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Economic Security of Shadow Economy: a Paradox or a Gap in Science?¹Alexander V. Grachev²Victoria L. Ahremtseva

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Abstract. Relevance and necessity of economic security research are proved in the article. Authors have proved that shadow economy subjects have economic security. Two interrelated types of shadow economy economic security are introduced.

Keywords: shadow economy; economic security; notion of a threat.

Security has always been one of the burning issues for a state, society and for every person. However, there are still many gaps concerning this issue in discussions and literature. In our article, we don't try to enter into dispute with existing viewpoints of economic security main point and subject matter, but we will consider an issue which at the moment has not been paid too much attention to – this is the problem of the economic security of shadow economy and its subjects.

It was professor Baranov V.M. who mentioned the subjects of a shadow business existence at first time, he noticed as follows: Existence of “shadow economy” in Russia has been an issue widely discussed in national science for a long period of time. There is also a “shadow law”. But if we have shadow economy and shadow law, we can make a conclusion – there is also an economic security of shadow economy.[1]

We reckon that shadow economy economic security research is an urgent issue. We can explain why:

Firstly, this issue has not been introduced in a modern scientific literature. To be more exact, there are some works devoted to the research of protective mechanisms used by criminal business subjects, organized crime, etc. aimed at their activity concealment and penal sanctions avoidance. However, these tools are considered not within the frameworks of a system of the given subjects economic safety, but from the criminological point of view;

Secondly, pursuant to the Federal State Statistics Service's (Rosstat) data, the shadow economy volume in our country amounts to about 20-25% of gross domestic product (GDP) [2], according to the data of the Ministry of Internal Affairs of Russia – it is 40–45 % of GDP [3].

And if we imagine that at some moment our country loses this part of economic system, there no other term to call such situation except for ‘social and economic disaster’.

The matter in this case is that the society does not receive the goods and services produced by the shadow sector and which are often the only affordable, in terms of price, to the majority of Russians (and many of such goods and services will never be produced in legal sector in principle), and it's also about millions of Russian citizens who lost their job following a hypothetical liquidation of the shadow sector, and about other negative consequences;

Thirdly, shadow and legal spheres of economy (as in many other countries with capitalist market relations) are so closely interrelated nowadays in our country, that if the legal sector of the economy is protected, shadow subjects are automatically protected, as well as shadow methods and business practices are among the tools of ensuring legal activity safety.

In economics this phenomenon is called as a "free rider" issue that is characterized by the complexity of the exception shadow economy subjects from the public goods consumers, to which economic security also belongs. It means that economic safety, being indivisible at the state level, extends to the shadow economy too, which confirms that shadow economy subjects have this feature too.

Fourthly, the shadow economy structure is heterogeneous. Anyway, we uphold the view according to which the shadow economy isn't similar to the criminal one, and only includes this sector along with informal and hidden sectors. The type of the activity of shadow economy's non-criminal sphere isn't destructive: just the way of its realization – absence of registration and taxes evasion – is illegal. It is really important to understand that for many citizens of our country informal activity is the only way of existence (both as an employer, and as a source of the affordable goods and services); absence of registration of some business entities is a consequence of high administrative obstacles, complexities of registration, licensing procedures and corruption; tax evasion is a way to save a business under high tax burden.

The study and ensuring economic safety of such subjects forcedly being in "shade" is an important requirement of social and economic development of the country;

Fifthly, if for legal economy and its subjects the task of the research means working out mechanisms, tools and methods of economic safety level increase, revealing and manageability of threats, in the research of issues related to economic security of shadow economy, the task can be opposite, that is: on the basis of the revealed features of the shadow sector of economy subjects functioning, to develop the methodological tolls that would allow to liquidate the illegal economic subject, or to maximize the risk of illegal economic activity.

Such tools should be developed differentially for various sectors of shadow economy – criminal, hidden, informal.

If we consider the shadow economy as one of the main threats of economic security, then the creation of maximum dangerous conditions for shadow sector subjects is the factor of increase of economic security for legal economic system of the country.

Thus, the research of the essence and the content of shadow economy's economic security is a burning issue in terms of lack of modern scientific works in this sphere, and from the view point of practical importance of cognition of ontological and gnoseological basis of this category for the development of mechanisms and tools for protection the legal sphere of economy against shadow sector threats.

Considering the "safety" category regardless to the specific subjects, it is possible to emphasize two basic approaches to understanding of its essence:

The first one is related to the perception of safety as a condition without dangers or protection of the studied subject itself from dangers. With such an approach economic safety means security of economy from external and internal threats. In this case economy acts both as an object of threats' impact and a protection against them. So, for example, criminalization or negative political factors act as a threat causing damage to economy;

The second approach considers safety of this or that subject as an absence of dangers or a condition of protection from the dangers caused by the functioning of the studied subject. With the second approach economic security is a condition of security of the external, in relation to economy, subjects against the threats caused by the economy. For example, protection of a society against inflation, this or that good shortage, etc.

We believe that, defining the essence of economic safety of the shadow sector of economy, it is necessary to start with the dualism of the given category in which, firstly, the shadow sector acts as a source of threats and dangers, and secondly, the shadow sector is considered as an object protected from external and internal threats and dangers (see table).

Table

The main features of shadow economy economic security

Characterized feature		Economic security of shadow economy	
		Form 1	Form 2
Essence		Protection of a person, society, state against threats, caused by shadow economy functioning	Shadow economy subjects protection against external and internal threats
Object	Protected system	Economical system of the country in whole	Shadow sector of the country economical system
	Protected subject	Person, business entities (including those in shadow sector), society, state	Subjects of informal, illegal, criminal economy
Protection subjects		State subjects economic security system (law-enforcement authorities and others), private detective agencies and security firms, internal security subjects of enterprises and others	Subjects of shadow economy, corrupted officials and law enforcement officers, criminal protection racketeers etc.

Of course, one may deny the idea of existence of economic security for shadow economy. So let's propose a hypothesis that the subjects of shadow economy in terms of their status are in danger, moreover, at the same time in two forms, which we emphasized in the table 1. We will adduce potential arguments of such hypothesis:

Firstly, by committing illegal actions (administrative offenses, criminal offenses, etc.), shadow economy's subjects violate safety of other business entities. It means that conditions of form (1) of the shadow economy economic security are not followed. In this case, danger can be differentiated based on the object, the size of damage and the way of execution. Some persons, business entities or a state can be the objects of shadow economy threats. Not only legal sphere's business entities can face the danger that comes from shadow economy, but also other subjects of shadow economy. In such case conditions of the form 1 and form 2 of shadow economy economic security are simultaneously violated. The degree of danger is varied based on the damage caused during danger actualization. So, violations of some formal regulations committed by the subjects of shadow economy can be qualified as minor offences, danger from which is insignificant and Thus, violation of a part of formal norms committed by shadow economy subjects may be qualified as delicts, the danger of which is insignificant and consists not so much in direct infliction of damage to life and property, as in violation of determinancy and predictability in behavior of economic agents. This, in its turn, entails growth of transactional expenses. While violation of other norms and rules is recognized as socially dangerous acts - crimes. The danger of shadow economy effect may be both immediate (direct) - for concrete personalities, economic agents, having experienced unlawful acts (the victims of such shadow economy effect is for example deceived consumers, investors, citizens having incurred thefts and robbery, companies, seized by raiders, etc.), and mediated (potentially possible), i.e., expressed in expectations by population, economic agents and state of

unlawful acts on the part of economic subjects, which may have negative impact on development of economic relations (the results of such mediated shadow economy influence may be the following: Distrust between economic agents, low investment attractiveness of the country and high expenses for both law enforcement and safety, etc.) Secondly, state of danger of shadow economic agents lies in the fact, that violators of the established rules provided their revelation, are excluded from the number of consumers of such pure public benefit as safety, and become subjects of repressive countermeasures on the part of the state. Repressive countermeasures imply first of all sanctions, set by law and addressed to law breakers. Besides that, they include informal sanctions on the part of the society [4]. In the present case, danger may also be both actualized (real) (provided revelation of unlawful actions and determination of guilty persons) and potential (risk of probability of revelation of unlawful behaviour). In any case, one should recognize that belonging of an economic agent to the shadow sector cause dangers for it.

Based on the above arguments, it is possible to deduct absence of economic safety as a qualitative characteristic of shadow economy. However, in this case, it is possible to make similar conclusions also for legal economic system and its subjects. There are no economic systems, for which threats or dangers in general would not exist, but there are economically safe systems. In this connection, under economic safety one should understand state of protections against threats, but not only their absence. In case of presence of threat, safety supposes system's capability to: Neutralize its action, create obstacles on the way of the threat and stop its development. State of protection is characterized by the grade of actual demonstration of such capabilities. I. e., protection is a question of grade. Safety does not disappear immediately when real threat arrives, giving birth to the state of danger. For some time the system founds itself simultaneously in the state of danger and safety [5]. Thus, provided observance by state law enforcement or control bodies of the facts testifying violation of law by an economic agent, the threat of applying sanctions to it transforms from potential into actualized. However, that does not mean immediate disappearance of its safety, as, firstly, the subject may have lawful and unlawful possibilities to avoid actual punishment and, secondly, punishment may be so insignificant, that even its application will not have catastrophic impact on shadow economy subject. Safety disappears with loss of possibility and ability to eliminate and liquidate actual threat and its consequences, provided threat consequences are qualitatively changing the affected object. For example, such results of impact of threats to economic safety, radically modifying the object, for shadow economy subjects, maybe the following: Liquidation of shadow economy object, temporary termination of shadow economy subject, full or partial legalization of its activity, etc. The range of states of the systems, within the limits of which its correspondence to the applied requirements and norms is ensured and qualitative determinancy persists in presence of external or internal threats, is a safety measure or its level. Limits of the safety measure are, on the one side, full protection as inaccessibility for the threat (ideal state) and, on the other side, safety threshold< beyond the limits of which it is not possible to ensure safety [5]. With such approach, analysis of economic safety of shadow economy is fully justified and does not contradict with the above "counterarguments".

Threats for each economic system coming from shadow economy are present, and there is no sense to deny them, but danger and actuality of the above threats are in all times and in all places different. Much depends here on structure and dimensions of shadow economy, on forms and methods of realization of shadow economy, on efficiency of countermeasures against illegal economic subjects, etc. Similarly, the danger of carrying out shadow business for shadow economy subjects themselves may be different: real or potential, depending on multiple factors: On efficiency of functioning of law enforcement bodies; on efficiency of legislation determining responsibility for violators of norms and

rules; on attitude of the society towards shadow economy and to the state; on attitude of the state towards shadow economy, etc. Certainly, theoretically speaking, illegal character of shadow economy agents supposes major risk of carrying out entrepreneurial activity in comparison with law-abiding subjects, but it does not mean that the said subjects may not be safe. As, firstly, risk is only potential possibility of danger and does not mean actualization of the present danger, and, secondly, danger, even actualized, may be insignificant and not entail radical changes of the affected entity. Besides that, what is legal and what is illegal, is often a subjective idea of the state, and not always "legal per se" is actually recognized as "legal by law", and vice versa: "criminal per se" is not always recognized as such in legal acts [6]. The history of development of economy and society is full of examples, when citizens and economic agents, to ensure their safety, has not to obey to the requirements of norms and rules, established by the state, but, conversely, breach them. The brightest example is "surplus appropriation system", when the person was confronted with the alternative: To hand over surplus of bread to the state and be subject to the threat of starvation death, or to hide the surplus and be subject to penal prosecuting [7]. It is also advisably to remember paradoxical situation, which can be found in national and foreign history: when carrying out business "in the shadow" was safer than that in legal sphere (for example, the period of social-economic reformation in our country in the 90s of the last century). Thus, economic safety as characteristics of economic system is peculiar to shadow economy subjects, and it is logically not true to deny this fact.

Developing the idea, let's note that using dualistic approach, designated in Table, economic safety of shadow sector of the economy does not disappear, even in case of theoretical-hypothetical assumption on full liquidation of shadow economy. Economic safety in the said case transforms form from (2) into form (1). That is, if there is no shadow economy, there is protection of the economic system against the threats, caused by functioning of the given system. In other words, one can see reverse and logically built liason between two forms of economic safety of shadow economy, emphasized by us: lower is protection of economy shadow sector subjects, higher is protection of the economic system against shadow economy threats, and vice versa - safer are subjects in the shadow sector, higher is the grade of danger, emitted by them, for legal economic system. Such interrelation may be mediated through the index "number of shadow economy subjects", the link of which with such characteristics, as "safety of carrying out shadow economic activity" and "grade of danger of shadow economy" is direct.

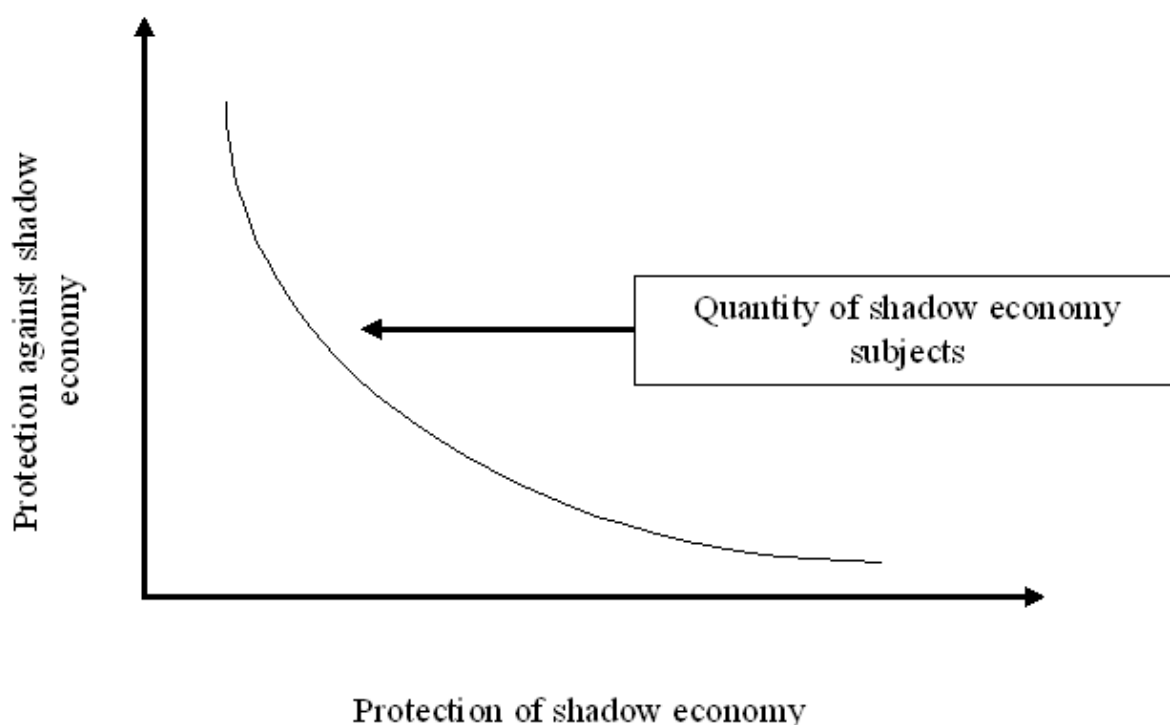


Fig. 1. Interrelation between forms of economic safety of shadow economy

At the beginning of the theses we expressed an idea on absence of modern research in the sphere of economic safety of shadow economy. In the context of the present article, it is worth specifying that only the second form of economic safety of shadow economy was not directly studied: protection of shadow economy and its subjects. Herewith, enough attention is paid now to the issues of ensuring protection of economic system against shadow economy. And, if we analyze economic safety of shadow economy as dualistic category, we get that those instruments, available at present in the scientific sphere for ensuring economic safety of legal economic system against shadow economy threats, are the factors, reducing the level of economic safety of shadow economy itself. Here we get, that the problem of economic safety of shadow economy is not so paradoxical, as it may seem at first glance.

In spite of that, economic safety of shadow economy remains a "blind-spot" in the theory of economic safety, and to fill it is an important and vital task. Solution of this task will allow not only replenishment of theoretical baggage of scientific thought, but practically develop efficient levers for increase of economic safety level for the country as a whole. Herewith, dualistic approach towards analysis of category "economic safety of shadow economy" offered by us allows simultaneous development in the following directions:

Search for possible instruments for neutralizing threats coming from shadow economy: it's not a new, but still unsolved task;

Synthesis of mechanisms, differentiated for each of shadow economy sectors, of formation and actualization of threats, aimed at reduction of their economic safety level for liquidation of criminal sector subjects and "de-shadowing" of subjects of illegal and informal sectors.

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Экономическая безопасность теневого сектора экономики: парадокс или пробел науки?

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Аннотация. В статье обосновывается наличия функции безопасности у теневой экономики. Авторы доказывают, что теневые практики хозяйствования не только оказывают деструктивное воздействие на безопасность хозяйствующих систем, но и реализуют функции по их защите. При этом в статье рассматриваются различные формы реализации теневой экономикой функций безопасности.

Ключевые слова: Теневая экономика; экономическая безопасность; функции.