



## CAUSES OF THE HIDDEN ECONOMY AND ITS BROAD IMPLICATIONS FOR MACROECONOMIC STABILITY

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**Abstract:** The field of macroeconomics is built on the foundation of understanding the complex web of economic activity within a nation. However, lurking beneath the surface is a mysterious area known as the "hidden economy" – a dynamic and challenging space that challenges traditional economic analysis. This article explores the concept of the shadow economy, exploring its characteristics, causes, and far-reaching implications for macroeconomic stability.

**Key words:** Features of the hidden economy, causes of the hidden economy, causes of the hidden economy, implications for the macro economy, addressing the hidden economy.

The hidden economy is initially viewed as a subsidiary sector in terms of its contribution to the general economy. However, it came into focus with the publication of Peter Guttman. Estimates of the size of the shadow economy for the US economy (ie \$200 billion in 1976) in the context of achieving the goal of inclusive growth and development. The informal economy is known by different names in different regions of the world. For example, the Swedes and Russians call it "Hidden economy", the British call it "Fiddle", the Japanese recognize it. As "hidden income", the French consider it "Travail au noir", and the Italians consider it "Lavoro". It is analyzed as "hidden economy" or "informal economy".

The secret economy is the concealment of economic activity from society and others in the absence of state control and reporting, at the same time, the economy is an unobservable and informal type of activity. possible society.

The hidden economy is a part of the economy of a country that has not been studied or observed on order, and often the development of the economy is negatively affected.

The activity of the hidden economy leads to various consequences, among which there are positive and negative aspects.

Positive effects include:

1. Creation of new jobs in the underground market, i.e. population growth and employment;
2. The national market includes, for example, goods that are prohibited or restricted due to sanctions. Thus, consumer demand improves due to the hidden economy.

However, the negative consequences for both the individual and the state are much greater than the positive, they are: (uneven redistribution of income in favor of a small privileged group of the population, thus creating an antisocial environment that leads to a decrease in social welfare; an increase in the budget deficit; among them, the wrong population the formation of a sense of well-being; the deterioration of the criminal situation in the country; the destruction of the centralized system; the decline of moral values) and others.



The measures taken to reduce the share of the underground economy in the Republic of Uzbekistan consist of the following sections:

1. Experiences of foreign countries were studied. As a result of the study, the negative impact of this economy on these countries was determined. Methods The methods of assessing the hidden economy, which are widely used in foreign countries, are studied and divided into two categories: direct and indirect. Direct methods are based on direct observations and tax audits, while indirect methods are based on transaction, currency-based demand method, energy consumption method, difference between costs and earnings statistics, the difference between the official and actual labor force, and the MIMIC model.

2. Implemented measures. Projects such as the strategy for reducing the share of the hidden economy in 2021-2025 and the methodology for assessing the share of the large economy "hidden economy" (based on the MIMIC model) are being developed in cooperation with World Bank experts.

3. Measures planned to be implemented by the Ministry of Economy

Development. A system of non-cash account books planned to be developed together with ministries and agencies, simplifying the taxation system and ensuring the equality of the tax burden, improving and liberalizing the competitive environment, ensuring market and budget transparency, and increasing citizens' awareness.

In general, extensive work is being done in our country to prevent the negative consequences of the underground economy. I think the actions are wise and will have a positive impact in the near future.

Several factors contribute to the existence and growth of the underground economy:

**Tax evasion** : individuals and businesses may engage in the shadow economy to avoid taxes. By conducting off-the-record transactions, they can avoid paying income, sales and other taxes and thus increase their disposable income.

**Regulatory avoidance** : the shadow economy often thrives in an environment with strict regulations, bureaucratic hurdles, or complex licensing procedures. Informal enterprises can operate to overcome these barriers.

**Informal labor market** : Unreported work, in which workers are paid in cash without formal contracts and benefits, is an important component of the underground economy . This includes jobs in industries such as domestic work, construction and small-scale manufacturing.

**Lack of access to formal markets** : in some cases, individuals and businesses may be excluded from formal markets for various reasons, such as lack of credit history or legal documents. As a result, they turn to informal channels for economic activity.

**Cultural and social factors** : Cultural attitudes and social norms can also play a role in the prevalence of the shadow economy. In some societies, informal transactions are deeply embedded, and participants may see them as a way to cope with economic problems.

Characteristics of the hidden economy:

**Informal transactions** : At the heart of the shadow economy are transactions that occur outside the purview of regulatory authorities. These exchanges often involve cash transactions and leave no paper trail for tax authorities.

**Unreported work** : A significant part of the underground economy consists of undeclared work, where workers work without formal contracts or legal recognition.

Industries such as home work, small manufacturing and construction often contribute to this phenomenon.

**Avoidance of regulation** : strict regulations and bureaucratic barriers often lead economic markets to the shadow economy, seeking to bypass the complexities of formal markets and regulatory requirements.

Implications for Macroeconomics:

**Loss of revenue** : The shadow economy poses a major challenge to governments by depriving them of potential tax revenue. This loss could hamper public finances and limit the government's ability to fund critical services and infrastructure.

**Distorted economic data** : The spread of the underground economy distorts official economic statistics, leading to inaccurate estimates of a country's economic health, employment levels, and overall productivity.

**Lack of social protection** : informal workers often lack access to social security benefits and other protections, contributing to increased income inequality and reduced social cohesion.

**Violated rule of law** : The shadow economy can erode the foundations of the rule of law, create an environment of inconsistency and lead to increased corruption.

Understanding and addressing the shadow economy is critical to maintaining the integrity of macroeconomic analyzes and ensuring sustainable economic development. As nations strive for transparency, equity, and stability, unlocking the secrets of the shadow economy is an important step toward achieving these fundamental goals.

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