Theoretical Frame Work and New Definitional Contribution to the Existence Literature to Underground Economy

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Abstract— The article covers theoretical problems of shadow economy study. The author proposes an economy structure in the aspect of shadow activity, and presents the theoretical definition of the shadow economy.

Keywords-shadow economy, economy structure, theoretical, Latent Economic Function

I. INTRODUCTION

From scientific point of view, the shadow economy study came into being only in 1930s. Today Pakistan and foreign scientists pay great attention to research in the area of the shadow economy. Among the most famous foreign scientists in the second half of the XX century, we should underline such popular names as P. Gutman, D. Cassel, D. Kaufman, F. Schneider, etc. P. Gutman, A. Feig, F. Feldbrag, K. Hart, and others also were addressing the inquiry.

In virtue of its inner and external reasons, Pakistan science is founded mainly on western ideas and hypotheses. Shadow economy developers and its operating principles were examined in the deeds of, and Shabbing; who tried to create a preliminary estimation of the extent of the problem in the conditions of command economy. The question of recognition and estimation of shadow activity volumes is scrutinized by M. Ali Kemal, Iqbal Qureshi, Aslam, Yasmin, Rauf and Ahmed, etc. With the mixture of the theoretical problems concerning the shadow economy study, its substance and nature were revealed incompletely. The main disputable question is one that deals with the understandings of its existence and evolution. In increase, state methods of shadow economy regulation are underestimated.

II. PROBLEMS AND APPROACHES TO SHADOW ECONOMY STUDY

Shadow economy is studied by members of all modern subdivisions of Economics, who use “their own” theoretical and methodological tools. This fact produced an opportunity for Economic science with new original directions of studies, where shadow economy and diversity of its courses are connected with the topic. Nevertheless, analysis of the works of leading economists in this line of business, including the modern researches, testifies that the key aspects of the problem are poorly produced and can be argued. However, in that respect is a controversy around the shadow economy as a notion and its construction. Theoretical and methodological basis

Of this phenomenon is not stopped, a consistent approach of estimation of shadow economy size was not found, criteria of efficiency of management in this sphere was not determined [2].

That can be explicated through the fact that modern analysis of shadow economy has two branches – economics of crime and informal economy. Although these branches are interacting, an integrating theory was not broken. While economists-neo institutionalizes, G. Bekker’s disciples, emphasize conscious choice of law violation, disciples of K. Hart [8] and E. De Soto [4], studying the informal sector, underline the enforced character of illegal action.

Among the Pakistani scientists, Misbah, Adeel Ahmed, Khalid Zaman divide four basic theoretical and methodological approaches to the study of shadow economy: judicial, economical, statistical, and Economic Issues, Taxation Direct method, Currency Demand ratio. Announcing that the mixed method is more reliable, the scientists do not suggest anything new and try to solve other problems, utilizing one of the ways mentioned above. G. Agarkov proposed methodological base of shadow economy study on the regional level, evolving the neoclassical theory (shadow economy should be picked up as rational behavior of market participant). At the same time the author marks that the estimation of additional income, one grows as a result of economy in expenditures, is impossible without implementation of institutional theory, and neoclassical theory should be used for origination of a methodology of shadow economy modeling at the regional stage. Moreover, M Ali Kemal says that researches in the study of interaction of shadow and official economic parts should be rooted in the hypothesis of economic organizations, which makes possible, analyzing shadow activity on the different stages of economic development [1]. Today the basic consistent patterns of shadow economy evolution are: structural diversification that can be tested by the economic structure mentioned below; increasing amount of positional connections, thinking over the influence of legal institutes on shadow economy; the constant development of its volumes; different sorts of shadow relations; penetration of shadow activity in all areas of societal life.

III. STRUCTURE OF SHADOW ECONOMY

The Shadow economy, black, economy. Grey economy. Unreported economy. Unregistered economy, black economy and around 32 different terms has been used to mentioned the shadow economy activities around the globe but all theses activities cant be placed under single bucket and should be
differenced according to their nature and mention differently under the setting of the study in accordance with the cultural characteristic. Economy; the “gray” shadow economy produces the same economic goods as the legal economy, but outside the state control; the “dark” shadow economy produces only officially prohibited goods.

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Under the context of Pakistan these all mentioned activities are prohibited by the government of Pakistan are act of violation of law. So these activities are illegal in nature and should not be mentioned as latent economic function.

**FACTORS CONTRIBUTING TO THE INCREASE IN UNDERGROUND ECONOMY**

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<th>Tax revenue</th>
<th>Economic Issues</th>
<th>Social ethics</th>
<th>Government</th>
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| • Taxes burden  
• Tax morale | • Unemployment  
• slow economic growth | • Cultures Characteristics  
• Public mind-set  
• Bribery | • Expectation crisis of people;  
• low quality of Public Sector Service;  
• Education spending;  
• Government Transparency;  
• Bribery of government servant | • Corrupted regulation;  
• Closed legislative Structure;  
• Equality under the jurisprudence;  
• Regulations in labor market |

There is no currently accepted structure of shadow economy that is connected with manifold of positions associated with differences in character of theoretical and application tasks, facing economists, and also in various scientific approaches, methods, and goals of study. E.g. Y.V. Latov suggests it makes more sense to use the three-part scheme of shadow economy: the “white collar” shadow economy does not produce new economic goods, it is an integral part of legal is more independent, because it produces officially prohibited goods. The approach does not permit to cover all the segments of shadow economy (fictional, informal, hidden), and it does
not take into account the diversity of shadow and criminal branches of economy [7].

Granting to the new international standard of national accounting, in 2008 System of National Accounts SNA deliberated the notion of non-observed economy, which included shadow economy, informal economy (a percentage of the economic system, reflecting the work of individuals who have no formal occupation, but participate in some kinds of economic activity which is tied in with monetary movement), negligible production, private household’s production, and criminal economy. Withal, the social system, mentioned above, reflects shadow economic relations incompletely. This problem was started by the statistical approach used during the process of finding. That is why here there is a necessity to divide shadow economic activity (SEA) and redistributive economic sector (parasitic sector). The last one consists of corruption economy (overcharge sector) and the fictitious sector of the economic system (write up – fictitious work). Holding to account such a division of shadow and criminal economies, shadow activity and redistributive sector, and employing a notion of non-observed economy, created by SNA and approved by the United Nations Statistical Commission in 2008, we propose the following construction of shadow economy [3].

IV. CONCLUSION

Shadow economic relations have primarily deterioration influence on Pakistan economy, decelerating formation of effective Pakistan model of market economy and being a risk of national economy. The shadow economy is a specific economic phenomenon; so it demands special methodological approaches and tools not only to identify its essence, but likewise to show its features, study its evolution tendencies and patterns in various operation conditions. That specifies the requirement of the role of other comings, including multidisciplinary methods. These attacks are a practice of a new school of institutional method in Economics, which is called New Institutional Economic Theory. Grounding on the indicate method, theory of the shadow economy phenomenon is determined as follows: Rational behavior of economic subjects focused on ultimate profit-making factors in SEA in the term of state institutes imperfection and united.

Socioeconomic processes which have dual basic functions: positive – mitigation of negative conditions in commercial enterprise development; negatively – antisocial income redistribution, reducing state management efficiency, and deprivation of social welfare.

REFERENCES


