

УДК 330.1  
JEL O 17, E 26, N 14

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## PRECONDITIONS AND DETERMINING CAUSES OF THE SHADOW ECONOMY IN UKRAINE

*The article analyzes the main processes that led to the high level of the economy shadowing. The historical aspects of the formation of the shadow economy in Ukraine are highlighted. The socio-economic aspects of the shadow economy of Ukraine causality are discussed. The theoretical contribution of foreign and domestic researchers on the preconditions of formation of the shadow economy in transition economies is studied. Theoretical perspective on the factors of the shadowing processes in the economy of Ukraine from the standpoint of modern scientific researches is analyzed. The paper also provides scientific vectors for further development of researches aimed at studying the causes and preconditions of the shadow economy.*

**Keywords:** shadowing processes, shadow economy, deshadowing of the economy, transformation economy, economic freedom, corruption.

**Statement of the problem.** The economic realities of today confirm the fact of spreading of the shadow sector of the Ukrainian economy beyond the threshold values. This situation makes it necessary to enhance theoretical and practical studies on the nature of the economy shadowing process, limitation of the negative manifestations of this phenomenon, the introduction of instruments of direct and indirect influence on the size of the shadow economy of Ukraine, provision of the theoretical achievements for the formation of a national concept of deshadowing the economy. The development of the effective national policy of the economy deshadowing implies an in-depth study of the causes that lead economy into the shadow, its hierarchical structure, determination of their interaction mechanisms and countermeasures to their formation.

**Analysis of recent researches and publications.** Scientists, researchers and representatives of foreign and national economic thought since the mid-late twentieth century actively work out the problems of the shadow economy existence, identification of its factors and ways of countering. Among the scientists which research the problems of the shadow economy the following should be highlighted: D. Blades, B. Dallago, S. Johnson, D. Anstey, P. Zoido-Lobaton, A. Isaksen, M. Kabir, D. Kaufmann, H. Kvist, M. Lako, P. Mauro, G. Mogensen, S. Rose-Ackerman, S. Storm, W. Tanzi, E. Feig, B. Frey, R. Hill, F. Schneider and others.

Research of this problem is reflected in scientific papers of the whole strata of Ukrainian scientists, including, in particular, T. Vasylytsiv, A. Vlasyuk, V. Geets, A. Goncharuk, M. Yermoshenko, J. Zhaliilo, V. Zhuk, T. Kovalchuk, I. Lutyi, V. Mandybura, A. Moki, S. Moshenskyy, V. Muntiy, A. Sukhorukov, Y. Pakhomov, A. Yarova and others.

Various theoretical aspects of the problem of the shadow economy, particularly in the context of causality of the shadowing processes, are studied by such Ukrainian researches as V. Bazylevych, A. Baranowski, I. Mazur, P. Nicolenko, B. Predborskyi, I. Tyvonchuk, M. Fleychuk, S. Yurii and others.

**Unsolved aspects of the problem.** At the current stage of theoretical development, the essence of the measures on countering the shadow economy of Ukraine, unfortunately, lies in fighting the consequences rather than the causes of the shadowing processes, and thus is ideologically wrong. Causality of shadow processes in the context of local realities requires in-depth study, considering the specifics of the shadow economy in Ukraine, socio-economic and historical preconditions of its formation.

**The aim of the article** lies in distinguishing causal tendencies of the shadow economy, the study of the system of interaction and interdependence between social and economic processes that "stimulate" the shadowing of the national economy.

**The main material of the study.** Shadow economy can act both as a buffer, mitigating the devastating impact of the economic crises, and as a restricting factor that 'mutes' or makes the often constructive influence of economic reforms impossible. Inability to identify and assess the actual size of the shadow economy, its motives and driving forces, sets the wrong goals and vectors for the economic reforms, thereby minimizing their usefulness.

According to calculations by Professor of the University of Linz Friedrich Schneider, which are used by the influential International Monetary Fund and the World Bank, the size of the shadow economy in Ukraine beats all European records, reaching 44% of the official GDP in 2012. In turn, The Ministry of Economic Development and Trade of Ukraine gives the figure of 34%. Even the approximate calculations lead to the conclusion that due to the highest level of the economy shadowing in Europe Ukrainian budget loses billions of dollars that are so much needed in the current economic situation.

Despite the existence of many methods of the illegal economic activities analysis, a unified definition of 'shadow economic activities' has not been formed yet. Thus, Y. Latov defines shadow economy as a set of illegal economic activities that contradict the current legislation [10, p.15-16]. The shadow economy can be interpreted as a complex socio-economic phenomenon, presented a set of uncontrolled and unregulated economic relations, both illegal and legal, but immoral, between economic agents concerning the obtainment of the excess profits by hiding income and tax evasion [2, p. 430]. F. Schneider argues that shadow economy should include the share of gross domestic product, which is not reflected in the official reports [3, p. 194]. E. de Soto defines shadow economy as a so-called 'shelter' for those, whose expenses on complying with the law while conducting the economic activities exceed the gains from achieving their goal [1, p. 27].

For a more precise description of the essential characteristics of the shadow economy, it will be appropriate to consider its separate components or types: (1) the informal sector – activities of the households that produce and consume goods and services of their own production for their own needs or needs of their family members, (2) criminal sector – manufacturing and sale of the illicit goods and services (drugs, explosives, weapons, human trafficking etc.), (3) illegal sector – illegal manufacturing and sale of the legal goods without appropriate legal documentation or company registration.

Shadow economy is not a threat to the national security if its size does not exceed 10% of the official GDP. If the share of the informal sector exceeds the specified value, it is transformed into the illegal sector that threatens the economic security of the state. Informal economy, that is also called "survival economy", "poverty economy" or "moral shadow economy", can be considered a social, rather than

a purely economic phenomenon, the main motive of which is a certain strategy aimed at the improvement of the socio-economic development level (of the individual, household, particular ethnic or social group) [6, p. 214].

In the researches of the Ukrainian economists on the problems of the shadow economy the focus was on the methodology, analysis of the legislation, providing a rationale for the countermeasures to the shadowing of the economic activities, specifics of implementing these measures in the Ukrainian realities. Consequently, we can state that there is a shift of the national economic thought focus to the practical aspects of the deshadowing processes and, at the same time, ignorance of the obvious need for a deep theoretical understanding of this phenomenon.

It should be noted that shadow economic activities, causes that give rise to it, are not just the attributes of the modern states only: with the emergence of the first state formations, i.e. with the division of the society into classes a certain contradiction arises, conflict of interests between its members and the state. Historical experience shows that while there is a state form of the public life organization and the state, in one way or another, affects the ensuring of its interests by distributing restrictions, requirements and prohibitions, the shadow economy will remain [3, p. 161]. Such economic phenomenon is characteristic for all countries regardless of the level and model of the economic development.

Following this idea, Y. Latov notes that the shadow economy development is, on the one hand, a reaction to the fact of government regulation itself. Regulation, in turn, is impossible without restrictions and the unreasonable restrictions provoke their violation, especially if it is profitable. A considerable number of the shadow economic activities' types (e.g., tax evasion) is explained by a number of defects in government regulation such as management bureaucracy, excessive taxes etc. [11, p. 17].

In other words, we can state that the root cause of the shadow economy formation is existing requirements and restrictions imposed by the state to economic agents. In turn, the violation of these requirements, restrictions and prohibitions is a base for the emergence and existence of any kind of the shadow economic activities. The more intensive are these requirements and restrictions, the greater is the space of the potential opportunities for the effective functioning of the shadow economy. This statement determines the significance of distinguishing and structuring of all types of government restrictions and prohibitions in the context of studying the causality of the shadowing processes.

Restriction of economic activity by the state, the requirements and prohibitions imposed by it, significantly differ in their target setting, functions, tasks and, ultimately, socio-economic effects. Some researchers of the shadow economy, in particular, O. Turchynov, offer to nominally divide the whole set of governmental prohibitions, restrictions and requirements that regulate economic activity into three groups.

The first group includes positive restrictions and requirements. The aim of these restrictions lies in maintaining and developing the socio-economic foundations of the society. This group of restrictions includes social memory, experience in the moral, ethical and religious settings of the public life organization. In the current restrictions and prohibitions, this function is realized through the following tasks:

- protection and preservation of life and health of the society members;
- protection and preservation of the property, material and cultural values of the society;

- protection and preservation of the moral and ethical foundations of the society;
- protection and transfer of the social memory of the society, socio-economic information, mechanisms of acquiring new knowledge and education.

This group includes those requirements and restrictions that contain basic generally accepted standards of moral and ethical behavior of the society members, are not reflected in the legal regulations, and, in turn, comprise a distinctive informal (shadow) system of the normative values that are safeguarded and cultivated as a traditional system of the customary law in the social and religious institutions. The essence of the shadowing causes, generated by this group of restrictions, is in the lack of conviction in the members of the society in the need of obeying the prevailing moral and ethical standards.

The second group of the state restrictions and requirements includes those limitations, the purpose of which lies in maintaining and developing the state itself, i.e. providing the conditions for its functioning. The implementation of this function involves performing the following tasks:

- facilitation of the state activities with material, financial and human resources;
- protection of the state integrity and interests;
- creation of the mechanisms and systems of the state socio-economic processes management;
- provision of the conditions for the social, political and economic stability and development of the society.

The basis of this group is formed by the requirements, restrictions and prohibitions associated with the compulsory nature of income taxation, labor and military conscription, prohibition of activities where there is a state monopoly – printing of money, distribution of the military technology, the performance of the military and law enforcement functions, and so on; regulation of the foreign economic activities, requirements of the mandatory participation in the implementation of state social programs etc.. As a result, failure to comply with this group of restrictions and prohibitions causes the confrontation with the state governance and the shadowing of these activities constitutes a significant segment of the modern shadow economy.

According to O. Turchynov, among the main causes of the shadowing that are generated by this group of restrictions are:

- inadequate execution of its functions and obligations by the state;
- complexity, unsystematic and contradictory nature of the legislation that regulates economic activity;
- lack of public control over the state apparatus activities;
- low efficiency of public administration, inaccuracy and futility of the programs implemented by the state;
- the economic benefits of violating regulations and restrictions etc.

The structure of this group may include causes from the first group of the state restrictions.

The third group, according to O. Turchynov, includes excessive or negative state restrictions and requirements. Selfishness of the ruling elite pushes it to carry out the regulation of economic activities in favor of their own interests that essentially dominate the public interests. The outcome of this type of regulation is the dominance of GDP that is redistributed according to the interests of oligarchic circles and the higher strata of the ruling bureaucracy. This group of requirements sets the aim in executing the following tasks:

- creation of the GDP redistribution mechanisms in favor of the ruling elite, whose interests come into conflict with the interests of society;

- protection and expansion of the elite groups' privileged position boundaries;
- protection and preservation of the ruling elite authority and its control over the society.

The implementation of these tasks is carried out by the available to the elite economy levers of economic impact such as increasing business entities' tax burden and the excessive regulation of their activities, using state budget resources for selfish purposes of the ruling elite, legislative, e.g. constitutional fixing of the elite groups' privileges and authorities. Moreover, as the author of the research notes, to ensure their privileged economic and political positions the representatives of the ruling elite turn to informal, i.e. shadow methods: creation of the artificial constraints for the economic and political activities of the political opposition groups and usage of the state authority for their persecution, creation of the favorable economic conditions and lobbying of the economic interests for the protected economic subjects, loyal to the government etc. This list of the destructive faults of the state apparatus of economic processes regulation gives the average businessman a moral right to perform economic activity within the informal sector. The set of requirements and restrictions presented by this group is particularly common in transitional economies where the lack of transparency in the political process is observed, the dialogue between the government and the people is missing and where a large number of oligarchic groups, whose interests are heavily lobbied by the ruling elite, is present.

The main causes of the economy shadowing that are generated by this group of restrictions contain both components of the previous two groups, and the following:

- economic opposition to the ruling regime;
- compensatory reaction to the force coercion;
- competition between different economic groups for the political and economic domination;
- economic necessity [9, p. 21-31].

The presented typology of determining causes of the economy shadowing with regards to the restrictions and requirements set by the state, highlights the common factors that in one way or another are present in the economies of most countries and form a valuable framework for further studies of the shadowing processes causality.

There is a perception among the foreign shadow economy experts that the main reason for the existence of the shadow economy in the developed world is a violation of the current legislation, thereby confirming the development of the crime and punishment economics as a sector of economics. In the developed countries the criminal part of the shadow economy takes a primary place among the other segments of the shadow economy, such as informal and hidden economy.

While explaining the reasons of the shadow economy growth in the developed countries, experts talk about the high tax and governmental social expenditures that are directly related to the increasing state regulation of the economy. According to the fact that tax rates affect the level of the population employment in terms of its involvement in the shadow economy, it remains a major problem. That is, the higher the difference between the total cost of labor in the formal economy and the net income of the employee, the greater is the incentive to refrain from paying this difference and work in the shadow sector. That is why tax and social systems' reforms are carried out in the developed countries in order to destroy such a pressure and create more efficient conditions for the employment in the formal economy compared to the shadow sector.

According to the research provided by F. Schneider there are several determinants that cause the economy shadowing process:

1) Tax and social security contribution burdens: the distortion of the overall tax burden affects labor-leisure choices and may stimulate labor supply in the shadow economy. The bigger the difference between the total labor cost in the official economy and the after-tax earnings (from employment), the greater is the incentive to reduce the tax wedge and work in the shadow economy. This tax wedge depends on the social security burden/payments and the overall tax burden, making them the key factors of the shadow economy existence.

2) Quality of institutions: the quality of public institutions is another key factor of the development of the informal sector. The efficient and discretionary application of the tax code and regulations by the government plays a crucial role in the decision of conducting undeclared work, even more important than the actual burden of taxes and regulations. In particular, a bureaucracy with highly corrupt government officials seems to be associated with the larger unofficial activity, while a good rule of law by securing property rights and contract enforceability increases the benefits of being formal. A certain level of taxation, mostly spent in productive public services, characterizes efficient policies. In fact, the production in the formal sector benefits from a higher provision of the productive public services and is negatively affected by taxation, while the shadow economy reacts in the opposite way. An informal sector developing as a consequence of the failure of political institutions in promoting an efficient market economy, and entrepreneurs going underground, as there is an inefficient public goods provision, may be reduced if institutions can be strengthened and fiscal policy is conducted closer to the median voter's preferences.

3) Regulations, for example labor market regulations or trade barriers, are another important factor that reduces the freedom (of choice) for individuals in the official economy. They lead to a substantial increase in labor costs in the official economy and thus provide another incentive to work in the shadow economy: countries that are more heavily regulated tend to have a higher share of the unofficial economy in total GDP.

4) Public sector services: an increase of the shadow economy may lead to lower state revenues, which, in turn, reduce the quality and quantity of publicly provided goods and services. Ultimately, this may lead to increasing tax rates for firms and individuals, although the deterioration in the quality of the public goods (such as the public infrastructure) and of the administration continues. The consequence is an even stronger incentive to participate in the shadow economy. Countries with higher tax revenues achieved by lower tax rates, fewer laws and regulations, a better rule of law and lower corruption levels, should thus have smaller shadow economies.

5) Tax morale: the efficiency of the public sector also has an indirect effect on the size of the shadow economy because it affects tax morale. Tax compliance is driven by a psychological tax contract that entails rights and obligations from taxpayers and citizens on the one hand, but also from the state and its tax authorities on the other hand. Taxpayers are more heavily inclined to pay their taxes honestly if they get valuable public services in exchange. However, taxpayers are honest even in cases when the benefit principle of taxation does not hold, i.e. for redistributive policies, if such political decisions follow fair procedures. The treatment of taxpayers by the tax authority also plays a role. If taxpayers are treated like partners in a tax contract instead of subordinates in a hierarchical relation-

ship, taxpayers will stick to their obligations of the psychological tax contract more easily. Hence, better tax morale and stronger social norms may reduce the probability of individuals to conduct undeclared work.

6) Deterrence: despite the strong focus on deterrence in policies fighting the shadow economy and the unambiguous insights of the traditional economic theory of tax non-compliance, surprisingly little is known about the effects of deterrence from empirical studies. This is due to the fact that data on the legal background and the frequency of audits are not available on an international basis; even for the OECD countries such data is difficult to collect. Either is the legal background quite complicated in differentiating fines and punishment according to the severity of the offense and the true income of the non-complier, or tax authorities do not reveal how intensively auditing is taking place. The little empirical survey evidence available demonstrates that fines and punishment do not exert a negative influence on the shadow economy, while the subjectively perceived risk of detection does. However, the results are often weak and Granger causality tests show that the size of the shadow economy can impact deterrence instead of deterrence reducing the shadow economy [2, p. 5-7].

Further analysis and determination of the current trends in the shadowing of the Ukrainian economy is impossible without an analysis of its historical preconditions and justification of the shadowing processes causality in transformation economies. It seems reasonable to identify the causes of the shadow economy existence in the Soviet period and provide the theoretical justification of the mechanism of its self-organization and transformation in the present conditions that have developed as a result of the inherited and new forms of manifestation.

The development of the shadow economy in Ukraine and empirical studies of its development over the last half of the century passed the following two phases:

1) until the early 1990's – shadow economic relations as a product of the Soviet command economy system:

2) since the early 1990's to the present day – shadow economic relations generated by the market reforms as a phenomenon of the Ukrainian transition economy.

Shadow economy is almost always associated with tax evasion. However, in Soviet times, the exit in the "shadow" was caused not by the high tax burdens, but rather ideological and practical prohibitions. Thus, the Soviet shadow economy participants worked to fill a market shortage.

Leading specialists of the Institute of Economics of the Academy of Sciences of the USSR provided us with an example of the scientific argumentation of the causes of the shadow economy existence in the Soviet Union and the crisis of the socialistic way of conducting economic activities: "The basis for the shadow economy spreading was a constant increasing of nationalization, uniformity, inflexibility of the system of economic relations, their increasing disruption from the needs and interests of the person... There are two forces that have created such a monotony of the social relations – a rigid administrative centralization and total nationalization... The highly centralized economy was unable to not only mobilize and include all available resources to the economic turnover, but generally cover all areas of the production development and economic relations. Under these conditions not only the base, but the direct inevitability for the appearance of the private sector of the economy within the Soviet Union emerged. Forms and social structure of this sector, the share of illegal economic formations in it were determined by the state's attitude to it. Obviously, this sector was incompatible with the fully centralized formal economic system. The latter should have not only to limit, but also to reject non-state forms of economic activity that was the main

reason for the emergence and dissemination of the shadow economy" [7, p. 165-166].

The shadow economy of the Soviet times was characterized by specific features, namely, it:

1) softened the existing shortage of economic resources;

2) balanced the potential inflation of a centralized economy. With the rigidly controlled prices for goods and services and their deficit conditions were created for concentration of the unsecured money in the hands of the population. However, there was the "black" market, where prices were free. At the same time, the access to the goods and services involved additional costs in the form of bribes. A balanced distribution of goods and services on the one hand and money on the other took place thanks to this.

3) created opportunities for the realization of the population's relevant skills, income differentiation in the conditions of social equality;

4) inhibited social explosion.

At the same time, the shadow economy of the Soviet model performed several important functions, including:

- economic – compensation of the official Soviet economy shortcomings. Most of the shadow operations were carried out to solve problem situations, in which Soviet enterprises found themselves, thereby preventing such production from stopping, and, as a result, retaining jobs. In addition, informal economy made it possible to implement innovations which were not sanctioned by the political elite, into the obsolete technologies and thus making it possible to obtain income that was higher than guaranteed by the official economy.

- social – providing a social niche for the enterprising individuals who were unable to realize themselves in the official structures. The reason for this situation was low motivation for self-realization and low possibility of receiving adequate compensation for their work.

On the basis of a research by a group of scientists V. Predborskyi formulated a set of factors that caused the shadowing processes in the USSR economy with regards to the dominance of the command-administrative system:

1) chronic imbalance of supply and demand, a massive deficit of goods and services; 2) an abrupt increase in the money supply in the conditions of trade deficit and launch of the large-scale mechanisms for the redistribution of immense funds; 3) the imperfection of the economic mechanism, its lack of mobility and flexibility; 4) prohibition of the non-state forms of economic activity, self-employment and commercial activities that are based on private property; 5) the inadequacy and inefficiency of the legal regulation of economic activity that create significant opportunities for illegal and criminal activities or provoke them; 6) the general ineffectiveness of the official economic mechanism, its inability to provide incentives and positive motivation for the individual labor activity of the citizens and economic activity of the main production units of the economy – the enterprises [7, p. 166].

With the obtainment of independence, the tendencies in the shadow economy of Ukraine gained new forms. Instead of the expected improvement, an opposite tendency of deepening of the inherited shadow economy forms and their evolution in the market conditions took place. According to the Nobel laureate D. North, who devoted several works to the analysis of transitional economies of the former Soviet Union countries, the economy and finances of countries which have accepted formal norms and rules of the game that were developed in other economic and financial systems were bound to fail from the very beginning. Moreover, the so-called "shock therapy" and hasty, ill-conceived privatization, have destroyed not only the old

(command) economic system, but also the main motivational incentives for the development, led to the unprecedented corruption in all echelons of the government and criminalization of the society. The most acute contradictions manifested themselves in the institutions of the finance and credit sphere, causing high inflation and galloping devaluation of the national currencies, imbalances in the state budgets and balances of payments that were accompanied by the collapse of investment programs and a high level of the national economy shadowing.

Among the major reasons, both objective and subjective, which contributed to a large-scale proliferation of the Ukrainian shadow economy at the turn of the economic systems, V. Mandybura names the two main ones:

"Firstly, objectively, according to the theory of transformation, the collapse of any system in the early stages of the new one's development can facilitate significant multiplication of the main disadvantages and drawbacks that were immanent to a system that disintegrated. That is why the actual preservation in Ukraine of the most characteristic parameters of the economic mechanism based on the uncontrolled state property and state monopoly, accompanied by a dramatic weakening and, in the future, by the complete elimination of the directive principle of planning and distribution of material, financial and human resources, greatly exacerbated the shortcomings of the old economic system, as it required immense growth of the "shadow lubricant" of the old hypertrophied decision-making mechanisms, which began to operate on a "new", so to speak, "market" basis.

Secondly, subjectively, although the old power structures of the former state broke, the social groups that had been structured in the past and personified them, did not. Consequently, there were people left who were a part of these structures and who had not only retained close ties they have established between themselves, but until now continue to maintain in inviolability precisely the specific relationships that are still built on the principles and relations of the corporate collective responsibility, fraternity, patronage, nepotism and cronyism.

Both old and the new bureaucracy, genetically born by the former, were in the epicenter of market reforms in the transformation period. Moreover, this unique 'family' community became a leading subject of realizing the 'plans' of transforming social and public policy of market reformation [5, p. 30-31]".

Therefore, the specificity of the shadowing processes in the transformational period showed itself in:

- the peculiarities of its functioning in the previous command-administrative system conditions with its systematic defects: deficit, potential inflation, ideology, etc.;
- further evolution of the acquired forms of the shadow economy;
- the impact of the globalizational processes on national mentality of the countries, that creates new specific forms of the shadow economy manifestation;
- excessive increase in the level of government corruption;
- rapid development of the criminal sector and its gradual integration into the state apparatus.

When focusing on the specifics of the Ukrainian economy shadowing, we should note that the main traditionally considered cause of the national economies' shadowing is the excessive tax burden, while tax policy systematic defects are virtually the most important factor of the shadowing processes. As stated by D. Burkal'tseva, despite the adoption of the Tax Code of Ukraine on December 2nd,

2010 and its enactment on January 1st, 2011, the tax system is actually still focused on maximizing budget revenues and does not take into account the possible negative consequences of excessive fiscal pressure on the subjects of economic activities and the citizens. Existing tax burden and inefficient tax administration lead to the situation when the state's aspirations on legalizing the shadow capital and attracting them to the real economy do not receive effective embodiment [4, p. 216].

In support of this statement, it should be noted that, referring to the classics of the economic thought, one of the four principles of taxation provided by Adam Smith does not find its realization in the fiscal realities of Ukraine. According to Smith, taxes shall be charged at the time and in a way, most convenient for the payer, i.e. it should ease the fulfillment of the economic agents' obligations as much as possible. Instead, according to the World Bank calculations, the average entrepreneur in Ukraine spends about 491 hours a year to carry out their tax obligations. In Moldova this figure is smaller by more than a half – 220 hours, in Russia – 177 hours and in Switzerland – 63 hours.

Contrary to this statement, Ukrainian researchers Y. Prylypko and Y. Harazishvili state, that this idea, in spite of being dominant, does not fully reflect the Ukrainian economic realities. For example, in Ukraine the overall tax burden on the enterprise amounts to 55.5%, which is quite high. However, France has the largest figure among the European countries – 65.8%. In Austria it is 55.5%, in Sweden – 54.6%. However, the scale of the shadow economy in OECD countries is between 10% and 25% [8, p. 15]. It is clear that taxation is not the primary cause. In addition, reduction of the tax burden may also not necessarily lead to the reduction of the shadow sector.

According to the analytical estimations by M. Fleychuk, based on the model calculations, the most significant determinants of the shadow economy in Ukraine are:

- 1) contradictions and duplications of the legislative and regulatory framework in specific sectors that reflect a low level of economic freedom indexes' structural components (Figure 1) and the growth of the shadow economy;
- 2) inefficiency of the institutional and organizational mechanisms of the anti-corruption legislation. According to the international non-governmental organization "Transparency International" in 2012 the Corruption Perceptions Index in Ukraine reached 26 points, that corresponds to the 144th place among 174 countries, sharing it with Bangladesh, Cameroon, Central African Republic, Congo Republic and Syria [12].
- 3) the ineffectiveness of the judicial and law enforcement system functioning, which affects the low estimates of judicial independence and confidence in the law enforcement authorities by the experts of the World Economic Forum;
- 4) inefficient tax administration, that is confirmed by the rating assessments of the tax administration effectiveness. According to the World Bank experts, despite the introduction of the Tax Code tax administration system remains complicated due to a high number of tax benefits;
- 5) a high crime rate. Established criminal connections form the conditions for the spread of the economic crimes and other illegal activities;
- 6) lack of historical practice of adhering to the norms and moral standards of the law-abiding behavior while carrying out economic activities and the payment of taxes by the businesses and individuals [8, p. 16-18].

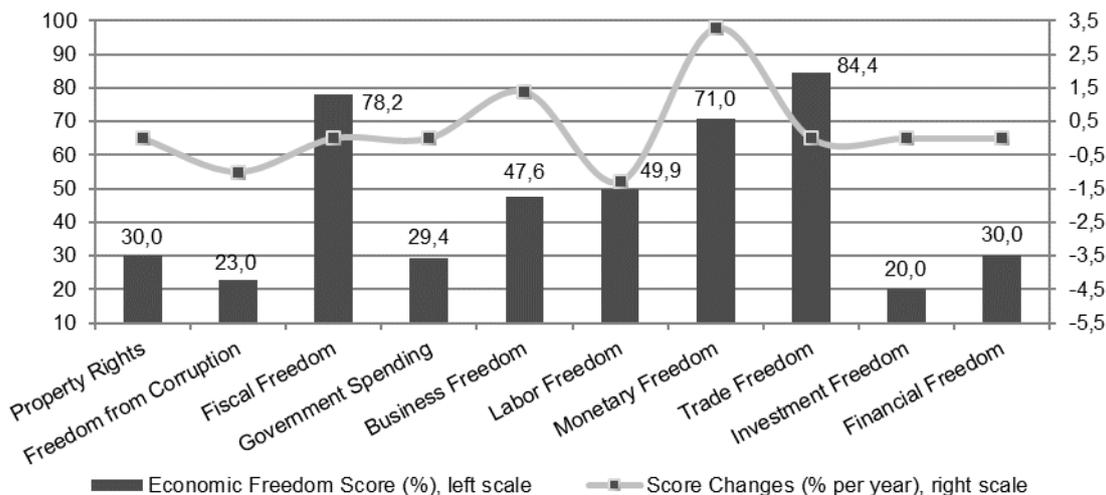


Figure 1. Index of economic freedom

\* Source: The Heritage Foundation [13].

Consequently, as the authors of the research argue, the high level of the economy shadowing in Ukraine is caused by unfavorable institutional environment for doing business.

Specific attention should be given to the results of the studies dedicated to the causation of the modern shadow economy, conducted by the legal scholars who have made significant contributions to the development of the deshadowing processes research. For instance, V. Popovych determines the following causes of the modern socio-economic relations' shadowing in Ukraine:

- shadow economic and legal policy of the initiators and performers of the economic reforms aimed at the primary accumulation of the private capital in any way in order to form a private owner – the pillar of the socio-economic transformations;
- spontaneous transition to the market relations saturated with numerous risks (entrepreneurial, credit, currency and others, namely, criminogenic) without adequate organizational and legal support;
- further implementation of the market relations, financial and economic instruments was performed without their proper adaptation to the economic and legal environment of the country;
- weak scientific, and accordingly organizational and legal framework of the economic transformations, which leads to failures in credit, monetary, fiscal, foreign trade and other directions of the state's economic policy;
- weak scientific and theoretical basis for developing preventive mechanisms of organizational and legal facilitation of the deshadowing infrastructure in the new economic conditions [6, p. 179-180].

**Conclusions.** Thus, the main cause of the shadowing of the Ukrainian economic system is not just the violation of the current legislation, but rather its imperfection, mismatch to the realities of life, known as the gaps in the legislation. While in the Soviet times the shadowing was caused mostly not by the tax burden, but because of the bureaucratic and ideological prohibitions, in transformation conditions the cause of the shadow economy spreading is the imperfection of the institutional environment, namely the lack of normal "rules of the game" for entrepreneurs due to the lobbying of the corporate interests of businesses in the law-making, as well as an overall legal nihilism.

Results of the conducted research are definitely valuable from the viewpoint of their possible impact, creation of the

necessary conditions for the further development of the deshadowing theory. However, it is clear that this set of reasons is only an intermediate link in the causal series of tendencies associated with the more fundamental layers of social relations. The given causal set itself needs to answer the question about the causes of its origin and development.

Further development of the problem of researching the shadow socio-economic relations in Ukraine should be based on the usage of the causality theory apparatus to analyze historical model of the Ukrainian society and the laws of its development in the modern conditions, which have their own specificity and are largely different from the known models of the European societies.

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Надійшла до редакції 17.09.13

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### ПЕРЕДУМОВИ ТА ЧИННИКИ ФОРМУВАННЯ ТІНЬОВОГО СЕКТОРУ ЕКОНОМІКИ УКРАЇНИ

*В статті розглядаються соціально-економічні аспекти причинності мінізації національної економіки. Досліджено теоретичний внесок зарубіжних та вітчизняних вчених щодо передумов становлення тіньового сектору економіки в трансформаційних економічних системах. Проаналізовано теоретичний погляд на чинники мінізаційних процесів в економіці України з точки зору сучасних наукових досліджень.*

*Ключові слова: мінізаційні процеси, тіньова економіка, протидія мінізації, трансформаційна економіка, економічна свобода, корупція.*

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### ПРЕДПОСЫЛКИ И ФАКТОРЫ ФОРМИРОВАНИЯ ТЕНЕВОГО СЕКТОРА ЭКОНОМИКИ УКРАИНЫ

*В статье рассматриваются социально-экономические аспекты причинности тенезации национальной экономики. Исследован теоретический вклад зарубежных и отечественных ученых относительно предпосылок становления теневого сектора экономики в трансформационных экономических системах. Проанализированы теоретические взгляды на факторы тенезационных процессов в экономике Украины с точки зрения современных научных исследований.*

*Ключевые слова: тенезационные процессы, теневая экономика, противодействие тенезации, трансформационная экономика, экономическая свобода, коррупция.*

УДК 338:658.012.23  
JEL I24, M19

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### THE STRATEGIC MANAGEMENT TOOLS FOR HIGHER EDUCATION INSTITUTIONS

*The strategic management tools have been investigated in the article. Their definition and classification has been improved. The strategic management tools for use in higher education institutions have been singled out in the study according to the stages of strategic management.*

*Keywords: Higher education institution, competitiveness, strategic management tool.*

"The most important area for developing new concepts, methods, and practices will be in the management of society's knowledge resources – specifically, education and health care, both of which are today overadministered and undermanaged."  
Peter Drucker, 1997

**Problem statement.** Higher education organizations around the world have always faced environmental changes. However, in the past decade altered societal expectations, new public policies, and technological innovations have created an unprecedented set of challenges for universities. Although the borders of universities have opened in new ways for their services and products, they have been the subject of increased public scrutiny from diverse constituencies. While under such scrutiny, higher education institutions have been simultaneously identified for their potential as a key catalyst in the development of new knowledge organizations and the "digital" economy, especially in the Western world.

In recent years, the development of higher education is closely related to its restructuring. Changes in the structure of the education system, development of market relations in education, increased competition in the education market and many other factors have a significant impact on the conditions of higher education institutions (hereinafter referred to as HEIs) activity. The HEIs external environment has undergone radical changes, which is characterized by a high level of uncertainty and risk. Significant changes have occurred in the management of the higher education system, regulation of its state, public schools funding, and formation of private sector of higher education. The majority of the universities were involved in the market-oriented activities based on the competition for public resources and peoples' money studying on a paid basis. These changes cannot be ignored; therefore, HEIs are forced to apply new methods of strategic management. To achieve real change of the HEIs' internal management, more specifically to move from the operational management to the strategic

one, it is necessary to conduct a quality planning of development, implementations, evaluation and other key aspects of strategic management, that are all interrelated, as well as to form an effective management mechanism.

**Analysis of the latest studies and publications.** The issue of higher education institutions' management has been investigated in the works of Lukashenko, Maysakov, Shlykov, Arzhenovsky, Balyhin, Bailey, Gorelik, Johnston, Yehorshyn, Zhiltsova, Kachalova, Klyuyeva, Knyazev, Korotkov, Kuz'minov, Morgan, Skarzhinsky and others.

The problem of strategic analysis tools classification has been studied by such domestic and foreign scholars as Gordienko, Didkovska, Ignatiev, Osovska, Persia-Verhunencko, Redchenko, Saienko, Fishchuk, Yashkina and others. Barancheyeva, Demyanova, Pastukhova, Skibitsky etc. have attempted to systematize the methods, models and techniques of strategic management.

Most of the abovementioned scientists did not set the classification of strategic analysis tools as the main goal, which is why some of them made their grouping without distinguishing criteria of classification.

**Research objective.** To reveal the essence of strategic management and its tools. To single out the strategic management tools, which can be used for higher education institution according to the strategic management stages.

**Main results of the research.** Nowadays the world economy is changing rapidly. Because of the growing competitiveness, technological change and globalization, organizations have to adapt quickly to fast changing market conditions. They have to become more flexible and adaptable in order to be more competitive. Otherwise, they will collide with difficulties and problems, and in the long run