

# Latent Economic and Corruption Crime as an Indicator of the Shadow Economy

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## ABSTRACT

Economic and corruption crime and its latency are one of the most significant threats to the national security of the Republic of Kazakhstan. The steady growth of latent criminal manifestations in the economic sphere, an increase in the share of serious crimes in the structure of economic crime, the growth of organized crime and corruption pose a real danger to society, are a serious obstacle to the country's internal development, as well as to international trade and international relations. Considering all the objectives of the study facing the authors, the article explores the causes of the existence and growth of latent corruption and economic crimes and the shadow economy. In the article, the authors analyze the concepts of “shadow economy” and “latency of economic crime”. And the author’s definitions are given to them. The work reveals the relevance and importance of the fight against the latency of economic crimes and the criminal shadow economy. The characteristic features of the “unknown” “illegal” economic activity are analyzed. Their main consequences were identified and determined. It also proposes measures to prevent and prevent the latency of these crimes.

**Keywords:** latency, latent economic crime, economic and corruption crimes, shadow economy, corruption

## 1. INTRODUCTION

The Republic of Kazakhstan is among the countries of the world with a high rate of economic and corruption crimes according to international and domestic expert assessments.

In the Corruption Perceptions Index (CPI), according to studies by the international organization Transparency International (TI) (Table 1), in 2015, Kazakhstan scored 28 out of 100 points and took 123 out of 168 possible points. According to data compiled on the basis of citizens' opinions about their perception of corruption in our country, Kazakhstan is included in the list of countries with a high level of corruption and a low level of transparency. [1]

In 2016, Kazakhstan received 29 points and took 131th place. At the end of 2017, Kazakhstan was in 122nd place with 31 points, at the same level as Cameroon, Iran, Kyrgyzstan, Lebanon and Nigeria. In 2018, Kazakhstan led the Central Asian countries in the Corruption Perceptions Index with 31 points and 124th place, along with Djibouti, Gabon, Maldives and Nepal. [2]

At the end of 2019, Kazakhstan scored 34 points and took 113th position along with the Philippines, Zambia, Nepal, El Salvador and Swaziland among 180 states.

Based on 13 types of business surveys and expert assessments, TI experts rated how susceptible countries are to corruption on a scale from zero to 100, where zero is high, 100 is low. [3]

The country showed steady growth, but did not reach the minimum threshold, which is 35 points. It is noted that in countries with such a rating, as a rule, a high level of corruption is observed. [4]

Olga Shiyan, Executive Director of the anti-corruption movement “Transparency Kazakhstan”: - For Kazakhstan, we have identified 3 growth points that he needs to achieve in order to overcome the threshold of 35 points - a hybrid regime country. The first growth point is bringing anti-corruption legislation in line with the requirements of international law. The second point of law - there should not be a pardon of persons convicted of corruption. And the third growth point, which is defined for Kazakhstan as the key one in the fight against corruption, is the inadmissibility of people convicted of corruption in the budget management system in state, quasi-state and civil organizations. [5]

**Table 1** The Republic of Kazakhstan in the Corruption Perception Index

The Republic of Kazakhstan					
Year	2015	2016	2017	2018	2019
Points	8	9	1	1	34
Position	23	31	22	24	113

Back in 2007, V.V. Luneyev noted that today corruption crime in financial terms makes up 6 percent of GDP, stagnation occurs at 10 percent, and then the authorities's paralysis" [6, p. 52-65].

The growth of economic crime, organized crime and corruption is an acute problem that poses a real big threat to the strengthening and further development of the economy of the whole country.

A characteristic feature of economic and a corruption crime is their highest latency.

In criminology, latent crime is called a "dark figure." According to Professor S.M. Inshakov's "dark figure" is a rather eloquent term, because latent crime in criminology means what can be expressed in numbers [7]. This is the number of unregistered crimes committed by state bodies. In some cases, this concept also covers the number of undetected criminals, unidentified victims of crime, the extent of unregistered damage caused by crime.

The existence of latent crimes on the territory of the Republic of Kazakhstan is very dangerous, since it causes very tangible property damage to society and undermines the economic basis of the state.

In the Criminal Code of the Republic of Kazakhstan, crimes in the economic sphere are concentrated in Chapter 8 (Articles 214-249), and crimes against property (Chapter 6), crimes against the interests of service in commercial organizations (Chapter 9), corruption and other criminal offenses against the interests of the state services and public administration (chapter 15) are included in independent chapters without combining in a common section.

Latent economic crime and the shadow economy are socio-economic twins. The shadow economy, of course, gives rise to economic crimes and corruption, and crimes in the field of economy and corruption provide the basis for the prosperity of the shadow economy. Their causes, goals and means are intertwined, interconnected and create a vicious circle.

## 2. MATERIALS AND METHODS

The shadow economy harbors income from the state, as well as any other activity that brings profit to criminal organizations and is prohibited by law not only in the economic, but also in any other field that is not reflected in official statistics.

Such an economy is called «ridden economy», «black economy», «informal economy», «underground economy», «irregular economy», «subterranean economy», «secondary economy» and so on.

Money circulating in such a sector of the economy is called shadow, unaccounted for, black, dirty, criminal.

Latent crime is defined as "the totality of mercenary criminal attacks that did not entail criminal legal response and influence from the bodies that prosecute and hold perpetrators accountable" [8, p. 4].

Economic crime as an independent element of the shadow economy is investigated by A.N. Lizogub, which, considering its structure, identifies the "gray" economy,

economic crime and the shadow economy. The author refers to the "gray" economy the process of reproduction of material goods and services, in which there is a distortion of the results of this activity in order to evade taxes. Economic crime is interpreted as illegal activity in the sphere of economic relations, which is criminally punishable. As for the third segment - the shadow (criminal) economy, these are activities prohibited by law related to the production and sale of weapons, drugs, smuggling, kidnapping, etc. In this classification, economic crime is considered rather narrowly, but in reality it is inherent and other segments of the shadow economy (and the "gray" economy, and the criminal). [9] Let's try to define the concepts of "latent economic crime" and "shadow economy".

In our opinion, the shadow economy is a combination of economic crimes committed by certain legal entities and individuals, as well as a complex system of socio-economic phenomena carried out in a criminal manner that are not officially taken into account, that is, are not reflected in official statistics.

Latent economic crime - a set of hidden unregistered mercenary crimes committed in the economic sphere by persons in the course of their professional activity, in connection with this activity and encroaching on the property and other interests of consumers, partners, competitors and the state, as well as on the management of the economy in various industries households.

Can the terms "latency of economic crime" and "shadow economy" be used as synonyms? Indeed, there is much in common between these phenomena, since they are genetically related to existing economic relations. But, they differ among themselves in their social and legal nature.

The concept of "shadow economy" is used to refer to unofficial economic activity hidden from state financial control and taxation.

Every competent citizen of our country understands how high the latency of crimes in the economic sphere is, how often corruption is now encountered, and how rarely they are known to law enforcement agencies. The real extent of these types of crimes is completely incomparable with the number of recorded crimes. And, of course, this is the reason for people's critical attitude to official statistics on the level of economic crime and corruption.

The main reason for the "unknown" economic crimes is the developed system of corruption, lack of knowledge in the investigation of complex economic crimes.

The shadow economy is an economic activity that contradicts the current legislation, is a combination of illegal economic activities, which are criminal offenses of varying severity. The shadow economy is not taken into account by official statistics. Therefore, the production, consumption, exchange and distribution of material resources, cash, various goods is not controlled by society. The shadow economy also includes activities aimed at the formation or satisfaction of destructive needs, cultivating various vices in a person. For example: production and sale of weapons, drugs, etc.

Under the shadow economy refers to production, consumption, exchange and distribution of material goods that are not taken into account by official statistics and are not controlled by society.

The MIMIC approach assumes that causal relationships exist and that, therefore, estimates are a linear combination of these (supposedly) causal variables that more or less fits several indicator variables. This linear combination is assumed to be a representation of the unknown variable shadow economy. [10]

And now, consider the criteria that can attribute an economic phenomenon to a shadow economy.

Firstly, it is obtaining economic benefits by appropriating economic benefits, rights to them and increasing economic opportunities.

Secondly, this is the implementation of economic activity outside of official control, by hiding and masking significant parameters from law enforcement and regulatory authorities.

In the economic literature, up to a dozen acts are identified that are associated with the shadow economy. In fact, there is an order of magnitude more in the Criminal Code of the Republic of Kazakhstan. The crimes stipulated by these articles are committed on the grounds of self-interest, profit, profit and can be considered as a criminal business, giving a shadow, uncontrolled by the state income.

The economy is called shadow because it is unaccounted for, illegal, hidden from official authorities, that is, it is outside the legal conditions. It is a direct result of socio-legal lack of control. This may depend on the unsatisfactory content of legal provisions (space, regulation, insufficiency, distortion) or their unsatisfactory

performance by officials of economic structures and control bodies (negligence, abuse, corruption, etc.).

In our opinion, the problem of minimizing the shadow economy lies mainly in optimizing social and legal control, which, on the one hand, would stimulate transparency and the legitimacy of legal economic activity, and on the other, would not paralyze the initiative of the subjects of this activity. As for the shadow economy in the field of criminal activity (for instance, trade in arms, drugs, people, etc.), then social and legal control should be absolutely uncompromising.

### 3. RESULTS

Unlawful economic activities may constitute civil, tax, administrative and criminal offenses. The latter are directly related to the criminological aspect of the shadow economy, and other offenses are both direct and indirect, because, while not being criminal, they represent various criminogenic conditions, i.e. conditions conducive to the commission of economic, mercenary crimes. Thus, almost the entire shadow economy is to one degree or another criminogenic, and criminal in part of the criminal business. According to the results of our analysis of statistical crime indicators for the period from 2010 to 2019. according to the officially submitted data of the Committee of Legal Statistics and Special Records of the General Prosecutor's Office of the Republic of Kazakhstan, from 2015 to 2019 the number of detected crimes in the field of economic activity in Kazakhstan over 5 years decreased by more than 7 times (from 8170 to 1053) (Table 2).

**Table 2** The number of registered criminal offenses in the field of economic activity in the Republic of Kazakhstan

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Chapter 8 of the Criminal Code of the Republic of Kazakhstan Criminal offenses in the field of economic activity	5 054	3481	4934	4914	3880	8170	3943	1618	1535	1053

The total number of currently recorded economic crimes, even for a tenth, does not reflect the actual state of crime in the field of economic activity.

If we look at the table (Table 2) and look at the dynamics of growth and decline in the number of criminal offenses in the field of economic activity over the past 5 years, and at the same time, we take into account that over the past 6-7 years the number of subjects of taxation has increased significantly, then in statistics we will see only a significant reduction in the number of recorded crimes. And here the question arises, how with an increase in the number of possible subjects of criminal activity the number of crimes committed by them decreases.

Does this prove an increase in the latency of this type of crime? Does this prove the existence and growth of the shadow economy? Both economic crime and the shadow

economy are so malignant in nature that they have already touched almost all sectors of the economy on a large scale, which, in our opinion, is a great threat to the national security of the state.

Latent crime, that is undeclared, unreported and unproven crime, is approaching 80-85 percent. The preventive role of criminal punishment is practically nil.

The situation with the criminal law control of crimes causally related to the informal economy is even worse. All of them are motivated by selfish motives, and their share in the motivation of recorded acts reaches more 80 percent.

The process of "environmentalization" of public relations is continuing intensively. And this is a global trend. This is what we are observing.

The level of registration of mercenary crimes in the economic sphere is much lower than all other acts. Economic crimes are recorded and investigated no more than 3-5% of the actual committed.

What is the cause of such phenomena? Of course, firstly, it is the corruption of government officials who themselves do not mind getting rich from the proceeds of criminals. Secondly, this is the low level of professionalism of law enforcement officials in identifying, revealing and investigating crimes in the field of economic activity. Thirdly, these are gaps in legal regulation and state control

over the management and use of financial and other material resources. And, fourthly, not every law enforcement officer is eager to engage in hard-to-prove cases, from which official problems may arise in the future.

Corruption and official crime can also be attributed to crimes with a high level of latency. It is this type of crime that causes particularly significant harm in the development and implementation of measures to combat crime. (Table 3)

**Table 3** The number of registered corruption and other criminal offenses against the interests of public service and public administration in the Republic of Kazakhstan

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Chapter 15 of the Criminal Code of the Republic of Kazakhstan  Corruption and other criminal offenses against the interests of public service and public administration	2090	2145	2087	2411	2127	3337	2928	2474	2200	1935
Abuse of authority (Article 361)	220	551	581	644	472	945	558	388	366	283
Bribery (Art. 366-368)	416	563	574	537	470	895	1031	1245	1222	1133

According to a study of statistical crime indicators, from 2015 to 2019. the country has seen a sharp decrease in registered corruption and other criminal offenses against the interests of the public service and public administration by 2 times.

With the most optimistic assessment, we register no more than 1% of real bribery.

#### 4. DISCUSSION

Such statistics satisfy almost everyone, namely the authorities, the elite, law enforcement agencies, courts, prisons and the majority of the population, except for those who are "caught". These statistics make it possible for most "latent criminals" to feel decent people, especially those who are members of the ruling, political and economic elite. Since the criminal is not the one who committed the atrocity, but the one who is caught. And now everything is being done so that criminals from the elite come across as little as possible.

But, the real criminal responsibility lies only with those who committed a primitive and obvious act, who could not cover their tracks, who are not able to defend themselves competently, who have no funds for a well-known lawyer, who are not covered by deputy and other immunity; who does not have protection at the top, who cannot make a

deposit and go free before trial for covering up traces, who cannot just pay off, etc.

And this is a particularly criminal circumstance and seriously undermines the constitutional principle - everyone is equal before the law and the court.

Economic crimes are committed by both rich and poor; and educated and illiterate, and marginalized, and high-ranking, including the ruling, political and economic elite. But each layer of society commits "its own" crimes.

Officials will receive a thousandfold more from the sale of confidential information or from lobbying for the interests of the shadow economy than from the commission of traditional acts. The elite strata, as a rule, commit economic and corruption crimes, while the marginal strata commit traditional forcible acts. And now let's compare the level of social danger. And responsibility comes in different ways. The crimes of poverty, poverty and poorly adapted to life people easily fall into the millstones of the criminal justice system, and the crime of power, wealth and intelligence is almost not listed in the orbit of the activities of law enforcement agencies. Although it is precisely in this sphere that enormous material, physical and moral harm is inflicted, faith in democracy, ongoing economic and political reforms are collapsing, and confidence in the government and the state is undermined. Corruption impedes the development of the state, negatively affects all spheres of public life. First of all, the

country's economy suffers greatly from this. The weakening of the state budget is facilitated by the growth of the shadow economy, a decrease in tax revenues, and the export of money to offshore companies. As a result of corrupt practices, property inequality increases, the bulk of the population becomes poorer. The high level of corruption in the state directly discredits the law as the main regulator of public relations, contributes to the growth and strengthening of organized crime, the criminalization of society. As a result of corruption, the effectiveness of the activities of state authorities and government is significantly reduced, the population ceases to trust the authorities, and the country's prestige in the world falls. [11]

So what is the difficulty in detecting and investigating such crimes? Firstly, an agreement concluded through bribery with an official is beneficial to both parties. They are interested in having no witnesses or evidence.

Secondly, even when bribes are extorted, people don't even think about reporting it to law enforcement agencies, as they not only don't have confidence in the anti-corruption officials, but they also consider them "good" bribe takers.

Thirdly, law enforcement agencies have a difficult task - to detect the fact of corruption or other official crime, despite the official position and status of officials committing a criminal offense. And such persons often have their own defenders, who have significant political and administrative resources and, using them, protect criminals from law enforcement agencies. Thus, the latency of this type of crime is increasing.

The existence of latent crime undermines the principle of the inevitability of a person's liability. Due to the fact that a large part of the population, committing economic crimes and bribery, goes unpunished, another part of the people who do not yet have sufficiently stable life positions and values receives a negative example and poor education.

We will offer and consider the following measures to prevent the latency of economic and corruption crimes.

First of all, it is necessary to restore people's confidence in law enforcement agencies. Indeed, success in the fight against crime can be achieved only when efforts are made not only by law enforcement agencies, but by the whole society.

Secondly, it is necessary to develop and create a new system for detecting, recording and recording crimes. In our opinion, "The rules for receiving and registering a statement, report or report on criminal offenses, as well as maintaining a unified register of pre-trial investigations" of September 19, 2014 require substantial improvement.

Thirdly, solutions should be found to eliminate one of the main causes of perjury, that is, fear of revenge on the part of the perpetrators of the crime and their entourage. Namely, it is necessary to understand the reason for the ignorance of the population about the right to state protection of their life, health, property, legal rights, interests, members of his family and close relatives, and to ensure his safety on the part of our state, which is governed by the provisions of Chapter 12 of the Criminal

of the procedural code of the Republic of Kazakhstan "Ensuring the safety of persons participating in the criminal process" and the law "On state protection of persons participating in the criminal process" of July 5, 2000. And also it is necessary to identify the reasons for the non-functioning of the norms of these laws at the proper level, and take measures to eliminate them. All this can significantly improve the quality of testimonies of victims and witnesses of crimes, and improve the performance of law enforcement agencies, and reduce the criminal situation in society.

Fourth, a lot depends on the material, financial, personnel and scientific equipment of our law enforcement agencies. To prevent economic crime, law enforcement agencies should be provided with the necessary modern technology and knowledge no worse than criminals.

## 5. CONCLUSION

The study of the "shadow economy" continues to be one of the most acute problems in the national economy in recent years. The shadow economy is a very difficult subject to study: it is a phenomenon that is relatively easy to determine, but it is not possible to accurately measure, because almost all the information that a scientist - economist can get is confidential and should not be disclosed. [12]

The criminalization of the economy is sustainable and can be characterized as a self-developing social process, establishing criminal rules for doing business and involving an increasing number of law-abiding citizens. [13]

In the conditions of the formation and development of a market economy, the most important factor of stability in society is the ability of the economic system to provide all citizens of Kazakhstan with a decent quality of life, the ability to realize their abilities, spiritual needs and creative potential.

Different experts take different criteria as the basis for determining the shadow economy. Jurists consider the shadow economy from the point of view of violation of legal norms by business entities, forensic experts focused on economic crimes, sociologists on the destructive consequences of the shadow economy in the field of social relations, labor law specialists on latent phenomena in the field of labor relations, philosophers on the moral -ethical aspects of the shadow economy, etc. [14]

An analysis of the practice of investigating economic crimes shows that organizational and methodological problems may arise in the appointment and conduct of forensic examinations. These may include: 1. Lack or lack of special knowledge of the subject of investigation, explaining the lack of knowledge of the possibilities of forensic examinations. As a result of a survey of investigators, proposals were identified to increase the efficiency of the production of forensic examinations: special training for persons involved in the investigation of economic crimes in the field of railway transport: - in the form of continuing education courses or regular seminars

with experts; - in the form of an internship; - in the framework of official training. 2. Incorrect determination of the type of examination. 3. The difficulties associated with the formulation of questions to the expert. 4. Providing in incomplete the necessary facilities and materials for the examination or objects unsuitable for research. 5. Deficiencies in the organization of interaction between investigators and experts. 6. Not enough qualified expert economists.

The study of latent crime problems in the economic sphere is relevant. Economic crime and corruption crimes are growing rapidly. At the same time, the number of unsolved crimes in these areas is growing.

Criminological studies prove that the number of actually committed economic and corruption crimes and information about them are very significant.

A serious comprehensive critical analysis of existing economic, criminological and legal realities is needed. Realistic minimization of the criminal shadow economy is possible under conditions of jewelry harmonization of the ratio of complex two-fold tasks: freedom and necessity, freedom and security, freedom and social and legal control, efficiency and humanity, the effectiveness of the fight against intensely growing crime and the strict observance of fundamental human rights.

This task is not easy especially in the context of the struggle of various political forces. Moreover, the forces are unequal. But it's hard to find another way. Palliatives are not suitable here.

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