aspects of the hidden economy.

## **THE CONCEPT OF SHADOW ECONOMY**

The term "shadow economy" in general refers to the financial and business operations, focused on obtaining material benefits. Definitions of «shadow», «hidden» are sometimes specified using the term "illegal." Thus, there is a need to clearly distinguish the concepts of legal and illegal activities.

With regard to the legislation to the illegal (or illegal) economy first and foremost include the illegal manufacture of arms, the illegal manufacture, acquisition, storage, transportation, transfer or sale of narcotic drugs or psychotropic substances, the organization or running brothels for prostitution and the production or sale goods, works or services that do

not meet safety requirements, etc. This group also includes acts of fraud, if it is done with the help of financial and business transactions.

Under the shadow (unregulated) economy (shady businesses) in this case, we mean a set of legal principle, but not detected by the methods of open-checkers financial and business transactions. Note that the highlight of the shadow economy, legal, apparently, has meaning only in relation to the determination of the degree of intervention in the economy right-enforcement bodies.

## **CAUSES OF SHADOW ECONOMY**

The reasons are different for the shadow economy in all regions of the world, however, the complex causes of the shadow economy in the market will be more diverse, especially bearing in mind not the most mature sector of the market economy.

The most common causes of this phenomenon are:

High level of taxation. There are different estimates of the proportion withdrawn from the enterprise with  $\rightarrow$  were from 60 to 80-90%.

Economic instability and economic crisis. Care of the economy in the "shadow" is a consequence of the general state of the economy. In a deplorable state of the formal economy work in the informal sector it may have many advantages.

On the other hand, the critical state of the economy forcing businesses to look more attractive niches for their activities. One of them is the informal sector.

### **Insecurity of property rights.**

Insecurity of property rights creates a psychology of a powerful businessman. The relevant economic behavior comes from the fact that if property rights could be violated, sooner or later, and the existing law and practice do not guarantee their protection, we must take advantage of opportunities to the maximum. If you can avoid paying taxes, by all means to maximize their profits, then this should be done.

Unfavorable social background. Rising unemployment, the flow of refugees, non-payment of wages, etc., are perfect "breeding ground" for the shadow economy. People who

have lost their jobs or not receiving long months' salary, agree to all terms illegal, informal employment: the relationship with the employer, often based only on a verbal agreement, no hospital and no paid holiday, dismissal is possible without social security and even more so without warning and etc.

For those employers it is more than benefit: employees are very interested that shady business of the "owner" has remained as such; employers have uncontrolled power over employees; direct financial benefits are already in the fact that there are no taxes on the payroll no need to pay etc.

Political instability. This factor as well as the "insecurity of property rights", stimulates and develops the psychology of a powerful. Since nobody knows what tomorrow will bring, all good for the capital increase. It is important to note that if in times of political instability in the shadow economy is very dynamic, the official, however, fades. Moreover, its volume decreases not only due to "shadowing", but also because of the elementary clotting activity "until better times."

Depending on the development of market relations, the economy in general, the causes of the shadow economy will be greater or less degree of influence different from them will vary. Also, the development of the shadow economy affects economic freedom, bordering on moral permissiveness strain of ethical requirements.

## **FACTORS DETERMINING TRENDS IN SHADOW ECONOMY**

A significant difference in prices of various products on world markets is one of the most favorable for the development of the shadow economy factors.

It should be noted that the development of the shadow economy contributes to:

Excessively high taxes (income tax, income tax, etc.);

The imperfection of legislation;

Lack of activity of law enforcement agencies to curb the illegal and criminal economic activities;

Imperfect coordination mechanism against economic crime.

There are three groups of factors that have an excessive "productive" impact on the economy and uncontrolled process of its development.

### **ECONOMIC FACTORS:**

restructuring of the spheres of economic activities, which are not always focused on the development of legitimate business structures;

crisis in the financial system and the impact of its adverse effects on the economy as a whole;

shortcomings of the privatization process;

the activities of unregistered economic structures.

### **SOCIAL FACTORS:**

low standard of living that promotes the development of hidden economic activities;

high unemployment and the orientation of the population receiving income in any way;

uneven distribution of the gross domestic product.

### **LEGAL FACTORS:**

weak law enforcement agencies to ensure necessary material and technical resources;

poor training of law enforcement agencies to work in the new economy;

low level of legal consciousness and legal culture.

## **CORRUPTION AND ECONOMIC CRIME IN THE WORLD**

Ruled by an official, it appears inevitable corruption. Unfortunately, it has become an axiom for any state. And Korea is no exception.

Modern society in South Korea is also corrupt. To combat this evil exists even Audit Office, subordinated directly to the president and is intended to detect crimes in the economic and public spheres.

Most of profits make tax service workers, especially at district and city level.

The largest bribes are connected with the construction: 34% of all cases of bribery are related with building permit; 20.6% - for the adoption of the object; 11.8% - for concealing the illegal construction. High real estate prices provide good profitability of the construction business.

Education - another profitable business. It is most often "give" for the registration of questionable language courses and tutoring companies. Bring great harm to the state corporate crimes committed by firms. This is the production of harmful products, pollution, tax evasion, violation of rights of wage workers, bribery, lobbying, etc. The well-known corporation SAMSUNG also sullied itself recently. It commonly resorts to industrial espionage. In November of the last year, its experts secretly at night entered the office of a competing firm, where for 50 minutes photographing the development of advanced radar antenna and a super cable. They are, however, no luck. The spies were caught red-handed.

Basically, the Mafia "takes" money from the many pubs, saunas, brothels and gambling houses. The traditional business - selling girls in Japan still prospers. Drug abuse is not popular. So for all of last year it was discovered only 500 grams of heroin, 511 grams of opium, 150 grams of cocaine. But the arms sales increases.

Corruption of power and the emergence of organized crime is also observed in Czech Republic. A few years ago, Czechs suffered of corruption and economic crime. In 2007 compared with 2005, the number of economic crimes increased by 14% (from 98.3 thousand to 110.6 thousand). The proportion of crimes such as misappropriation of public property, speculation, illegal currency trading has increased the number associated with the mismanagement (from 87 thousand to 142 thousand), fiscal offenses (from 14.1 thousand to 24.8 thousand), including tax - from 7.1 thousand to 10.3 thousand.

Corruption contributes to the presence of government officials of tax and customs privileges, unclear definition of their authority and status. Common and so-called crime in white gloves. They are based on the close ties of some members of parliament, officials of the president's Council of Ministers and ministries with business and commercial structures that are due to these relations are proprietary and confidential information, warning that they were in the field of view of internal affairs and national security.

There are several types of economic crime in Czech Republic:

In the activities of banks and other financial institutions;

In the field of privatization;

In the field of taxation;

The offenses related to smuggling, money laundering "dirty" money, etc. In the Czech Republic contraband items often are cigarettes, alcohol, drugs, TV, etc.

To reduce the share of shadow economy by the Czech government amended the legislation to prohibit business activities to individuals who have committed serious tax offenses, to prevent copyright infringement, including in the field of computer software, introduced the liability of legal persons for the offense, for example, companies whose activities which led to the crime or they have received from him the property benefits. Restore the tobacco and wine monopoly of the state. It is envisaged the provision of organs of state control authority, allowing full control of the business entities regardless of their legal status on behalf of the prosecution. Allocate and organize personnel, training prosecutors and police to fight against corruption and economic crime.

But one of the most criminogenic regions of the world is South Africa.

A normal feature of social life in South Africa is the large number of weapons in crowded places. It seems that for many South African weapons has become a common attribute of everyday life. But this is just the reverse side of the phenomenon, which is based on a very high level of violence and crime in the country. And as politicians recognize, without solving this problem, the country cannot develop successfully.

According to statistics, in recent years, the rate did not decrease, and in some areas even increasing. This is despite the fact that after the April general elections last year, the so-called political violence is clearly abated.

Serious crimes committed in South Africa every 17 seconds, and their number in 2004 exceeded 2000 figures by 17%. Robbery of housing is on average every 1 min. 55 seconds., Theft from motor vehicles - 2 min. 57 seconds. In South Africa, performed 8 times more murders per 1,000 residents than in the U.S..

There was widespread theft of vehicles and the seizure of their times on a busy street. In 2003 in South Africa was hijacked more than 90,000 vehicles worth 3.3 billion rand (about

\$ 1 billion). This figure further increased in the past year. In this regard, the insurance companies raise insurance fees and require the establishment to the car alarm systems and locks.

Revenues of criminals are disproportionately higher penalties imposed on them in case of arrest. And so, according to criminologists, many believe the crimes so profitable that it became a kind of lifestyle. In 2003, the South African police destroyed drugs seized from criminals in the amount of 1 billion rand (about \$ 300 million), although this represents only 15% of the proposed level of the underground drug trade in the

South Africa. During the first ten months of last year seized more than 12,000 barrels of firearms.

### **DRUG DEALING - PROFITABLE BUSINESS IN SHADOW ECONOMY.**

In addition to the two world wars, the endless revolutions, great discoveries and AIDS leaving age set before mankind a problem that does not seem to have solutions - drugs. The thousand-year tradition, sanctified by religion, the arts, in the XX century has become a curse of humanity. What do we know about this mysterious world and its beyond?

Central, Eastern and Southern Africa region is the world's production and marketing of drugs. Of particular note is Kenya, Somalia, Rwanda and South Africa.

Nairobi, Kenya's capital city, is famous for its Eastleigh. This area, located on the road to the international airport, has long gained fame slums, dangerous at any time. All Eastleigh entangled network of powerful drug lords who control, according to independent observers, the forbidden business not only in Kenya, but most of the countries of East Africa. The leaders of these organizations have established communication with the traders 'white death' in many parts of the globe. According to experts, Nairobi drug lords control the drug traffic in almost all of East Africa. His exact amount is almost impossible to estimate, but it is clear that we can talk about lots of supply costs more than a dozen million dollars. Each year in Kenya recorded about 7000 illegal drug transactions. The vast majority is made by the local mafia. This is just tip of the iceberg, revealed by the police, to a large extent corrupt.

Unfortunately, the drug problem is acute not only in Kenya. According to the Regional Director of the UN International Drug Control for Eastern and Southern Africa, drugs and



clandestine trafficking are becoming more common in Africa. The continent was at a crossroads between producers and consumers of potions, which led not only to the expansion of drug trafficking in Africa, but also to increase the consumption of various psychotropic drugs. Things reached the point that it is now impossible, as in the recent past, to divide the country on producers and consumers of drugs.

Not the best situation is developing, for example, in the once relatively prosperous Zambia. In the last five - six years, the country is literally flooded with drug addiction. According to the complex studies the University of Zambia, light drugs is taking every fourth student. Most of the young drug addicts in Zambia - came from poor families, from early childhood, know the material difficulties and hardships. The social base for drug abuse in Zambia is quite extensive - in the country for more than three millions of unemployed young people. Get the same drugs are not particularly difficult - they come in large quantities smuggled from India.

In the Zambian capital, Lusaka, according to official data, there are nearly seven thousand drug addicts. In the opinion of independent observers, the number of people who regularly consume a dangerous potion, reaching 50,000 (which is more than 6% of the total population of the capital).

According to specialists, Zambia has become a major transshipment point for drugs the way in South Africa. Moreover, according to several accredited in the country of the Western diplomats were involved in drug trafficking is very high-ranking officials of the ruling regime.

But the main stronghold of drug trafficking on the continent has long been considered South Africa. And there are many reasons for it, Dagga - the so-called hashish in southern Africa - the most profitable of all the legal and illegal food production. And therefore the existence of large plantations of cannabis, from which is a potion, alarming the government.

In the past five years the average annual catch of hashish the police more than \$ 350 million. At the same time about four thousand tons of cannabis is burned in the fields. It is noteworthy that most of the trophies have the poorest areas of the country.

Cultivation of crops containing various drugs, engaged in many areas of South Africa.

Unfortunately, the police have not yet been able to establish all the links in the chain, which is stretching from South African growers to European and American markets: the drug mafia are well able to conceal their activities and keep secrets. Especially since all sorts of ingenious shady characters involved in redeployment of hashish from South Africa to other countries and regions of the globe, sometimes knows no bounds.

So how will the never-ending war of African governments with the drug mafia finish? Complete destruction of the crop "grass" and the defeat of clandestine laboratories or defeat law enforcement? Indeed, on the one hand, destroying the crops of hemp and the world, undermining the government (even slightly) the position of the global drug trade. On the other - for a huge number of small farms the production of intoxicating "grass" is perhaps the only means of livelihood. Because the agriculture in most African countries, for a long time, was almost monocultural.

Of course when speaking about drug, it is impossible not to mention the Netherlands, where light drugs are legalized. However, as in most civilized countries, there is a law in the Netherlands, banning the sale and distribution of drugs, both "heavy" and "light."

You can agree or disagree with the policy of the Netherlands government with respect to drugs, but outcome speak for themselves: in a country with a population of 15 million people, there are about 20,000 drug addicts, which is 15%.

Off topic: For instance, in Russia, according to official statistics, drugs use around 2.5 million people. Besides, one out of five uses "hard drugs", which include heroin. It should be noted that there are national statistics, in reality, the percentage of those who use drugs is much more higher.

## **SMUGGLING**

Although in law it is an administrative customs offense, in the world such actions are referred to as contraband. Today, the main items of contraband are excisable goods - alcohol, cigarettes, in short, that allow one quickly get a very high profit. Since the technical production of alcohol is very cheap, and in any state liquor prices substantially higher costs for their production, alcohol is the main focus of economic contraband.

And by the way, after the trade of arms and drugs, smuggling of alcohol and cigarettes is the most profitable business.

## **PROSTITUTION**

Webster Dictionary interprets prostitution as "the act or practice of sexual satisfaction, performed for the money."

In the United States illegally is a lesson in all states except Nevada. However, the risk of contracting sexually transmitted diseases or AIDS, as a rule, is low due to widespread media promotion of healthy lifestyles. It should be mentioned that in the U.S., there are many organizations fighting for the rights of prostitutes and provide them with psychological, medical and even financial assistance if they lose their jobs. On the other hand, almost all types of prostitution are prosecuted by the law, under which fall not only confused, but also their customers, as well as those who contribute to the act of prostitution. However, despite the criminal liability, the size of prostitution did not decrease - the proceeds of this kind of shady business in the United States continue to grow.

In the Netherlands in 1998 prostitution has been fully legalized, the representatives of the profession, even have their own union. Taxes for this type of activity go into the state treasury, actually giving a serious income. A similar situation exists in France, where from 1946 due to suggestion of the French Communist Party, legalized prostitution and. But the emergence of prostitutes on the streets is not permitted, and cruelly persecuted pimping. Only in Paris there are about 50,000 officially registered "prostitutes." However, even in France there are police departments, to combat prostitution. In general, detect and deter the organization of the network where there are pimps.

Despite the somewhat positive experience of the Netherlands and France, the proposal to legalize prostitution in other European countries is rigid and categorical opposition from the public and most politicians. But even in countries where such activities are legalized, there will still be the shadow side of this business, revenue is actually impossible to calculate.

## **POSITIVE EFFECTS OF SHADOW ECONOMY**

Typically, estimates of the shadow economy are extremely negative. But if we evaluate this phenomenon objectively, excluding, of course, the criminal part of it, it is possible to identify the elements of positive impact. The main thing - is that the shadow economy provides a significant portion of consumers with necessary goods and services. Thus, the operation of the shadow economy contributes to the satisfaction of consumer demand.

## **CONCLUSIONS**

And in conclusion I would like to say that such phenomena of our time, as the development of the informal sector of shadow economy must be analyzed. Examining a large number of periodicals, as well as unconventional sources of information, and the global information network Internet, I came to the conclusion that the trends of the shadow economy in all regions of the world in the short term will not be reduced. In developing countries, such as countries of Asia and Africa, production and sale of drugs will increase, causing immense damage to the economy of these countries. It should be noted that in order to eliminate such tendencies in these regions a specific measures for each state need to be developed.