

# Informal Employment and the Shadow Economy: Essence and Social Functions

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**Abstract.** An overview of existing approaches to the concept of the shadow economy and its role in the development of the country is given in the article. The authors describe the shadow economy as a socio-economic phenomenon that has a significant impact on the labor and social situation in Russia, and in particular in the Tyumen region, in connection with which data on the situation in the labor market and informal employment are presented in the article. The analysis of the socio-economic situation, social and economic policy, which is implemented in modern Russia, is given in the context of social indicators and in relation to other countries. The article is devoted to the study of the shadow economy of Russia in modern conditions. The volume of the largest shadow economies of the world is considered in the article. The main factors determining the scale of the shadow economy in Russia are identified, the statistical data of informal employment are analyzed. The main trends of modern socio-economic policy are described in the article in connection with the importance of the problem of the shadow economy and informal employment. Measures to reduce the rate of informal employment with a focus on its sources and causes are systematized.

## 1. Introduction

The shadow economy plays a significant role in the economic life of the country. This is especially true for countries moving from a planned to a market economy. The very existence of informal economic activity raises many questions. Recent studies have focused on various aspects of the shadow economy (causes, consequences, policy recommendations, etc.).

The authors under the shadow economy mean economic activity (legal or illegal), which is not reported to government authorities and is reflected in official statistics. This definition is consistent with the definition of the shadow sector in the works of Kaufmann, Kaliberda, Johnson, Kaufmann, Schlei-fer IR. Westin For the adjective "shadow" are used as synonyms adjectives "informal", "informal", "hidden". Note that in other works "shadow economy" and, for example, "informal economy" can mean different concepts. The size or level of the shadow economy refers to the share of the shadow sector in total gross product (or in total industrial output – depending on what is involved) [8].

For example, S. Kyle gives the following reasons for estimating the size of the shadow economy. First, it is very important for politicians to know whether their reforms are successful or not. However, they cannot adequately assess economic growth if a large part of economic activity is concentrated in the informal sector. Knowledge of the scale of shadow activity makes it possible to assess economic growth and the effectiveness of reforms much more accurately and, as a result, to make more effective decisions. Moreover, the very dynamics of shadow activity can serve as an indicator of the success of the reform. Second, the gross domestic product (GDP) of the country, after adjustment for the shadow

sector, is increasing on an appropriate scale. This is an advantage for transition economies, as the country's GDP and GDP growth are very important components in negotiations with international creditors. The difficulty of measuring the informal economy is not surprising, as it is difficult to measure what is unobservable, and the shadow economy by definition seeks to avoid detection. Schneider and Enste conditionally divide all approaches to measurement into two groups: direct and indirect methods. The works of Schneider, Enste and Eilat, Zinnes contain an exhaustive description of these methods. Direct methods are surveys and tax audit method (micro-methods). They are expensive and time-consuming. Indirect methods attempt to measure total (official plus shadow) economic activity using variables that correlate with total economic activity. The idea of indirect methods is simple: to compare the results of this assessment with the official GDP estimates [9].

The Russian economy underwent significant changes in the 1990s. It is natural to expect to find changes in the shadow sector of Russia. Regarding the latter, there are a number of common views [11]. So, many believe that the function of the shadow economy has changed. If the Soviet Union, the informal sector was the antagonist of the ideological system and command economy (and compensated for the flaws of the latter), for years of reforms, the shadow economy has occupied in Russian society a qualitatively different niche. Now both it and the official economy have a common market basis and, to a certain extent, a common ideological base [10].

Another common opinion is that the shadow sector in Russia is quite large. Estimates range from 20% to 80%. It is also widely believed that in the transition period of the Russian economy to the market, the shadow sector played a positive role: for example, it mitigated the restructuring of the economy and amortized the negative consequences of the transformation shock, and also allowed people to improve their living standards, raise incomes to the required level. However, in the fact that the shadow economy can play a positive role, there is some factor of trouble.

## 2. Actuality

Currently, informal employment as a negative socio-economic phenomenon is actively studied by criminologists: the causes and conditions of its occurrence are investigated, its condition, manifestations and role in the determination of crime. The results of these studies were the development of some postulates about the concept of the shadow economy, its features and structure, the assessment of the scale of distribution in the structure of legal economic relations.

A.L. Repetskaya defines the shadow economy as the whole set of economic activities that are not taken into account by official statistics and are not included in the gross national product of the country, therefore, it is any economic activity that is not registered by official bodies [6].

V.O. Spravnikov proceeds from the fact that the shadow economy is a system of economic relations that develops in society contrary to the laws, legal norms, formal rules of economic life, i.e. is outside the legal framework [4].

It is worth saying that D.V. Chesnov defines the shadow economy as any activity that brings profit to criminal organizations, prohibited not only in the economic sphere, but also any other.

The Legal encyclopedia defines the shadow economy as illegal, unaccounted for by the state economic activities, including the production, distribution, exchange and consumption of goods and services, as well as derived socio-economic relations between citizens, social groups and society as a whole [5].

Traditionally, criminologists distinguish the following types of components of the structure of the shadow economy: informal economy - legal types of economic activity in which there is no recorded official statistics production of goods and services, the concealment of this activity from taxes; fictitious economy - the economy of attributes, fictitious contracts and transactions, bribery and all kinds of fraud associated with the receipt and transfer of money; underground (black) economy - all types of economic activities prohibited by law [7].

The analysis of scientific literature, materials of periodicals, television programs allowed us to conclude that the emergence of the shadow economy is traditionally associated with the beginning of a radical reform of social relations of the late 1980s. Indeed, it is at this historical stage that the first

statements about the existence of destructive economic relations in the state appear [12]. This problem is beginning to be widely discussed in the media and in society. To this period belong the first attempts of the legislator to use the right exposure to manifestations of the shadow economy.

The administrative and economic economy, which had existed for many decades, could not fulfill its task of meeting the ever-increasing needs of the Soviet people [2]. The aggregate demand of the population for material goods continued and increased. As a result, there was a collapse in which consumer demand for material goods existed, and the legal market was not able to provide the consumer with goods that meet his needs and requirements.

Inflation, rampant increase in prices of consumer goods, the shortage of basic goods of life support of the population, the card system of distribution of food, nationalization of all spheres of public life, the ban on the right to have a personal subsidiary farm, the prohibition of any individual commercial activity, monopolistic activity of economic entities that were the property of the state, the decline in the democratic principles of the organization of state power and the availability of its implementation by the population - together these factors have led to the alienation of the individual from the dominant form of ownership (public or collective), to the loss of his interest in further work and its results, as a way of obtaining economic benefits, stable earnings, income [15].

As a result of this development of the situation, it is natural that the economy began to develop in a slightly different scenario. In particular, some destructive moments began to be noted, the main content of which was the criminalization of the economy, its "going into the shadows".

Market relations, which by their nature should have a normal, legal tone, can be effective only if the balance between the total supply of the market and the consumer demand for the material benefit provided by this market. In our case, such a balance was violated. Thus, a market that is not able to fully meet the needs of the consumer, has created a new phenomenon of the shadow market or the shadow economy [19].

In our opinion, the shadow sector accompanies the economy throughout the history of the property turnover of commodity-money relations in the state. Social and economic progress of the society is accompanied not only by positive changes, development of market relations, competition, free market, but also by some negative, negative trends [3]. Therefore, economic dynamics is unthinkable without negative features, such as monopolistic activity, restriction of competition, inflation, Directive economy, violation of monetary circulation, etc.

It should be noted that the regularity of the existence of the shadow economy should be associated with the presence of certain needs of consumers for material goods, property benefits and as long as there is an unsatisfied demand for products of the shadow economy, respectively, there will be a corresponding supply of the shadow sector. This is one of the laws of the free market, it is one of the laws of commodity-money relations [20].

Describing the current situation, it should be noted that the level of distribution of the shadow economy in the structure of market relations, criminologists evaluated differently. It is noted that currently at the level of the Russian Federation in the informal sector of the economy involved about 18.8% of the total employment in Russia. This is about 12321 thousand people. Moreover, the level of employment in the shadow sector increases periodically [14].

Some authors, studying the indicators of the shadow sector, come to the conclusion that at present the level of its distribution in the legal sector of the state economy reaches 25-40% of the gross domestic product. Yu.A.Tikhomirov, conducting a study of "shadow" law, notes that "the emergence and development of its phenomena are significantly influenced by objective factors and among them such a phenomenon as the informal economy. In institutional terms, we are talking about alternatives to formal institutions of property rights, management schemes and exchange rules or about filling in the absence of formal rules"[1].

The fight against the illegal economy has been discussed by economists and experts for many years. The generally accepted concept of "shadow economy" is absent, but despite this, this phenomenon manifests itself in various forms and forms. The existence of the shadow sector of the economy is a complex problem, it has not only economic, but social, political and even psychological reasons

[17]. The Federal state statistics service of the Russian Federation includes the following types of shadow economy: Hidden — legitimate economic activities, which are present evasion of taxes and social contributions, as well as the implementation of sanitary and other standards.

The fight against the illegal economy has been discussed by economists and experts for many years. Informal — activities carried out on a legal basis by individual producers who are not formalized in accordance with the established procedure and can produce services or products for their own consumption. Often this activity is based on secondary employment, in many cases it is engaged in unprofessional. In the Russian Federation, informal activities are widespread in agriculture, construction and trade.

Illegal - illegal economic activity that covers the production of prohibited services or goods[18].

### 3. Research methodology

The purpose of our study was to analyze such socio-economic phenomenon as the shadow economy in terms of the possibility of preventive activities to reduce or minimize its consequences. This socio-economic phenomenon is analyzed by the authors as an interdisciplinary object of research from the social, methodological and economic points of view. The study was carried out using various methods of both theoretical and analytical and practical plan. Theoretical analysis was carried out in order to systematize the basic concepts, assumptions and social and economic practices that form the basis of economic policy aimed at improving the level and quality of life.

In order to systematize, generalize and algorithmize, the authors present a descriptive analysis and a detailed analysis of the problem of the existence of the shadow economy as a social and economic phenomenon and a social problem that needs to be solved through the use of not only social and economic, but also legislative mechanisms. The strategic goal of the study was to identify the specifics of informal employment and the shadow economy as one of the socio-economic factors affecting the level and quality of life and to develop recommendations, measures to reduce the level of informal employment.

The methodology of statistical evaluation of the non-observed economy, based on the basic principles of the system of national accounts (which define the system of indicators and classifications, the basic principles of statistical measurements of the non-observed economy) and information capabilities, allows the choice of specific approaches, tools and methods of calculating indicators that reflect different aspects of shadow and informal economic activity. The choice of a specific method for measuring the non-observed economy is preceded by an analysis of the information obtained on the basis of both reporting and specially organized statistical surveys, as well as other information.

### 4. Research result

Russia ranks fourth among the largest informal economies in the world: the volume is 33.6 trillion or 39% of GDP as of 2017. Only Ukraine (46%), Azerbaijan (67%), and Nigeria (48%) have a larger shadow economy. The indicator of the shadow economy in our country is one of the highest in the world. In the future, the shadow economy will be supported primarily by economic factors. The most important factors are the high tax burden, the ease of working in the informal sector, the complexity of the tax system and the slowdown in the global economy. The main business factors are tough competition, increased pressure on business; socio-demographic factors — increased poverty, increased unemployment, limited access to education; social factors — increased corruption, low level of detection of informal economic activity [16].

The main responsibility for the development of the shadow economy lies with the government and citizens, who either refuse to engage in shadow economic activity or notify the authorities about it. For Russia, the reduction of the shadow sector should be prioritized by the following tasks: reducing corruption, legalization of certain sectors of the shadow economy and their integration into the legal economy; increasing transparency of public administration, strengthening control in the field of tax evasion, detection of illegal activities and the development of more unified legislation.

In each state, there are several main factors that determine the extent of the shadow economy. In Russia, researchers put the control of corruption in the first place, the second — "democratic responsibility", and the third — the growth of gross domestic product. Currently, the study Of the center for socio-political monitoring of Ranepa is of great interest. According to the study, the shadow economy in Russia began to grow again after the recession in 2016. In 2017, about 33 million people during the year at least once received a salary in an envelope or were not officially issued. According to the study over the past year, the proportion of people employed informally in additional work increased from 30% to 35%.

In the shadow economy, people are pushed by low incomes, which are observed in recent years. In the labor market, a small number of offers of official jobs with decent wages, so people find a part-time job, which is not officially issued [13]. It should be noted that in 2017 the share of people employed informally in the main work is 12%, which is 3% more than in 2006. According To the center for socio-political monitoring Ranepa: increasing the proportion of employees for whom it does not matter whether they have an official job or not. First of all, it is important for them to "pay money". In 2016, there were 26.7% of such employees, and in 2017 — already 36.8%. Such factors as fear of punishment for non-payment of taxes, as well as guarantees of pension and social security for such people are secondary. The share of the shadow economy in Russia should be reduced, but this should be done not only by repressive measures, but also by creating attractive conditions for legal business [13, 20] Thus, it can be concluded that no matter how the state tried to eliminate the shadow economy, no matter what measures and ways it struggled with it, there will still be a shadow sector in any economic activity. The task of each country is only to try to reduce the share of illegal business.

Tyumen region is a complex subject of the Russian Federation: it consists of the South of the Tyumen region Khanty-Mansiysk and Yamal-Nenets Autonomous districts. They are not its administrative units and remain full subjects of the Federation. In terms of the vastness of space and sharply differentiated population density, the wealth of resources and contrasts in people's living standards, the diversity of cultural traditions and the complexity of political institutions, the Tyumen region largely resembles Russia as a whole. Tyumen region has the character of the all-Russian model.

The policy of the administration of the Tyumen region is aimed at actively promoting the development of international relations in the region. The main objectives of the work in this direction are to create a positive image of the Tyumen region in the international arena, to attract foreign partners to the region, including as investors, to promote the increase in exports of Tyumen producers.

The shadow economy has a double impact on the socio - economic situation in the country: stabilizing and destabilizing. The extent to which a form of influence is manifested is largely determined by the state of the economy as a whole.

It is considered that the main directions of stabilizing influence of shadow economy on the Russian society and its economy are: formation of more effective forms of economic activity providing survival of economic entities in critical situations; creation in activity of traditional spheres of new market niches during recession of official economy and falling of a standard of living of the population; formation of non-state financial base for the solution of social problems.

The main destabilizing areas include: the displacement of official taxation mechanisms and, accordingly, the reduction in the volume of taxes collected; the disorganization of production processes in the official economy and the obstacle to the creation of normally working, "healthy" economic organizations; - the strengthening of the criminogenic situation in society, which generates numerous conflicts, including those resolved with the use of violence (racketeering, extortion, etc.); the expansion of the "blurring" of the principles of social behavior, when the mechanism of encouragement for following the social norm and punishment for its violation does not work.

## 5. Summary

In the conclusion we will note that according to the authors, illegal activities does not make improvements to the system of regulation of the economy, and only leads to the strengthening of the struggle over the division of existing markets. The development of the illegal sector is detrimental to the state

budget and indirectly to other economic agents operating under the law. Among all forms of criminal economic activity, the greatest danger today is the activity of organized crime. The consequences of its activities are not limited to the socio-economic sphere and affect almost all aspects of public life. Organized crime sometimes penetrates deeply into public administration and political structures, including law enforcement agencies ("werewolves in uniform", for example). It undermines the democratic process, eroding ethical standards and is the reason for the resignation, and its effects permeate all aspects of society.

It should be noted that the applied methodological principles directly depend on the currently existing sources of reliable information, and as they change, methodological approaches to the definition of the shadow (in this case, hidden production) and informal sectors of the economy are improved. The most developed methodological approaches to the correct measurement of the non-observed economy at the stage of production of social product.

The state as an instrument of protection of all subjects of economic activity, regardless of ownership. The evolution and effective functioning of private property has, of course, always required the protection and support of the state, but in principle this property can arise and develop in a neutral and even hostile attitude of the state. Numerous legislative acts regulating the spheres of economic activity are aimed at combating economic crime. Among the most common laws in all developed market economies through which the state can intervene in economic life are, for example, business, trade, agricultural, tax, banking and financial laws. Most of these laws contain administrative and criminal sanctions for their violation.

The need for special attention to the problem of analysis and elimination of administrative barriers in the development of entrepreneurial initiative is due to a number of circumstances. First, administrative barriers have a noticeable negative impact on business activity, which is confirmed by the data of sociological surveys and studies conducted both in Russia and abroad. An analysis of the financial and labour costs of implementing mandatory administrative rules and procedures, as well as the consequences of their non-compliance, shows that economic entities are forced to bear high costs ("administrative burden"), which for certain categories of entrepreneurs, for example, for small enterprises constitute a significant share in total costs and are obviously higher in specific terms than for larger enterprises, due to the fact that the costs associated with overcoming barriers are conditionally constant.

Secondly, the reduction or elimination of administrative barriers is a less costly, but not an easy task for the state than overcoming other categories of barriers to entry (in particular, structural). To solve this problem requires political will, reasonable and holistic public policy aimed at simplifying, unifying and codifying the legislation, ensuring its stability and consistency, increasing the level of transparency of awareness of entrepreneurs about the existing legal acts and the changes made to them.

Thirdly, the reduction and elimination of administrative barriers in business has an undeniable positive macroeconomic effect. In our view, the problem of combating and preventing economic crime is also important. It should be borne in mind that, although this phenomenon is no longer new, in any country, according to Western experts, there is still no comprehensive program of measures to combat it.

Programmes that have already been implemented are mostly limited or indicative. This situation is caused by the fact that economic crime, on the one hand, is associated with the basic relations of capitalism (some researchers even tend to consider it immanent conditions of the market economy and evaluate it as a "necessary tribute", which should pay society for the preservation of freedom of enterprise), on the other hand, with superstructure moments (through its subject). It creates objective difficulties for the organization of fight against this type of crime. During economic crises, on the one hand, there is an increase in economic crime (which is associated with attempts by any means to strengthen the material situation in times of unfavourable economic conditions), and on the other hand, the strengthening of the fight against this type of crime (which is due to the special nature of economic crimes that damage either the economy as a whole or its individual sectors, which is especially dangerous in times of crisis, when it is severely weakened).

Executive authorities and local self-government bodies are not always able to find adequate ways of relations with economic entities or — in a number of subjects of the Federation — deliberately obstruct the development of private entrepreneurship, seeing it as a potential obstacle to the implementation of their own economic and political goals. Therefore, their activity is aimed at the adoption of by-laws relating to licensing, quotas, complication of the order of registration of enterprises, the creation of obstacles in the allocation of land, the provision of production and office space, etc. Such administrative barriers can significantly limit the development of business.

A similar trend is observed at the regional level, in particular in the Tyumen region. Regional authorities have introduced and are introducing their own barrier mechanisms, in particular the so-called "regional labeling" of products. The main objective of deregulation of the economy is the weakening of bureaucratic pressure on business, increasing the level of economic freedom for all participants of economic activity.

The solution to this problem involves the following key measures: - reducing barriers to entry; - elimination of excessive and ineffective administrative regulation of business activities; - ensuring coherence between Federal and regional authorities. Forming the conceptual basis of the line in relation to the shadow economy, it should be borne in mind three circumstances. First, a return to the monopoly of state ownership and the administrative and distribution system is excluded. Secondly, it is necessary to change the model of reforming the economy as a whole, and the interests of domestic producers and consumers should be put at the forefront of the new model. Thirdly, all the forces involved, including those that are bogged down in the shadow economy, will have to be brought into action to implement this change.

In view of the above, it is necessary, on the one hand, to change the General conditions of management, and on the other - to implement a social integration program on a healthy basis of the shadow and legal economy. It is necessary to develop a comprehensive legal approach aimed at the parallel solution of these two tasks, associated with the improvement of legislation in the direction of ensuring the proper conditions for the development of entrepreneurship. In order to create and maintain a favorable economic and legal environment for business, it is necessary to constantly adjust the legitimate conditions for the activities of entrepreneurs, a priority in relation to the tightening of repressive, criminal and legal methods. First of all, this applies to the tax regime.

A distinctive feature of the shadow processes in Russia was the fact that they are not limited to the economy, and penetrated into almost all spheres of public life.

In Russia, we need direct state intervention, strict implementation of the principle of the dictatorship of the law, when it comes to malicious violations of legislation by economic entities, corruption of state officials and the shadow activity of oligarchs.

At the level of Russian regions, the processes of merging state power with business representatives are particularly active. In a wide range of institutional reforms, we highlight, first of all, the following: optimization of the structure of state and law enforcement agencies, establishment of effective state control in the economic sphere, administrative reform of the corps of state officials, etc.

Among the activities that do not contradict the law, but violate the ethics of business relations, generally accepted social norms and moral principles, it can be noted: the deliberate use of legislative shortcomings, legal unsettled a number of aspects of business (financial fraud, fictitious transactions, fraud, environmental damage); obtaining benefits through systematic failure (or unclear implementation) of contractual obligations; unfair competition (collusion in the market); business and government relations built on a mutually beneficial basis, but not necessarily related to the receipt of bribes.

The state should take responsibility for the implementation of a kind of educational function aimed at rooting ethical forms in the environment of Russian business and civil servants. This problem should be solved in close cooperation with civil society institutions - workers' unions, business organizations, creative associations, the media. In our opinion, business associations should have developed concepts of their professional ethics, codes of conduct or special ethical articles included in their statutes. The range of specific measures taken by the state to establish an ethical framework can be quite extensive, ranging from funding the development and implementation of training courses to the establishment of special awards for the most conscientious companies.

It is necessary to develop and implement effective measures to protect the population from financial fraud, to ensure the protection of savings and capital (as, of course, the institution of private property).

Currently, the legalization of shadow capital directed to the economy, a method of mobilization - a source of large-scale investment. Punitive measures to "shadow entrepreneurs" will lead to irretrievable loss of huge capital for the country, the creation of which in one way or another invested the work of almost every citizen of Russia.

It seems that the problem of legalization of shadow capital should be based on the following principles: favorable for business changes in legal conditions (tax policy, privatization, foreign economic activity); a clear distinction between the capital of criminal elements and shadow entrepreneurs and the accounting of this division in the legislation to combat organized crime and corruption, the legalization of criminal proceeds, in the Criminal Code of the Russian Federation; the formation of a new attitude to domestic entrepreneurs living abroad, relations based on an effective program of repatriation of capital and turning them into an investment resource of Russia; strengthening trust in the government, which presupposes the establishment of a new as one of measures demonstration of effective protection of the population against financial frauds, protection of savings, capital and the Institute of private property; establishment of public control over the activities of economic entities within the boundaries of the legal field. The mechanism of such control should be based on data on offenses in the economic sphere, which facilitates the choice of a partner in business relations.

To get rid of the "shadow component", it is necessary to eliminate its cause. Therefore, Russia must be elimination of red tape of doing business. It is impossible to completely destroy the shadow business, but you can significantly reduce its size. But this requires constant, long-term, purposeful work in the Tyumen region. If you do not take this into account, it is useless to fight the shadow economy.

The fight against the shadow economy and corruption involves three important conditions - the political will of the country's leadership, the "anti-money" economic, primarily tax, legislation, adequate resource capabilities of the state, and an effective law enforcement system.

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