

## The problem of forming of unit approach to hidden economy conception



**Bagirzadeh Elshan Rasul oglu\***

Ph.D. student in the Azerbaijan State Economic University

### Abstract

*Purpose:* It is to work to form common approach in terms and conception of hidden economy with revealing general sides existing different approach in the literature connected with these directions.

*Methodology:* It has been used methods of different theoretical analyses. Also methodology of system of national accounts has been accepted in forming common approach connected with hidden economy.

*Findings:* It is possible to separate some general tendencies connected with using of the terms (about 30) of hidden economy, but the approach where has widest spread in this area accepts that each researcher may use any term in his research if he noted that this term includes which part of hidden economy; the widest spread approach as the result of the scientific searches connected with the issue of common definition of hidden economy macroeconomic approach which formed in the frame of SNA Convention; according to macroeconomic approach any economic activities that included by conception of hidden economy those activities must correspond to the three criteria - to be productive activity that created value added in its result, to be market output and to be unregistered by official statistical service; according to macroeconomic approach criminal and non-criminal sectors of hidden economy are included by conception of hidden economy, but researchers limit their object of researches with non-criminal sector connected with legalization policy of hidden economy.

*Research limitations:* Equivalent of some terms used in the research was not founded in Azerbaijani literature.

*Practical implications:* It allows to forming of the common approach to terms and conception of hidden economy.

*Originality:* Revealing of general tendencies of usage of terms connected with hidden economy; determining of causes of diversities of approach to conception of hidden economy; making definite of structure of hidden economy according to the macroeconomic approach; making definite of structure of hidden economy according to macroeconomic approach; explaining of relations among hidden economy and public sector, social economy, external economies, tax evasion, corruption, bribe, black cash, cash laundering, informal employment.

*Keywords:* hidden economy, tax evasion, System of National Accounts, macroeconomics, economics

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\* Baku, AZ 1001. Istiglaliyyet str., 6.  
e.bagirzade@gmail.com

## 1. Introduction

The theory of the modern hidden economy, combine majority of approaching severely differ from each other in relation with the different of the problem of the hidden economy. In accordance with the research, different opinions are provided in connection with definition of the main point of phenomena and economy on the base of the differences of the existed thoughts. Therefore, arising out of the term of the hidden economy conception, the thoughts on quantity valuation, causes, affects and the way of struggle is differed. That's way, the theory of the modern hidden economy gives special importance to the explanation of the conception of the hidden economy and its main point.

Principle importance of the hidden economy conception from the theory of hidden economy point of view, bring the necessity of scientific research in relation with the form of the unit approach in this direction. It is possible to note the reveal of the certain initiatives commencing from 1980, though the researches in this field in not coincide widely with existed literature. These initiatives implying in the frame of national income statistics or System of National Accounts and that could be called macroeconomic method of the approaching, commenced to be used widely in the literature in this field.

In paper, the problem of the form of the unit approach endeavors to be researched with all aspects, tries to present and accurate economical conceptions on the base of the existed macroeconomic approach in systematic form. By the aim, the existed terminological disorder is going to be revealed, then the relation of the structure of the hidden economy and its place in the economy will be revealed, hidden economy - state sector, hidden economy - social economy, hidden economy - external economies, hidden economy - tax evasion, hidden economy - corruption, hidden economy - black money, bribes and its reveal and hidden economy - hidden employment present, finally the frame of the hidden economy conception from the point of view of the public policy will be defined.

## 2. Hidden economy term

The primary difficulties during the research of the existed literature in relation with the hidden economy connected with terms used to express these conceptions. On the base of the research approximately more than 100 lead in different countries of the world, it could be said that, there exist nearly 30 terms by the aim of the use of this phenomena, the widely used of them are hidden, shadow, unofficial, informal, black, underground, illegal, cash, non-observed, irregular, unreported, parallel, unregistered, grey, unrecorded, second, marginal, twilight, invisible, moonlight and untaxed economy.

As it seen, from the Table 1, there exist some general tendencies in relation with the importance of any peculiarities of economic activity, cover of this and other activity kind being aside from the official economy, according to the submit in international level and research. But the use of the same economic conceptions with different terms in the different research by the same author (*Thomas J. J. 1990, 1999; Schneider, 2002; Schneider and Bajada, 2005a, b*), at the same time meet of internationally agreed terms individually by some researcher, clearly display that, there exist no general lawfulness in relation with the use of this terms.

Hidden, shadow, underground, informal, unofficial and non-observed economy terms are the widely used terms published in Azerbaijan in relation with this subject. Terms used in the official documents of the Azerbaijan Statistic Committee is non-observed (*in the meaning used by international organizations*) and hidden economy terms (*in the meaning of the whole of criminal and non-criminal hidden sector*) (*AZ-STAT, 1999, 1999, 2004; UNECE, 2008*).

**Table 1. The peculiarities of terms used in relation with the conception of the hidden economy.**

USED PECULIARTITIES	TERMS
<b>According to the importance of any peculiarities of the economic activity.</b>	
Hiddenites	“hidden economy”, “underground economy”, “shadow economy”, “twilight economy”, “moonlight economy”
Non-legal	“illegal economy”, “black economy”,
Unofficially	“unofficial economy”, “informal economy”, “without tie economy”
Non-registration	“unregistered economy”, “unrecorded economy”
Alternative	“parallel economy”, “second economy”,
Tax evasion	“untaxed economy”, “unreported economy”
Disorderliness	“irregular economy”
Insignificance	“marginal economy”
<b>According to the cover of this or other activity type staying aside from official economy</b>	
Criminal hidden activity	“illegal economy”, “black economy”, “underground economy”, “twilight economy”, “moonlight economy”
Non-criminal hidden activity	“parallel economy”, “untaxed economy”, “unreported economy”, “unofficial economy”, “informal economy”, “without tie economy”, “irregular economy”, “second economy”

<b>According to appear in different economic systems</b>	
In socialist systems	“second economy”
In capitalist systems	All other remained terms
<b>According to consent with international level</b>	
Agreed with international organizations	“non-observed economy”, “underground economy”, “illegal economy”, “informal economy”, “households for own final use economy”
Non-agreed with international organizations	All other remained terms
<b>According to the language of the research</b>	
In English	“underground economy, “hidden economy”, “shadow economy”
In German	“schatten wirtschaft”
In France	“l’conomie souterrain”
In Russian	“теневая экономика”
In Turkish	“kayıtdışı ekonomi”
In Azerbaijan	“gizli iqtisadiyyat”

Note: the table prepared by author on the basis of more than 100 reacshes in relation with the hidden economy in different countries.

By touching this factors of the problem, Latvian authors Gylys Povilas, denote that, though once and for all solution of the existed problem in international level is wished, it is also incorrect to use the similar phenomena with different terms, the origin incorrect different phenomena used with the same terms (Gylys, 2005:7).

*So, the widely spread method of approaching by the aim of the solution of the terminological problem consist of the fact, that, every researcher has the right to use any terms, under the condition of noting the cover of the hidden economic activity of the term.*

### **3. Definition of the hidden economy and its frame.**

There exist severely different method of approaching in terms issued to it together with the terms in relations with the hidden economy in the existed literature and followings gain attentions more attentively:

- Professor of Wisconsin-Madison University Edgar Feige: “all currently un-registered economic activities that contribute to the officially calculated (*or observed*) Gross National Product.” (*Feige, 1979:6*);
- Doctor of Quenn’s University Philip Smith: “market-based production of goods and services, whether legal or illegal that escapes detection in the official estimates of GDP.” (*Smith, 1997:12-15*);
- Professor of the Linz University named after Johannes Kepler of Austria Friedrich Schneider: “all economic activities that contribute to the value added and should be included in national income in terms of national accounting conventions but are presently not registered by national measurement agencies” (*Schneider, 1986, 2005*);
- Dr. Dilip Bhattacharyya: “calculated as the difference between the potential national income for the given currency in circulation and the recorded national income” (*Bhattacharyya, 1999, 2004*);
- Prof. Shankar Acharya from India International Economic Relation Research Council: “the aggregate of incomes which are taxable but are not reported to the tax authorities” (*Acharya, 1985*);
- Latin American Norman Loayza from the World Bank’s economist: “a set of economic units which do not comply with one or more government imposed taxes and regulations” (*Loayza, 1996*);
- Gregory Mankiw, The author of the famed textbook “Principles of Economics” and the professor of the Harward University: “the whole of the criminal and non –criminal hide economic activities” (*Mankiw, 2003:169*);
- Vito Tanzi The employee of the Ministry of the Finance and Economy of Italy and the professor of the George Washington University: “the national income or production that is not traced by statistical analysts when they compile the total value of National Income” (*Tanzi, 1999:344*);
- Yuri Latov and Sergey Kovalyov, from the Moscow University of the Ministry of the Russian Internal affairs: “economic activities improving unrecorded from the account and supervision of the state and not reflecting in the official statistics” (*Latov and Kovalyev, 2006:14*);
- Osman Altug, the professor of the Turkey Marmara University: “hidden economic activity implemented by documents not officialized by any documents and that the subject not reflecting the reality from other entity in relation with the state and business and extracting out of the official economy” (*Altug, 1999:V*);
- African scientist M. Bagachwa and A. Nahoya: “as a combination of informal (*small-scale production and distribution units*), parallel (*illegal production of legal activities*) and black market activities (*production and distribution of market and non-market goods forbidden by the government*)” (*Bagachwa and Nahoya, 1995*);

- England researcher M. Carter: “All whole informal (*not covered in GDP and because of the reason not trying to be measured, productive activities for personal demands in housekeeping and mutual operations amongst individuals*) and underground (*nevertheless of the possibility of valuation on quantity, activities deviated from official registration and accounts, in the case of evasion of profits and returns of the last economic of subjects registered from the initial and not obeying some license liabilities and profits, productive and service operations of subjects registered from the second*) economic activities” (Carter, 1984).

In their research, the of Azerbaijani economist prof. Akif Musayev explained the hidden economic conception as the definition issued as “all the whole economic activities implemented by non-legal economic subjects and non-legal economic activities implemented by legal subject” or “finance-production activity consisting of production of goods, presentation, done of works and display of services at the result of the break of laws and other normative acts” by approaching from taxation point of view (Musayev and Musayeva, 2004:213-214). But professor Sattar Safarov differ the economic conceptions as “unofficial turnover” and “shadow”, while explaining hidden economic conceptions. That’s way, unofficial turnover of GDP and National Income being the part deviated from account, tax and other legislative repayments and unregistered from the part of the management consist of the hidden economy form of activity that production, turnover and services is prohibited together with the shadow economy form of non-prohibited, but deviated from account, tax and other legislative repayments” (Safarov, 2006).

In accordance with our researches, the existed differences issue to the hidden economic conceptions connected with some factors. The former of them is the form of the form of the hidden economy from different activity and the attempt of the researcher to concrete his research subject. So, investigator as E.Faal (2003), H.F.Sennholz (2003), M.Krakowski (2005), E.Christie and M.Holzner (2004), V.Trasberg (2004), K.Turmanidze (2000), G.V.Walle and P.Ponsaers (2006), V.Braithwaite, M.Reinhart and J.Job (2005), M.Orviská, A.Čaplánová, J.Medved and J.Hudson (2006), R.Mirus and R.S.Smith (1997), D.Kaufmann and A.Kaliberda (1996), V.Seviž (2002), O.F.Cholak and S.Bekmez (2007), E.Baldemir, F.M.Gokalp and M.Avji (2007), J.J.Aktan (1999), O.Altug (1999), S.Shengul (1997) and N.M.Golovanov, V.E.Perekislov, V.A.Fadeev (2003) limit their research by non-criminal sector of the hidden economy but researchers as F. Schneider and D.Enste (2002), Ch.Bajada (2005), M.Faulend and V.Šošić (2000), S. Kolesnikov (2001), C.Wallace, Ch.Haerpfer and R.Latcheva (2004), P.Lemieux (2007), S.Katsios (2006), Y.Eilat and C.Zinnes (2000), L.M.Tedds (2005), G.Mankiw (2003), P.Gyls (2005), B.S.Frey (1994), P.M.Smith (1997), S.Safarov (2006), A.Musayev and A.Musayeva (2004), Y.Kildish (2000), F.Halijioglu (1999), N.Altug (1994), M.Besim (2000),

N.Algan (2004), V.Us (2004), A.B.Yereli and O.Karadeniz (2004), Sh.Aydemir (1995), S.Djankov, I.Lieberman, J.Mukherjee and T.Nenova (2002), K.Ott (1998), I.Mel'ota, U.Thießen and T.Vakhenko (2001) and T.Khomenko (2007) by the whole of the criminal and non-criminal sector, G.A.Yılmaz (2006), H.Chtintash and H.Vergil (2003), I. Onder (2001) by the whole criminal, non-criminal and household sector by private production, M. A. Chen (2004), S.Commander and A.Tolstopiatenko (1997), A.M.Fatima (2004), O.E.Garcia-Bolivar (2006), K.Hart (2005), A.Henley, G.R.Arabshuibani and F.G.Carneiro (2006), V.Gungor (1997), S.Purkis (2006, 2007) and Y.Shishman (1999) by informal activity of the non-criminal sector of the hidden economy, the definition of the hidden economy in this field in their works.

The second, the aim of the researcher is the fit of the used method, by the aim of the quantity valuation of this phenomenon together with the hidden economy conceptions. Used definition fitted to the part of quantity valuation of the hidden economy. For example, by defining this aspect, the fame economist Vito Tanzi notes that, hidden economy have two definitions and tow quantity valuations. The first, is that, productions not valued by the official statistics, the another is that, the return unregistered and unknown by tax bodies (*Tanzi, 1999*).

The third, the aim of researcher is to use this or other aspects of the hidden economy. In such case, the researcher form their definition by swelling factors as tax evasions of the hidden economic activity, evasion from the account, oppose to the laws and causes (*Fleming and b., 2000:389; Aydemir, 1995:8-9*).

The forth factors are, differences of the hidden economic activity in different economic systems that researches carried out from the main point of view. So, not only the criminal hidden economic activity accepted in the market economic country and all private initiatives oppose to official ideology is also added to the conception of the hidden economy in Northern Korea and Cuba. In other hand, it is impossible to define their hidden economy by using these conceptions because of inbeing of tax and GDP conceptions (*Lee, 2002; Ozsoylu, 1996; Yılmaz, 2006*).

Existed difficulties of problem arisen out of such kind of problem amongst researchers: Are there any necessity of issuing unite definition to hidden economy conception? In accordance with the German researcher B. Frey it is not necessary to form such kind of definition, but complete perceive of these activity that causes, scales and affects have to be investigated. Other German researcher E. Klinkmuller and G. Leptin consider that, it is impossible to give correct and perfect definition of the hidden economy. Such kind of attempts are useless (*Ozsoylu, 1996:16*). Jim Thomas noted the difficulties of giving the formal definition to the hidden economy accepted as fuzzy, but as the conception in research, together with the stress of the necessity of fit with the method of quantity valuation of definition (*Thomas, 1999*). Nevertheless, wide conception unity engage with the research of the problem is in

the direction of the necessity of the form of the unit approach to the hidden economic conception, they consider that, researcher has to chose one of the existed definition or form new definition by the aim of defining the subject of its research, in the case of impossibility of this case. Otherwise, they will meet with severe difficulties on estimating of the scale, research of causes, reveal the affects and forwarding the struggle way with them (*Schneider and Enste, 2002:6; Ozsoylu, 1996:25-26; Fleming and b., 2000:388, Gylys, 2005*).

### 3.1. Macroeconomic approach to the hidden economy conception

Researches connected with the form of the unit approach to the hidden economy included to the new quantity stage by macroeconomic approach, that the primary bases appeared in 1980 and spread after the accept of SNA convention. Macroeconomic approach being considered the widely used approach in economic literature, tries to issue definition to hidden economy conception in the frame of the national expense statistics, in other words GDP accounts and it bases on the to corresponding conception and approach displayed in manual “Measuring of Non-observed economy” published by OECD, IMF, ILO and CIS STAT (*Ozsoylu, 1996:12-13; Schneider and Enste 2002:7*).

Defining of this aspect of the problem, the Turkey professor Guneri Akalın stated that, forgotten of the being of the hidden economy, macroeconomic category stay on the base of the existed idea, differences in relation with the hidden economy (*Akalın, 1996:29*). Touching the problem of the defining of the hidden economy as macroeconomic conception, other researcher Adem Kalça stated that: “...nevertheless of try of researcher solve their problem of inflation, unemployment and finance by the help of the macroeconomic method, nowadays they confront with great problems on solution of the same problems with the same methods. The researcher forward new approach and thesis trying to explain the causes of this failure and the most important of them is hidden economy. By the help of this method, macroeconomic found new way, after new forms and methods formed for research and prognosticate the hidden economy. Macroeconomic analyzes found depth and richness owing to hidden economy” (*Kalça, 1998:52*). In modern manual called “Economics” written by authors as Gregory Mankiw, David Begg, Stanley Fischer, Rudiger Dornbusch hidden economy taught in macroeconomic unit as one of the macroeconomic category (*Mankiw, 2003:169, Begg and b., 2003:283*).

Macroeconomic approach, accept the hidden economy conception as the factual unregistered part of economic activity that has to be registered by the aim of account of GDP indicator according to UN Convention on System of National Accounts dated 1993 (*Schneider and Bajada, 2003:3*). At the same time, the mentioned Convention forwarded the necessity of the lead of the quantity valuation of the economy



by the aim of receive of more rational GDP and their methodological bases found its reflection in manual as “Measure of non-observed economy” (“*Blue book*”) (*OECD, 2002:12*).

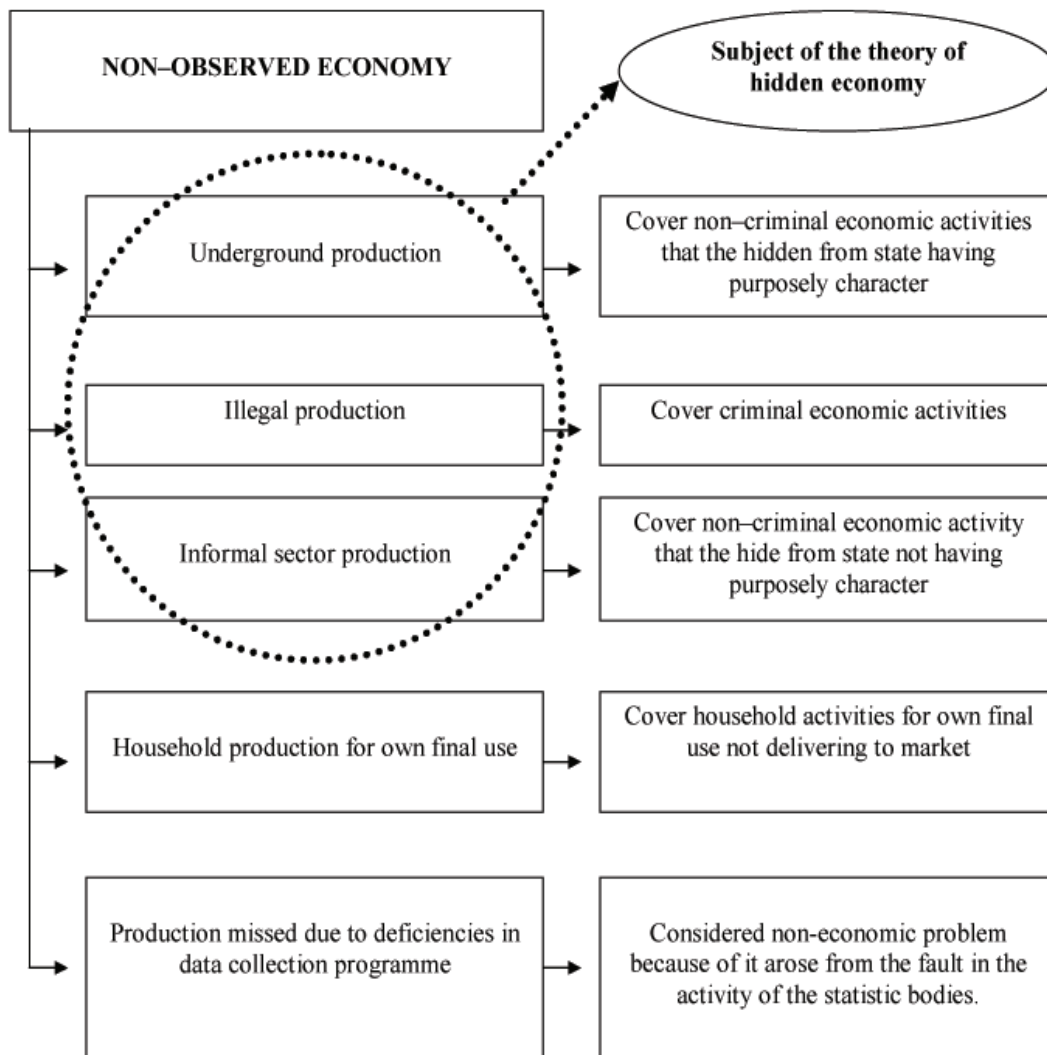
The important conception forwarded on “Blue Book” is the conception staying aside of the factual registered part of the economy and all other economic activity hardened to register national statistic services (“*problem areas*”). Taken into account of activities of “non-observed economy” conception displayed on Scheme 1. One of the problems being in attain is non-included of all these economic activities remained aside of the official economy and non-registered according to the Convention. Therefore, the Convention put forward, the conception of “production boundary” that, in accordance with this conception GDP account has to cover only economic boundary being in the same “boundary”. Two main criteria as the creation of the value added and market output at the result of the activity of the included of “production boundary” of the economic activity have been accepted. By looking through activities displayed on the Scheme 1, household production for own final use not included to “production boundary” and that’s way not implied in GDP account (*OECD, 2002:19-22*).

In the case of include of macroeconomic approach of hidden economy conception to GDP account and because of cover of unregistered economic activity from different causes, underground production, illegal production and informal sector production turned into the subject of the hidden economy theory displayed on Scheme 1. Because of the non-imply of household production for own final use to GDP account, at the same time non-considering the economic problem as subjective problem of non-observed production from the insufficiency of the observation problems not included to the hidden economy conception.

Keep of the household production for own final use aside “production boundary” was not meet univocal amongst economists. So, by touching this problem J. K. Galbraith stated that: “In the case of my working depending on my mood as all Harvard professors, the value I create is included to the account of GDP national income in the form of my wages. But the labor of my lady spending more labor in the case of her engage with my family and flat is not included herein, as she does not get salary for this work..., let point other differences: whore earning cash instead of her love is implied in national income account. But the service of the house woman being as fine as she loved is not implied” (*Galbraith, 1991:26*). Gregory Mankiw also criticized these approach by concrete examples in his book called “Principles of Economics” (*Mankiw, 2003:497, 507*).

As it seen, by the aim of relate of one economic activity to the hidden economy, it has to answer three categories as being productive activity that the value added is created, being market output and unregistered by statistic service (*Frey, 1994:92; Ozsoylu, 1996:25-26; Witte, 2008:28-29*).

**Scheme 1. Subject of non-observed economy in SNA and theory of the hidden economy.**



Note: prepared by authors on the basis of SNA accounts and “Blue Book”

### 3.1.1 Hidden economy structure

By implying hidden economy structure on the frame of the macroeconomic approach, it could be possible to see that they are forming from criminal and non-criminal sectors differed each other from legal point of view as it seen in the Scheme 1.2.

### 3.1.1.1 Criminal sector of hidden economy

The sector combining the oldest activity form of the hidden economy was attractive for market subjects from the point of view of profitability. The sector expressed by the term of illegal production in the SNA Convention dated 1993, includes the implementation by subjects illegally, act in this field together with economic activities univocally prevented to be activated in this field by legislation, but implemented completely hidden from corresponding state bodies by acted subjects (*for example, acted without license*) (OECD, 2002:151-158).

Nevertheless of suggestion of include of these activities to SNA dated, 1952, the problem had not been defined in System of National Accounts Convention, dated 1968, by implying difficulties in the field of registration of this activities because of its being hidden and disputes in connection with the form of production of raw material and service exchanged under mutual maintenance and steal of riches. By implying the cause of these activities to severe danger at the result of the reveal of possibilities of spend of gained profits by legal ways and get of expenses spend to productions, it was included to “production boundary” in SNA Convention dated 1993. One of the problems necessary herein is imply of parts implemented according to the mutual maintenance of subjects to GDP account. Value added is not created at the result of the activity, in the case of inbeing of mutual maintenance of subjects as theft and swindle, only created value added unjustly transfer from one subject to other can not be included to hidden economy conception and implied in GDP account (DPT, 2001:19; Kolesnikov, 2001; Chetintash and Vergil, 2003:17; Ozsoylu, 1999:1; Yilmaz, 2006:26; Us, 2004:4).

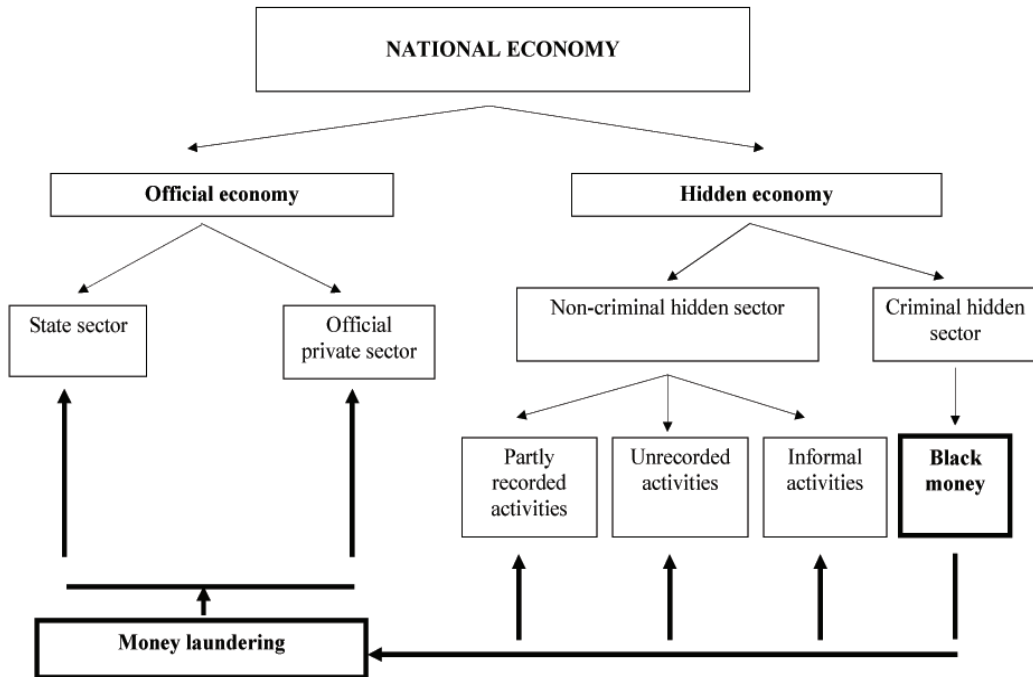
Nevertheless the necessity of forwarding the include of these sector of economy as underground, mafia, criminal, bullet and black cash to GDP account by SNA Convention, only few country could attain it (Tedds, 2005:158-159; Kolesnikov, 2001; Altug, 1999:22). There also exist some researcher not considering the illegal raw material, services with legal raw material and services correct (Altug, 1999:22, Yilmaz, 2006:34)

### 3.1.1.2 Non-criminal sector of hidden economy

It is possible to use this sector of the hidden economy as the whole of the economic activity consisting of underground production and informal sector production mentioned in SNA Convention.

Underground production consists of economic activities that the activity is not prevented in this field, but hidden partly or wholly from relevant state bodies by the aim of the evasion of implementation of some legal liabilities of activity subjects (*implementation of tax and other social repayments, rely upon labor case, safety*

## Scheme 2: Hidden economy and the place of money laundering in national economy



Note: prepared by author.

and ecological standards) (OECD, 2002:139-147; Schneider and Enste, 2002:9). It means, the hide could be in two forms: as act of the subject completely away from the state and evasion one part of the activity of the subject in the state registration. Because of the reason, the former of the activity types mentioned on the Scheme 1.2 expressed as unrecorded activities and the second as partly recorded activities.

In the case of form of the conception of underground production and illegal production hidden economy on the frame of the SNA Convention, the informal sector conception accepted in 15 labors Statistic Conference of ILO dated 1993 and similarly used in this Convention (OECD, 2002:161-175; DPT, 2001:19). The informal sector conception formed by applying from the practice of the developed and poorly developed countries, express economic activities that the main aim is to provide the related entity with employment and profits, economic activities that the production is less, displaying the non-differences or less differences amongst working group and capital owners and economic activity that the labor relations base not official agreements but relationship, personal and social relations (OECD, 2002:162; Güngör, 1997; Purkis, 2006; Purkis, 2007; WB, 2007). The differences of this activity from recorded and unrecorded economic activity are deliberate evasion from

state registration. Therefore, such activity subjects do not possess to the small account, because of its small measure and in some cases does not answer the minimum cases demanded for the registration of subjects. Only because of the reason of creation of value added and included to the “production boundary” in SNA Convention and the necessity of imply in GDP account has been denoted.

### 3.1.2 Hidden economy and state sector

There exist different approach in the literature in connection with the existence of the hidden economic activity and their include to hidden economy conception in the state sector. The existence of the hidden production in the direction of interest of different official by specialist researching hidden economy in post-soviet location and marketing of the major part of the existed products by employer of the company noted (*Latov and Kovalyev, 2006:53-57; Kaufmann and Kaliberda 1996:2-4; Akcha, 2007; OECD, 2002:152-153*). In manual “Measure of non-observed economy” (*Blue Book*) displayed that the bribe form hidden products as complete of official costs. It is noted that, in case the bribe is paid instead of any service, the official cost of the same service is added by received bribe and the real market price is accounted. It means, the state sector has to account less of the amount, in the case of its major service. Therefore, it was recommended to imply the problem of “production boundary” of SNA in the book (*OECD, 2002:154*). But because of the non-imply of this and other cases in SNA Convention, macroeconomic approach arose in the frame of this Convention in relation with the hidden economy and used widely, accept the thesis of non-existence of the hidden economy in state sector and their form on the frame of the private sector (*Özsoylu, 1996:13-14; Schneider and Enste, 2002:7-9*).

### 3.1.3 Hidden economy and social economy

In social economy non-marketing that expressed as the third sector, needs are repaid on the base of mutual aids by near relatives and communities, cooperatives, NGO, charities not included to the “production boundary” of SNA Convention for the form of raw material and service production (*Schneider and Enste 2002:9; Altuğ, 1999:23; Özsoylu, 1996:25-26*). In general, the German scientist stated such kind of activities related neither to official not hidden economy, but valued as transition sector amongst two sector (*Özsoylu, 1996:12*).

### 3.1.4 Hidden economy and external economies

It is also disputable include or non-include of external economies explained as positive and negative effects of one economic subject on corresponding activities of

produced and used activity to other economic subject. Comprehensively explaining the problem, the Turkish researcher Turgut Gumush stated that hidden economy conception have to cover both these valuation in wide range, by implying that market subjects create another economic value on market subjects but this economic value not registered (*Gümüş, 2000*).

However, put forward of the hidden economy conception become macroeconomic approach and causes of being registered in SNA, marketing together with the creation of value added for count of one activity as hidden economic activity, the last two terms are not seen at the conventional external economies. Therefore, external economies not related to the hidden economy.

### 3.1.5 Hidden economy and tax evasion

Tax evasion and hidden economy is different phenomena, though there is close connection with tax evasion (*Schneider and Enste, 2000:79*). Primarily, nevertheless of registered and partly registered activity groups are activity types evading from the tax, in the case of approach from the point of view of groups of hidden economic activities, it is impossible to say for the registered activity groups. Nevertheless, illegal sector of the hidden economy is involved to tax in major countries, it is impossible to relate such activities to tax evasion because of it declare to the state. In other case, it is incorrect to note that all tax evasions are hidden economic activities. Though happen of the case of tax evasion as deliberate display of expenses deducted from the profit of tax highly, declare of personal expenses as the expenses of company, none of the industrial activity is hidden from the state (*Altug, 1999:20-22; Schneider and Enste, 2002:10*).

By displaying that the similarity of the hidden economy with tax evasion economy is USA origin tendencies and as GDP is accounted on the base of the declared profits by the aim of profit tax to tax bodies, the approach is not considered faulty, but it is completely faulty for countries leading GDP account with other methods (*Yılmaz, 2006:26-27; Begg and b., 2003:283*). In one word it is impossible to similar this phenomena as the boundaries of tax legislation are different from the boundary of SNA Conventions (*OECD, 2002:12*).

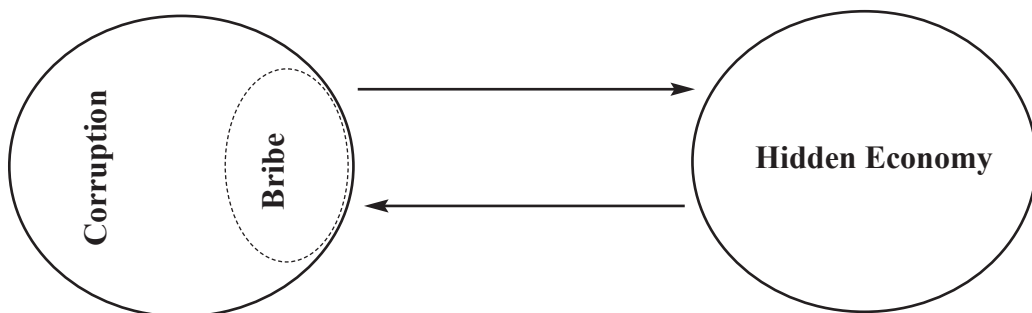
### 3.1.6 Hidden economy, corruption and bribery

One of the opportunities during researches of the hidden economy conception is the definition of the place of corruption and bribery in the field of economy. There exist researchers putting forward the include the of them to the hidden economy conception, by forwarding different causes, together with researchers denoting that hidden economy is differed economy from the bribery as in the meaning of “material

mixture received at the result of abuse of authority” and corruption in the meaning of “abuse of authority for personal advantage” (*Tanzi, 1998, s.564-65*) Nevertheless, it is coincide less in western countries, Turkish researchers I. Onder and N.Altug relate the bribe and Russian researchers Y.Latov and S.Kovalyov relate the corruption to the conception of hidden economy. In the approach, N.Altug forward the argument that the bribe is the source of income and use, but the Y.Latov and S.Kovalyov forward the corruption of unregistered income source (*Altuğ, 1994:7; Latov and Kovalyev, 2006:15, 57-78; Onder, 2001*). By noting that, corruption is not always provide the profit and that bribe profit is not the equivalent of newly created added value, some researchers, the defender of macroeconomic approach to the hidden economy, denote that they are not related to the conception of the hidden economy. It has also noted that, the relation amongst hidden economy, bribery and corruption is made by mutual cause - result as it seen in the Scheme 1.3. (*Eilat and Zinnes, 2000:12; Altug, 1999:171; Ozsoylu, 1996:12-13; Us, 2004:4*).

Ideas of the defendant of macroeconomic approach are supported by empiric researches on different economies of the World. So, in 1997 S. Johnson, D. Kaufmann and A. Shleiferin on transit economies (*Johnson and b., 1997*), in 1998 S.Johnson, D.Kaufmann and P.Zoido-Lobatonun 43 OECD, on Latin America and Post-soviet countries (*Johnson and b., 1998*) and the same authors on transit economy and OECD, in 1999 in 49 Latin Amerika (*Johnson and b., 1999*), in 2000 S.Johnson, D.Kaufmann, J.McMillan and Ch.Woodruffun on 3 eastern Europe countries (*Johnson and b., 2000*), M. Faulend on Croatia (*Faulend and V.Šošić, 2000*), in 2001 S.Akçay on 23 post-socialist countries (*Akçay, 2001*), in 2002 J.Choi and M.Thum on different countries (*Choi and Thum, 2002*), J.May, W.Pyle and P.Sommers on 69 (18 transit, 51-of them is non transit) countries (*May and b., 2002*), in 2004 M.Chulen on Albania (*Çule, 2004*), in 2005 M.Chule and M. Fulton on transit countries (*Çule and Fulton, 2005*), D.Enste on OECD and post-soviet countries (*Enste,*

### Scheme 3. Relation amongst hidden economy, corruption and bribe



Note: prepared by authors.

2005), in 2006 S. Katsios on Greece (*Katsios, 2006*), in 2006 A. Dreher and F.Schneider on 120 lower and high income countries (*Dreher and Schneider, 2006*) carried investigations revealed that there are close relation amongst corruption and hidden economy.

### 3.1.7 Hidden economy, black money and its laundering

One of the conceptions temporarily used in discussion connected with the hidden economy is “black money” and “money laundering”. In general case, by the aim of gain “profits gained at the result of the crimes displayed by legislation” and “legalizing of profits gained at the result of the crimes displayed by legislation”, definition of the black money and their laundering expressed (*World Bank and IMF, 2006:2-3; Bashak, 1998:2-3; Guner, 2003:193-194; Kaetzler, 2007:25; Ozsoylu, 1999:118-119; Altug1999:118,134-135*) as all operations directed to the include of the official economy and turn into legal economic activities with hidden economy are important from the point of view of comprehensive perceive of the conception of the hidden economy.

The principle problem on the learn of relation amongst hidden economy and black money is the problem of cover of the black money, the part of the hidden economy. Displaying such differences, Professor Osman Altug, mentioned that, the approaches to the conception of black money in the national legislation of this country is dependently modify. In some countries, black money is denoted as profits gained from illegal activity, but in other countries as profits gained from the certain crimes (*Altuğ, 1999:118*).

Because of the cause, black money cover profits formed in non-criminal sector of the hidden economy in the first approach and profits formed in the criminal sector in the second approach (*Yılmaz 2006:41*). In accordance with our researches, the widely used method of approaching is the second method of approach that the black money limit with profits formed in the criminal sector of the hidden economy (*Altuğ, 1999:118; Erdag, 2007:115; Karaal, 2008:103; Ozsoylu, 1999:118-119; Bakkal, 2007:14-18*).

Profits formed in the non-criminal sector of the hide economy are majorly expressed by “grey money” in the literature (*Altug, 1999:118; Karaal, 2008:103; MASAK ve TBB, 2003:6*). As it seen from the Scheme 2, criminal sector tries to legalize, in oppose of the non-criminal sector of the hidden economy being interested of legal of its profits and not wishing to legal (*Güner, 2003:36; Masak ve TBB, 2003:6; Başak, 1998:10*).

Legal economic subjects knowing the impossibility of legal of the executed activity, try to legal profits gained from this activity by directing it to the official sector (*even by complete paying of all taxes*). In this legalizing process called “money laun-



dering” non-criminal sector of the hidden economy is participated as span stage. Subjects of the criminal sectors could not include their profit to the official sector having the right to chose this sector as the former stage.

### 3.1.8 Hidden economy and hidden employment

Hidden employment conception (*informal, hidden, concealed, undeclared, etc.*) expressed as “non reflected part of the engaged people of the country in employment indicators” in wide meaning and “employment not factually declared to the corresponding state body according to legislation” in narrow meaning organically connect with hidden economy conception (*Chen, 2004:10; DPT, 2001:43-45; TISK, 2003; Şişman, 1999:35; Yereli and b., 2004:29-45; Altuğ 1999:7-8*). Therefore, appeared as the main factors in the form of the hidden economy like labor production factors and naturally appear as hidden employment.

In the case of vast approach to the hidden employment, it covers not only employment amongst criminal and non-criminal sectors of hidden economy, but also employment connected with personally used activities in household production for own final use and the last is important from the point of view of developed and weekly developed countries (*Bernabè, 2002:24*). The hidden employment conception in narrow meaning cover the employment of hidden economy in the non-criminal sector. That is there are discrepancy amongst approaches to the existed conceptions and macroeconomic approaches to the hidden economy conception. In the case, macroeconomic approach apply criteria of unregistering and criterion of value added to the hidden economic activity and hidden employment approaches apply only unregistered criterion. As it seen, nevertheless, employment in the hidden economy is called hidden employment, not all hidden employments are included in hidden economy.

## 4. Hidden economy conception from the point of view of the state policy

The analyzing of the existed literature states that, the explanation of the hidden economy from the point of view of the state policy is principal and disputable. It could be noted as a result of our research, though wide definition of hidden economy conception as criminal and non-criminal sectors, we consider that, by taking into account the thesis of authors F. Schneider, M. Krakowski, S. Şengul, O. Altuğ, D.Kaufmann, A. Kaliberda, S. Djankov, I. Lieberman, J. Mukherjee, T. Nenova as “legal part of hidden economy is not legalized, so it is useless” (*Krakowski, 2005:5*), “expression of hidden economy used by the aim of the covering black money economy and non-criminal activities evade from tax cover two case that differed each other from the point of view of their essence, resulted by leaving criminal and non-

criminal activity to the same case and it is nothing more than collection of apple and pear... though differences of criminal and non-criminal economies, differed from each other by their essence" (*Shengul, 1997:4-5*), "in the case the hidden economy has the specialty, it has cover all activity staying aside of the economy (*Altuğ, 1999:19*), "in post-soviet countries hidden economy appeared as sector evaded from tax other regulative measures, more than criminal sector" (*Kaufmann and Kaliberda, 1996:3*) the researched subjects is only limited by non-criminal sector of the hidden economy.

## 5. Conclusion

It was appeared from the research that, by the aim of express of the hidden economy, 30 terms used in literature. Nevertheless comment of the forwarding of any peculiarities of the economic activity, cover of this and other activity aside of the official economy, existence of tendentious in connection with the use of these terms according to research and agreement at this level, the widely spread approach by the aim of solution of these problem considered that, every researcher has the right to use every terms, in condition to display the cover of the hidden economy in his research.

There are severe differences in the approach to the hidden economy as in terms used in relation with hidden economy in literature. It was revealed in the result of research, that form of the hidden economy from different activity forms and attempt of researcher to concrete the subject of research, fit attempt of the method used by the aim of phenomena quantity valuation with the conception of hidden economy, the aim of researcher to forward this and other factors of the hidden economy and differentiation of hidden economic activity in different economic systems remains on the base of differences in thought.

According to the research, it is noted that scientific research in relation with the form of the unit approach to the hidden economy, included to the new quantity stages, that former bases appeared in 1980 and widely spread after the accept of System of National Accounts Convention, dated 1993. Macroeconomic approach being considered the widely used approach in economic literature tries to issue definition to hidden economy conception on the frame of the national expense statistics, in other words GDP accounts and it bases on corresponding conception and approach displayed in manual "Measure of non-observed economy" published by IMF, ILO, OECD, CIS STAT.

The approach accepts the hidden economic activity as factual unregistered part of the economic activity that has to be registered by the aim of account of GDP indicators according to National Accounts Convention, dated 1993. In other word, by the aim of relate of one economic activity to the hidden economy, it has to answer

three category as being productive activity that the value added is created, being market output and unregistered by statistics service (Frey, 1994:92; Özsoylu, 1996:25-26; Witte, 2008:28-29).

At the result of the research of accurate of the hidden economy and attempt of identifying it, by taking macroeconomic approach the basing, it was possible to define it “as the whole economic activities as not fitting to legislation (*legal*) or implemented by breaking some of its requirements (*criminal*), not realizing regulation and supervision function of state management bodies on it, non-lead of the quantity valuation with existed account method of the national income statistics and because of the reason not covering officially calculated GDP indicators, marketing with value added.

Finally, though the definition of the hidden economy mentioned comprehensively above, it considered that, the limit of the research subjects of researchers with non-criminal sector of the hidden economy is more expedient.

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