

Theoretical Aspects of the Shadow Economy and It's Current State in the World Economy

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Abstract

The article dedicated to expand the meaning of the shadow economy. The shadow economy is one of the biggest challenges to the any economy, because it has consequences in terms of tax evasion, labor market distortion, unfair competition, and inefficient allocation of resources. In the market economy conditions, the shadow economy became one of the survival part. The shadow economy is closely interwoven with the legal and real sector of the economy and is an integral part of it. In its activities, it also uses the services of the state, its material and social factors, labor power, etc. The article describes the theoretical aspects of the shadow economy, such as the classification forms by activity, the main features, describes the ways of avoiding taxation and give definitions to the forms of shadow activity, describes the groups of shadow economy, shows the examples of undeclared work and its features. The article shows the subjects of illegal activities in the frame of the pyramid conception. Any activity in the frame of the shadow economy is criminal, but not every falls under the norms of the existing legislation. Of course, it also shows advantages and disadvantages of illegal activity, like identifies three positive functions of the shadow economy in the market economy, negative effects on a whole country. The article analysis the current state and dynamics of the shadow economy in developed countries, the main reasons of existing shadow activity in countries, shows statistic data from 2003-2016.

Keywords: shadow economy, tax evasion, undeclared work, informal economic activities

Introduction

The shadow economy is a multi-dimensional, multi-faceted phenomenon, which inescapably accompanies formal economies around the world. Nevertheless, its features and sizes can be vastly different: from relatively gentle, stable, and acceptable to extremely destructive to the economic tissue and long-term economic growth. In countries where shadow economies are present largely or where they show upward trends, these informal sectors are invariably a symptom of deeper disturbances in the economic structure, regulation, and institutions.

Schneider et al (2010) mentioned in the transforming socio-economic systems, the role of the shadow economy is ambiguous. On the one hand, tax evasion increases the competitive advantages of enterprises practicing shadow activities, allows receiving additional income for their employees, and reduces the level of real unemployment. On the other hand, the shadow economy damages the state budget, reduces the effectiveness of macroeconomic policies, worsens the investment climate, the competitive environment for law-abiding taxpayers and damages the national interests of the state.