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SHADOWING ENTREPRENEURSHIP IN UKRAINE: REASONS AND CONSEQUENCES

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Introduction. Shadowing entrepreneurship in Ukraine is one of the reasons that hinder the development of the country's competitiveness. It is the shadow economy that slows down integration into the European community and the growth of social standards of living of the country's population.

In Ukraine, there is no single approach to the interpretation of the concept of “shadow economy”. This gives rise to disagreements in the indicators of the level of the shadow economy in Ukraine’s GDP, that is, biased data that do not reflect the real state of the threat to the effective development of the economy.

Review of recent sources of research and publications. The problems of economic shadowing have been investigated by both domestic and foreign scientists. Theoretical and methodological foundations of shadow economic activity were considered in their writings by D. Blades, G. Grossman, G. Gutmann, E. de Soto, V. Tanzi, E. Feige and other scientists. Among domestic economists, the most significant scientific studies of shadow economic

processes were carried out by A.V. Bazilyuk, Z.S. Varnalij, V.A. Mandybur, V.I. Muntiyan, A.A. Pilipchenko, A.V. Turchinov, Y.A. Jalilo and others. They own the development of such important aspects as the stages of formation, the causes and patterns of the development of the shadow economy, the characteristics of the main types and mechanisms of functioning, the formation of methods for assessing the scale of the shadow economy and ways to detail the economy.

Despite a significant number of publications, the causes and ways of overcoming the shadow economy remain relevant for our state and require additional research.

Setting objectives. The purpose of the article is to study the nature, causes and consequences of the shadow economy in Ukraine.

Main material and results. One of the first definitions of the shadow economy was proposed by IMF economist Vito Tanzi. He noted that “the shadow economy is part of the gross national product, which, due to its lack of reporting and (or) underestimation of its value, is not reflected in official statistics” [1].

The German researcher U. Thyssen uses the term “shadow economy” to describe activities that “create new value are not taken into account by official statistics” [2].

E. Feige proposed a more common definition of the shadow economy, which “owns all economic activity, which for some reason is not taken into account by official statistics” [3, p. 23]. P. Gutmann’s definition “a shadow economy is any economic activity not taken into account by official statistics” is similar [4, p. 33]. So, we can conclude that foreign authors apply precisely the statistical approach to determining the essence of the concept of “shadow economy”.

The same opinion and some domestic authors. So, A.V. Turchinov notes that “the shadow economy is an economic activity that is not accounted for, not

controlled and not taxed by the state and (or) is aimed at generating income by violating applicable law” [5, p. 32].

In the "Economic Encyclopedic Dictionary" by S.M. Mocherny, Ya.S. Larina, A.A. Ustenko and S.I. Yuri proposes to understand the shadow economy "as a type of economic activity aimed at obtaining prohibited income, evading state, supranational and public control and paying taxes when carrying out legal types of economic activity" [6, p. 447].

Zakhariy Varnaliy in his work [7, c. 430] proposes to interpret the concept of a shadow economy as "a complex socio-economic phenomenon, which is a combination of uncontrolled and unregulated both illegal and legal, but immoral economic relations between economic entities regarding profit by concealing incomes and tax evasion".

Based on the analysis of various approaches of foreign and domestic authors to the interpretation of the concept of “shadow economy” A.V. Skoruk believes that “the shadow economy is a hidden and / or not hidden economic activity, the purpose of which is to intentionally or compelled to obtain super-profits as a result of uncontrolled socio-economic relations” [8, p. 129].

In the economic literature there are various views on the definition of the components of shadow economic activity. Their comprehensive analysis allowed us to distinguish three types of shadowing entrepreneurship (Fig. 1).

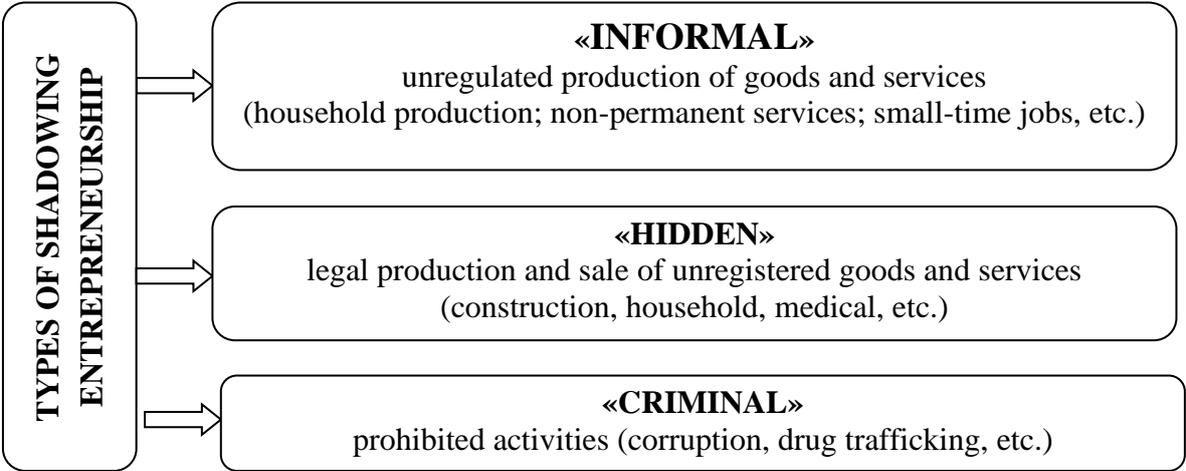


Fig.1. Types of shadowing entrepreneurial activity

The informal and hidden economy makes it possible for the population to survive in the conditions of the economic crisis. Therefore, it is impossible to fight them, their volumes and scales should be reduced, creating favorable conditions in the legal sector of the economy. In contrast, corruption as a component of the criminal part of the shadow economy should be overcome, but again by creating unfavorable conditions for its existence [9].

Most of the activities that relate to the shadow economy are carried out in violation of the requirements and restrictions put forward by the state in the economic activities of business entities.

The history of the shadow economy begins with the emergence of states, and then its individual signs appear. The problem of shadowing the economy gained great importance at the end of the twentieth century, when the shadow sector began to penetrate into all spheres of economic and social relations in almost all countries of the world.

The level of economic shadowing 10-12% of GDP is considered normal, 20% - critical for the legal economy, 40% - catastrophic [10].

Ernst & Young conducted a shadow economy study in 33 countries, including Ukraine, Czech Republic, Poland, Slovenia, Slovakia, Croatia, Bulgaria, Bosnia and Herzegovina, Serbia, and others [11]. The level of the shadow economy among these countries ranged from 10.1% to 26.9% of GDP.

The study of Ukraine's economy has found that UAH 846 billion, or 23.8% of Ukraine's official GDP in 2018, is in the shadow, of which:

- 19.7% of GDP (UAH 702 billion) is the cash-based shadow economy,
- 4.1% of GDP (UAH 144 billion) - production of goods at home for own use, i.e. the nonmonetary shadow economy (Fig. 2).

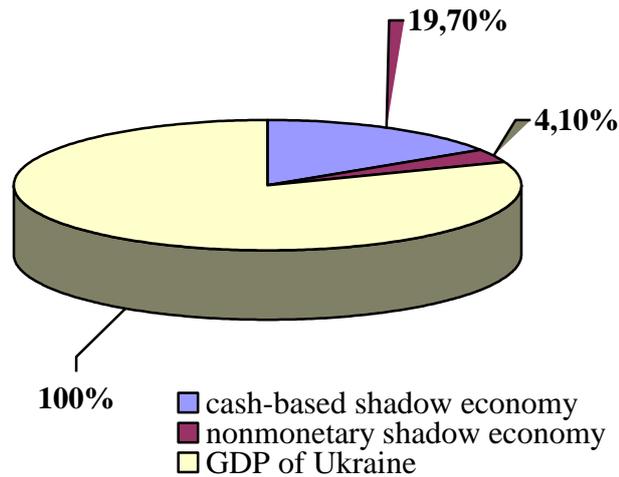


Fig. 2. State of the shadow economy in Ukraine for 2018

According to preliminary estimates of the Ministry of Economic Development, the level of the shadow economy in 2018 amounted to 30% of the official GDP, which is 2% less than in 2017 and is the lowest level since 2009. Given that the de-shadowing of the economy is considered by experts as one of the tools for measuring the effectiveness of implemented reforms and their perception by society, this result deserves attention.

The shadow sector of the economy exists in any country, regardless of the level of development of the national economy [8]. However, in some countries the shadow economy is at a level that does not have a significant effect on the economy (5-12% of GDP), and in others it negatively affects all socio-economic processes (more than 30% of GDP) [8].

The causes of the shadowing entrepreneurship can be divided into general and partial. The general ones include prohibitions and restrictions, and the partial ones include a high tax burden and an inefficient system of its administration; numerous bureaucratic procedures; distrust of the institutions of power and the judicial system; corruption of all echelons of bureaucracy, etc. and at the end, the interaction of the shadow economy with shadow politics. [12, p.15].

Four main groups can be distinguished of the causes of the shadowing entrepreneurship (Fig. 3) [10, 13].

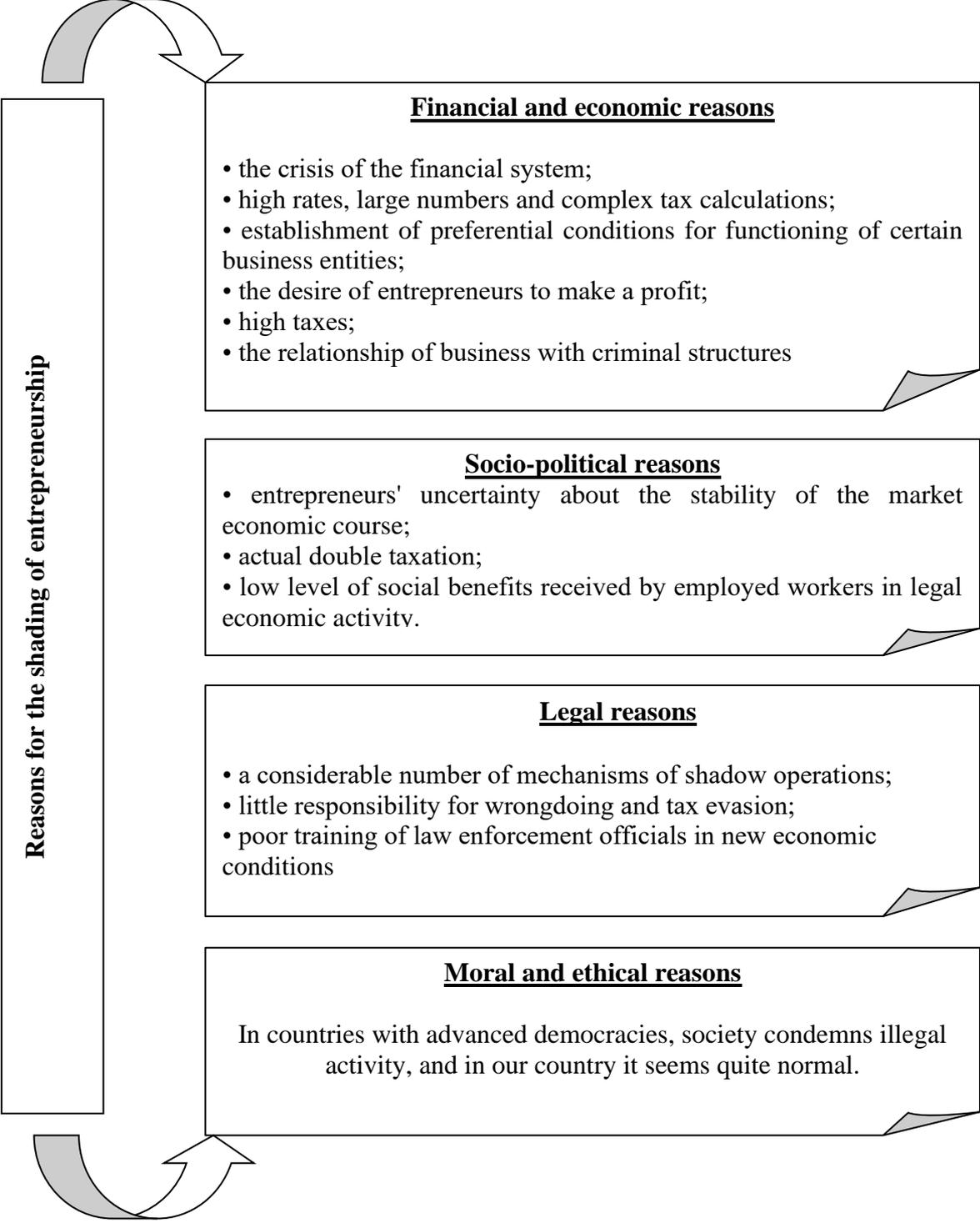


Fig. 3. Reasons for the shading of entrepreneurship

In Ukraine, the main reasons for shadowing the economy are: lack of a full-fledged market environment; lack of institutional support for economic policy; inefficiency in managing state property and protecting the rights of owners; disadvantages of the tax system; imbalance of state regulatory policy; imperfection of budget policy; deformation of the employment structure; deficiencies in the activities of the judiciary; corruption [10].

The shadow economy performs a number of functions that affect society, causing various effects [14]. By the nature of the impact on the processes of social development, these effects can be divided into negative (destabilizing) and positive (stabilizing). Since the level of the shadow economy in Ukraine is currently 30–40% of the volume of official GDP, its effects are mainly negative, with almost all types and manifestations [15]. We note the negative consequences of the shadowing entrepreneurship (Fig. 4).

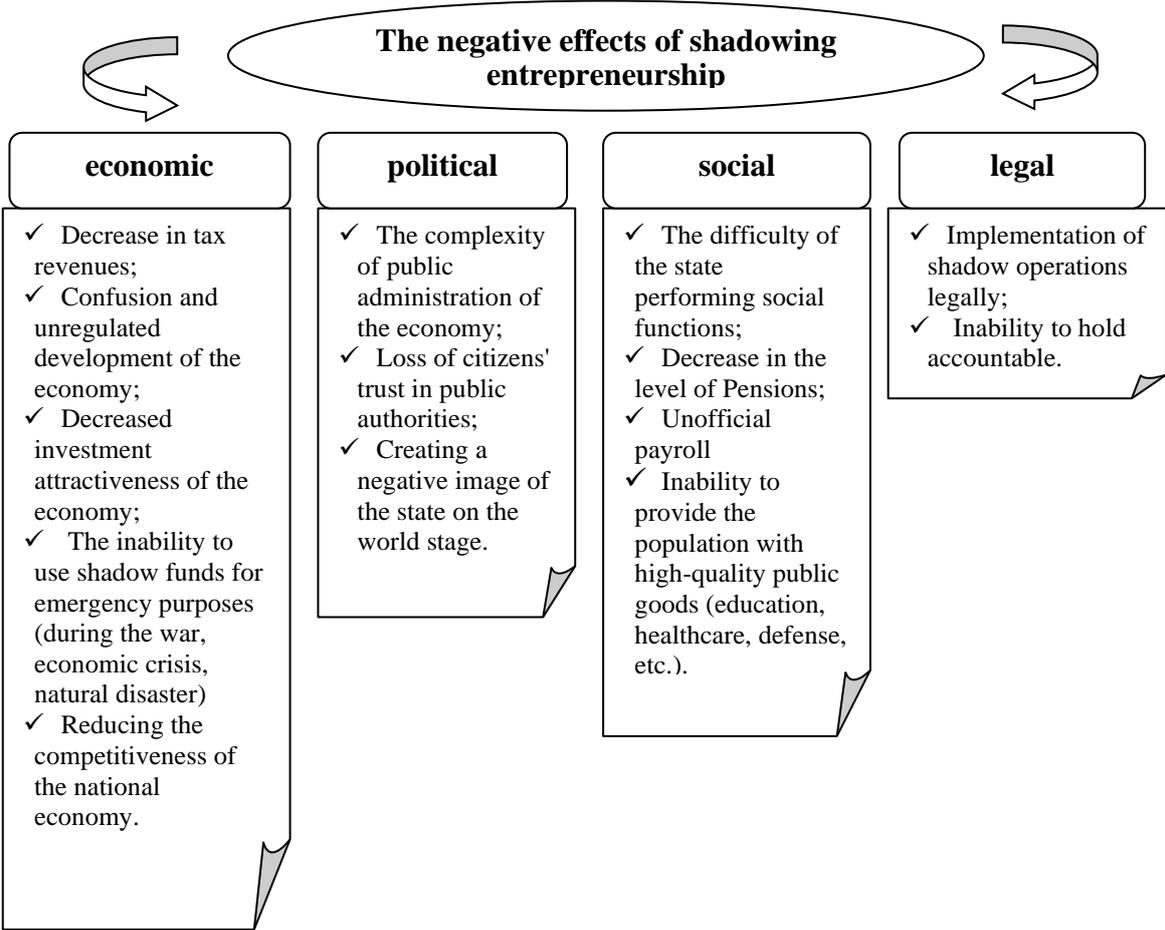


Fig. 4. The negative effects of shadowing entrepreneurship

Despite the significant negative effects, scientists also highlight the positive aspects of the existence of the shadow economy (Fig. 5) [14].

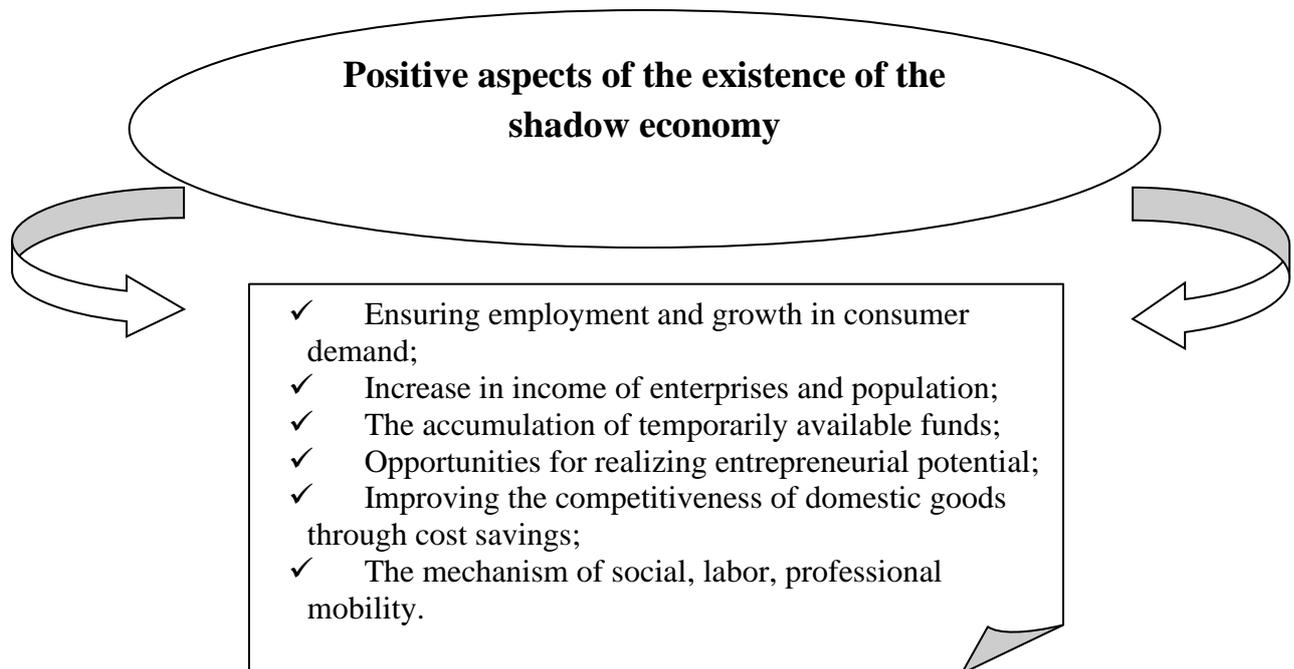


Fig. 5. Positive aspects of the existence of the shadow economy

These positive aspects are not inherent in the entire shadow economy, but only in the “informal” and “hidden” species.

The shadow economy provides employment for that part of the country's population that has no sources of income. The shadow sector employs pensioners, pregnant women, people who do not have work experience, youth, minors, etc. In addition, the goods and services of shadow economy are affordable for socially vulnerable groups of the population in their pricing policy, partially reducing the social tension existing in society.

The shadow economy had a positive impact on the Ukrainian economy in the period 1991-2000. This was due to ongoing economic reforms, which resulted in a sharp reduction in jobs in all sectors of the economy. Thanks to the shadow economy, millions of Ukrainians received a livelihood. After 2000, the negative complex effect of the influence of the shadow economy prevailed, which did not allow the state to consolidate economic growth [15, p. 195].

Today, the evolution of the shadow economy in our country has already led to the fact that it exists in parallel with the legal one [14]. Such an economy does not improve the system of economic regulation, but only leads to an intensification of the struggle for the distribution of existing markets. In general, the shadow economy is a real threat to sustainable socio-economic and spiritual development, socio-political stability of Ukrainian society.

The power structures see a way out of the crisis in "detailing the economy" and combating the shadow economy. For effective action, you need to understand the essence of these concepts and the objectivity of the existence of these phenomena in society [9]. In a crisis, it is difficult for Ukrainian entrepreneurs to work legally, since the "price of legality" is much higher than the "shadow price". Therefore, they choose a shadow activity. The lack of sufficient guarantees for the protection of entrepreneurial activity, in particular property rights, is today one of the reasons for the "flight of capital" from Ukraine.

Today, the domestic IT technology market in Ukraine is gaining serious momentum. This is due to the acquisition by Ukrainian youth of skills, competencies in this area. There is a "phenomenon of the entry of Ukrainian entrepreneurs working in the field of IT technologies into the world market" [9]. Among the opportunities can be noted their high level of education, and the reasons for the "flight of capital" was that they were beyond the interests of the country. An important role for an entrepreneur is played by two factors: the possibility of accumulating invested capital and guarantees of capital protection so as not to lose what is already available.

In order to develop this industry in Ukraine without a shadow component, having a high potential, one should take into account the experience of developed Western countries.

Conclusion. A theoretical generalization of the issue of shadowing entrepreneurship is necessary to determine methods and ways to reduce its level

in Ukraine at the present stage, which is an important prerequisite for the growth of the country's economic security.

Since the level of the shadow economy in Ukraine is now quite high, its influence is mainly negative. That is why research on the shadow economy, identifying the causes of its existence, ways to reduce the level of the shadow economy and analyzing the effects of the shadow economy on society is very important. Understanding these effects will determine the most promising ways to reduce the level of the shadow economy.

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