

## **THE FIGHT AGAINST THE HIDDEN ECONOMY: CAUSES, CONSEQUENCES AND BEST PRACTICES.**

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**Annotation:** This article discusses the hidden economy, ways to combat it, and factors affecting the emergence of the hidden economy. The article also highlights advanced foreign experiences in combating the hidden economy and gives practical recommendations for their application.

**Keywords:** hidden economy, causes of the emergence of the hidden economy, foreign experiences

The hidden economy (or hidden economy) is a set of economic activities that are not openly carried out by its participants, are outside state control, do not pay taxes, are contrary to the law or are not registered in accordance with official standards. These types of activities are not recorded in official statistical reports and lead to distortion of real data for macroeconomic analysis. The existence of the shadow economy is explained, on the one hand, by factors such as dissatisfaction of the population and business entities, bureaucratic obstacles, high tax burden, and complexity of regulation. On the other hand, it leads to a decrease in tax and social fund revenues for the state, a reduction in the formal labor market, and a violation of the principle of social justice. International experience shows that the shadow economy exists not only in developing countries, but also in developed countries, and is one of the serious problems in their economic policies. Therefore, a deep analysis of this area, identification of its causes and consequences, and development of effective strategies against it are urgent scientific and practical issues. One of the most important factors in the formation of the shadow economy is the excessive tax burden. When taxes are high, entrepreneurs and individuals refrain from officially declaring their income. As a result, cases of concealment of income, calculations on a "cash" basis, and double-entry bookkeeping increase. This situation is especially common among small and medium-sized businesses, which often aim to avoid taxation. Another reason for the development of the underground economy is excessive administrative procedures, complexities in the preparation of documents, and lack of transparency in licensing. Business entities often face many obstacles in obtaining permits or formalizing their activities. This forces them to evade the law and operate informally. The mandatory nature of formal labor contracts, the existence of legal requirements such as minimum wage levels and social insurance payments, encourages some employers to employ employees on an informal basis. This, in turn, leads to violations of workers' labor rights and their lack of social protection. The informal formation of labor relations is an important component of the underground economy. Excessive state

intervention in the economy, administrative regulation of prices, and restrictions on imports and exports also create the basis for the underground economy. The incomplete functioning of market mechanisms and the dominance of bureaucratic systems in economic decision-making make the business environment difficult and encourage the transition to informal activities. When entrepreneurs are limited in their ability to freely set prices, trade, and provide services, they choose to conduct economic activities in a hidden form. Another reason for the widespread spread of the shadow economy is the distrust of citizens and entrepreneurs in state institutions. If the judicial system is not functioning well, corruption is high, and justice is not guaranteed in conflicts with tax and regulatory authorities, citizens are not inclined to formalize their activities. This strengthens the shadow economy. Although the shadow economy, in most cases, does not manifest itself in official statistical reports, it has a direct and indirect impact on the national economy. These impacts are complex, multifaceted, and in the long term are expressed in slowing economic growth, increasing social instability, and reducing trust in state institutions. The shadow economy has a negative impact on everything from macroeconomic indicators to the daily lives of ordinary citizens. We analyze these impacts in two main areas - macroeconomic and social. Macroeconomic impacts: 1. Reduction in state budget revenues. The most significant negative impact of the shadow economy is a significant reduction in the revenue share of the state budget. Informal economic activities are usually not taxed or are deliberately hidden. This leads to a shortage of funds allocated to state-funded areas such as healthcare, education, infrastructure, and social benefits. As a result, the state is unable to fully fulfill its economic and social obligations. 2. Distortion of the competitive environment. Participants in the underground economy often do not pay taxes, do not pay social insurance contributions for workers, and do not comply with labor legislation. This allows them to lower the prices of production or services compared to competitors in the formal sector. As a result, honest business entities in the formal sector face difficulties in continuing their activities in such unfair competition. This situation reduces the business environment and the level of economic freedom in the long term, and hinders the development of small and medium-sized businesses. 3. Deterioration of the investment environment. Investments, especially foreign direct investment, develop in an environment where there are transparency, the rule of law, economic stability, and guarantees of state protection. The prevalence of the underground economy undermines these factors. When investors see a high level of the underground economy in the country where they are investing their capital, they assess the financial and legal risks as high and, as a result, refuse to invest. Social impacts: 1. Weakening of the social protection system. Individuals working in the informal economy usually do not have formal employment, do not have employment contracts, and are not members of social insurance. This leads to their deprivation of basic social protection measures such as pensions, health insurance, maternity leave, or unemployment benefits. As a result, social inequality in society increases and dissatisfaction among the population may increase. Young people, women, and unskilled workers are the groups most affected by this system. This undermines the principles of social justice in society. 2. Deterioration of working conditions. Workers participating in the informal economy often do not have safe working conditions. They are not protected from accidents at work, and cannot receive medical care if they suffer from occupational diseases. In addition, they are at risk of not being paid a fair wage, violating working hours, and being fired at any time. These situations are especially common in sectors such as construction, agriculture, and services, where the number of informal workers

may be high. 3. Increased corruption and crime. Many types of activities in the shadow economy are carried out illegally. This leads not only to tax evasion, but also to an increase in criminal activities such as corruption, smuggling, human trafficking, illegal labor migration, and drug trafficking. In such an environment, the rule of law weakens and the legal culture in society decreases. This further deepens systemic corruption and crime. The problem of the shadow economy is relevant for almost all countries. Its level, causes of formation, and strategies for combating it directly depend on the economic development, institutional system, legal environment, and tax and financial policy of each country. This section analyzes successful experiences in combating the shadow economy using the example of developed and developing countries.

**Experience of developed countries.** Germany: Germany is one of the countries that has developed effective strategies to reduce the level of the underground economy. The measures taken to legalize the economy in this country include: simplification of the tax system, support programs for small and medium-sized businesses, digitalization, strengthening the social protection system, and the introduction of a strong monitoring system against informal work. In Germany, the culture of tax compliance among the population is highly developed, which is also an important factor in the fight against the underground economy.

**USA:** In the United States, digital technologies and artificial intelligence tools are widely used in the fight against the underground economy. Tax authorities - the Internal Revenue Service (IRS) - detect fraud through real-time monitoring, analysis, and audit systems. Mechanisms such as simplifying business activities and formalizing the activities of self-employed people through the patenting system are also important.

**In the experience of Scandinavian countries:** Norway, Sweden and Denmark, the main way to combat the shadow economy is to create an open, inclusive and reliable socio-economic system. In these countries, the factors that encourage citizens to actively participate in the formal economy are a high level of social services, free education and healthcare, a low level of corruption and a culture of respect for the law.

**Experience of developing countries.** India: The share of the shadow economy in India is high, which negatively affects the country's economic stability. The government has implemented several important reforms in this regard: For example, in 2016, cash circulation was reduced by demonetization of large denomination banknotes, and the taxation system was simplified and unified by the introduction of the GST (General Sales Tax) system. At the same time, the country is trying to increase official trade turnover by introducing digital payment systems.

**Brazil:** The Nota Fiscal Paulista project played an important role in the fight against the shadow economy in Brazil. In this system, when a buyer requests a fiscal receipt for each purchase, he is refunded a certain percentage of the tax amount. This not only increased the volume of taxation, but also formed a culture of consumer protection of their rights. At the same time, a simplified tax system called "Simples Nacional" was introduced to formalize small businesses.

**Georgia:** The Georgian government has carried out radical economic reforms since the 2000s. The tax system has been simplified, strict measures have been taken against corruption, and public services have been digitized. For example, business registration can be done online in a few minutes. As a result of such changes, the level of the shadow economy in the country has significantly decreased. The World Bank, the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and other international institutions recommend the following main areas in the fight against the shadow economy: Figure 1. Areas recommended by

international organizations in the fight against the shadow economy.

### Birinchi yo'nalish

- **Soliq siyosatini soddalashtirish va adolatli qilish** – ko'p hollarda yashirin iqtisodiyotning asosiy sababi soliq yukining og'irligi va ma'muriyatchilikning murakkabligidir.

### Ikkinchi yo'nalish

- **Tadbirkorlikni ro'yxatdan o'tkazish va faoliyat yuritish jarayonlarini soddalashtirish** – litsenziyalash, ruxsatnoma olish jarayonlarining qisqartirilishi.

### Uchinchi yo'nalish

- **Raqamli iqtisodiyotni rivojlantirish** – naqd pulsiz hisob-kitoblarni kengaytirish, moliyaviy tranzaksiyalarni raqamli nazorat qilish.

### To'rtinchi yo'nalish

- **Fuqarolik jamiyatini kuchaytirish** – aholining soliqlarga nisbatan munosabatini o'zgartirish, ijtimoiy mas'uliyatni oshirish.

### Beshinchi yo'nalish

- **Bandlik siyosatini takomillashtirish** – rasmiy bandlikni kengaytirish, o'zini o'zi band qilganlar faoliyatini legallashtirish.

### Oltinchi yo'nalish

- **Huquqni muhofaza qiluvchi organlar faoliyatini kuchaytirish** – yashirin faoliyatlarni aniqlash va javobgarlikni kuchaytirish.

International experience in combating the shadow economy shows that this problem can be solved not only through punitive measures, but also through a comprehensive approach - combining institutional, tax, legal and cultural factors. For Uzbekistan, using the experience of foreign countries, reducing the share of the shadow economy by liberalizing the business environment, increasing the attractiveness of the formal sector and strengthening financial literacy among the population is an important strategic task.

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