

The gray economy's brighter side

# In the Shadows

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**The gray economy, the shadowy world of informal economic ties, is generally considered a factor that exerts a negative impact on the economic system. Yet viewed from the perspective of a researcher dealing with the economy's social aspects, the gray economy's existence does give rise to important benefits**

In worldwide terms, the gray economy in Poland is not particularly extensive - the phenomenon being more prevalent in Latin America, Africa, and a large portion of Asia. The picture is different, however, when we compare Poland against the backdrop of our region of the world: within the EU, Poland's gray economy is indeed particularly extensive, alongside that of Italy and Greece.

No matter where it occurs, however, the shadow economy phenomenon is always of a twofold nature: while it

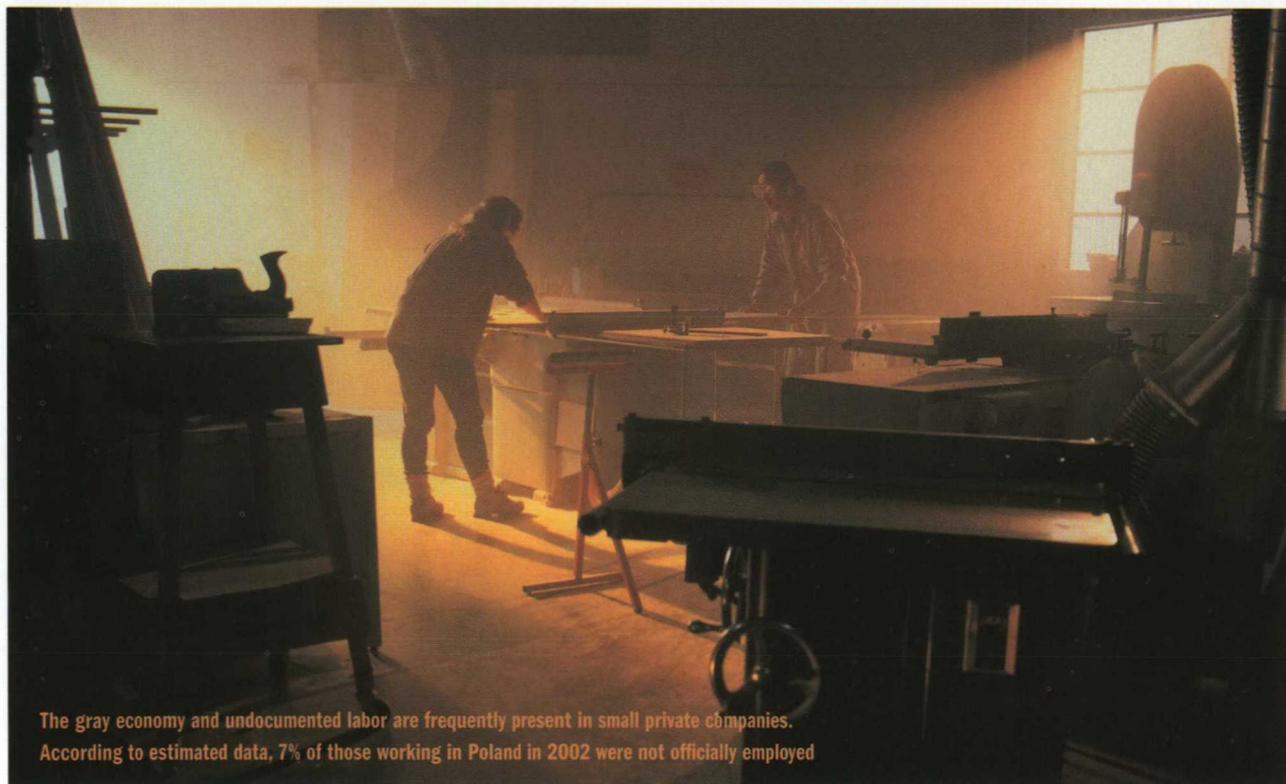
disrupts the formal structure of the economic system, it is also, within certain bounds, conducive to the stabilization of the social system. Analyzing it thus requires a multi-faceted approach; what follows herein is a look at the gray economy from one particular perspective.

## Visible minuses...

The gray economy has manifold minuses when viewed from the perspective of economics and its negative impact on growth.

Firstly, the hidden economy absorbs a certain portion of the resources necessary for production. As a result, the official economy is less productive; what it does produce is of smaller scale and lesser quality. The gray economy diminishes the outlays-to-results ratio of official economic entities; their effectiveness would be higher if this factor were not present.

The official picture of the entire national economy becomes distorted. It takes on excessively gray hues, even though the reality is in fact bright. Yet it is this official picture, made up of statistics, reports, models, etc., that serves as the basis for various decisions - a low degree of realism here leads to misplaced decisions. Planning the country's



The gray economy and undocumented labor are frequently present in small private companies. According to estimated data, 7% of those working in Poland in 2002 were not officially employed

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economic development involves an additional risk of error, and the outside image is "unduly" worse off than it should be. The former consequence has an impact on the appropriateness of domestic decisions, while the latter consequence, due to the integration of the world economy, is significant not only on psychological, promotional, or diplomatic grounds, but also for reasons of a strictly economic nature.

The country's prestige suffers, and less confidence is harbored in its citizens. Acting as producers or consumers these citizens effectively circumvent the state, while the state attempts to prevent this from happening.

Moreover, off-the-record economic phenomena also mean unreported income, and this entails lower budgetary revenue. It diminishes the state budget's financing capabilities, e.g. in funding the social and cultural domains and in stimulating the development of education and science.

Moreover, state programs and measures targeted towards the social domain end up over-scaled: for example, there are in fact fewer jobless individuals than official figures would indicate, since some of these individuals are in fact earning salaries "under the table." When the real state of affairs is not correctly assessed and part of it remains concealed in this way, planned budgetary expenditure is greater, yet budgetary revenue is lower.

Lastly, the private nature of the informal economy also has an impact on people's mentality and attitudes. It blurs the distinction between truth and falsehood, between resourcefulness and guile, between industriousness and deception, between what is acceptable and what is not. In a word, it gives rise to what is termed "anomy" (social instability caused by the erosion of values), in a way that makes it very hard to untangle the interrelated causes and effects.

This discussion has covered some, though not all, of the downsides entailed by the existence of a parallel economy. Now, we will see that it also has other traits.

### ...and less visible pluses

Aside from its drawbacks, the gray economy does also have certain advantages.

Firstly, it contributes to economic vitality. It causes an increase in the national income – albeit in real terms, not in the figures reported by public officials. This helps to improve the standard of living for a portion of society.

Secondly, it provides exceptional guarantees of effecting a large increment in income in exchange for invested effort. Invested capital and labor produce better returns here than elsewhere; the economic risk of failure is lower.

The existence of the gray economy can spur the accumulation of capital. Both within its own domain, aside from taxes, fees for various permits, etc., and within the official economy. By offering cheaper goods and services, it enables salaries to be lowered in the primary sector.

The gray economy helps to preserve continuity in situations where the economic and political system is undergoing rapid change. It occurs in tandem with transformations

(in the former countries of real socialism) and globalization (in countries of developed capitalism), softening the radical influx of changes and making processes more gentle.

In times of crisis and transformation, the gray economy mitigates their impact, improving the situation for people who have found no place in the official economy. It is conducive to political stabilization, and therefore to economic development. Unsatisfied individuals have room to function; frustration among them does not develop into destructive aggression. The gray economy provides a channel for venting revolutionary pressure, or at least radical tensions.

It also opens up great opportunities for the creation of new jobs. They are, as a role, cheaper than in the official economy. Within the informal domain, too, one can more easily acquire skills and qualifications that are harder to attain under formalized institutions. In particular, this pertains to professions based upon the master-apprentice scheme. After acquiring a certain level of skill, such individuals can shift into the official economy in order to pursue their ever-increasing ambitions.

Finally, the informal economy represents a "comfort zone" within the modern world of cold official organizations, inflexible institutions and conventionalized action.

### In a time of transformation, the gray economy mitigates the negative impact, improving the situation for people who have no place in the official economy

It serves to mitigate the isolation and alienation of a considerable group of people.

The pros and cons of the informal economy cannot be weighed on opposite sides of the same scale, as it is hard to find a common measure. The gray economy was present in real socialism, as well as in the capitalism of the same era. Is also present in the market economies of the present day. People earn a living from it and some of them owe their very existence to it, while the state cannot manage to cope with the phenomenon. This attests to its strength, as well as to the crisis of the state and modern forms of organizing social activity in line with tested ideological principles. The informal economy cannot exist on its own, but rather stands in opposition to its antithesis, the formal economy – by the very same token drawing the true sense of such an opposition into question. Present-day societies cannot, however, get by without it, and are even seemingly finding it increasingly more lacking. ■

#### Further reading

- Jarosz M. (2004). *Power, Privileges, Corruption* [in Polish]. Warszawa: Wydawnictwo Naukowe PWN.
- Zienkowski L. (Ed.) (1996). *The Gray Economy in Poland – Size, Causes, Consequences* [in Polish]. Warszawa: Komitet Prognoz "Polska 2000 Plus".