

THE INFLUENCE OF THE GRAY ECONOMY ON THE ECONOMIC DEVELOPMENT OF BOSNIA AND HERZEGOVINA AND POTENTIAL MEASURES FOR BRINGING IT WITHIN REASONABLE LIMITS

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Abstract

It is well known that the gray economy is a scourge of the modern global world, in which all positive and negative phenomena are quickly transferred from country to country. The gray economy is one of the greatest evils of today and leaves significant traces on the entire society. In this paper, we will present some of the negative consequences that the gray economy brings, starting with globalization and its impact on the deepening of the economic and financial crisis. We will also present the influence of the gray economy, especially illegal work, and the consequences that our economy and population suffer. In addition to the negative impact, if its analysis is carried out well and qualitatively, it can serve as an instrument for resetting the economy and society, thus becoming a new development opportunity for faster economic development in Bosnia and Herzegovina. We will present some potential measures that could bring the gray economy within reasonable limits and thereby help the state in the fight for the fastest possible recovery of the economy and its equal inclusion in contemporary economic flows.

Keywords: *gray economy, economic and financial crisis, illegal work, new development opportunity*



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1 INTRODUCTION

When it comes to the topic related to the gray economy, it is always relevant for all those for whom it creates problems in business operations or life in general. The gray economy is an interesting topic, especially for the state, its institutions, which should deal with the consequences of the gray economy's influence on the state, its economy and population. Perhaps we would not be able to understand the significance of the gray economy if we did not live and work in Bosnia and Herzegovina, a country where the gray economy has a dominant influence on the economic development of the country, the mass emigration of the Bosnian population to countries where the gray economy is under control and where the gray economy is crucial there is no impact on the life of the ordinary population, economic subjects, state institutions, public institutions and public enterprises. In this paper, we will look at the gray economy as part of global trends and its impact on each country individually. Some countries struggle easily with the gray economy and more easily overcome its consequences, while other countries have a hard time fighting the gray economy, which leaves very striking and lasting consequences both on the economy and the population. Bosnia and Herzegovina is one of the countries that has a big problem with the gray economy, which is currently very difficult to bring within reasonable limits, and which could be controlled so that it does not affect the development of the economy and society as a whole. The gray economy in our country has a negative impact on the lives of ordinary people who are affected by the economic and financial crisis that has been going on continuously, according to many economists, since 1992 until today. We will try, on the basis of scientifically based facts by domestic and foreign authors who have dealt with and are currently dealing with this topic, to recommend some of the measures that could help the state in the

fight against this modern scourge that has left lasting consequences on our country and its economy and population. Also, the gray economy can be a development chance for a new beginning and help countries to reset and start new development projects that they might not have if they were not affected to a large extent by the influence and consequences of the gray economy.

2 GLOBALIZATION AND ITS IMPACT ON THE DEEPENING OF THE GRAY ECONOMY AS ONE OF THE BIGGEST ECONOMIC PROBLEMS TODAY

Today's world in which we currently live has changed quite a bit, it is not even close to what it was a few decades ago, one or two centuries ago. Throughout history, numerous wars, various revolutions, and unforeseen situations took place in various parts of the world, which significantly influenced the emergence and formation of the configuration of today's world. In the meantime, various economic and political legalities emerged, which changed over time and adapted to the new situation.

Numerous changes, which often occur, were sometimes more and sometimes less painful and turbulent for countries and their populations. Wars did not bring anything good to the common population. Some types of revolutions also significantly affected the population. All this has accelerated population migrations, which, with natural disasters and the emergence of pandemics, have led to the creation of economic crises that are very common nowadays, and their consequences are devastating and unfathomable for the economy and population of underdeveloped and underdeveloped countries in the world, including Bosnia and Herzegovina. Knowing everything listed, we come to the natural conclusion that all these are the causes due to which the world we know had to constantly change and adapt to new

circumstances, for example, speaking of the recent past, the COVID-19 pandemic and all its consequences that we feel even today are the best examples of globalization. The war in Ukraine disrupted the world energy market, as well as the market for grains and mineral fertilizers needed for agricultural production. Each state organization had its own laws that served to establish order and rules of behavior on the basis of which these states functioned. In order for the state apparatus to function, the state must have a state administrative apparatus, a constitution and laws in order to establish law and order on its territory. In addition to the basic foundations that make up the state, it must organize economic activity with the help of which it needs to create newly created value that ensures the economic security of the state. (Mehmedović, H., 2023)

In addition to globalization, the shadow economy has a great influence on the national economy such as that of Bosnia and Herzegovina.

3 THE GRAY ECONOMY THE PLAGUE OF THE MODERN AGE

The term "gray economy" in the broadest sense of the word could mean any illegal action related to economic activities aimed at achieving some material or other benefit for oneself or one's own account. Such an action is mainly to the detriment of other individuals, business entities or the state. It is considered that the gray economy is an activity that, with the help of disobeying legal norms and doing business outside of legal channels, aims to avoid paying prescribed fiscal and other obligations to the state. (cpi.ba)

The shadow economy is as old as taxation. Every government spends taxpayers' money, from which this money is collected through various tax levies. However, not every government is equally responsible to the true owners of that money. The

authorities, by themselves, do not strive for great democracy and transparency in their work. They should be forced to do so by their electorate through elections and through the control of public institutions. The maximizing behavior of people has adjusted our logic so that we strive to get as much as possible from the state through the consumption of public goods, and to give as little as possible to the state through the payment of taxes. On the other hand, the government tries to convince taxpayers to give as much as possible so that the state offers as many quality public goods and services as possible (good security, good public order, good roads, good schools, good health and social care). (Tomaš. R., 2010)

The government's struggle to preserve the state, establish unity, equality and the like has its price in the budget, it implies a certain level of taxation, but also the public spending of that money and the possibility of control. However, authorities that are not ready to present to voters how much they spend, how they spend, what they spend on, and what effects they achieve with that spending, will always show their results in immeasurable quantities such as increased political stability of the country, strengthened morale, patriotism, increased responsibility, increased security, increased reputation of the country, improved investment conditions, etc. (Friedrich Schneider, 2008)

Figure 1. The gray economy in Bosnia and Herzegovina accounts for 25% of GDP



Source:

<https://www.google.ba/search?q=siva+>

economy (Downloaded: 04.05.2023)

Bosnia and Herzegovina ranks last in Europe when it comes to the ease of doing business, and the gray economy makes up a quarter of GDP. The first statement is based on the report Doing Business, which is created every year by the World Bank. For example, in 2018, Bosnia and Herzegovina is in a very bad 86th place among 190 countries and the last in Europe. On the other hand, a quarter of Bosnia and Herzegovina's economy is in the gray zone, as shown by the European Commission's Report on the Progress of Bosnia and Herzegovina, which means less income for the state and less rights for workers. Not only does the EU warn about the problem of the gray economy, which they state is still significant in providing (unregistered) employment and income, but also in distorting competition and reducing the basis for taxation and social security contributions, but other foreign observers of economic trends in Bosnia and Herzegovina. They all recommend an intensified fight against this scourge, and many in the country are aware of this. Unfortunately, there is very little progress, first of all, in stopping the hiring of labor to work illegally, then in performing illegal monetary transactions, illegal traffic of goods and services. All of the above negatively affects the attraction of foreign investments and the competitiveness of the Bosnian economy. (Mehmedović. H., 2020)

Economists believe that one of the key factors for the emergence of the gray economy is the business climate, that is, the business environment. The economy in Bosnia and Herzegovina is in a much less favorable position compared to European competition. The real economy is heavily burdened with many material and immaterial obligations. Based on a comparative analysis with other countries, we can conclude that we have formally low tax rates, but the legal regulations are

extremely complicated. On the basis of such complicated legal regulations, our companies are obliged to comply with more than 20 laws related to fiscal and parafiscal levies, and about 30 laws that deal with criminal provisions. One of the curiosities is that the company has to submit over 100 different applications and forms during the year. All of the above has a negative impact on the faster growth of the economy, the acquisition of knowledge, new ideas and their wide use in the economy, but also in other aspects of life and work. A bad business environment is mostly negatively reflected and rapidly contributes to the growth of the gray economy, higher unemployment and the emergence of poverty.

4 THE GRAY ECONOMY COSTS BOSNIA AND HERZEGOVINA HUNDREDS OF MILLION KM

Based on the report published by the Tax Administration of the Federation of Bosnia and Herzegovina, in the last year alone, about 1,000 companies were discovered that worked in the shadow economy zone and in which over 2,200 workers worked illegally. According to the Tax Administration, these companies created losses in the state budget of hundreds of millions of KM. The action carried out by the Tax Administration of the Federation of Bosnia and Herzegovina from September 2022 in which 6,203 companies were controlled, 1,002 companies were found that did not have approval and were operating in the gray economy zone. The gray economy leads the state to millions of losses in the state budget. According to the estimates of the tax administration, if the gray economy were to decrease by only one percent, the GDP in the Federation of Bosnia and Herzegovina alone would increase by approximately 187 million KM. Some international organizations have dealt with work assessments in the gray economy

zone in Bosnia and Herzegovina. Based on their estimates, and especially according to the estimates of the World Bank and other international organizations, work without registration or illegal work amounts to 30% of GDP, and it is assumed that the rate was much higher in previous years. Why is the rate of work in the shadow economy zone so high? The workers who were interviewed anonymously say that they feel like "modern slaves" in Bosnia and Herzegovina, but they are not in a position to discuss this topic openly, for fear of losing their jobs. (fokus.ba)

Recently, more and more workers from Bosnia and Herzegovina are going abroad in search of work, so many companies have started to worry more and more because they will not have a sufficient number of workers available to meet the workforce needs in their companies. Employers in Bosnia and Herzegovina, together with trade unions, have recently been trying to find a model that would allow them to keep the necessary workers in their companies, so that they are increasingly interested in working within the framework of the law, which avoids illegal work, i.e. in the gray economy zone.

5 CAUSES AND CONSEQUENCES OF THE GRAY ECONOMY

5.1 The main causes of the gray economy are:

- Low level of tax culture of citizens and businesses,
- complicated regulatory framework subject to frequent changes,
- relatively high tax and non-tax burdens with additional administrative barriers,
- relatively high level of corruption and tolerance of the state towards the gray economy,
- high rate of unemployment and poverty.

5.2 The consequences of the gray economy are:

- Unfair competition produced by all those who work and do business in the gray economy zone,
- lower budget revenues, which have a negative impact on budget revenues,
- violation of the rights of working persons,
- many other consequences.

Figure 2. Causes and consequences of the gray economy



Source: <https://www.uzmiracun.rs/uzroci-i-posljedice>

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6 GRAY ECONOMY ONE OF THE RESOURCES FOR THE DEVELOPMENT OF THE BIH ECONOMY

The past experiences of many countries in the world show us that the fight against the scourge of the gray economy is very difficult and exhausting both for the state and its institutions, as well as for the economy and the population. The length of the fight against the shadow economy can be longer or shorter and very difficult and uncertain. The results of this struggle are mostly positive and quickly noticeable through a series of positive indicators both in the economy and in society. Not everything is as black as it seems at first glance. For the uninitiated and those who do not understand this area, Bosnia and

Herzegovina, as a country that aspires to membership in the European Union, has the opportunity to take advantage of the current situation because it has great potential, which only needs to be used in order to achieve economic development as quickly as possible. According to many economists, the gray economy is a fantastic opportunity and one of the greatest resources for the development of the economy and society if it is put under institutional control. In today's world, there is not a single country where the gray economy has been completely eradicated. Also, in many countries, the gray economy has been brought to bearable limits and cannot threaten the development of the economy and society. That is why it is important that we should have already taken the first steps with the help of which we will not only reduce the gray economy, but we should reach the knowledge economy and society as the best long-term solution for reducing informal economic activities. That's why we could use the gray economy for the purpose of faster economic development and for it to be the greatest resource for the economic development of our country. Many economically developed countries used the crisis period and the state of economic lagging behind other countries in order to speed up their economic and social recovery. There is a folk saying that says "who knows why it's good"? In everything that happens to us, there is something good that can serve as a new development opportunity.

7 POTENTIAL MEASURES FOR BRINGING THE GRAY ECONOMY WITHIN REASONABLE LIMITS

Based on the recommendations of many experts, one of the solutions to bring the gray economy under control is to change the entire fiscal system. Illegal employment feeds the shadow economy, and the existing fiscal system punishes work and therefore stimulates the shadow economy. One of the

solutions in the fight against the gray economy could be a change in the awareness of responsible persons in companies, but also of all citizens, for example workers should refuse to work if their contributions are not paid or report those who do not. If we look at this problem from an economic point of view, we can draw the conclusion that it is necessary to model a system that creates initiatives for formal, legally defined market activity. The best economic system in the world is the one that does not offer enough rewards for fraud and some illegal activities. Most of the actors on the market are interested in legal business. The common man wants justice and fairness, so he needs to be given the opportunity to fight against the system that forces people into the domain of the gray economy, because common workers like to work honestly. However, there have always been and will be those who like to avoid the rules. The question arises, how to prohibit illegal actions? The answer is simple and easy, it is only necessary to enable the existing institutions and put them in a position to perform their legally prescribed tasks without the interference of politics and someone from the outside, which will create the conditions for the legal operation of all organs, organizations, institutions, business entities and each citizen individually. (Mehmedović. H., 2020)

Figure 3. The way out of the gray economy must start from the top



Source:

<https://www.google.ba/search?q=siva+>

economy (Downloaded: 04.05.2023)

Ordinary citizens generally expect the state and its institutions to do something in the fight against the gray economy. Only after the state takes appropriate measures, the population and business entities get rid of their fear and start more actively reporting and fighting against the gray economy. That is why it is necessary for the state and its competent institutions to first take appropriate legal measures to exit the gray economy and thereby encourage the economy and the population to join them.

CONCLUSION

Based on the contents presented in this paper, a very interesting conclusion can be drawn. The gray economy is not unknown in modern business operations. Its influence and consequences were felt by almost all countries of the world. For some countries, the gray economy has created major problems, and for others, somewhat less. The existence of the gray economy is not a big problem. The real problem is the fight against the gray economy, as well as the way the country organizes itself in this fight. The overriding task of the state and state bodies and institutions is not to leave enough space for everyone who is involved in illegal activities and who use the gray economy for their own benefit and personal gain. In addition to the state bodies responsible for the fight against the gray economy, a large contribution should be made by business entities and the population, who should report illegal actions to the competent authorities if they have observed them or experienced them on their own. One of the problems related to the reporting of activities in the shadow economy zone is the lack of trust on the part of business entities and the population in state bodies and institutions in charge of combating the shadow economy. In order to overcome this problem, it is necessary for the state, with the help of its competent authorities and institutions, to get closer to

the population and business entities and to create trust among them. In this way, it would be much easier for the state to fight the gray economy and could reduce it to reasonable limits. This would create prerequisites for faster and fairer economic and social development. Basically, most people are interested in justice and fairness, so they just need to be given the opportunity to give their personal contribution in overcoming this social problem.

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