DIPLOMATIC ACADEMY
OF RUSSIAN FOREIGN
MINISTRY

WORLD ECONOMY FACULTY

SHADOW ECONOMY ALL OVER THE WORLD

COLLECTION OF ARTICLES

edited by prof. Boris Loguinov
and prof. Tatiana Kosareva

2018

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Shadow Economy All Over the World/Collection of articles.
Ed. by prof. Boris Loguinov and prof. Tatiana Kosareva –
Moscow, Diplomatic Academy of Russian Foreign Ministry. 2018

Includes bibliographical references and index.

ISBN 978-5-9500904-9-3

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INTRODUCTION

We are pleased to introduce our new collection of articles on a very specific and actual topic – shadow economy. In this book we intended to make a comprehensive (of course, according to our possibilities) review of underground processes in economic sphere all over the world. It means that we do not limit ourselves by any individual types of illicit or non-observed activities or countries. On the opposite, we are convinced that shadow sector is an integral part of any national economy with emerging or developed market and in all forms of business. Developed countries are not free from this disadvantage. Moreover, they have more refined forms of shadow activity and crimes than developing countries have. The Index at the end of this Collection shows how many informal economic relations and uncontrollable areas our authors found in the developed economic systems.

The articles are written mostly by students of the Diplomatic Academy of the Russian Foreign Ministry who participated in a Roundtable discussion with the same title "Shadow Economies All over the World" on November 24, 2017. This roundtable event explored a shadow sector of the world economy as a whole and in individual national economies, including Russia.

The authors of this publication tried to review as many forms and issues of shadow economic activities as possible, paying attention to tax infringements, entrepreneurship without registration, counterfeit operations, violent crimes and even hidden economic processes standing behind integrational events on the post-Soviet area. Frequently speaking, the last form is not a standard element of shadow economy in general understanding of this term, but certainly, it is also shadow side of economic development. That's why we decided to include it in our book.

Most experts single out grey and black levels of shadow economy, meaning that the first one is unregistered by state and statistically unrecorded economic activity, but it is conventional and permitted for economic actors if registered or made by law. Subjects and operations of grey economy often violate administrative law, but sometimes they violate nothing except economic security or common principles of doing business in domestic markets. Tax avoidance is the best example of such a business behaviour, which means that international companies transfer their profits in low tax jurisdictions instead of accumulating them in their home countries. New kinds of economic operations which are not defined by law like cryptocurrency issuing (or so-called "mining") are in grey zone too. The second type of operations, on the contrary, is forbidden by law because it undermines social, moral, public basis of human life. Prostitution, drug distribution, corruption with bribery or without it, theft, fraud and other forms are in the long list of black economic deals. They are illegal in most countries.

The revenues generated from illegal activities throughout the world estimated to range between US$1.6 trillion and $2.2 trillion per year. It is very important to focus on how countries can strengthen their efforts in fighting with this evil and its

consequences. Money laundering is regarded as a black deed and one of these consequences, but it is a detached crime because it often follows all offences enumerated above. Any failure in economic mechanisms and the twilight zone of legislation can create conditions for shadow activity and money laundering as the final stage of any economic crime.

For those living in Russia domestic underground economy is in the spotlight. We would like to explore and take over a successful experience of fighting with grey business schemes and economic crimes in foreign countries. Corruption, organized robbery, grey market of workforce, fake entrepreneurship are prevailing in the shadow sector of the Russian economy. Meanwhile, we do not agree with the point of view that corruption and bribery are an ineradicable problem of Russia, connected with the mentality of Russian people or as if system of power in Russia has created, is interested in and in every way, supports shadow economy in the country (an eternal argument of the Russian political opposition). Of course, it would be stupid to deny these problems as they are huge and critical but not systemic because they depend on particular men in power. There are a lot of examples of crime and punishment of officials who broke the law, from unknown local functionary down to ex-Minister of economic development Alexey Ulyukaev and numerous governors.

We believe that ideas and assumptions stated in this collection of articles will be useful and reach its interested readers. In this global time of fake news and post-truth we all search for actual truth. Let us do it together.

We wish you good luck and get started.

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3 July 2018.

PART ONE. FORMS AND ORIGINS OF SHADOW ECONOMIC ACTIVITIES

Connection between tax avoidance and tax escalation

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Abstract

Slow economic growth and recent world financial turmoil contributed to increasing level of tax avoidance and tax evasion throughout the world. Tax evasion and tax fraud continue to be a feature and can be substantial, amounting to $100-240 billion per year.

Both wealthy individual investors and large multinational corporations are involved into international tax avoidance. It can reflect both legal and illegal actions.

Keywords: tax avoidance, tax escalation, country of residence, double taxation, legal entities, transfer mispricing

INTRODUCTION

Tax evasion is an illegal and deliberate misstatement of tax obligations implying both planned omission or fabrication of earnings in order to hide money from tax authorities. The annual report from G20 “Action 11 Report against tax avoidance” declares that around $100-240 billion annual revenue is lost due to tax avoidance and escalation activities. While tax evasion is a completely illegal kind of activity, tax avoidance is usually considered to be a permissible policy of tax cuts.

Global Financial Integrity (GFI) has found that developing countries have to loose between $859 billion to $1.06 trillion a year through illegal financial flows. By the way, many international companies keep hundreds of tax specialists to save up millions by reducing taxes. For instance, many factories that are run by corporations in low-tax jurisdictions rather than in the countries of their headquarters to get advantage of low foreign corporate tax rates are engaged in avoidance. Conversely if company has a secret bank account in tax haven to avoid tax payments that will be a tax evasion. It is hard to determine the appropriate line between two principle concepts to avoid misrepresentations and mistakes.

Nevertheless, there are some certain corporation activities that are often determined as avoidance but could be classified as evasion. For instance, transfer pricing allows firms to charge low prices for sales to low-tax affiliates but pay high prices for purchases from them.

There are four particular ways of tax evasion:

1. An international company can choose the residency to avoid tax by establishing subsidiaries in an offshore zone or simply by moving to a country with low tax rates.

2. Using a combination of bank accounts, shell companies, trusts and foundations.

3. Without changing country of residence, personal taxation may be legally avoided by creation a separate legal entity to which one's property is donated.

4. Fraudulent transfer pricing refers to trade between related parties at prices meant to manipulate markets or to deceive tax authorities.

5. To use loopholes of double taxation.

Multinationals, meanwhile, have found increasingly brilliant ways to take advantages of loopholes in cross-border tax rules, which were originally designed for tax cuts. International bilateral tax agreements on avoiding double taxation can be easily used for complete non-taxation. Global format of business allows global players to shift profits to minimize their tax bill. Aggressive tax planning lies on the verge of breaking the law. The statistics proves that two thirds of cross-border trade are held within big companies, the scale should alarm countries to combine their efforts to implement rules for fair taxation.

THE MAIN FIGURES CONFIRMING THE SCALE OF TAX AVOIDANCE AND TAX ESCALATION

The scale of estimated tax evasion is incredible both in value and its likely impact. Total tax evasion is around $3.1 trillion, or about (5.1%) of world GDP, a result of the operation of the shadow economies found in every state in the world.

In comparison with global tax evasion, total healthcare spending in the States amounts to US $5.7 trillion. As a result, tax evasion cost, on average, accounts to 54.9% of health care costs in the states. The US has the highest loss from tax evasion. On average the US loose up to $337bn, Brazil $280bn, Italy $238bn, Russia ranks the 4th place with amount of $221bn. It implies that statistically almost more than 1$ in every 6$ in the world is not subject to tax precisely because the earnings are hidden from the world's tax authorities.

The various tax documents known as the "Paradise Papers" show almost 40% of corporate investments were put into tax havens. The two EU states are way ahead of the rest of the world in terms of being a preferred option for corporations who want to exploit tax havens to protect their investments. The Netherlands was a conduit for 23% of corporate investments that ended in a tax haven. The UK accounted for (14%), ahead of Switzerland (6%), Singapore (2%) and Ireland (1%).

There are several prominent examples of big corporations that resort to tax avoidance that, to a certain extent, could be interpreted as tax evasion. Famous electronics producer Apple is one of the pioneers that maintain such practice. The corporation has its headquarters in California and also uses the loopholes in tax law in the US, as well as in Ireland and the Netherlands in order to shift its corporate profits to the Caribbean, where the tax rate on overseas profits is just 1.9%, against 35% that would be applied to profits in the US, what is a clear saving. In 2011, for example, Apple made a profit of $22bn and paid only $10m in corporation tax.

Another sounding example is Starbucks which in 2011 made a profit of €30m in Europe, Africa and the Middle East. But the parent company in the Netherlands paid only some €900,000 in profit tax on this. The amount is so low because the subsidiaries based in the some states doing the operative business, are financed by loan capital from the Netherlands-based parent company.

According to the Financial Times, Google also shifted €8.8bn in royalty revenues through Ireland and the Netherlands to Bermuda.

The problem is caused by tax avoidance strategies of international corporations. The opportunities of big corporations to save up money leads to massive distortions of competition, what is harmful for the whole economy. In the international environment the continuous devastating tax competition is one of the biggest problems of the developing countries.

WAYS TO RESIST THE TAX AVOIDANCE AND TAX ESCALATION

To overcome income and profit hiding, countries are introducing stronger rules on the disclosure and exchange of beneficial ownership information. In October 2013 the European Commission announced its intention to establish an expert group to work out measures to limit aggressive tax planning in connection with the "digital economy". Financial transparency and accountability is the main framework for such policy. There are four main approaches:

1. The immediate automatic tax information exchange between tax agencies in different countries and jurisdictions. This would guarantee an easier way for finding illegally held offshore money.

2. The global introduction of country-by-country reporting so that every company would reveal financial details relating to its turnover, profits, costs, employees and taxes in every jurisdiction it operates if its revenues exceed $5m.

3. Concerted international action needs to be taken to ensure the hundreds of billions of dollars lost for exchequers due companies artificially inflating their costs and deflating profits through intra- company transactions – known as transfer mispricing – are identified, contained and reduced.

4. The harmonization of money-laundering laws to a restrictive level.

Moreover, one must bear in mind that tax administration and tax policy are intertwined spheres. Tax policy directly affects the costs and the organization of the tax administration. Additionally, the capacities of tax administration influence the way tax policy is implemented. Thus, both areas tax policy as well as tax administration must be taken into consideration when designing successful tax reforms.

The main strategy is to demand the public disclosure of country by country reporting of company tax affairs. This idea comes out of the OECD's action plan on Base Erosion and Profit Shifting (BEPS). It would increase tax transparency by requiring corporations to make specific disclosures on the tax paid in different countries, by project and region.

Doing so would allow any interested party to observe and understand how corporations transfer profits from high to low tax jurisdictions. With such specific information it would be more difficult for companies to hide their tax deals.

This idea was strongly opposed by majority of multinational entities' in most countries for many reasons: commercial sensitivity of information, the compliance burden, and that it might distort the view of a company's true contribution to economy. However, such an argument is questionable, as large corporations already have sophisticated systems in places capable of producing this information.

Nevertheless, some European countries (notably the United Kingdom and France) do require that large multinational companies publicly disclose their tax affairs, country by country. The laws in the United Kingdom fostered a 2010 campaign that named and shamed companies who were not disclosing subsidiaries in tax havens. That campaign made the UK authorities tighten disclosure requirements, and after companies started disclosing their tax haven subsidiaries they became less tax aggressive.

The next idea comes from the G20 and is to set up a public register of beneficial ownership (in other words, who owns the companies). A third strategy is one to present financial instruments that may be legitimately used by companies to manage foreign currency risk, for instance when borrowing debt denominated in foreign currencies. However, these instruments may also be used by multinationals to avoid tax, by shifting profits between subsidiaries in different countries.

By agreeing to exchange information with respect to taxpayers, countries can become more aware of the global activities taxpayers are engaging in and impose tax that should be due.

CONCLUSION

Both aggressive tax avoidance and tax evasion deprive the government of income. As tax avoiders and evaders still make use of facilities in the country, it results in the government having to pay the same amount of money for common goods whilst having less income. Other taxpayers are billed a larger amount of money than would have been the case if everyone had paid taxes. So, tax avoiders and evaders do not only pay less tax themselves, they also make other taxpayers to pay more tax.

The financial situation of tax non-compliers relatively improves in two ways, whereas their financial situation worsens. This is unjust and therefore should be diminished insofar that is possible. Many measures could be taken against either aggressive tax avoidance or tax evasion, as there are many ways of doing it. The simplest form of tax evasion, simply deceiving the government of the amount of income earned, can never be prevented altogether. However, by verifying the records of companies and their employees at random, offenders are detected and most of them are often to pay a fine.

As this kind of tax evasion is risky, larger companies usually go by offshore tax evasion. This means that a company's home jurisdiction is a tax haven, because of which the company does not have to pay much tax. The most important parts of this company are still situated in another country. Transparency on the international level must be reached in order to detect offshore tax evasion

Tax evasion is always a crime. Tax evasion on this scale is not just a personal crime through: it then becomes both a crime against society and a crime against

democracy. That is because both societies and democracy can fail as economies falter when demands for government services increase in times of economic crisis but the people willing to make payment for them are too few. Tax evasion is a consequence of crisis in the world economies. Tackling tax evasion is one of necessary conditions for solving that crisis.

The findings suggest that there are various reasons and facilitating factors for tax evasion and tax avoidance. They might be categorized into factors that negatively affect taxpayers' compliance with tax legislation on the one hand and into reasons explaining the weak capacity of tax administration and fiscal courts to enforce tax liabilities on the other side. It is important to force the joint efforts of different countries to tackle the problem in order to develop methods and instruments for fighting tax evasion and avoidance

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Counterfeit as a form of illegal operations

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Abstract

Business of transnational crime is valued at an average of $1.6 to $2.2 trillion annually. The article deals with counterfeiting, one of the 11 criminal markets categories: drug and human trafficking, illegal arms trade and cultural property exodus; counterfeiting, wildlife crime, IUU fishing, illegal logging and mining, crude oil theft.

Keywords: counterfeit, shadow economy, criminal market

INTRODUCTION

In March 2017 report from Global Financial Integrity, "Transnational Crime and the Developing World," finds that globally the business of transnational crime is valued at an average of $1.6 trillion to $2.2 trillion annually. The global trade in counterfeit and pirated goods is estimated to generate between $923 billion to $1.13 trillion annually.

Counterfeit is a new product based on already existing original product with a copyright violation; falsification of consumer goods.

There are several types of counterfeit:

1. Using a company's logo or so similar logo that they are easy to confuse. In this case, the manufacturers of fakes have an opportunity to deny the fact of counterfeit because the original name was not used, while an ordinary buyer often does not know how the desired logo exactly looks like and, consequently, buys it because he saw similar picture earlier.
2. Fake the appearance of a product, its design decisions. This is true for things like decorative items, furniture, clothes, watches, etc.
3. Illegal usage of multimedia products, books and computer programs – infringement of copyright, for example, the issue of pirated CDs.
4. Illegal usage of patented technical solutions.

FIGURES

The trade of counterfeit and pirated goods, which includes the theft of intellectual property (IP), is the most profitable illicit trade. To combat counterfeiting and piracy is not just to protect corporate profits, the problem is more complicated because it has direct implications on global health, safety, and security as well as economic growth.

Counterfeit and pirated products, as well as packaging, are tangible goods that violate trademark, design, patent and copyright rights, whereas digital piracy involves

intangible goods. IP theft, in one form or another, can be found in every country. The counterfeit and pirated goods market is largely responsive to the same dynamics of the trade of legal goods – if there is a strong demand for a product, it is likely to be counterfeited or pirated.

Just as human trafficking comes out of the demand for cheap labor, so does counterfeiting thrive arises out of global demand for cheap goods. Low production costs of counterfeit goods result in higher profits for criminals, but it also means that goods are often substandard and could therefore be potentially hazardous. The World Customs Organization (WCO) points out that when already affordable foodstuffs and beverages, such as energy drinks, olive oil, and cookies, are counterfeited, the quality of the ingredients is likely to be extremely low so that the criminals can make a profit.

The global trade in counterfeit pharmaceuticals is one of the largest components of total counterfeit trade. Estimates have placed the value of the worldwide counterfeit pharmaceuticals trade between US$70 billion to $200 billion annually – 25% of total counterfeit market.

Counterfeiting and piracy have deep impacts on the economy, security, and welfare of developing countries. Counterfeit goods bring profits to governments and legitimate businesses thus providing OCGs and terrorist groups with finances. In addition, they affect health and safety of people. For developing countries, one of the biggest consequences of counterfeit and pirated goods is a lost tax revenue. In international trade, counterfeit goods are often under-invoiced or smuggled (undeclared) when imported, causing governments to lose beneficial excise and value added tax. Domestically, countries lose sales tax when goods are sold below fair market value or if they are sold in the black market. For example, Kenya's counterfeit goods market is worth approximately $900 million a year thus robbing the government of $84 to $490 million in tax revenues. Top counterfeited items and brands are included in table 1.

Table 1. Top counterfeited items and brands.

Items (A.)	Brands (B.)	
Consumer Electronics	Adidas	ICOS
Clothing and Footwear	Angry Birds	Louis Vuitton
Computers and Accessories	Apple	MAC Cosmetics
Cosmetics, Perfume, and Toiletries	BIC	Michael Kors
Electronic Appliances	Calvin Klein	Nike
Foodstuff and Beverages	Chanel	Otterbox
Games and Toys	Cialis	Rainbow Loom
Household Goods	D&G	Ray Ban
Luxury Goods	Duracell	Rock
Mobile Phones and Accessories	Elite	Rolex
Pharmaceutical Products	Faskit	Samsung
Textiles Other Than Clothing	FIFA	Viagra
Transportation and Spare Parts	Gucci	Walt Disney

INFLUENCE

For terrorist groups, as well as OCGs, the profits from IP theft can be equal to or greater than drug trafficking but draw far less enforcement and result in significantly more lenient penalties. Terrorist organizations have taken a more active role in counterfeiting by organizing production and distribution. Groups as well as lone actors and small cells are involved, because the sale of counterfeits tends to provide quick financing with relatively little buy-in cost.

Financing for the Charlie Hebdo attack in Paris in January 2015 partially was done through counterfeiting money. The Kouachi brothers received funding from their sale of counterfeit products, particularly footwear and clothing, which they purchased from China. The Molenbeek neighborhood of Brussels – labeled a "breeding ground" for terrorism because of its links to several terrorist attacks and supply of foreign fighters in Syria – is also challenged by counterfeiting as well as drugs and arms trafficking.

Despite the seriousness of counterfeit pharmaceutical crime and its potential to affect global health, there are no international agreements to cope with this illicit trade like there is none for other crimes in this report. The closest is the regional 2010 Council of Europe Medicrime Convention, which criminalizes the manufacture and distribution of counterfeit medicine.

INTERPOL notes that most countries do not even have legislation that addresses pharmaceutical crime but instead treat it as a category of intellectual property crime or illegal narcotics crime. For countries that do have strong legislation and legal remedies to prevent and punish IP theft, the value of these measures is reduced if there are weak enforcement and/or penalties, posing little deterrent to counterfeiters and traffickers.

The global supply chain allows counterfeiters to split production, assembly it and package in different countries to evade law enforcement. In addition, counterfeiters use complex shipment routes to "launder" counterfeit and pirated goods, obfuscating the country of production, which makes it more difficult for authorities to investigate and shut down counterfeiting operations. It is much easier to penetrate the legal market when there are weak supply chains.

The United States has a huge, lucrative legal pharmaceutical market and would therefore be an ideal market to exploit. Yet, strong supply chain regulation and low corruption make it difficult to insert counterfeits into the primary market, so most counterfeits are sold on the secondary market. Prices for pharmaceuticals are cheaper in most parts of Africa and Asia compared to the United States, so there is a lower profit margin, however the rate of counterfeit penetration in the primary market is substantially higher, mainly due to weak oversight and corruption. Like the "ant-trade" in arms trafficking, a large volume of counterfeit and pirated goods are distributed via the post. These shipments are commonly linked to purchases by individual customers and/or online purchases, which support evidence that, like many other illicit trades, counterfeiters have taken advantage of e-commerce to reach a much larger and more global consumer market.

Although there is a greater number of shipments sent through the post, a greater volume of goods per shipment are moved through containerized cargo, signaling the presence of organized networks.

CONCLUSION

Some organizations have introduced technology that allows for the verification and monitoring products to protect legitimate businesses as well as consumers. The organization TechTrace introduced the Anti-Counterfeiting Tool (ACT), which provides a platform for stakeholders – brands, consumers, governments, and others — to monitor cases involving the illicit trade in counterfeit goods. The World Customs Organization has developed a similar product called Interface Public-Members (IPM) that connects customs agents to rights holders, aiding the detection of counterfeit goods in real time.

Another group, Sproxil, has harnessed the worldwide popularity of mobile phones to combat counterfeiting by embedding scratch-off SMS verification codes in products, from agricultural goods to pharmaceuticals, that consumers can use to check if the item they are purchasing is genuine.

The effects of counterfeiting extend beyond just financial losses to rights holders: there are material adverse effects on the economy, security, and welfare of developing countries. Counterfeiting costs developing countries valuable tax revenues and threatens the health and safety of people while serving as a solid source of financing for criminals and terrorists. Criminal and terrorist organizations as well as multilateral institutions and business have paid attention to the growth of counterfeiting and piracy, however legislative responses have been slow to produce.

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ICO as a form of alternative money issue (China's experience)

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Abstract

Today we observe a transition from centralized authority to decentralized networks. A great number of economic research papers suggest that this shift can expand the shadow economy and lead to asset bubbles, pyramid schemes, appreciation of exchange rate and inflationary pressures. Cryptocurrency or digital currency is a form of alternative currency. Taking into account the latest attempts to fight negative economic consequences, let us recap Chinese experience that might serve as an object of a particular interest.

This paper examines the nature of cryptocurrencies; takes a closer look at the way of getting digital currency through ICO (Initial Coin Offering); explores Chinese ban of token sales, future and possible political reasons of blockchain development in China.

Key words: cryptocurrency, ICO, shadow economy, Bitcoin, China

INTRODUCTION

The global economy is undergoing significant changes that results in an attempt to return to the old monetary system with no regulators. On the one hand, there exists an opinion that alternative currency can make a financial system more stable and flexible, since these currencies are managed by users themselves and do not require intermediaries. On the other hand, a number of economists assume that shifting to another system in today's reality will lead to a turbulent economic situation.

Let us take a closer look at one of the most popular cryptocurrency in the world - Bitcoin. In most sources it is described as follows (with the authors' explanation in brackets):

- *Completely decentralized* (in terms of issue);
- *Easy to use* (which is questionable because people need special equipment to get Bitcoins, known as Bitcoin mining hardware);
- *Anonymous* (on the one hand, Bitcoin net address is not attached to the name. On the other hand, you need a software to mine cryptocurrency, which is produced by a limited number of companies);
- *Transparency* (it is achieved through implementing a special breakthrough technology known as «blockchain», which records all transactions occurring in the network).

It should also be taken into consideration that the value of cryptocurrencies primarily comes from market speculation. Besides, a limited number of people have access to 75% of Bitcoins. Moreover, cryptocurrencies increase the whole sum of money in the economy because this is an additional form of money which can be used to purchase the same amount of goods and services covered by common money, thus triggering inflation.

According to DEA (the Drug Enforcement Administration of the USA), bitcoin is the most popular asset among criminals who launder money through the trade[1]. The Office explained that cryptocurrency can be used for anonymous withdrawal of funds abroad and bypassing regulators monitoring cash flows. It can be concluded that Bitcoins are mainly used as a speculative store of value, but not as a common unit of account, and seldom as a medium of exchange for goods and services.

WHAT IS ICO?

ICO is an innovative way of raising money from the public, using so-called coins or tokens. In an ICO, any business or an individual issues coins or tokens and puts them for sale in exchange for fiat currencies, such as the Euro, or more often virtual currencies, e.g. Bitcoin or Ether.

The features and purposes of the coins or tokens vary across ICOs:

- Some coins or tokens serve to access or purchase a service or a product that the issuer develops using the proceeds of the ICO;
- Others provide a right to vote or a share in the future revenues of the issuing venture;
- Some coins or tokens are traded or may be exchanged into fiat or virtual currencies at specialised coin exchanges after issuance.

The latest figures show that ICOs gain popularity. All in all, there has been 228 ICOs in 2017, totally raised more than $3,5bln. The figure 1 below shows the division of ICOs by category[2].

[1] U.S. Department of Justice. Drug Enforcement Administration

[2] Source: https://www.coinschedule.com/stats.php

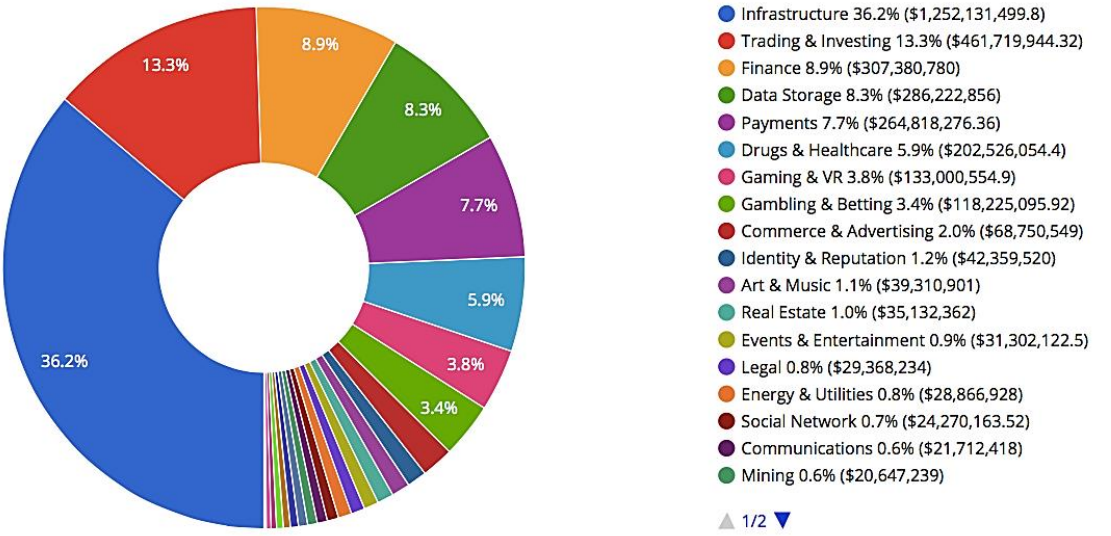

Figure 1. ICOs by Category (data correct on 16th October 2017)

ICO: SCAM OR OPPORTUNITY?

It is clear from the diagram above that an ICO resembles crowdfunding but money is digital. There are two approaches suggested by economists so far:

1) ICO as an "absolute scam[3]" and a shell game with speculative nature, which damages venture capital market;
2) ICO as a way for start-ups to raise money by issuing a new crypto coin and implementing an innovative approach to financing your project and a possibility to rearchitect the entire web.

Though the second approach exists, there are still too many opinions that ICOs are released to investors under a pretence of venture equity, but with a specific purpose of circumventing SEC authority and control. ICO fundraisers leverage the confusion around 'blockchain technology' to swindle uninformed consumers with false promises, dubious claims, dishonest terms related to their 'high yield' investment opportunities. Besides, Bitcoin's speculative nature only adds to ICOs being a shell game.

This phenomenon causes serious concern among financial bodies: the European Securities and Markets Authority (ESMA) on Nov.13 even issued two Statements on Initial Coin Offerings, one on risks of ICOs for investors and one on the rules applicable to firms involved in ICOs.

Key risks for investors:

- ICOs come with a "high risk" of capital loss, as the price of the coin or token is typically extremely volatile;

[3] Jimmy Wales, Wikipedia Founder

- ICOs may fall outside of the scope of EU laws and regulations, making ICOs vulnerable to the risk of fraud or money laundering.

Key risks for firms:

- risk of conducting regulated investment activities without observing applicable EU legislation, meaning that firms should carefully consider ICOs as failure to comply with EU rules would be considered a breach.

It should also be taken into account that though the ICO term sounds eerily similar to "IPO", the difference between them is increasingly cosmetic. 1) ICO has 'blockchain' in it. 2) There are no regulations, constraints or investor guarantees on ICO offerings. 3) The 'rights' offered to shareholders involving in ICOs are shockingly limited. There is generally no legally valid documentation for profit sharing, voting, auditing, or corporate rights of any kind. 4)Members of the ICO promoters and marketers can be given insider information and use it to exit their risk onto investors immediately after 'going public' (and before building a product).

CHINESE BAN OF ICOS

On September 4, the People's Bank of China (PBoC) issued a sharp statement labelling token sales «illegal and disruptive to economic and financial stability».[4] In a joint decree from seven financial regulators — including the PBoC, the Ministry of Industry and Information Technology, and the China Banking Regulatory Commission — state officials laid out their reasoning. The group said they consider crypto token sales to be «an unauthorized and illegal public financing activity, which involves financial crimes such as the illegal distribution of financial tokens, the illegal issuance of securities and illegal fundraising, financial fraud and pyramid scheme».[5]

This measure came shortly after the state-controlled National Internet Finance Association (NIFA) warned investors that such fundraising had "thrown the social economy into disorder" [6]. Nevertheless, the PBoC does not make ICOs illegal for private parties to hold cryptocurrencies but bans financial institutions form holding or transacting in them. Consequently, as traders absorbed the news from Beijing, Bitcoin, the best-known cryptocurrency, saw its price fall 9 per cent to $4,437 (cryptocurrency market has since rebounded somewhat).

Although the Chinese ICO market is relatively small compared to the overall economy, it had been gathering speed. According to the Beijing Internet Finance Association, in the first seven months of this year (2017), approximately 65 ICOs raised almost $400 million. National Committee of experts on the internet financial security technology (IFCERT) released ICO report of China which showed that 43 platforms in China provide ICO-related service and can be divided into four modes. (In terms of operation avenue, most ICO platforms are located in Guangdong, Shanghai and Beijing as they host nearly 60% of ICO platforms). First is the third-party platform, which provides ICO services for all kinds of projects (44,19%); Second

[4] The Economist, source: www.economist.com/blogs/graphicdetail/2017

[5] Fortune magazine, source: fortune.com/2017/09/05/china-bitcoin-blockchain-ico-ban/

[6] National Internet Finance Association, source: http://www.nifa.org.cn/nifaen

is the traditional crowdfunding mixed with ICO (44,19%); Third is the cryptocurrency exchange plus ICO model (6,98%); Fourth is other models, some cryptocurrency wallet service providers or navigation portals also engage in ICO (4,65%).

IFCERT found that 65 ICO projects were listed and finished. The number of ICO projects is increasing at exponential rate as shown in Figure 2.

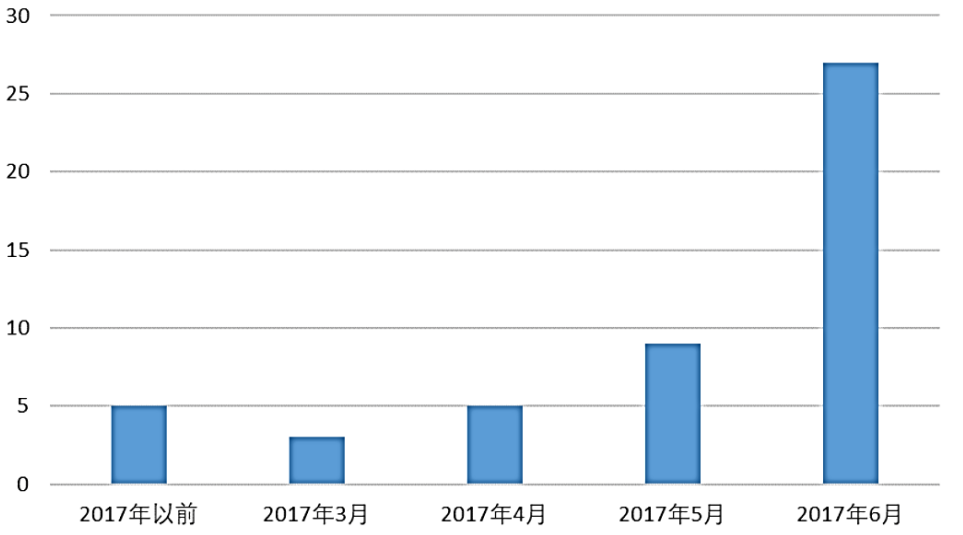

Figure 2. ICO rate in China

Judging by the goals listed below it becomes clear that the ban of ICO in China was understandable and reasonable. Firstly, ICOs are unregulated. China's financial market is huge, sprawling and difficult to control. What's more, the rapid growth of innovation and reach has given rise to bubbles in a wide range of asset classes. This is potentially a very big problem. Secondly, Closed Chinese economic system limits its capacity to innovate. Besides, many ICOs are scams. While investors are bullish on many new cryptocurrencies, an ICO can also be a trap for investors. According to the People's Bank of China, China's central bank, 90 per cent of the ICOs that have been launched on the mainland were fraudulent. What is more, Xi Jinping, China's president, has declared "financial security" a top priority for this year. It means that the government will take serious measures to maintain financial stability. Finally, China wants its own national cryptocurrency.

China's crackdown on bitcoin exchanges drew the ECB attention to the topic of cryptocurrencies and they even started to examine whether they should control the market and consider a crypto regulation. Mario Draghi, president of the ECB, said that cryptocurrencies are not "mature" enough to be regulated. And indicated that his institution does not have the authority to regulate cryptocurrencies.

CHINA'S BITCOIN EXCHANGES

Bitcoin exchange - is a digital marketplace where traders can buy and sell bitcoins using different fiat currencies. After restricting ICOs Chinese regulators asked exchanges to stop trading because they are operating domestically without a formal license. According to the state news agency «Xinhua» exchanges are known to have «pyramid schemes» and «engaged in illegal activities» – criminal activity «disguised as scientific and technological innovation». Global use of cryptocurrencies only adds to existing regulatory vacuums that authorities need to address. Solutions suggested by the agency (which is often considered the voice of the government) include strengthening existing regulations and establishing a full regulatory framework for exchanges with specific requirements (such as a cap on large volume trading, ID verification, and know-your-customer and anti-money laundry procedures).

OKEx and Huobi Pro - China's top bitcoin exchanges - are now shifting to the over-the-counter (OTC) market in the wake of a crackdown by regulators in the country. Both OKEx and Huobi Pro say they will introduce peer-to-peer trading platforms that support fiat currency transactions, including the Chinese yuan, as an alternative for the country's domestic cryptocurrency investors. Huobi Pro company is also eyeing an expansion to overseas markets. These measures follow months of growing scrutiny by Chinese regulators that led to all major bitcoin exchanges in the country, including OKCoin, Huobi, BTC China, and ViaBTC, to suspend order book trading of digital assets against the yuan.

FUTURE OF THE BLOCKCHAIN DEVELOPMENT IN CHINA

Does this ban mean that the Chinese central bank is against blockchain development? No, the ICO ban is not a statement on either blockchain or innovation. Quite the contrary. It recently announced an active push on blockchain research and late last year has even revealed that it had been testing a blockchain-based digital currency[7]. The PBoC had even opened Digital Currency Research Institute (Yao Qian– director general; seven divisions) which is actively developing prototypes related to blockchain-backed digital currency (including the development of software and hardware systems for digital money and related underlying platforms).

We should also take into consideration the fact, that China spends a lot of money on Research and Development activities (the latest figures show that expenditures on R&D was worth 1,550.0 billion yuan in 2016, up 9.4 percent over 2015, accounting for 2.08 percent of GDP), which means that the PBoC has been beefing up its R&D efforts for a state-backed digital currency.

[7] https://www.coindesk.com/chinas-ico-ban-understandable-reasonable-probably-temporary/

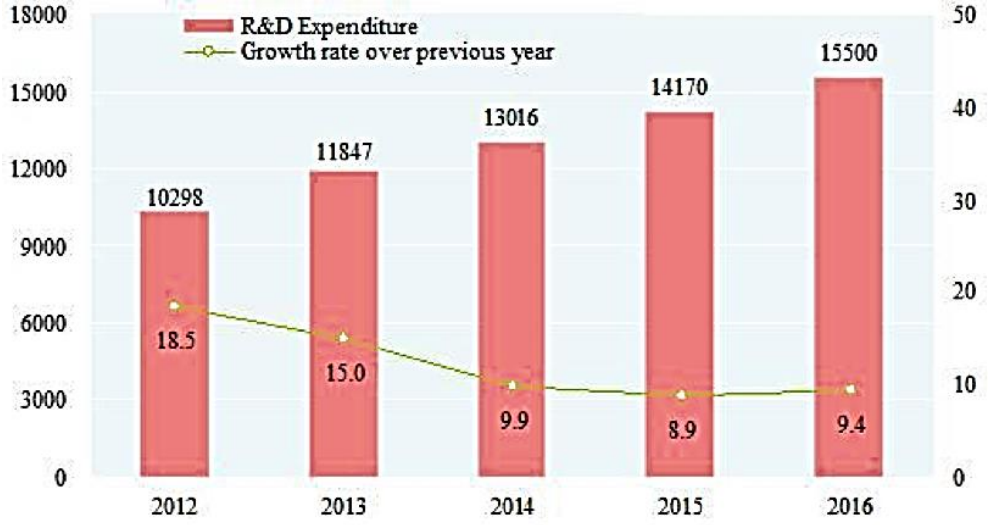

Figure 3. The amount of expenditure on R&D in China, 2012-2016 in millions yuans (left) and % (right)

Source: National Bureau of Statistics of China, February 28, 2017

Some analytics assume, that there are some reasons behind China's policymaking and intension to develop blockchain industry. If we view China's actions in the context of its broader geopolitical intentions, we will gain the following picture.

Chinese authorities see blockchain technology as a potentially useful, disintermediating tool for advancing its regional interests, especially in trade. High-tech Chinese-backed upgrades to supply-chain logistics will only foster international trade under its own terms and end the financial, economic and political hegemony of the U.S. (China's desire to end the U.S. dollar's global dominance is the strongest among other members of the BRICS international group). Besides, the People's Bank of China appears to be closer to issuing a digital fiat currency than pretty much any other central bank on the planet and it has even launched Digital Currency Research Institute. Moreover, with its "Belt and Road Initiative" (estimated to entail investments of $900 billion and routes to encompass 65 countries) that will operate on the blockchain platform, China will significantly expand its trade capabilities.

Nowadays China and Russia are working on a blockchain-based securities platform operation through fiat digital currencies. It means that importers and exporters of these two powers will be able to settle trade debts with direct cross-currency swaps. This could end the dollar's role as the intermediating currency when exporters or importers wish to protect themselves from adverse moves in their local currencies. It would cut out Wall Street's middleman correspondent banks, slash transaction costs and undermine a triangulating system that gave the U.S. great influence on trade.

CONCLUSION

Given the information above, it can be concluded that Bitcoins, as a type of cryptocurrency, is a new financial tool, which comes with a high risk and might resemble a new financial pyramid. Moreover, it may boost inflation and become a topic of hot debates between economies and governments worldwide. Furthermore, the legal use of cryptocurrencies for transactions will lead to lack of control from state bodies and law violation. It should also be taken into consideration, that China, the second largest economy in the world, decided to ban cryptocurrency issue, known as ICO, because it involves illegal distribution of financial tokens, the illegal issuance of securities and illegal fundraising, financial fraud and pyramid schemes. Moreover, 90% of the ICOs that have been launched in China were fraudulent. It comes without saying, that such a detailed analysis of the reasons that can expand the shadow economy is vital in terms of improving economic situation of a country.

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Estimating the size of the shadow economy

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Abstract

This work represents different approaches for estimating the size of shadow economy. The purpose of this research is to evaluate each approach and find the best one applicable for the common use. Some methods can be examined in more details due to their complexity and importance for the research.

Keywords: shadow economy, methodology, estimates.

1. Definition of the Shadow Economy.

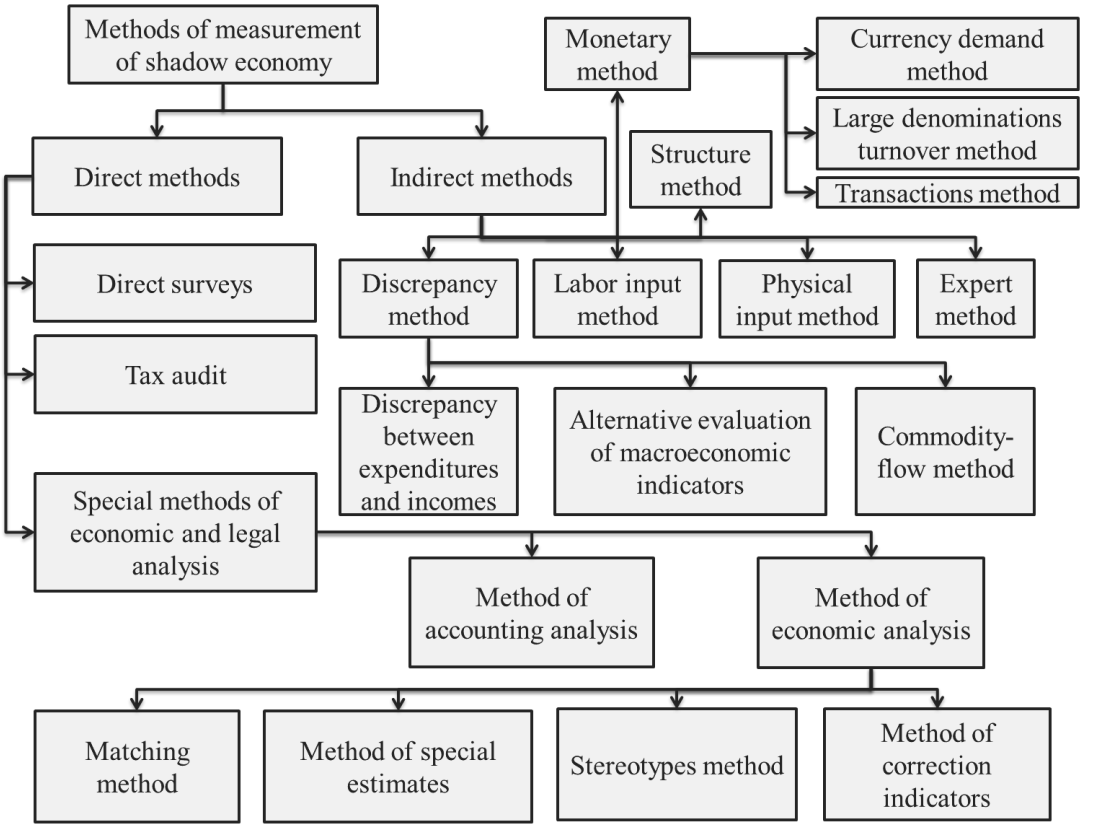
The shadow economy is likely to be present in every single country. This phenomenon results in economic and social issues and claims attention. In their attempt to measure the size of the shadow economy researchers encounter a problem of defining it. One of the broadest definitions of the shadow (or underground) economy is economic activities and the income derived from them that circumvent or otherwise elude government regulation, taxation, or observation [1]. As this definition still leaves a lot of questions unanswered, table 1 offers a reasonable consensus for a definition of the shadow economy.

Table 1. Types of shadow economic activities[8]

Type of activity	**Monetary transactions**		**Non-monetary transactions**	
Illegal Activities	Trade with stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud; etc.		Barter of drugs, stolen goods, smuggling etc. Producing or growing drugs for own use. Theft for own use.	
	Tax Evasion	**Tax Avoidance**	**Tax Evasion**	**Tax Avoidance**
Legal Activities	Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbor help

[8] Friedrich Schneider, Andreas Buehn. Estimating the Size of the Shadow Economy: Methods, Problems and Open Questions, p. 2. URL: http://ftp.iza.org/dp9820.pdf

Estimating the size and the development of the shadow economy is a complicated issue because of its stealthiness. Nevertheless, measuring the size of the shadow economy activities is vital for the analysis of the economic development.



Pic. 1. General typology of the estimating the size of the shadow economy methods

Contemporary economists have developed several methods that allow measuring the size of the shadow economy. Those approaches can be divided into two groups: direct and indirect methods.

2. Direct Methods

Usually direct methods are regarded as microeconomics approaches:

- Direct surveys;
- Tax audit;
- Special methods of economic and legal analysis.

Direct surveys are basically sociological researches such as anonymous interviews. Roughly, participating respondents can be divided into 4 groups:

- "shadowers" — those who take part in the illegal activity and ready to admit it;
- "participant observers" — those who observe shadow economy inside but don't mention their own participation;

- "outside observers" — those who make suggestions about traits of the shadow economy but don't take part in it or don't want to admit it;
- "victims" — those who suffered from shadowers but aren't connected to them.

The information from shadowers and participant observers is considered the most significant and trustworthy.

Tax audit is based on the discrepancy between income declared for tax purposes and income measured by selective checks. Fiscal auditing programs have been particularly effective in this regard. These programs are designed to measure the amount of undeclared taxable income; they may also be used to calculate the size of the shadow economy. However, the selection of taxpayers for tax audits is not random but based on properties of submitted (tax) returns that indicate a certain likelihood of tax fraud.

Special methods of economic and legal analysis can use economic and accounting knowledge and skills for measuring and estimating the size of the shadow economy. There are two types of these methods:

The method of accounting analysis, which involves research of book records such as balance, accounts and double entry bookkeeping to find any accountable discrepancies and deviations.

The method of economic analysis, which can reveal the reasons for deviations and discrepancies. There are several methods determining economic disproportions and crimes:

- the matching method;
- the method of special estimates;
- the stereotypes method;
- the method of correction indicators.

The matching method involves selection of the indicators that represent economic activity of a business and reveal mismatches through the analysis of the data during the reporting period. These mismatches can be found in the changes of such indicator pairs as industrial electricity usage and production output, raw materials usage and production output. The backbone of this approach is matching of the reporting periods and revealing deviations. If any found and no clean-cut explanation is showed, that affirms economic turnover violation, which relate to the tax evasion. That approach is effective to expose hidden incomes and money laundering.

The method of special estimates is based on a special estimate indicator that will imperatively change if any economic crime is committed. This special estimate indicator is calculated for a business under normal working conditions. If there is a gap between real and reference figures it means that a crime was committed.

The stereotypes method is aimed at the search of an unusual dependence and connection between economic indicators that discharge criminal activities and are rarely seen under normal conditions. There are 3 types of this approach:

- The "red flags" method;
- The method of net value analysis;
- The method of cash deficit calculation.

The "red flags" method is the most widespread and popular approach. Red flag is an attribute that signals about violation. For example, attributes for kiting[9] are frequent check drawing to the same person or company or check drawing to the same person or company on the accounts in the different banks.

The method of net value analysis is based on a suggestion that increasing of the taxpayer's welfare in each period is possible only at the expense of taxable incomes and one-performance payments if there are no other sources of wealth (inheritance, presents, etc.). If consumption growth and property gain higher than taxable incomes are revealed during the calculation that means that these gains appear to be undeclared income and thereby they are illegal.

The method of cash deficit calculation can be used during audit of small and medium enterprises. The basis of this approach is the failure of an enterprise to give more money than available in the till. Expenditures higher than initial cash in hand and received cash in a reporting period indicate concealment of income.

The method of correction indicators consists of the analysis of the economic indicators and external factors that surround an enterprise. The analysis of the goods sales volume dynamics and of the market environment of these goods can serve as an example. Shadow economic activity can be revealed in case of significant increase of sales under the sagging demand conditions. Specialists can take advantage of this approach while comparing enterprise prices with the average market prices. [2]

3. Indirect Methods

Indirect methods are used for estimating the size of the shadow economy at the macro level. These methods are based on macroeconomic indicators, official statistics and information from fiscal and financial authorities:

- The discrepancy method;
- The monetary method;
- The labor input method;
- The physical input method;
- The expert method;
- The structure method.

The discrepancy method is based on the contrast of interrelated indicators that characterize the analyzed phenomenon (expenditures and incomes, resources and their use) from different points of view. Discrepancy of quantitate attributes of corresponding indicators makes it possible to develop a hypothesis about the reasons of this discrepancy and the size of any necessary correction. This approach is implemented in macroeconomic calculations, national accounts, interindustry balance, etc. The most significant of discrepancy methods are:

- the discrepancy between expenditures and incomes;
- the alternative evaluation of macroeconomic indicators;
- the commodity-flow method.

[9] Kiting (check kiting) — drawing checks between accounts at two or more banks and thereby taking advantage of the float — the time between the deposit of a check and actual payment by the check writer's bank

The discrepancy between expenditures and incomes is realized by collating all incomes of households with all expenditures. Generally, prevalence of expenditures over incomes is revealed and this fact shows that consumption surpasses officially registered incomes.

The alternative evaluation of macroeconomic indicators is used for determining the size of the shadow economy by comparing the size of GDP received from indirect data with the official statistical data.

The commodity-flow method involves contrasting volumes of the resources (produced and imported) with its consumption, accumulation and export. Imbalance of resources and its usage means that information about production and usage of a good is partial. This method includes building a balance model that depicts all stages of a commodity flow from production to end use to determine the quality of the used data. Appliance of the customs statistics makes it possible to estimate the size of the hidden production of the strategic exported commodities. The difference between the cost of the produced goods that was reported to the enterprises and exporters and the contract price that is stated in the customs declaration allows to estimate the cost of the intermediary services.

The monetary method is based on the important peculiarity of the shadow economy: almost all illegal payments are made in cash because checks, bills and electronic means of payment (excluding cryptocurrency payments) can be tracked. The size and the development of the shadow economy can be estimated through the observation of money supply emitted by the central bank.

This fact lies in the currency demand approach. Increase of the money supply is a signal of the shadow economy activity. It is worth noting that this method can be used upon the assumption that money velocity is the same in the legal and shadow economies. However, even though the value of the money supply is well-known, its change can be the consequence of other economic phenomena such as inflation. That leads to the necessity of the other approaches based on the monetary method.

The large denomination turnover method assumes the unbalanced growth of large denomination banknotes share and preference of large nominals usage in the shadow economy. Thus, the connection between the increase of large denomination banknotes and shadow economy is stated.

The transactions approach was developed by Feige. It is based upon the assumption that there is a constant relation over time between the volume of transactions and official GNP, as summarized by the well-known Fisher quantity equation, or $M * V = p * T$ (with M – money, V – velocity, p – prices, and T – total transactions). Assumptions also must be made about the velocity of money and about the relationships between the total value of transactions $p * T$ and total (official + unofficial) nominal GNP. Relating total nominal GNP to total transactions, the GNP of the shadow economy can be calculated by subtracting official GNP from total nominal GNP.

However, the monetary method has some limitations. Not all the transactions in the shadow economy are paid in cash. Barter as a mean of payment is sometimes used for illegal deals. Moreover, the assumption of the same velocity of money in both types of economies is another weak point. As Hill and Kabir argue, there is uncertainty about the velocity of money in the official economy; the velocity

of money in the hidden sector is even more difficult to estimate [3]. Without knowledge about the velocity of currency in the shadow economy, economists have to accept the assumption of an "equal" money velocity in both sectors. [4]

The labor input method (or Italian method) was developed and is used by Italian National Institute of Statistics (ISTAT), which is now considered to be the most respectful authority in the issues of estimating the size of the shadow economy. According to Italian specialists, collecting authentic income and production data is difficult due to the application of this data to tax evasion. That's why they emphasized inspection of the labor force use.

This method involves contrasting the data about workplaces recollected from household through the surveys and census with the relevant data from legal and fiscal authorities. Questions asked during the surveys refer to the hours worked and thereby respondents do not think it is sensible to conceal such information because it does not refer to any income. There are two varieties of this approach:

- Method based on the discrepancy between the real and official employment level. The real employment level is calculated through the surveys carried out. The difference between these levels can show the number of employed in the shadow economy.
- Method based on the discrepancy between the real and registered time worked during a week. During surveys the number of working hours that include hours of main and side work as well as working hours for extra earnings is estimated. The difference between levels shows unregistered working hours and thereby gives the estimated size of the shadow economy. [5]

The physical input method comprises determination of the development of the industry production based on the observation of the production and the usage of electricity, transportation, that can be compared with the official data. This approach requires highly-developed market relations and adequate electricity and transportation prices. There are two electricity input approaches, which were dubbed by the names of its creators.

The Kaufmann - Kaliberda method. To measure overall (official and unofficial) economic activity in an economy, Kaufmann and Kaliberda (1996) assume that electric power consumption is regarded as the single best physical indicator of overall (official and unofficial) economic activity. This means that the growth of total electricity consumption is an indicator for growth of overall (official and unofficial) GDP. Thereby if the growth of energy consumption exceeds significantly the GDP growth than an assumption about illegal activity can be made. This approach can also be criticized because not all shadow economy activities require a considerable amount of electricity, and other energy sources can be used (coal, gas). Thereby, a part of the shadow economy will be indicated.

The Lackó method. Lackó (1998, 1999, 2000 a, b) assumes that a certain part of the shadow economy is associated with the household consumption of electricity. This part comprises so-called household production, do-it-yourself activities, and other non-registered production and services. In countries where the share of the shadow economy associated with household electricity consumption is high, the rest of the hidden economy will also be high.

For the calculation of the actual size of the shadow economy, it is necessary to know how much GDP is produced by one unit of electricity in the shadow economy. Lackó's method is also open to criticism because not all shadow economy activities require a considerable amount of electricity and other energy sources can be used. Moreover, shadow economy activities do not take place only in the household sector [6].

The expert method represents an expert estimation of the size of the shadow economy. The expert estimation is vital for estimating such a complicated and understudied phenomenon as the shadow economy. This approach consists of the expert's estimate of the collected data authentication and its recalculation with the definite value. The expert himself determines the estimating methods. The drawback of this approach is a lack of qualified specialists capable of conducting a correct and authentic estimate.

The structure method is based on the information about the size of the shadow economy in different sectors. The regression model is used while modeling the economic situation. The dependent variable is set to be the size of the shadow economy and the factors can be tax level, the ratio of employed in the administrative structures to the overall employed, employment level, average weekly hours, etc.

For example, determination of the GDP underestimation can be measured through this approach. The dependent variable is the GDP development and the factors will be:

- development of the aggregated financial indicators representing production volumes and value added;
- development of the producer prices, the index of physical volume of the industrial production and the growth rate of the industry production value in current prices.

4. Conclusion

Data about the size of the shadow economy received through the above-mentioned methods is very contrast in different developed countries and ranges from 9 to 30% of GNP (in the OECD countries) [7].

The calculations show that direct methods are quite reliable, but they provide erroneously low results. Their main drawbacks are difficulty during data collection and deliberate distortion of the information received through surveys.

Indirect methods are too diverse. Some of them need a high development of the monetary, commodity and intersectoral relations. Methods connected with the labor market analysis are marked by the time lag between phenomena and their measurement. Generally, indirect methods provide erroneously high estimate of the size of the shadow economy.

Diversity of the methods practiced throughout the world indicates absence of the single methodology for quantitate estimate of the size of the shadow economy structures and a lack of the outcome authentication criteria.

Unique features and peculiarities of particular countries and a lack of the statistical data stipulates a necessity of choosing the adequate and precise estimate method or a combination of methods in every single case. The combination of methods is preferable because the most unbiased assessment of the size of the shadow economy is possible only through the complex use of different approaches.

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PART TWO. FEATURES OF SHADOW ECONOMY IN FOREIGN COUNTRIES

A comparative analysis of the shadow economy in different countries

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Abstract

The shadow economy is known to be a very complicated area to research due to its vagueness. The reason is that all the accessible information is usually treated as confidential and interest provoking for the scientific public. The following article dwells on the shadow economy scope analysis over time in Europe and Russia. It focuses on causes of the shadow economy development and the influence of shadow finance on the social and economic processes in different countries.

Keywords: shadow economy, criminal activity, offshore zones, tax evasion.

INTRODUCTION

In literature and in practice there are different interpretations and applications of the term "shadow economy". For example, you can see the following names of this phenomenon: Parallel economy, Contact economy, Criminal economy, Informal Economy, Hidden economy, Black market, Grey economy. Despite this variety of appellations, this kind of economy involves destructive elements and causes distortion of economic, political and social relations in the real sector. The more distortion, the more "shadows". Thus, the grey economy is studied from the point of different perceptions in different countries all over the world.

While analysing the shadow economy, foreign scientists distinguish one common feature, in its various forms of expression – there is no reflection of the results of economic activity in official statistics. Typically, Western economists identify the following forms of the shadow economy:

1) illegal extra-work in legal workplace;
2) illegal private entrepreneurship in production and services spheres;
3) extortion, bribery, corruption, etc. in commercial transactions;
4) the production and import of drugs and other illicit goods;
5) organized robbery, theft.

A single agreed-on definition of the shadow economy is not articulated. However, the science and practice developed a few criteria, which allows to reveal this type of economy:

- economic activity outside official control, regulation, with hidden important data from law enforcement and regulatory authorities;
- economic benefits from misappropriation of economic wealth.

In the criminal sphere, the sources of financial flows are:

– cash from robbery, looting, extortion, trafficking in human beings;

– cash from the sale of weapons from illegal armed groups.

Minimization of this thread means the reduction of financial base of criminal activity. This task should be solved by increasing state control over cash turnover and transactions with securities, revealing business structures associated with the crime, broad international exchange of information on activities of criminal organizations. Hidden shadow economy includes production and sale of goods, provision of services not included in the financial statements. Its income is fully appropriated by the organizers and participants of such activities. Within the hidden sphere of the shadow economy financial flows are generated in cash. Therefore, the extension of cashless money turnover can create difficulties for the activities in the hidden sector of the shadow economy and contribute to reducing its scale. Therefore, the main directions of countering the financial flows in the hidden sphere of the shadow economy are providing full accounting of products in legitimate commercial enterprises, using of cash registers on the informal markets for consumer goods, the expansion of cashless payments. Shadow financial flows, generated in illegal non-tax economy, have significant specificity in comparison with financial flows in other areas of economy. Its sources are money from legal economic activity, entering the shadow economy and subsequently subjected to the laundering procedure. In the tax-free area stealing funds intended for the functioning of the public sector is actual.

Connections between financial flows of the legal and criminal economy, covert and tax-free spheres of the shadow economy can play an important role in the development of an effective mechanism against shadow financial flows in the modern economic system. Many types of the shadow economy (e.g., tax evasion) are explained by the shortcomings of state regulation - bureaucratization of management, too high taxes, etc. However, one should be clearly aware that even the best system of centralized management can reduce the scale of the shadow economy, but not eliminate it. Modern shadow economy existed not only because of attempts to limit the freedom of the market, but due to the nature of market relations themselves, focused on obtaining maximum profit.

The Association of Chartered Certified Accountants' (ACCA) latest report says that amount of the shadow economy in Russia is 33.6 trillion roubles, or 39% of the country's GDP last year. According to this indicator, Russia ranks the fourth worldwide.

According to experts, the biggest shadow economy ratio to GDP is in Azerbaijan (66,12%). It is followed by Nigeria (46,99%) and Ukraine (46.1 per cent). Sri Lanka is in the fifth place - 36.46%.

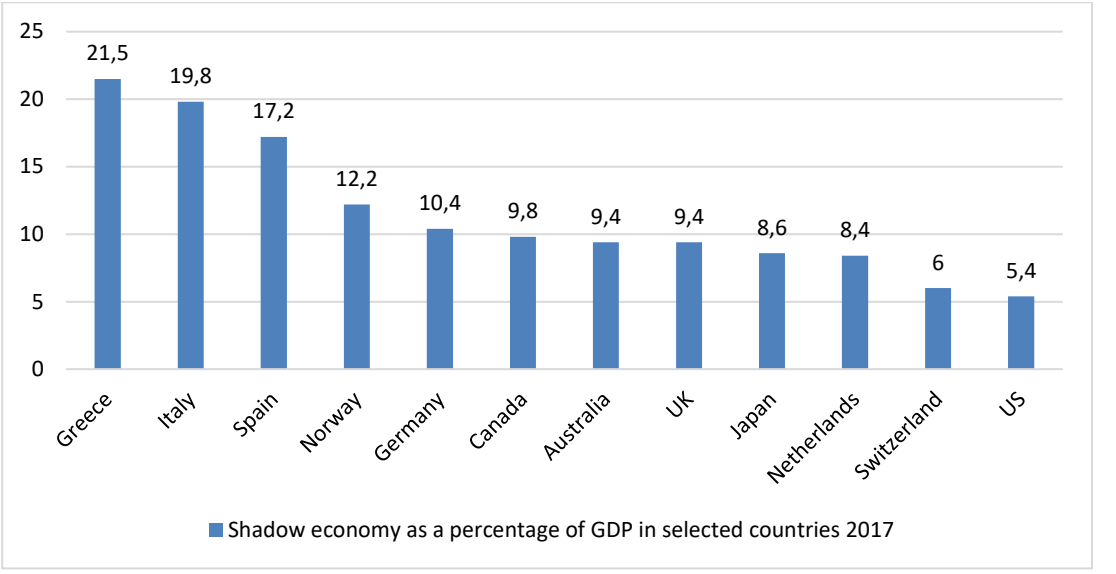


Fig. 1 Where shadow economies are well established

Shadow economy is expected to drop worldwide by 2025, but the decline will not be universal. Moreover, in some countries, particularly emerging market economies, an increase of the share of State-owned enterprises (SOEs) in GDP is expected by 2025.

ACCA studies are traditionally based on the results of the survey of entrepreneurs as well as expert data analysts. The Association uses methods of mathematical analysis in its forecast.

WHAT CAN REALLY HELP TO REDUCE THE SHARE OF SHADOW SECTOR IN THE WORLD ECONOMY?

According to ACCA experts survey, the indicator will primarily be affected by improving in the quality of the bureaucracy, increased control of corruption and GDP per capita. However, they still tend to offer an individual prescription for each country. So, in case of South Africa, ASSA offers a way that includes reduction of unemployment, as well as more effective law enforcement. For Azerbaijan, the key would be a reduction of the corruption level; the growth of the informal sector here contributes to the presence of a non-democratic system of political structure of the country. The same "drivers" of the growth of the informal sector ACCA sees in the Russian economy – to deal with "shadowing" Russia should strengthen the fight against corruption, improve democratic accountability and GDP growth.

But development of the shadow economy will be affected by providing high tax burden, the decline in the regional economy, as well as the complicated tax systems. One should not underestimate the impact of such factors as easing tax evasion and participation in the illegal sector. The government borne the primary responsibility for development of the shadow economy, according to a ACCA study. The analysts

positioned in the second place the fact that some citizens who, in theory, should either refrain from informal economic activities and notify the authorities, participate in the informal sector instead.

The existence of a criminal "shadow economy" in society leads to organised crime in corrupting sphere, where representatives of state power structures of various branches and at various levels are involved. The presence of shadow economy breeds corruption, which is associated primarily with the use of opportunities of public service to assist directly or indirectly different organised criminal structures. It goes without saying that international activities against corruption, as well as specific laws and specific mechanisms aimed at its elimination, are crucial and badly necessary.

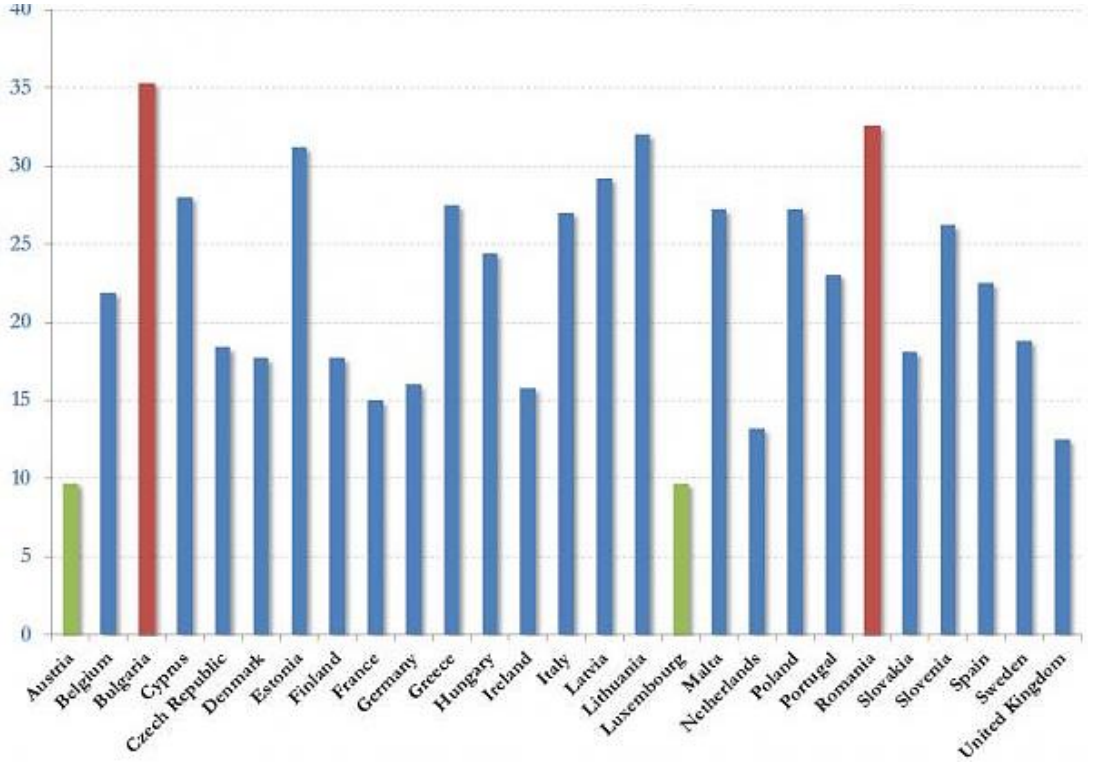


Fig.2. Size of shadow economy

GERMANY'S EXPERIENCE

Germany has rich experience in fighting against the shadow economy. Examples of this struggle in this country were recorded in legal, political, banking and tax fields. The prior struggle against the shadow economy in Germany is the fight against illegal work and dumping wages on the black labour market. According to § 5 Abs. 1 Satz 1 Gesetz zur Bekämpfung der Schwarzarbeit, enterprises where illegal workers were discovered, are to be excluded for three years from public procurement.

In Germany a number of organizations, such as Bundesfinanzenpolizei (Federal fiscal police), Anti-corruption unit, the Department of internal investigations (DIA) were also formed. German law significantly limits the ability of civil servants in terms of doing shady activities. They are provided with full personal liability for the violation of the legitimacy of actions and duties. A public servant is prohibited to engage himself in other activities without prior permission of higher official authority.

As for corruption, the main task for Germany is destruction of financial and material resources of criminals or their groups. In the political sphere interaction sphere has been improved between branches of power, including social workers and officials working in the homeless (§ 304 Abs. 2 SGB III), which allowed faster reaction, improved coordination and awareness among relevant bodies. This also reduced the abuse of privileges and social benefits.

Germany tax area: § 14 Abs. 2 SGB IV provides that the government needs to track the amount of unpaid taxes for clear work, which further helps to avoid evasion of income tax. The German government reduced the VAT rate for hotel industry from 19% to 7 %, which should take some of this business out of the shadow and reduce the employment of illegal workers especially from the EU.

Banking sector: to reduce fraud with electronic money and plastic cards, Germany, like most EU countries, introduced a microchipped card. It gives you an access to a quick and effective control of social insurance and the legal status of the owner of the card. It also acts as an additional method of combating illegal labour.

Every year Germany, like Russia, deals with more fraud cases than any other economic articles. Moreover, in Germany the second highest number of cases among the economic articles is an article on illicit enrichment. There is no such an article in Russia. In 2014, it was proposed to introduce a relevant article in the Russian Criminal Code. However, in 2015, the expert working group studying this initiative made a negative response, explaining it by "contradiction to the Constitution".

The international struggle against intellectual property piracy has been on for more than one year, but it should be noted that the measures undertaken around the world, including legal ones, are still not effective enough. Both developed and developing countries suffer from mass piracy and counterfeiting. According to the World Health Organization (WHO), up to 60 percent of medicines in developing countries are counterfeit. According to the latest research, some country-members of G20 cannot increase the number of foreign direct investments due to investor concerns regarding the protection of intellectual property rights. These losses of investments could also lead to additional losses of taxes for all from G20 countries, more than 5 billion Euros. Piracy and counterfeiting contravene the cycle of investment flows, when profit from existing product is invested in the development of new ideas and innovation. This widespread illegal activity ultimately reduces the diversity and quality of creative products and other available goods.

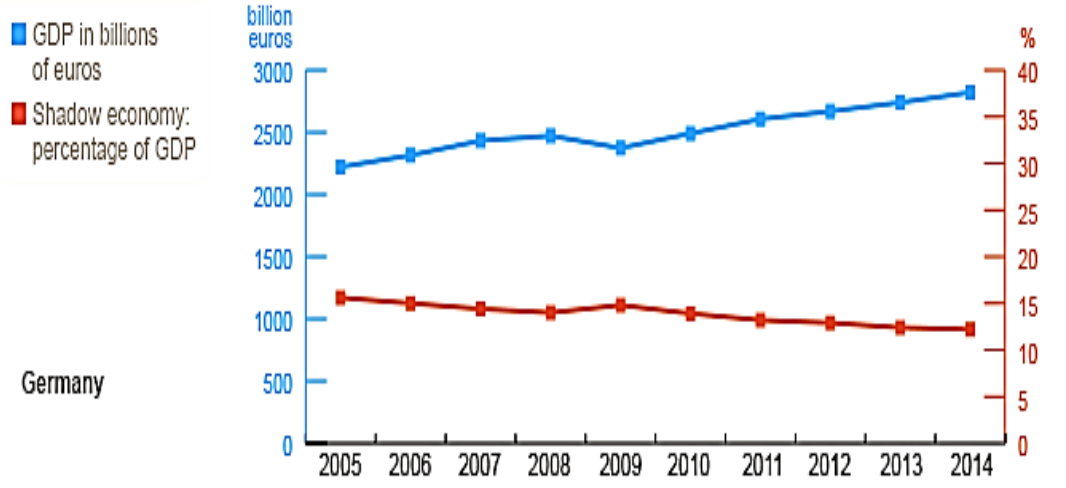


Fig. 3 Shadow economy in Germany

WHAT'S THE MOST ATTRACTIVE FOR PIRATES?

Pirate's most common industries are:

1. Pharmaceuticals. Selling of counterfeit medicines in the world is measured by $200 billion, according to the world customs organisation (WCO). This amount is comparable to the black market of heroin, cocaine, and amphetamine ecstasy in aggregate ($197 billion); however, to fake pharmaceuticals is 25 times more profitable than the manufacture of narcotics. Leaders in the production of so-called "generic" (counterfeit copies of drugs) are India, Brazil and Thailand. Every 10th sold tablet in the world was made by pirates. Developed countries sell mostly fake hormones, steroids and dietary Supplement while developing countries sell medicines against deadly diseases (AIDS, cancer, malaria and tuberculosis). The consequences of this shady business are much worse than material losses, because about 1 million people die annually in the world because of taking counterfeit drugs.

2. Software.

The problem of unlicensed software is one of the biggest issues in the IT world. Losses from using pirated software amount to billions of dollars, and development of new technologies is partly inhibited due to this problem.

3. Electronics.

The announcement of "exact copies of the iPhone" sale today is not surprising. Leaders in manufacture of mobile replicas are Thailand, Vietnam, Pakistan, China and the Philippines. And although, Asians copy only the appearance of the device, more than 20% of sold mobile phones all over the world are fakes, and producers of originals lose more than $100 billion per year.

Other industries also do not get any benefit from pirate activity: auto parts producers lose annually $45 billion, the movie-industry, music and computer games –

$45.5 billion, manufacturers of design clothes, shoes, perfume, cosmetics and sports equipment – $33.5 billion in aggregate.

According the company IDC research, reducing piracy by 10% only in software in a particular country in 4 years will lead to a number of positive consequences on a global scale, including:

- creation of about 500 thousand jobs for highly qualified workers;
- attraction of $142 billion of investment in production;
- about $35 billion of new revenues from taxes.

Significant shifts for better expect the country which embarked on the path of war with piracy in the field of intellectual property.

IS THERE A WAY TO BREAK THE CYCLE OF COUNTERFEITING?

Theoretically, it is possible to stop a multibillion-dollar market of pirate products. To reach it developed countries need to work with manufacturers of intellectual goods, that will allow governments to exercise strict control over the observance of laws on copyright and related rights, and industrial property.

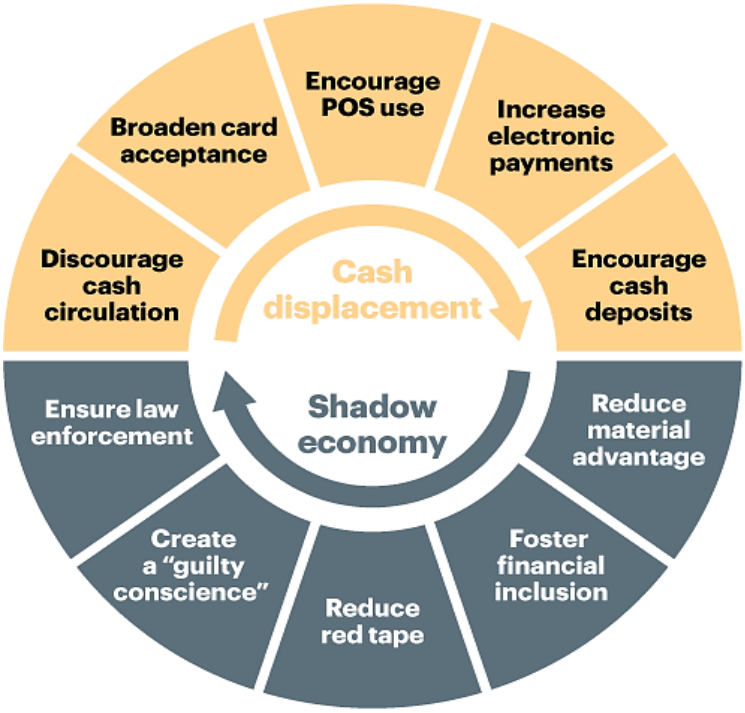
Nowadays, one of the most important issue is to restrict payments in cash to combat various manifestations of illegal and criminal activities. This agenda has become relevant in Europe due to a sharp increase of a terrorist threat under migration crisis. In 2015 FATF published the report "Money laundering through physical transfer of cash" assesses the extent of money laundering in the world as "hundreds of billions of U.S. dollars."

However, the evidence of direct connection between the amount of cash in the economy and "shadow" activity is not found in foreign countries. There are no convincing examples of any effect made by restrictions. So, the EU intensive usage of cash is typical for Germany and Austria – countries with low estimates of "shadow" sector size. The share of cash payment transactions in Germany is not much lower than in Italy and Spain, where the shadow economy is less prosperous.

France has had a long experience of restriction in cash payments, which allows to use it as an example to assess the effect of restrictions. It is advisable to consider this example in comparison with the size of economy, population and other parameters of the EU-member. As for EU-members, such restrictions were not implemented by Germany. A comparison over 15 years leads to a conclusion about significant difference in the dynamics of shadow economy size in two countries. Their relatively rapid reduction in France, observed in the period 2004– 2008, may be a consequence of features of the mathematical methods by which scale of "shadow" sector was estimated (the same can be partially explained by the sharp growth in 2014-2015). By the end of the observation period (2014-2015), cash in France was slightly lower compared with Germany in absolute terms and per capita, but GDP was higher (due to deeper decline in business activity during the financial crisis). The increase in tax revenue in France in 2011-2016 was due to tax increases.

It is important that such restrictions cannot eliminate fundamental causes of shadow economic activity.

Tax evasion is an inevitable process which is common for all countries all over the world. However, there is a real opportunity to reduce the scale of this phenomenon. This requires comprehensive measures such as improving legislation, strengthening of control and maturing tax culture. The tax evasion has negative consequences both for the economy and for a state as such. The state budget loses its money, so it is forced to limit the implementation of some state programs, for example, to increase wages for public sector workers. In addition, tax evasion can have serious consequences such as violations of fair trade rules. So, now the detection of tax evasion attempts is sanctioned by the state tax policy. In recent years there has been a rapid growth in international trade, emergence of new financial instruments, that gave occasion to such phenomena as international double taxation and international tax evasion. These circumstances partly motivated the conclusion of tax agreements between states.



Pic. 1. How to cope with shadow economy?

On 7 June 2017 in Paris 68 countries signed the multilateral Convention on implementation of measures relating to tax agreements to counter tax base erosion and withdrawal of profit from taxation. 8 more jurisdictions expressed the desire to accede to the Convention in near future. The Convention was held under the Plan to combat with base erosion and profit shifting (the BEPS Plan). The main aim of the BEPS Plan is to ensure the taxation of income into the state, where business activity takes place, and to prevent artificial profit shifting to low tax jurisdictions with the purpose of tax

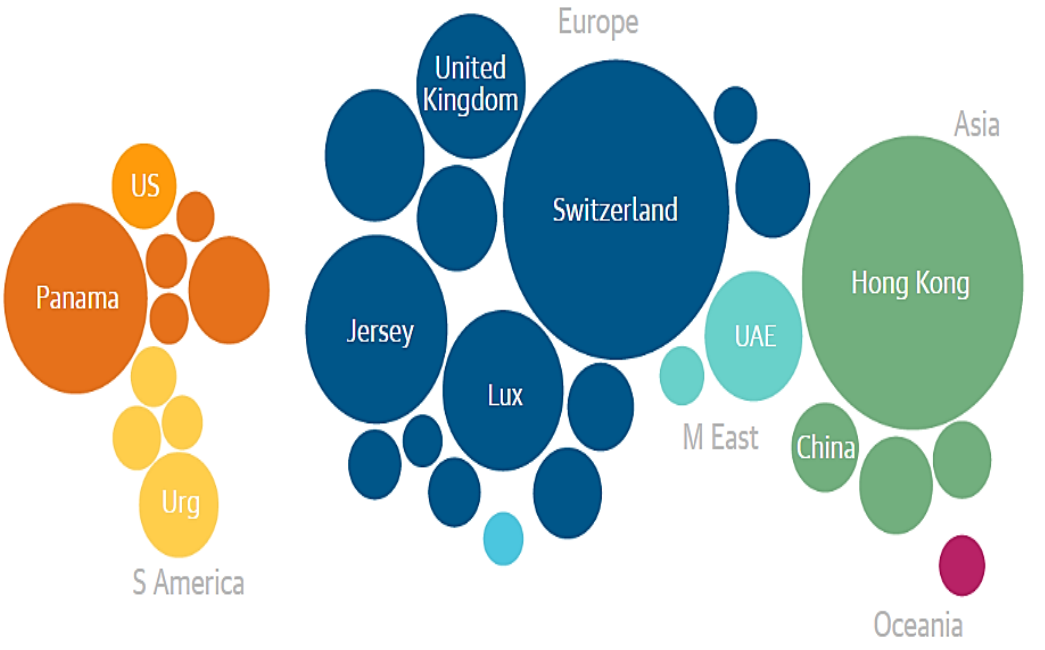
evasion. The next stage: tax authorities act on a global scale – countries join a global and flexible tool, that will spread unified rules of Plan BEPS everywhere.

With the new Convention it is possible to apply these rules further considering the new norms and standards.

WHAT DO WE KNOW ABOUT OFFSHORE ZONES?

The offshore zone is one of the varieties of free economic zones. It is favoured for the creation of favourable monetary policy, fiscal policy, high-level banking and commercial secrecy, loyalty of state regulation for entrepreneurs. In modern economy the most important goal of creation of offshore zones is to attract financial business. Switzerland is the first modern model of financial secrecy jurisdictions and the centre for the exchange of money. Currently there are around 70 offshore financial centres all over the world, and approximately 100 countries want to join them. The offshore zone is usually divided into three large groups. The first group is a classic offshore zone, where registered companies are fully exempt from tax on profit made outside the country. The second group is an offshore area with low taxation (10%) or as they are called – "offshore zones of high respectability". In general, in these jurisdictions a company must keep accounting records and annually submit accountability. The third group – countries, that cannot be called offshore, but which give companies some tax incentives (quasi-offshore zones).

Offshore jurisdictions give opportunities for countless tax evasion schemes. The simplest scheme of offshore transactions, involving tax motivation, is based on a universal principle of tax law under which compulsory taxation is subject to those earnings, and the source of which is located on the state territory. In cases, where the source of income is abroad or localised enough, it can be excluded from the scope of tax liability in this jurisdiction. This situation occurs, for example, in the provision of services in foreign trade, intermediary service, consulting business, etc. A revenue obtained in this way can go to accounts of offshore companies. The main tool of the shadow exploit offshore opportunities is an offshore firm that has a few specific characteristics. The offshore firm has a special enterprise status - organizational-legal, which provides the maximum reduction in tax payments, financial secrecy and private transactions. It is established abroad formally independent subject of economic relations, which is under the control of the resident. Offshore status allows effective concealment of the fact of firms' ownership. The confidential nature of the ownership of the offshore company is ensured through the mechanism of nominee ownership of shares and equities, as registration documents include only names of nominee owners. Offshore company registration is possible in jurisdictions that have a legislative base defining the status of offshore companies. In most cases, offshore companies are created with the signing of only two formal documents: the application for registration of joint stock companies and 37 of the articles of Association which contain the internal regulations of the company. The registration documents shall contain the names not of real owners and nominees (usually at least two) that ensures the privacy of owning an offshore firm, while documents are being processed, guaranteeing the interests of the actual owner of the company.



Pic. 2. Top of offshore countries in the world

There are different types of offshore companies, among which are:

- offshore banking;
- offshore companies;
- offshore insurance companies;
- offshore trust company.

The practice of using offshore zones and offshore companies is well-developed in many countries and in Russia. Foreign offshore companies are used in current and long-term financing of Russian projects from abroad.

In Germany the share of offshore in the accumulation of direct investment abroad accounts 1,9%.

CONCLUSION

In conclusion, I would like to say that the shadow economy is widely acclaimed as negative, rather than positive. Also, if countries want to cope with the negative side of this phenomenon, they should implement necessary laws, which indeed can control shadow activity, the government of the state should toughen the methods of fighting against corruption, hold back activity of unscrupulous producers, as well as strengthen the control over financial flows, which in turn prevent the laundering of "dirty" money.

And of course, besides all this, it is necessary to change the tax system, which does not suit a lot of businesses and many people, especially entrepreneurs.

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Hidden economy: problems and ways of its reduction (regional aspect)

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Abstract

The article deals with the problem of shadow economy in the Russian Federation and in other countries. Also, various methods of combating the shadow economy in foreign countries are considered. The combating methods, that could be adopted from other countries and applied in the Russian economy are suggested.

Keywords: shadow economy, tax evasion, methods of combating the shadow economy.

Any economic system in any country represents a unity of legal and illegal, shadow economic activity. Illegal, hidden economy functions alongside legal economy, and in some countries, it is practically not inferior to the legal economy in its scope.

The shadow economy is a very difficult subject for research. It is a phenomenon that is relatively easy to determine, but it is impossible to measure accurately. The thing is some forms of activities are unregistered and some sources of information connected with national security are confidential and cannot be divulged.

In all countries with a market economy structure, there was, and probably will be, a shadow economy. Its scale may vary, but none of the countries have managed to get rid of it entirely. It is like crime, the scale of the phenomenon can be reduced, but it is almost impossible to eliminate it altogether. The shadow economy has many names - illegal, hidden - but the essence of this phenomenon does not change. The shadow economy is a concealment of income, non-payment of taxes, smuggling, drug business, fictitious financial transactions. Revenues from these activities are truly overwhelming, they amount to tens of billions of dollars, but those actions that are suppressed by law enforcement agencies are just the tip of a giant iceberg, the size of which cannot be determined by anyone. Therefore, it becomes necessary to assess what the so-called shadow economy is like today.

The problem of "shadow" is relevant for all countries of the world since the modern economy is unstable. Instability is a consequence of the transition from an industrial society to a postindustrial one, it is connected with changes in the structure of the world economy itself. Such a transition caused a great surge of dangerous forms of social and economic relations, which entail a huge hazard for society.

The problem of the shadow economy for the Russian Federation is even more acute, as the country experienced a double shock. The crisis caused by the change of

social systems is superimposed by another one, no less complex, because it is connected with the transition from a command economy to a market economy. Russia, occupying a peripheral position in the modern economy, complicates and aggravates its development due to its incomplete status in the system of geo-economic relations. For example, in Russia, shadow operations, according to experts, account for 39% of total GDP, and in turn this is a danger to the economic security of the country.

The shadow economy is also actively growing in developing countries because it often acts as the only opportunity to feed itself and survive at all. In some countries, the level of the shadow economy can surpass official data. This can be observed in countries such as: Thailand, Bolivia and Nigeria, where the shadow economy can reach 80% of the official GDP.

In general, in the "third world" countries, the shadow economy achieves a share of 50% and more of GDP. The sector of the shadow economy includes small enterprises to produce goods, individual traders, as well as artisans. The total number of all employed in the shadow economy in the countries of the "third world" is about 300 million people.

The scale of the shadow economy in developed countries is smaller (7-30% of GDP). In the US, the shadow economy is 7.8%. The growth of the shadow economy in the United States over the past year resulted in the emission of 3 billion hundred-dollar bills. It is well known that such large bills are mostly used only by drug dealers, people who evade taxes, as well as illegal arms dealers.

As for the whole of the European Union, it can be said that the use of clandestine labor and tax evasion is about 19% of the total GDP of the entire European zone. But, despite this, the scale of the shadow economy can differ from country to country. For example, the shadow economy of Central, Western and Northern Europe rests at around 10%, in the Mediterranean, i.e. ¼ of total GDP. And in Eastern and South-Eastern Europe, the share of the shadow economy can reach a record of 30%.

If we consider the experience of the United States, it can be noted that there the management organized a large-scale work to identify the facts of tax evasion in connection with the export of funds from the US and its further placement abroad to protect the country from the economic crisis. Russia, adopting the experience of the United States, will force bankers to provide all information about their accounts and operations to the tax authorities. In addition, the tax authorities will have the right to request information on accounts of private traders from financial institutions without court permission.

One of the countries where the fight against the shadow economy has been going on for a long time is Latvia. In this country, attempts are being made to introduce such a mechanism of countermeasures which involves the collection of all personal data about each buyer who has spent more than 2000 dollars in cash. But this mechanism has some drawbacks. This scheme will apply only to residents of Latvia, therefore there is a problem that residents of this country can agree with other countries, or make the same purchase not in Latvia, but in the nearest countries, such as Estonia or Lithuania.

The countries of the European Union have recently begun to pay great importance to the fight against tax evasion. For example, in Spain they are going to replenish the

treasury of their country in the amount of 8.1 billion euros with the help of strict control over the taxable base. Italian public authorities have demanded that payments of more than 2,000 euros be made in such a way that they can be traced, for example, by bank cards. In the UK there is a special brigade, numbering 200 agents, who, on behalf of the government, monitor all high incomes. In the last quarter of 2012, the European Union and the International Monetary Fund obliged Greece to pursue a policy of combating tax evaders as one of the mandatory conditions to provide assistance to it. After that, Greece helped its citizens to save on taxes by introducing some rules. Thus, the residents of this country could save on visits to gyms, hairdressers. These measures are aimed at reducing the share of the shadow sector in the state, after all, according to official statistics, a quarter of all commercial transactions in Greece are carried out illegally, in other words, without checks and receipts.

Figures 1 and 2 show the average size of the shadow economy of 162 countries over 1999-2007. In tables 1 und 2 the average informality (unweighted and weighted) in different regions that are defined by the World Bank is shown. The World Bank distinguishes 8 world regions which are East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, High Income OECD, Other High Income, South Asia, and Sub-Saharan Africa. If we consider figure 1 where the average informality (unweighted) is shown, we see that Latin America and the Caribbean have the highest value of the shadow economies of 41.1%, followed by Sub-Saharan Africa with 40.2% and then followed by Europe and Central Asia with 38.9%. The High-Income OECD countries with 17.1% have the lowest value. If we consider the average informality of the shadow economies of these regions weighted by total GDP in 2005, Sub-Saharan Africa has the highest with 37.6%, followed by Europe and Central Asia with 36.4% and Latin America and the Caribbean with 34.7%. The lowest again has the High-Income OECD with 13.4%. If we consider the world mean weighted and unweighted, it can been noted that if the unweighted measures are used the mean is 33.0% over the period of 1999-2007. If we consider the world with weighted informality measures the shadow economy takes “only” a value of 17.1% over the period of 1999-2007. Weighting the values makes a considerable difference.

One general result of the size and development of the shadow economies worldwide is that there is an overall reduction in the size. In figure 3 the size and development of the shadow economy of various groups of countries (weighted averages by the official GDP of 2005) over 1999, 2003 and 2007 are shown. One clearly realizes that for all countries groups (25 OECD countries, 116 developing counties, 25 transition countries) one can observe a decrease in the size of the shadow economy. The average size of the shadow economies of the 162 countries was 34.0% of official GDP (unweighted measure!) in 1999 and decreased to 31.2% of official GDP in 2007. This is a decrease of almost 3.0 percentage points over 9 years. Growth of the official economy with reduced (increased) unemployment (employment) seems to be the most efficient means to reduce the shadow economy.

	Region	Mean	Median	Min	Max	Sd
EAP	East Asia and Pacific	32.3	32.4	12.7	50.6	13.3
ECA	Europe and Central Asia	38.9	39.0	18.1	65.8	10.9
LAC	Lat.America and the Carib.	41.1	38.8	19.3	66.1	12.3
MENA	Middle East and North Africa	28.0	32.5	18.3	37.2	7.8
OECD	High-Income OECD	17.1	15.8	8.5	28.0	6.1
OHIE	Other High Income	23.0	25.0	12.4	33.4	7.0
SAS	South Asia	33.2	35.3	22.2	43.9	7.0
SSA	Sub-Saharan Africa	40.2	40.6	18.4	61.8	8.3
World		33.0	33.5	8.5	66.1	12.8

Table 1. Average Informality (Unweighted) by World Bank's Regions

	Region	Mean	Median	Min	Max	Sd
EAP	East Asia and Pacific	17.5	12.7	12.7	50.6	10.6
ECA	Europe and Central Asia	36.4	32.6	18.1	65.8	8.4
LAC	Latin America and the Caribbean	34.7	33.8	19.3	66.1	7.9
MENA	Middle East and North Africa	27.3	32.5	18.3	37.2	7.7
OECD	High-Income OECD	13.4	11.0	8.5	28.0	5.7
OHIE	Other High Income	20.8	19.4	12.4	33.4	4.9
SAS	South Asia	25.1	22.2	22.2	43.9	5.9
SSA	Sub-Saharan Africa	37.6	33.2	18.4	61.8	11.7
World		17.1	13.2	8.5	66.1	9.9

Table 2. Average Informality (Weighted) by Total GDP

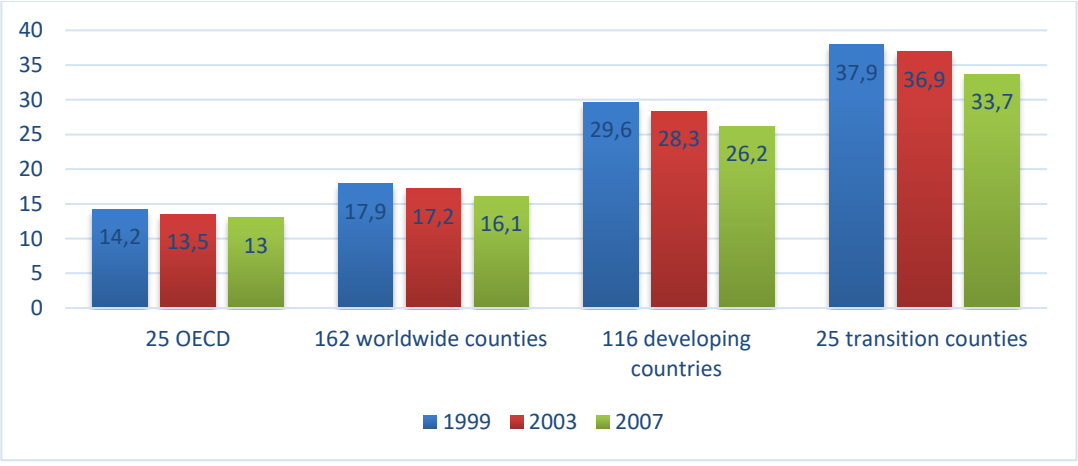

Fig. 3: Size and Development of the Shadow Economy of Various Countries Groups (Weighted Averages; in percent of official total GDP of the respective Country Group)

The lowest indicators of the volume of the shadow sector in 2016 were recorded in the USA (7.8% of GDP), Japan (10%) and China (10.2%). The largest volume of

the economy in the shadow is only in Ukraine (46% of GDP), Nigeria (48% of GDP) and Azerbaijan (67% of GDP) (fig.4).

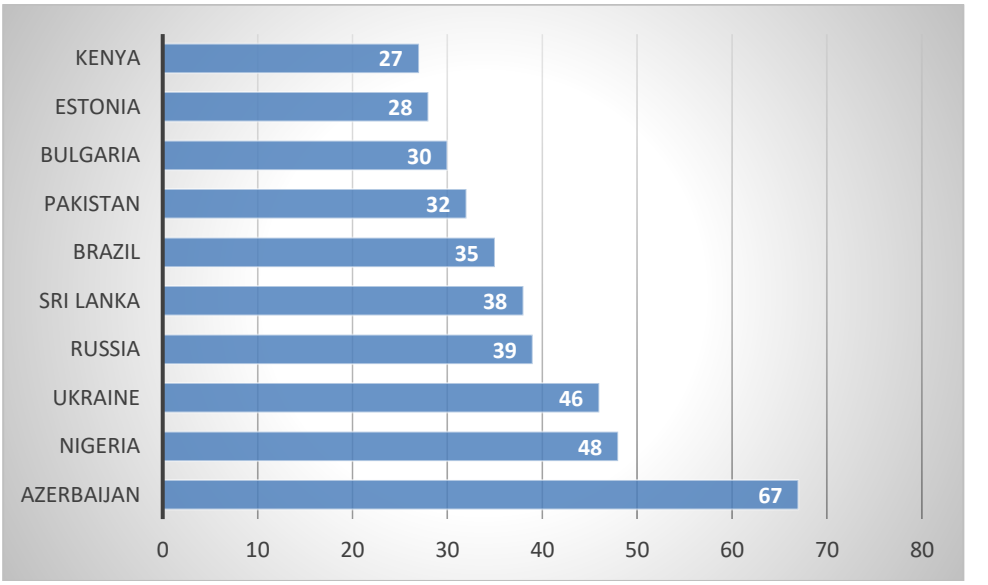

Fig. 4: The largest volume of the shadow economy % of GDP

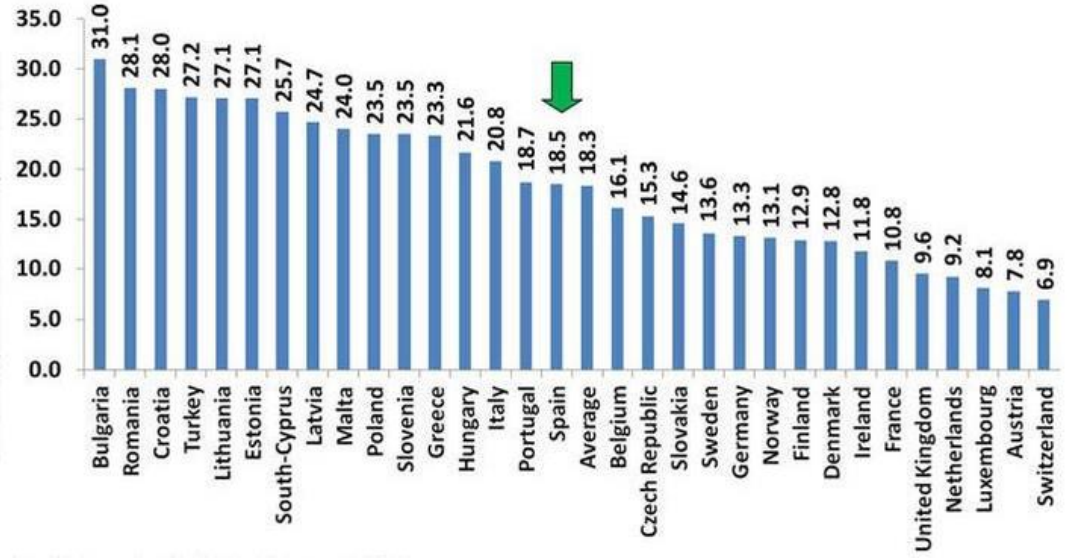

Fig. 5: Size of the shadow economy in the European countries, % of GDP

Undoubtedly, the struggle against the shadow economy is a very difficult task, in comparison to the definition of its scale. The main goal of the fight against the shadow economy is the legalization of the informal economy and the desire to eliminate the criminal one. Since many factors influence the shadow economy, the means of combating it must also be complex. These means of struggle should include such aspects as economic, legal and social ones.

Currently, Russia applies such measures as:

1) reforming the tax system that facilitates the withdrawal of the part of income from the shadow sphere;

2) toughening the fight against corruption;

3) measures to return capital withdrawn from the country and stop this export by creating a more attractive investment climate in the country;

4) clandestine industries are identified (for example, in the alcoholic beverage industry) and their activities are suppressed;

5) strengthening control over financial flows, preventing money laundering;

To identify and reduce the shadow economy, new methods should be used. One method can be, for example, a comparison of two values: income and expenditure. Compare the income statement of an official with his official expenses and, if necessary, correct his official income.

Also, one of the measures to reduce the "shadow" is to inform the authorities that a successful business is beneficial to it, motivating the authorities to cooperate with the business in the sphere of combating corruption. This is certainly quite difficult, but still, feasible.

Thus, it can be concluded that the implementation of measures to combat the shadow economy can lead to a significant reduction in the volume of both credit and fund operations, provided they are reliable and effective. As for the financial elite, we can say that the scale of non-cash settlements will increase many-fold. As a result, the state will receive an increase in both budget revenues and expenditures. Based on that, it seems that managers will gain the prospect of consolidating their position in a legal way, rather than stealing the remainder of the organization's assets.

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Untaxed shadow economy of Australia

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Abstract

The economy of Australia is developed, one of the largest market economies in the world, with a GDP of AUD$1.69 trillion as of 2017. Australia is the second wealthiest nation in terms of wealth per adult, after Switzerland. Australia's total wealth was AUD$8.9 trillion as of June 2016. In 2016, Australia was the 14th largest national economy by nominal GDP, 20th largest by PPP-adjusted GDP, and was the 25th-largest goods exporter and 20th-largest goods importer. Australia took the record for the longest run of uninterrupted GDP growth in the developed world with the March 2017 financial quarter, the 103rd quarter and 26 years since Australia had a technical recession (two consecutive quarters of negative growth).

However, untaxed economy accounts for about 2% of GDP (in this article we do not take into consideration illegal business). The number is not very high, if we compare to Italy, for example, where it is about 19%, but anyway it is steadily growing bringing much trouble to the government and people.

Keywords: untaxed economy, black economy, cash-in-hand, phoenixing.

WHAT IS THE UNTAXED ECONOMY?

The untaxed economy refers to people who operate entirely outside the tax and regulatory system or those who do not correctly their tax obligations. It encompasses a wide range of practices, including understatement of takings, the payment and acceptance of cash wages off the books, welfare fraud, sharing economy contractors not declaring their income, moonlighting and phoenixing[10]. Complex interactions with illegal activities, including money laundering, must also be considered. Other terms used include: the shadow economy, cash economy and underground economy.

Participation in the untaxed economy penalizes honest taxpayers, undermines the integrity of Australia's tax and welfare systems and creates an uneven playing field for majority of small businesses doing the right thing. Community attitude toward those who fail to meet their tax obligations has hardened in recent years. The pressure for action on the untaxed economy is being built.

The untaxed economy also imposes significant costs on the whole economy and society. Untaxed economy activities undermine trust in the tax system, create an unfair

[10] phoenixing means that businesses deliberately liquidate to avoid paying employees and creditors

commercial environment that penalizes businesses and individuals doing the right thing, it can enable and entrench the exploitation of workers, undermine tax revenue and enable abuse of the welfare system.

If left unchecked, untaxed economy participation can lead to a dangerous dynamic. It can foster a culture which legitimizes and supports this participation, spurring its further growth. As revenues fall, those remaining in the formal economy may face higher tax burdens as greater incentives will move into the shadows. All other OECD countries are grappling with the untaxed economy issue, thus Australia is not alone.

While the untaxed economy is a long-standing problem, new vulnerabilities and threats are emerging because of fundamental economic, social and technological changes. Tax and non-tax regulatory burdens, pressure on business margins, the proliferation of new business models (including the sharing economy) and new forms of work, complex interactions with illegal activities and changing social norms are worsening this situation.

Specific examples of activities in the untaxed economy are described in Table 1.

ACTIVITY	**HOW DOES IT MANIFEST**
Ghosts — operating outside of the system	Businesses which operate entirely outside of the tax system. They often advertise in local papers or online and offer services directly to customers. Some of these businesses are operating in parts of the sharing economy.
Not reporting income, often cash income	Businesses, both large and small, that do not report all their income. They can do this by skimming cash and never recording it (including using sales suppression software), having income going into different bank accounts (and not revealing them to their tax agent or to the Australian Taxation Office, ATO), taking cash out of till without reporting the transaction, and keeping two sets of books and records.
Paying employees cash-in-hand	Businesses that pay their employees cash-in-hand. They often pay below award rates and do not deduct tax off their employees' salaries or pay superannuation guarantee and are unlikely to pay workers' compensation and payroll tax. These employees are sometimes part of labour hire schemes and may be illegally working in Australia. Some of them may be exploited.
Not reporting rental income	Individuals who rent out a property or part of their property and fail to report the rental income to the ATO and state authorities. This will reduce income tax, capital gains tax (on sale of property) and land tax payments.
Bartering	Exchange of goods as payment where the transaction is either not reported or reported at an incorrect value in order to evade tax. Transactions may take place

	through organised and controlled exchanges or on a more illegal basis
Moonlighting	Doing 'work on the side' (for example cash jobs at the weekend in the building and construction industry or providing tutoring services to students after hours) and not declaring the income.
Phoenixing	Phoenix activity occurs where a company deliberately liquidates taxes and employee entitlements to avoid paying creditors. They transfer the assets to a new company and continue operating the same or a similar business with the same ownership. Phoenixing is also used by criminals.

Table 1. Types of untaxed economy activities

The untaxed economy is most prevalent amongst small businesses that are more likely to have regular access to cash. Owners of these types of businesses deal directly with their customers and can avoid their taxation and other obligations by underreporting income, especially by understating cash receipts, and paying workers cash-in-hand. The higher share of labour costs as well as the high number of small value transactions make untaxed economy participation easier. [1]

What is not covered? Specifically excluded from the scope are:

- Illegal activities and criminal acts (such as trading in illicit substances).
- The production of own-use goods and services, for example individuals repairing or cleaning their own homes or growing their own fruit and vegetables.
- Over-claiming of work related-expenses and rental deductions.
- Tax avoidance through exploiting gaps and loopholes in tax law, for example multinational profit shifting.

SIZE OF THE UNTAXED ECONOMY IN AUSTRALIA

Measuring the untaxed economy is fundamentally difficult because of the hidden nature of this problem. In 2012, the ABS[11] estimated that the untaxed economy was around 1.5 per cent of GDP in Australia (approximately $25 billion), up from 1.3 per cent in 2001. Today the untaxed economy is worth at least $35 billion (and potentially even up to $50 billion when such activities as money laundering and drug trafficking are taken into account).

[11] Australian Bureau of Statistics

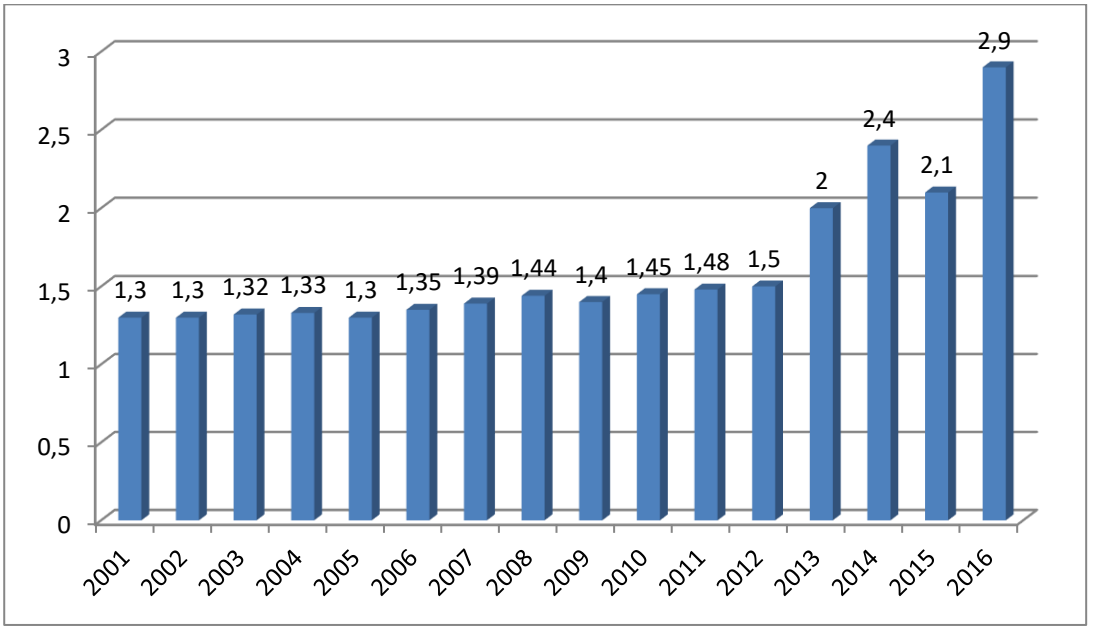

Fig. 1. Untaxed economy as a percentage of GDP

However, a range of trends, vulnerabilities and other considerations suggest the untaxed economy could be even larger today. They include tax and regulatory burdens (which become more costly after a period of low wages and profits growth), expansion of sharing economy activity (and other sectors beyond the regulatory perimeter), money laundering and even changing social norms.

DRIVERS OF THE UNTAXED ECONOMY

International research and early consultations indicate that the most important determinants of the size of the untaxed economy are high tax and regulatory burdens and low profit margins which place pressure on supply chain practices. Social norms are identified as the next important factor. Other causes include: gaps in the regulatory perimeter; the availability of cash (and other non-traceable payment methods); and the risk of detection and penalties.

In practice, untaxed economy behaviours will be influenced by a range of factors, each being part of a complex picture. It is not a one-dimensional phenomenon, and nor does it take place in isolation. Untaxed economy activities are linked to non-compliance with labour laws, employment and exploitation of workers, including illegal foreign workers, money laundering and other illegal practices.

Like any other behavioural phenomenon, untaxed economy behaviour does not reflect a ‘one size fits all’ characterisation. Indeed, a broad spectrum exists, stretching from participants who may not realise they are in the black zone, to those who are aware of it but feel they have no choice, to, at the other end, the most egregious cases. Our responses must reflect this diversity. We need to understand that the business-to-business dimension of the problem will be different to the business-to-consumer one. Again, policy makers will need to tailor their approaches to each.

In addition, in light of fundamental economic, social and technological changes, new vulnerabilities may be emerging thus fuelling participation in the untaxed economy. In these circumstances, existing policy approaches may no longer be as effective.

The untaxed economy brings significant costs on the economy and society. In addition to lost tax revenue and higher welfare costs, it creates an uneven playing field for business, erodes trust in the tax and other regulatory systems and undermines superannuation. All levels of government are affected. Experience overseas suggests that if untaxed economy activity is unchecked (or poorly responded to), a dangerous dynamic can emerge. Rising untaxed economy participation can itself fuel further participation, fostering a culture of tax evasion and welfare fraud. And declining revenues can result in higher tax burdens on those doing the right thing, giving them a stronger reason to move into the shadows.

UNTAXED ECONOMY TASKFORCE: POLICY IDEAS

The Black Economy Taskforce has been established to develop an innovative, forward-looking whole-of-government policy response to combat the untaxed and unregulated economy in Australia, recognising that these issues cannot be tackled by traditional tax enforcement measures alone.

The Taskforce is chaired by Mr Michael Andrew AO, former global head of KPMG and current Chair of the Board of Taxation. Mr Andrew is former chair of the Australian B20 Working Group on Anti-Corruption and Transparency and its Global CEO Forum.

On 2 August 2017, the Australian Government's Black Economy Taskforce (BET) released a consultation paper entitled "Black Economy Taskforce: Additional Policy Ideas". The paper outlines 54 additional policy ideas based on recent industry roundtables held across Australia during the month of June.

The Taskforce is focused not only on "cash economy" activity but more broadly on the activities of individuals and businesses that operate outside the tax and/or regulatory system. The size of the Australian black economy has conservatively been estimated at around AU$25 billion annually, though its scale is highly likely to be underestimated.

The 54 ideas are grouped under four key themes:

1. Hard wiring Government. There is broad recognition that despite advances in technology and the existence of substantial potential sources of data, the various levels of government and regulatory enforcement agencies do not or cannot exchange information in a way that is effective to combat the black economy.

2. Modernizing the payments system. The issues covered range from the use of technology to discourage the use of cash to incentivizing the use of non-cash payments. The cash economy alone is estimated to cost the Government up to $15 billion in forgone revenue, due to "illegal welfare payments" and foregone tax revenue. Therefore, putting an expiry date on $100 notes is one of the options to reduce the impact of the cash economy on government revenue, as well as making electronic

transactions more attractive by reducing card fees and imposing a ban on all cash transactions over $10,000. [2]

3. Incentives and deterrents. These cover a broad range including limiting government procurement only to suppliers who are able to demonstrate good tax and regulatory compliance as well as supply chain transparency. In a small and geographically discrete market such as Australia where the Government is a major customer in many sectors, this could be a powerful incentive to change behavior.

4. Changing social attitudes and education. The BET observed that attitudes are changing to black economy behavior as it is less being regarded as a "victimless crime" as it increases the tax burden on others and contributes to inappropriate outcomes under the welfare system.

Key policy suggestions raised in the report include:

• Australian Business Number [ABN] reform: renaming ABNs to Australian Business Licenses and providing integrity measures around the system of business registration

• Use of analytics and smart technologies to combat the black economy including accessing information generated by Sharing Economy platforms

• Creation of a whistle-blower hotline and incentives

• Action targeting the $100 note or currency changes generally

• Limiting government procurement to firms with good tax records. [3]

CONCLUSION

Untaxed economy activities: undermine the community's trust in the tax system; create an unfair commercial environment which penalizes businesses and individuals doing the right thing; enable and entrench the exploitation of vulnerable workers; undermine tax revenue; and enable abuse of the welfare system. If unchecked, growing untaxed economy participation can lead to a dangerous dynamic. It can foster a culture which legitimizes and supports this participation, spurring its further growth. As revenues fall, those remaining in the formal economy may ultimately be faced with higher tax burdens, giving them a greater incentive to move into the shadows. All other OECD countries are grappling with the untaxed economy issue. Australia is not alone.

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Informal economy in Brazil: methodological and factological analysis

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Abstract:

The share of informal economy in Brazilian GDP is contracting slowly but constantly, the government is taking more steps to encourage people to work and businesses to operate on a legal basis. The major part of illegal or underground activities and transactions is concentrated in Brazilian favelas – intensively populated urban areas within the big cities. The shadow economic activity harms the national economy, that is why the authorities have to introduce more reforms to achieve the further contraction of volume of informal economic activities within the country.

Keywords: non-observed economy, Brazil, IES, favelas, forecast

The shadow economy is an economic activity that is hidden from society and the state, is not covered by the state control and accounting functions [1]. In fact, it is an informal component of the economy, which statistics are not gathered on an annual basis. This area also includes illegal types of economy and the economic initiatives associated with crimes.

It is possible to mention poor people involved in begging and tinhorn racket just to show an example of actors in the shadow sector in Brazil. Due to the economic crisis in 2008 and the political instability, the number of unemployed throughout the country increased. The Brazilian government is taking decisive steps to combat the problem, for example in the sectors of education and health and tries to bring this fairly broad mass of people to the development of the country. More state-funded places were created in universities. But this did not bring the expected effect. Many people started to study, then studied for a short period of time and dropped out. One of the reasons of this are the natural conditions of Brazil, and the government's loyal internal policy. Periodically, the State gives benefits to help the poor and the homeless people. But there is always an opportunity to work illegally, independently of the state. Taxes from economically disadvantaged individuals (with wages less than 15 thousand Reals per year[12]) are not charged. Sector of medicine is based on knowledge-based activities and is also free of charge.

[12] 1 USD = 3.24 BRL (Brazilian Real) in February 2018

In fact, shadow economic activity can be described as any form of an entrepreneurship which gives the possibility to hide incomes from state taxation authorities or evade taxes.

Due to economic crisis, there was registered an increase in loan interest rates, while the number of investments decreased, followed by the decrease of jobs. A lot of residents are trying to find ways to earn money in the shadow sector. As shadow economy itself afflicts significant damage to the society and the country, there is one simple and effective legal way to combat with it – to improve the conditions for legal businesses. But it is impossible in existing economic reality. At the same time, it is not that easy to set up a legal business in Brazil. The registration will require many procedures and will take about three months.

Crime also accounts for a large part of a shadow economy of the country. Firstly, it is explained by the fact that in urban areas of the country there exist grand favelas - deprived areas of the city mainly situated on hillsides. These are areas with poor infrastructure, inhabited by drug dealers, killers, homeless and poor people [2]. All of them are a part of an economically passive population, they do not pay taxes and are basically officially unemployed. It was not yet possible for the government to overcome criminal attitudes of people in these settlements, even the police seem powerless there. Therefore, the crime in Brazilian slums is one of the main internal factors which influences the country's economy negatively.

THEORIES AND METHODS OF MEASURING THE SIZE OF UNDER-GROUND ECONOMY

1.Theoretical information about methods of measuring of size of shadow economy.

In accordance with the theory, there are various methods that can be used to estimate the size of the shadow economy of a country and are used also in Brazil.

First group incorporates micro methods or direct methods like polls to estimate the size of shadow economy, methods of open verification and special methods of economic analysis.

The second group includes macro methods, or indirect methods which are based mostly on macroeconomic indicators of official statistic data, data of finance and tax authorities. These are balance methods, the so-called Italian method, monetary method, method of technical coefficients, expert method, structural method, determinant method.

The term non-observed economy means a system not observed by statistic, economic reasons, informal sector illegal activities and so on. This term reflects an impartial attitude towards the studied subject. Other terms are also used to describe the non-observed economy, just like alternative economy, hidden economy, shadow economy, informal economy, underground economy [3]. However, these terms are not impartial and can have different meanings formulated by different authors. Therefore, this neutral term was chosen as a result of international discussions.

Due to the formation of common standards, it became possible to study the volumes of non-observed economy in different countries. The United Nations

Economic Commission for Europe (UNECE) conducted three surveys of national practice to evaluate the non-observed economy in the SNA.

The first comparative study of the volume of NOE in different countries was carried out in 1991, the second one - in 2001-2002. Only 9 countries took part in the first project, in the second one the number of participants grew to already 291 countries. In the third survey, held in 2005-2006, there were already 45 countries that participated: 18 EU member countries, 3 EU candidate countries, 5 OECD countries - non-EU members, 12 CIS countries, 5 other countries. In addition, two countries from the last survey do not count on non-observed economy: they are Japan and New Zealand.

To achieve the full coverage of the indicators, Eurostat recommends the so-called tabular approach to classify types of non-observed economy. Originally, the tabular basis T1-T8 of 1998 was applied, which divided the underground economy into 8 types. Currently, most countries use the most recent table basis N1-N7.

N1 - Producers intentionally not registered - hidden (underground).

N2 - Producers intentionally not registered - illegal (illegal).

N3 - Producers that are not required to register.

N4 – Not surveyed enterprises (legal entities).

N5 - Registered but not surveyed entrepreneurs.

N6 - Producers that are deliberately disfiguring the data.

N7 - Other statistical deficiencies

There are three main methods of measuring the shadow economy: production, income and end in use approaches. Usually the production method is preferred. For example, in Czech Republic the size of a shadow economy is 4,6 % (in accordance with the production method), 6,6 % (income method) and 9,3 % (end in use method). In Poland the GDP it varies from 7,8 % (end in use approach) to 15,7 % (production method). In Norway the estimated size of shadow economy is 2,4 % (production method) to 1% (end in use method). In Mongolia the underground economy is estimated in accordance with 2 approaches as 13% and 30% respectively, while the methods are not mentioned [4].

2. Methods of measuring the size of underground economy of Brazil.

Since 2007 Brazilian Institute for Ethics in Competition (ETCO) has been studying, measuring the size of the underground economy in the country and calculating it in cooperation with a Getúlio Vargas Foundation (FGV) a special index named IES which reflects the size of the shadow economy.

Due to the economic stagnation, the increase of loan interest rates, the decrease of investment and, as a result, the decrease of work places, a big part of Brazilian people chooses a shadow economic sector to earn money. The shadow economy has negative influence on the society, but it is possible to combat it only by improving the conditions for legal businesses, which seems hardly probable under the existing economic conditions.

A company itself practically determines the shadow economy as a production of goods and services, the information of which is not being transmitted to official sources to avoid taxes, social payments and additional control provided by labour legislation.

To estimate the shadow economy in Brazil:

1) The size of shadow economy is estimated by two different methods – monetary method and method of measuring the informal employment;
2) On the base of obtained data, the average is calculated and as a result the indicator reflects the ratio of the shadow economy and the GDP is obtained.

Monetary method is based on the idea that illegal economic activity is being hidden from the state and is based on illegal transactions [5]. Thus, the founders of this method believed that basically the underground economy operates by means of cash flows, since it is the easiest way to hide these transactions from the state control.

The increase of shadow activities in this method provokes an increase of the money demand. In result the variables which affect the shadow economy just like direct and indirect taxation are to be considered during the money demand equation.

The calculation of the monetary method is based on the correlation between demand and currency, including consideration of the factors of the shadow economy, that explains the dependence of demand and currency:

$$\ln m_t = \beta_0 + \beta_1 \ln y_t + \beta_2 \ln i_t + \beta_3 \ln DT_t + \beta_4 \ln TSC_t + \varepsilon_t$$

mt- real monetary base per capita $\frac{M_t}{P_t}$

y_t – GDP per capita

i_t– real interest rate

D_t– direct taxes

TSC_t– share of informal employment

The authors who estimate the share of the shadow economy in the GDP of Brazil base on a confirmation that an increase of direct taxes provokes an increase of money demand and a growth of the shadow economy. The same thing happens because of the increase of the share of informal employment.

To build up a statistic model, the author used a method known as least-squares regression method and statistic information starting from the year 2002. The author studied a unit root test for all the variables used during the estimation. For all series the unit root lied at the confidence interval of 10%. So, the model was estimated with a least-squares method which can be used here thanks to super-consistent results obtained due to variables with unit root. The results are shown in the table below:

Table 1: OLS Money Demand Estimation			
Dependent Variable: Per capita real quantity of Money			
	Coefficient	Standard Deviation	t-statistic
SELIC	-0.19	0.03	-7.23
GDP	0.92	0.03	27.33
TSC	0.11	0.04	2.64
DT	0.09	0.04	2.32
R-squared	0.98		
Adjusted R-squared	0.98		

Source: made by author

SELIC interest rate reduces the money demand (-0,19) while the GDP per capita increases the money demand (0,92). The share of informal employment increases the money demand (0,11) e direct taxes also increase the money demand (0,09).

Least-squares regression estimates the size of Brazilian economy using the monetary method. Results are shown in the table made by author below:

Tab. 1 Share of shadow economy of GDP in Brazil (% of GDP) for 2003-2016

Year	Share of shadow economy of GDP in Brazil (% of GDP)
2003	21
2004	20,9
2005	20,5
2006	20,2
2007	19,4
2008	18,7
2009	18,5
2010	17,6
2011	16,9
2012	16,5
2013	16,2
2014	16,1
2015	16,2
2016	16,3

The table shows that the shadow economy in Brazil has a tendency toward contraction – from 20,7% to GDP in 2003 it contracted to 16,2% in 2016.

Practical establishing of trend lines and forecast of indicators for the next 2 years.

Trend line – is one of the main elements of technical analysis used to spot tendencies of price changes in various stock exchanges. Trend line is a geometrical reflection of averages of analysed indicators, obtained through any mathematical function.

First indicator used by author during the analysis is the GDP of Brazil.

Tab.2: GDP of Brazil between 2007-2016.

Year	GDP
2007	1397
2008	1695
2009	1667
2010	2208
2011	2616
2012	2465
2013	2472
2014	2455
2015	1803
2016	1796

Source: https://data.worldbank.org/country/brazil

Using the analysed data, a graph with straight-line trend was constructed.

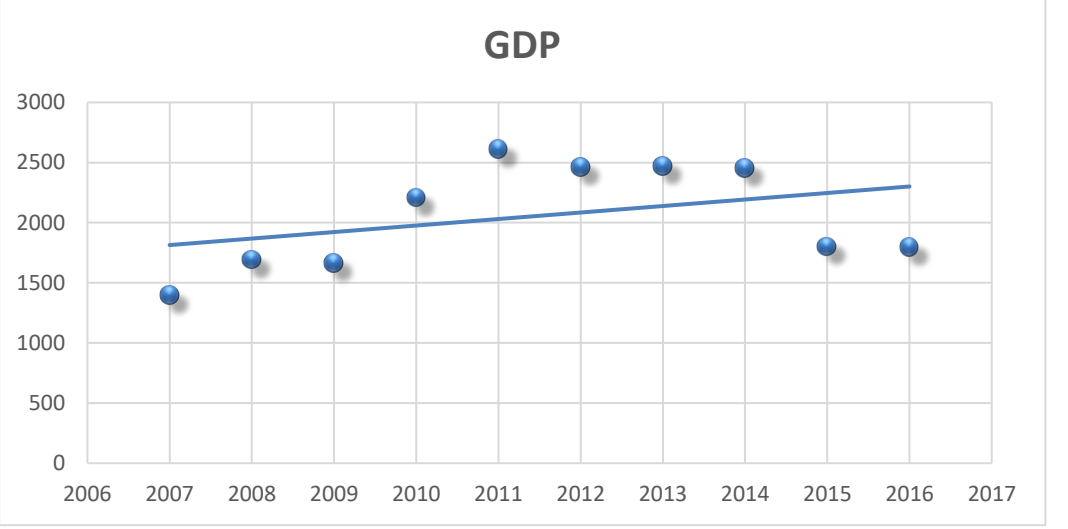

Fig. 1 Trend line of GDP between 2006-2016

To predict the data for the upcoming two years the function Excel FORECAST was used. This function restores the straight-line trend value, the value of projection of linear approximation. FORECAST (x; known values y; unknown values x).

- **x** – the data item for which the value is predicted.
- **known values y**: array of dependent tasks or data range.

▪ **unknown values x**: array of independent tasks or range. The dispersion cannot have zero result.

The following results were obtained:

2017	2355
2018	2409

Source: made by author

The second indicator used by author during the analysis is evaluation of the shadow economy of Brazil. The author constructed a graph using the World Bank open data of the shadow economy share in GDP in Brazil [6].

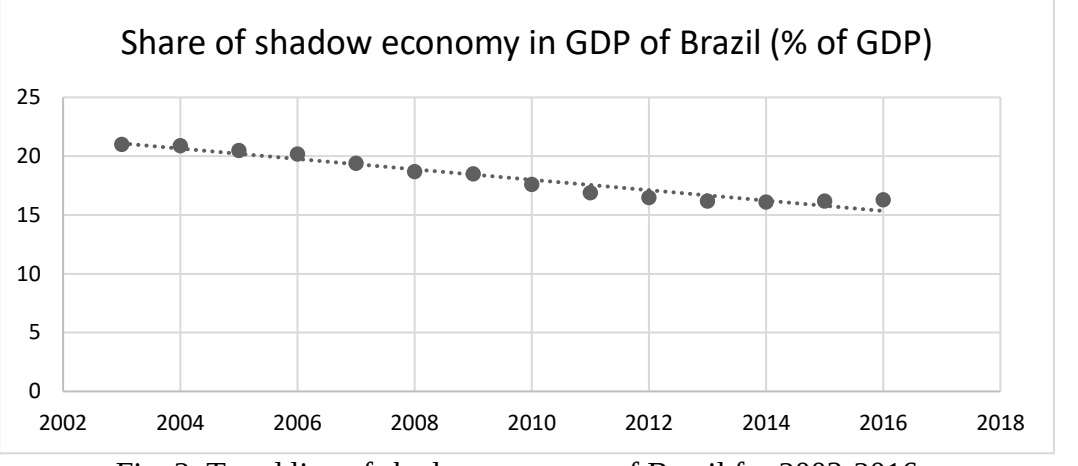

Fig. 2. Trend line of shadow economy of Brazil for 2003-2016.

Using the function FORECAST the following results were obtained for the years 2017 - 2018.

2017	14,9%
2018	14,5%

Source: made by author

The third indicator used by the author during the analysis is the exchange rate of Brazilian real against the U.S. dollar.

Year	The rate of the Brazilian real against the U.S. dollar
2007	1,8
2008	1,7
2009	2,4
2010	1,6
2011	1,75
2012	1,4
2013	2
2014	2,4
2015	2,8
2016	4

Tab.3 The rate of the Brazilian real against the U.S. dollar (2007-2016)

Then using the obtained data, the author constructed a diagram with added straight-line trend showing the evaluation of exchange rate of Brazilian Real against the US dollar.

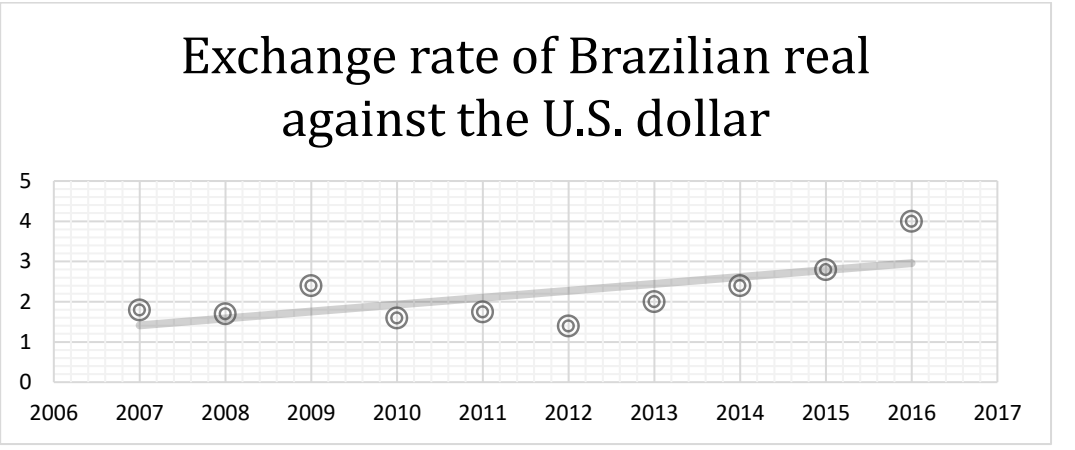

Fig.4 The trend line of the exchange rate of Brazilian national currency against the U.S. dollar in 2007-2016.

Using the function FORECAST the data for 2017 and 2018 was obtained.

Source: made by author

2017	3,13
2018	3,3

To estimate the intercorrelation of indicators, a graph with a comparison of studied indicators for 2006-2017 was built.

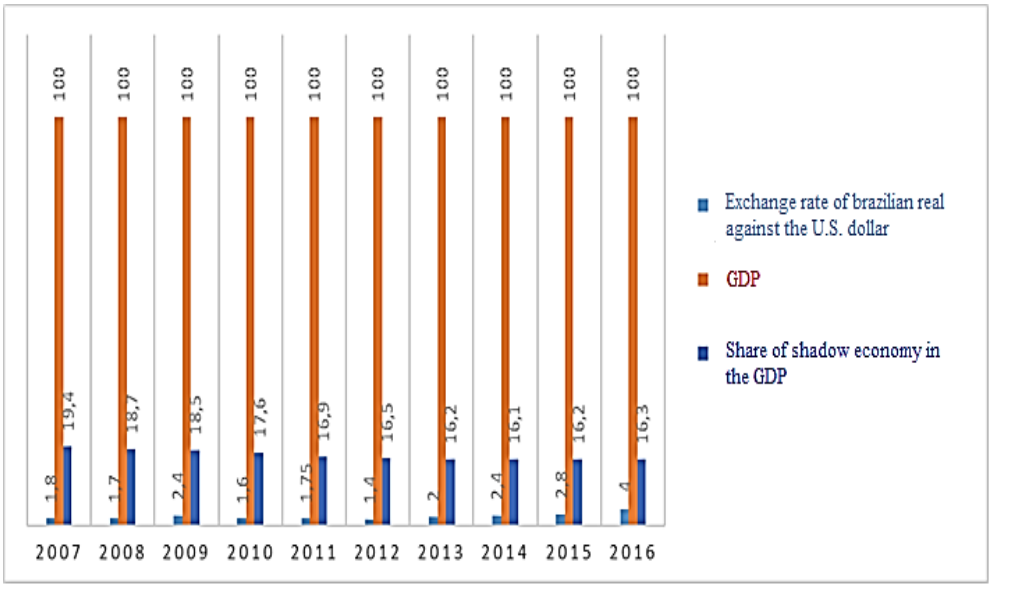

Fig.5. Comparison of GDP, shadow economy and Brazilian real exchange rate in 2006-2016.

CONCLUSION

The data shows that the share of non-observed economy is slowly contracting in Brazil. It has already contracted from 21% in 2003 to 16,3% in 2016 and according to forecasts of the author it is expected to fall more to 14,5% in 2018. The descendent tendency shows that the authorities have already adopted various measures to combat the informal sector of the economy, encouraging economic agents to operate on a legal basis. But a lot more needs are surely to be done to improve the situation completely, to fix problems within Brazilian favelas, big populated areas within the cities, where the shadow and underground activities and transactions are concentrated.

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Shadow economy of Canada

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Abstract

In June 2016, Statistics Canada released a report estimating the value of Canada's underground economy to $45.6 billion in 2013 — equivalent to 2.4 per cent of Canada's GDP. The research also highlights that four sectors accounted for nearly two-thirds of the total estimated underground economy: residential construction, finance, insurance, real estate, and retail trade. Participation in the underground economy hurts all Canadians, including responsible citizens and businesses that pay the correct amount of tax.[13]

Key words: Canada, underground, economy, taxation

INTRODUCTION

Underground economy refers to economic transactions among individuals which are designed to escape detection - also referred to as the irregular economy. Technically, it includes all illegal transactions, prostitution and drug transactions as well as evasions of taxation on otherwise legal activities. For example, a homeowner may hire someone to repair a roof. This is a legal transaction and is routinely reported when the person doing the repair declares the payment as income. However, the laborer may ask for and receive cash payment and thus the income is not declared to evade tax. Individuals in various working spheres can potentially underreport income if payment is received in cash.

Law enforcement and taxation officials readily admit that there is a large underground economy but cannot agree on its size. Because of its very nature the size of the irregular economy is difficult to measure, but there is evidence to indicate that in Canada and elsewhere it has grown recently. Underground activities do not enter the official statistics on Gross Domestic Product (GDP). Those employed in the underground economy may be counted as unemployed in the official labor force statistics. If they hold a regular job and at the same time work in the irregular economy, the total quantity of labor input is incorrectly measured. These effects may be serious because current estimates suggest the irregular economy may account for from 10% to 25% of reported GDP and because the irregular economy is growing at a faster rate than GDP.

Measuring cash holdings is one of the methods of estimating the extent of the transactions because a large fraction of transactions in the underground economy

[13] Canada's underground economy — are you contributing? CFIB.

appears to be in cash. Basically, this involves estimating the cash needed for regular transactions and then determining the difference between this amount and actual cash used. This method has been used to estimate the size of the underground economy in Canada, the US and other countries. These estimates explain the apparent paradox in the published data on cash holdings. Although it has been widely predicted that the growth in the use of credit cards and electronic fund transfers would lead to a cashless society or the one where cash is less important, currency holdings have not declined. Economists assert that this results from the diversion of increasing quantities of cash for use in the irregular economy.

Legal activities conducted illegally to escape taxation appear to be the fastest-growing component of the irregular economy, largely because of the tax system. The potential gains from illegal tax evasion are greater at high tax rates. If rising incomes push more people into higher tax brackets, and if there are no changes in the penalties or the degree of enforcement of tax laws, an increase in unreported income can be expected. This is exactly what has happened so far.

The growth of the irregular economy has important implications for the Canadian tax system, which relies on self-assessment and involves relatively little direct scrutiny of individual tax returns by taxation officials. Continuing growth of unreported income will almost surely lead to changes in this system.

UNDERGROUND ECONOMY BY PROVINCE AND TERRITORY

The total value of underground economic activity in 2013 was highest in the four largest economies: Ontario ($16.7 billion), Quebec ($11.1 billion), British Columbia ($6.3 billion) and Alberta ($5.3 billion).

Despite changes in the value of underground activity, the underground economy as a proportion of GDP was relatively stable in every province and territory in 2013. The underground economy as a proportion of GDP was the largest in Quebec, while it was smallest in Nunavut and the Northwest Territories.

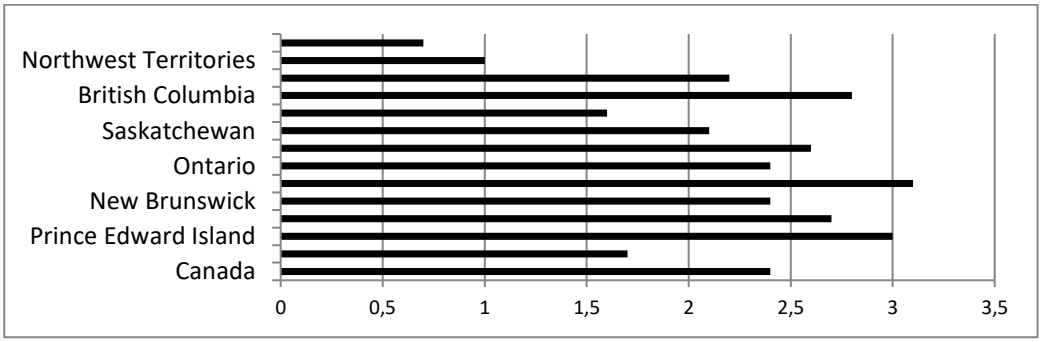

Fig.1. Underground economy as a proportion of gross domestic product by province and territory in 2016, %.[14]

[14] Statistics Canada.

The underground economy accounted for 3.1% of GDP in Quebec in 2013. Industries such as retail trade, which are more prone to underground production, make up a greater share of Quebec's economy compared with other provinces and territories. Conversely, industries such as mining, quarrying and oil and gas extraction, which tend to have a lower incidence of underground activity, are less important in Quebec's economy compared with other provinces and territories.

As a proportion of GDP, Nunavut (0.7%) and the Northwest Territories (1.0%) had the smallest underground economy. This study assumes that there is no underground activity in the government sector and that underreporting of revenues (or over-reporting of expenses) is less likely to occur in highly-regulated industries or in large businesses. Public administration and mining, quarrying and oil and gas extraction make up large shares of the economies of Nunavut and the Northwest Territories.

From 2007 to 2013, underground economic activity as a share of GDP was fairly stable across all provinces and territories. The largest variations occurred in Prince Edward Island (from 3.6% in 2007 to 3.0% in 2013) and Nunavut (from 1.1% to 0.7%).

WHAT IS THE CANADA REVENUE AGENCY DOING NOW TO COMBAT THE UNDERGROUND ECONOMY?

Participation in the underground economy hurts all Canadians, including responsible citizens and businesses that pay the correct amount of taxes. The Canada Revenue Agency's (CRA) efforts to combat the underground economy are aimed at ensuring a fair tax system and a level playing field for all businesses and taxpayers.

Identifying and addressing industry sectors where the underground economy is more prevalent, such as construction, home renovation, finance, insurance, real estate, rental, leasing and holding companies, retail trade, and accommodation and food services, continue to be a priority for the CRA.

As part of the new Underground Economy strategy, the Minister of National Revenue has launched an Advisory Committee that brings industry partners, experts, and professional organizations together to tackle the underground economy.

In addition, Budget 2015 provides $118 million over five years to enhance the CRA's underground economy audit efforts.

The Agency uses a mix of outreach, education, communication, and compliance actions to combat the underground economy. The Minister of National Revenue launched a new three-year Underground Economy Strategy, Reducing Participation in the Underground Economy, in November 2014. This strategy will:[15]

- Refine our understanding of Canada's underground economy — where, when and how it occurs;
- Reduce the social acceptability of participation in the underground economy,

[15] https://www.canada.ca/en/revenue-agency/news/about-canada-revenue-agency-cra/tax-alert/about-underground-economy.html

- Reduce participation in the underground economy through a range of initiatives, including education, outreach and compliance actions like audit and enforcement.

The CRA also works closely with industry and other levels of government to combat the underground economy in Canada.

So, here is what you can do to help level the playing field for persons who pay their taxes:

- As consumer: be sure to hire responsible businesses by asking questions and doing research. Any reputable business will abide by the rules and not accept under the table transactions. Get a written contract and copy of payment for your records. These will give you the protection you deserve and the peace of mind you need.
- As business owner: report your income accurately with the CRA — taking short cuts when reporting your income could result in penalties, fines, and even jail time. The best way to ensure that you are reporting income accurately is to keep your sources of income organized and know what the CRA expects you to claim.[16]

FURTHER REFINE OUR UNDERSTANDING OF THE UNDERGROUND ECONOMY

The CRA has a good understanding of the underground economy in Canada. Much information has been acquired through internal and external research, our audit and verification activities, and our attitudinal surveys of Canadians. However, our capacity to detect and identify underground economy activity must stay up to date, relevant, and effectively targeted. In this regard, further refining our understanding of the underground economy will improve our capacity to take effective action to deter and counter underground activity.

Highlights of recent activities to improve understanding of the underground economy include:

- using automated systems to match information slips and corporate business numbers against tax returns to help us identify non-filers, as well as using informant leads and periodically running special projects to identify potential non-filers and non-registrants working in industry sectors that may be characterized by high levels of non-compliance;
- deploying data mining models to enhance our ability to identify and select audit workload with a high risk of unreported income;

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[16] Michelle Auger. Canada's underground economy — are you contributing? CFIB. 2017. Michelle Auger is Coordinator of the National Affairs team in Ottawa and has been with the CFIB since August 2015. Michelle holds an Honors Baccalaureate in Social Sciences from the University of Ottawa and is fully bilingual. An avid runner and cross-country skier, Michelle spends much of her free time exploring the Gatineau Park.

- leveraging third-party information, such as provincial workers' compensation data, to identify sectors at higher risk of underground economy activity; and
- establishing a stronger presence in sectors at higher risk of underground economic activity by conducting enhanced audits and other tests, as well as by conducting verification activities to establish awareness, visibility, and presence (including letter-writing campaigns and books and records reviews).

Looking ahead, we will further refine our understanding of the underground economy by:

- undertaking additional research and increasing our use of information, data, and advanced analytics, in order to identify and detect better the areas of significant risks regarding the underground economy;
- working with intermediaries (such as professional and industry associations) on shared research and analysis to deepen existing knowledge of the underground economy, to supplement research underway with provincial and territorial partners and the Federal-Provincial-Territorial Underground Economy Working Group;
- continuing to review best international and provincial/territorial practices, including ways to identify and detect underground activity.

CONCLUSION

According to the estimates of this study, the underground economy in Canada is sizable and continues to grow, despite the increased enforcement efforts of CRA. The results show that, not surprisingly, the underground economy responds positively to marginal tax rates, the Goods and Services Tax, the amount of self-employment income, labour force participation, the overall crime rate and regulatory reform. The findings indicate that the underground economy in Canada grew from about 7.5% of GDP in 2004 to about 15.3% in 2009. These figures are consistent with previous studies employing the same definition as this study. The results are different from those reported by Giles and Tedds (2002)17, who report that the underground economy grew from about 3.5% of GDP in 2004 to about 15.7% of GDP in 2010. There are three main reasons why the results differ. First, the MIMIC model presented here is more richly specified than that of Giles and Tedds (2002) and includes more of the variables that the theoretical literature purports to cause the underground economy. Second, the calibration process followed in this study preserves the proportional relationships found in the original index series. Third, this study estimated a demand for money equation the Kalman filter, which resulted in a larger long-run value of the Canadian underground economy (11.35% compared to the 9.46% obtained by Giles and Tedds).

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Financial sphere of shadow economy in China

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Abstract

Nowadays, shadow economy is the inalienable part of the global economy and economy of China in particular. This fact is not so good as it seems to be, that is why every country tries to destroy it or at least to downsize. According to the reports of many agencies the situation in China becomes worse, and despite government`s attempts to change it, the share of shadow economy comparing with GDP is terrifying. What are the reasons of these processes and can it be changed?

Keywords: underground economy, 'tax morale', shadow banking assets, black economy

Firstly, we should give some necessary definitions to find out what is going on in the shadow economy of China. According to the OECD Glossary of Statistical Terms [1], underground production consists of activities that are productive in an economic sense and quite legal (provided certain standards or regulations are complied with), but which are deliberately concealed from public authorities for the following reasons:

a) to avoid the payment of income, value added or other taxes;
b) to avoid payment of social security contributions;
c) to avoid meeting certain legal standards such as minimum wages, maximum hours, safety or health standards, etc.;
d) to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.

Sometimes the definition of shadow or underground economy includes black economy (it employs illegal and even criminal methods).

Secondly, we should answer the question: why is it important to try to know more about the shadow economy? Underground economy causes some problems for government and for people. When it comes to illegal work, government underpays taxes and often rises tax rates for people working in the formal economy. It could seem that it is good for workers to work illegally but the fact is that they are not protected by the government: their contracts are unenforceable, economic relationships can become marred by violence and workers will not receive a high pension when they retire. These are just small examples of the underground economy influence on our lives. And if we talk about the black economy, there is nothing good at all. Unconditionally it should be destroyed in every country.

When it comes to measuring the parallel economy, there are a few challenges. Several methods are used in practice and they tend to give different results. That is why the information about the shadow economy of China is strongly different.

As there is the relationship between the size of shadow economy and the level of taxation, there is a danger of a vicious circle. Imagine, that you are a legal worker. Suddenly tax burden rises, so you might get more shadow work to get more money and to pay taxes. And then as a result tax rates go higher as the government tries to raise more revenue from a small tax base. Of course, it is just an imaginary situation and this circle might be interrupted sometime, but this particular circumstances are also real.

A further factor influencing the size of the shadow economy is 'tax morale'. If people think that the tax system is becoming less fair and that their neighbors are working in the illegal sector of economy in to dodge taxes, they are more likely to work in the shadow economy too.

The third factor, that causes the underground economy is the high level of bureaucratization and corruption. If it can take several months or even years to open an official company, a non-official one can be founded just in several days.

The next factor is a high level of government intervention. When the legal business is constantly 'attacked' by checks and fined, it is likely to work illegally and pay money to official structures.

Finally, economic cycle phenomena in the economy also influences the shadow economy. The size of the underground economy of China has been growing in recent years. Despite the fact that sources provide different, almost every expert stresses that it is taking place now.

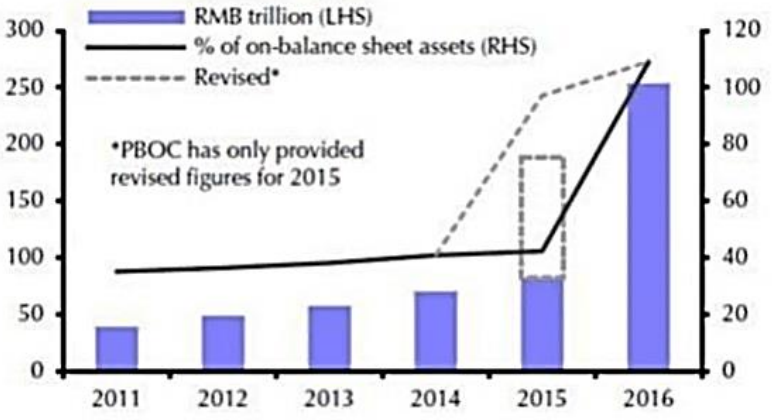
One sphere of the underground economy of China that is growing constantly is trust loans. Nowadays China`s economy grows by giant steps and entrepreneurs want to spread their businesses. That is why it is obvious that they need extra money. What should they do? Of course, they want to take a loan at banks. But it is not so easy. Banks do not invest money in risky business. So usually businessmen take money from trust loans.

This sphere has no clear legislation and every transaction can be easily detected. Trust loans have higher interest rates than traditional bank loans have, but the main advantage of this type of financing is the speed. An entrepreneur can get money much faster from trust loan than from bank one. There are some other ways to get money, for example corporate bond financing and they are popular as well.

According to McKinsey report, which was compiled in 2015, a number of non-bank loans decreased, but since then lending to shadow banking has risen sharply. Nobody knows exactly the size of Chinese shadow banking, but recently PBOC has put forward a rather shocking assumption in its report on financial stability in 2017.

Off-balance sheet loans of China, that is unregulated or "shadow" loans, rose almost to $ 37 trillion (252.3 trillion yuan) and exceeded the assets of the banking sector in the amount of $ 34 trillion at the end of 2016. They also recalculated the figures for 2015, increasing the data for 2015 to $ 28 trillion (189 trillion yuan), which is approximately twice as high as in 2015. In a report on financial stability for 2017, PBOC reiterates its shadow banking assets for 2014 and 2015. (as indicated by the dotted line in the fig.1 below).

Chart 1: Banks' Off-balance Sheet Business (PBOC estimates)



Sources – PBOC, Capital Economics

Jihangir Aziz and Khaibin Zhu of JP Morgan said that the debts of state enterprises reached 90% of GDP, or $ 13.3 trillion. About 60% of new loans this year are used to repay old loans. This requires four times more new loans to generate this amount from GDP than it was ten years ago.

At the same time, it is necessary to add the current BIS indicators for 2016, about $ 28 trillion to China's main debt plus $ 37 trillion of shadow debt (253.5 trillion yuan), the debt / PGDP ratio approached 900% of the "productive" PGDP. A comparable, relatively constant US ratio (250%) is marked in blue below.

This situation makes experts around the world worry about it and in many foreign reports we can easily find the phrase ‘The future debt crisis of China’. "Bad" debts somehow remained relatively constant since 2011, amounting to just under 2%.

How can it be? As a rule, when borrowing such a scale, underwriting is weak, and "bad" loans grow much faster. Bankers try to do everything not to declare a "bad" loan to non-working people - to refinance it and change the conditions and magically create a new loan. That is why NPL ratio is still about 2%.

Of course, loans and the huge size of debt are not the only things we should pay attention for. Every country has black economy and even the communist state has. The government of China tries in all ways to hide information about the criminal economy, that is why we can find not so much data.

The first sphere of the black economy in China is a thriving black market of human placentas. The trade in human placentas is banned in China, but its illegal black market is alive (even human placenta 'biscuits' are sold in Hong Kong!) and it can be worth 100,000 yuan (US $ 14,500) a month, according to The Beijing News. The scale of these criminal acts cannot be accurately assessed. Suffice it to say, Chinese people believe that eating capsules of placenta, which helps fetuses receive nutrients in the womb, has beauty benefits, can enrich their blood, or even be used to treat burns or infertility. This is about their mentality, so they will not think about the criminal side of their actions. They believe that this can help them.

The next sphere of China`s black economy is terrifying. Recently the Joint Committee on Foreign Affairs, Trade and Defense has heard presentations by David Matas, Ethan Gutmann and other experts who provided evidence of mass organ harvesting in China. The main victims in organ transplantation in China are Falun Gong practitioners, peaceful traditional meditation practices, whose main principles are Truthfulness, Compassion and Forbearance. The Chinese Communist Party began the brutal persecution of Falun Gong in 1999, which continues to this day. Uighurs are a Muslim ethnic minority, suppressed by the Chinese authorities, and are reportedly also targeted for organ harvesting. According to incomplete data, there are from 60 000 to 100 000 transplants per year.

There are many other spheres of the black economy. China`s poachers carve our tigers and sold them. This happens because of the Chinese traditional treatment. Tigers are very helpful for health, that is why Chinese people kill them.

Well, what can be done to downsize the shadow economy? First, if we think about the financial sphere, we should stress that this country has very strict regulation of bank lending, and many companies face difficulties in attracting funds for the implementation of projects. Often, non-banking financial organizations use private individuals and small businesses. Therefore, the conclusion suggests: it is necessary to weaken the regulation of bank lending and to speed up this process.

Chinese companies are overloaded with debt. To a large extent this is because there is no other source of funding for the real sector of the economy - the Chinese debt and stock market remains undeveloped, low liquid and largely inaccessible to foreign investors. The government should change the legislation of the country and create easy and beneficial for both sides ways to attract money from foreign investors to the economy.

The authorities of the Middle Kingdom understand this perfectly and in recent years have taken important steps to develop the financial industry. Within the framework of the 12th Five-Year Plan, the word "disintermediation" can be found more than once, the essence of which expresses the desire of the authorities to move away from the model of traditional bank lending to more sophisticated forms of funding the real sector of the economy.

The next step that the authorities must take is to fight corruption. It might seem that it is not a problem for China because of the cruel methods of punishment. However, as experts say, China's shadow economy continues to exist mainly due to bribery in the process of implementing socially important projects. Mostly this concerns contracts that are directly related to the acquisition of land or various types of real estate. Corruption deals, as a rule, are concluded with the help of party bosses or families of officials. According to official statistics, many heads of state institutions of various levels have several bank accounts, but at the same time, the material welfare of their children is an order of magnitude higher. The Chinese population is increasingly expressing its undisguised outrage over the growing welfare of the heirs of the members of the Communist Party, the Chinese news agency Xinhua said.

Perhaps, it is necessary to simplify the access of the authorities to the transactions of party leaders. And what about the black economy? This is the most difficult question. Everybody realizes that it should be destroyed, and everyone knows that it is impossible. Historically, the Chinese authorities since ancient times have been tough (by our standards), but for the Chinese it was customary. That is why, I suppose that even greater amplification of punishment will lead to nothing. The mentality about people and animal`s lives should be changed. It is very hard to achieve this goal, but it is necessary. Now it seems that the Chinese treat people like pigs for slaughter. It is unacceptable.

Measures must be taken from international communities in order to end the lawlessness that is being committed in China against minorities. Some experts say that all these actions are supported by the government. We cannot assess the fairness of these words, but if the situation is so, then urgent and decisive measures must be taken.

The shadow economy is a very difficult issue for the development of China, but the government tries to solve it and to downsize the shadow economy. The fight against the shadow economy must be effective, it must include the elimination of the causes and not consequences. It is necessary to conduct this struggle simultaneously in all key areas, and then the success will not be long in coming.

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Chinese underground types of business

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Abstract

This article is devoted to the China's shadow economy. In recent decades, this issue has become one of the most complex problems in the world. In this study, I will give the definition of those shadow economy's types, aspects and facets that are the most complicated challenges for the Chinese economy today. In this article, I will demonstrate that this problem remains relevant. I will prove that it is not only China's problem, but also a global menace. We should attempt strong measures to deal with it, if we want to avoid horrible consequences.

Keywords: shadow economy, black transplantation, Falun Gong, WMPs, cybercriminal.

China's economy is the largest economy in the world, if we look at purchasing power parity and the second one by nominal GDP, according to the IMF [1]. We cannot also ignore the fact that China is the widest market of various kinds of goods. Some economists blame this country for its tendency to "steal" others' ideas, brands and innovations and make cheaper and less quality copies. This is the fact everyone knows, but China continue to grow its economy and spread its influence.

However, China's official statistics are unreliable, as there is a strong control over releasing economic information. There are many uncertainties about the way the government gathers its statistics and publishes it. More than that, there are many doubts about the country, about its population, about the way, its government works. China is a rather closed country, when talking about publicity.

"Moreover, China receives criticism for unfair trade practices, artificial currency devaluation, intellectual property theft, corporate protectionism, and local favoritism", – EW World Economy Team says [3]. Considering this, it is obviously difficult to figure out the amount of shadow sector in China's economy.

It is necessary to define the shadow economy if we are criticizing it. To start with, we should say that shadow economy includes many different types of activity, e.g. criminal segment, unofficial labor force and tax evasion. In China as well as in any other country all these segments exist, however, it is much more difficult to calculate the size of this sector. We can only rely on other countries' reports and some uncertain figures. The China Reform Foundation estimated the shadow economy sector as approximately 30% of the economy in 2008 [4]. JPMorgan Chase calculated about 68% in 2013 [5]. We can see many different views on this, which approximately range from 20 to 80 percent. For example, according to credit Agency Moody's calculations, the shadow-banking sector in China has increased to 64,5 trillion yuan (9,4 billion dollars) in 2016 [6]. Last year it has risen by 20%. In this area organizations provide loans to market participants, indicating credits in off-balance sheet accounts. During

the past 4 years the proportion of such loans has increased from 18,2% to about 28,5% of the total assets of the system. Thus, the shadow-banking sector in China has already reached 87% of GDP.

All China's problems begin from corruption, uncertain position of the state sector and illegal trade. The most unbelievable fact is that some kinds of criminal activities are supported by the government, according to different sources.

"Look also at how tax is collected" [7]. Underpayment is very huge. "That too makes the underground economy appear smaller than it really is" [7]. "Many of China's $36.6 billion e-commerce vendors, who operate largely through websites like Alibaba's Taobao, don't pay any taxes, nor do cash-only retail businesses" [7]. Forged receipts are also available for many companies.

China is famous for its medical industry. This mysterious Asian country is well known for its traditional medicine, natural pharmaceutical ingredients and innovations in transplantation area. What is wrong with the last one? The question is how the country has managed to reach a significant volume of organ transplantations, while China faces some essential problems with organ donation. In 2015 The Epoch Times reported that there was no efficient mechanism for organs' donation in China [8].

Moreover, according to Chinese traditional beliefs the body must stay intact even after death, there are strong concerns about organ donation fairness, transparency and justice. For these reasons there is significant reluctance among population, many Chinese people still do not want to be donors of organs after their death. China started a voluntary organ donation program in 2015. But the most mysterious story starts earlier.

According to Huang Jiefu, head of China's Organ Donation Committee, in China about 65 percent of all organ donations are from the deceased, of whom 90 percent are executed prisoners [9]. Nevertheless, some researchers believe it is not true. There are many concerns that China's government uses not only capitally convicted people, but also other prisoners.

That is why "black transplantation" is widespread in China Daily Mail suggests [11]. There have been some scandal issues over an unofficial transplantation of kidneys and eye corneas. Even military hospitals are involved in such a business. Let us puzzle out what is happening.

According to Russian Planet's report in 2014, China had the second position after the United States by the number of transplantations [12]. However, the main difference between these two high positions is that in the USA you must wait for at least some months or even some years to get the organ if you need it. The situation in China is more favorable. You just need to wait for a couple of weeks.

China has a large organ data bank. The transplantation tourism is very popular in China. That means wealthy people from many foreign countries can come to China, where they have an opportunity to anticipate transplantation on a specific date. Some Western experts call this a crime against humanity and want to put a stop to this.

If organs in China are more available than in other countries, it possibly means that its organ data bank may include living people. Starting at the end of 1999 the number of transplantations exploded. As China had no effective organ donation system before, though it has built one since 2010, and the number of organ donors and organs transplanted has been increasing steadily and rapidly in the past six years according to

the data from the China Organ Donation Administrative Center [13], it is still not very effective.

The number of criminal executions in China is classified as a state secret, but Amnesty International's estimate was about 1700 criminal executions in 2015 [14], while Canadian International human rights lawyer David Matas says that according to China's government there are about 10000 transplantations a year. He personally believes that the real figure is much higher. The report shows that 60,000 to 100,000 transplants per year are performing as opposed to 10,000 per year [15]. It is a large discrepancy. So where does the rest of the organs come from?

A new religious movement called Falun Gong has appeared in the early 90-s based on meditation and qigong exercises. If has been fully supported by the government for the first time. However, in 1999 Chinese officials accused this rapidly flourishing practice of being a heretical organization that can threaten social stability. The Communist Party initiated a nationwide propaganda campaign aimed to exterminate the practice. According to real Chinese people's reports, they have been put in labor camps because of being practicing Falun Gong. There, in these camps, they were physically examined, their blood was tested. In 2006 David Matas and former Secretary of State for Asia-Pacific David Kilgour started to investigate evidence of forced organ harvesting in China. David Matas while conducting his research, found out that in the period between 2000 and 2005 there were 41500 transplants, which have no other explanation except this harvesting [8]. Researchers found about 52 points of circumstantial evidence including websites of Chinese hospitals offering matching organs in less than a week. That is why they have concluded: China possibly uses alive donors.

Many people benefited from black transplantation throughout the world. Militaries, hospitals and middleman organizations have been making money off from transplantation surgery. It is a very profitable business especially when there is no expense. For example, the prices for different organs in 2006 are shown in the table below [16].

Table 1. Prices for Organs in 2006.

Kidney	62000 $
Liver	98000 – 130000 $
Lung	150000 – 170000 $
Heart	130000 – 160000 $
Eye cornea	30000 $

In December 2013 the European Parliament passed a resolution appealing for the EU and its Member States to raise the issue of organ transplant practices in China. The USA House of Representatives passed a resolution to condemn forced harvesting in China on June 13, 2016 [17].

Journalist and author Ethan Gutmann decided to conduct his own investigation. He says that since 1999, when the Communist Party decided to persecute Falun Gong

practitioners, lots of Chinese people have disappeared, and it is a bad sign. He adds that the number of transplantation centers have increased by 300% within 6 years [18].

However, "Chinese Foreign Ministry spokeswoman Hua Chunying claimed the report's findings are false. "The testimony and the published report, I want to say that such stories about forced organ harvesting in China are imaginary and baseless -- they don't have any factual foundation," she said" [11].

China promised to cease harvesting organs from executed prisoners for transplants starting January 1, 2015, according to the Organ Donation Committee [19]. BBC World News suggest that organs have not been taken from executed prisoners since 2015 [19]. Moreover, National Center for Biotechnology Information suggests: "China has built the organ donation system since 2010, and the number of organ donors and organs transplanted has been increasing steadily and rapidly in the past six years according to the data from the China Organ Donation Administrative Center" [20].

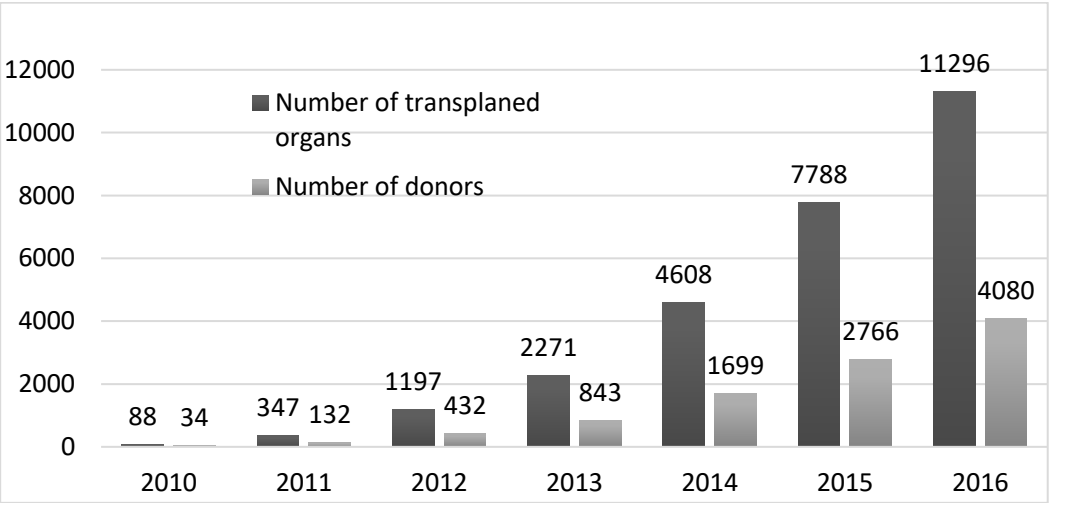

Fig.1. The Number of Voluntary Organ Donations and Organs Transplanted in China from 2010 to 2016

There are some other areas of "black trade" like medical supplies market, market of military weapons, surgery etc. However, we should say that government strictly regulates producing and selling of weapons, it is prohibited to store them. There is a very strict punishment system in the communist country too. Meanwhile, there still many doubts if Chinese government do really control these kinds of illegal activities.

Everyone knows about amazing Chinese ivory works. Many of them are created from illegal row materials. Row materials come from African poachers, who kill about 30,000 elephants each year, so they can be close to extinction if nothing changes [21]. Nevertheless, there has always been an illegal ivory market in China, which continues to exist.

Another big part of shadow market is nonregistered banking activities. There are so-called Wealth management products (WMPs) that banks and other financial institutions often sell to ordinary Chinese investors promising high interest rates, but the obligations are carried off the books of banks. Wealth management products

consist of corporate commitment, investments in commercial property and so on. They have made a 4 trillion dollars market [24]. That means that money is flowing into WMPs rapidly and drains from the real economy.

Among WMPs that include cooperation between trust companies and banks, there are three types – direct bank-trust cooperation products, indirect bank-trust cooperation products and collective trust products, according to Wealth Management Products in China article. Direct bank-trust cooperation products are relatively open, and account for 16 percent of WMPs outstanding. Banks raise funds through direct bank-trust cooperation products and become a single investor, thus creating a "single unit trust product" (SUTP). Direct bank-trust cooperation products are registered on banks' balance sheets. Nowadays indirect bank-trust cooperation products have become very popular, they account for 9 percent of WMPs outstanding. Such products present a passive mediator between the bank and the trust company. China Banking Regulatory Commission took measures to bring all business with trust companies onto their balance sheets. The third type, collective trust product, means that trust companies set up these products and sell the units to wealthy individuals and corporate investors [24].

Entrusted loans are very popular too. These are the loans which one company provides to another often done through a bank, they are also kept out from the balance sheet. However, China's leaders insist that they can control the risks because these problems have not reached a worrying level yet. "Many local governments rely on household financing through WMPs for pet projects that have helped to bolster the property market and drive up land sales, a key source of revenue for them", - Financial Times reports [25].

No one knows how big Chinese shadow banking system is, but the PBOC[18] has recently made a shocking suggestion in its report in 2017. In 2016 off-balance sheet, unregulated loans rose to nearly $37 trillion (252,3 trillion yuan), which is 34 trillion dollars more than banking sector assets. The growth of the shadow banking sector's debt is extremely fast [26]. As the economy of China is closed, it is rather difficult to understand the full picture of what is happening.

When talking about cybercriminal area, we can define

1. Real asset theft: stealing money from bank accounts or credit cards
2. Network virtual assets theft: stealing virtual currency or equipment from online gaming accounts and selling them for real money
3. "Blackhat" techniques, tools, and training: technical support for cybercriminals
4. Internet resources and services abuse, referring to Deciphering the Chinese Underground Economy article [27].

The most popular services in the Chinese underground market are Compromised hosts, Remote Administration Tools (RAT), Distributed Denial of Service attacks (DDoS), there are also spamming, proxy-server hosting, Trojan attacks, hacking, fake sites etc.

[18] People Bank of China

"In the last 10 months of 2013, the number of messages sent over the underground chat groups doubled from the same period in 2012. This indicates increased underground market activity", - Trend Micro Research confirms [28]. It has also estimated what kinds of services were the most popular: "The use of underground jargon actually helped determine how popular each kind of product or service was. The three most popular products/services in the Chinese underground market were compromised hosts, distributed denial-of-service (DDoS) attack services, and remote access tools/Trojans (RATs)" [28].

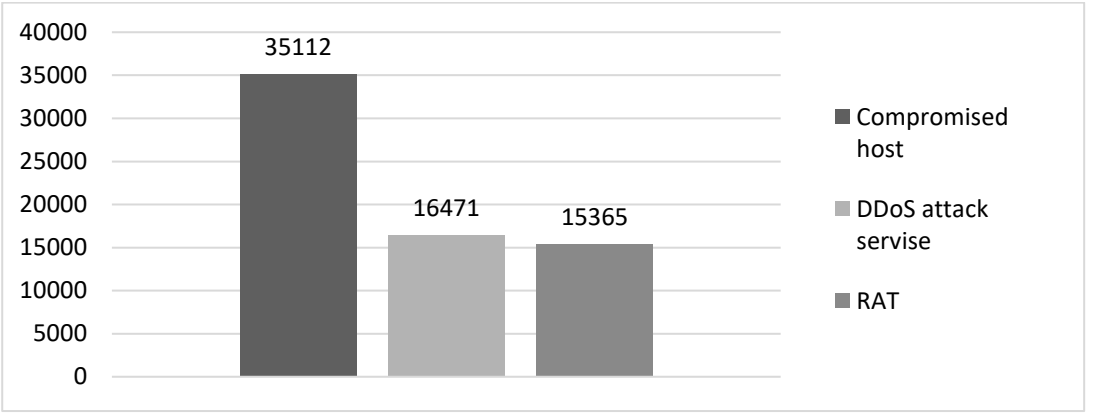

Fig.2. The Most Popular Underground Products in 2013

The Chinese cybercriminals and black-market players continue to develop in the security field. They run their operations not just by threatening PC users, but also by attacking the fast-developing mobile device market.

Researchers have found that cybercriminals caused 852 million USD damage to Chinese economy in 2012. "Many of the bad actors in this world use Baidu's PostBar (Tieba) web forum platform and Tencent's QQ chat service, escaping detection by using a variety of slang" - The Register website article reads [29].

"The economy has now gotten to a stage where a large proportion of banking and financial services and activities take place in the shadow-banking system—outside of the regulated arena—where risks have the potential to grow in unexpected and volatile ways". "The PBOC seeks to bring the sizeable amount of shadow-banking activity into the lit, regulated and transparent banking arena", - International Banker analysis reports [30]. One of the key issues that central bank must work out is creating clear and confident environment for investors to help the economy.

There are too many corrupt officials, who want to get their "profit", that is why they report their results much lower than they are and obtain more financial support from central government.

The last thing to be mentioned is that "it would be politically impossible for the government to say just how large the underground economy is without causing clashes among the responsible ministries", according to Shaun Rein, the founder of the China Market Research Group [7].

In the conclusion, I would like to stress that shadow sector in China is very huge and not transparent. Many researchers try to calculate this sector. However, I believe

it is nearly impossible. Shadow economy always includes criminal segment. Western analytics continuously stress that it is often about human rights. That is why it is not only an economic issue. Though China's underground economy is complex to analyze, we must not ignore it because it has a profound impact on countries' economy.

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Shadow economy in Georgia

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Abstract

Georgia is known as the country with one of the largest shadow economies in the world. This is a result of both the long history of informal economic relations dating back to the Soviet Union and the certain traits of the country's economy. However, in the past ten years the reforms by the new administration began to improve the situation. Different studies show that the size of shadow economy in the country is considerably high compared with other Europe countries. The main challenges for now are the rate of poverty and the ineffectiveness of the taxation system, which the administration is facing in recent years.

Key words: shadow economy, non-observed economy, labor, tax system

INTRODUCTION

The so-called "shadow economy" has become a focus of the extensive interdisciplinary studies both because this phenomenon represents the ineffectiveness of the state economic policy and because of the effect shadow economy has on the economic situation in the country overall. This article is dedicated to distinctive features of the shadow economy in Georgia, the post-soviet country, that expressed some impressive economical leap in the past several years after more than a decade of a pretty slow growth and followed until now by quite a modest increase. However, its situation is still extremely unique. Starting as a highly-unofficial economy after the fall of the Soviet Union, Georgia was frequently facing numerous challenges, both originating from its past and caused by the modern world economic interconnections.

THE DEFINITION OF SHADOW ECONOMY

The "shadow economy", which is also labeled as the informal, non-observed and hidden economy, is a complex notion, usually defined as overall legal production of goods and services in the economy, which is hidden from the public authorities and their representatives. The main reason of this concealments mostly lies in the desire to avoid several payments, including taxes, social security contributions and income as well as unwillingness to follow such labor standards as minimum wages, safety standards, etc. It is important to mention that the activities could be related to the shadow economy not only because of belonging to the informal sector, but also because of the certain flaws in the statistical data collection methods [1]. Another

common way to define shadow economy is through all unregistered economic activities, that still contribute to the Gross National Product, whether calculated or observed. Smith, (1994, p.18) for example, defined it as market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP [2]. As it can be seen, illegal economic activity is mostly excluded from the shadow economy, and most statistical researches leave it out of sight, however, some authors still consider it vital, as in the end it still contributes to GDP.

The main reason for the extensive research of the shadow economy is the fact that it causes the distortion of the economic estimates, as the research data is mostly obtained from business surveys, which is a standard practice all over the world. However, comparing the levels of output claimed by businesses to the final consumption of households shows that this method understates the real economic activity. Thus, the corrective calculations of the data declared by businesses need to be applied. [3]

THE REASONS OF SHADOW ECONOMY'S EXISTENCE

First, at the microeconomic level scientists usually identify two main motivations for individuals to be engaged in the non-observed economy. They are mostly defined as *the poverty motive* and *the entrepreneurial motive* [3]. The poverty motive stands for the undeclared employees or those declared at the lower salary than they really get in the companies; the companies themselves could be declared or undeclared. It was called precisely like that, because of the case of developing economies, where the real cost of life is comparably high, whereas the real incomes are mediocre, and so evading taxation can drastically improve one's well-being. The entrepreneurial motive stands for the entrepreneurs that either declare their businesses at the lower profit that they actually gain, or do not declare their enterprises at all. The studies show, that the low real incomes have a much stronger effect on the propensity of non-compliance than other variables, including the probability of detection by government officials and the potential penalties. Therefore, it is not surprising, that in the developed countries with the comparably high real income the percentage of the non-observed economy is considerably lower.

There are several main reasons that cause the existence of the shadow economy. First and foremost, recent researches ascertained the fact that the existence and growth of shadow economy are affected by the overall tax and social security contribution burdens [4]. These factors have a strong effect on the labor-leisure choice of the labor force, as they contribute to the total earnings from the potential work and the cost of the official labor in the economy – the smaller is the former and the greater is the latter, the more motivated people are to switch to shadow economy. The effects were proved empirically by the number of studies, conducted by Klovland [5], Schneider [6] – [10] and Johnson, Kaufmann and Zoido-Lobatón [11], [12], most of them emphasized the effect of the direct taxing (that includes social security payments), which was especially strong in the countries of the Central Europe.

Secondly, the crucial factor reducing the flexibility of choices for individuals engaged in the official economy was the increased intensity of regulation, ranging from trade barriers and labor market restrictions for foreign actors (e.g. restriction

regarding labor migration) to internal labor market regulations, like retirement age and minimal wages. These regulations tend to enhance the cost of labor in the official economy, thus leading to another incentive for employees to work in unofficial economy, where the additional fees can be avoided. Overall, the recent studies ([12]-[13]) showed that the countries with more general regulation in the economies have a larger proportion of the shadow economy in total GDP. Authors, however, came to conclusion that it is not the regulation itself that incite workers and entrepreneurs to switch to shadow economy, but precisely the enforcement of regulation. According to this conclusion, the governments should focus less on the increase of the number of regulation and more on refining its enforcement. However, some governments nowadays are succeeding in the opposite method – by implementing more laws and increasing the bureaucracy, which could potentially lead to the increase in the power of the public officials as well as the growth of the employment in the government sector, which is technically much easier to control.

Another key factor regarding the shadow economy is the state of the official economy itself [9,10]. In the countries with the large economic growth, the citizens have a larger number of possible ways to earn a living and possible "extra money" even inside the official economy. However, in stagnating economy or an economy in a recession, people tend to perform additional economic activities to compensate the loss of income due to the economic situation. The studies [11,12] have also shown that an existence of a shadow economy, especially a growing one, could bring reduced state revenues, which correspondingly cause the reduction of the quality and quantity of goods and services provided by state. As the quality of public goods and the positive effect from administration decreases, the motivation to take part in the shadow economy grows stronger among the members of the society. Finally, it is empirically proved that in the countries with lower tax rates and higher tax revenues, and also countries with low level of corruption, the shadow economies tend to be smaller, and their growth is halted. Basically, the countries with the strong respect for the power of law, namely the wealthier countries of the OECD and some of the Eastern Europe, usually have smaller non-observed economies, while transition countries, showing more signs of corruption and introducing higher effective taxes, bear the results of the larger shadow economy. This is especially true for some Latin American countries and the number of countries of the former Soviet Union.

To sum things up, we are going to present the main economic effects, that consequently follow the large shadow economy. Economists discern four key types of effects:

- *Allocation* effects, affecting economic growth, fair competition, labor markets and the innovation potential of the region.
- *Distribution* effects, as the unofficial activities make the overall distribution effect vague.
- *Stabilization* effects – on the one hand, the opaque economy can act as a hindrance of the economic cycle. On the other hand, as its prime consequence is an inadequate measure of the economic activity, shadow economy could pose a problem for long-term planning, especially for the policy makers.

- Fiscal effects, as the state would suffer direct losses because of the share of undeclared income moving.

The latter two effects are the most concerning from the perspective of the public administration.

GEORGIA'S ECONOMY: FROM SOVIET PAST TO CAPITALISTIC PRESENT

During the existence of the Soviet Union, the role of Georgia as one of the regions in the whole country's economy used to seem insignificant. No industrial production, no military plants and the extraction industry, that was limited to coal and manganese alone – nothing much in the spheres that were regarded vital for the government's purposes. However, at the same time Georgia was nearly the sole manufacturer of the goods like tea, tobacco, wine and citruses, and, should the deficit suddenly arrive, this shortage could affect millions of consumers across the Soviet Union. Besides, the region traditionally attracted many tourists, mostly as a resort. Therefore, Georgia, the region that was subsidized by the center, was at the same time a monopolist in the certain fields of economy. So, basically, because of the factors such as natural rent, the characteristic features of the soviet system and the entrepreneur talent, which was quite widespread across Georgian citizens, the region's goods and services were highly competitive on the internal soviet market. It is worth saying, however, that the economic activity in the region was under full control of non-governmental, half-criminal organizations even at that time. However, the economy of the republic still contributed greatly to the overall region's prosperity.

The situation, however, began to change drastically by the early 90-s, even before the collapse of the Soviet Union, with the introduction of Turkish markets and Polish markets, that nearly destroyed the production in Georgia which was originally performing in the form of the variety of small businesses, that just could not keep up with import. The transit from Turkey to the other regions of the USSR gave the region's economy a huge boost. However, it was brief, as an abrupt end of the Soviet Union and the following armed confrontations in South Ossetia (which then spread across the whole Georgia and were followed by the armed coup and the local civil war), completely paralyzed the economy of the region. All economic relations were broken, and the flourishing economy of the soviet period was brought to ruins in no time. The government could not function properly, and by the end of 1993 the production capacities fell to 5%, whereas some sectors of economy were completely shut down.

The administration of Eduard Shevardnadze succeeded in restoring the state institutions. However, at that point the government did not implement any measures to decrease the shadow economy, as it just strived to control the main financial flows, whether legal or not (as Georgia was always a highly corrupted region, the situation seemed beneficial both for the government officials and the business people). This resulted in the decay in the economic growth, and finally brought the country's economy to stagnation. And that is where the crucial turning point took place. Because of the enormous amounts of corruption (according to the World Bank, before the

reelection the average kickback to public official passed the mark of 8 per cent of the total revenue), which both was gradually enraging the society and made the government weak and disorganized, and also because of the lack of support from Russia the Shevardnadze administration failed to falsificate the reelection, and Shevardnadze had to resign because of massive riots and general discontent of the international community. This has been later termed as the "Rose Revolution" or "Velvet Revolution". It was the first so-called color revolution on the former Soviet Union territory. It is also often called the first anti-corruption revolution in the post-Soviet countries, though, speaking from the perspective of law, this was a coup. The change, mostly because of the actions of Kakha Bendukidze, was followed by the strong surge in economic growth, topped at 12% in 2007, mainly because he succeeded in enforcing the ideology of the free market to the public officials. Most of regulations in the economy were revoked, the public administration was simplified. Even the short war with Russia over the northern territories and the following world economic crisis did not make the Saakashvili administration falter, and by 2010 the economic growth rates was nearly restored. The list of the achievements was huge. The new infrastructure, precisely directed on the further development of the business environment, was created and implemented in the economy. This led to the emersion of the new branches in the economy, that were not present in Georgia ever before or were lost for many years, like the development of the real estate and tourism correspondingly. Finally, the shadow economy in the country started to diminish.

By 2017, the economic growth in Georgia has slowed down once again. The new government is strong, and that has already resulted with the offensive actions in the field of the freedom of word, which, ironically, never happened in the Shevardnadze's days. However, western economists and public officials do believe in the positive perspectives of the democracy in the region.

SHADOW ECONOMY IN GEORGIA: FIGURES

According to the research, conducted by The World Bank Development Research Group Poverty and Inequality Team and Europe and Central Asia Region Human Development Economics Unit, Georgia was listed as the country with one of the largest shadow economies in the world. [4] With 65,8% GDP on average and estimated 62,1% GDP in 2007, it made Georgia's shadow economy second only to Bolivia among the 151 countries participating in the research, and by far the largest among the other ex-Soviet countries. The result was strongly criticized by the Georgian officials, especially by the Ministry of Finance, claiming that the numbers are unprecedented, biased and just simply unreal. P.Petriashvili, the vice-minister of Finance, stated that the rate of growth of the shadow economy in Georgia "could not have exceeded a one-digit number". This, however, showed the lack of understanding. According to the World Bank, the shadow economy in Georgia was steadily decreasing over the recent decade.

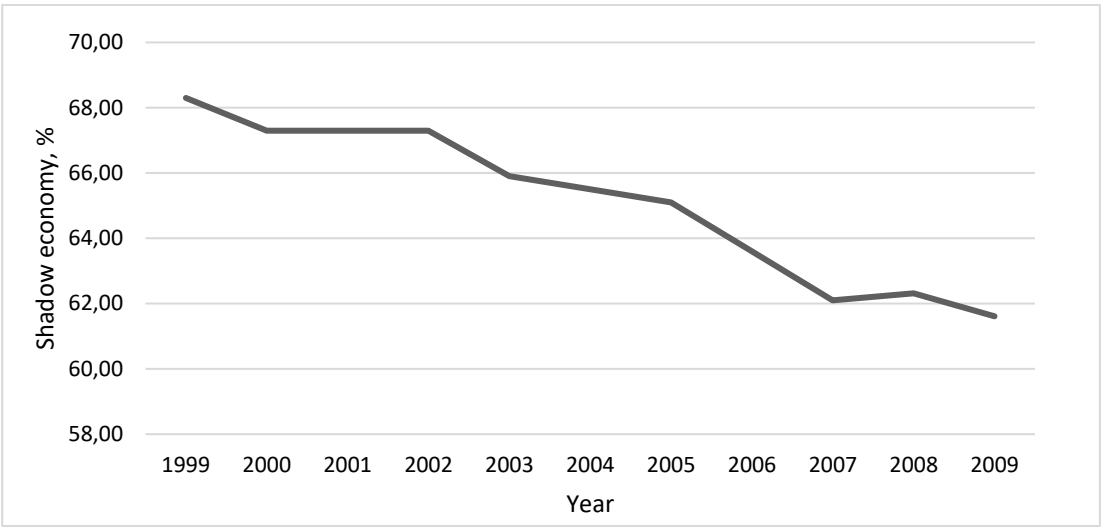

Fig. 4. The size of shadow economy in Georgia according to World Bank.

According to the Department of Statistics of the United Nations Development Program, however, the situation really is exaggerated. In their report in 2008, which was based mostly on number of surveys among the consumers, the shadow economy in Georgia is considerably smaller than the World Bank estimates. [3] The difference is rather high – for example, in 2005 the shadow economy is estimated on the level of 28%, which is more than two times lower than the numbers by the World Bank (around 65%). The study has also demonstrated a general decline of the shadow economy – during the period of examination it has lost nearly a third of its size. Nevertheless, it still leaves Georgia at the level of the countries with the largest shadow economies in Europe. Besides, the size of shadow economy in the corporate sector is also reported to be considerably higher than the average value.

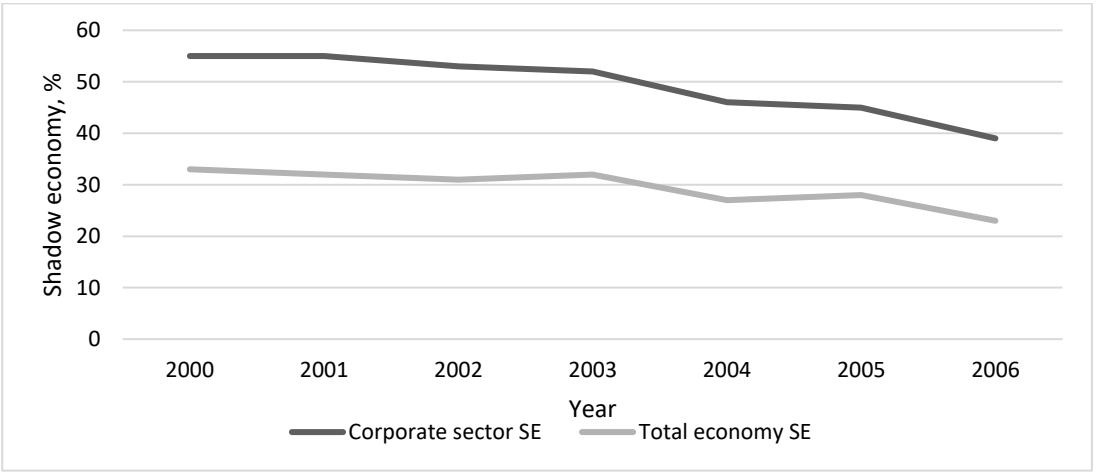

Fig. 5 The size of shadow economy in Georgia according to DS UNDP

SHADOW ECONOMY IN GEORGIA: EXPLANATION

Generally speaking, a wide variety of factors could possibly explain such figures. First, the real income in Georgia is relatively small, as more than 30% of the country's population exist in the state of poverty (below the official poverty line). Even with the recent accomplishments with the economic growth, the gap between the rich and the poor is still extremely wide. Secondly, in this situation it seems that government should include progressive tax scale to support the poor by the distribution of wealth, therefore motivating them to engage in the declared economic activities. However, not only there is still a flat tax, but, more important, there is no non-taxed minimum amount of income, which is a commonly used feature in most developed countries. Moreover, for a long period of time Georgia represented one of the Europe's highest rates of self-employment. According to the estimates of 2006 [3], almost two-thirds of the employed population were self-employed. This mostly included taxi drivers, translators, barbers and private tutors, which were exceptionally common due to ineffectiveness of public educational system. Some areas, e.g. repair workers, are estimated to have around 90% of labor force operating in the shadow economy. The home-based nature of these activities makes their concealment a simple task. Evidence reports show that Georgian businesses spend about four times the amount of time compared to the European businesses on average on tax declarations and other tax-related actions. The situation is thought to exist because of both business capacity and governmental capacity. Even though the recent reforms managed to simplify the process, some areas were still left intact, crude and time-consuming.

However, it is worth noticing that the situation is changing for the best. With the changes implemented in the taxation system, the official rate of self-employment was brought down to around 15%. Nevertheless, evidence shows that a large proportion of self-employed just officially switched to the small businesses with no employees, which is still estimated to represent 15-20% of the labor force. Besides, certain types of taxpayers were recently given special tax exemptions in personal income tax, which could ideally correspond to their decision between legal employment and shadow economy.

Another historical problem seems to be dealt with efficiently – and that is corruption. The Transparency International index showed the decrease of the corruption level in Georgia, as in 2016 it managed to secure the 48th place in the overall rating [15]. At the chart below the result of Georgia throughout the recent years is compared to the results of the USA and Russia, the largest economical ally of Georgia and the largest economy in the region respectively. According to the Global Corruption Barometer, only 7% of the population stated that they had to pay a bribe while accessing the public services – which is rather little, compared to the almost 25% on average throughout the world.

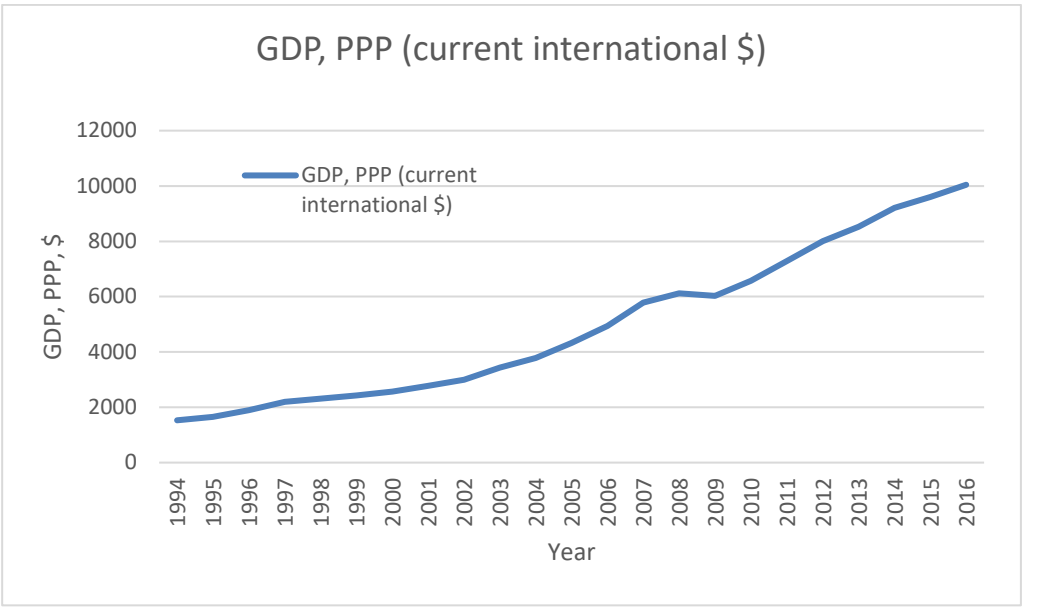

Fig. 6 GDP, PPP ($)

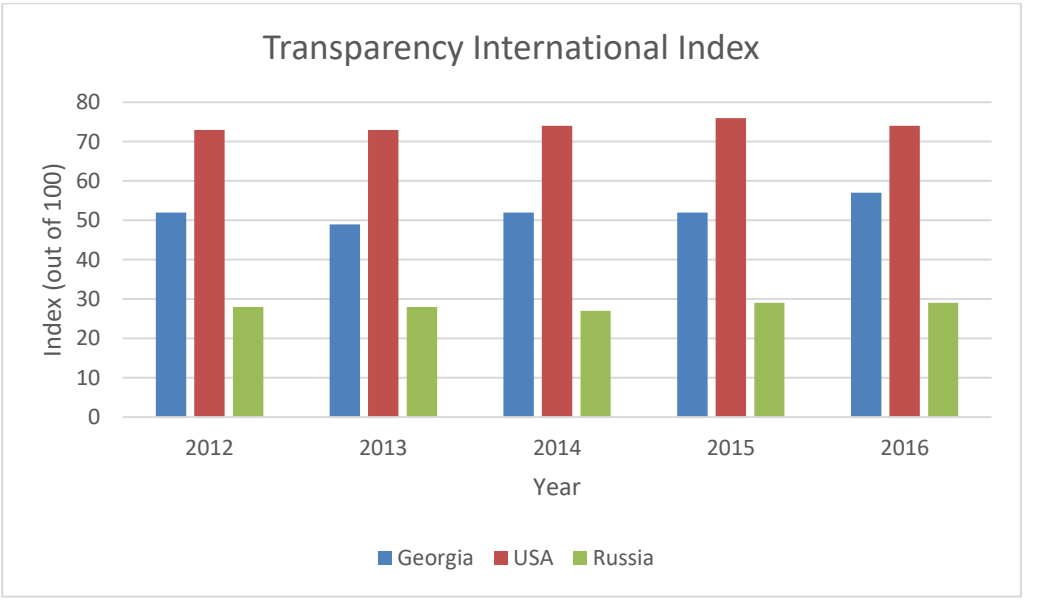

Fig. 7. Transparency International Index

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Shadow economy in Germany

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Abstract

The growing number of people employed in the regular economy and the positive economic growth will lead the shadow economy to shrink by around 6 billion euros in 2017 compared to the previous year. These changes are due to the favorable economic situation. Better employment opportunities in the official economy mean that fewer people are working in the sectors of shadow economy. Moreover, tax burden has become slightly lower.

Keywords: shadow economy, Germany, MIMIC, unreported employment, tax rate.

Most authors attempting to measure the shadow economy face the difficulty of how to define it. One commonly used working definition is all currently unregistered economic activities that contribute to the officially calculated (observed) Gross National Product. Smith (1994, p. 18) defines it as, "market-based production of goods and services, whether legal or illegal that escapes detection in the official estimates of GDP". One of the broadest definitions includes "those economic activities and the income derived from them that circumvent government regulation, taxation or observation". As these definitions still leave a lot of questions open. A broad definition of the shadow economy includes unreported income from otherwise official trade in goods and services, e.g. through monetary or barter transactions – and thus includes all economic activities that would generally be taxable were they reported to governmental (tax) authorities. The shadow economy includes all market-based, lawful trade in goods and services that are deliberately concealed from public authorities for one of the following reasons:

- to avoid payment of income, value added or other taxes;
- to avoid payment of social security contributions;
- to avoid having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc.;
- to avoid compliance with certain administrative procedures, such as filling in statistical questionnaires or other administrative forms [8].

Similarly, **do-it-yourself (DIY)** activities include all market-based goods and services, which are produced in to avoid gross wage payments, including taxes and social security contributions, in the official economy or to avoid any net wage payments in the shadow economy. It is important to note, however, that the main difference between DIY and shadow economic activities is that the former are entirely legal. This paper shall not deal with typical, underground criminal activities, such as burglary, robbery, drug dealing, etc., which are all illegal. Rather, this paper

investigates neglected shadow economic and lawful DIY activities in order to estimate their size. The term hidden economy is always used when considering the combined sector of shadow and do-it-yourself activities.

The following estimates of the total or macro scale of the shadow economy are based on a combination of the MIMIC method[19] and the monetary approach [4]. By definition, the underground economy cannot be directly observed. As a result, its size should be only estimated. In this context a "structural equation" or MIMIC model is used. Generally, structural equation model requires evidence of statistical relationships that occur between a latent variable (unobserved) and several observed variables. The MIMIC approach allows several indicator variables and several causal variables in forming structural relationships to explain a latent variable, in our case, the size of the underground economy. The MIMIC approach is based on the idea that the underground economy is not a directly observable measure, but it is possible to approximate it using quantitatively measurable causes of working in the underground economy and using indicators in which underground economic activities are reflected. The usage of the monetary method is necessary because with the MIMIC method only relative magnitudes of the shadow economy for individual countries (e.g., Germany) are used with the MIMIC method to convert the shadow economy in absolute terms (as a percentage of official GDP or in billions of euros) for one or two years. The monetary approach to measure the size of the shadow economy is based on the assumption that cash is used to make transactions that agents want to keep hidden from official records. Transactions made using cash difficult to trace because they leave no tracks [1].

Table 1 shows the shadow economy in Germany over the period from 2012 to 2016 and the division by the main sectors. If you look at the development of the entire shadow economy, it can be seen that in 2012, with 343 billion euros or 12.5% of GDP, it had reached its highest level, and by 2016, it had dropped and reached 336 billion euros or 11.6%. GDP. Main factors for the decline of the shadow economy are the good development of the official economy, e.g. the drop in the level of unemployment, but also some fiscal and other measures that make the shadow economy less attractive.

Table 1 also divides the shadow economy into the following sectors:

- Construction and craftsman's enterprise (including repairs);
- Other commercial and industrial companies (vehicles, machinery, etc.);
- Service companies (hotels, restaurants, catering);
- Entertainment industry;
- Other business and household-related services (e.g. tutoring, hairdresser, baby sitters)

The distribution of the shadow economy into these sectors is based on numerous surveys. The construction and craftsman's enterprises have the largest share in the shadow economy (38%) but its share declined from 130.7 in 2012 to 127.7 billion in 2016. Then go other two sectors "other commercial and industrial companies" and "service companies", where the average value accounted for 57.7 billion euros (2012-

[19] Multiple Indicators Multiple Causes (MIMIC)

2016). The entertainment sector amounted to 44.2 billion euros (2012-2016) and the household-related services accounted for 51 billion euros (2012-2016) [7].

Table 1 The distribution of the shadow economy into sectors (2012-2016)

№	Sector of economy	2012	2013	2014	2015	2016	2012-2016	
							Absolute value	%
1	Construction and craftsman's enterprise (incl. repairs)	130,7	129,6	128,8	128,8	127,7	129,1	38
2	Other commercial and industrial companies (vehicles, machines, etc.)	58,3	58	57,6	57,6	57,1	57,7	17
3	Service companies (Hotels, restaurants, Catering)	58,3	58	57,6	57,6	57,1	57,7	17
4	Entertainment industry	44,6	44,3	44,1	44,1	43,7	44,2	13
5	Other businesses, household-related services	51,5	51,2	50,9	50,9	50,4	51	15
6	Total shadow economy (% of GDP)	343 (12,5%)	341 (12,1%)	339 (11,6%)	339 (11,2%)	336 (10,8%)	339,6 (11,6%)	

Illegal employment constitutes only part of the informal economy, if even the largest part. The concept of ‘illegal employment’ cannot be translated one-to-one into German, as in German two terms with slightly different meaning exist to describe the phenomenon: ‘Schwarzarbeit’ and ‘illegale Beschäftigung’ [2]. Although the two concepts are very similar, they do differ. The term ‘Schwarzarbeit’ can be translated roughly as ‘clandestine work’. It is defined in Germany in the Act to Combat Clandestine Employment as the rendering of (or letting others render) services or works in violation of social security and tax obligations, whilst illegally drawing social security benefits, or in violation of reporting and registration requirements under trade laws. Accordingly, a person works clandestinely, if s/he “renders or allows to have rendered services or works.

This definition exempts services or works that are not sustainably profit-oriented, rendered by family members or life partners, as a courtesy, to help a neighbor, or to help oneself. Clandestine work is closely tied to the concept of illegal employment (‘illegale Beschäftigung’). Manifestations of illegal employment are especially violations of the Act Regulating a General Minimum Wage, the Posted Workers Act and the Act on Temporary Employment Businesses, and the illegal employment of foreigners.

In Germany, both terms are often used in conjunction (‘Schwarzarbeit und illegale Beschäftigung’) in legal contexts, public discussion, and academic literature to cover as many types of violations as possible. However, in the vast majority of instances both terms are used interchangeably. Aside from these two terms, the term ‘unreported employment’ is finding increasing use in academic and trade union discourse, and it is intended to depict a broad range of possible employment situations and place greater focus on the employees’ perspective. However, since this study is explicitly investigating violations of applicable law, this term shall not be used here.

Figure 1 shows the ratio of undeclared work to GDP in different countries in 2016. In international comparison Germany is still comparatively good despite its tax system. In Italy, undeclared work accounts for around 20 percent, in Greece as much as 22 percent of GDP. By contrast, the US is far ahead of Germany, where the shadow economy only accounts for 5.6 percent of GDP. Switzerland also boasts a low rate of 6.2 percent. Above all, the low tax burden has a favorable effect in both countries. The US also has an extremely flexible labor market, which also offers regular opportunities for low-cost domestic help. The profile of undeclared work can be also approximated by studies based on representative surveys, in which respondents themselves provide information on potential, illegal employment. Two such studies were published by Feld and Larsen in 2015. According to these studies the percentage distribution of illegal employment is separated by gender, age, education, occupation and income [5].

Fig.1 Ratio of undeclared work to GDP, % (2016)

THE PERCENTAGE DISTRIBUTION OF INFORMAL EMPLOYMENT

1. **The percentage distribution of informal employment by gender**

The Feld and Larsen study revealed that an average of 13-14% of men surveyed between 2001 and 2008 responded that they had been illegally employed within the last 12 months, whereas the percentage of women was 6%. Enste also confirmed that more men engage in illegal employment, with his study showing that 25% of men and 16% of women had been illegally employed in 2007.

2. **The percentage distribution by age**

Feld and Larsen found that younger people more often engage in illegal employment, with 18% of 18-19-year-olds and 19% of 20-29-year-olds having been illegally employed in the last 12 months, compared to 8% of 50-59-year-olds and 6% of 60-69-year-olds.

3. **The percentage distribution by education**

From their surveys between 2001 and 2008, Feld and Larsen determined that 12% of respondents who had been illegally employed in the last 12 months had no professional qualification and were not seeking one, 9% had a degree from a technical college or similar, 5-6% had a degree from a vocational school, and 9% had a degree from a university. A total of 3% of respondents were university students (Feld/Larsen 2012: 30 et seq.). Enste used different categories than Feld and Larsen to survey education levels, and also did not describe the share of each educational level in total illegal employment, but rather the percentage of those illegally employed at each educational level. Accordingly, 29.9% of respondents with a primary school or lower secondary school education and no vocational training had been illegally employed in 2007. The percentage of respondents with the same educational level but with vocational training was 20.9%. A total of 18.1% had a higher educational level (but without a university entrance qualification), 24.1% qualified for entrance to a technical college or university, and 21.4% had a university degree.

4. **The percentage distribution of informal employment by occupation**

Amongst the occupational classes, several stood out in the Feld and Larsen study: of those illegally employed at least temporarily in 2008, 23% were university students and apprentices; 13% were self-employed; 12% were skilled workers; 12% were unemployed; and 10% were white-collar workers. On the other hand, at just 4%, pensioners more rarely took up illegal employment (Feld/Larsen 2012: 31). Enste also uses different categories for occupational classes for the following results from 2007: of those who reported they had been illegally employed in 2007, 21.7% were self-employed; 30% were blue-collar workers; 16.8% were white-collar workers; and 23.3% were civil servants. Amongst pensioners, 19.9% stated they had been illegally employed in 2007.

5. **The percentage distribution of informal employment by income**

Enste also broke his observations down into income classes. Respondents with a higher income reported more often having been illegally employed in 2007. Amongst those with a net income of over €1,500, 30.2% reported having been illegally employed in 2007, whereas the percentage of those with a net income below this figure was 21.3%

In other surveys within the framework of the Eurobarometer, only around 2 to 3 percent of respondents in Germany (2007, 2013) admitted that they themselves had worked unreported. A similar survey from 2007, which took special measures to ensure anonymity of replies led to greater honesty in replies. About one of four had admitted working unreported. Around 13 million Germans earned something in 2006 unreported. By contrast, based on the 2013 polls, this figure would have been around 1.3 million. Just a tenth. The EU Commission doubts that this survey data covers the actual number of illegal immigrants. The indirect question of undeclared work illustrates the problem of honesty in responding to questions about illegal behavior: while only about 4 percent admit working undeclared in the EU for a period of time, every third person knows someone who has worked unreported for the last 12 months. The evaluations of the representative data from the year 2015 show that one in five (20.7 percent) knows someone from their acquaintances who has worked undeclared for the last year. Just under 40 percent say that they know no one, the rest is uncertain and do not know nothing about this matter [10].

The survey data are particularly helpful in determining the structures, reasons and characteristics of undeclared work, but they do not provide absolute and precise data. On the other hand, the magnitudes that result from the hourly wage surveys are plausible and understandable with regard to other studies: the average hourly wage paid in Germany was around 10 euros in 2015; however, every eighth citizen was paid more than 20 euros per hour for the undeclared work. In the EU average, 11 euros were hourly paid. In Finland there was the highest hourly wage in the amount of 25 euros per hour, therefore undeclared work was the most highly paid in the EU. The lowest was in Romania, it was paid only 2 euros per hour. Repairs, renovations, gardening, cleaning and babysitting, as well as hotel and restaurant business, are the most common types of undeclared work throughout the EU.

According to the German population in 2015, unreported work is mainly done in these sectors:

- 18,7% Working in and around the house, building a house
- 15,8% Housework
- 13,7% Car repair
- 12,8% Gastronomy, Hotel industry
- 12,2% Hairdressing, beauty care
- 12,1% Tutoring, Care of children
- 5,6% Entertainment industry
- 4,3% Nursing, Geriatric care
- 2% Consultations
- 1,7% Manufacturing
- 1,1% Supermarket, Retail trade

With around 6,700 employees, the financial control of illegal work in Germany fights illegal employment and undeclared work. The financial control of undeclared work is nationwide represented at about 100 locations. However, the creation of a "budget police" is not planned. Such an extension of powers was planned in the course of legislation a few years ago, but has not been implemented, not least because of popular outrage. However, if someone alerts the authorities to possible undeclared work, for example during renovation work, controls can be carried out.

According to the forecast, which is shown in figure 2, the shadow economy will reduce by around 6 billion euros in 2017 compared to the previous year. A good half of this reduction is due to the favorable economic situation. Better employment opportunities in the official economy mean that fewer people are working in the sectors of shadow economy. Tax burden has become slightly lower [3]. The increase in the minimum wage can slightly increase the shadow economy. Depending on the extent of the shadow-economic activities of refugees, the actual value of the shadow economy may also be higher. However, scenarios developed for 2016 suggest that this trend may slow down towards reducing the shadow economy. Refugee immigration will be largely reflected in higher levels of employment and unemployment from 2017 onwards. It will therefore be taken into account in future forecasts [9].

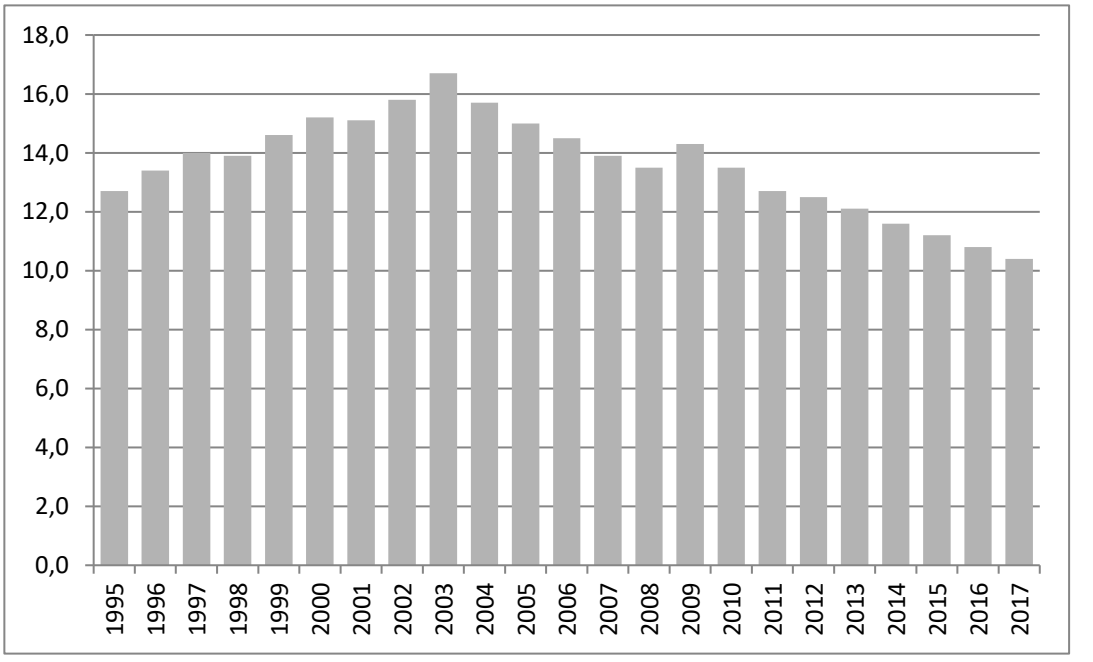

Fig.2 Ratio of shadow economy to GDP in Germany, % (1995-2017)

In 2017 and 2018, the parameters of the income tax rate will be raised by 0.73% or 1.65%, respectively, to counteract the so-called cold progression. What the Germans call “cold progression”, results when pay rises only compensate for inflation but still push their recipients into a higher tax bracket. The effect is that taxpayers can buy less with their net income. Given steeply progressive tax rates, even middle-income Germans face such opaque and automatic tax rises every year. Cold progression in the narrower sense means the increase in the tax burden, which is due to the fact that the benchmarks of the income tax rate do not increase with inflation. As a result, you can get into higher progression zones of the tax rate even if the real income is unchanged. With regard to the cold progression in the broader sense, it is also taken into account that even the growth of the real income, with the tax rate unchanged, leads to an increase in tax revenues for the state (so-called secret tax increase). Even the relatively

low tax relief in 2017 leads, according to the calculations, to insignificant reduction of the shadow economy by approximately 3 billion euros. The effect would be even greater if the years of building up the cold progression were completely reduced.

For 2017, it is predicted that the shadow economy will decline in most OECD countries. Germany compared to the shadow economy in selected OECD countries with the size of its shadow economy is slightly below of the average level (see fig. 3). The southern European countries (Greece, Italy, Portugal and Spain) continue to be the front-runners with a shadow economy between 17.2% and 21.5% of official gross domestic product [6].

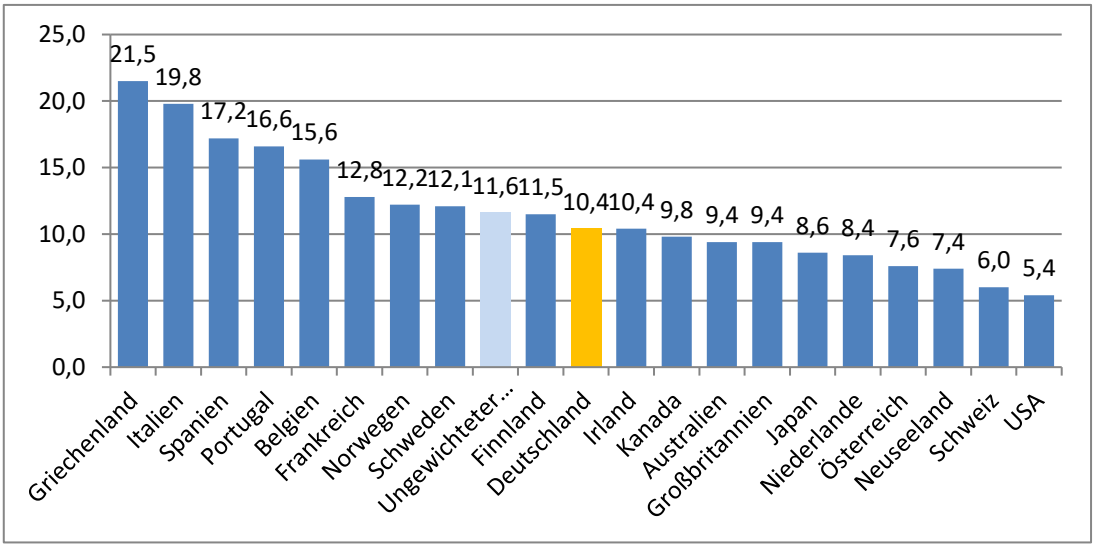

Fig.3 Level of the black economy in selected industrialized countries in 2016 (relative to GDP)

The shadow economy in Germany is still an important economic sector, even if a declining trend can be observed and Germany is in the midfield in international comparison. The statements have shown that the largest possible shadow economy over the period 2012 to 2016 in Germany is 340 billion euros and the minimum shadow economy is 219 billion euros. Construction and craft enterprises (including repairs) generate between 83 and 129 billion euros in black and household services between 33 and 51 billion euros. If the construction industry is disaggregated, the shadow economy in the construction industry is between 29 and 45 billion euros and in the sector of finishing and property developers between 37 and 57 billion euros. What could be done to reduce the shadow economy in these areas? The following four measures are proposed: temporary Value added tax reimbursement for labor-intensive services, in particular throughout the construction sector; maintaining the tax deductibility of household services, investment (especially in the construction sector, in the household); Barrier of public order assignments from 3 to 5 years for the companies which allow unreported work; other lowering of the non-wage labor costs.

CONCLUSION

Summing up, it is important to note that despite the declining trend the shadow economy still plays an important role in the whole economy of the country. The distribution of the shadow economy by different sectors in Germany showed the most affected ones like the construction and craftsman's enterprises, other commercial and industrial companies and service companies. As for the illegal employment in the country there are no validated statistics regarding the profiles of illegally employed individuals in Germany. The analysis was conducted based on the studies and surveys which demonstrated the growing number of people legally employed in the economy. The latest prognoses predicted that in 2017 the shadow economy will decline in most OECD countries (Germany included). According to the forecast, the shadow economy will reduce by around 6 billion euros in 2017 compared to the previous year due to the favorable economic situation and better employment opportunities in the official economy.

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Retrospective and prospective analysis of the shadow economy in Germany

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Abstract

The article presents an analysis of the shadow economy of Germany at the present stage. It examines the factors affecting the level of the shadow economy, the German government methods of fighting with these factors. The article gives an assessment of the situation and of the level of the shadow economy and a short-term forecast.

Keywords: shadow economy, Germany, forecast, sector of economy

1. What does "Shadow Economy" mean?

One commonly used working definition is all currently unregistered economic activities that contribute to the officially calculated (or observed) Gross National Product. Smith defines it as "market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP." Or to put it in another way, one of the broadest definitions of it includes…" those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation" [1]. In other words, shadow economy is the total value of transactions by businesses and individuals that occur 'off the books' – i.e. work done for cash to avoid paying tax into the system or follow regulations. It ranges from paying a tradesman or a babysitter in undeclared cash to the illegal wildlife trade, counterfeiting and money laundering.

2. History Information: Counterfeiters and Illegal Employment

In mid-July 1993, the police of Cologne dealt the most significant blow to the counterfeiters for the last four years. Police confiscated a batch of counterfeit banknotes in the amount of 1.9 million marks. Statistics of German police state the geometric progression of the issuance of fakes. In 1990 there were 590 registered cases with fake banknotes, in 1991 - 18 226, in 1992 - 37 287.

Development and production of household copying equipment and its accessibility for everyone have become the causes of the temptation of rapid enrichment. Especially popular were the color photocopiers of CANON. Their technical capabilities allow to reproduce the color gamut of the original with an accuracy of 25 thousand points in one square centimeter [2].

In addition, illegal employment remains a problem. Back in 2004, under the "red-green" government of Gerhard Schöder, the Bundesrat voted to adopt the amended, stricter Law on Combating Illegal Employment. At the same time, under the German Federal Customs Service, a new structure was created, the staff of which soon reached seven thousand people: Financial control over illegal employment. At the same time, it became possible to create special investigative and search groups, which now can include both police representatives and officials of the branches of the Labor Agencies. The main focus of the detectives was to turn to illegal immigrants who work in such sectors of production as, for example, construction or services. According to customs officials, about six and a half thousand employees of various departments take part in inspections throughout the country every day [3].

Below there are details about the size of the shadow economy of Germany over the historical period from 1975 to 2005 (data are taken from 1975 while the Johannes Kepler University of Linz was founded in 1965) [4].

Table 1. The size of the shadow economy in Germany in 1975-2005 (according to the usage of cash)

Years	**The size of the shadow economy in comparison with official GDP**	
	Germany	
	%	Billion Euro
1975	5.75	29.6
1980	10.80	80.2
1985	11.20	102.3
1990	12.20	147.9
1995	13.90	241.1
1996	14.50	257.6
1997	15.00	274.7
1998	14.80	280.7
1999	15.51	301.8
2000	16.03	322.3
2001	16.02	329.8
2002	16.59	350.4
2003	17.40	370.0
2004	16.40	356.1
2005	15.64	346.2

For clarity, we compare the size of the shadow economy in German-speaking countries (Germany, Austria and Switzerland) with the help of graphs. It is obvious that the rate of Germany (purple) is much higher than indicators for Austria (red) and Switzerland (yellow):

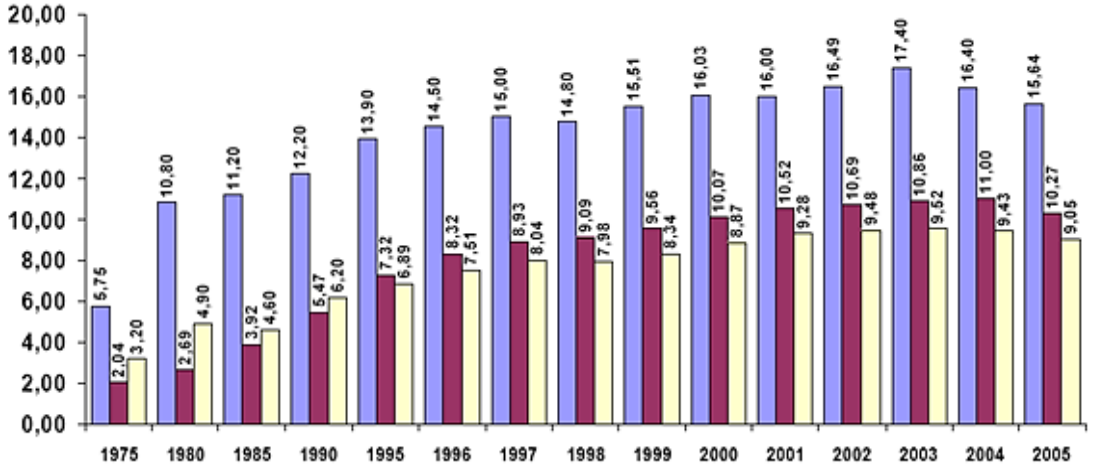

Fig.1. The dynamics of the size of the shadow economy (in % of official GDP) in Germany, Austria and Switzerland, 1975-2005.

At first, it seems that Germany is the absolute "leader" in the size of the shadow economy, but for the sake of completeness, let us consider the annual growth of the shadow economy in German-speaking countries. Indicators are quite different.

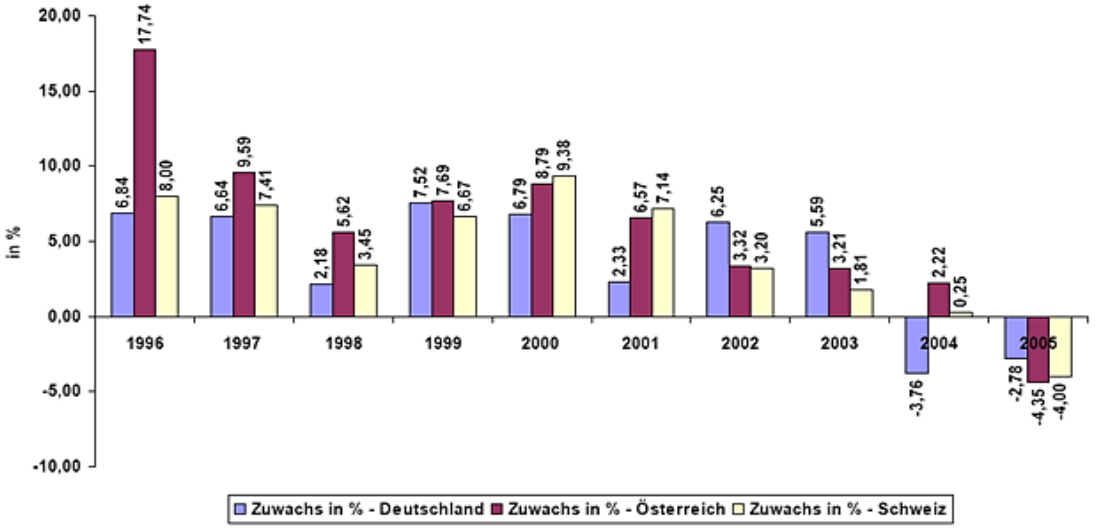

Fig. 2. The average annual growth of the shadow economy in Germany, Austria and Switzerland, in %, 1996-2005

F. Schneider offers in his article, that estimates are based on data on the use of cash. The use of this method is based on the assumption that work in the informal sector is paid in cash, while legal labor is mainly by non-cash means ("electronic money"). If the shadow transactions are a function of the demand for cash, then using

the data on the demand for cash, you can more or less accurately assess the volume and dynamics of the shadow economy.

The main result of F. Schneider's calculations is this: over the past 30 years, the overall trend has been to increase the scale of the shadow sector, but in recent years, the level of the shadow economy tends to decrease (Table 1, Fig. 1, 2).

3. Causes and Consequences of Illegal Employment

According to experts of the Institute for applied economic research (Institut für Angewandte Wirtschaftsforschung), the shadow economy in Germany has now reached more than 300 billion euros, or about 10% of GDP (Fig. 3, 4,) [5].

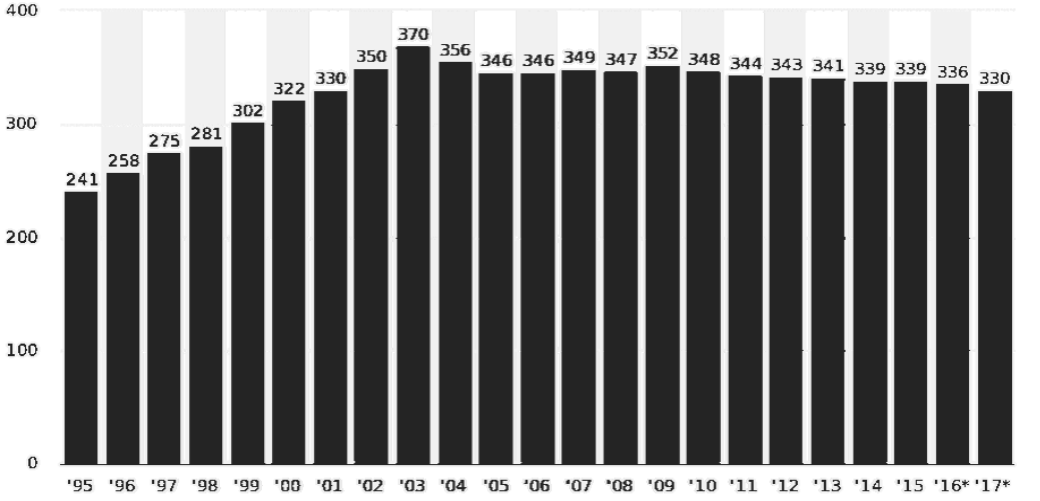

Fig.3. The dynamics of the size of the shadow economy in Germany in 1995-2015 and forecast up to 2017.

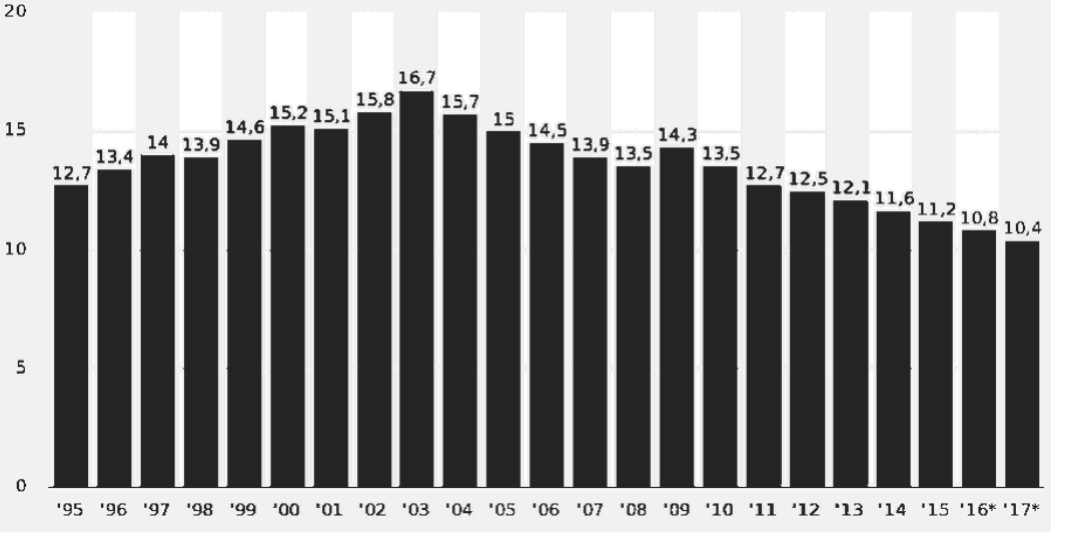

Fig.4. The dynamics of the size of the shadow economy (in % of official GDP) in Germany in 1995-2015 and forecast up to 2017

But Germany is the most economically powerful country of the European Union. For comparison, in neighboring Austria and Switzerland the shadow economy is equal to only 7.6% of GDP in 2012. And according to the assessment of the well-known specialist on this problem, Professor Friedrich Schneider, every sixth German receives left-wing incomes that pass by the tax authorities. The most common evasion of taxes is in the service sector. Which is not surprising, for example, 2.3 million households in Germany use hired labor to clean apartments, and 98% of German cleaners receive salaries "from hand to hand". Left-wing earnings are widespread in restaurants and cafes, taxi drivers, in the tourism sector (especially when organizing tours on buses), in the hairdresser's business. But the worst thing is in construction [6]. So, according to the Federal Minister of Finance Hans Eichel, the use of illegal labor at construction sites and during repair has assumed such scale that it is possible to speak about the emergence of mafia structures in this sphere of the economy. Interesting in this situation is, however, another: the famous German law-abiding began to malfunction. In the conditions of high taxes and prolonged economic stagnation, the citizens of Germany do not regret about unpaid taxes. According to a special opinion poll of the Emnid sociological institute, most Germans are ready to justify left-wing earnings.

Table 2. Work in the Shadow Economy – Survey Results for 2007 [1]

(1) Do you work regularly in the shadow economy?	Values in percent
No	77.3
Yes	20.7
	(25% male, 16% female)
No answer	2
(2) Do you regularly demand shadow economy activities?	Values in percent
No	69.2
Yes	30.8
	(35.4% male, 26.5% female)

Representative questionnaire, Germany, January 2007.
Source: IDW Koeln, Germany.

If we proceed from the number of jobs "created" by illegal workers that number is closer to 7.7 million people employed full-time. It turns out that some areas of the German economy practically unable to function normally without the use of illegal employment. For example, in construction and in repair and installation works 38% of the workforce are illegally employed. In German hotels, cafes and restaurants, as well as in automotive workshops – 17% of "illegals". In areas such as tutoring, cleaning in households and childcare – at least 15% are not in a hurry or do not have the right to formalize their workplace: the damage to the economy of 51.5 billion euros per year [3].

In 2011, the volume of tax and other payments to a German resident for the first time in many years has grown again: although contributions to pension funds have little decreased, but they have grown in hospital. For an unmarried employee who has no children, the tax press increased by 0.6% to 49.8% of his earned salary [3]. In fact, half of received money leave "on the party" - in a pocket of the state. Among all developed countries the tax burden is higher than in the Federal Republic only in Belgium.

Meanwhile, according to Friedrich Schneider, if the tax quota in wages exceeds 40%, then the incentive to work honestly is already disappearing. That is why, the economist notes, Germany has the consistently high level of illegal employment: the German state creates such framework conditions, from which it itself suffers.

4. Ways of Dealing with These Two Problems

As stated in the report IAW, in 2010, the turnover of the shadow economy of Germany amounted to 347.6 billion Euro, or 13.9% of GDP. In 2009, the figure was 351.8 billion Euro (14.6 per cent). And in 2004 - 364 billion Euro, or about 17% of GDP. Also, in 2015 – 339 bln. Euro (11.2%) and forecast for 2017 was 330 bln. Euro (10.4%). A clear decline trend (Fig. 5, 6) [5].

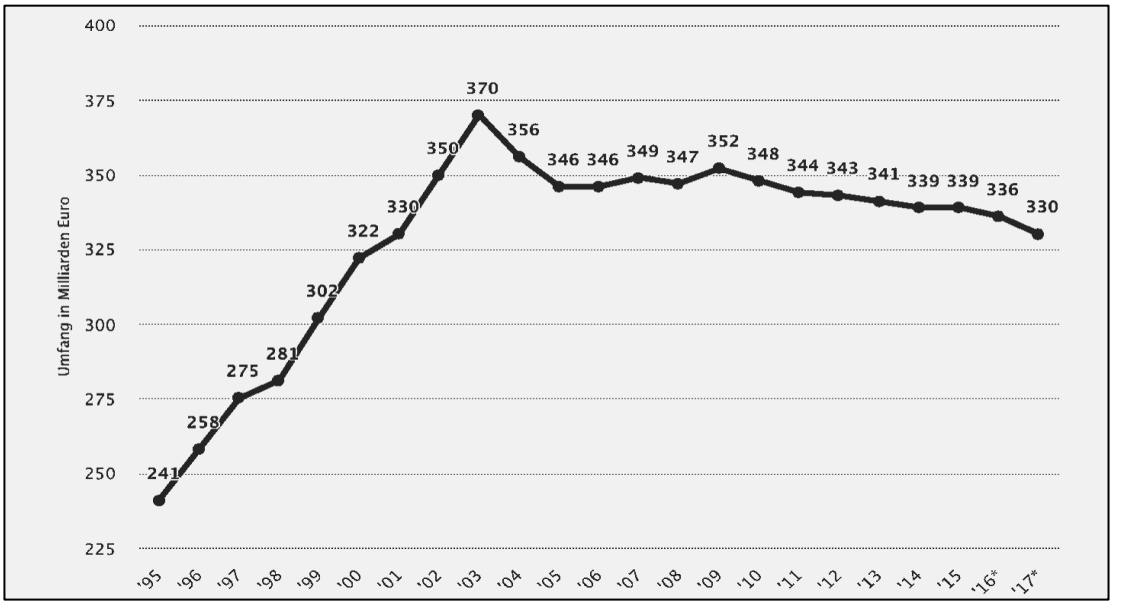

Fig.5. The size of the shadow economy in Germany in 1995-2015 and forecast up to 2017, billion Euro

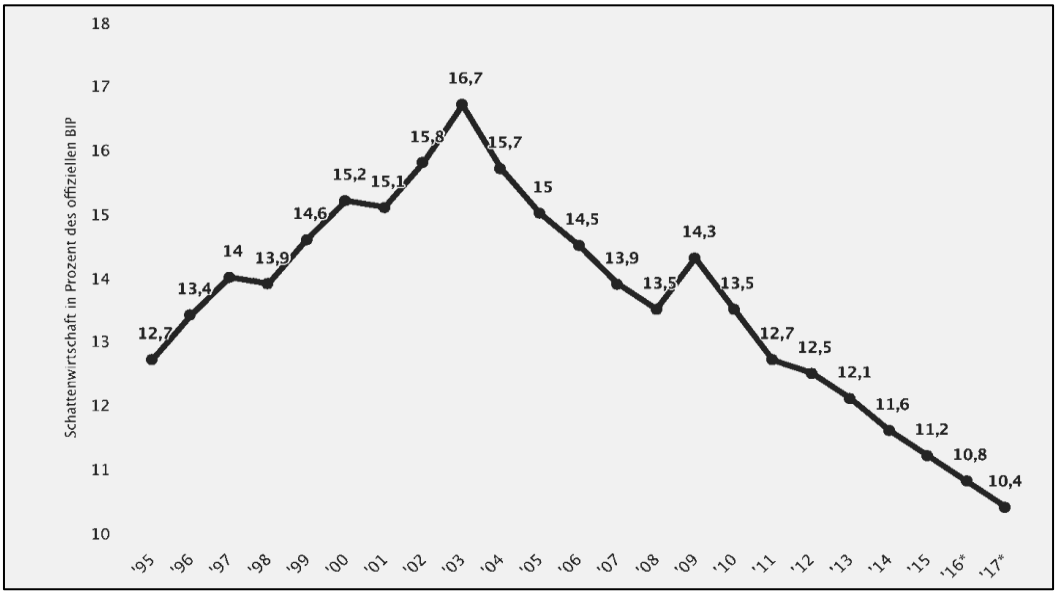

Fig.6. The size of the shadow economy in Germany (in % of official GDP) in 1995-2015 and forecast up to 2017

In near future, the shadow economy sector of German economy, apparently, again will decrease relative to GDP. According to a survey conducted by the German newspaper Suddeutsche Zeitung, 27 of the 30 companies intend to create new jobs. Automakers are in the first place expected to hire new employees, they notably override staff costs during the crisis. So, Volkswagen is going in the next three - five years to create in Germany up to 5 thousand new jobs. The need to increase the number of employees also announced BMW and Daimler. New professionals will also require chemical and telecompanies. So, Siemens has already recruited in 2011 1 million people on new jobs and intends to continue recruitment [2].

The decrease in turnover of the shadow economy could be even more significant, if not the introduction of the minimum wage for working part-time as well as increased contributions to the Medical Insurance Fund and unemployment insurance.

Another step capable to reduce the share of the German shadow economy is the legalization of some activities (mainly service sector) for immigrants from eight Eastern European countries. As told RBC Daily one of the authors of the study, Professor of the University of Linz Friedrich Schneider, "in near future the legalization of activities of Eastern European citizens are unlikely to affect the shadow economy".

Despite stable economic growth, the share of the shadow economy of Germany in 2010 and in the next 5 years will be slightly higher than the average of the other 20 OECD countries. According to Mr. Schneider, this is due to high taxes and the specifics of the labor market in Germany.

Consider the features of the fight against shadow economy in the tax area of Germany:

According to § 5 Abs. 1 Satz 1 Gesetz zur Bekampfung der Schwarzarbeit, enterprises where illegal workers were found, are to be excluded for three years from

public procurement. According to § 4 of the same law, there is a struggle against anonymous announcements about hiring. To fight the shadow economy, Germany has created a number of organizations, including the Bundesfinanzenpolizei (Federal Financial Police), the Anti-corruption department, the Department of Internal Investigation (DIA).

§ 14 Abs. 2 SGB IV provides that the government of Germany needs to track the amount of unpaid taxes for the clean work, which further helps to avoid evasion of income tax. The German government lowered the VAT rate for the hospitality business from 19 to 7 %, which should bring some of this business out of the shadows and reduce the employment of illegal workers (especially from EU). Germany, Austria, Denmark, Norway, Sweden find it necessary to reduce the tax burden for reducing the shadow economy;

§ 28e Abs. 3a viertes Buch Sozialgesetzbuch says about the introduction of shared responsibility of partner companies on implementation of contributions to the social insurance funds in the construction industry (most corrupt sector of Germany and Austria) when signing the contract (according to the law, one firm is not able to tender for the construction of a large object). That is, if one firm refuses to pay contributions to social funds and it is possible to convict, it is the responsibility of all firms to the contract. This, according to the government, leads not only to reduction of the shadow part in the construction sector, but also to strengthening the economy [7].

5. Looking to the Future

According to the results of Schneider's study, one can see that the main events of the shadow economy are illegal employment and counterfeiting. We can repeat again and again that it is necessary to reduce the level of taxes in Germany, because they make people get paid to bypass taxes, print counterfeit money and therefore stimulate the shadow economy. But if the government for many reasons is not ready for such a step, then the actual decision will be to switch to electronic money. Such money cannot be printed by a printer, they cannot be obtained from hand to hand. And mostly important is the following: if the economy turns in the direction of using electronic money and make it the main currency, then the current level of the shadow economy will decrease. Certainly, other reasons and indicators of the informal sector may and, most likely, will appear, but current causes will be already defeated. Governments are not powerless in fighting against the shadow economy. Banks and payment systems companies can contribute by expanding and promoting the ways of using electronic payments, identifying the possibility of using cards instead of cash, stimulating citizens to make use of payment systems and continuing to improve technology systems. Electronic payments can help countries increase revenues and reduce the cash, which is a key of the shadow economy. Reducing the shadow economy is an achievable task.

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Changes in accounting and legislation as measures to combat the shadow economy in Germany

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Abstract

This article describes the features of the shadow economy in one of the most developed countries of Europe – Germany. The informal sector in this country accounts for about one-eighth of the official GDP. The state is losing several tens of billion euros of tax revenues per year. The work also examines measures taken by Germany to combat the shadow economy.

Keywords: shadow economy, GDP, taxes, employment, wage labor.

INTRODUCTION

In recent years, many countries began to assess the shadow economy-to-GDP for their economies. Such evaluations are relevant because the shadow economy is growing in parallel with the legal economy and, while developing, undermines the effectiveness of budget allocation and violates the logic of the development of the internal infrastructure of income. According to the famous researchers F. Schneider and D. Anstey, in most countries, the shadow economy takes a significant sector in the overall economic activities [4].

All-encompassing estimates of GDP benefit to national governments and international organizations. The European Union in connection with its program to provide comprehensive measurement of GDP uses the term "shadow (non-observed) economy". The International and the European systems of accounts (SNA 93 and SEC 95) help clarify the concept of the shadow economy and have become a reference point for creating systems of accounting and reporting in statistical offices of different countries. The shadow economy refers to all productive actions that cannot be recorded in the main data sources used for national accounts compilation.

The shadow economy involves any activity in which companies prefer not to declare their income wholly or partly to by-pass the payment of taxes. Shadow economy also involves the situation when companies violate labor law or immigration orders, giving work that is not accounted for employment, or decide to operate without official permission to avoid long and costly bureaucratic procedures. Shadow economy also involves the situation when self-employed workers report that they are unemployed for fraudulent unemployment benefits.

We live in the era of "shadow" economy, but this economic activity is invisible to formal state institutions, as it tries to seem legal and not quite industrial and commercial activities. For that reason, the shadow economy has become part of everyday life of almost all countries in the world. Moreover, it will often be impossible to understand immediately which side of the economy we are dealing with. Several countries of Europe, remaining in the “shadow”, are driven not only by the unwillingness to pay taxes, but they attempt to avoid compliance with the numerous requirements and regulations proposed by the state for official business - need to pay minimum wage to workers or to spend money on expensive means of ensuring safety. Recently, going "in the shadows" for many countries in Europe (Germany in particular) has become a necessary step, prompted by the desire to save their business and capital in the context of growing crisis.

In modern Germany, the informal sector accounts for about one-eighth of the official GDP of the country. Since Germany is among the countries with a high level of economic development, it feels much more comfortable than countries with low development.

However, it goes quite unnoticed by the size of the shadow component of the economic activity. So, Germany is quite stable in the size of the shadow sector, which made up 13.7% of GDP in 2014. This is somewhat lower than in 2013, when it was 13.9%. Given the significant amount of Germany's GDP in real terms, it is easy to imagine that rate accounting for 14% of the GDP is quite high.

A high proportion of taxes and income from social contributions, the growth of distrust towards the government activities and the reduction of the working week have all contributed to the growth of the shadow economy. With high unemployment and with an ageing nation, illegal employment undermines the country's economy. According to the estimates of the German Federal Ministry of Finance, due to the growth of the shadow economy, the country is losing about 500 thousand legal jobs.

The reason is simple: illegal labor is much cheaper, and businesses that use it, have a significant competitive advantage compared to companies that pay all taxes and fees. The result is that honestly working companies are forced to reduce personnel. Thus, the state loses several dozen billion euros of tax revenues per year.

In recent years, the shadow economy-to-GDP ratio has increased significantly. According to experts of the Institute for Applied Economic Research, the shadow economy in Germany has now reached 364 billion euros, or about 17% of GDP. And according to the evaluation of a well-known expert on the issue of Professor Friedrich Schneider, every sixth German gets “left” revenues that pass by the tax authorities.

The most common tax evasions happen in the service sector. That is not surprising, because, for example, 2.3 million households in Germany use hired labor for cleaning their apartments, and 98% of the German cleaners are paid from hand to hand. Workers are leaving their positions in restaurants and cafes, in the tourism sector and in hairdressing. But the worst situation is in the construction sector.

Thus, according to the Federal Minister of Finance Hans Aichele, the use of illegal labor in the construction and repair sector were so extensive that we can speak about the emergence of mafia structures in this sector of the economy. What is interesting, is that, however, another famous German law began to falter. In terms of high taxes and a prolonged economic stagnation, pangs of conscience of many German citizens

appear because of the unpaid taxes. According to the special survey of the sociological Institute Emnid, the majority of Germans are willing to justify their illegal work.

The German government is trying to rectify the situation - recently the Cabinet of Ministers approved the draft law entitled "The law on the fight against the 'black' employment". The Federal Ministry of Finance took the most rigid position in the bill, demanding the criminal prosecution of illegal employment and high penalties - up to 25 thousand euros. The Ministry even offered to create a new policy structure - a special service of financial control of illegal employment with a staff of 7 thousand employees and to place branches of this Department in 113 settlements on the territory of Germany.

ASSESSMENT OF THE SHADOW ECONOMY

According to ESA 1995, informal economic activities are involved in production and, therefore, should be included in GDP. Industrial action should be extended to GDP, and therefore include actions performed illegally or produced without informing services — tax, social security, statistical and other. According to the international agreement goods produced by a citizen for his own use are not included in the production in the context of national accounts.

Federal Statistical Office of Germany (FSO) uses various measures to GDP for possible all-encompassing estimates of GDP:

• Explicit adjustments are being made especially in those areas where large-scale of statistics is used only after long intervals. Special calculations are also made for construction work with their own accounts and tips.

• In many cases, implicit coverage of informal economic activities is the method of calculation. For example, agricultural production is determined on the basis of areas of cultivation and the corresponding values of average yields; and rents are calculated using the number of dwellings divided by size and other characteristics and the relative cost of rents per square meter.

Thus, the GDP includes hidden economic action.

The completeness of GDP and GNI was the main purpose of national accounts changes undertaken in Germany in 1999 with the implementation of ESA 95.

In 2005, during significant changes in the national accounts, the completeness of GDP was further improved by combining the results of the most recent large-scale censuses and other multiple annual reports, as well as improved evaluation and ways of correction.

FSO does not conduct separate estimates of informal economic activities as part of national accounting, for the following reasons:

• The main purpose of national accounts according to ESA 95 concepts is to cover all possible economic actions. For exhaustiveness of GDP no matter whether a certain economic activity is lawful or prohibited, or otherwise hidden.

• There is no international definition of the hidden economy. Sometimes this only applies to the invoices and repair or construction on own account, and sometimes prohibited criminal acts, i.e. the actions that should be prosecuted. Moreover, the

existence of limits of consideration in the statistical report limits the scope of this part of the economy.

• To the extent such informal economic action needs to be implicitly covered by the calculation methods, it is necessary to eliminate them from the independent evaluation to avoid double counting. However, information regarding their extent.

For these reasons, the Federal Statistical Office of Germany does not intend to publish separate estimates of the size of the shadow economy and believes that the issue of independent identification of NOE requires full reliability, objectivity and scientific verifiability of official statistics. Despite this General approach, the FSO is currently looking for reliable ways of estimating the shadow economy for national accounts purposes. After the European Commission questioned the completeness of the GDP of the member States in 1992, Germany has corrected the data in 2005, which led to an increase in GDP of 0.7% in nominal values during the period from 1991 to 2004.

MEASURES FOR COMBATING THE SHADOW ECONOMY

The features of the fight against the shadow economy in the country was recorded in legal, political, banking and tax fields.

Let us consider them in more detail. The priority of the fight against the shadow economy in Germany is the fight against illegal work and dumping wages on the black labor market. Country is pursuing a gradual policy of increasing control over the labor market, raising the minimum wage, the planned entry of differentiated minimum wage rates, depending on the industry, on the legislative level and the elimination of the ability to wage private entrepreneurs in non-conforming legislation of the dimensions [8].

It should be noted that according to § 5 of the law on the fight against undeclared work and illegal employment, those enterprises that employ illegal workers are to be excluded for three years from public procurement. According to § 4 of the same law, the fight against anonymous announcements about hiring is to be carried out.

The publisher of the newspaper shall in addition to the contact data and the cipher of the person who placed this ad, indicate the full name of this person.

To combat the shadow economy of Germany several organizations, including the Federal fiscal police, the Department for combating corruption, the Department of internal investigations (DIA) [9] were established.

The German law significantly limits the ability of civil servants in terms of doing shadow activity [10]. They are provided with full personal liability for the violation of the legality of actions and duties. After dismissal from civil service a civil servant is obliged to adhere to the rules on non-disclosure of his previous activities.

In cases when further employment is required to submit information on their previous place of service, an employer must obtain permission from the organization in which he worked (the same procedure when filing documents in court). Usually such permission is given by the head of the institution. The media can be given by only an authorized person.

A strict system of prohibitions and restrictions compensate for high wages, additional benefits, a guarantee of employment and career growth.

The public servant is prohibited to be engaged in any other activities without prior permission of a higher official authority. A permission is required only in case of acceptance of guardianship, care for the sick and infirm, the implementation of the duties imposed by the probate, employment, liberal profession, scientific or research activities and the management of their own property. Civil servants have no right to engage in entrepreneurial activity either personally or through trusted persons, to participate in the management of the enterprise or organization or be a member of the supervisory council of the enterprise of any form of ownership.

As for corruption, the main task of Germany is the destruction of financial and material resources of criminals or of their groups. For this purpose, the confiscation of property and the creation of legislation to counter the laundering of "dirty" money.

CONCLUSION

Having surveyed the methods of Germany in the fight against the shadow economy in the political sphere the author stressed out the following.

In the political sphere there has been an improved interaction of branches of power, including social workers and officials working in the homeless (§ 304 Abs. 2 SGB III), which allowed faster reaction, improved coordination and awareness among relevant bodies. This has reduced the abuse of privileges and social benefits.

Consider the features of the fight against shadow economy in tax the field of Germany: § 14 Abs. 2 SGB IV provides that the government of Germany needs to track the amount of unpaid taxes for the clean work, which further helps to avoid evasion of income tax.

The German government lowered the VAT rate for hotel industry with 19 to 7 %, which should bring some of this business out of the shadows and reduce the employment of illegal workers (especially from EU). Germany, Austria, Denmark, Norway, Sweden find it necessary to reduce the tax burden for reducing the shadow economy.

The Eighth Book of the Social Code says the introduction of shared responsibility of partner companies on implementation of contributions to the social insurance funds in the construction industry (most corrupt sector of Germany) when signing the contract (according to the law, one firm is not able to tender for the construction of a large object).

So that, if one firm refuses to pay contributions to social funds and it is possible to convict, the responsibility goes to all firms under the contract. This, according to the government, leads not only to the reduction of the shadow part in the construction sector, but also strengthens the economy [11].

The tools of Germany in the fight against the shadow economy in the banking sector are worth consideration. To reduce the level of fraud with electronic money and plastic cards, Germany, like most EU countries, introduced a microchipped card. All cards issued by German banks are on the front side of the chip, which contains data about the user. When read by the terminal card checks the data contained on the chip.

That gives you the ability to quickly and effectively control social insurance and the legal status of the owner of the card and acts as an additional method of combating illegal labor, gives additional protection to the users of Bank cards. In the case of a fake it helps to avoid evasion penalty.

The results of the study provide an opportunity to summarize the experience of the German spheres of influence in the fight against the shadow economy (see table). The measures taken in this country, distributed according to the spheres of influence, namely, the legal, judicial, political, banking and tax. These are areas where major innovations are aimed at the fight against shadow financial flows.

Features of combating shadow economy in Germany

Sphere of influence	**Features of the struggle**
Legal	The fight against illegal labour, wage dumping on the black market
Judicial	-
Political	Improved cooperation between the branches of government with respect to the detection of shadowing
Bank	The introduction of the chipped bank cards
Tax	A reduction in VAT for hotel business from 19 to 7 % The introduction of shared responsibility of partner companies in the construction sector to contribute to social insurance funds

Thus, we have illustrated the decrease in the level of the shadow economy considering Germany because of the implementation of the methods of combating the shadow economy, confirming their effectiveness and expediency of application in practice.

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Shadow economy of Italy: the problems of tax evasion and mafia

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Abstract

At the present stage of the development of Italy, in the era of capitalism, market economy and civil society, the shadow economy is one of the main strategic directions that the government has been fighting for many years. Ensuring economic security and successful development of the country is the country's top priority, but it requires implementation of measures to combat tax evasion, the mafia and similar illegal constituencies.

Keywords: shadow economy, tax evasion, mafia, legislative imperfection, Italy, illegal economy.

Besides the two main problems facing Italy which are the budget deficit and refugees, the Italian government also must solve its ever-present issue of being a huge shadow economy in the world. The underground economy of Italy (a part of shadow economy) is a legal economy that is out of control and public scrutiny. The examples can be tax evasion and the failure to comply with social security legislation. This part of the shadow economy is larger than the second one, the illegal economy. However, in my opinion, it's less dangerous because it's most governed by civil law. In 2015, the "underground" activity amounted to about €208 billion, or 12.6% of GDP. In detail, the added value generated was over 190 billion euros. The weight of the GDP of this grey component of the economy fell by 0.5% over the previous year, stopping the increasing trend of the 2012-2014 three-year period (from 12.7% to 13.1%). In particular, Istat (The National Institute for Statistics in Italy) highlights the different composition of the underground economy in 2015 compared to 2014. In 2015, for example, the share of the undeclared income was 44.9% of the value added (about 2% less than 2014).

The rest is attributable to 37.3% for irregular work (35.6% in 2014), for 9.6% for other components (black, black and white, supply-demand integration) 8.2% to illegal activities (respectively 8.6% and 8.0% the previous year).

The sectors in which the submerged has a more prominent role are "other service activities" (33.1% in 2015), trade, transport, housing and catering (24.6%) and construction (23.1%). Declarations lower than the sum paid - in terms of value added- a greater burden in professional services (16.2% in 2015), trade, transportation, housing and catering (12.8%) and construction (12.3%).

Within industry, the incidence is relatively high in Food and Consumer Production (7.7%) and in the Investment Business Production (2.3%). The value added generated

using irregular work is higher in the Other Services sector (23.6% in 2015), where it is mainly related to domestic work and agriculture, forestry and fishing (15.5 %).

As for the Internet tax evasion in Italy, more than 51 per cent of taxable economic activity in Italy is undeclared, according to the Association of Italian Taxpayers. Italy was ranked first in tax evasion in the European Union, followed by Romania with 42 percent evading taxes and Bulgaria with 38 percent. Internet shopping companies in Italy consist of a large portion of the tax evasion. Out of the over 2 million internet firms registered in Italy, only 800,000 firms pay taxes. The losses in Italy to Internet tax evasion is estimated to be $4.2 Billion (3 Billion Euros) a year.

The driving force in the shadow economy in Italy is the Mafia. The four main mafia group in Italy are Cosa Nostra in Sicily, the Camorra (the most powerful) around Naples, the 'Ndrangheta in Calabria, Sacra corona unita in Apulia. In the previous century the mafia was associated only with the second part of the classification of Italy's shadow economy, namely with the illegal and criminal economy. However now the Mafia is also actively operating with tax evasion, unreported employment and in the bank sector. The mafia is now the country's biggest business enterprise, with an annual turnover of €140bn (more than 7% of GDP).

Now the mafia's influence is felt not only in its traditional strongholds such as Palermo and Naples, but increasingly in the wealthy north of Italy in regions such as Lombardy, which includes the business capital, Milan.

(It seems the average mobster is no longer a gun-toting hoodlum but a savvy businessman in a sharp suit with a smart phone and sophisticated knowledge of finance)

Mafia groups boast estimated cash reserves of €65bn, collectively making them "Italy's biggest bank". In the economic crisis banks loath to lend and Mafia dons have profited as desperate businesses have to turn to their loan sharks. The exorbitant rates they charge for lending money have pushed many enterprises to the wall. Therefore, organized crime groups have bought ailing businesses, shops and restaurants and got even risker. In these spheres, the mafia's revenues were far greater than even those of such big companies as Eni, Italy's oil giant.

Now I would like to turn to the classification. The second type of the shadow economy, as I have already mentioned, is the illegal and criminal economy, which means production and possession of goods and services for sale and distribution - all of which are prohibited by criminal law. This part is under the mafia. The mafia is strong in such sectors as gambling, toxic waste, extortions, clothes, cosmetics, illicit drug trafficking, weapons etc.

I will tell about them in more detail.

Gambling is particularly lucrative. The average adult Italian spends nearly €1,300 a year on slot machines, bingo and other forms of gambling. This €76bn market is Italy's third biggest industry, according to a report presented by Libera an anti-mafia association.

The grip of the Camorra on toxic waste management has been hugely detrimental to the environment in parts of southern Italy and has caused a prolonged rubbish crisis in Naples.

Is was such a big catastrophe that even the European high court said that the Italian government had violated the rights of people living near Naples by failing to tackle the waste collection crisis, which left tones of stinking refuse on the streets.

In the high fashion sector (we are talking about the most exclusive brands of the Made in Italy outfits), the skill of Camorra craftsmen in cutting and packing luxury garments is indisputable and meets luxury brands demands. Besides through the intensive exploitation of unreported employment, above all feminine, fashion houses can maximize the profits they get on the global market.

A family uses the black part of their income, as we have seen, to arrive at the end of the month, so to buy goods and services - gas, meat, books and children's clothes, to pay for medical expenses - and these transactions, perfectly legal, are timely recorded and become part of the official data, which then also grows because the undercount economy exists.

Gomorrah, the famous book by Roberto Saviano, shares this thesis, and to show it explicit what the actual functioning of four sectors of our economy is. Two of them are important constituencies of the legal production system - fashion and construction- and two are part of the explicitly criminal economy, the drug market and the toxic waste. In all the cases analyzed, far from representing a problem (in economic terms), the camorracial infiltration within the legal sectors and the direct management of illegal ones are a sort of business catalyst, a strategic asset for the Italy system.

In the high fashion sector (we are talking about the most exclusive brands in Made in Italy), the undisputed talent of the Campania craftsmen in cutting and packing luxury garments guarantees the highest level of quality that industry companies demand. In addition, the direct or indirect management of tailor made by organized crime allows, through the intensive exploitation of black labor, above all feminine, that this qualitative level is achieved at absolutely competitive prices, unthinkable in the case of resorting to companies that operate in compliance with legal safeguards. Thus, on one hand, fashion houses can maximize the profits they get on the global market without penalizing the quality of garments (as would be the case of delocalization of production in emerging countries that have not yet reached our field expertise) 'Other black work allows the survival of numerous bells families, who will appear on television on the Oscar walkway, worn by the most celebrated and committed actresses, the garments sewn by their handsome hands for four coins.

This is also true for the construction industry. Camorra teams move across the country, controlling the industry through tender bidding and raw material supply, and by building an infrastructure at such times and prices that no legal firm can guarantee.

But, in the drug market, the organized crime strategy is even more astonishing. While at the production and import level the industry operates according to the classic method, the distribution of drugs has been completely revolutionized. Instead of resorting to drug addicts, the mafia decided to allow the sale of illegal substances, in minimal quantities, to anyone who needs to supplement their incomes. Housewives, students, and retirees have thus been able to build their own businesses. Moreover, they are protected from unexpected visits from clan collectors. Camorra has been dramatically increasing its turnover in the industry, while customers greatly appreciate higher transaction security. But it also true for ‘Ndrangheta, Italian mafia organization ‘Ndrangheta is believed to control up to 80 percent of Europe’s cocaine imports.

Whether it comes to fashion, construction, drugs or waste, the result does not change: the presence of organized crime ensures competitiveness in the industries in which it operates, and this increased competitiveness undoubtedly benefits legal and illegal activities throughout the country (as demonstrated by recent surveys on the disposal of toxic substances and those on food-related frauds related to the sophistication of wine in the Velenitaly affair, while the inhabitants of entire provinces, not only in Italy (Gomorra cites the case of Aberdeen, a city of Scotland whose economy is entirely managed by the Camorra) live only of the submerged directly or indirectly generated by the criminal activities.

The mafia also had a bid influence on the Expo 2015 in Milan. The Mafia has entered the Expo deal. Heads and boss money control part of the works and related works. The alarm, stemming from the investigation of the Lombards Infrastructure (Ilspa), which was governed for ten years by Antonio Rognoni, is confirmed in the report of the prefect of Milan delivered to the anti-mafia parliamentary committee under the Duomo.

It is December 16, 2013, when Francesco Paolo Tronca in front of the parliamentarians reads a reserved memo of 56 pages and reveals "a trend that is delineating and increasingly consolidating a penetration in the Expo works of contiguous companies, if not organic to organized crime" . In those days, in front of President Rosy Bindi, the procurator Ilda Boccassini also spoke. He says: "In view of the time now limited (...) there is a high risk of infiltration." The data, in itself clamorous and unpublished, becomes disturbing when Tronca deals with the issue of works connected to the event. Among the various, in addition to Line 5 of the subway infiltrated by the clan Barbaro-Papalia, cites the outer East Tangenziale, pounding numbers that photograph the state of a consistent infiltration.

"This work - are his words - presents the largest concentration of companies already banned, seven in the last period". Plus two more. In total, nine companies left for suspicion of collusion with the cosmos. One of these is the Ci.Fa. Environmental services among whose members Orlando Liati is involved in illicit waste traffic. A name, that of the Milanese entrepreneur, already finished in the information of Lombardia for his relations with important clan of the Ndrangheta. Since 2009, the coordination of the work has been entrusted to the Tangenziale esterno spa. The managing director is Stefano Maullu, a former Formigonian councilor who has been touched (and never investigated) by some Mafia investigations.

With him in the corporate board there is the architect Franco Varini in contact with Carlo Antonio Chiriaco, the former health director of Asl of Pavia, sentenced in first grade to 13 years for external competition. The spa that manages the works on the bypass is also at the center of the latest survey on Infrastrutture Lombarde. His name is related to counseling conducted in favor of the lawyers of the circle of Rognoni. In addition to the contracts entrusted to the Emilian Coal Cooper, which with Ilspa, over the years, has made gold business.

Consultations, then. And not only. With the clans who settle at the Expo banquet. So much so that on the site today there are four companies reported by Dia for suspicious relationships with mafia circles. Tronca explains: "Often the plot of business relationships between companies does not appear immediately apparent." The Prefect's reasoning is clear. But there is more. According to Tronca, in fact, "many

companies for which anti-mafia criticisms are emerging are not censored by the competent Prefectures by territory." Translated: "Elusive, collusive businesses have always worked in a gray area" so "to escape the anti-mafia information request."

A gap that does not seem to be able to be solved even by the so-called IT platform created to collect the business database. According to a note from the Dia di Milano center, the system is "unusable due to vague gaps in the system's low intuition and lack of documentation." All this adds to the problems of anti-mafia checks on the work of foreign states. The point raised by the Prefect indicates how in these cases the adherence to the controls is only on a "voluntary basis" as foreseen by an agreement between the Italian Government and the Bie. No obligation, therefore. And so much soil fertile for the mafia.

In the 20th century there were two significant stages in the fight against the mafia. The first stage is connected with the name of Giovanni Falcone. He spent most of his life trying to overthrow the power of the Sicilian Mafia. After a long career, he was killed by the Corleonesi Mafia in 1992. Falcone was killed by the order of the Don, who then lived to 87 years and died on November 18, 2017. Falcone came up with The Maxi Trial. The Maxi Trial (Italian: Maxiprocesso) was a criminal trial against the Sicilian Mafia that took place in Palermo in Sicily. It took over 6 years and considered to be the most important trial against Sicilian Mafia and the biggest trial ever held in the world. Of the 474 defendants-both those present and absent - 360 were convicted. More than 2,600 years of prison sentences were shared among the guilty, not including the life sentences handed to the nineteen leading Mafia bosses and killers.

And the second stage was the case of Mani pulite, which means Clean Hands. It was a nationwide judicial investigation into political corruption in Italy held in the 1990s. Some politicians and industry leaders committed suicide after their crimes were exposed. Antonio Di Pietro was the main judicial figure in charge of the proceedings. According to some accounts, as many as 5,000 public figures fell under suspicion then. At one point, more than half of the members of the Italian Parliament were under indictment. It’s more than 400 city and town councils. 4 billion dollars (6.5 trillion lire) is the estimated value of bribes paid in the 1980s by Italian and foreign companies to the politicians. But with the coming to power of Silvio Berlusconi, this campaign crashed since then he has been notorious for his connections with the mafia and even recently accused for one of the crimes committed by mafia earlier.

But, as the author of Gomorrah, the most famous book about the mafia suggests, Camorra and other mafia groups can only be defeated at a price of destroying the economy. It also may have tragic consequences for the legal market. But the Italian political class, which has made the GDP growth successful, is not willing to make such a sacrifice.

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Black market of the Japanese economy

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Abstract

What we see is only the tip of the iceberg. It also works in economy. Depending on the country the shadow part or the underground part can be more than 50% of the GDP. In Japan from the point of view of the law the situation is good: the underground economy is only about 8% of the GDP. The shadow economy consists of two parts: the informal economy and the illegal. Although the main part of the shadow economy is the informal economy, the illegal economy is more dangerous for people and more interesting for the research. In the article there is an analysis of the shadow economy of Japan and the black market as part of it.

Key words: Japan, shadow economy, black market

Introduction

Politics and economy rule the world and not everything is under the governmental control, moreover only the tip of the iceberg can be observed. The shadow economy occupies a big place in the economy, depending on the country, it could be over 60% of the GDP. For example, in June 2017 the portion of the shadow economy in Azerbaidzhan was 67 % [1].

Two major shadow economies or underground economies can be identified:

- informal economy;
- illegal economy [2]

The informal economy consists of legal businesses, although they are not reported or recorded. The illegal economy consists of illicit businesses, such as prostitution, drug dealing etc.The main focus of this article is on the illegal economy and black market of Japan.

The size of shadow economy in Japan varies from 5 to 8% of the GDP [3] and this figure is very good, the country is not only one of the safest in the world, its economy is mostly «white» as well. However, there is some prohibited activity. The Japanese mafia, so-called yakuza, is widely known around the globe. Its revenue is even bigger than the revenue of the Italian mafia. [5] Drug dealing, prostitution, cybercrime, they all exist in Japan. The amount of it is smaller.

This article is an analysis of Japanese black market as a part of the shadow economy of the country. Firstly, it overviews the situation in the world: what position exactly the shadow economy takes, what the amount of the underground economy in OECD countries is. Second part concentrates on Japan: shadow economy of the country, statistics on the informal and illegal economy; and Japanese black market:

position, goods and services, commodity circulation, sales volume, problems and perspectives.

Shadow economy in the world

The shadow part of economy is continually growing due to a number of reasons such as tax load pressure, sanctions etc. In 2009, according to Friedrich Schneider, the underground economy in the USA was about 8% of the GDP or 1 trillion dollars and in 2013, according to Edgar Fage, it was 2 trillion dollars. But ratio of shadow economy in the USA is relatively small. An average percentage for the Organisation for Economic Cooperation and Development (OECD) countries was about 20% in 1999-2010 and about 15% nowadays. [4]

International monetary fund (IMF) reported, that shadow economy and corruption is frequent in countries with weak governments and with unstable market systems. For example, in the post-States in 1990s the ratio of the underground economy was 64% in Georgia and 44% in Russia. [6] The ratio in Greece in 2017 was 21,5%.

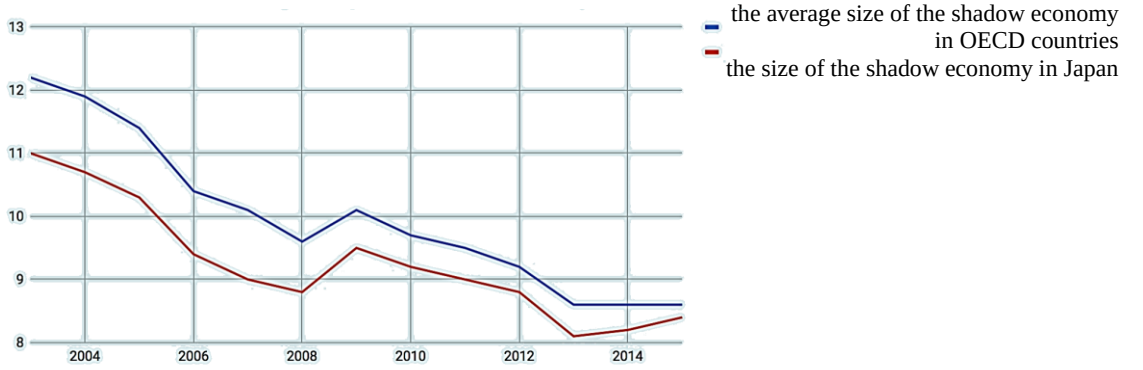
There are more than 50 countries around the globe, where the shadow economy reaches 40% of the GDP or more. The biggest underground economies in the world are in Azerbaidzhan (67%), Nigeria (48%) and the Ukraine (46%). Speaking of OECD countries, the highest share are in Bulgaria (30,6%), Romania (28%), Turkey (27,8%) and Croatia (27,7%). [4]

Tax evasion is a big part of the shadow economy and the amount of money countries lose due to it is overwhelming. Thus, the total loss in the USA was $ 337,349 million, in Russia — $ 221,023 million, in Japan — $ 171,264 million, in China — $ 134,385 million. The amount of tax revenues that Greece can not collect is 10% of GDP [4].

Shadow economy of Japan

The size of the underground economy in Japan is 21.9 trillion yen. The national budget of Japan is about 80 trillion yen, and the nominal GDP is about 500 trillion yen. Therefore, the share of the shadow economy in Japan is 8,6% of the GDP. [7]

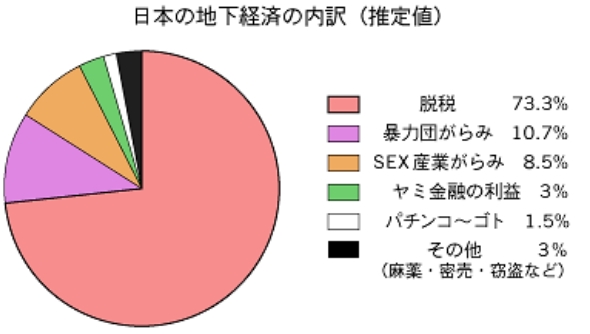
Graph 1. The size of shadow economy of Japan and OECD countries (in % of the GDP).



Source: based on Friedrich Schneider's data [4].

In graph 1, we can see, that the underground economy in Japan is relatively smaller, but it follows similar tendency. The curve changing from 2003 to 2013 is almost the same.

Diagr. 1. Underground economy of Japan [7]



3/4 (73,3%) of the underground economy is tax evasion. The amount of tax evasion in Japan is from the lower limit of 7.4 trillion yen to the upper limit of 14.2 trillion yen. The major reason, why tax revenues from self-employed people (including agriculture etc.) is so small, is that a "tax return" is set as a voluntary return system. If a tax collection system had been performed to self-employed persons as well as to salaried workers, tax evasion would have decreased significantly. 10,7% of the shadow economy is the income of illegal businesses (gambling, drug trafficking, foreigners illegal stay, etc.). 8,5% is a dark income from the sex industry.

In other sectors of the diagram above, things that the data lacking details are summarized. Among them, there is an interesting thing — «honorarium to a doctor».

It takes 1.4% (about 270 billion yen), that is a half of «other». Such phenomenon also exists in Russia. [7]

Black market of Japan

The black market is an illegal trade of goods. The black market is not the same as the grey market, where goods are traded legally, but outside of the common channels. Goods and services traded on the black market include drugs, arms counterfeit, prostitution.

For example, during the Occupation period chewing gum, clothes, liquor which were illegally sold by American soldiers were a part of the grey market as well as essential goods, e.g. rice, which were sold illegally. Sugar was one of the biggest commodities on the market those days and it was 26% more expensive than the official price, although it was nearly impossible to buy it on the «white» market. [12]

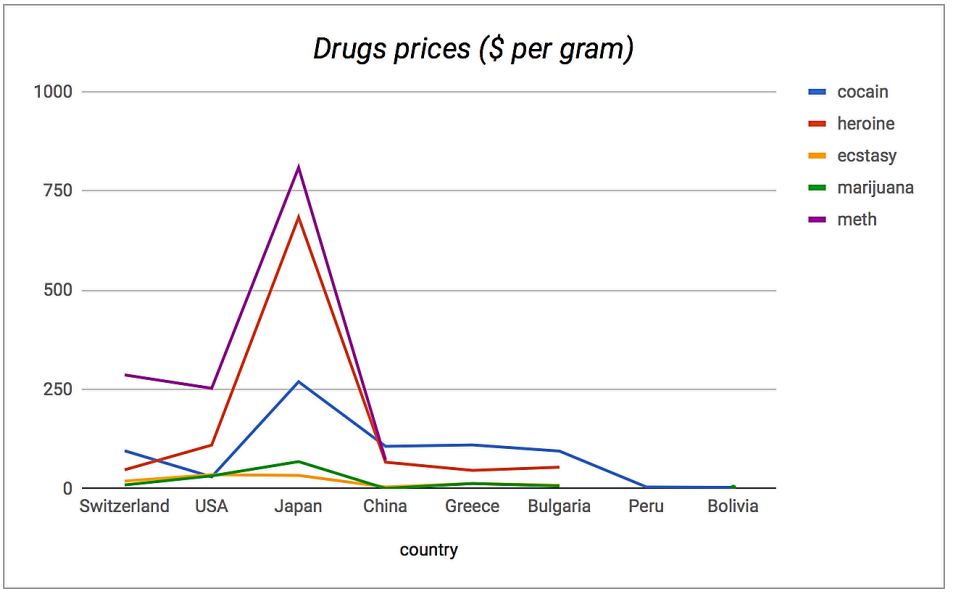
As stated in the previous section, the share of illegal activity of the shadow economy of Japan is about 19,2% and it is a great figure. [7]

There are 3 parts in this section which are observed: drugs, prostitution, cybercrime.

Drugs

Drugs in Japan are expensive, this business is for the elites. There is information on several countries on 5 types of drugs performed in the graph 2. The selected countries are the USA, China and Japan as 3 biggest economies, Switzerland as the second best («whitest») of OECD, Bulgaria and Greece as the worst of OECD, Peru and Bolivia as the world worst. There is no data on methamphetamine in Greece, Bulgaria, Peru and Bolivia, as the drug is very rare there due to its expensiveness. In developed countries the prices are high, but they still cannot be compared with Japan. Heroin, cocaine and meth in Japan are more than twice as expensive as in the USA.

Graph 2. Drug prices [8].



An overall drug trafficking in Japan is 9,3 billion dollars. [8]

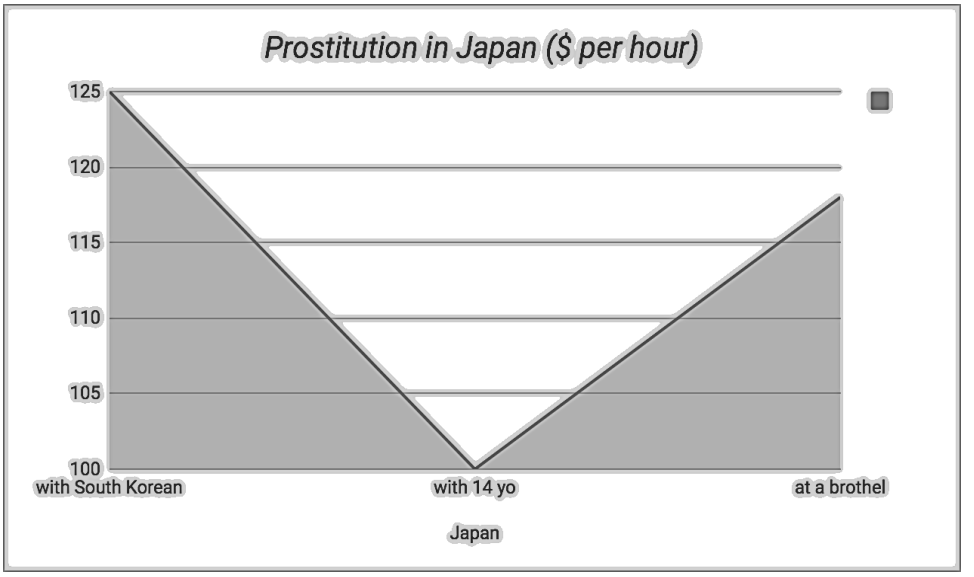
The National Police Agency in Japan stated that 10,909 people were arrested in the country for various drug offenses in 2013. 2,206 people (20%) were people over the age of 50. According to security officials, the number of older suspects who are arrested for drug crimes in Japan has risen in the last several years.

Drugs are not very common in Japan. In 2010 it was estimated that 2,8 million people (2,9% of the population) had used drugs at least once. Japan has the lowest level of drug abuse among developed countries. [14]

Prostitution

Prostitution in Japan has a very long history. The first anti-prostitution law was published in 1956. The third article claims, «no person may either do prostitution or become the customer of it», though the definition of the word “prostitution” is very indistinct, therefore what is called prostitution in other countries is not illegal in Japan. Prostitution in Tokyo dates back several hundred years ago and as the city is in a top five business and trade centres, it continues to thrive there. According to the polls by National Women’s Education Centre of Japan between 20% and 40% of Japanese men have paid for sex. [11]

Graph 3. Prostitution in Japan ($ per hour) [8].



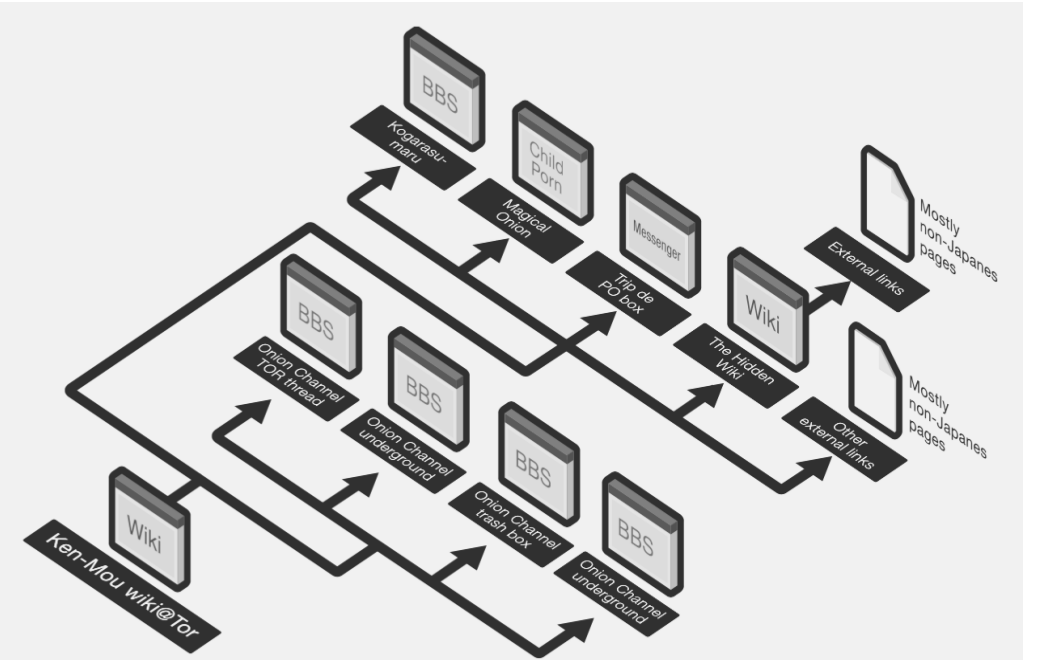
On graph 3 above there is some information on prices presented. There are estimated 50,000 women from South Korea working in the sex trade in Japan, comparing with 30,000 South Korean prostitutes in the United States. In 2012, it was reported that men were paying around $125 (10,000 Japanese Yen) to have sex with prostitutes for a 60-minute session. Previously, the rate was $187 (15,000 Yen) per hour [9,10]. Prostitution in Tokyo in brothels costs about $118 per hour [8]. It has some bonds not only in criminal business, but also in the culture of the country, and it presumably will continue thriving.

Cybercrime

Japan is known as a country of the 23d century so no wonder cybercriminal activities take place there all along. A report by the Japan National Police Agency (NPA) shows that queries about potential online crime cases rose by nearly 40% in March 2015 compare with the previous year. For a country that has a relatively high Internet penetration rate of 86% off a base population of nearly 127 million, a 40% increase is a big figure. The financial damage from illegal online bank transfers in 2014 amounted to $ 24 million, while the overall online fraud damage cost banks $ 13 million in the first half of 2015. The NPA also revealed that financial losses could be attributed to online fraudsters who used stolen IDs and passwords. Japan was the second most affected country by online banking malware in 2014, on the first place is the United States. [12]

The Deep Web is somehow an online black market.

Pic.1. The map of the site Ken-Mou wiki@Tor.



For the research a total of 2,224 underground site URLs (all of which used Japanese) under 11 unique domains were collected. Some of the sites were not related to cybercrime despite being hidden underground. One such site, Ken-Mou wiki@Tor (picture 1), contained a lot of links to bitcoin services and BBSs tied to other pages with illicit content. The related sites had information on child pornography, drugs, etc. [12]

Phone number databases were among the offerings in the Japanese Deep Web. For example, Orda Project offers stolen account credentials to registered users. Various credit card, PayPal®, and Secure Shell (SSH) account credentials are sold at varying prices on the site. Stolen credit card credentials cost $ 60. [12]

Fake passports are also sold online. Shopping site “FAKE PASSPORT.ONION” sells passports for 12 countries, including Japan. FAKE PASSPORT.ONION sells fake Japanese passports for $ 700. US passports has the highest price on the list — $1,000 each. The information about other countries is presented in the table 1 [12].

Table 1. Fake passport prices.

Country	Selling price
US	US$1,000
Switzerland	US$900
UK	US$900
Australia	US$850
Germany	US$850
Austria	US$800
Canada	US$800
France	US$800
Netherlands	US$800
Belgium	US$750
Finland	US$750
Japan	US$700

Table 2. Credit cards prices.

Country	Selling price	Number of accounts for sale
Credit cards		
Japan	US$14–78 (Average: ~US$60)	207
US	US$2–84 (Average: ~US$7)	126,707
Brazil	US$6–10 (Average: ~US$8)	17,385
UK	US$8–61 (Average: ~US$8)	28,336
Canada	US$3–60 (Average: ~US$16)	36,423

Some Japanese underground sites serve as home to child pornography. Magical Onion is one of such sites. It serves as a trading platform for taboo content. Its registered users need to buy “magical points” to be able to exchange content with others. It only uses Japanese, which shows that most of the members are either nationals or native speakers, as only 10% of people who knows Japanese are not residents [15]. In 2014, Japan passed a law banning child pornography. Anyone in possession of related materials faces huge consequences, including imprisonment. Under the law, offenders found in possession of pornographic videos or photos of children can be fined up to $ 8,351. [12]

Some Japanese underground sites also serve as weapon depots. Sites like Black Market Guns (BMG) eliminated middlemen between gun enthusiasts and dealers for those willing to purchase supposedly untraceable rearms. The Japanese underground market not only offers goods, but also hacking advice. Users can get tips on hacking enemies, extorting money using malware, and where to get the tools they would need.

Japan’s presence in the global cybercriminal underground, although still comparatively little, is not negligible. The forums, typically used to foster anonymous conversations on taboo topics, are turning into viable trading posts for prohibited goods and contraband. [12]

Conclusion

Depending on the economic context, the underground economy can be both harmful and useful, but no doubt criminal forms of business are disruptive for society and economy. In countries with a rapidly developing economy, the level of shadow economy in all forms rests at 36% of GDP, and in developed countries - at around 13%

[4]. On the one hand, for the emerging economies, a large share of underground economy negatively affects the situation in the country as a whole: public services, fuelled by taxes, are in a situation of shortage of money, their quality suffers. On the other hand, in a crisis, the shadow economy creates the necessary softening "pillow" for the population.

Japanese law enforcement agencies are making great strides in protecting their citizens against organized crime and shadow economy. And they are doing excellent job: Japan is one of the safest countries in the world, the level of shadow economy is relatively small and black market is a very private space to cover. But some efforts may also push criminals to go further underground. Since there is pressure from the law that hinders criminals from making money out of traditional schemes, they can prefer to move their operations where legislation may be more lenient and attribution for their crimes, more difficult.

Overall, black market in Japan is relatively private and hidden deeply underground (drugs, cybercrime) or is partly legal (prostitution). After the Second World War and the Occupation period the government saw the problem of the growing black market and tried to solve it [13].

I depicted a huge part of the underground world in this article, but I did not cover its main part *yakuza*, the Japanese mafia. As the topic is wide, it requires a separate research.

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Organized crime groups in Japan economy

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Abstract

Black Economy is a clandestine market or transaction that has some aspect of illegality. It is characterised by some form of noncompliant behaviour with an institutional set of rules. If the rule defines the set of goods and services whose production and distribution is prohibited by law, non-compliance with the rule constitutes black market trade since the transaction itself is illegal. Parties engaging in the production or distribution of prohibited goods and services are members of the illegal economy. Violations of the tax code involving income tax evasion constitutes membership in the unreported economy.

Keywords: Shadow economy, underground economy, black market, yakuza, tax evasion.

1. Introduction

In developing countries, the stability of underground economy is explained by some factors:

- Excess supply of labour force
- Low economic growth
- Inequality of incomes
- Corruption and underperformance of public administration

To some extent these factors are present in all countries, hence in developing countries, these factors limit income opportunities dramatically for most people. As a result, black market has become the only real source of income for workforce. A large body of research points out a worsening economic situation, curtailment of production assets, increase of taxation, unemployment and decline in wages, all this leads to an increase of shadow economy in all groups of countries, including developed one.

Moreover, underground economy can be provoked by anti-crisis measures of the state. For example, tightening of governmental control over financial sphere caused an increase of shadow economy in Greece by 1% of GDP (24,3% in 2008 and 25,4% in 2010).

Table 1. Main reasons for growing shadow economy

Factors of growing shadow economy	Influence
1. Tax increase	45 - 52%
2. Low public administration	12 - 17%
3. Regulation of the labour market	7 - 9%
4. Moral of taxpayer	78 - 96%

Source: Schneider, Friedrich. The shadow Economy and Work in the Shadow, March 2012

Before the global crisis of 2008 shadow economy had a tendency to decline almost in all regions. Massive reduction of black market in this period was spotted in Asia. However, in the period of 2008 - 2010 the growth of shadow economy was marked in every country of the world.

Table 2. Dynamics of underground economy in developed countries (% GDP)

Country	2008	2010	2013
Germany	14,2	13,9	13
The UK	10,1	10,7	9,7
Canada	12	12,2	10,8
Japan	8,8	9,2	8,1
USA	7	7,2	6,6

Source: Schneider, Friedrich. Size and development of the Shadow Economies of Portugal and 35 other OECD countries, 2013

2. Tax evasion and capital export

Most serious consequences of black market activities are tax evasion and export of capital in offshore accounts. Financial globalisation encouraged such large-scale tax avoidance. It created favourable conditions for international speculative transactions and cross-border export of capital.

3. Criminal economy

Lack of opportunities for a steady income is often accompanied by the growth of criminal economy, which is a component of the shadow economy. One of the reasons for growing black market is the formal criminalisation of economic activities in countries, and international organised crime.

4. Yakuza influence on Japan’s underground economy

Japanese criminal community, colloquially known as the Yakuza, were actively involved in the economic life of the country since its inception in the XVII century. Some of them feeling a need for money and food were engaged in looting. Later they became the first component of the criminal clans. The second one was an organisation of merchants seized the Japanese markets. They still exist today in the hierarchy of the Yakuza. The third part of the Japanese mafia was represented by professional players «bakuto». The part of the gangsters engaged in drug trafficking, prostitution and gambling. The most profitable business of Yakuza became extortions in the corporate area. Yakuza gathers information on senior executives, including those who used prostitutes, drugs, tax evasion, unsafe practices or violations of environmental laws.

In the late 80's, in the era of the economy of the "soap bubble", speculation with real estate and stocks led to a sharp rise in prices for them. Mafiosi were ready to buy real estate and shares at inflated prices, hoping to sell them even more. While prices grew, banks and yakuza enjoyed cooperation. But in the early 90's the "bubble" burst, and prices quickly flew down. Many Mafiosi lost their shares and real estate value, and they were not able to repay debts. Some came out of the situation according to the old scheme "no money - no head", that is, committed suicide. But most simply refused to extinguish debts. Attempts to return the money turned into a series of murders of bank officials who dealt with the problem of "bad loans" that put the Japanese banking system on the verge of a crisis. Their volume was estimated at ¥ 237 trillion - 39% of all loans issued to companies. The Japanese economy fell into stagnation. And the yakuza was blamed for this.

The authorities attacked the mafia. The number of criminal groups in Japan has been reduced to 2330 so far. But the yakuza damaged the economy. In particular, in 2004 it became clear that the largest in Japan gangster structure Yamaguchi-gumi used for money laundering Bank Credit Suisse Group. As a result, 60 million Swiss francs in cash ($ 49.34 million) were blocked.

5. Black markets

The turnover of the shadow economy in Japan is about 23 trillion yen ($200 billion) or 4.5% of GDP. Japanese shadow economy is formed mainly from the operations of the mafia syndicates in spheres: prostitution, drug trafficking and weapons. The largest international black markets are in Japan (108$ bln. or 2,4% of GDP). The Japanese production of fake, counterfeit, illegal or pirated products are

amounted 75$ bln. Prostitution is the second segment of underground economy in Japan that makes a lot of profit (24$ bln). A special role in the global criminal economy belongs to transnational organised crime. There are many criminal activities of transnational criminal groups trafficking weapons ($1 bln), nuclear materials (100 million dollars), art theft (10 billion dollars). They are involved in kidnapping, trafficking of human organs, gambling, pornography etc.

6. Conclusion

Money laundering through global banking system is a big issue for many governments. The necessity to fight the legalisation of criminal money is recognised at both international and national levels. Intergovernmental organisation FATF (Financial Action Task Force on Money Laundering) was created in 1989 to combat this phenomenon. Today this organisation includes 34 countries, mostly industrialised States, the European Commission and Council of cooperation for the Arab States of the Persian Gulf. Russia joined FATF in 2003.

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The informal employment in Jordan

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Abstract

The informal economy in Jordan is growing. Moreover, there is a direct connection between this growth and the current approach to refugee working rights at the Governmental level. Refugees contribute to local economies by bringing new skills and resources, as well as increasing production capacity and consumption demand. Jordan faces a complex mix of economic and security challenges related to the increasingly protracted refugee situation. Increased growth of the informal economy undermines Jordan's economic resilience and poses risks to both Jordanians and Syrians.

Keywords: informal economy, Jordan, MIMIC, Labour Market, refugee

The informal economy, also known by the grey, hidden, black, or shadow economy, reflects «mostly the legal economic and productive activities, that, if recorded, would contribute to national GDP, therefore the definition of the informal economy tries to avoid illegal or criminal activities, do-it-yourself, or other household activities» (Medina and Schneider, 2017).

The World Bank identified the informal economy as work in home, which means people who are not related to a company, or who do not have a job contract with a specific company; most of these people do not pay taxes and might not have a social insurance record.

In 2011 the World Bank issued the study under the title" Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa". The study resulted that the informal sector size varies in the Middle East and particularly in the non-gulf countries.

The size of the informal sector depends on the availability of the natural resources and manpower in addition to the demographic state. Countries with abundant labour and natural resources suffer from high rates of informal employment such as (Iran and Yemen). Additionally, the data showed that 80% to 90% of the labour force doesn't contribute to the social security system; in spite of the high rate the rate of the non-observed part of the GDP estimated around 20% to 25%.

On the other side, countries with low employment and natural resources such as Jordan, Tunisia and Morocco, the percentage of the non-observed GDP in it reached 36% to 40%, while the proportion of the labour force who don't contribute to the social security system reached 45% to 67%.

The IMF in its last report "Regional Economic Outlook: Middle East and Central Asia" estimated the size of the informal sector in the Jordanian economy at 26%, they used in their methodology the Multiple Indicator-Multiple Cause (MIMIC) model.

In the last six decades, Jordan has witnessed key economic, social and demographic changes especially after the 1948 war, which led to forced migration towards the Kingdom which increased the numbers of the population and caused structural imbalances in the Jordanian labour market. The labour supply exceeded the domestic demand due to the inability of the economy to absorb the large numbers the newcomers to the labour force, which aggravated the unemployment problem.

In the seventies and eighties, the Jordanian labour market has witnessed marked developments reflecting the conditions experienced by Jordan and the Arab Region in general regarding the political, economic and social development. As a result, the size of the workforce in Jordan increased from 332.8 thousand workers in 1973 to 420 thousand in 1980, to 630.1 thousand in 1990 and then to 1142.3 thousand in 2000. Hence, the total participation rate in the past years has increased from 19.83% to 20.24%, 21.5% and to 26.4% respectively, while the unemployment rate has seen a marked fluctuation during the period (1973-2000) and reached 11.1%, 3.5%, 16.8% and 13.7% respectively. In 2015, the estimated size of the workforce was about 1412.1 thousand workers, the crude participation rate was 25.1%, and the unemployment rate was 12.5%. (Al-Talafhah,1993 and the Ministry of Labour, 2015).

Employment in Jordan was classified into five groups, represented by the following:

1. Employment in the public sector
2. Formal employment in the private sector (those working with payment, and those who have a contract or a social security). The formal employment in the private sector is divided into permanent and temporary contracts.
3. Informal employment in the private sector (those working without a contract or social security)
4. Those working for their private account
5. Working for households without pay.

Unemployment rates have passed several stages since 1973, where the Jordanian economy turned around towards semi-full employment of human resources and calling for foreign workers to bridge the gap caused by the developments in the Jordanian labour market. This has coincided with the economic development plans (1973-1975), (1976-1980) and (1981-1985). This situation continued until the mid- eighties, where the Jordanian economy witnessed a noticeable decline in production and employment, which led to accelerated rates of unemployment. This coincided with the decline in domestic and external demand for Jordanian labour. During this period, the return of the Jordanian emigrant labour started especially from the Gulf countries (Khasawneh, 1986). Then the external demand for Jordanian labour increased during the nineties, which contributed to a gradual decline in the unemployment rates.

The labour market in Jordan witnessed during the period (1973-2015 a noticeable fluctuation in unemployment rates which ranged from 1.6% in 1976 to 18.8% in 1993, while they were 11.1% in 1973 (Ibrahim, 1989); however, the rate began to decline significantly since 1975 (below 9%) and began to increase significantly since 1989 because of the economic crisis that hit Jordan that year and led to the low exchange rate of the Jordanian Dinar for about the half in addition to the subsequent negative effects of the second Gulf War on the Jordanian economy, which led to a decline in the external demand (particularly from the Gulf countries) for Jordanian labour. The

unemployment rate reached its peak in 1993 where it was (18.8%) and fluctuation started again until it reached 12.5% in 2004 and 2015 (Ministry of Labour, 2004 and 2015). The reasons for the high rates of unemployment in the Jordanian labour market since the fifties are due to the economic and political conditions which are still valid to this day. The reasons were associated with the competition between foreign and national workers in various economic activities. The most important reasons can be summarized as follows:

1. Slowdown in the economic growth since the eighties, compared with growth in the seventies when Jordan witnessed important economic leaps and high growth rates (Al-Omari, 2002).
2. Rapid increase in the outputs of the educational system at different levels and lack of harmony between these outputs and the needs of the Jordanian labour market.
3. The vocational education represents only a modest proportion (about 10%) of the output of the educational system in Jordan, which focuses on the academic education overall.
4. High rates of population growth in Jordan (2.2% in 2015), which often exceed the economic growth rates; therefore, the population increase will cause (especially in the long run) excess labour supply that cannot be absorbed by the labour market.
5. The employment saturation reached by the public sector in Jordan, the largest employer in Jordan, and the trend towards privatization of some public bodies led to a decline in the public sector's demand for workforce.
6. The competition between foreign workers and national workers in Jordan for some professions, and differences in wages. Foreign workers usually accept lower wages than the Jordanian workers are willing to accept for the same job. Additionally, foreign workers are more willing to work in difficult conditions and for long hours, thus creating a better labour supply in those professions.
7. Decline in the external demand for Jordanian labour due to the retreat in the volume of investments in the countries which have been considered traditional markets for the Jordanian labour, and the nationalization of jobs policy whereby foreign labour is substituted in those markets by national workers.
8. Political conditions that were a result from turmoil and wars in the region, especially the second Gulf War in 1991 which forced a large numbers of Jordanians living in the Gulf (about 350 thousand) to return home and look for jobs, consequently unemployment rates began to increase rapidly and peaked in 1993 (18.8%).

The crude activity rate in the labour force reached about 23% during the period (1973-2015), which is low, despite the gradual rise it went through, which is much lower than those in other countries, as well as for the refined activity rate in Jordan during the period (2006-2015), which was 39.3%, compared with 65% in the U.S., 62% in the UK, 58% in Israel and 58% in India.[1]

The reasons for the low crude activity rate economic participation are:

1. Low rate of female participation in the labour force, which did not exceed 9.4% in 2015 due to customs and traditions, such as marriage, child-bearing and family desires for better activities for females, which reduced the rate of the

contribution of women in the labour force in Jordan (Talafha and Fahdawi, 1998 and DOS, 2015).

2. The age composition of the Jordanian population, where children under the age of fifteen represent about 37.1% of the total population because of the high fertility rate, which leads to lower proportion of people of working age (between 15 and 65 years).
3. The expansion of the educational system in Jordan which is mainly directed to investing in human capital, and therefore it delays the entrance of part of the population into the labour market, where those who still receive their education at different stages in Jordan represent about a third of the Kingdom's population (Ibrahim A, 1989).
4. The persistent migration of young workers to work abroad, especially in the Gulf Countries despite the slow pace of this migration for more than 15 years is still within narrow limits especially for talented people, professionals and non-traditional jobs.

THE DISTRIBUTION OF INFORMAL EMPLOYMENT

1. The percentage distribution by sex.

The informal employment in the private sector represented (26%) of total workers in 2015, in contrast with (22%) of the formal employment in the private sector. About (34%) of the workers in the public sector as well as (17%) of those working for their own account and 1% workers in households without pay.

It is noted from the results of the survey that males are "workers in the public" 32%, 28% informal workers in the private sector, 20% formal workers in the private sector constituted, 19% workers for their own accounts, and 1% workers in households without pay. But concerning females, the above-mentioned percentages came to 44%, 17%, 30%, 7% and 3% respectively. The same ratio concerning total labour force were 34%, 26%, 22%,17% and 1% respectively.

Here, we can conclude that the share of employment out of total employment is represented by "informal labour in the private sector" and "workers in households without pay", and in this regard, the informal employment represents 44% of the total employment in the Jordanian Economy.

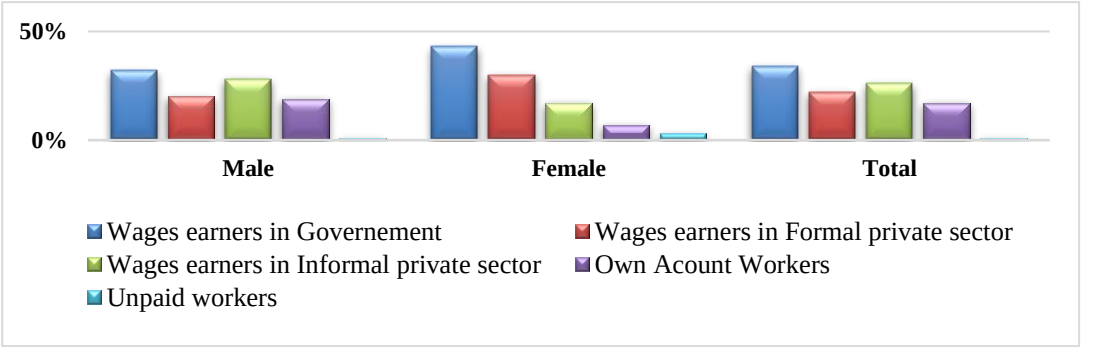

Fig.1 The Percentage distribution of Jordanian labor according to sex 2015

2. The percentage distribution of informal employment in the private sector by occupation.

The survey analysis reported a high proportion of informal employment in the private sector for each of the workers in the crafts, services and sales and machinery operators whose proportions were 30%, 24%, 14% of the total employment, respectively. While the percentage of workers in the elementary occupations was 9% of the informal employment in the private sector, followed by the specialists 7%, technicians 5% and clerks 5% while the percentage of skilled workers in agriculture was 3%.

On the other hand, it is noted that the percentage of the informal labour in the private sector in the supreme administrative jobs represented (0.4%) of the total informal employment in the private sector.

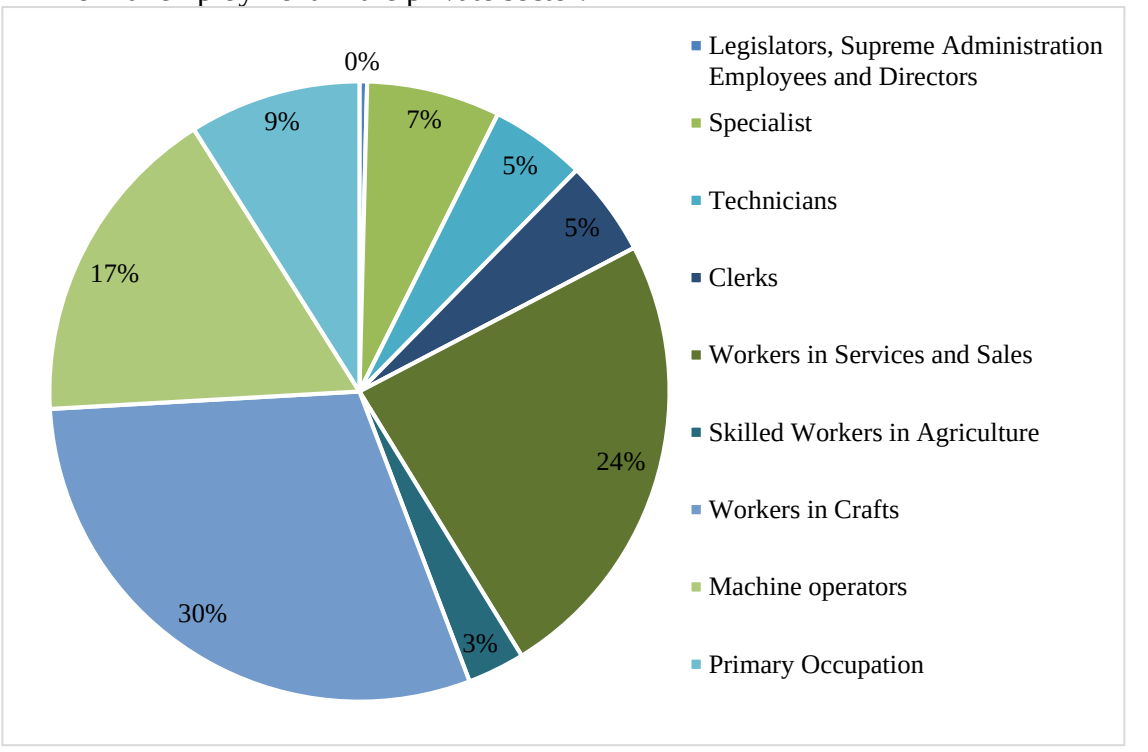

Fig.2 The Percentage Distribution in the Private Sector by Occupation

3. The percentage distribution of informal employment in the private sector by economic sector

The results of the survey brought out that 30% of informal employment in the private sector is concentrated in the wholesale and retail trade and repair of engines and motorcycles, 18.6% in manufacturing, 11.7% in transportation and storage, and 11.1% in construction. Additionally, the proportion of informal employment in the supply of electricity, gas, steam, and air conditioning, the supply of water and sewerage and waste management and the activities of arts, entertainment and recreation is low where the employment in these sectors was 0.1%, 0.2% and 0.3%, respectively.

With respect to the classification of informal employment in the private sector by gender, 32.4% of male work in wholesale, retail trade and repair of motor vehicles

and motorcycles and (19.4%) work in manufacturing. As for females, informal employment is concentrated in the activities of human health and social services by 17%, followed by agriculture, forestry and fishing, and education by16.4% and 16.1%, respectively.

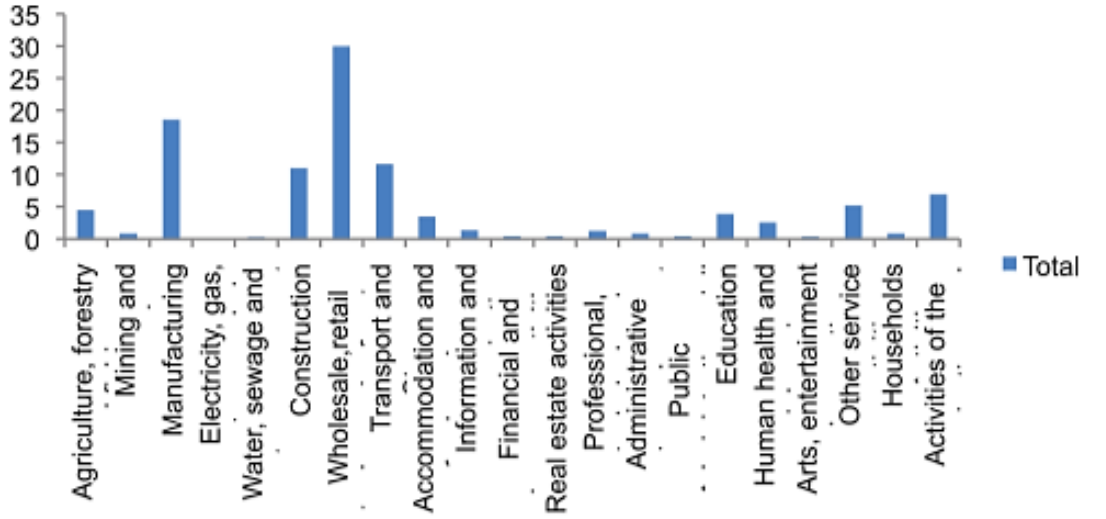

Fig. 3. The percentage distribution of informal labor in the private sector according to economic activity.

4. The distribution of wage earner workers by the level of education and economic sector

The data extracted from the survey showed that 39% of wage earner workers in 2016 are holders only less than secondary in the public sector while there was 30% of those holding the bachelor's degree or higher degrees out of the total wage earner workers.

As for the distribution of wage earner workers in the private sector, the wage earners workers in the formal private sector holding a degree less than the Secondary Certificate and BA degree or higher constituted 35% and 33% compared to 71% and 9% respectively for the wage earner workers in the informal sector (with higher degrees).

Whereas the percentage of own-account workers holding only less than secondary were 56% compared with 13% of those holding the bachelor’s degree or higher degrees. While the percentage of unpaid workers holding less than Secondary Certificate and BA degrees, or higher degrees were 63 % and 20% respectively.

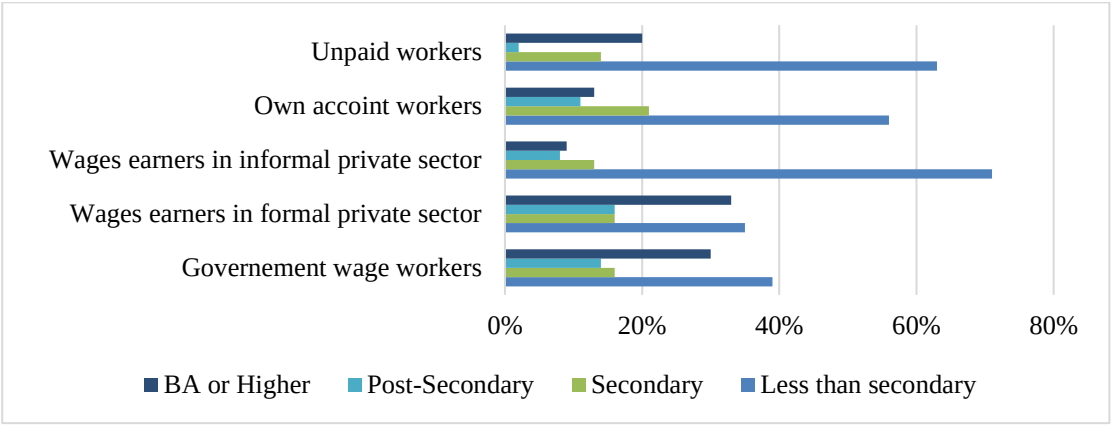

Fig.4 The percentage distribution of wages earners according to the level of education and sector in 2016.

THE CHARACTERISTICS OF WAGE EARNER WORKERS IN THE PRIVATE SECTOR

1. The distribution of wage earner workers in the private sector by the size of the institution

The survey indicated that 45% of wage earner workers in the private sector represent formal employment; 31% of them were permanent workers, while informal workers represented 55% of the total number of wage earner workers in the firms of the private sector. The informal workers constituted 92% of wage earner workers in the private sector firms which employ less than 5 workers and about 68% in the firms which employ 5-9 workers, while there were only 10% of the firms employ 100 workers or more.

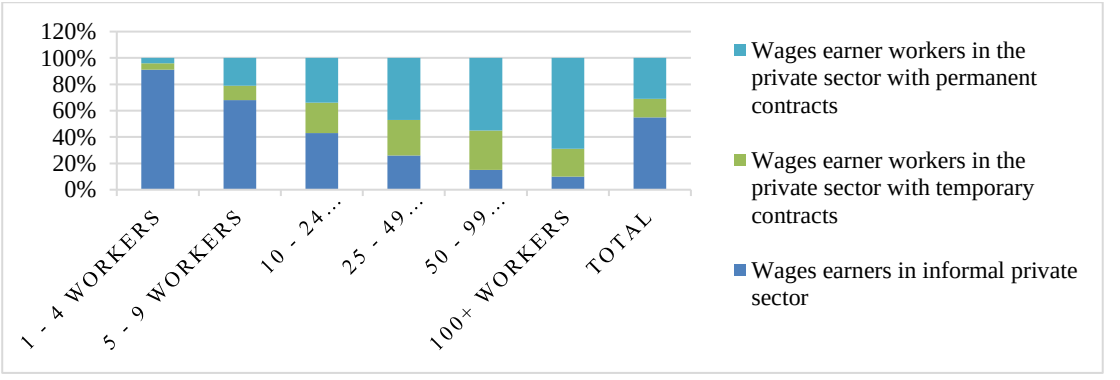

Fig. 4. Percentage distribution of wage earner workers in private sector by size of the firm

2. Non-Jordanian workers in the private sector

Non-Jordanian labour constituted about 16% of the wage earner workers in the private sector at which this labour shared in 25% of the total employment in the informal sector. It should be noted that most of the foreign workers in the informal sector are concentrated in micro and small enterprises taking into consideration that

the sample of this survey does not represent non-Jordanians because it is built on the basis of households living in traditional dwellings, so the coverage of the households of non-Jordanians is incomplete and therefore, the data about them is only indicative.

It is almost impossible to provide an accurate quantification of the size of the informal economy in Jordan or the wider region. In 2015, Jordan's informal economy was estimated to constitute 20-25 percent of total economic activity in the country [2]. What can be discerned with greater certainty is that the informal economy in Jordan is growing; moreover, there is a direct connection between this growth and the current approach to refugee working rights at the policy level. Jordan is not party to the 1951 Refugee Convention and its 1998 Memorandum of Understanding with UNHCR, while highlighting the need for refugees to be able to work, does not include provisions for the protection of formal working rights. The implication is that "only about 10 percent of employed Syrians have obtained formal work permits, and practically all Syrian refugees working outside camps do not have work permits and are as such employed in the informal economy and outside the bounds of Jordanian labour law" [3]. This situation is likely to be further exacerbated as the onset of international donor fatigue becomes more pronounced and refugees have no alternative but to resort to informal income-generating activities.

Syrians working in Jordan prior to the onset of conflict were mainly engaged in construction, wholesale and retail trade, manufacturing, agriculture, forestry and fishing and transportation and storage. Employment of Jordanian workers in these sectors in 2011 was low, with approximately seven percent working in construction and two percent in agriculture, forestry and fishing, for example. Most Jordanians were employed in public administration and defence. This is supported by survey evidence that shows higher levels of unemployment among Jordanian youth, who can afford to wait until the right type of position (in public administration or defence) arises. Today, the distribution of employment of Jordanian nationals across the same industries is almost the same as in early 2011. For Syrians living outside of camps, however, employment in the construction sector has risen significantly and now represents the principal location of employment for this demographic.

Employment of Syrian refugees has also increased in other areas, such as accommodation and food services. Such increased economic activity has prompted accusations that Syrians are filling positions that would otherwise have gone to Jordanian nationals. A recent report conducted by the ILO and Fafo suggests that there may be some truth to this:

The share of total Syrian refugee workers in the construction industry has increased quite substantially, indicating that Jordanians might have been crowded out of this industry by Syrians to some extent. Similar signs of out-crowing can be found in the wholesale and retail trade industry.

On the other hand, it is important to recognise that other factors, for example reduced cross-border trade owing to the difficulties around former trade routes through Syria, have also impacted the labour market in complex ways. Causality, therefore, cannot be attributed to refugees without further research.

Suffice it to say that the informal economy is not simply a site of illegal activity. There are positive features of an informal economy that can be overlooked for reasons

of political interest or social stigma. For example, the additional supply of goods and services and intensified competition can be a positive factor from the perspective of the consumer. Equally, the informal economy is a site of vital livelihood activities for many of the poorest and most disadvantaged people in wealthy and developing states alike. However, there are also significant risks for individuals, businesses and the state that are associated with a large informal economy, some of which are already visible in Jordan. Moreover, there are serious implications for the state, a decreased tax yield and the concomitant effects on social welfare systems being among the most salient. As Schneider puts it:

The fact that necessary public investment (e.g., infrastructure) cannot be carried out because of a lack of finances resulting from tax evasion, results in negative official economic growth. Public goods cannot be supplied to the desired quantity, and the aggregate supply of the economy falls. As the financial situation deteriorates, [informal] economic activity is viewed increasingly negatively.

A further risk associated with an expanding informal economy is the impact it can have on public sector spending. This can lead to a situation where the level of welfare expenditure cannot be upheld without raising taxes, thereby resulting in further increases in the informal economy because such work becomes more attractive. This can create a "vicious circle of further increase in the budget deficit or tax rates, additional growth of the shadow economy, and gradual weakening of the economic and social foundation of collective arrangements."

This imbalance between protection and burden-sharing is compounded by the fact that, in most host states in the global south, there are restrictions on refugees' ability to enter the workforce, except very specific cases. Refugees predominantly rely on savings and assistance from humanitarian agencies. As these resources wain, more refugees may seek work in the informal sector, where they are exposed to exploitation, unsafe working conditions and other risks. Growth of the informal sector also has negative implications on the economic development of the host state, by undermining the tax base, distorting spending and compromising the rule of law.

Under the Labour Code refugees must obtain a work permit from the Ministry of Labour in order to work , the requirements for which are onerous. As a result, many refugees are employed in the informal labour market. Some reports suggest that up to half of Syrian refugees in urban settings have at least one family member employed. Syrians have competitive advantages over Jordanians; they accept lower wages both due to necessity and greater flexibility; they can supplement their income with cash and non-cash humanitarian assistance. Syrians also have skill sets, including in some trades and crafts, not possessed by Jordanians. They may also be more active and entrepreneurial; the economic activity rate of Syrians (48.5 percent) is higher than Jordanians (36.5 percent). Thus, while the numbers are unclear, given that the Jordanian economy is characterized by small informal enterprises, the expectation is that Syrian refugees will, over time, develop more contacts and relationships with Jordanian employers, and progressively encroach on the informal employment sector. Moreover, that enterprising and resourceful Syrian refugees, driven by difficult livelihood conditions, will inexorably be pulled into the orbit of the Jordanian economy [4].

The data, however, are not straightforward. The largest numbers of employed Syrians — an estimated 160,000 according to the U.N. International Labour Organization — are low-skilled workers who take jobs that Jordanians tend to avoid. Such jobs are in the construction, agriculture and retail sectors. Thus, if Syrians have displaced employees, these are not principally Jordanians but instead some of the estimated 500,000 migrant workers from Asia and other Arab countries who work these low-wage jobs. Approximately half of these immigrants do not hold work permits. The implication is that Syrians are entering a labour market already familiar with informal employment and that the extent to which Syrians have displaced Jordanians has been limited. This is supported by unemployment not having increased in the Governorates that host most of the Syrian refugees.

This does not mean that there are no negative implications. Syrians entering the market has placed downward pressure on wages. This harms other migrant workers and the 14 percent of the Jordanian population who live in permanent poverty. The situation also complicates Government policy initiatives. To the extent that Syrians are working in the informal labour market, this deprives them of revenue in the form of taxation and permits, a portion of which is channelled to national occupational programs intended to equip Jordanians with the skills needed to meet the demands of the local market. Moreover, the skill sets of Syrians and their willingness to work for lower wages undermines policies to create jobs for Jordanians or replace migrant workers with Jordanians. Finally, to the extent that Syrians have taken jobs away from Jordanians, this has created direct costs for the Government in terms of increased social security payments, and indirect costs in the form of them being deprived of insurance subscription to the Social Security Corporation's social safety network[5].

The Jordanian economy does not generate sufficient internal productive capacity to keep all those able and willing to work employed. By the end of 2014, unemployment stood at around 11.4 percent, reaching 9.2 percent among men and 22 percent among women [6]. Jordan also experiences a low labour force participation rate at 32.4 percent in 2013 (50 percent for males and 14 percent for females) resulting in a large intellectual capital loss [7]. This has been attributed to a mismatch between education and labour market needs and cultural stigma surrounding certain vocational and male-dominated professions.

High unemployment has resulted into two distinct trends. First, the State has shouldered the burden by acting as a major job provider, further draining its limited financing and inflating the public sector; over 60 percent of Jordan's formal employment is in the public sector [8]. Second, widespread unemployment has created a fertile environment for the growth of informal employment, with the informal economy representing 44 per cent of total economic activity in 2015 [9].

The country's unemployed are mostly youth and women; in 2015, unemployment affected over 22 percent of young men and 45 percent of young women [10]. Youth unemployment is particularly pronounced in the southern part of the Kingdom: Tafileh, Karak, Maan and Aqaba. The problem also appears to disproportionately affect the educated; over half of unemployed Jordanians in their early 20s have completed at least secondary education. High post-secondary education rates have translated into a shortage in vocational and technical training participation, where enrolment stands at around 8-10 percent, leaving a shortage in low-skilled labour.

CONCLUSION

To summarize, Jordan faces a complex mix of economic and security challenges related to the increasingly protracted refugee situation. Increased growth of the informal economy undermines Jordan's economic resilience and poses risks to both Jordanians and Syrians. While it is unlikely that tensions between Syrian and Jordanian communities in the northern governorates will lead to any kind of widespread violence in the immediate term. There is evidence that inter-community relations are deteriorating because of competition for employment and affordable housing, and diminished levels of basic services such as waste management. Likewise, it is important to acknowledge the discourse that links displacement with domestic and regional instability, and with broader risks of extremist violence. It is clear that bold and innovative policy measures against these challenges need to be developed. Jordan's need to bolster economic development, the protection needs of the Syrian refugee population, as well as the imperative of domestic conflict containment and peace consolidation at the regional level must be considered while working out such measures.

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Shadow economy of Spain

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Abstract

Spain is listed 27th in UN Human Development Index and 28th in GDP per capita by the World Bank, thus it is classified as a high-income economy and among the countries of very high human development. According to The Economist, Spain has the world's 10th highest quality of life. However, Spain suffers from illegal business. The indicator of "shadow" economy in 17,2% of GDP - the largest among member countries of the European Union, except for Italy and Greece where it is about 19,8% and 21,5% of GDP respectively.

Keywords: 'off the books', untaxed economic activity, swindlers, unidentified, undeclared cash.

INTRODUCTION

A shadow economy is the total value of transactions by businesses and individuals that occur 'off the books', i.e. work done for cash to avoid paying tax into the system or follow regulations. It ranges from paying a tradesman or a babysitter in undeclared cash to the illegal wildlife trade, counterfeiting and money laundering.

Untaxed and unrecorded economic activity boomed during the global financial crisis and continues to grow.

The global shadow economy is thought to be worth at least €550 billion. While large shadow economies mean governments lose out on tax revenues, it has also been argued that attempting to curb them can limit economic growth and hamper innovation.

The economy of Spain is the world's fourteenth-largest by nominal GDP, and it is also one of the largest in the world by purchasing power parity. The country is a member of the European Union, the Organization for Economic Co-operation and Development, and the World Trade Organization. Spain has a mixed capitalist economy. In the Spanish economy there is a set of problems, such as, for example, high level of unemployment and shadow sector.

An increase of the shadow economy is caused mainly by a rise in the overall tax and social security burden, this may lead to an erosion of the tax and social security bases and finally to a decrease in tax receipts, and thus to a further increase in the budget deficit or to a further increase of tax rates with the consequence of an additional

increase in the shadow economy, and so on. Therefore, a growing shadow economy can be seen as a reaction by individuals who feel overburdened by state activities.

With a growing shadow economy, (economic) policy is based on erroneous “official” indicators (like unemployment, official labor force, income, consumption), or at least indicators that are inaccurate in magnitude. In such a situation, a prospering shadow economy may cause politicians severe difficulties because it provides unreliable official indicators, and the direction of intended policy measures may therefore be questionable.

The Spanish economy is the fifth-largest in Europe behind Germany, United Kingdom, Italy and France; and the fourth-largest in the Euro zone, based on nominal GDP statistics. In 2012, Spain was the twelfth-largest exporter in the world and the sixteenth-largest importer.

Volumes of "shadow" economy of Spain rose sharply in 2008, but since 2010 they have managed to be stabilized on a mark 17-18% of GDP of the country. Such information is provided by Fund of financial researches (FEF) in the report distributed last Sunday.

The indicator of "shadow" economy in 17,2% of GDP - the largest among member countries of the European Union, except for Italy and Greece where it is about 19,8% and 21,5% of GDP respectively. For comparison: in Germany this figure is about 10,4% of GDP, and in Great Britain there are on a mark lower than 10%.

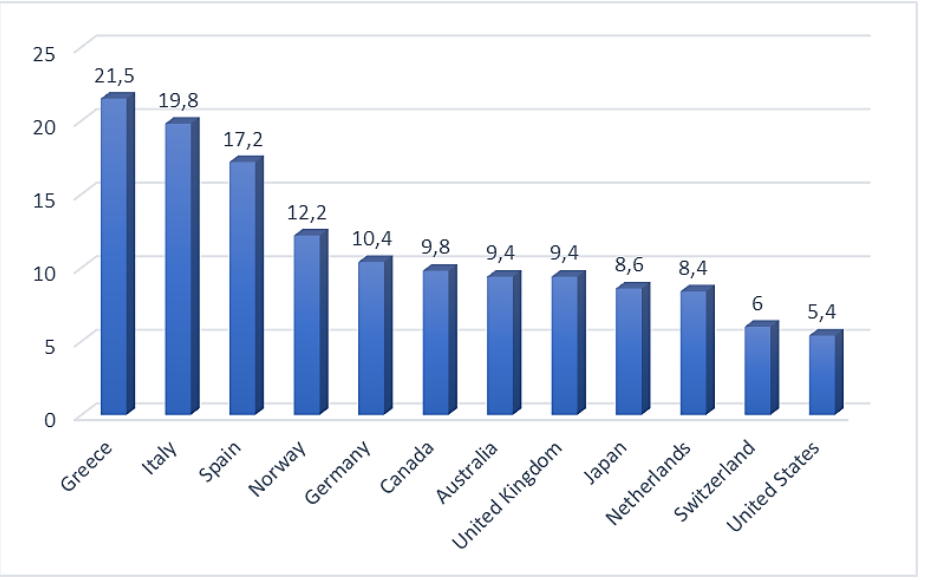

Fig. 1. Shadow economy as a percentage of GDP

The most hidden branch of the Spanish economy is construction. This activity in “shadow” accounts 35% of GDP. The financial sector is the most transparent and accounts less than 10% of GDP. By estimates of analysts of Fund, the tax administration of Spain sustains losses of 18-20 billion euros result from the illegal economic activity [1].

According to President of Fund Juan Carlos Ureta, availability of the "shadow" sector creates incorrect idea of actual scales of the Spanish economy. "That's why it seems that the level of unemployment is more than actual. The same treats budget deficit. And, as a result, the trust of foreign investors falls". An exit from this situation, according to the analysts of the Fund is creation of workplaces which could provide people with employment within 40 hours a week and salary in the amount of 400 euros a month.

According to Forex magazine, in 2011the unemployment rate in Spain was twice higher, than on average in Europe. Many people submitted applications for receiving a dole, but at the same time they nevertheless work. Millions are not registered working, and it means that neither they nor their employers pay contribution to the system of social insurance.

Spain has started the program for fight against shadow economy. The government adopted the law raising penalties for failure to pay contributions to a social security system in order "to solve a problem of informal employment".

The following factors contribute to the development of shadow economy:

<u>economic:</u>

-high taxes (on profit, income tax, etc.).

It is one of the main factors of leaving business in a shadow.

-crisis of a financial system and influence of its negative consequences on economy in general;

-imperfection of process of privatization;

-activity of the unregistered economic structures;

<u>social:</u>

-the low standard of living of the population that contributes to the development of the hidden types of economic activity;

-high unemployment rate and orientation of a part of the population to income generation in any way;

-uneven distribution of gross domestic product;

<u>legal:</u>

-imperfection of the legislation;

-insufficient activities of law-enforcement structures for suppression of illegal and criminal economic activity;

-imperfection of the mechanism of coordination on fight against economic crime.

As for the causes of the current levels of black economy and fraud in Spain, the General Council of Economists warns that concerning 20% of the citizens still consider the fraud to be well-taken in certain occasions.

Also, one of the persons in charge of the study, the economist Jesus Gascón, has told that "the battery of scandals and the permanent dripping" of cases of fraud, from the world of the deceased into the political class, does that there spreads the conscience of which the fraud is something widespread [3].

The tax collectors' union Gestha says the vast black economy has undermined Spain for decades. It estimates the black economy equals about a quarter of Spain's gross domestic product - or roughly a quarter of a trillion euros. For Gestha, that makes

Spain one of the fiscal bad boys of Europe, along with Greece, Italy, Portugal and Poland.

Economists say the cash-in-hand habit is strongest in agriculture, building, domestic work, trade and tourism. "The high level of unemployment has increased it," said Gestha's president, Carlos Cruzado. He said Spain suffers from a culture of tax avoidance, fueled by indignation over constant reports of political corruption, and it also lacks enough tax inspectors.

During the boom decade before Spain's crisis broke out, companies subcontracted a lot of their work to workers whom they paid in cash to keep up with demand, said Princeton University sociologist Alejandro Portes. Then in the crisis, this gave way to "an informal economy of survival" of technically unemployed people living hand-to-mouth from casual jobs, he said.

Cruzado complained that the black economy persists partly due to a belief that stopping people earning that way in a crisis could have explosive consequences. It is hard to do away with a system that supports many people who have exhausted all their welfare subsidies in the crisis. "There is a theory in Spain that, with five million people unemployed, there would be a revolt on the street if it were not for the underground economy," Cruzado said [4].

How does Spain deal with the problem of shadow economy? There is an example of dealing with this problem.

The Spanish government sees a possibility of a victory over shadow economy and money laundering in restriction of payments with cash. The law adopted in February 2014 set the maximum limits of payments by "cash": 2.500 euro if as the payer the resident of Spain and 15.000 – if the individual who isn't the resident of the Pyrenean kingdom acts.

Excess of the specified limits is punished by a penalty at the rate to 25% of the total amount of the transaction. And to punishment can be to subject not only the one who pays, but also the one who accepts money. To each employee of the state enterprises it is imputed a duty to report violation of this law known for him. In case the notification about non-compliance with accepted standards of payments with cash has arrived in tax from one of participants of operation, informed from responsibility (including financial) is released. Penalties and prosecution of violators can take place if the statement has come to tax authorities no later than in three months after date of the transaction.

And here one more example of measures to fight the shadow economy.

The constitutional court of Spain in the middle of February allowed employees of police to use databases of municipal registration for detection the foreigners living in the country it is illegal, and their dispatches home. Earlier police officers could delay illegal immigrants only on the street.

"They determined the foreigner by appearance and asked to show documents", - the high inspector of police Jose Maria reported in DW interview Ceará. Now, according to him, at law enforcement officers were given an opportunity to delay illegal immigrants at the place of residence, "without carrying out street round-ups which sparked criticism of the public". Toughening of measures as the political observer Cesar Vidal told DW, it is caused by several reasons: "first, desire to finish

about shadow economy" which keeps on work of illegal immigrants, secondly aspiration in the conditions of the unemployment which reached the level of 26 percent "to provide jobs to citizens of Spain", and thirdly, with intention "to save a health care system and education from excess loading".

But these measures didn't yield desirable result, and then the government of Spain approved new ones. This time there is a talk not about punishments and prohibitions, and about privileges to those entrepreneurs who will want to remove the business from a shadow. For example, owners of a family business can sign from now on the official labor contract with children and young people up to 30 years working for them unofficially and at the same time pay nothing to social insurance fund. The privilege is essential, considering that the fee in a social insurance is equal in Spain to 26% of the salary of the worker, and the average salary about the country – is slightly more than 1600 euros.

The sense of this measure is to register young workers in the insurance system guaranteeing unemployment benefits and pensions and to begin to levy the put amounts after achievement of 30 years by them. One privilege for those who will want to register the illegal workers, the prime minister Mariano Rajoy declared in parliament:

– Entrepreneurs will be able to pay for the employees arranged for full-time employment in the system of social insurance within the first two years only 100 euros. If the employee is dismissed, without having worked three years, then the entrepreneur should pay everything that it preserved in a social insurance, using this privilege.

In recent years experts explain growth of a shadow economy not so much with greed of the Spanish entrepreneurs and their desire to deceive tax specialists, how many a stalemate in which many of them appeared because of crisis. Working according to the tax legislation, for example, paying 30% from income of the entity and the progressive income tax from own earnings – from 25 to 52%, doing all put payments in a social insurance and pro se, and for workers, paying dismissal wages, many entities just wouldn't exist also month.

Therefore, according to the chairman of Tax Specialists Consolidation Carlos Krusado, all measures taken by the government so far cannot solve the problem of the shadow economy. Krusado is convinced that entrepreneurs will come out of the shadow not to live in dread of the law when see that taxes correspond to their financial possibilities:

- It is necessary to review the Spanish taxation system to liquidate the existing imbalances, first of all, the taxation of the entities and the income tax.

Carlos Krusado believes that eventually if smaller taxes are paid by a bigger number of the entities, including those that will come out of the shadow, state revenues will increase. However, the authorities as he considers, are afraid to risk, and therefore the tax reform planned for the end of March is postponed. However, according to Krusado, the state has a reason for concerns. The reason – a certain psychology of Spaniards which he explains by a relatively young Spanish democracy, the lack of understanding that the tax is an obligation before the state which all should carry out:

– Besides, we have one more serious problem which discourages common taxpayers. I mean the corruption of high-ranking officials, embezzlement of public

funds and a lack of information on investigation of financial crimes of officials. I think that these are the reasons that explain the unwillingness to pay taxes honestly.

According to Carlos Krusado, there is one more essential reason of survivability of the shadow economy. It is unemployment. In Spain it exceeds a quarter of the labor pool. So, for the people who were desperate to find legal work, work in "shadow" sometimes appears a unique opportunity to earn their living. The fact that working in the shadow they lose their elementary rights does not confuse them. Here, for example, nobody will pay you benefits neither in case of a disease, nor in case of a dismissal [5].

If we look at influence of the shadow sector, from the point of view of salaries, then it is possible to reveal the following. According to official data of the Spanish statistical institute, the average salary in Spain in 2017 constitutes 1829,13 euros a month before tax payment. In annual terms the amount equals 21 050 euros. Monthly costs for one Spanish worker (cost of a labor power) reach 2481,75 euros. Women on average earn 23% less than men. Considering a high share of the shadow sector of the economy the Spanish citizens often receive much more in cash than it is specified in the official sources, it negatively affects national economy [6].

The Madrid sociologist Gabriela Rospide believes that the labor law "was contrary to the interests of the entrepreneur and production in general". According to her, labor discipline constantly fell: absences, infinite sick leave notes, lawsuits with labor unions which were always decided for the benefit of workers' employers. Business also faded into "background" because entrepreneurs were doomed to wait for years to set up their company or firm, the sociologist noted.

Ten years have passed since the financial crisis outburst. The official figures given by the Government point out that a clear recovery is taking place in Spain. But the ancient mark of the black economy is still present: it still represents 17,2 % of the wealth of the country, thus the country is the third after Greece (21,5 %) and Italy (19,8 %).

According to the latest data the black economy in Spain reaches 168.000 million euros, exorbitant figures which impact is seen in the tributary collection: Treasury Department stops depositing every year for these practices in black about 26.000 million euros, the equivalent to 2,5 % of the GDP.

This means that, if there is outcrop of all these quantities, the budget deficit, in case it was coming down to 3,1 % of the GDP this year, would remain practically absorbed of a pen stroke. Even more, if these 26.000 million were collected it might refill the hole of the pensions – foreseen in 16.000 million in 2017 — another 10.000 million still would exceed and more.

It is necessary to say that experts share an opinion that the most developed countries have major tax burden valuations, but, nevertheless, they present low or relatively moderate black economy sizes. The less advanced is the economy of the State, higher it is the evasion. Schneider thinks that in the last 25 years in the world one has not declared a third of the produced wealth.

"If the developing countries are excluded in all the rankings, Italy, Spain and Greece are always in the first positions as for the irregular economy. There are many factors that explain it and he emphasizes the way in which the taxpayers perceive its

State. If there is corruption and inefficiency of the public administrations, of that time one tends to pay less taxes", he tells Sardinian. The crises happen, the shades remain.

CONCLUSION

Crime and shadow economic activities are a fact of life around the world, and almost all societies engage in trying to control these activities through education, punishment, or prosecution. Obviously, it is difficult to get accurate information about underground or shadow economy activities because individuals engaged in these activities wish to remain unidentified. Hence, estimation of shadow economy activities can be considered as a scientific passion for knowing the unknowable.

It is necessary to emphasize once again that the shadow economy is an exclusively natural phenomenon. It is impossible to provide such an economic model of the state which could allow an official economic system to function effectively, without generating at the same time a condition for emergence of the shadow sector of economy.

Also, it is necessary to mention that the shadow economy is a consequence of aspiration of subjects of economy to maximize the profit at the expense of illegal sources of financial resources and to minimize costs of production by avoidance of the legislative established taxation amount.

However, growth of the shadow sector specifies that a mistake was made and current laws and standard rates lead to the fact that costs for implementation of a business activity are too high. Availability of the large shadow sector has serious consequences for business activity, economic growth and development of the country and strengthening of democracy. These conclusions can be useful for political figures, government officials, entrepreneurs and employees occupied in legal and shadow sectors of economy, to labor unions and the international and regional organizations.

However, the example of Spain shows that it is possible to fight effectively the shadow sector if the government pursues competent policy. Let us hope that despite the difficult political situation in the country, the result of this policy will remain positive.

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PART THREE. SCALE AND SPECIFICS OF SHADOW ECONOMIC PROCESSES IN AND AROUND RUSSIA

Short analysis of shadow processes in modern economy of Russia

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Abstract

The shadow economy is a complex of economic relations and processes that are not publicized, are hidden by the participants and are not recorded by official statistics. The informal economy is a complicated, multidimensional concept. First, it is associated with crime, that is, with criminal ways of getting income. At that, economic crime is an important but not an exhaustive part of the shadow economy. The more common is the understanding of the shadow economy as an activity, hidden from the state (unreported, illegal). This approach to the shadow economy reflects its main feature - the shadow economy does not exist legally, it operates outside a state, public-law control, accompanied by the uncontrolled extraction of income.

Key words: the shadow economy, criminal, criminal ways of earning income, state activities.

TYPES, FACTORS AND STRUCTURE OF THE SHADOW ECONOMY

The structure of modern Russian shadow economy can be summarized in three integrated units:

1."Underground" or "grey" economy. It is an activity oriented to the satisfaction of normal social needs, however, carried out in uncontrolled government forms to extract the uncontrolled income and evasion of tax, customs payments.

2. Bogus (fraudulent) economy. It is an entrepreneurial or other economic activity involving various kinds of fraud and fake. For example, fraud in obtaining loans and their use, counterfeiting, manufacturing and marketing of counterfeit of securities, credit and settlement cards, other payment documents, fictitious bankruptcy, fraudulent conveyance, false advertising, etc.

3. Criminal "black" economy, focused on the destructive satisfaction of needs (prostitution, kidnapping, drug trafficking, arms trafficking, etc.), and on the receipt of income from different kinds of professional criminal activity (buying stolen goods, trade gold, etc.)

Various actors are involved in the process of shadow economic activities. They are a great many and tentatively they can be classified into 4 groups:

Group 1 - disorganized individuals;

Group 2 – organized shadow economic groups, which are divided into two types. The first is - criminal and shadow groups, the second – mere shadow economic groups, whose activities in one way or another may not comply with the legislation, but it is not a crime but a "soft mismatch";

Group 3 – the state as the shadow businesses, we are talking about public authorities and management, and about state officials;

Group 4 – all kinds of international organizations that are often involved in shady operations breaking the regulations they adopted themselves (IMF, WTO, World Bank).

Shadow economy – is a phenomenon difficult to study. It is easy to identify but impossible to know its scale, as all the data that can be obtained, are confidential and are not subject to publicity.

The study of the shadow economy is very important because it influences the function of many economic phenomena: the formation and the distribution of income, trade, investment and economic growth. The extent of this influence in Russia has become so dangerously large that the shadow economy endangers the sovereignty of the state as a whole and furthermore it is obvious that it must be analyzed.

THE ANALYSIS OF SHADOW PROCESSES IN MODERN ECONOMY OF RUSSIA. WAYS OF MEASURING THE SHADOW ECONOMY

The measurement of the extent of the shadow economy is a difficult task. This is because the shadow economy is hidden and is seeking to avoid measuring. The estimate of the size of the shadow activities is important in the analysis of economic development and formation of state economic policy.

Modern economists have developed many methods of measuring the shadow economy, which can be roughly grouped into two groups: methods used at the micro level; methods used at the macro level.

Micro method measurement of the shadow economy

At the micro level direct methods are used to measure the shadow economy: surveys to assess the extent of the shadow economy, methods of open check and special methods of economic-legal analysis.

Macro method measurement of the shadow economy

1. The method of differences.
2. A method based on calculations of employment rates (the "Italian" method).
3. The monetary method.
4. The expert method.

THE SCALE OF THE INFORMAL SECTOR IN MODERN RUSSIA

Specificity and uniqueness of the domestic shadow economy relates to such features as capital flight abroad, tax evasion, double bookkeeping, hidden unemployment, corruption. According to the IMF in 2014, the volume of the shadow economy in Russia amounted to 20-25% of GDP, which is about 2-2.5 trillion rubles. 6The average enterprise sold 16.8% of its products in the informal sector, and about

23% of the total turnover was the transfer of money from the official sector to the shadow sector. Although for our country the phenomenon, when the shadow economy enters the legal field, is quite common.

Most of the proceeds to the shadow economy comes from selling heroin, trafficking in women, selling counterfeit goods, firearms and cybercrime. In general, any economic activity that is not considered and is not controlled by the state can be considered the shadow economy. Entrepreneurship which hides real income from business and evades taxes can be defined as shadow.

In general, the shadow economy is associated with tax evasion, which has become permanent for domestic entrepreneurs. They use different methods and schemes to avoid taxation, because taxes are growing due to the increased need for the country's economic resources.

In the first half of 2014, 25% of organizations worked in the red to themselves, because they used schemes of hiding the activity or refraction of its results. And 42% of organizations declaring zero-result financial and economic activity. In other words, within half of the organizations in the Russian Federation do not pay income tax, which in the financial interests of the state is unacceptable. The key sectors of the economy, in which there is the largest number of non-profit organizations, are construction, retail and wholesale trade, i.e. the same sectors of the economy, in which the share of hidden wages is high.

A separate group of economic offenses, classified as a tax scam, is singled out. In many countries, one of the most serious offenses is a tax scam. Tax scam is guided by a precedent of concealing taxable bases through forgery or deliberate modification of documents. Here criminal schemes of VAT refunds for expert operations, illegal business, illegal export of money, etc. are applied.

In mid-2014, the crisis began and it worsened the situation on the labor market, then the shadow economy began to grow. Alexander Surinov (Rosstat) estimated this sector equal to the fifth share of the economy as a whole. Experts refer to this section as an "unobserved economy". A lot of goods and services that cannot be counted as banned for production and sale on the territory of the state (for example, prostitution).

- According to some estimates, the funds of the Russian shadow economy, is more than 60 billion dollars. In addition, a significant part of this economy does not fall into statistical data, it does not reflect in the published indicators of GDP and signs reflecting the results of activities of regions and industries in the economy.

According to the World Bank's published data on the WB for 151 countries including Russia, the share of the economy that is hidden from official eyes was about 50% of GDP. Analyzing the WB reports, experts in this industry concluded that the opaquest in Russia are services, trade, food production, agriculture, and illegal activities, including those with a high corruption component.

The scale of the shading division of the economy of the Russian Federation, as well as the degree of corruption of various industries, are today serious conditions that significantly hamper the successful development of our country's economy and its integration into the global economic space, as well as entering into diverse international companies and organizations.

The structure of the shadow economy includes three components: informal, fictitious and underground economy.

So, outside the formal economy of Russia in 2015, according to the Federal State Statistics Service, 14.3 million people were employed, including 7.8 million men and 6.5 million women. That makes 22.1% of the total number of employees in the economy of the state. Of them in trade - 4669 thousand people, in agriculture - 3341 thousand people, in construction - 1669 thousand. people in the sphere of transport and communications - 1315 thousand people, in the manufacturing industry - 1275 thousand people, in the sphere of rendering various services - 752 thousand people, in real estate operations - 570 thousand people, in the hotel and restaurant business - 441 thousand people.

In other economic activities, the formally considered part of the informal economy and the number of employees in it are not too large: education (107,000 people), health (142,000 people), production and distribution of electricity, gas, water (42,000 people) and others, but this does not prevent them from fully replenishing the shadow economy. What ultimately does not make life easier for society. There is no official and estimated statistics on the fictitious and clandestine economy. Assessment of the state of the shadow economy in Russia is regularly published only by foreign institutions and organizations.

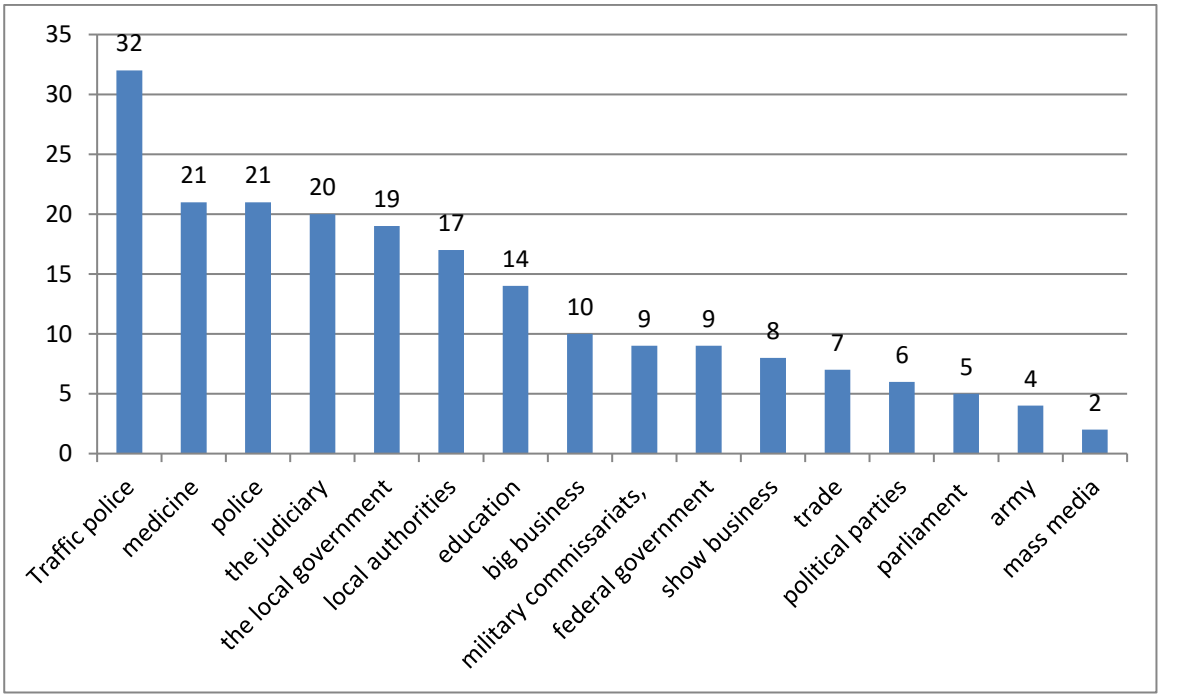

Figure 1. Spheres and institutions in contemporary Russia, the most prone to corruption

In Figure 1, we see that according to the survey for 2015, the shadow economy, according to the society is most developed in the sphere of traffic police. The share of respondents in this survey increased from 25% to 32% between March and October 2015. The second place was shared by medicine and the police (21%). The Ministry of Health is confident that the rise in domestic corruption is the fault of the main doctors who are not sufficiently cooperating with their subordinates. As for the judicial

system, it is also sufficiently exposed to corruption, which accounts to 20%. In this case, the reason is that the majority still perceive bribery as an inevitable phenomenon, connected with the mentality and the desire to speed up the intricate bureaucratic procedures. The shadow economy in the sphere of housing and communal services (19%) is manifested in overstating tariffs for rendering services, failing to fulfill its obligations. Authorities in the field according to the survey are given (17%). This area is always at risk. Because in their hands is a huge amount of resources. In the sphere of education (14%), it is not always about higher education institutions - bribes are also taken in kindergartens. The system of multistage registration of documents creates favorable conditions for giving bribes. But even its simplification does not always help. So, the "electronic queue" in kindergartens is designed to eliminate criminal facts. But practice shows that this is not always successful. Correspondents also took the last place in the military commissariat (9%). It is a fact that in recent years, more and more young people do not want to be enlisted and buy medical certificates to free them from military service.

If we continue to talk about the structure of informal employment, it is obvious that this is most expressed in the trade and repair segment: 34% of all informal workers are employed here, this is due to the huge inflow of foreign labor migrants. The second place is given to agriculture with 25.1%. The lowest rates of informal employment, in extraction, public sector and financial activities.

So, in the crisis year 2015, the number of people employed in the informal economy of the Russian Federation increased by 910 thousand people in the second quarter. up to 22.1% of the total number of employed in the economy (16.1 million people).

Thus, experts concluded that the main reason for the growth of the informal sector is the reduction of small enterprises. According to official data for the past two years, over 600,000 individual entrepreneurs (IPs) have ceased their work throughout the country. According to the results of 2015, according to Rosstat, there were 5.3 million registered IP in Russia. Other 200-250 thousand IP can withdraw from registration and go into the sphere of illegal shadow business if the tight monetary and fiscal policy is maintained. Such fears are also backed by data based on a survey of 450 companies from several regions. Based on their data, 30% of small and medium-sized companies had to reduce the number of employees and reduce wages due to the crisis.

It should be noted that the public sector has a great influence on the formation of shadow financial flows of firms, at the present stage of Russia's development, which is rapidly superseding business. This is manifested in the fact that a significant part of the proceeds belongs to companies that are under the control of the state, or the state has a significant stake. According to the "RBC 500 rating. The largest companies in Russia", out of 500 companies - 393 are privately owned, 88 state-owned, 18 companies with state participation and one foreign company. Despite an insignificant share of companies with state participation, their revenue is 43.7% of the total revenue of all rating companies.

It should also be noted that in 2015, 40% of the companies belonging to large business and controlled by the state accounted for 40%, private companies - 47%, and companies with foreign participation - 13%. Based on this, you can see that there is an

expansion of state participation in business. This can be traced if not by the number of companies, then by the volume of revenue.

Based on the above data, it can be noted that the increase in the share of the shadow economy in Russia is primarily related to the wrong policy pursued. Currently, the reduction in oil prices and the imposition of sanctions by the EU countries, significantly reduces liquidity as it takes place because of adjustments of the Central Bank main rate, which determines interest rates on loans. The Central Bank of Russia has increased the key rate to reduce inflation, correspondingly these changes have affected the interest rates of banks on loans issued. If we talk about the sanctions applied to our country, then their introduction significantly limited the attraction of foreign funds, as well as reduced the participation in the world market of banks and companies. High rates on loans in our country, as well as a limited number of foreign banks that do not support sanctions, these two factors have led to difficulties in attracting funds by companies.

It can also be noted that the sanctions have significantly reduced the amount of investment not only of foreign investors, but also Russian. All this had a significant impact on the scale of the development of the informal sector. To stabilize the country's economy, it is necessary to pay due attention to the solution of these problems, because they are the key ones at this stage of Russia's development.

According to the Federal State Statistics Service in 2016, the shadow economy involved 14.83 million people, which is 20.5% of the total number of employees in the country's economy, and in fact, the situation is as follows: the share of the shadow economy in GDP in 2016, is 40-50%.

If we draw a parallel alongside with the situation of the shadow market with foreign countries, we can see a picture which is not in our favor. For example, in Italy, the share of the shadow economy in the country's GDP reaches only 17%. It should be noted that the shadow economy is the most developed in such sphere like service, but it also affects other branches.

At the same time, according to statistics, the number of unemployed in Russia in 2016 was 4.243 million people, compared to 2015, the number of unemployed fell by 0.5%.

In the state institutions of the employment service in the ranks of the unemployed registered 956 thousand people [1].

The number of economically active population in December 2016 amounted to 76.9 million people, or 52% of the total population of the country according to the statistics site. While cash income, in November 2016 compared with the corresponding period in 2015, decreased by 5.6%, from January to November 2016 - by 5.8%, also despite the low inflation and positive economic growth, the income of the population at the end of 2017 year may not show a positive relationship. In 2017, the decline in household incomes may fall to 0.2%. At the same time, later incomes will start to increase: first by 0.3% in 2018, and further by about 1% per year during 2019-2021.

Based on the above data, we can conclude that the year 2018 will not differ from the previous three years and it will continue to reduce the income of the population.

A low degree of trust in the government is the most important reason for the formation of the informal sector of the economy.

Russia needs a comprehensive and systemic approach to the processes of growth and development of the economy, which will improve the efficiency of the Russian state, and therefore, the international ratings of Russia.

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Hidden side of economic integration on the former Soviet Union territory (conditions and threats for Russia)

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Abstract

The author considers hidden value of the integration within the CIS through the plurality of external challenges and threats. The author notes out that the integration relies on a limited number of the players - Russia, Kazakhstan and Belarus, but it does not exclude the contradictions between them that does not reduce the positive effects.

Keywords: trade, foreign trade, integration, Russia, economy, international economic relations, shocks, threats, sanctions.

"From the moment of the collapse of the USSR the former Soviet Union passed a difficult way from the Commonwealth of Independent States uniting practically all the member countries of the USSR to the sub-regional associations which are at the various stages of integration interactions" [1, p. 51]. The certain countries showed interest in the dialogue recovery. It was true not only for the political sphere, but also for the economy sphere.

The initiating center of all the integration processes traditionally was and is Russia. This economy has got the largest economic potential, and, moreover, the political management of this country is traditionally oriented to the countries of the former Soviet Union.

The Russian geopolitical interests act as the main reason. Really, the country needs not just neighbors with whom the frictionless relations are improved but also partners to rely on in view of protection against the external shocks.

Perhaps, never earlier the threat to national security regarding territorial integrity and stability of the political system was particularly acute as it is now.

From the moment of the collapse of the USSR Russia passed the difficult period of the economic transformations connected with transition to the market mechanism. General approaches of the state regulation had more civilized sounding. It was promoted by incorporation in the legal framework of the WTO. In particular, the liabilities within TRIPS changed the general approaches to protection of intellectual property rights.

Russia liberated its market forces having strengthened sanifying market function. However, all these transformations didn't mean lack of the state regulation at all. The country was and is a social state. Certainly, as well as any economy of the former Soviet Union it has the multiple social and economic problems. However, success

achieved by the country (and it is indisputable) speaks about fidelity of the taken economic course.

The country changed line items on the world scene slowly but surely. If earlier Russia was perceived only as the raw donor with a set of economic and social problems, then over time the country began to force the participation in the international relations. The country showed visually that many world problems can't simply be solved without it.

Besides, thanks to participation in the military operation in Syria, Russia reminded the world community and the USA of its military power. The combination of the developed defense industry complex and its power raw orientation became an economic paradox for the country, though quite explainable. Militarization of the economy – the inheritance which got to Russia from the USSR - is a way to which the country traditionally turned in the conditions of growth of geopolitical risks and threats. After the collapse of the USSR the opportunities for maintenance and, especially, development of the production of arms were limited. However, war in Syria and reunification with the Crimea aggravated the contradictions which are available with the developed countries. Process of building-up of the defense industry complex was started again.

The main complexity of this process is its irreversibility and duration. Any militarization sets development trends not just for years – for decades.

We know perfectly that this process is very expensive, and it reduces inflow of investment resources to the other industries. Besides, the budget expenses on the spheres which are not connected with defense and national security are also reduced. It really costs much to be one of the largest military and nuclear powers. All this promotes deficiency of the budget which in 2013 constituted 848.2 billion rubles, in 2014 – 845.6 billion rubles, in 2015 – 2819.5 billion rubles, in 2016 – 3142.0 billion rubles [2, p. 174].

At the same time the public debt which in 2012 constituted 1252.6 billion rubles, in 2013 – 1662.9 billion rubles, in 2014 – 2445.2 billion rubles, in 2015 – 2600.1 billion rubles, in 2016 – 2614.7 billion rubles, increased (2, p. 184).

It is very difficult for Russia to keep the status quo, and the support of the neighbors in this question is very important.

Certainly, Russia cannot have closer cooperation with all the countries of the former Soviet Union. Many of the countries reoriented their cooperation towards relations with the EU and other countries. They support anti-Russian rhetoric and use additional barriers in the economic relations with Russia.

In this sense Russia remained within the friendliest format with Belarus, Kazakhstan, Kyrgyzstan and Armenia. Russia interacts with these countries within the EAEUNION closely, and this consolidation tends to deepen the cooperation.

Each of the countries, certainly, receives benefits from integration with Russia– Belarus as a consumer and a contractor of energy raw materials from Russia and from selling food to Russia, Kazakhstan uses the infrastructure of the Russian Federation for energy deliveries to the EU, Armenia gets an access to the capacious Russian domestic market and Kyrgyzstan is known as a recipient of the investment resources.

Certainly, the support on such unequal partners (GDP of Russia in 2016 is 23,400 dollars per capita, GDP of Armenia – 10,202 dollars, GDP of Belarus – 17,944 dollars,

GDP of Kyrgyzstan – 4,482 dollars (2, p. 190)), does not bring significant benefits – each of the listed countries interacts with other economic partners closely, including, first of all, the European Union. Kazakhstan acts as more parity partner (its GDP per capita is 24933 dollars). However, Kazakhstan is a competitor of Russia because of the related structure of its national economy that deprives the economic relations of the two countries of the major parameter – interconditionality.

Among other countries of the former Soviet Union there is a country with which the economic interaction provided a maximum synergy effect. It is Ukraine. However, the reunification of the Crimea and Sevastopol with Russia divided the history of the relations between the countries into what was to and that was later. It does not mean that Russia and Ukraine ceased to interact. Of course not. But many goods exchange and other transactions passed into the shadow segment. The official statistics says about rapid reduction and in some cases a gap of the economic interactions. To a certain extent the blow struck the cooperation in the field of arms production. Russia had to arrange its own production; however, these efforts are still not enough.

The developed countries and the USA try to put the greatest possible pressure upon the economy of Russia. The situation of complete economic isolation of the Russian Federation would be optimum for them. However, it is impossible as Russia is one of the largest suppliers of energy resources to the EU countries. Whether they want it or not, the energy security of some European countries depends on Russian raw material resources. Therefore, they should settle a dilemma how to combine their participation in the so-called punishment as they joined the sanctions, and at the same time how to cooperate with Russia on a wide range of questions. The serious pressure from the USA is seen in this contradiction. They do not like at all the place which Russia won on the world scene. Acting together with the EU, the USA, certainly, produces a destabilizing impact on the Russian economy.

The pricing on the world oil market continues to remain an additional risk factor. Instability of the prices generates instability of the economy. However, Russia managed to achieve serious progress in the economic diplomacy. The negotiations with Saudis allowed to limit the world supply and to adjust the prices. Increase in prices returns the country to the period of the favorable price environment. Of course, we cannot dream about the period when the prices exceeded 100 dollars for barrel (growth of average export prices on oil from 175 dollars for ton in 2000 to 744 dollars for ton in 2011 [3, p. 232.]), but the positive dynamics is noted.

The country keeps relative resistance to the external shocks. So, the level of its unemployment remained almost invariable – in 2013 it constituted 5.5%, in 2014 – 5.2%, in 2015 – 5.6%, in 2016 – 5.5% (2, p. 194). The index of industrial production (as a percentage to previous year) constituted in 2013 100.4%, in 2014 – 101.7%, in 2015 – 96.6%, in 2016 – 101.1%. It's a quite good result for a raw power.

The maximum instability concerned the condition of Russian ruble, especially in 2014 and 2015. "So, following the results of 2015 the official US dollar exchange rate to ruble increased by 30% up to 72.9299 rub for dollars for January 1, 2016, euro exchange rate to ruble – for 16.5%, the cost of a dual currency basket – for 23%. Indicators for 2014 were more impressive – 72%, 52% and 61% respectively" [4, p. 211].

Keeping its power raw orientation (the specific weight is lost only due to reduction of the prices), Russia cannot find new points of attraction in the cooperation with the EAEUNION countries. However, it is worth reminding that the cooperation with these countries has more political rather than economic coloring.

The support for the initiating role of the political elite of the integrated countries remains the main problem. Its rotation can call into question the integration between the countries.

The important crisis marker is reduction of the goods turnover between the countries. For example, the goods turnover of Belarus and Kazakhstan decreased in 2016 from 578.6 million dollars (2015) to 395.6 million dollars, Kazakhstan and Kyrgyzstan – from 61.0 million dollars to 52.0 million dollars, Kazakhstan and Russia – from 15413.8 million dollars to 12936.1 million dollars, Kyrgyzstan and Russia – from 1460.3 million dollars to 1164.9 million dollars, Russia and Belarus – from 26003.2 million dollars to 25965.0 million dollars. Positive dynamics concerned only Armenia – growth of the goods turnover with Russia from 1295.8 million dollars to 1328.2 million dollars, with Kazakhstan – from 4.8 million dollars to 6.3 million dollars, with Kyrgyzstan – from 0.6 million dollars to 1.0 million dollars, with Belarus- from 34.6 million dollars to 36.1 million dollars (2, p. 149).

However, unless the top management of the countries shows interest in the integration interaction (as it does now), it will remain and develop, but with a limited number of the participants.

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Causes and consequences of the shadow economic activities in Russia

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Abstract

The article reveals the essence of the concept "shadow economy" and the main types of shadow activities. It discusses in detail the reasons for its occurrence and impact on the economy and examines the state of shadow business in Russia, the main ways of combating it.

Keywords: shadow economy, fight, shadow business.

INTRODUCTION

At present, there is no any country that does not face the phenomenon of the shadow economy. It penetrated into all spheres of economic life. Its influence on the formation and distribution of the social wealth, trade, investment and economic growth in general, thus, represents the economy as an object of interest for many specialists. This effect of the shadow on relations is so high that it is absolutely obvious that there is a need for their analysis.

What is "shadow economic relations"? The answers to this question are diverse. There exists an opinion, according to which the shadow economy is economic activity contrary to the law, that it is the field of crime and delinquency. According to another point of view, processes, involving with shadow, do not registered in official statistics of economic activity. Each of the judgments in its own right reflect the actually occurring processes in the economy. They describe the shadow economy from different sides, which do not contradict each other.

The shadow economy is also regarded as a collection of different kinds of economic relations and unrecorded, illegal economic activities. But above all, the shadow economy is the production, distribution, exchange and consumption of inventory items, money and services, uncontrolled by society and hidden from it [1].

There are three types of shadow economy:

1) Informal economy - legal, allowed by the law economic activities in which production of goods and services is not covered by official statistics, as well as entrepreneurial activity, hidden from taxation. This includes: ignoring the legislation in the field of occupational health and safety, restrictions on child labor, and legislation establishing minimum wage, lack of appropriate insurance of employees, tax evasion. From that point of view, considering society as a whole, shadow economy is not producing any new output or services and is not getting benefits from it that are obtained by one person at the expense of the losses suffered by other people.

2) Fictitious shadow economy is a legal economy, but unregistered economic activities for the production and sale of goods and services. Fictitious economy is more autonomous in contrast to the informal shadow economy, as the latter exists in close connection with the "white" economy. In that case, entrepreneurs or persons, who are deliberately evading official record of their activities, do not want to incur the costs associated with obtaining a license and payment of taxes, or to report such activities that are not stipulated. This form of economy is the most developed in Russia. It carries a very negative role, as due to the concealment of production exists a reduction in tax revenues.

3) The underground shadow economy is an economic activity related to the production and sale of prohibited and lack of supply of goods and services and prohibited by law. This economy is isolated from the formal economy and is inconsistent with it, the underground shadow economy destroys normal economic life in the country. That economy includes the activities associated with the extraction of profit by criminal means. This activity can be based on violence cases (theft, thuggery), and the production of goods and services that are destroying society (drug trafficking, arms sales, trafficking, prostitution, gambling) [2].

In real life, sometimes it is not easy to attribute some phenomenon to a specific form of economy. Between different types of shadow economic activities do not apparent sharp edges. But the only thing that unites them all is the illegality of acts.

What are the main causes of the shadow economy? They can differ across the regions of the world; however, you can select the most common among them, namely:

1) High level of taxation.

The government sets too high rate of taxes on business, trying to solve the problem of budgetary. However, this increase has forced businesses to either curtail their business (or to transfer to other regions), or shift to the informal sector of the economy, carrying out production of unaccounted products and avoiding excessive taxes. This reason is the most significant and causes the growth and expansion of the shadow economy. However, its impact in each country is expressed in its own way. For example, in the United States the development of informal economy is influenced by high income taxes. In Russia, the concealment of income encourages high rates of contributions to social insurance funds and high rates of value added tax.

As we know, tax seizure, more than 50% of the profits, deprives the company of the incentive for further activity.

2) The instability of the public sector.

The dire state of the economy is forcing businesses to look for more attractive income-generating niche for its activities. One of them is the informal sector.

3) High unemployment.

Not being able to obtain legal work, people use all their knowledge and resources and try to look for any way of earning. For these purposes they use personal vehicles to provide transportation services, residential and non-residential premises for rent, unauthorized trade, prostitution, poaching and other illegal business activities.

4) Low level of wages.

Having low wages, workers are trying to find ways to generate additional income. Relationship with the employer is often based only on verbal agreements, sick and

holiday payments are not available, dismissal is possible without any social guarantees.

For employers, these relationships are more than affordable because they do not have to pay taxes on the wage fund. Often, as the result of low wages in the legal the economy moves on to the corruption, bribery, the root system of so-called "kickbacks."

5) Imperfect legal base.

The reason for the proliferation of the shadow activities is too soft punishment for conducting illegal activities in the form of administrative fines or conditional sentences. The actual impunity of such kind of business promotes an increasing number of entrepreneurs involved in the shadow economy.

The shadow economy has a negative impact both on the economy and on society, considering the main consequences of illegal activities.

The shadow economy leads to a decrease in the level of tax collection and, as a consequence, reduction of budget expenditures. There is a reduction in public spending, underfunding of programs, the weakening of key state institutions.

The tax evasion by entrepreneurs leads to an increase in taxation of income earned by law-abiding taxpayers. The increase in the tax burden stimulates further concealment of income from taxation, which increases unjustified differentiation of incomes and the stratification of society into rich and poor.

Informality affects the effectiveness of macroeconomic policy, as there are no reliable data on basic economic indicators. The results of such activity is hasty and poor decisions making on the development of a particular sector of the legal economy

The incorrect data records can affect employment rates. If people, employed in the illegal economy, are counted as unemployed, the assessment of the level of unemployment may be higher. Then it distorts in the real state of the balance of payments due to uncontrolled movement of goods and capital across the border.

The specific indicators of the tax pressure and public expenditure are inflated due to the fact that they are defined in relation to the low GDP, which does not account for goods and services in the illegal sector. As a result, analysis of the distribution of income displays a number of uncertainties.

Illegal financial transactions carried out with the purpose of money laundering, have a negative impact on the sphere of monetary relations, subsequently, take place their deformation and increase investment risks. Moreover, it damages credit institutions, depositors, investors, shareholders and society as a whole.

Moreover, in the state of the shadow economy it is difficult to create new industries, as it later turns out to be in serious condition. Thus, instead of sustainable growth in production, they seek to obtain the greatest profit in the shortest possible time Besides, most of the profit is exported, depriving the country of investment resources, changing structure of consumption.

The amount of goods and services increases its destructive needs and drives, such as drug trafficking, exploitation of prostitution, illegal gambling.

The consequences of illegal work have a negative impact on workers, as in that case, people cannot count on job stability and wages, social insurance. In essence, it is an illegal exploitation of the workforce.

Most economists believe the shadow economy is mainly negative phenomenon. But in some cases, it has a positive effect on economic processes. An Illegal activity

increases the profit of entrepreneurs, employees get the opportunity to work, and consumers receive goods and services at lower prices.

What can we say about the size of the shadow economy in Russia? It is worthwhile to follow the dynamics of growth of the shadow economy in Russia in recent years to understand what affects the volume of illegal business and ways to mitigate them.

The effect on the growth of the shadow economy in this country has been the transition from the command economy to the market economy in the 90-ies, when there were obvious mistakes of the state authorities in building the system of economic reforms. Control over the economic activity of the country has weakened, that increased the level of tax burden, there were high administrative barriers and the amount of transaction costs. For entrepreneurs in this situation it is difficult to enter the market. As a result, Russia has a completely unique shadow economy based on international standards. Its main properties are tax evasion, hidden unemployment, outflow of capital abroad, double bookkeeping, corruption. [6]

The crisis in 2008-2009 also had a negative impact on the shadow economy. As, thus far, there is a further development of illegal business.

Conclusion from the foregoing is that the reason for the prevalence of shadow activity in our country is the general state of the economy, the standard of living of the population and constraints originating from the state.

Federal state statistics service is estimated the shadow economy in Russia at 16% of GDP in 2016. Approximately, 13 million people are employed in the informal sector, accounting for 17-18% of the economically active population, the income from informal activities was $ 7 trillion rubles. This is a good indicator even in comparison with the developed countries in the world. However, income from activities associated with prostitution, pornography, drug trafficking and counterfeit goods, tax evasion, bribery and corruption, Rosstat does not take into account. According to other experts, the shadow economy in Russia is 46% of GDP. For example, according to pessimistic estimates of the World Bank, the income from informal sector annually amount to 40-50% of GDP [8].

Estimates of the share of the shadow economy in GDP vary among experts in a wide range - from 30 to 70%. Some believe that the Russian shadow economy is comparable with the countries of Latin America, where its share is above 90% of GDP, others give a more optimistic assessment of 20%. Probably, this variation in estimates and projections is understandable. It is impossible to measure something that has no clear definition. This gives rise to the distortion of the real situation of underground activities in the formal economy in the interests of an expert and developer of the forecast.

The evaluation with underreported indicators is often put forward to justify the effectiveness of the efforts of state bodies, as well as to minimize further costs that exceed the plan for combating the shadow economy.

Indicators of employment in the informal sector of the Russian economy by the end of 2016 rose to record levels, at least since the 2006 analysis, they must be published data of Rosstat (previously they were absent). In 2016 in the informal economy were employed 15.4 million people, or 21.2 percent of total employment.

Compared to 2015, the informal sector has grown by more than half a million people. It has been growing steadily since 2011 and has grown by 4 million people over the past 6 years, according to RBC estimates based on Rosstat data.

According to President Vladimir Putin, the priority task of the government is to improve the investment climate. Russia successfully approaching a quality business environment as among the countries with high income. Also, there is a tendency to improve the situation in tax sphere and administration of government spending, reduced the burden of corruption on business.

In accordance with the research of the World Bank, it is difficult to believe in government's success in the fight against the shadow economy. Despite the success in increasing the quality of the business environment the Russian underground economy is 3.5 times more than other countries of "Big seven". In addition, the level of shadow economy is growing every year and it greatly undermines the economic stability in the country. [7]

From the foregoing, it can be concluded that the size of the shadow economy and, consequently, of shadow incomes in our country is substantial and it is affecting the economic situation and the economic development of Russia.

To combat the shadow economy, it is necessary to develop an effective policy that will require a comprehensive socio-economic and institutional approach.

The state should focus on three main areas to the fight shady business:

- Obstacle to the engagement of honest businessmen and hired workers in shadow activity;
- Reduction in the number of entrepreneurs engaged in illegal, shadow activities;
- Creation of favorable conditions for the functioning of the legal enterprise [5].

According to the first issue, it is necessary, firstly, to create a negative image of the shadow business, through the media for emphasizing its harmful effects on the economy and society; secondly, to stop illegal business activities into the formation, and to oblige its founders to consider the subject of administrative and criminal penalties.

Unfortunately, in our country there are reverse processes. In 2015, 2.5 times more ordinary people were convicted of bribery than corrupt officials. It turns out, citizens actively bribe officials, but the second almost do not take bribes. As a result, instead of catching corrupt officials in government agencies, law enforcement agencies put small donors in jail, increasing corruption at their expense [4].

The reduction in the number of enterprises engaged in shady operations, carried out by search of law enforcement agencies related to the detention and punishment of the organizers of shadow business.

Now the task of combating manifestations of the shadow economy lies with the Ministry of Internal Affairs of the Russian Federation, the Federal security service of the Russian Federation and the Federal tax service. Each part works in their field of work and does not cover the entire field of shadow activity. So, for combating with the shadow economy should be created an independent body that would deal with a complex system of control over financial and economic activities of individuals and

legal entities and provide the legal framework for their operation in the field of entrepreneurship.

To implement the third issue of the fight against the shadow economy the tax climate should be improved. The higher the tax burden the more taxpayers are hiding from paying. The number of taxes must be reduced, the system of assessment should be more simple and transparent.

One of the conditions for legalization of the shadow economy is to improve the legal framework in the field of entrepreneurship. It is necessary to develop laws providing for tax, financial, budgetary policy, that will be focused on the contribution of the national capital in the Russian, not foreign economy.

Therefore, in order to reduce the indicators of the shadow economy in Russia, it is necessary to improve state regulation, to create conditions for entrepreneurs would not allow functioning outside the law, making its uneconomic term.

CONCLUSION

To summarize, we can say that at the present time, the role of interaction in the sphere of the shadow economy has increased significantly. They have permeated almost the entire economy, including those which are considered as legal. That is why these processes should be explored in detail, and only after that to take measures for elimination and eradication for normal life.

Unfortunately, it is completely impossible to get rid of the shadow business. If there is an open economy, then at the same time it generates the emergence of hidden aspects. So, it is necessary to take measures to reduce the volume of such activities. For this, it is essential to work consistently in this direction. In order to prevent the growth of the shadow economy, it is required to achieve significant changes in economic policy that would ensure normal conditions for the functioning of small businesses and entrepreneurship as a whole.

Our state need to improve tax system, corporate governance, structure of settlements and other indirect measures, such as tougher sanctions for engaging in shady business. It is necessary to change our attitude to economic activity and consider it as an honest "play by the rules" and to cultivate cultural business traditions.

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Is it possible to get Russia out of the shadow?

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Abstract

What is the shadow economy? What specificity has this phenomenon acquired in Russia over the long years of its development? Is there a need for the country to withdraw from the informal sector, and why does the number of Russians that consider this phenomenon an inevitable way to exist increase every year? Where does the concept of "merging the shadow economy and the public sector" come from? The author gives answers to these and many other questions, considering the shadow sector of the Russian Federation as an integral factor that has been accompanying the country's economy for many years. In this article the author analyses the opportunities and prospects for the withdrawal of Russia from the shadows, based on existing realities.

Keywords: the shadow economy, standards of living, economic situation, public sector

INTRODUCTION

The investigating of the shadow economy in terms of its multifunctionality and diversity causes interest because it covers an extremely wide range of socio-economic phenomena, which sometimes have different nature and functioning mechanisms. This means that the origin, prerequisites, development, and mechanism of functioning of the hidden, informal and illegal sectors of the shadow economy are essentially different.

The urgency of issues of developing a system for managing the counteraction to the shadow economy in Russia today is undeniable. Experience shows that many macroeconomic solutions to prevent the shadow economy do not give the desired result because of the inadequate effectiveness of similar management systems at various levels. The issue of coordination of resisting the shadow relations between levels of management in solving specific problems at the regional and local levels remains topical.

What is the shadow economy? Statistical agencies, differently interpreting this phenomenon and using different estimation methods, make ratings of the countries with the largest shadow indicators. However, each country has its own specifics of the development of the informal sector. Russia with its peculiarities is not an exception.

An informal economy means a hidden economic activity, which is beyond official state control and accounting. Hidden activities can be carried out in two main directions. The first one includes the underreporting of the income from the activities

permitted in the state. The second one means criminal activity redistributing the already generated income.

Since the data on the informal economy are hidden, it is difficult to determine the exact value of this indicator. However, this can be done using indicators that, albeit indirectly, still imply the development of the shadow sector in the state. One way of the calculating the scale of the informal sector is the indicator of employment, implying that if a high level of unregistered unemployment persists for a long time this may indicate that there are wide opportunities for employment in the informal sector.

The Council of the General Confederation of Trade Unions presented a report according to which in the early 1960s the share of shadow activity in the world accounted for 5.6% of the world economy. Today, more than 33% of world GDP or $39 trillion is covered by the shadow. In particular, over 45 years, the share of shadow activity in Sweden's GDP increased 11-fold, Germany's GDP increased by 8. Today, the lowest share of the informal economy is in Switzerland's GDP (6.5%), and the highest one in Bulgaria (30.6%). [1]

According to the report of the Association of Chartered Certified Accountants (ACCA), in 2017 the share of the shadow economy in Russia has reached 33.6 trillion rubles or 39% of the indicator of last year's GDP of the country. Russia ranks fourth in the world. According to experts, the largest share of the shadow economy in relation to the country's GDP is in Azerbaijan (66.12%). The second and third places belong to Nigeria (46.99%) and Ukraine (46.1%). [2]

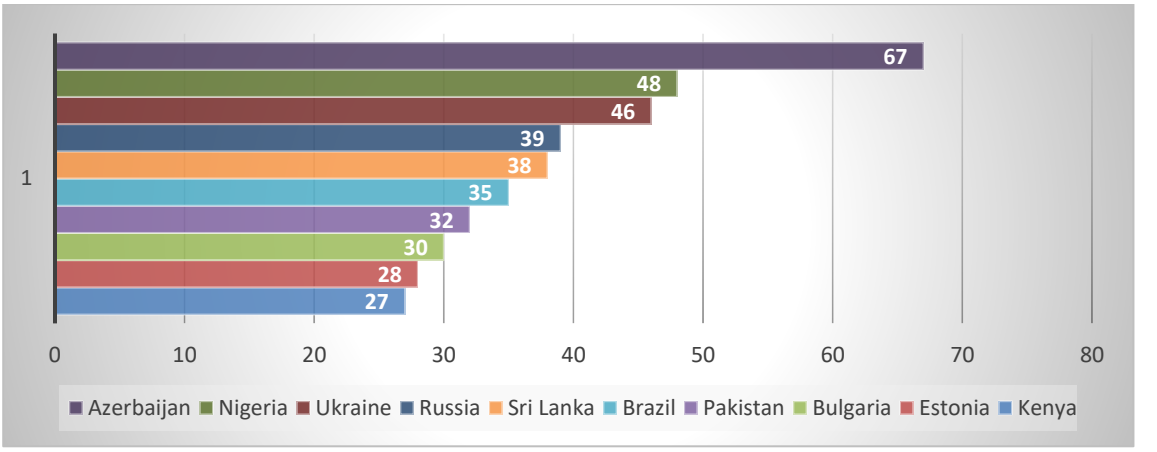

Fig.1. Countries with the largest shadow economy (% of GDP)

In terms of the scale of the shadow economy, Russia is almost in the middle of the overall ranking. Does it mean that the situation is not so deplorable? There is more to investigate. Experts are still arguing about the interpretation of the terms and calculations. For example, according to the international organization Global Financial Integrity, the Russian shadow economy is 46% of the country's GDP. And the data of the Higher School of Economics and the Office of the Ombudsman demonstrate that only last year in Russia the share of the employed in the informal sector grew by 3 million people: from 13-15 million in 2014 to 17-18 million in 2016. [3]

According to Deputy Prime Minister of the Russian Federation Olga Golodets, the government does not know where 38 million of the 86 million Russians of working age are employed. [4] In mid-August, Rosstat published new data on unemployment in Russia. According to them, in July 2016, the percentage of the unemployed decreased by 0.1 percentage points, to the previous month to 5.3%. This is a phenomenal level for the country, which passes the second year through a decline of GDP. The persistence of unemployment at the same level indicates the labor market is increasingly becoming a shadow. According to the monitoring data of the socio-economic situation of the population of the Russian Academy of Science in 2016, the part-time employment of the population has reached 1.2 million people. [5] Are experts right that the transition to the informal sector is one of the most effective models of adaptation to the crisis?

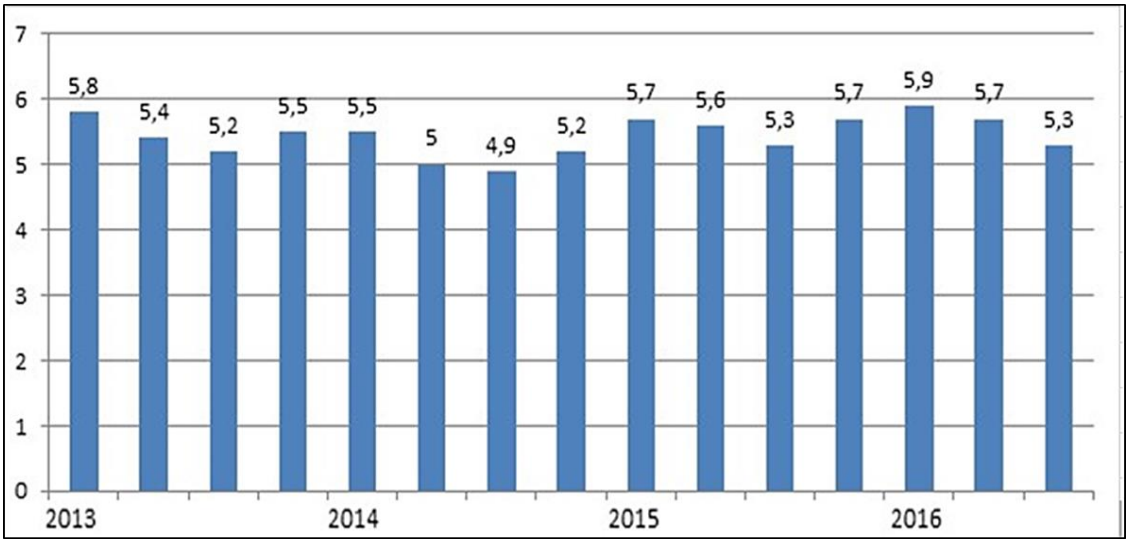

Fig.2. Unemployment in Russia, %

What are the reasons for the development of the informal sector in Russia? To consider this problem it is necessary to explore the factors pushing the population of the country into the shadow and factors that make enterprises and companies hide from the state.

A survey conducted by the Russian Academy of Sciences shows that the shadow economy in Russia began to grow again after the recession of 2015-2016. People are looking for informal work in order to somehow increase their incomes, which fell because of the crisis. [6] According to the research, 44.8% of the total number of working Russians in 2017 were employed in the shadow labor market: approximately thirty-three million people received an envelope salary at least once, or were not formally employed. Of these, an average of 23 million people received monthly income. This is 31.4% of all workers in Russia.

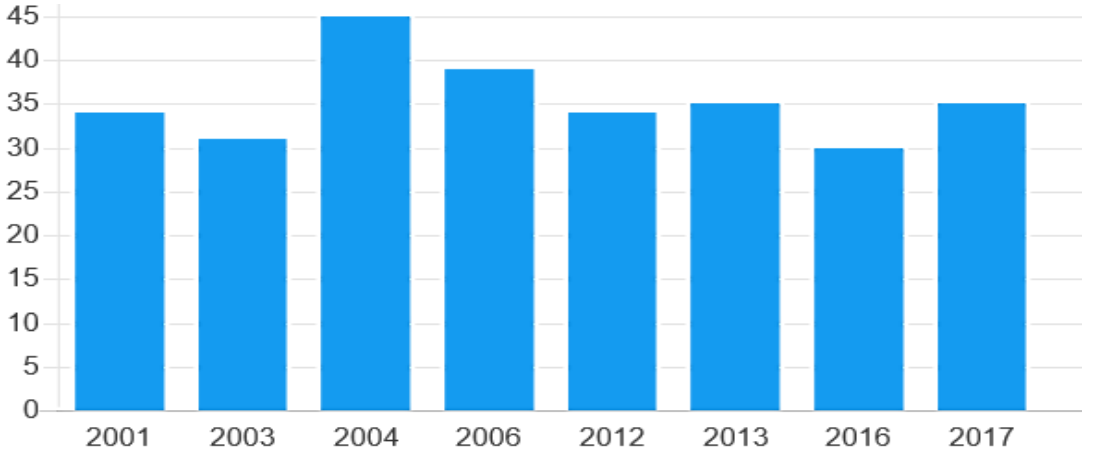

Fig.2. Percentage of people employed informally

The restoration of the shadow sector began in 2016. The population goes into the shadows because of the declining incomes that have been observed in recent years. In the labor market there are not enough offers of official jobs with "decent pay", as a result, people find work that is not formalized. Almost 5 million Russians receive salaries below $ 125 (7 500 rub). [7]

According to Rosstat in the first quarter of this year, the number of poor reached a record - 23.4 million people. However, this indicator is also biased. If set the cost of living a little higher, then the poor will become much more. 43.8 million pensioners will immediately fall into this category, this means that the poor will not be 23.4 million people, but 64 million. If taken as a basis of proportions of wages (59.6% of the payment for labor) and the cost of living, and impose them on the current reality, then the minimum cost of living would be 20.3 thousand rubles. 70.8 million people have income below this level, that is, almost half of the population (48.5%). [8]

If evaluate objectively, then 23.4 million are not poor, but beggars. The poor can be calculated by the income level below the national average. There are already 100 million people in the country. Russia is a country of contrasts. On the one hand, 100 million poor. On the other - the rich. According to CreditSuisse, 10% of the country's population owns 89% of the resources. For comparison, in the USA it is 78%, in China - 73%. In Russia, according to 2016, there were seventy-nine thousand dollar millionaires, and ninety-six billionaires. In this indicator, Russia ranks third in the world after the United States (583 billionaires) and China (244). [9]

The round table at the April HSE academic conference was devoted to the connection between poverty and the shadow economy. Lilia Ovcharova, the director of the Institute for Social Policy of HSE, noted the share of hidden income is especially high among the poorest people. Experts believe the informal labor market smooths out inequality in Russia and reduces social tension. Experts of the Institute of Social Sciences of the Russian Academy of Science believe the attempts of the government to fight against the shadow sector have not yet succeeded, in particular, it refers to the law on self-employed people and the expansion of the non-cash form of payment. [10]

One of the studies has showed that citizens have become more tolerant to the shadow economy: in 2001 almost half of Russians believed that this phenomenon did more harm than good, now there is only 34 percent. People understand that salaries in envelopes are illegal, but they do not have enough legal earnings. In addition, today the role of social guarantees of the state is extremely low: only 15% of respondents are sure that in the event of a conflict with the employer they can firmly rely on the help of higher authorities. [11]

According to the first deputy chairman of the Committee for Economic Policy and Industry V. Gutenev, for the next three years the budget policy will be subordinated to budget consolidation, which is understood as nothing more than a reduction in costs and the growth of new sources of income. [12]

In 2016, it was decided to freeze pension savings for another three years, and maternity capital will not be indexed until 2020. Russians in the future will not get 6% of their salaries, which constitute the accumulative part of pensions seized in favor of the state for current needs. The Minister of Labor and Social Protection, Maxim Topilin, reported in October about the drafting of a bill on the creation of a "tax on parasitism", which non-working citizens will have to pay for 20 thousand rubles a year. [13]

Based on the existing stratification in society, which generates internal social tensions, relatively low-income levels for the majority of the population, a reduction in the production sector, an increase in the number of unemployed people, such bills may prove to be a ticking time bomb.

The situation in Russian business is even more deplorable. Sometimes business goes to shade simply because otherwise it will not survive. Authorities often go too far with initiatives, seeking, in the end, the opposite result. High taxes and a complex tax system lead to the fact that the business is looking for where it can pay less and easier.

Russian business perceives the tax as an expense. Russian entrepreneurs do not make employees into staff, because they do not want to pay taxes to the budget, perceiving them as expenses. Business needs the information how the government spends tax collection and how a particular business can benefit from the state's investment in tax deductions. Taxes are deductions from which the business can subsequently get a return in the form of the possibly using the social benefits, infrastructure projects, subsidies and much more.

If business awareness about "tax investments" increases, then over time, the business attitude to taxes will transform as well. They will not be perceived as expenses, but as investments that the business can use later. This is not just a theory, but the practice of modern developed economies. According to Rosstat, in January-May 2017, 181,300 new enterprises were registered in Russia, and 244,600 were officially liquidated. That is, 35% more enterprises were liquidated than new ones were created. However, the idea of a complete liquidation of enterprises raises doubts among experts who believe that this liquidation only implies the full transition of the enterprise to the shadow. [14]

In July, the Finance Ministry presented the draft document "Main Directions of the Budget, Tax and Customs Tariff Policy" for 2018-2020. A significant part of the document is devoted to economic whitewashing and fighting with the shadow sector.

As a part of the measures to withdraw business from the shadow, the Ministry of Finance proposed to conduct a non-tax maneuver, the so-called "22/22" program.

The maneuver implies an increase in VAT from 18% to 22% with a simultaneous decrease in insurance premiums from 36% to 22%. According to the Ministry of Finance, the program will make it easier for gray businesses to move to the legal plain. [15] According to the Minister of Finance of Russia Anton Siluanov, that the shadow sector of the Russian economy is 15-20% of GDP. The draft document states the amount of the "gray" wage fund, from which taxes are not collected, is 10 trillion. (almost 170 billion dollars) per year. [16]

Measures of fighting with the shadow sector mainly relate to the use of new technologies. From July 1, 2018, the entire Russian trading network must be equipped with cash register equipment, which will transfer online data to The Federal Tax Service. The Ministry of Finance also proposes to integrate information systems of customs, tax services and other bodies so that it is easier to track cash flows and flows of goods. Another point of the Ministry of Finance's program is the extension of labeling systems to various types of goods. An example of this is the EGAIS, an automated system that records alcohol production. To combat the shadow sector, the Ministry of Finance also proposes to reduce direct taxes on labor and increase indirect taxes. [17]

Today, the media often talk about certain crimes, because of which it becomes clear to the mass of Russians at what level the shadow economy interacts with the state system. It is not by chance that scandals in the banking sector have become common today, where the scale of shortages and theft continues to amaze the imagination. [18]

The shadow economy has become inseparable from the state system. It involves all state structures at all levels of society management. Therefore, starting the fight against the shadow economy, in parallel, it is necessary to reform the state management system, steadily increasing its effectiveness.

Against this background, the economic situation for the majority of the country's population continues to be extremely difficult and unstable, effective solutions to reduce the scale of the shadow economy are not yet visible. The state today is not able to solve the problem of creating enough jobs with decent wages, allowing to feed and support families, and this is the main reason that people are forced to work in the informal sector. With the development of events that is happening now, there is no hope for a change in the situation. What is called the shadow sector is a survival economy in Russia, in fact. If the government does not take any drastic measures, then in two or three years Russia will face a severe crisis. Because all of the above factors strongly affect the country's economic performance: import is growing, and capital outflows are increasing. In the future, the fate of the ruble seems sad enough - next year it can expect another smooth devaluation. Russia's loss of its own economic foundation in the face of medium-sized businesses can turn into a real catastrophe for the country and the state system.

CONCLUSION

The presence of the shadow economy in Russia has become one of the most serious and intractable problems, which adversely affects the socio-political and economic spheres, undermines the country's international authority. The ability of the state to effectively resist the shadow economy has seriously weakened today. According to other researchers, the main reasons for this are several.

Firstly, there are some economic reasons. The issue of the control over financial flows, the problem of comparing the incomes and expenses of legal entities and individuals, preventing illegal transfers of capital abroad.

Secondly, there is no reliable anti-corruption legislation. The Russian legal system is weak. Legal methods for combating the shadow economy have not been sufficiently developed and adapted to the modern conditions of management.

Thirdly, the legal nihilism of all strata of society deepens, traditional moral guidelines are lost. As a result, there are prerequisites for the development of the informal sector of economy, expansion of its scale and the spread of the corresponding negative phenomena in the economy.

Fourthly, there are conditions that hinder the development of entrepreneurship: high tax burden; unfair competition; lack of access to resources; insecurity of property; lack of property support.

According to the current crisis situation, when the official economy is not able to provide effective conditions for business entities and employment, the shadow economy is gaining momentum. The activities of business entities and participants in the informal sector have been formally formed as a single multi-level system of inter-farm relations that unites the officially considered and shadow sectors of the economy. Therefore, it is necessary to search for the economic solutions that will help to keep balance between the interests of the state and other subjects of economic relations: entrepreneurs and individuals.

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The problem of gray and black wages in Russia

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Abstract

Many economists pay attention to the problem of the "shadow economy" as a whole and of the “gray” wages in particular. This article focuses on the current situation related to wages in Russia at the present stage and explains the key terms and characteristics of those schemes as well as their root causes. We have made a review of the so-called "gray" wages, and suggested ways of solving this problem that has a huge negative impact on the Russian economy

Keywords: shadow economy, criminalization of the economy, “gray” wages, “black” wages.

Nowadays, the most significant problem of the Russian national economy is its criminalization, the state of the economy in which the share of income obtained by illegal ways increases. The shadow economy is an obstacle to future development of both the Russian and the global economy as a whole. The size of the shadow economy and its criminalization are determined by the following factors: political, economic, social, legal, etc. Since the early 1990s, when the Soviet Union was destroyed, and Russia started restructuring its economy on the basis of the free market, the shadow economy has managed to penetrate into all spheres of the national economy. Meanwhile, the public authorities are not interested in combating economic crime and strengthening the economic security of the country. The failure to resolve this problem in the future could result in undermining the authority of the government and its subordinate bodies, leading to disruption of the political system and disorder in society. The current amount of shadow economy in Russia creates both a negative impact on the welfare of the population and a real threat to the economic security of the country. The government should take measures to protect the national economy from this threat.

According to statistics, the growth of the shadow economy in the Russian Federation has reached exaggerated proportions. The head of the Federal state statistics service Alexander Surinov in January 2010 stated that at that time about a fifth of the Russian economy was in shadow. However, even these official data, in our opinion, is extremely positive. According to some estimated data, the share of the shadow economy accounts for 25-50% of Russia's GDP. Thus, it is not a small sector of some unregisterable secondary employment but hundreds of thousands of Russian enterprises are engaged in this underground business. Entire sectors of the economy are involved in shadow economy, such as, for example, fisheries, agriculture, construction industry, etc.

For Russia the problem of the shadow economy is an urgent one. Therefore, the aim of our work is to overview a specific and the most common segment of shadow

economy - the so-called “black employment” and “black wages” which can also be defined as “under-the-table wages”. Despite the measures taken by the government, this form of paying a salary still represents a significant part of the total wages of the Russians.

The main goals of this article are: to give the definition to the concept of “shadow economy”, to highlight the causes of its emergence in Russia and the consequences that it creates for the national economy: to describe and define the phenomenon of “gray wages” and “black wages”, to overlook the problem as a whole, to propose possible solutions and make predictions for the changes in the nearest future.

The shadow economy is a part of the national economy, that cannot be measured of regulated by the state. In other words, the shadow economy is beyond the governmental control. That is why it is not displayed in official statistics. The synonyms for the shadow economy are the “informal” or “hidden” economy. It is estimated that its share in the GDP of different countries ranges from 5-10% to 50-60%. Furthermore, in developed countries this percentage does not exceed 15% of the GDP while in developing economies it is up to 40%. In the countries with the transition economy, it reaches 23% of the GDP.

The main goal of any shadow economic operations is gaining high profit that cannot be obtained in a law-abiding way. Some authors such as V. V. Radaev define the following "classical" causes for the growth of the shadow economy:

1. Structural and economic crisis on a labour market that buoys the small business and self-employment, which become a perfect breeding ground for shadow relations;
2. Massive immigration from third world countries, supplemented by the internal migration from depressed regions and troubled areas;
3. High taxes that make concealing your economic activity more profitable. Though, the scale of this concealment may differ from hiding some individual transactions or assets to denying doing all the business in shadow.
4. The type of state regulative policy. The development of a shadow economy is directly dependent on three parameters - the degree of regulatory intervention, the taxation level, as mentioned above, and the level of corruption;
5. Opening of foreign markets, which increases competition, encouraging the firms to reduce costs by any means, whether they are legal or not, to gain a competitive advantage;
6. A shift in labor relations towards informality and flexibility as a response to excessive state regulation in the past.

However, there are additional following reasons for the appearance of shadow economy in Russia in the 1990s, some of which can be somewhat different from the ones mentioned above:

1) When the state agencies lost the ability to regulate the economy, this empty space was filled with criminal law and customs of the so-called “wild capitalism” which include criminal activities, such as extortion and racketeering.
2) The new mechanism of legal financial activities, which was formed during the early 90-s, contained significant drawbacks, which derailed reducing the

size of the shadow economy. Moreover, those loop-holes in laws led to further increase in informal economic activity:

3) Hasteful and unwise price liberalization which impoverished most of the population causing the decline in its solvency and, therefore, demand for goods and services;
4) Relatively high taxes that made the shadow economy more attractive for the entrepreneurs:
5) A sharp reduction in jobs, caused by the bankruptcies in most of the former Soviet industries. This led to many people, who were unable to find the legal employment, being forced to engage in any activity that could bring them income.

The shadow economy has many negative consequences that usually create the following social and financial problems:

1. Reduction of state budget revenues, which subsequently leads to budget deficit. Furthermore, it causes an increase in tax burden for law-abiding taxpayers. Thus, further tax growth will encourage further tax evasion. It is a vicious circle devouring the national economy from the inside.
2. The decrease in revenues will reduce the funding of public institutions and social benefits that have a devastating impact on all spheres of public life and spheres of production. The state will simply have not enough money to fulfill its social commitments. Moreover, the continuing deterioration of the real sector of the economy makes the modernization of its technological basis impossible. This, in turn, makes our country more dependent on the export of the natural resources, which is another significant problem facing the Russian economy.
3. Further reduction of the effectiveness of state macroeconomic policy because of the lack of precise data on the current state of the national economy. As a result, the regulation becomes unwise and slows economic growth and further development of the country.
4. The influence of the shadow economy on the monetary sphere is reflected in the change in credit relations, the structure of the payment transaction, causing damage to all financial institutions and stimulating inflation as well as the growth of investment risks. It also leads to higher income inequality and capital outflow. According to the studies conducted by *The Economist*, the total amount of Russian assets held offshore accounts for almost 50% of its GDP.
5. Concealment of assets and transactions in economic activities from the control of the governing bodies, limits the ability of the economy to attract investments from other States.
6. Illegal economic activity causes significant damage to the environment. For example, the illegal sturgeon extraction in the Caspian led to critical declines in its population.

Anyway, now all of the shadow economy is illegal. It consists of two main segments: non-criminal and criminal. The first segment includes the activities that are legitimate, but are not officially registered and taxed, in other words, the unrecorded activity. For example, the goods made by farmers. The criminal segment includes economic activities that are prohibited by the law (the so-called "black" economy") for activities that are indeed permitted by the law, are implemented in a way that violates

the law (the "gray" economy). The criminal sector of the shadow economy can include racketeering, bribery, tax evasion and the phenomenon of grey or black wages.

Before moving on to the main topic of this review, it is necessary to give the definition to three key concepts of the topic, and clearly distinguish white, gray and black wages.

The **“white**” salary is paid to the employee in a way that is fully reflected in the accounting and financial statements of the company, with all the necessary taxes paid. “White” salary is stated in the labor contract. It is obvious that paying this kind of salary costs the employer more than the payment of "gray" wages. Ideally, all wages in the country should be "white". However, this rule is observed only by some state enterprises and several large corporations.

“Grey” wages mean paying a salary, in which a certain portion is “white”, and the rest of it is not reflected in public accounting and is paid “under-the-table”. The “gray” salary is used by companies to reduce taxation. Such payments enable the enterprises to attract valuable employees by the "shadow" wage increases and to reduce the payroll by cutting down the expenses on the insurance deductions. The grey salary includes insurance premiums, compensation, premiums and additional income received under-the-table. It should be noted, that it is not always associated with violation of the law. There are some legal methods that allow organizations to pay the part of the funds without tax deductions. In this case, the enterprises so not have to hide it from the state.

The employer has a definite benefit from the gray salary, but for the employee it is more controversial. In fact, the gray salary is usually much larger than the "white" salary and it benefits the worker. However, this advantage is cancelled out by the fact that the size of his future pension payments will be much smaller than if he was paid legally because of the smaller contributions to the retirement fund. This can also cause some problems when obtaining a loan.

Unlike the gray wages that are partialy legal, the “black” wages are not reflected at all neither in accounting, nor in the financial statements or other financial documents. This causes another phenomenon called “black employment” – the situation where the worker is not employed officially, he does not sign up a labor contract with his employer and officially he is unemployed. Therefore, his position as an employee, as well as his salary, according to the current legislation, are illegal. In this case the rights of the employee are not protected. As a consequence, in future he will only receive the minimum pension that is set by the state.

In other words, the difference between "gray" and "black" wages is that in the "black" scheme, the employee works totally unofficially. In the "gray" scheme, the employee is officially registered as a company employee, he or she works officially, but his actual salary is much higher than the official one and the part of it is paid “under-the-table” without paying taxes and contributions to the retirement fund. In fact, the savings in tax payments is the main purpose for using such practices, though it is not the only one.

Both types of the above-mentioned salaries are familiar to most citizens of our country. In Russia such schemes are practiced on a wide scale and are often the reason for the tax litigations. However, it should be noted that such wages have their own advantages. First of all, the worker gets some extra cash, which he can spend on himself and his family. If his salary was totally white it would have been less due to

taxation. Maintenance creditors also have some profit here, because the court does not take the gray salary into account when it calculates the amount of such payments. That means this money is entirely at the disposal of the employee. Moreover, in Russia many enterprises run illegal operations and if you are not officially employed and your salary is “black” it will be very hard for the law enforcement to prove that you are working in the company that is blamed for money laundering, for example.

There is a number of extra reasons to use such payment schemes in Russia and they differ from conventional reasons for the existence of the shadow economy. For example, labor force immigration, mainly from the CIS countries, increases the informal employment, because many of these workers are illegal migrants who do not observe the procedure of registration and choice of residence. For example, in 2016 five thousand illegal immigrants were caught at the state border of Russia. Moreover, 68 channels of illegal migration were closed. Of course, the company cannot employ an illegal migrant, at least, officially. But at the same time work of such an employee is usually much cheaper than payment for the same work done by Russian citizens, therefore, it is more profitable for the company. As a result, the firm prefers to recruit cheaper migratory staff, using the mechanism of "black" employment. Another reason for the growth of the shadow economy, as well as the growth of "black" salaries, is inflation and changes in exchange rates, particularly the Ruble devaluation. It is not a secret that many companies keep their money in offshore (particularly in Switzerland), not trusting the Russian banking system. In this respect, during the inflationary surges of the owners of such businesses tend to keep the pre-inflation profits in a foreign currency, that forces them to use such informal mechanisms of saving money. Moreover, it is unknown where the employer takes the money. Gray or black salary can also be used for money laundering.

Though, at the same time, “gray” and “black” forms of labor compensation have severe disadvantages besides the fact that one commits a crime by taking it. As it has already been mentioned, the size of pensions and some social payments will be determined on the basis of the white salary, gray payments. Furthermore, it is much harder to get a loan and sometimes a visa to travel to another country, since the size of the white wage may seem insignificant for a bank or for a foreign embassy. When it comes to gray wages, recreational leave welfare allowance as well as the sick leave payments are determined by an official salary. Therefore, the employer may simply deprive a person of the additional earnings and thus blackmail the employee.

According to the Investigative Committee of the Ministry of Internal Affairs of the Russian Federation, in 2013 the total volume of grey salaries in Russia amounted to about 4 billion $ (241 billion rubles). However, the numbers are 4 years old. The devaluation of the ruble in 2015, and sanctions imposed against Russia by Western countries, brought a great harm to our economy, which in turn led to a further increase of the shadow economy and, accordingly, the percentage of “gray” wages.

According to unofficial statistics nowadays, Russian employers pay under-the-table 30-40% of all wages, which is about 500 billion rubles a month. Of course, every employee wants his salary to be big and totally official. However, the economic situation often dictates other terms. Business is restricted to profitability as well as to greediness of its owners, so the employee faces a choice every time: whether to make pension savings for the future and to work legally, to have his sick lists paid and be

given the loans — or to have extra money in his pocket here and now. Besides, in many cases, the person has just no alternative, for example. It is undoubtable that workers in Russia are suffering severe competition on the labor market. This drives them to pay close attention to the amount of wages, not its legality. When the worker agrees to the terms of an employer who offers him gray or black scheme of compensation, he signs up an unfair labor contract, which specifies only the official part of the wage, which is incomparably less real. Thus, employees become dependent on the employer. The firm may dispose the "grey" part of the paycheck, it can deprive the employee of the award, avoiding any legal or documentary substantiation of this step; he may pay commutation of unused annual leave and other indemnities based only on the "white" salary, as well as make a sick pay only from the "white" wage.

It should be noted, that there are some schemes that allow firms to pay workers under-the-table wages without hiding them from the state. Although they can help you to reduce the tax burden, they still do attract attention of tax authorities who are familiar with such measures of tax evasion. Nevertheless, there are always some companies willing to take the risk.

One of the most popular of these schemes involves paying the unofficial part of the salary disguised as the compensation for delay in paying wages. According to the Russian labor code, this compensation should amount to 1/150 of the key interest rate. However, this document does not prohibit the employer to pay a greater amount of compensation. Thus, an employee receives the “gray” part of his wage that is subject neither to personal income tax nor to unified social tax.

The second scheme is connected with dividends. The payment of wages in this form allows the entrepreneur to save on the tax contributions. However, it is not suitable for all employees, so to implement this the company should have a sufficient net profit. The advantage is that the employer does not have to pay UST.

The third scheme is the safest one. It is to sign up a commercial contract rather than labor contract with the employees. Therefore, the employee is registered as an individual entrepreneur and carries out its activities under the simplified taxation system. The tax rate for him is reduced to 6% of revenue. Thus, the company saves on the UST and all social payments. Therefore, in this situation the employee will have to pay all the contributions (to the retirement fund, etc.) on his own.

It is very important not just to give the definition of gray and black wages, and show the mechanism of their work, but to explain them from the point of view of the current Russian legislation. Relations arising between the employer and employee are governed by the Labor Code of the Russian Federation. This official document also establishes the penalties for tax evasion by way of payment of "gray" and "black" salaries.

Labor legislation (article 129 of the Labor code) defines wages as remuneration for work depending on qualification of the worker, complexity, quantity, quality and conditions of work, and also compensatory payments (extra charges of compensatory character including hardship differentials) and stimulating payments (bonuses and extra charges of a stimulating character).

Gray and black wages are defined as "the transfer of money to the workers, which is not considered in taxation". According to the Russian Tax Code it is regarded as a kind of economic crime. Therefore, if found guilty, an entrepreneur can face

administrative or even criminal sanctions, depending on the damage that was inflicted by his actions.

The state guarantees that it will supervise and control over every employer to pay all the wages completely (article 130 of the labor code). If the worker notices that he is being paid “under-the-table” he can contact both the Labor Disputes Commission and the local tax office with a statement that the employing organization pays its workers illegally through illegal wages. As it is the responsibility of tax authorities to fight the "gray" salaries, this statement may be a motive for a tax inspection because evading the taxes paid from wages is a significant wrongdoing. However, according to both experts and lawyers, the most effective way of asserting your rights is talking directly to the employer. The employee has the right to demand payment of wages in accordance with the legislation of the Russian Federation.

Those who are found guilty of violation of labor legislation and other acts containing norms of labor law should be brought to disciplinary and material liability in the order established by the Labor Code and other Federal laws, and are subject to public, administrative and criminal liability in the procedure established by Federal laws (article 419 of the Russian Labor Code).

The fight against informal wages began in April 2006. Back then, the tax inspection established a special Commission, composed of both tax municipal officials. Those “salary commissions” urged entrepreneurs to increase payments to staff, and therefore tax payments to the budget. Refusal to submit to the persuasion meant that they would get to a list of candidates for tax inspection. According to statistics of the tax authorities, the effectiveness of the site inspections was nearly 100%.

Although this policy was quite rough, it had indeed reached its goal. By the beginning of 2008, 23.4 thousand companies (99% checked by the Commission), raised the official level of salaries. 83% of them increased salaries to the industry average level.

Meanwhile, the activity and the authority of those commissions were not set in the legislation. They were created upon an initiative of regional authorities and operated under the regional offices of Federal Tax Service. The failure to comply with requirements of this commission did not have any consequences for the entrepreneur. Many taxpayers-legal entities directly indicated it to the tax authorities and were not even answering the call of the commission.

Thus, despite encouraging results, this problem was not solved over the past decade. Therefore, a new question arises: how can we deal with “gray” and “black” wages? What measures should be taken by the Russian government to solve this problem? We strongly believe that fighting only "gray" salaries is ineffective. It is much more efficient to solve the problem of the shadow economy in general. Only legislative regulation, the creation of effective economic and legal mechanisms to counter adverse events of the shadow economy can help us achieve success in the fight against the phenomenon of "grey" and "black" salaries.

There are two methods of fighting the shadow economy: a liberal one designed to restrict the ability of offenders to receive money bypassing the state regulation and a repressing one includes tougher punitive measures. Although the repressive scenario might look tempting, including increasing legislative pressure in relation to the shadow

economy, it can cause an irretrievable loss of huge amount of financial resources that will have huge economic consequences. Therefore, it is better to use the safer liberal method. The main goal of this struggle is to make finances that are now in the shadow economy work for the national economy.

In our opinion, to solve this long-standing problem, we should, first of all, take the following steps:

Firstly, it is necessary to motivate citizens to protect their right to be paid in legally. This can be achieved by both increasing the size of the legal minimum wage and informing the population about possible consequences of receiving gray wages.

Secondly, the government should cut down the taxes. Although this is utopia right now, but it can help increase the profitability of the business, resulting in profits from unpaid taxes not justifying the risk of criminal prosecution for the executives.

Thirdly, it is necessary to improve the immigration policy in order to limit or even totally eliminate illegal migration.

More effectively fight corruption as it boosts the shadow economy as a whole, including illegal wages.

There is no doubt that the problems of the shadow economy as a whole and of the "gray" wages in particular have been one of the main competitive drawbacks of the Russian economy for decades. In fact, it needs to be solved as soon as possible, because now, when our country suffers from sanctions imposed by the European Union and the United States as well as from the fall of commodity prices, it poses an immediate threat to the economic security of the country. In the past we could ignore this problem, but now it has to be dealt with. Otherwise, we will soon face further economic decline.

Unfortunately, Russia has not yet formed an effective system of economic security. However, the first steps in this direction have already been made. In addition, it should be noted that only a smart policy that includes scientifically based economic and administrative measures can make all the resources that are now in shadow, work for the national economy and thus encourage the sustainable development of the economy.

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Shadow labor market of Russia, 2016-2017

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Abstract

Knowledge about the shadow economy and especially the shadow labor market can be helpful in many ways, such as fighting tax evasion, corruption or boosting the economy and improving the economic law system of the country. Based on the recent readings, this paper is mainly concerned with the state of the shadow labor market of the Russian Federation.

In 2016, Russia was the 4th among the top-5 biggest shadow economies of the world with the shadow economy-to-GDP ratio at 39%. Almost 45% of the country's employees are involved into the shadow non-criminal market. International experts advise the government to fight against corruption and boost economic growth.

Keywords: Russian Federation, shadow labor market,

INTRODUCTION

The shadow economy is a highly observed phenomenon nowadays. Yet it is still rather hard to define. One of the most common used definitions suggests that the shadow economy compromises all currently unregistered economic activities that would contribute the officially calculated GDP if registered. Differently put, it means "those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation". This definition still leaves plenty of room for interpretation, but it will be used as the main one in this article as it is used by the Association of Chartered Certified Accountants (ACCA).

As for the shadow labor market, the most common used definition states that it includes all cases, where the employees and/or the employers occupy a "shadow market position". Speaking of Russia, according to the Russian Federation State Statistics Service the shadow labor market consists of those employees who work for a company, not registered as a legal entity. In other words, it includes the self-employed, farmers, sole proprietors and family members who help or work for a business owned by a family member. Thus, according to Russia's State Statistics, it does not consider employees working for a legal entity without having an employment contract and it does not regard employees receiving salaries "off the books" as part of the shadow labor market. The methodology which the State Statistics Service uses consists of calculating the difference between the number of employed persons and the number of filled jobs in legal entities.

Yet Russia's State Statistics also monitors the "non-observed" economy, which includes the shadow labor market and hidden labor payment at legal entities by indirectly calculating income of employees in the shadow sector and informal income in the formal sector.

SOME CURRENT GLOBAL INDICATORS OF SHADOW ECONOMY

In 2016, according to a research conducted by ACCA, Russia was the 4th country out of 28 with the biggest shadow economy. The research was based on a survey of business leaders and on the conclusion of two groups of experts. One group focused on forward-looking design and mainly used the horizon scanning method regarding the emerging problems. It also analyzed scientific literature and theoretical researches, interviewed analysts and experts about the prospects of shadow economy and applied the method of "soft" forecasting, which consists of generating forecast scenarios. The second group focused on quantitative methods, applying mathematical analysis to building models of relationships affecting the shadow sector to generate quantitative forecasts and build econometric models.

According to the research, in 2016 the shadow economy-to-GDP ratio was 39% or 33.6 trillion of rubles. This indicator is 84% higher than the worldwide average, the report states. The three countries that have the ratio even higher are Ukraine, (46%), Nigeria, (48%), and Azerbaijan, (67%). The countries that have the lowest ratio are the US, (7.8%), Japan, (10%), and China, (10.2%). As for the global indicator, it stands at the mark of 22.66% of the global GDP. The report suggests that it will be reduced to 22.5% in 2017, 22.1% in 2020 and 21.4% in 2025. In Russia it has not being changing for years. In 2011, it was still 39% and ACCA experts expect it to remain at the same level until 2025.

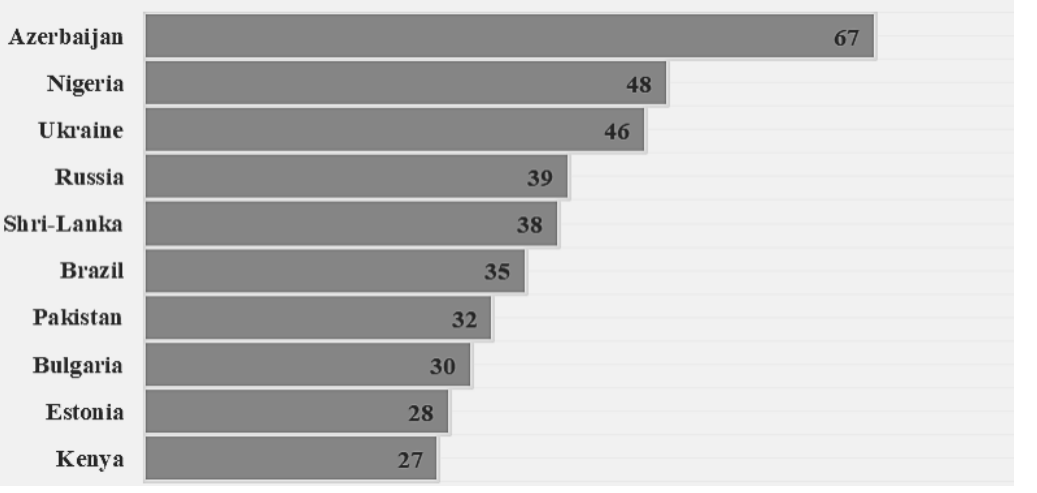

Fig. 1. Countries with the highest shadow economy-to-GDP ratio according to ACCA, %

ACCA experts also analyze what influences on such a state of the shadow economy in every country. They outlined two groups of factors – real and forming. Among the real factors experts name economic, business, social, demographic and government factors, while among the forming ones – technologic and scientific factors. Nowadays the level of the global shadow economy can be reduced by improving bureaucracies, reinforcing the control of corruption and boosting the level of GDP per capita.

For Russia the main factors that can help fight the shadow economy are control of corruption, "democratic responsibility" and GDP growth. They mean that by reinforcing the fight against corruption, improving the bureaucratic accountability and boosting GDP growth, the government can reduce the shadow economy-to-GDP ratio. Among other remedies to fight the shadow economy ACCA lists the legalization of some sectors of the shadow economy and their integration into the legal economy; the making of the state management more transparent and the strengthening of the control of tax payment. Experts also recommend governments all over the world to use of technologies for monitoring the main consumption patterns and for detecting illegal activities and to improve law systems.

ACCA experts also outlined five strategies to fight the shadow economy. They consist of making a bigger number of transactions electronic, reinforcing the supervision after the companies so that they respect the law, reducing the number of unemployed, investing more thus more work jobs could be created and reinforcing the control of security services thus the law could be broken in fewer cases.

But not only the government should fight against the shadow economy, ACCA says. Citizens should also refrain from participating in the shadow economy. They also should inform the government of shadow economic activities. [2]

SITUATION IN RUSSIA

In 2017, Maxim Oreshkin, current Minister for Economic Development of the Russian Federation, named the shadow economy as one of the key problems of the country's economy. Experts from the National Research University Higher School of Economics believe that corruption underlies in the basis of the national bureaucratic system. If the current political system remains, it would be impossible to reduce the level of the shadow economy, they say. [2]

Russia's State Statistics Service does not publish data on the shadow economy. In March, Alexander Surinov, chief of the Statistics Service, announced that the shadow economy-to-GDP ratio in Russia was about 10-14%.

"There are sectors, which have almost 50% shadow economy ratio, like agriculture, where there are a lot of farms and other subsidiary plots. The real estate sector has the same ratio, because people themselves rent their houses and apartments. The commercial sector has the ratio at about 10-11%, the construction sector – approximately 16-18%. In the education sector the ratio is about 5-6% as some people do tutoring", - said Surinov. He added that now data is calculated using the commodity-flow method. The Federal State Statistics Service considers such readings as the amount of produced goods and services and how they are used. Afterwards these indicators are brought into the input-output table.

Another way of measuring the level of the shadow economy is through the hidden payroll fund, which is a way of observing the so-called previously mentioned "non-observed economy". The hidden payroll fund includes incomes in the informal sector and informal income in the formal sector. In Russia, this fund is continuously increasing: in 2011, it amounted to 6.3 trillion rubles and in 2015 – nearly 11 trillion rubles. In other words, in 5 years the hidden payroll fund-to-GDP ratio has raised from 10.6% to 13.4%.

At the same time, the Federal Statistics Service reveals the level of informal, but not criminal employment. Officially, in 2016 this level was about 15.4 million people or, in other words, 21.2% of all employers. This is a record high in the last 11 years. Andrey Pokida, director of the Center of Social and Political Monitoring at RANEPA, says that to about 40% of employees in 2016 belonged to the shadow sector. [2]

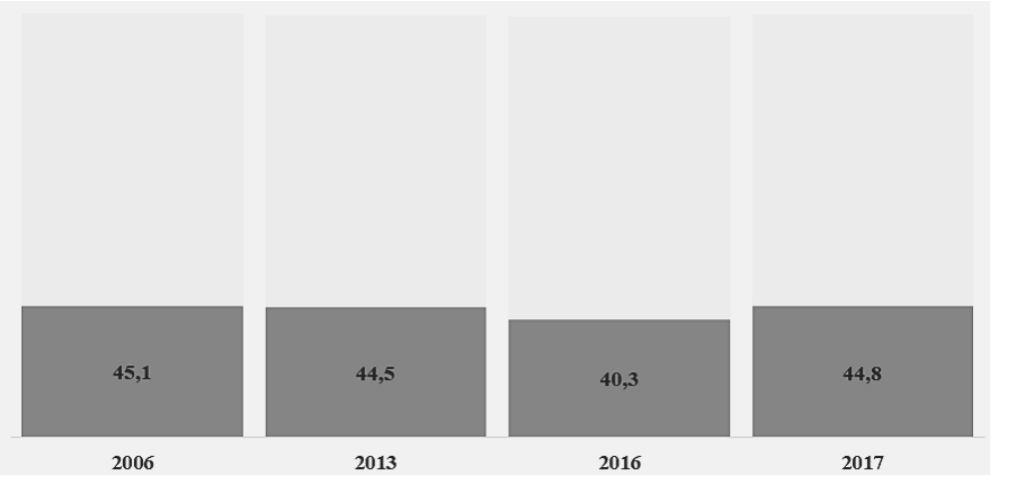

Fig. 2 The share of Russians who are involved in the shadow economy, in % of total labor force

As for 2017, approximately 45% or 33 million employees are involved into the shadow non-criminal economy, experts from the Institute of Social Studies at RANEPA. A research conducted by the Institute reveals that the growth of the shadow economy can be explained by more people seeking for informal income. In 2016 the same reading was 40.3%, in 2013 – 44.5%, in 2006 – 45.1%. [5]

The research also specifies that about 34% of employees have been constantly involved into the shadow labor market. It means that received salaries "off the books" every month. In 2016 the figure was 28.8%.

As for the self-employed, such type of employees do not seek to make their employment official. 62% of self-employed belong to the shadow economy.

The research conducted in June 2017 was based on some survey of 1600 employees from 18 years old in 35 federal subject all around the country. The respondents were selected so that the main economic activities could be represented in the research. [3]

FIGHTING AGAINST THE SHADOW ECONOMY

The so-called policy of making the labor market whiter conducted by the Russian Ministry of Labor and Social Protection and the Federal Service for Labor and Employment (Rostrud) includes all levels: federal, regional and municipal. Both, the Ministry and Rostrud, have created special interagency commissions and workgroups that control the legalization of labor, employment and salaries "off the books".

These bodies receive information from different sources. On the one hand, they themselves monitor businesses. On the other hands, they acquire information from the Pension Fund, the Social Insurance Fund, the Federal Tax Service and Services for Labor and Employment. What's more, the commissions and workgroups have power to involve enforcement authorities if some special information is needed.

According to the Federal Service for Labor and Employment, punishing employers who do not legalize their workforce is an extreme measure. The procedure has its order: firstly, employers receive an order from a commission or a workgroup to legalize their workforce. If the order does not help and the situation does not change, the enterprise is checked by enforcement authorities and labor state inspectors. According to statistics, in 2016 in the period from January to August after state inspectors checked enterprises, employers legalized 83.000 of employees.

But there are some problems with this policy. The fact is that nowadays commissions and workgroups do not have access to the database of the Pension Fund that contains some personal information including information about work. The government has requested officials to grant access to the database as it will facilitate the whole procedure and it will be easier to identify illegal labor relations.

The shadow labor market is highly related with the pension system. In 2015, employers have paid 3.86 trillion rubles to the Pension Fund as contributions for compulsory insurance. Still, according to Alexander Safronov, director of the Institution of Labor and Insurance at RANEPA, every month about 1.3-1.5 trillion rubles are not paid to the Pension Fund due to the shadow labor market. The level of salaries "off the books" is about 5 million rubles, say experts from the Ministry of Finance in "Basic Directions of Budgetary Policy for 2017-2019".

"Within this context, in the coming years it is necessary to develop a package of measures to make the labor market whiter. The package should include the reduction of the overall tax burden for businesses that operate legally and the increase of costs, both tax and administrative for illegal businesses," – say experts. [4]

What's more, according to Vadim Grishin, an expert on Russia's economy at the Center for Strategic and International Studies, the government is now considering a policy to reduce the amount of cash in Russia. The policy would squeeze the informal sector (a similar policy is currently being considered elsewhere - namely, in India, the most cash-dependent country in the world). "A cashless economy is a very popular topic now," - Grishin said, - "but just applying this measure is not sufficient to create incentives to move the informal sector to the formal sector." [8]

Furthermore, as it was previously said, not only the government ought to fight against the shadow labor market and the shadow economy as a whole.

According to SuperJob, a Russian recruiting service, about 38% of Russians are not ready to work for salaries “off the books”. It is a record high since the financial crisis struck the country in 2008-2009.

The figures lower show the results of a survey conducted by the analytical center of SuperJob. The main question was whether the respondent was ready to receive illegal salary. The survey covered 1600 Russians from 18 years old from 302 different locations.

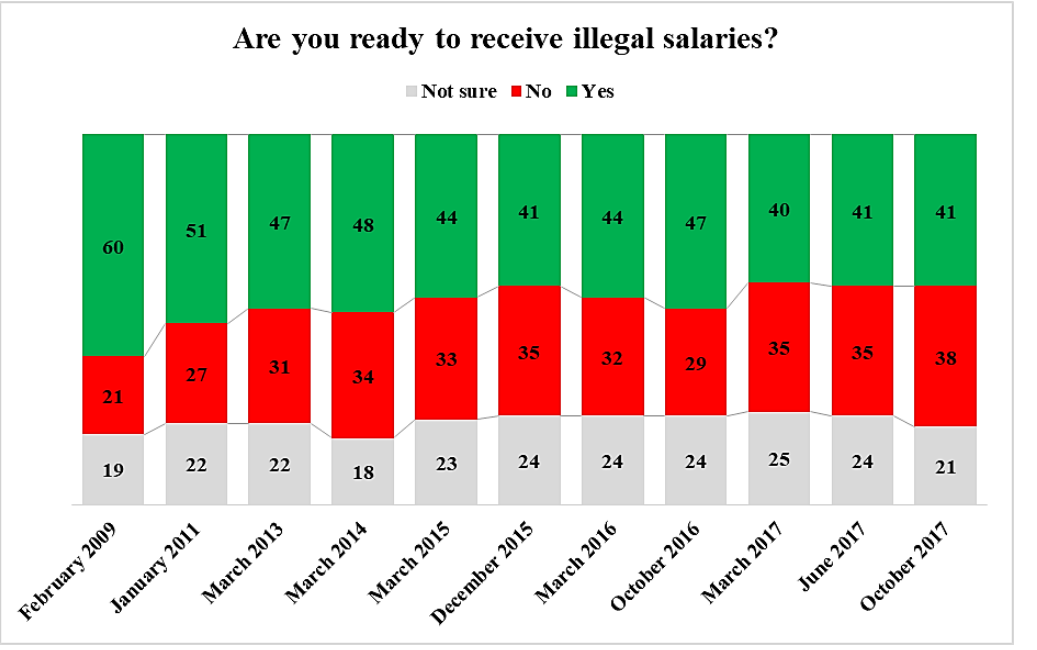

Fig. 3. Results of the survey by types of answers, %

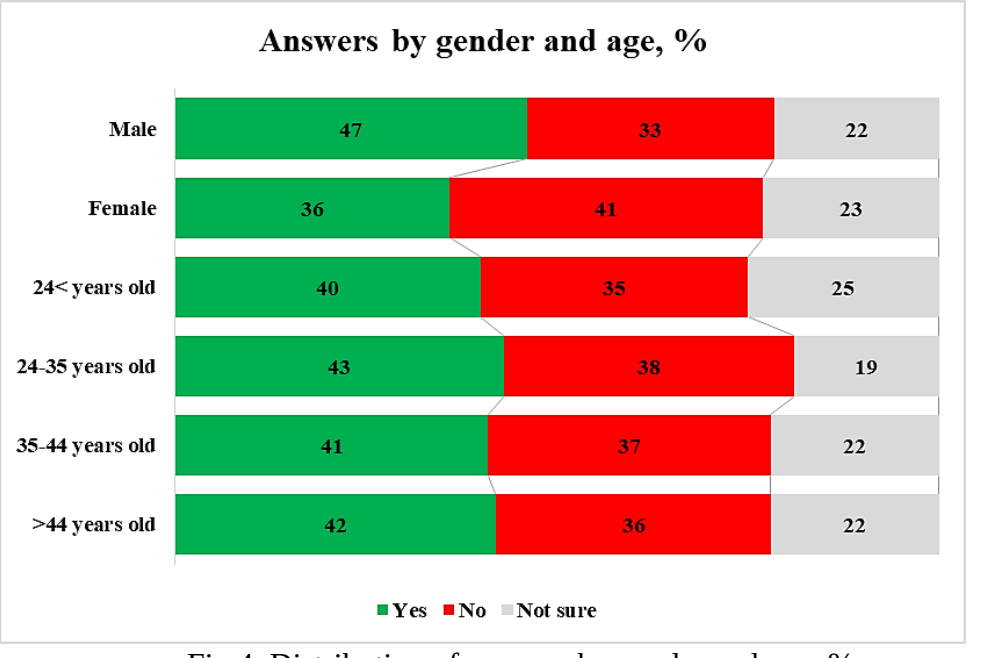

Fig 4. Distribution of answers by gender and age, %

Yet the survey showed that more Russians are ready to receive salaries "off the books" – 41% in 2017 against 38% of those who are not. However, the gap among those who are ready and those who are not is at its minimum – 3%. In 2016, 47% of respondents would settle for illegal salaries, 29% would refuse it, while the gap was 16%.

According to the research, women were less tolerant towards salaries "off the books" – 41% of females said they were not ready to work illegally and 36% that they were ready, while only 33% of males responded negatively and 47% - positively in 2017. What's more, respondents from 24 to 35 years old were the most precise in their answers: 43% of them were ready to receive grey salaries, 38% refused them and only 19% were not sure what to opt for. Younger respondents were the most hesitant of all four groups (25%) and were less eager to accept illegal salaries (40%). The other two groups (from 35 to 44 years old and from 44 years and older) showed similar results: 41% and 42% respectively gave positive answers, 37% and 36% answered negatively and 22% in both groups were not sure.

Andrey Safonov from the Academy of Labor and Social Relations believes that there are two factors influencing such a trend. The first one is the economic crisis that has showed that frequently enough employees face debts that in cases of illegal employment are difficult to repay. The second is the fact that employees who do not have official work experience are not entitled to pension insurance benefits.

According to Maria Ivanova, chief of the Economic Expert Group, an analytical and consulting agency, the reason why Russians have become less tolerant to illegal salaries lies in the publication and spread of news about the risks of the shadow employment. Another reason is making the law system stricter. Moreover, the lack of highly qualified professionals at the labor market also propels decreased tolerance towards illegal employment. Experts from the Ministry of Economic Development and the Central Bank have stated that now employees have sensed the trend of high competition among employers due to which they demand legal employment. According to HeadHunter statistics, the number of vacancies in Russia this summer hit a record high. [6]

But the informal sector is growing not only because of the economic crisis, remarks Alexei Gidirim, co-founder of the YouDo.com online market. "The development of mobile, Internet, and cloud technologies helps the development of the economy's informal sector. People are trying to preserve their income levels during the decline in the economy and the mandatory conditions of official employment has become secondary."

In Gidirim's words, on a monthly basis YouDo.com registers more than 40.000 self-employed people looking for work or just extra earnings in Moscow and St. Petersburg alone. In total about 300.000 people are registered on the service and the company estimates that by the end of the year the figure will double.

He says that all self-employed people who now work in the informal sector will become the engine of Russia's economy once they leave that sector. "But it will be impossible to do this without reforms of the labor system. In particular, there must appear a new category of workers with precise, legally prescribed rights and obligations – the self-employed citizens," - Gidirim concludes. [7]

CONCLUSION

The shadow labor market in Russia is a complex system of work relations. On the one hand, the shadow economy is being helped by economic decline, and, on the other hand, by the growth of technologies and Internet-markets for work and part-time work.

The informal economy employed 15.4 million people in 2016. This is 21% of the total number of people employed in Russia. The shadow sector has been growing rapidly since 2011 and in this period has increased by four million people, according to RBC's calculations, which are based on the Federal State Statistics Office data.

Informal employment hurts the development of the rest of the economy by reducing tax revenue, which takes away from the state budget. On the flip side, those in the informal economy are not benefiting from the state budget, because, for example, they cannot collect pensions. The informal sector also decreases productivity and efficiency by employing people who might otherwise develop the private sector, according to Vadim Grishin, an expert on Russia's economy at the Center for Strategic and International Studies.

The Russian government is well-aware of this and has discussed some reforms. For example, a policy to reduce the amount of cash in Russia would squeeze the informal sector. Special commissions and workgroups are also being created to improve control after the shadow economy.

Structural reforms, including pushing back against large state-owned monopolies, would be needed to help reduce the informal economy, according to Grishin. Until that happens, the informal sector is likely to remain, a costly reminder that it exists because of an unhealthy economy - and not the other way around.

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The underground economy of Russia

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Abstract

The article studies key macroeconomic problems regarding the national business going into shadow. The author observes hidden entrepreneurship in Russia and distinguishes the main industries where the grey market is extending. The paper also suggests some ways to influence the grey economy towards its reduction and prevention.

Keywords: shadow economy, underground economy.

The underground economy consists of processes that are not advertised, concealed by their participants, not controlled by the state and society and not fixed by official state statistics.

The underground economy did not appear in the transition period. It existed in the command economy. The state planned economy - the economy of deficit and "squeezed" prices inevitably generated and constantly reproduced the underground economy. A single power center could not establish a balance of supply and demand in the market.

Everybody knows about the underground economy, they see that a lot of businesses use its goods and services, but officially such economy as if "does not exist." There is no statistical data on it, taxes are not paid, its employees are not covered by social insurance and pensions.

THE STRUCTURE OF THE UNDERGROUND ECONOMY

The underground economy is a complex structure, a multifaceted concept. First of all, it is associated with criminal, that is criminally punishable ways of generating income. However, economic crime is an important but not an exhaustive part of the underground economy. More common understanding of the underground economy as hidden from the state (unaccounted, illegal) activities. This approach to the underground economy reflects its main feature - the underground economy does not exist legally, it functions outside state legislation, public-law control and is accompanied by the extraction of uncontrolled income. Recently, the definition of the underground economy has emerged as doing business by violating established rules of taxation, licensing, lending, registration, etc. Therefore, the underground economy is also defined as illegal entrepreneurship. Thus, the underground economy is characterized from different perspectives, different authors include in it a different number of structural elements. At the same time, the underground economy is not assessed unambiguously negatively. Real activities of people for the provision of

household services, repair, construction of housing, maintenance of household appliances, etc. It can not be perceived as negative, undesirable for society. However, if this activity involves the extraction of uncontrolled income from the state, with its shelter from taxation, with facts of falsification and deception in the production of goods, then relations established under the Criminal Code of the Russian Federation arise. Thus, not in itself entrepreneurial activity forms an offense, but only dishonest business, a violation of the established rules of engaging in business. Depending on the degree of public danger of this violation, administrative or criminal liability occurs, as well as compensation for damage caused.

The structure of the modern Russian underground economy can be represented in the form of three enlarged blocks:

1. "Underground" or "gray" economy. This is an activity focused on satisfying normal social needs, but it is carried out in uncontrolled forms of the state with the aim of extracting uncontrolled income and evading tax, customs payments.

2. Fictitious (fraudulent) economy. This is an entrepreneurial or other economic activity associated with various kinds of deceptions, fraud, fraud. For example, fraud in obtaining loans and their use, counterfeiting, production and sale of counterfeit securities, credit and settlement cards, any other payment documents, fictitious bankruptcy, fraud, false advertising, etc..

3. The criminal "black" economy, focused on satisfying destructive needs (prostitution, kidnapping, drug trafficking, arms trade, etc.), as well as receiving income from various types of professional criminal activity (buying stolen goods, trading in gold, etc.)

In the 1990s, the underground economy of Russia underwent serious qualitative changes. The process of structuring, taking into account market relations, was basically completed, its positions in new and promising types of economic activity - banking, financial and credit, investment, raw materials, etc., strengthened. The main form of the underground economy was economic crime (the first two types of underground economy)

In the process of underground economic activities involved a variety of actors. They are very many and conditionally they can be grouped into 4 groups:

1 group - unorganized individuals;

2 group - organized underground economic groups, which are divided into two types. The first kind is criminal- underground groups, the second kind is simply underground economic groups, whose activities in one way or another may not comply with the law, but this is not a crime, but a "mild" discrepancy;

3 group is a state as a underground business, it is both a matter of state government bodies and government officials;

4 group - all kinds of international organizations, which often engage in underground activities by violating the same regulatory acts (IMF, WTO, World Bank).

On the one hand, these are noble subjects called to improve and develop, and on the other hand, within the framework of these structures, powerful underground processes are developing that are related to the realization of not only economic but also political interests, the goals of the main founders, shareholders, managers of the relevant international structures.

1 group - unorganized individuals. Act on their own, not in the group, the only organization we can talk about here, it's about some inner self-organization of these individuals. They do not constitute any stable criminal communities or organized groups, they act on their own in an individual mode.

Here, professional criminals, individual killers, there are retired people selling their own production, engineers who work on vacation due to their meager salary, i.e. people who spontaneously, in order to survive, increase their income level are included in the processes of informal economic activities unorganized.

But in recent years, especially in Russia, there is a fairly intensive reduction of this layer and an increasing number of unorganized underground businesses are included in the orbit of the functioning of large underground economic structures. In case when the business of an unorganized underground business becomes more profitable, larger group structures of the underground economy show increased interest in it. As a result, thinning of this layer of unorganized shadow entities occurs.

2 group – organized underground economic groups. Greater interest for the development of the underground economy and greater influence on its functioning are provided by the group entities of the underground economic activity:

- Criminal- underground groups
- Criminal organized groups.

There are different types of criminal organized groups. The simplest version is the so-called the simplest criminal organized groups. Usually these groups include up to 4 people, not more. Between the members of the group there is no division of labor and a clearly expressed specialization. In the structure of the group, as a rule, there is no leader or leader. They deal mainly with small robbery, petty fraud and other individual creativity. Here, as a rule, there is no connection with the outside world. What they acquire by engaging in crimes against property are themselves realized and used to increase their own income. The temporary nature, as a rule, 1-2 years they exist.

The next form is more complex - a structured organized group. The number of members is often more than 10 people, there is an internal specialization between the members of the group, there is a leader, and most importantly, relations with the outside world are formed. These links are established through the stolen merchants, through various firms engaged in pseudo business. In addition, at this level, there are often formed some links with representatives of power structures and law enforcement agencies, but the truth is at the lowest level (district police department, lower officials from the Ministry of Taxes and Duties, etc.)

3 the group (already considered) - the state as a underground business, it is both about the bodies of state power and administration, and about state officials;

4 the group (already considered) - all kinds of international organizations that often engage in underground activities in violation of their own adopted regulations (IMF, WTO, World Bank).

On the one hand, these are noble subjects called to improve and develop, and on the other hand, within the framework of these structures, powerful underground processes are developing that are related to the realization of not only economic but also political interests, the goals of the main founders, shareholders, managers of the relevant international structures

THE SCALE OF THE INFORMAL SECTOR IN THE RUSSIAN FEDERATION

In modern Russia, one of the most difficult problems is the underground economy. According to the IMF in 2014, the volume of the underground economy amounted to 20-25% of GDP, which is about 2-2.5 trillion rubles. The average enterprise sold 16.8% of its products in the informal sector, and about 23% of the total turnover was the transfer of money from the official sector to the underground sector. Although for our country the phenomenon, when the underground economy enters the legal field, is quite familiar.

Most of the proceeds to the underground economy comes from selling heroin, trafficking in women, selling counterfeit goods, firearms and cyber crime. In general, the underground economy can be considered any economic activity that is not taken into account and is not controlled by the state. In principle, such is entrepreneurship, which hides real income from business and evades taxes.

In general, the underground economy is associated with tax evasion, which has become permanent for domestic entrepreneurs. They use different methods and schemes to avoid taxation, because taxes are growing due to the increased need for the country's economic resources.

In the first half of 2014, 25% of organizations worked at a loss to themselves, because they used schemes of hiding the activity or refraction of its results. And 42% of organizations declaring zero-result financial and economic activity. In other words, within half of the organizations in the Russian Federation do not pay income tax, which in the financial interests of the state is unacceptable. The key sectors of the economy, in which there is the largest number of non-profit organizations, are construction, retail and wholesale trade, i.e. The same sectors of the economy in which the share of hidden wages is high.

A separate group of economic offenses, classified as a tax scam, is singled out. In many countries, one of the most serious offenses is a tax scam. Tax scam is guided by the precedent of concealing taxable bases through forgery or deliberate modification of documents. Here, criminal schemes for VAT refunds for expert operations, illegal entrepreneurship, illegal export of money, etc.

In mid-2014, the crisis began and worsened the situation on the labor market, then the underground economy began to grow. Alexander Surinov (Rosstat) estimated this sector equal to the fifth share of the economy as a whole. Experts refer to this section as an "unobserved economy". A lot of goods and services that can not be counted, as banned for production and sale on the territory of the state (for example, prostitution).

Outside the formal economy of Russia in 2015, according to the Federal State Statistics Service, 14.3 million people were employed, including 7.8 million men and 6.5 million women. That makes 22.1% of the total number of employees in the economy of the state. Of them in trade - 4669 thousand people, in agriculture - 3341 thousand people, in construction - 1669 thousand. people in the sphere of transport and communications - 1315 thousand people, in the manufacturing industry - 1275 thousand people, in the sphere of rendering various services - 752 thousand people, in

real estate operations - 570 thousand people, in the hotel and restaurant business - 441 thousand people.

In other economic activities, the formally considered part of the informal economy and the number of employees in it are not too large: education (107,000 people), health (142,000 people), production and distribution of electricity, gas, water (42,000 people .) and others, but this does not prevent them from fully replenishing the underground economy. What ultimately does not make life easier for society. There is no official and estimated statistics on the fictitious and clandestine economy. Assessment of the state of the underground economy in Russia is regularly published only by foreign institutions and organizations.

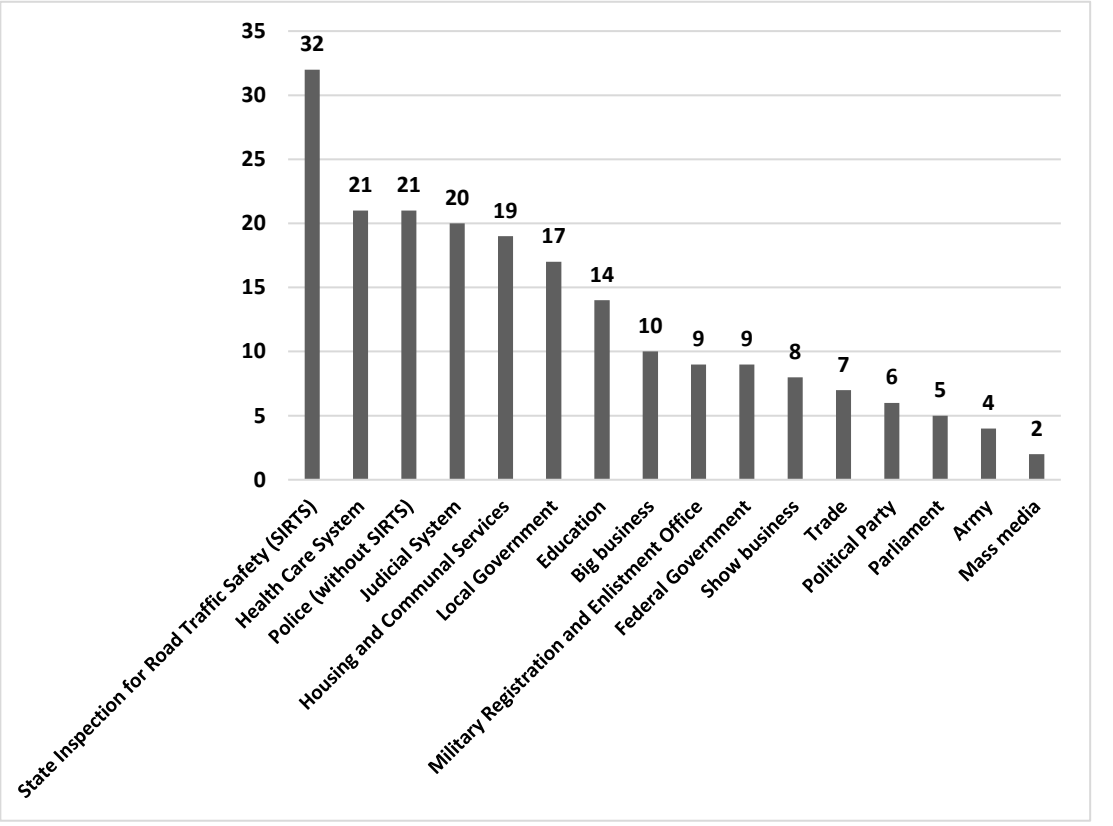

Figure 1. Spheres and institutions in modern Russia, most prone to corruption, share of respondents

In Figure 1, we see that according to the survey for 2015, the underground economy, according to the society is most developed in the sphere of traffic police. The share of respondents in this survey increased from 25% to 32% between March and October 2015. The second place was shared by medicine and the police (21%). The Ministry of Health is confident that the rise in domestic corruption is the fault of the main doctors who are not sufficiently cooperating with their subordinates. With regard to the judicial system, which is also sufficiently exposed to corruption, according to soc. surveys (20%). In this case, the reason is that the majority still perceive bribery as an inevitable phenomenon, connected with the mentality and the

desire to speed up the intricate bureaucratic procedures. The underground economy in the sphere of housing and communal services (19%) is manifested in overstating tariffs for rendering services, failing to fulfill its obligations. Authorities in the field according to the survey are given (17%). This area is always at risk. Because in their hands is a huge amount of resources. In the sphere of education (14%), it is not always about higher education institutions - bribes are also taken in kindergartens. The system of multistage registration of documents creates favorable conditions for giving bribes. But even its simplification does not always help. So, the "electronic queue" in kindergartens is designed to eliminate criminal facts. But practice shows that this is not always successful. Correspondents also took the last place in the military commissariat (9%). This is due to the fact that in recent years, more and more young people do not want to go to military service, and buy a military ticket.

If we continue to talk about the structure of informal employment, then it is obvious that this is most expressed in the trade and repair segment: 34% of all informal workers are employed here, this is due to the huge inflow of foreign labor migrants. The second place is given to agriculture with 25.1%. The lowest rates of informal employment, in extraction, public sector and financial activities.

Experts came to the conclusion that the main reason for the growth of the informal sector is the reduction of small enterprises. According to official data for the past two years, over 600,000 individual entrepreneurs (IPs) have ceased their work throughout the country. According to the results of 2015, according to Rosstat, in Russia there were 5.3 million registered IP. As a result of maintaining a tight monetary and fiscal policy, another 200-250 thousand IP can withdraw from registration and go into the sphere of illegal underground business. Such fears are also backed by data based on a survey of 450 companies from several regions. Based on their data, 30% of small and medium-sized companies had to reduce the number of employees and reduce wages, due to the crisis.

It should be noted that the public sector has a great influence on the formation of underground financial flows of firms, at the present stage of Russia's development, which is rapidly superseding business. This is manifested by the fact that a significant part of the proceeds belongs to companies that are under the control of the state, or the state has a significant stake. According to the "RBC 500 rating. The largest companies in Russia", out of 500 companies - 393 are privately owned, 88 state-owned, 18 companies with state participation and one foreign company. Despite an insignificant share of companies with state participation, their revenue is 43.7% of the total revenue of all rating companies.

It should also be noted that in 2015, 40% of the companies belonging to large business and controlled by the state accounted for 40%, private companies 47%, and companies with foreign participation 13%. Based on this, you can see that there is an expansion of state participation in business. This can be traced if not by the number of companies, then by revenue.

On the basis of all the above data, it can be said that the increase in the share of the underground economy in Russia is primarily related to the wrong policy pursued. Currently, the reduction in oil prices and the imposition of sanctions by the EU countries, significantly reduces liquidity. The latter is due to the adjustments of the Central Bank of the main rate, on the basis of which interest rates on loans are

determined. In order to reduce inflation, the Central Bank of Russia has increased the key rate, these changes have affected the interest rates of banks on loans issued. If we talk about the sanctions applied to our country, then their introduction significantly limited the attraction of foreign funds, as well as reduced the participation in the world market of banks and companies. High rates on loans in our country, as well as a limited number of foreign banks that do not support sanctions, these two factors have led to difficulties in attracting funds from companies.

It can also be noted that the sanctions have significantly reduced the amount of investment not only foreign investors, but also Russian. All this had a significant impact on the scale of the development of the informal sector. To stabilize the country's economy, it is necessary to pay due attention to the solution of these problems, because they are the key at this stage of Russia's development.

According to the Federal State Statistics Service in 2016, the underground economy involved 14.83 million people, which is 20.5% of the total number of employees in the country's economy, and in fact, the situation is as follows: the share of the underground economy in GDP in 2016, is 40-50%.

If we draw a parallel with regard to the situation of the underground market with foreign countries, we can see a picture that does not come out in our favor. For example, in Italy, the share of the underground economy in the country's GDP reaches only 17%. It should be noted that the most developed underground economy in such a sphere as, service, but also affects other sectors.

At the same time, according to statistics, the number of unemployed in Russia in 2016 was 4.243 million people, compared to 2015, the number of unemployed fell by 0.5%. In state institutions of employment services in the ranks of the unemployed registered 956 thousand people.

The number of economically active population in December 2016 amounted to 76.9 million people, or 52% of the total population of the country according to the statistics site. While cash income, in November 2016 compared with the corresponding period in 2015, decreased by 5.6%, from January to November 2016 - by 5.8%, also despite the low inflation and positive economic growth, the income of the population at the end of 2017 year may not show a positive relationship. In 2017, the decline in household incomes may fall to 0.2%. However, later incomes will start to increase: first by 0.3% in 2018, and further by about 1% per year during 2019-2021.

Russia needs a comprehensive and systematic approach to the processes of growth and development of the economy, due to which the effectiveness of the Russian state will increase, and therefore, the international ratings of Russia.

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