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IS THE SHADOW ECONOMY CONNECTED WITH TOURISM?

An economy is an area of the production, distribution, or trade, and consumption of goods and services by different agents in a given geographical location. Economy is the large set of inter-related production and consumption activities that aid in determining how scarce resources are allocated. The economy of a particular region or country is governed by its culture, laws, history, and geography, among other factors, and it evolves due to necessity [1]. As for the shadow economy, it is the part of an economy involving goods and services which are paid for in cash, and therefore not declared for tax. The shadow economy includes all market-based legal production of goods and services that are deliberately concealed from public authorities for the following reasons:

1. to avoid payment of income, value added or other taxes;
2. to avoid payment of social security contributions;
3. to avoid having to meet certain legal labor market standards;
4. to avoid complying with certain administrative obligations [2, p. 6].

Shadow economic activity is problematic for several reasons. One of the purposes of government is to provide the legal framework within which economic activity takes place; and societies with good institutions prosper. But when it comes to shadow work those legal institutions are bypassed: contracts can often be unenforceable; economic relationships can become marred by violence; and it can become very difficult for businesses to expand because they then come to the attention of the authorities. A large shadow economy also means that tax rates are higher for those working in the formal economy. It's a pity, but such kinds of industries as manufacturing, construction, wholesale and retail have the highest share in the shadow economy.

What about tourism? Is it connected with the shadow economy? As far as we know, tourism is an important sector that contributes to government revenues, national income, foreign exchange earnings and provides job and business opportunities for many nations. In 2013, international tourist arrivals reached a record 1.1 billion worldwide. At the same time, the shadow economy in the

tourism sector also flourished. In the European countries, 20% – 25% of the shadow economy is represented by tourism-related industries – wholesale and retail; transportation, storage and communications; and hotels and restaurants. Services given by these operators will ultimately be wiped off the map of high-quality tourist destinations and destroy the development of the tourism industry itself. According to the study which examined the short-run and long-run dynamics between international tourists' arrival and the shadow economy for 149 countries over the period 1995 – 2008, the shadow economy and the tourism industry worldwide are related in the long-run. It indicates a negative impact of the shadow economy on the tourism sector [3].

In conclusion we should say that the temporary and permanent shocks of the shadow economy induce a large negative impact on the tourism sector. The only decision of this problem is the development of the effective national policy and an in-depth study of the causes that lead economy into the shadow.

LITERATURE

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