

## IDENTIFICATION OF SYSTEM CHARACTERISTICS AND STRUCTURAL DIRECTIONS OF SHADOWING ECONOMY AS A PREREQUISITE OF ITS LEGALIZATION

**Statement of the problem.** Considering the shadow economy as a multidimensional fact that cannot be determined or estimated unambiguously, we should accent that the shadow economy is necessary for any social and economic system and it exists together with the official economy. Shadow economy is recognized as constant "companion" of legal economic relations. This recognition brings the problem of its minimization to the foreground, but not the absolute elimination of it. It is a priori impossible, as evidenced by studies over many centuries. Only the types and scales of shadowing are changing. For example, until the nineteenth century, usury was prohibited and only over time granted legal status, while other activities have moved from legal to illegal (gambling in particular).

Not only time periods or certain kinds of activities, but also groups of countries are specific issues in the distribution of the shadow economy. According to experts, the countries with post-transformational stage of development have significantly higher shadow scopes than countries with developed market system. This is also displayed on the official criteria of scale valuation of shadowing sector. Thus, a safe level of shadowing for the world-developed countries is 14-15 % of the GDP, while for the post-Soviet countries it is 20-25 % of the GDP [3, p. 51]. Average level of shadowing in the most developed countries of the Organization for Economic Co-operation and Development is 18,7 % of GDP, while in countries of Eastern Europe - 38 % [8, p. 6].

**Analysis of recent researches and publications.** Theoretical and methodological aspects of shadow economic relations were examined by domestic and foreign economists like O. Baranovskyi, D. Blades, Z. Varnaliy, P. Hutman, B. Dallaho, A. Korystin, I. Mazur, V. Melnykov, O. Turchynov, E. Feig, M. Fleychuk, I. Tsurcan. However, most of these researches are focused not enough on the issue of transnational criminal activities, such as computer crime, «laundering» of money, stealing of intellectual property. The distribution of shadow economic activities, assigning formal sector to the shadow economic sector classification, list of illegal activities, etc. are debatable. All this show the importance of the subject and dictate the choice of research direction in the scientific and practical aspects.

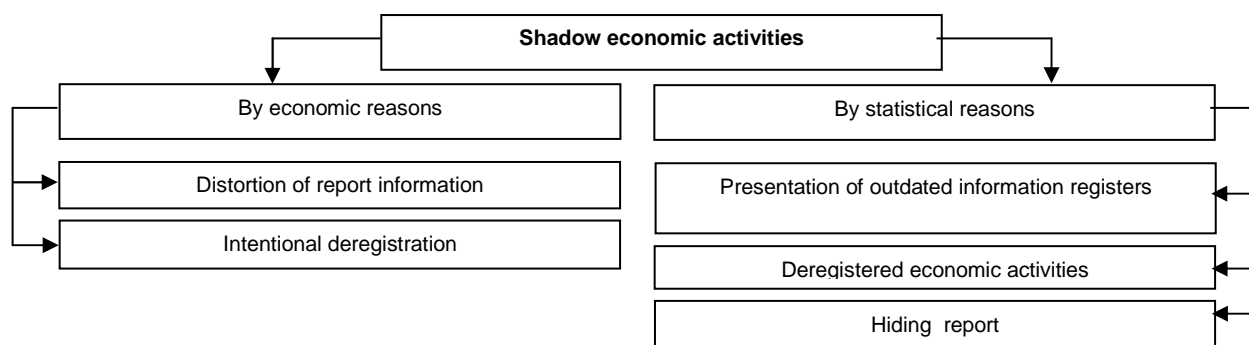
**Statement of the objective.** The purpose of this research is a system performance generalization of the shadow economic activities problems and its business areas. It is important to define the scope and negative effects of shadow economic relations. Indeed, systemic shadowing of the national economy affects the reproduction mechanism of social and economic processes.

**The main material of the research.** State regulation of the shadow economy should be systematic and timely. It also should respond adequately to self-organization and minimization of the shadow economy. The main systematic action of the state should be an accent on changing the system of economic relations, where the key elements are agents of economic activity, involved in the shadow sector. At the same time, we should differentiate areas of occurrence and spreading of this economic activity type. According to I. Mazur, it covers all the stages of social production and among the most common the author identifies such economic sectors as extractive industry, production and distribution activities, banking, stock exchange, insurance, investments, intermediation or service provision [3, p. 52-53].

As the interpretation of the term «shadow economy», the distribution of economic activity (which falls within this characteristic) in general also differ by its kinds and scientific approaches. Thus, the economic activity «in the shadow» has several types, determined by domestic and foreign scientists. Experts of the National Institute for Strategic Studies divide shadow economy into shadow, informal and illegal. At the same time, they indicate that the shadow activity is delimited by statistical and economic reasons [5, p. 12-13] (drawing 1). The experts of the UN System of National Accounts share a similar opinion. They divide shadow operations to informal (or unofficial), hidden (or shadow) and illegal. Although this division is debatable.

There are other distributions in the scientists' definitions by «spheres», «types», «sectors», «group», «kinds», «blocks», but that does not change the fundamentals of classification. In particular, scientists are focusing on three areas: 1) informal, 2) a fictitious and 3) clandestine. Other accent on informal («gray») economy, fictitious economic activities and underground («black») economy. Although this division also, in the author's opinion, is not perfect. In fact, what is the type of officials' corruption rent or «intracompany entrepreneurship»?

A. Korystin and O. Baranovskyi give us a wider classification of shadow economy. It includes four blocks [ 1 ]: 1) legal economic activities with avoidance from paying taxes, fees, fines and other required payments, 2) open economic activity that is not counted, not controlled and not taxed, 3) an illegal and hidden from the state economic activity, 4) activities which are directed on getting income by committing or assistance in committing of crimes.



**Drawing 1. The distribution of shadow economic activities by statistical and economic reasons**

Source: [5, p. 12]

Z. Varnaliy divides criminal economic activities by characteristics of kind, level of realization, difficulty of realization and geography. According to the scientist, common in the modern community (and listed above) types of criminal economic activity are illegal, hidden, deregistered, informal [5, p. 24]. This distribution is made exactly by characteristic of the essence. M. Fleychuk provide classification of the shadow economy sectors as an official, unaccounted, informal and criminal [7, c. 211]. Although referring the official sector to this classification is questionable.

Thus, directions of coverage by illegal activity are internal, external and global. In this view, the internal dimension includes activities within the national economy, external – outside economy, and global provides multinational (with no specific location center) and transnational (with basing country) activities. Apparent conclusion is seen: direction for further researches of structural characteristics about shadowing as its levels is very perspective. Thus, the shadow economy is still largely studied mostly at the macroeconomic level. However, the wide layer of problems is being at the microeconomic level (internal shadowing), nanolevel and in the interpersonal relations (inter- and intrapersonal shadowing).

Considering illegalization of economy on a global level, scientists recognize its direct impact on the growth of shadowing streams of certain countries and their regional associations. In particular, this effect is essential in the countries of the. Openness to the external surroundings in these countries is higher and effective system against negative influences from outside is not formed yet. Basic kinds of global criminal activities, that are spreading to all regions of the world, and which have the most negative impact on those countries, that are at post-transformational stage of development, are:

- international criminal activity against human security and world community (usage the weapon of massive destruction, genocide, apartheid, racism, terrorism, aggression, violent installation of colonial administration, etc.);
- international crimes (illegal migration, smuggling, drug trafficking, piracy, fake money printing, distribution of pornographic products, human trafficking [7, p. 216-217]).

Other quite common types of transnational crimes are computer crimes, «laundering» of money, stealing of intellectual property and cultural values, spreading of corruption on the international level, insurance cheating, pseudo bankruptcy, environmental crimes, etc.. «Laundering» of money through fictitious transactions about insurance is happened through an agent, who gets «dirty» money from the owner. Later the insurance company returns money from «fictitious insurance case».

N. Nakonechna is exploring the financial sector at national and international levels. She points on the «money laundering» as on the one of the biggest problems of the shadow economy. Often «laundering» of money is using by credit and financial institutions in undeveloped countries. In these countries, legislation to combat «money laundering» (received from crime) is formal or non-existent. Illegal finances are invested in deposits, securities and insurance policies.

In scientist opinion, ways of capital export are physical transfer of cash abroad; signing contracts with foreign importers about goods, services, intellectual property rights; usage schemes about involving offshore companies [4, p. 42]. Consequently, countries, which are at the post-transformational stage of development, have nationwide problems related with «laundering» of money through offshore zones and illegal compensation refunds of VAT [2].

**Conclusions and further researches.** Shadowing of economy is a complex and contradictory phenomenon. In the short term, it helps depreciate shortcomings and lack government regulation. However, preservation of negative symptoms, spreading of the shadow economy to other areas of social, political and economic processes lead to creation a «system shadowing». The negative consequences of it are negative and destructive in the context of life and national security. Accordingly, only a systematic approach to combat illegal economic activities at all levels and in all spheres of social life will create the deshadowing of economy. There are other economic methods of struggle, which are much more powerful, than strict administrative and supervisory. The creation of favorable economic and legal, as well as political and economic, surroundings for business is required.

## References

1. Zasanskyi, V. (2003), Mechanisms of Control Shadow Economy in Ukraine transformation period (financial and credit aspect): dissertation for the degree of Doctor of Economic Sciences, 08.02.03, National Technical University of Ukraine "KPI", Kyiv, Ukraine, 407 p.
2. Korystin, O.Ye., Baranowskyi, O.I. and Herasymenko, L.V. (2009), *Ekonomichna bezpeka* [Economic security], tutorial, KNT, Kyiv, Ukraine, 400 p.
3. Mazur, I. (2001) "Shadow economy in today's Ukraine", *Visnyk Donetskoho natsionalnoho universytetu Ekonomika i pravo*. Spetsvypusk, vol. 2, pp. 51-57.
4. Nakonechna, N., Fleichuk, M., Schurko W. (2012), *Finansovyi kontrolinh v systemi zmitsnennia ekonomichnoi bezpeky derzhavy* [Financial Controlling the system to strengthen the economic security], monograph, Liha-Pres, Lviv, Ukraine, 260 p.
5. The shadow economy in Ukraine: the scope and direction overcoming (2011), NISD, Kyiv, Ukraine, 31 p.
6. Varnalii, Z.S. (2006), *Tinova ekonomika: sutnist, osoblyvosti ta shliakhy lehalizatsii* [The shadow economy: the nature, characteristics and ways of legalization], NISD, Kyiv, Ukraine, 576 p.
7. Fleichuk, M.I. (2008), *Lehalizatsiia ekonomiky ta protydiia koruptsii u systemi ekonomichnoi bezpeky: teoretychni osnovy ta stratehichni priorytety v umovakh hlobalizatsii* [Legalization economy and combating corruption in the system of economic security: Theoretical foundations and strategic priorities in the context of globalization], monograph, Akhill, Lviv, Ukraine, 660 p.
8. Schneider, F. (2013), The Shadow Economy in Europe. ATKearney-Visa Europe, 24 p.

### **Auhustyn R.R. IDENTIFICATION OF SYSTEM CHARACTERISTICS AND STRUCTURAL DIRECTIONS OF SHADOWING ECONOMY AS A PREREQUISITE OF ITS LEGALIZATION**

**Purpose.** Aim of the research is generalization of system characteristics about problems of economic activities shadowing and its business areas.

**Methodology of research.** Methodological basis of the research is the general scientific positions about economic theory, macroeconomics and the concept of shadow economy. To achieve the aim in this research such techniques and methods were used: analysis and synthesis, scientific abstraction (to clarify the meaning of «shadow economy» considering the views of modern scientists and economists), systemic and structural method (to determine the structural trends of the shadow economy, considering illegalization of economy on a global scale, quite different common types of transnational crime), graphical method (to illustrate the distribution of shadow economic activities by statistical and economic reasons).

**Findings.** System characteristics of problem about shadow economic activities and negative effects of its development have been defined. Effect from systemic shadowing of the national economy on the reproduction mechanism of economic and social processes has been identified.

**Originality.** Scientific innovation consists in the systematization of theoretical approaches to structure areas of shadow economy as a precondition for its deshadowing.

**Practical value.** Theoretical and methodological recommendations, which are developed in this research, can be used for further development about scientific evidence. It might be creation of "system shadow economy", the consequences of which are negative and destructive in the context of life and national security.

**Key words:** shadowing, shadow economy, economic activity, illegal activity, criminal activity, «money laundering»