

Ukrainian aspect of the shadow economy

Annotation. In the article the main approaches to the meaning of the notion “shadow economy” are considered. The theoretical analysis of the factors that influence the rise of the shadow economy in Ukraine is performed. The concept of government regulation of the informal sector of economy in the direction of its decreasing is proposed.

Shadow economy activity is a complex and multifaceted phenomenon, which exists and develops in any social and political conditions. There is an opinion that shadow economy represents economic activities that are opposed to the Law etc. It is also described as a complex of illegal economic activities that facilitate growth of criminal offenses.

According to another point of view, shadow economy is considered as uncontrolled public production, consumption, exchange and distribution of wealth that is not recorded in the official statistics data (it is the second understanding the meaning of shadow economy; it is basic for economists).

The third point of view is based on the opinion that shadow economy represents all activities aimed at formation or satisfaction of the demands, cultivating various defects in human beings. Each of these points of view in its own way is correct and reflects to some extent actual processes in the economy.

Due to the further deterioration of the economic situation in Ukraine, the share of its shadow economy was increased by 7 % in the 1st quarter of 2009 – up to 36% of the official GDP rate. But according to the experts, this increase was caused not by the mass conceal of the real businesses and their financial performance. The economists say that it was mainly caused by the fact that the shadow economy has adapted to the crisis more quickly than the official one.

Revival of the shadow economy in Ukraine was observed in the 4th quarter of 2008. Overall during 2008 the shadow economy was growing by 3,1%, up to 31% of

GDP, and it was the highest rate since 2001. At that time the Ministry of Economy explained such a sharp increase by the reaction of the Ukrainian business to the crisis. Today among the other factors the Ministry names such as an inefficient fiscal policy and budgetary supporting the real sectors of the economy.

According to the data of the State Statistics Committee for the size of the nominal GDP, the shadow economy in the 1st quarter of 2008 amounted to 54,44 billion UAH, and in the 1st quarter of 2009 this figure was 65.96 billion UAH. Thus, the nominal shadow economy has grown by 21% (the official nominal GDP was reduced by 3,5%), that is almost identical to the rate of the inflation in the economy – 22,4%. A little reduction of the shadow GDP against the background of 20% fall in the official GDP could provide an increase in the share of the shadow economy in Ukraine. [2]

Shadow economy is a phenomenon that is very inconsistent; this fact explains the existence of a large number of diverse views on possible solutions to this problem.

Analysis of recent research and publications. The problems of measuring shadow economy and developing methods for its limitation has been widely considered in the economic literature, both by the Ukrainian and Russian scientists and specialists. For example, one can single out the works written by T. Kovalchuk [3], V. Pshonka [4], B. Predborskogo [5], A. Ozerskaya [6], Y. Popov [7]. The characteristic feature of their publications is that they define the notion and structure of the shadow economy; they propose the classifications of its displays. But there is no systemacy in the methods of influence on the shadow economy.

The purpose of the article. The purpose of this paper is to determine the main directions which are of a systematic nature for the state influence on the shadow economy in Ukraine.

One of the most “shadow” areas is external economic activity. Fictitious exports are used for the illegal tax refunds of VAT. Uncontrolled trade of goods of poor quality, or dubious origin which are dangerous for consumption increases. Official data do not provide a complete picture on the volume of such expensive imports as alcohol, tobacco, shoes, clothing, furniture, clocks, household equipment

and computers. However, considering the legal sale of these goods, one can have complete information about their receipt to Ukraine.

Concealment of the real economic activity and starting up in the shadow sector is caused by a number of problems. The existing tax system is not transparent, it is burdensome and it needs immediate reforming. The main problem is the existence of corrupt VAT regulation, the practice of collecting taxes in advance, instability and imperfections of the tax laws. The minimization and tax evasion schemes became everyday occurrence.

Based on the above mentioned facts, it can be said that Ukraine has formed a shadow economy, the main features of which are the following:

- tax evasion;
- money laundering and double-entry bookkeeping;
- disorganized “black” market.

This situation has been formed due to several factors, more specifically:

- lack of balanced and stable legislation; legal nihilism among the representatives of government and business;
- systemic shortcomings of the tax and customs policy, strong fiscal pressure;
- imperfect regulatory policy; licencing, registration and supervisory systems; existence of formal and informal payment for the provided services and the performed work;
- lack of legal protection for business entities from abuse, oppression and counter claims by the representatives of different agencies and levels of government;
- widening activities of the criminal organizations, integration of the organized crime and economic entities;
- mistakes in the monetary policy; non-transparent activities of the government regulation in this area, inadequate supervision and control over the banks by the government;
- lack of motivation among businesses and individuals in the formal sector of the economy.

Redirection of the money from the shadow economy into the formal sector would increase the government’s income up to tens of billions of UAH. In this case it

would be possible to strengthen social protection of the population, to support investment and innovation. The size of the shadow economy, which has been formed in Ukraine, was pushing the authorities to launch different activities aimed at reducing the informal sector of the economy. However, these measures have not yielded the expected results yet, since the development of the shadow economy is affected by several factors, and the means for struggle must be based on a complex system, including legal, economic and social aspects.

Formation of the concept related to the informal economy must include the following:

- It is necessary to change the model of economic reforming in general, with the priority interests of the domestic producers and consumers;
- Counteraction of the shadow economy should involve all the interested participants, particularly those that are in the shadow economy.

The following activities can facilitate the process of solving the given problem:

1. Providing clarity and uniqueness of the laws.

It is necessary to eliminate a significant number of indirect actions laws that lead to bureaucratic despotism, corruption, mass violation of the Law.

The legislation should include the rules of responsibility for the officials at all levels according to the facts of violation of the laws in the state property management, budget funds, illegal tax providing, customs or other benefits if such activity inflicted losses on the state and society.

2. Implementation of a large-scale tax reform according to such priorities:

- Gradual reduction in the number of taxes and fees, reducing their rates and improving the subject of taxation;
- Taxation of super profits that are received by the financial and industrial groups due to cost benefits and subsidies, monopolistic exploitation of the mineral and natural resources, public property;
- Putting the rules for determining income and expenses of business entities in accordance with the principles of the single accounting, which is based on the financial, tax, statistical and other reports;
- Elimination of the legislative ability for enterprises to use fictitious

transactions in order to conceal their income and to increase gross expenditures.

3. Elimination of the institutional and administrative obstacles in doing business.

It is important to make adjustments to the regulatory policy of the government, starting with the revision and simplification of licensing, registration and control procedures, establishing reasonable progressive tariff rates for the provided services.

4. Creation of the reliable mechanisms for protection of property rights of all the participants of the economic system, which include:

- Ensuring transparency in the activities of businesses for shareholders;
- Providing procedures for changing owners of business on the base of transparent and efficient procedures.

Ukraine needs creation of a fundamentally new system of the financial, tax and banking supervision considering the commissions of the Control Chamber, to increase its responsibility for its condition and quality control. Assessment of the regulatory and law enforcement authorities, their size and costs should not be determined by the number of controlling functions, but by the actual return on assets and property for the benefit of the state and by minimizing offences.

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