ROLE OF THE SHADOW ECONOMY IN DEVELOPMENT OF THE ECONOMY
Petrosyan L.M. Email: Petrosyan635@scientifictext.ru

Petrosyan Lilit Manvelovna - PhD Applicant,
INSTITUTE OF ECONOMICS AFTER M. KOTANYAN
NATIONAL ACADEMY OF SCIENCES OF THE REPUBLIC OF ARMENIA, YEREVAN, REPUBLIC OF ARMENIA

Abstract: in summary, it should be stated that structure of the shadow economy, as well as the shadow economy as a whole, is diverse and requires a thorough and comprehensive study. Therefore, the study of each of them can even serve as a basis for origination of a separate direction of economics. As regards the consequences of the shadow economy, it is worth noting that although these consequences are not perceived as definitely positive or negative, the facts suggest that prevailing are negative effects serving as a basis for statement that the shadow economy is a negative phenomenon, requiring application of a reactive differentiated and consistent policy.

Keywords: shadow economy, corruption, taxes, economic crime, tax authorities.

In terms of analysis of structure and consequences of the shadow economy, it should be noted that still there does not exist general approach to interpretation of the shadow economy activity in economics. The same situation is with interpretation of the shadow economy as a separate group of shadow activities. Different approaches to classification of the shadow economy are employed in economics literature. Before addressing these approaches, it is worth noting that existing differences are not so much conditioned by their semantic features as by their nominal nature. For example, in the West economics literature types of activities not regulated and not accounted for by the state, based on their nature, have been called shadow [6], informal, secret, black, underground, grey, illegal and parallel economic activities [7].

Another approach to structural division of the shadow economy is the classification according to which, when dividing the shadow economy into separate sectors, it is necessary to determine the extent to which particular type of shadow economy activity is linked to the “primary” (“white”, formal) economy, as well as subjects and objects of the given economic activity. Accordingly, the following three types of the shadow economy are differentiated (figure 1).
Fig. 1. Classification of the shadow economy [3]

According to figure 1, the first sector is the “secondary” ("white-collar") shadow economy. It represents secret economic activity prohibited by the law, which is carried out by the employees of “white” economy at their workplace, leading to secret redistribution of previously generated national income (NI). Since mainly the “high-ranking” persons, leaders in both private and public sectors, are engaged in this activity, this type of the shadow economy is also called “white-collar”.

From the point of view of society, no new product or service is produced in this sector of the shadow economy. Obtaining benefit of one kind or another by a person in the “secondary” economy is accompanied by the loss of others.

Already in 1949, an American criminologist Edwin Sutherland defined the concept of “white-collar crime”, according to which the secret illegal activity was actually considered to be an inseparable part of “big business”. He came to this conclusion after analyzing statistics of litigation against 70 major USA non-financial corporations related to violations of economic legislation. He revealed that in total 980 indictments were issued in connection with commitment of economic crimes of different nature. In the given case that companies acted as “perfect criminals”[5].

It should be noted that five main types of economic crimes are distinguished, which are vividly illustrated in figure 2 below.

Fig. 2. Classification of economic crimes [1]
Now let us pass from general interpretation of the “secondary” shadow economy to its more significant subsets:

1. Corruption;
2. Tax evasion [4].

The term “corruption” can be used for bribery of a public official by a person concerned. On the other hand, corruption is also possible in the private sector of the economy.

For the first time the term “corrumpire” was used in Roman law as antonym to “bribe” and served to characterize abuse of any position. The ancient Roman discourse, when referring to the abuse of personal power by public officials, stated: “He came to the rich land poor and left a poor land rich”. In modern economics, in general the following reasons for emergence of corruption are differentiated (figure 3).

![Economic reasons](image)

![Institutional reasons](image)

![Social and cultural reasons](image)

Fig. 3. Three main reasons for emergence of corruption [2]

When referring to economic reasons for emergence of corruption, first it is necessary to understand that in the situation being what it is the salaries of public officials are very low and at the same time they have broad powers to influence activities of both enterprises and citizens. Consequently, corruption is growing rapidly under the conditions when public officials have broad powers over possession of limited resources. This phenomenon is particularly evident in the countries with developing and transition economies, conditioned by various economic, political and legal imperfections.

In speaking of institutional reasons for emergence of corruption, we first mean the high degree of non-transparency of the activities of state institutions, the immenseness of the reporting system, insufficient transparency of the law-making system, weak state human resources policy, etc.

Social and cultural reasons for emergence of corruption include lack of morality in society, low level of awareness among citizens and their insufficient discipline, in other words absence of civil society or its insufficient development.

However, research suggests that it is impossible to prevent corrupt practices by salary increase only, since here is required strict control and effective system of appropriate punishment measures for the abuses identified.

It should be noted that one of the most important elements in the fight against corruption is formation of such a moral and psychological atmosphere in the society that will prevent each member of society from initiating corrupt conduct because of its being condemned by the society.

Thus, existence of corruption in a country reduces its attractiveness for foreign investors, which is the key factor contributing to the implementation of sustainable and effective reforms in the countries with transition economies, and, therefore, for ensuring stable economic growth in long-term perspective. However, it should be noted that the most dangerous are those manifestations of corruption that contribute to tax evasion by individual economic entities. Tax evasion represents the whole set of activities carried out by individuals and legal entities aiming to minimize or eliminate existing tax liabilities. From a legal standpoint, practice of not paying taxes can be legal (tax avoidance) or illegal (tax evasion).

References / Список литературы