

Methods for Assessing the Shadow Economy

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Abstract

Shadow activities pose a threat to the economic security of countries and destroy their way of life. Its scale is so great that no country has yet managed to completely eradicate it. The largest percentage of the shadow sector is found in countries with a market economic system.

Keywords: *Shadow people , Involved observers , Outside observers.*

Measuring the size of the informal economy is challenging. This is due to the fact that the shadow economy is hidden and tends to avoid measurement. However, assessing the size of shadow activity is important for analyzing economic development and forming state economic policy. Modern economists have developed numerous methods for measuring the shadow economy, which can be roughly divided into two groups:[5]

1. Methods used at the micro level;
2. Methods used at the macro level

Micromethods for measuring the shadow economy:

At the micro level, direct methods are used to measure the shadow economy; they include:

1. Survey method. Survey research is carried out using sociological research (survey). Respondents taking part in the survey are divided into [4]:
 - a). “ Shadows ” are people who are directly involved in illegal economic relations and are ready to admit it
 - б). “Participant observers” are persons who are in the shadow environment, viewing it from the inside, but not mentioning their own participation in illegal transactions.
 - в). “Observers from the outside” - respondents who are not included in shadow economic activity, but judge it from the outside
 - г). “Victims” are people who have suffered from “ shadow people .”
2. Open verification methods. The use of these methods is within the competence of specially created regulatory authorities that identify and suppress violations of currency , banking, tax, legislation, fire safety, sanitary standards, etc.
3. Special methods of economic and legal analysis. These methods are divided into 3 types:
 1. Accounting Analysis Method
 2. Documentary analysis method
 3. Economic analysis method

The accounting analysis method is a study of accounting records (balance sheet, accounts and double entry; inventory and documentation) to identify accounting inconsistencies and deviations.

The method of documentary analysis is a study of accounting documents and is manifested in the features of external design or in the content of accounting documents. The purpose of documentary analysis is to detect documentary inconsistencies.

The method of economic analysis allows us to recognize the causes of deviations from normal economic activity.

Macro methods for measuring the shadow economy:

Indirect methods are used here, which are based on macroeconomic indicators of official statistics, data from tax and financial authorities. Here they highlight:

1. The discrepancy method, which is based on comparison of data sources and statistical documents. This method distinguishes:
 - a). Comparison of income and expenses . In this way, a comparison of all household incomes with all expenses is realized. As a rule, it is found that income is significantly less than expenses.
 - б). Alternative assessments of macroeconomic indicators . This method is used to determine the size of the shadow sector by comparing the volume of GDP obtained using indirect data with official statistics.
 - в). Commodity flow method . The use of this method is quite widely used in many European countries with developed statistical services. The commodity flow method lies in the fact that the commodity flow (i.e., the movement of value from production to use) is constructed to determine not macro indicators, but individual most important products or product groups.
2. Method based on calculations of employment indicators .

There are the following varieties of this method:

- a). Based on discrepancies between actual and officially registered employment levels;
 - б). Based on discrepancies between the values of labor time actually worked per week and officially registered
3. Monetary method .

The presented method is based on one of the most important postulates of the shadow economy: “In legal economic activity, all payments are made cashless, but in the shadow economy, transactions are made in cash.” As an example, I would like to give a “black” salary, which the employer pays in cash, without taking it into account in the registers; on the other hand, the employee receives a “white” salary by bank transfer (money is transferred to a bank card).

4. Expert method.

The essence of this method is that first a specialist determines the reliability of data from any industry. Then, after collecting data from conventional sources, they are automatically calculated by a certain amount. The methodology of expert assessments is determined by the expert himself. The main problem of this method is finding a qualified expert who can give the correct assessment.

5. Method of technological coefficients .

It is a determination of the dynamics of industrial production based on monitoring the production and consumption of energy, transportation of goods by transport, etc., to compare actual data with official ones.

6. Soft regulation method. This method is associated with identifying a set of factors that determine the shadow economy. This method also presents calculations regarding its volumes.
7. Structural method. It is based on the use of truthful information about the size of the shadow sector in various sectors of production activity.

Having considered all the methods for assessing shadow economic activity, we can conclude that macro and micro methods differently determine the volumetric value of the shadow sector, and also, the level of complexity of applying these methods is different. Thus, using micromethods, it is easier for us to identify the volume of the shadow segment, since we can conduct a sociological survey, make a “visit” with an inspection to an organization to identify its volume in the illegal sector in economic activity, and also analyze the accounting activities of any entity. Macro-level methods are a little more complicated. There, deeper knowledge is needed in the field of the shadow economy, since at this level such components as expert assessment, the method of technological coefficients, the method of discrepancies, etc. are introduced. But, of course, any of these methods can accurately identify the volumetric component of the shadow sector of any “object”.

Bibliography:

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