

Monitoring shadow economy in Bulgaria: methodological experience and 2016 basic trends

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Shadow economy

- Shadow economy is considered to be an universal characteristic of postmodern societies (Castells and Portes 1989, North, 1990; De Soto Hernando, 2000; Feige, 1990; North, 2010; Williams and Renooy, 2009; Schneider and Williams, 2013)
- Economic practices done “in the shade” are equally a distinctive feature of developed economies, of developing economies and of the economies of the post-socialist countries. Informality is not only part of modern everyday life, it is a universal characteristic of contemporary economies (Grossman, 1989; Schneider, 2002).
- Together with the growth of the shadow economy there is a rising openly articulated need for social science skills and modern research techniques for ascertaining the exact parameters of shadow economic practices, and, hence, a need for greater capacity on the part of societies to develop adequate approaches to the task of reducing shadow economic activities (Stoyanov, Kirova, Kirova, 1999; Statev, 2002; Chengelova, 2013)

Shadow economy monitoring in Bulgaria

- In Bulgaria in studying shadow economic practices, basically two methodological approaches have been applied:
1) statistical and 2) sociological
- In Bulgaria it has been accumulated much wider and successful research experience in direct measurement of shadow economy through Social Survey Research

According to sociological society in Bulgaria, in studying shadow economy two Bulgarian research centers have conducted surveys which meet all requirements of modern Sociology:

- First, it's a **Center for the Study of Democracy (CSD)** which established a solid research tradition (since 2002 to present days) in studying activities-breaking-the-formal-rules. Annually, Index of Hidden economy is calculated.
- Second, it's **Bulgarian Industrial Capital Association (BICA)** which has developed a multi-stages research methodology for studying and monitoring informal economic activities. BICA has developed multidimensional long-term national strategy for measurement, restriction and prevention of informal economy in Bulgaria. Social Survey Research methodology FOR STUDYING AND MONITORING shadow economy in Bulgaria has been designed and implemented by a team of sociologists and statisticians UNDER THE PROJECT **Restriction and Prevention of the Informal Economy**, conducted by the Bulgarian Industrial Capital Association (BICA), in partnership with the Confederation of Independent Trade Unions of Bulgaria) and with.

BICA research experience

- **Parallel implementation of statistical and sociological approaches**, by simultaneously usage of indirect and direct research methods
- **Strong accent on sociological approach implementation!** In the frame of BICA project, altogether for the period of **2010-2014 sixteen Social Survey Research have been conducted** which could be considered as an unique methodological experience in studying and monitoring shadow economy
- Our methodological experience in BICA-project gives solid grounds to state clearly and openly that **Sociology through Social Survey Research could generate reliable and scientifically sound knowledge about shadow economy.** Furthermore, while econometric studies can only produce figures about relative share of shadow economy in GDP, Sociology and Social Survey Research have much richer epistemological and cognitive potential

The relevance of Social Survey Research to the study of shadow economy

➤ The sociological approach – basic specifics

➤ Key methodological issues:

1. What exactly would be studied
2. What approaches and methods would be applied
3. What kind of information will be obtained
4. How should the obtained information be interpreted



The Holistic approach

- 1) To ascertain the real facts about the economic behaviour of Bulgarians and to measure the degree of the population's involvement in shady economic practices
- 2) To study those representations, attitudes and assessments of various categories of the population that, as a whole, shape the image of the shadow economy as perceived by Bulgarians
- 3) To study the structure of public opinion about the informal economy (stereotypes and models of thinking about the economy) and to identify people's preferred models of doing business (observing the regulations or doing business outside the law)
- 4) To ascertain the extent of shady economic practices; this study is tested for the basic paradigms of the "rational economic man" and the "social man", including motives for working in the grey sector, ratio of rationality and irrationality in deciding to work in the shady sector
- 5) In this perspective, we seek to explain why the shady economic sector is attractive to people and why Bulgarian employers and the population in general are willing to use shady economic practices (motives for taking part in shady practices)
- 6) To study the sensitivity of society to shady practices and to test the possible approaches (measures) for reducing the grey sector of the economy

Defining the system of Social Surveys Research

The successful and adequate methodology for Social Survey Research on the shadow economy presupposes developing and applying a system of relatively independent social surveys aimed at the following sources of primary information:

- 1) the population (15+)
- 2) the employers
- 3) the workers/employees (15+)
- 4) additional sources of information (the state administration, local government, NGOs, trade-union organizations, experts and researchers, and documents and artefacts relative to the problem area).

The ultimate goal of the set of studies is to reveal the nature and social-economic and institutional determinants of the shadow economy, to investigate its specific functions and manifestations within contemporary social-economic relations, and on this basis, to identify the rational approaches that governments might take to reducing informal economic activities

A success story

The designed set of social surveys based on the holistic approach described above was successfully implemented in Bulgaria during 2010-2014 in the framework of the project Restriction and Prevention of the Informal Economy, carried out by Bulgarian Industrial Capital Association

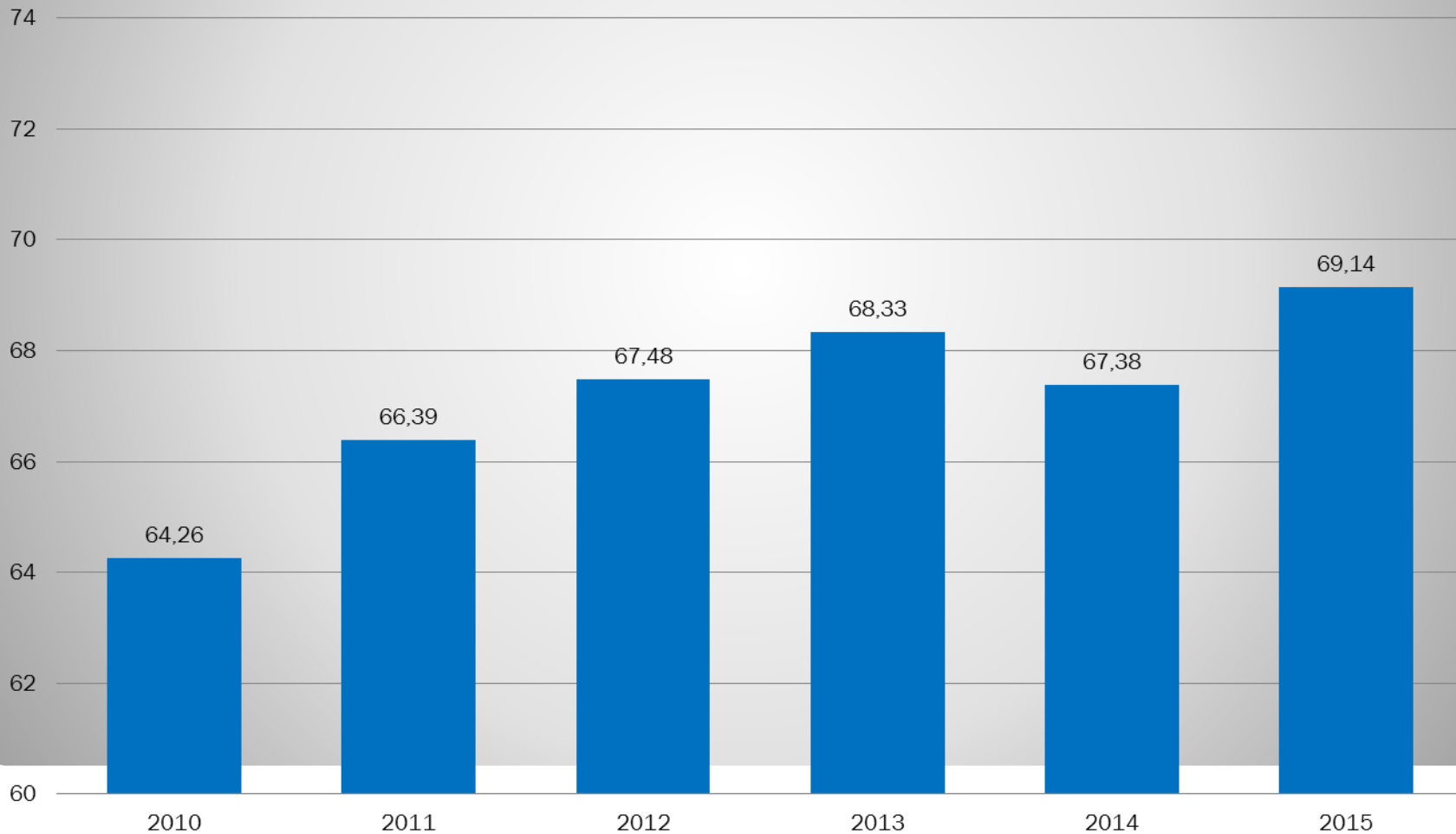
They yielded an impressive amount of empirical databases drawn from three basic sources: the adult population of Bulgaria, the employers, and the hired employees in Bulgaria

Some basic conclusions:

- The informal economic practices, and in particular the “shadow economy”, is a complexly organized subsystem of social-economic relations that is tightly interwoven with the structure of transforming Bulgarian society
- Regardless of the differences of assessments as to the relative share of shadow economy practices, what is predominant in public opinion is the assessment model according to which, in the period 2010-2014, about one third of economic activities in Bulgaria were carried out in violation of the formal (official) rules. In a comparative European perspective, this places Bulgaria in one of the top positions by relative share of its shadow economy as a proportion of the GDP
- Survey research has shown that not only is the size of shady practices very large in our country, but so also is the range of these practices. As a result, the annual losses for society are calculated to attain about 25 billion BGN
- The research conducted using the devised research strategy has confirmed that the “shadow economy” is perceived as a socially legitimated and economically expedient parallel economic reality, which consists in a set of well-thought-out life strategies for not complying with, neutralizing, or adapting, the formal rules. In the context of the transformation processes taking place in Bulgarian society, shadow economy practices are assessed to be a necessary social-economic “compromise”, which covers the social costs of the transition to a market economy and of the neo-liberal models of management

COMPOSITE INDEX DYNAMICS (2010-2015)

Динамика на Композитен индекс "Икономика на светло"



Composite Index "Economy in Light"		2014	2015
		67.38	69.14
	Weight	Value	Weighted value
Statistical component	50.0%	33.87	34.29
Sociological component:	50.0%	33.51	34.85
1. Companies	30.0%	21.22	21.43
2. Workers and employees	20.0%	12.29	13.41

**An increase of 1.76, in comparison with 2014:
0.42 increase for statistical component and
1.34 increase for sociological component**

Composite Index "Economy in Light"		2014	2015
		67.38	69.14
	Weight	Value	Weighted value
Statistical component:	50.0%	33.87	34.29
1. Money/ Broad money	20.0%	9.62	9.62
2. VAT	15.0%	12.50	13.09
3. Informally employed	5.0%	3.43	3.19
4.1. Excise duties – Tobacco products	2.5%	1.68	1.84
4.2. Excise duties – Alcoholic beverages	2.5%	2.38	2.42
5.1. Foreign trade - EU	3.3%	2.91	2.68
5.2. Foreign trade - outside EU	1.8%	1.35	1.46

Composite Index “Economy in Light”		2014	2015
		67.38	69.14
	Weight	Value	Weighted value
Sociological component:	50.0%	33.51	34.85
1. Companies	30.0%	21.22	21.43
Labor market: Unreported employment	1.7%	1.22	1.22
Labor market: Work under fictitious employment contracts	1.7%	1.02	1.01
Sale of goods and financial results	3.3%	2.32	2.34
Foreign trade	3.3%	2.50	2.51
Tax avoidance	3.3%	2.51	2.52
Illegal VAT refund	3.3%	2.64	2.62
Public procurement	3.3%	2.14	1.94
Cash payments: Between companies	1.7%	1.30	1.37
Cash payments: To workers and employees	1.7%	1.39	1.44
Implemented quality system	3.3%	1.96	2.06
Share of grey economy	3.3%	2.22	2.40

Composite Index "Economy in Light"		2014	2015
		67.38	69.14
	Weight	Value	Weighted value
Sociological component:	50.0%	33.51	34.85
2. Workers and employees	20.0%	12.29	13.41
Main employment is unreported	1.7%	1.19	1.27
Main job is under fictitious employment contracts	1.7%	0.64	0.65
Additional employment is unreported	1.7%	1.55	1.55
Additional job is under fictitious employment contracts	1.7%	1.26	1.39
Consumer products: goods	3.3%	2.49	2.81
Consumer products: services	3.3%	1.28	1.40
Tax avoidance	6.7%	3.88	4.34

Some basic conclusions

The assessments and attitudes of Bulgarian society towards the shadow economy are **ambivalent, contradictory, charged with an impressive dose of pragmatism, but also with striving to mask the attractiveness of the shadow economy by referring to the imperfections of formal institutions and laws and the low level of control exercised by the state.**

People are inclined to seek the basic and major fault for shadow economy practices in the existing formal rules, which are inconsistent and full of gaps; these rules strongly clash with informal institutions (representations, assessments and attitudes). As a result, employers for example, find it justified and socially admissible to violate the formal rules, without even being particularly afraid of the possible consequences of their violations. The economic behavior of employers is guided by strict economic expediency and a reasonable calculation of the gains and losses involved in being perfectly legal or sinking into the shadow zone

Restricting the shadow economy is thought to be a function of the acts and political will of the state to optimize its policies, in order to create preconditions for a favourable and flexible business environment. In this connection, people have expressed clearly and definitively their expectations from the state, which they see as the basic factor for initiating an effective general campaign for restricting the shadow economy

Public expectations are primarily for changes to be made in the existing legislation that might decrease the tax and insurance burden, for clarification and decrease of the regulations in accordance with the specificity of each branch, for creating effective mechanisms for monitoring and control over the observance of rules for economic activity, ensuring equality before the law for all economic entities, the introduction of strict penalties corresponding to the specific violations of rules, and creating incentives for law-abiding employers

Some basic conclusions: about measures

First, the measures have not been adequate, i.e., they do not touch the very essence of the problems, so their application achieves a minimum of results, or even has the opposite effect

Second, the measures are not suited to the specificity of Bulgarian economic reality and the national social-psychological background. The fact that a given measure works in other transition societies does not mean that its automatic translation to our country will have a positive result

Third, the measures are not consistent, so they mutually neutralize one another and even lead to the emergence of new shadow economy practices

Fourth, the measures are not planned for a radical change in the situation, i.e., a doubt has been expressed whether there is at all a genuine intention to restrict the shadow economy

Five, the roots of the shadow economy are complex and go much deeper, and so they require purposeful, well-tailored and sustainable measures over time. The measures must aim to relieve the tension and mismatch between formal and informal institutions. Since the change in informal institutions occurs very slowly and involves a change in the mentality of people, it seems more rational to begin by an overview of the existing formal rules and it would be well to consider which of these rules should be changed so as to decrease their clash with informal institutions



**THANK YOU FOR YOUR
ATTENTION!**

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