

# MANIFESTATIONS, CAUSES, AND METHODS OF TREATMENT OF SHADOW ECONOMY IN IRAQ

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## **Abstract**

All economies, including in established and emerging nations, experience the phenomenon of the shadow economy, or the so-called hidden economy. However, interest in this phenomenon did not start to grow until the 1970s. The purpose of this study shedding light on the concept, varieties, and characteristics of the shadow economy phenomenon. Determining the circumstances of the shadow economy in Iraq by figuring out its effects and sources. Determining the appropriate strategies for dealing with the Shadow Economy phenomena in the Iraqi economy. One of the most significant economic crimes in the modern era that is connected to organized crime, including crimes like terrorism, drug trafficking, arms trafficking, kidnapping, theft, political and financial corruption, etc., is the crime of money laundering. The word (money laundering).

**Keywords:** Manifestations, Causes, Money laundering, Economy in Iraq

## **INTRODUCTION**

The phenomenon of Shadow Economy, or the so-called hidden economy, is a fact that exists in all economies of the developed and developing countries alike. However, interest in this phenomenon did not begin until the seventies of the last century. Studies have shown that hidden economies have reached such an importance that they cannot be ignored in terms of the total economic activities. In some cases, they are growing at growth rates that cannot be seen in the official economies.

### **The Problem Statement**

The Iraqi economy suffers from a phenomenon that threatens it. That problem is the presence of Shadow Economy. This type of economy constitutes a significant proportion of the gross domestic product.

### **The Hypothesis**

The present study stems from the hypothesis that Shadow Economy negatively affects the performance of the Iraqi economy.

### **The Objectives**

The present study aims to obtain the following objectives:

1. Shedding light on the phenomenon of Shadow Economy in terms of identifying its concept, types, and characteristics.

2. Identifying the conditions of Shadow Economy in Iraq by identifying its manifestations and causes.
3. Identifying the necessary ways to address the phenomenon of Shadow Economy in the Iraqi economy.

## **Section One**

### **Theoretical Conceptual Framework of Shadow Economy**

#### **First; The concept of shadow economy**

The concept of Shadow Economy includes all illegal activities and all forms of income that are not reported and obtained from the production of legitimate goods and services, whether monetary transactions or transactions that take place in the barter system. Then, it includes all economic activities that are subject to tax in general if reported by tax authorities (Schneider, 2002). It can also be defined as all income-generating activities that are not recorded in the national product accounts, either to deliberately conceal it in order to evade the legal obligations related to disclosing these activities, or because these income-generating activities, by their nature, are considered activities that violate the prevailing legal system in the country (Saqa, 1995).

#### **Second; Types of shadow economy**

Shadow Economy is classified according to the criterion of legality into two main types (Andrews, 2005):

1. Legitimate Shadow Economy; It includes economic activities that produce legitimate goods and services and do not violate the laws and regulations of the state, but are not declared to the state and are not recorded in the national income accounts, such as the craft sector, home service, private lectures, etc.
2. Illegal Shadow Economy; It includes economic activities that violate the laws and regulations of the state, such as smuggling antiquities and drugs, gambling, etc.

#### **Third; Characteristics of Shadow Economy**

Shadow Economy is characterized by many features and characteristics that are unique to it and distinguish it from formal economy. These characteristics are considered as indicators of Shadow Economy. Although part of Shadow Economy is linked to fixed facilities such as exchange centres, mechanic workshops, barbers, shops and the other part is not linked to a specific place such as taxi workers, peddlers, private teachers...etc., but there are common characteristics between the two types, including:

1. Lack of regulation; Shadow Economy is characterized as an unregulated economy, as its competitive markets are unregulated and the degree of regulation varies according to its commitment to formal and regular procedures. Some activities completely evade any formal procedures, and some partially evade some formal procedures.

2. Small size of establishments; It is also characterized by its small size, whether in terms of capital, the size of the establishment, the number of employees, and the volume of production, as the capital of this establishment is financed from individual or family savings, whether from acquaintances or relatives. As for the number of workers, the ILO study confirmed that (62%) of the hidden sector employs less than (5) people, (33%) employs (5-10) people, and (5%) employs more than (10) people (Schneider, 2002). As for the size of the establishment, it is often small in size and there may be no establishment at all, as in the case of street vendors, craft professions, and others.

3. Flexibility; It is characterized by flexibility as it is not subject to official laws. There is a flexibility in work in terms of working hours and vacations, as well as flexibility in work and wage relations. The results of field studies differed in determining the relationship between the prevailing wage rate and the minimum wage (Andrews, 2005).

4. Scarcity of capital and the technology used; the work in the activities of this sector depends on the heavy use of work at the expense of capital. As for the technology used, it is simple and depends on local resources.

5. It is based on not licensing the activity; Practicing work in these activities does not require obtaining a license to practice the activity.

6. It lacks occupational health and safety standards and is characterized by the possibility and ease of entry and exit therein. The entry process does not require regulatory procedures or specific requirements. The establishment of its facilities only requires the provision of the minimum necessary equipment and supplies.

7. Lack of respect for labour laws, such as preserving working hours and minimum wages. This economy is considered a haven for legitimate and illegal activities that generate legal or illegal income. The activity is carried out in industrial, commercial, and service establishments, which differ in size and in their organizational capabilities between partially or fully organized. They all participate in hiding from government authorities and their regulatory procedures in order to avoid paying taxes or fees related to practicing the activity, as well as not being registered in official statistics and national income data.

8. The level of skill varies according to the nature of the activity; In productive activities, skilled labour rates increase, while in service and trade activities, they decrease or are almost non-existent. It is also noticed that the educational level is not a condition for obtaining work as work in it does not require a specific age group. It contains a mixture of young and old males and females (Abdulhameed, 1996).

## **Section Two**

Conditions of Shadow Economy in Iraq and Ways of Treatment

### **First; Manifestations of Shadow Economy in Iraq**

In Iraq, Shadow Economy has many aspects that can be summarized as follows:

#### **First; Financial and Administrative Corruption**

At the present time, corruption is a global problem that exists in all societies. Corruption problems appear frequently in some countries that are going through stages of political, social, and economic development. No one disagrees that corruption is a phenomenon that is rejected by everyone, but despite that, it is present and widespread in all countries of the world. It affects all institutions, regardless of their nature.

There is no specific definition of corruption. The reason for this is due to the complexity of the phenomenon of corruption and the complexity of its features and causes. One of the most important definitions of corruption is the definition of International Transparency, which defines corruption as the abuse of power for private benefit. While the World Bank defines corruption as the misuse of public office for private gain (Younus, 2010). Corruption also includes all attempts made by both managers and working people to make their own interest above the public interest, even if their personal interest is illegitimate, bypassing the values they pledged to respect and work to apply. These practices are contrary to the public interest and they are subject to disagreement due to lack of agreement on them (Al-Ghalibi and Al-Amiri, 2010).

Bribery is considered one of the most prominent forms of corruption in Iraq. It is widespread in most government institutions. It was initially found in military institutions, and then moved after that to civil institutions. The events that followed (2003) created many opportunities for corruption. Despite the existence of evidence that corruption was already present under the previous regime, including the issue of bribes and corruption in the oil-for-food program, there is a broad consensus that corruption has reached its peak after (2003). Iraq has also been afflicted with another type of corruption, which is nepotism, which has increased recently, so there has become a priority for job inheritance in many government institutions that are based on political quotas. This leads to the inclusion of a certain category of citizens who have relations with officials in jobs at the expense of other groups. As a result, some people with competencies and qualifications were forced to migrate outside Iraq (Al-Najjar, 2007). Another form of corruption is embezzlement of public funds. An example of this is when the accountant manipulates the records of his/her department to take money directly (Al-Omar, 2004). Table (1) indicates that Iraq is one of the most corrupt countries according to the Corruption Perceptions Index (CPI). Therefore, administrative and financial corruption is considered a scourge that must be addressed by taking a number of measures, including spreading democracy, independence of the judiciary, freedom of press and media, strengthening the role of civil society organizations in confronting corruption, comprehensive reform of all state institutions and administrative governance in confronting corruption, and providing support for electronic government systems.

**Table 1: Corruption Perceptions Index in Iraq for the period (2010-2020)**

Year	Rank of Iraq among Countries	Corruption perception indicator	Total number of countries
2010	113	2.2	132
2011	129	2.1	145
2012	137	2.2	158
2013	160	1.9	163
2014	178	1.5	180
2015	178	1.5	180
2016	179	1.5	183
2017	175	1.5	183
2018	175	1.8	183
2019	169	1.8	183
2020	169	1.8	180

Source; Shandi, A. (2015). Future of Iraqi Economy, 1<sup>st</sup> Edition, Wasit.

### **Second: money laundering**

The crime of money laundering is considered one of the most serious modern economic crimes that are linked to organized crime, especially the crimes of terrorism, drugs, arms smuggling, kidnapping, theft, political and financial corruption, etc. The term (money laundering) appeared for the first time in the United Nations Convention against Illicit Drug Trade, which was held in Vienna in (1998) (Riah, 2005).

This phenomenon did not exist in Iraq or it was unknown. If it exists, then it is in individual cases that cannot be dealt with as a tangible phenomenon, but at the end of the nineties of the last century and the beginning of the third millennium, talk began about the money laundering process, albeit with something simple because of the poor ability of the productive sectors to provide goods and services, which led to the emergence of the so-called black market and oil smuggling operations due to the economic sanctions imposed on Iraq after the second Gulf War. There are internal and external factors that created the appropriate conditions for carrying out the crime of money laundering. The internal factors include the absence of the rule of law after (2003), the dumping policy, the exposure of the Iraqi market to global markets, the economic and political instability, the security chaos and the spread of terrorist operations in a large way, as well as the opening of borders with countries of the world widely. As for external factors, the policy of the free market and openness to the global economy helped to create a fertile ground for the money laundering process, and to create a suitable environment for the birth and growth of this phenomenon in Iraq. The volume of money laundering operations in Iraq for the period (2003-2012) ranged between (4.6) billion dinars and (38.2) billion dinars (Shandi, 2015).

Therefore, the money laundering process expresses a group of activities that operate in secret and away from the government oversight agencies, given that the sources of these funds are illegal, so they are laundered and transferred in order to acquire legal legitimacy so that they become part of the official financial system in the state. The crime of money laundering has

economic, social, and political damages. Given the seriousness of the losses resulting from the money laundering process, all banking, legal, and international efforts must be combined to combat this crime and work to reduce it (Al-Sheikhli, 2002).

### **Third; Tax Evasion**

Tax evasion is considered a scourge that deprives the public sector of imports and is reflected on the citizen because the result of tax evasion is the lack of public services provided by the state. The main motive for this evasion is corruption. There are several parties that are directly or indirectly partners in this scourge. Tax evasion means the failure of the person charged to pay the tax to fulfil his/her obligations in whole or in part towards the financial departments, which affects the state's revenue from the tax through the use of illegal methods and means (Al-Mayahi, 2007). It is also defined as an attempt by the taxpayer to avoid paying the tax in whole or in part. The evasion is done before or during the payment period by using certain illegal means (Taqa and Al-Azzawi, 2010).

One of the most important forms of tax evasion is the total concealment of economic activity. This means that no information about these activities reaches the Ministry of Finance. Therefore, this does not result in the payment of taxes, i.e. the existence of economic activities operating in secret without a license. Other forms include concealing real data about the financial resources obtained from some economic activities and projects, in addition to reducing the selling prices of goods and services, as well as falsifying import invoices, as the number of imported materials appears to be small in order to evade paying customs duties (www.aleppoecnomics.com). Tax evasion has social, financial, and economic effects on the country, so certain methods must be taken in order to combat tax evasion, including the need to take strict and deterrent measures and penalties for tax evasion. Moreover, tax laws and legislation should be properly formulated so that there are no loopholes that help tax evasion persons. Tax awareness should be developed. In addition, tax justice should be achieved, beside relying on notifications of others, granting of a financial reward for those who report, protecting them when there are corrupt employees, and facilitating the means of disclosure and reporting (Al-Tikriti, 1999).

### **Fourth; Shell companies**

Organizations established in order to steal, defraud, and deceive others have appeared in Iraq. These organizations undertake the process of investing the huge savings money as a result of the lack of investment fields, in addition to the limited economic experience of the majority of the members of society whose only goal is to obtain quick profit. These organizations work to steal large amounts of money. It is noticed that these companies play the largest role in money laundering operations inside and outside Iraq. These fictitious companies practice fraud by carrying out financial exploitation through exploiting the money coming from citizens with very high benefits and aiming to obtain profit and destroy the Iraqi economy through the use of money away from the monetary authority. These companies have links with global cash speculation companies. They use suspicious funds in order to implement the money laundering policy. Table (2) shows some of these companies.



**Table 2: Shell companies in Iraq**

No.	Name of Company	Country
1	Marjain for General Trade	UAE-Dubai
2	Al-Jazeera Trade Company	UAE-Ras Al-Khaima
3	Sour Al-Seen Company for Import and Export	UAE-Ras Al-Khaima
4	Al-Karank Company for Import and Export	UAE-Ras Al-Khaima
5	Tareeq Al-Hareer Company for Import and Export	UAE-Ras Al-Khaima
6	Al-Ghaya Company for Import and Export	UAE-Ajman
7	Shar'I Sadan Company for Import and Export	UAE-Ajman
8	Wisam Al-Khail Company for Import and Export	UAE-Ajman

Source; Shandi, A. (2015). Future of Iraqi Economy, 1<sup>st</sup> Edition, Wasit.

### **Fifth; Begging**

The phenomenon of begging is one of the negative phenomena that afflict all human Islamic and non-Islamic societies. In Iraq, this phenomenon has become a daily profession for many people. Beggars spread in the streets carrying their disabled young and old age as a means of asking for help from passers-by. It has recently expanded amid the absence of a government role to address this phenomenon. There are many reasons for begging that cannot be limited to one aspect, but the only motive for them is to obtain money. With the passage of time, begging itself turns into a motive. Even if the beggar reaches the point of sufficiency and satisfaction, but he/she rises to become one of the wealthy class. Begging has many reasons, including poverty and laziness, as well as mental deficiency, physical disability, loss of the breadwinner, and finally the wrong upbringing in childhood (<http://www.rudaw.net/arabic>). Begging is one of the most important manifestations of the hidden economy because it generates hidden incomes that are not included in the national accounts although these incomes are used for consumer spending purposes.

### **Sixth; Street vendors**

Day after day, most of the cities of Iraq are turning into a large open market for street vendors, in which trade suffices with other economic activities through large squares in which sellers display their goods to the point where what is offered on the roads and in carts exceeds in quantity and quality what is found in shops and stores. Therefore, the phenomenon of stalls, street vendors, and displayed bales has become a distinctive feature of the cities of Iraq, thus turning even the streets into places for commodity dumping, which is offset by poverty among the segments of society. In (2011), government statistics indicate that (23%) of the population of about (30000000) live below the poverty line (<http://elaph.com/web/Economics/2012>). Although Iraq is considered one of the oil-rich countries, Iraq is overshadowed by poverty because its revenues go to activities that do not flow into the channels of combating poverty because of poor planning and corruption.

## Second; Reasons for Shadow Economy in Iraq

There are a number of reasons that led to the growth and exacerbation of the phenomenon of Shadow Economy in Iraq. They can be summarized as follows:

A. High rates of unemployment; Unemployment is considered one of the most serious problems facing Iraq because its existence leads to economic, social, and political consequences that harm the country, especially if the group that suffers from unemployment is the young group of society, which generates a kind of dissatisfaction among young people with the government. It also leads them to work outside the official scope in works that fall within the activities of the hidden economy (). Table (3) shows unemployment rates in Iraq for the period (2010-2020).

**Table 3: Growth of unemployment rates in Iraq (2010-2020)**

Years	Percentages of unemployment rates	Percentage of Growth Rate
2010	12	-
2011	11	-8.3
2012	11.9	8.2
2013	12.1	1.7
2014	10.6	-12.4
2015	13.18	24.4
2016	10.8	-18.2
2017	22.6	109.3
2018	22.6	0
2019	27.3	104.5
2020	30.1	105.4

Source; The two researchers based on data from Ministry of Planning, Statistics and Information Technology for the period from (2004-2020).

### B. State Budget Deficit

Another reason for the growth of the hidden economy is the state's general budget deficit. The imbalance between revenues and public expenditures leads to a general budget deficit, so the state resorts to one of two methods to face this deficit. The first method is to impose new taxes and fees or raise the tax rate, and the second is to issue the new cash to meet the deficit, i.e. financing the deficit through inflation, as happened during the time of the previous regime. Both methods lead to an increase in the tax burden as well as an increase in the general level of prices (inflation), which in turn leads to a reduction in the income of taxpayers, which prompts them to compensate for this shortfall by increasing the income derived from the activities of the hidden economy. Table (4) shows the surplus and deficit in the general budget in Iraq for the period (2010-2020)



**Table 4: Surplus and deficit of the general budget in Iraq for the period (2010-2020)**

Year	General incomes in current prices	Total general expenditures in current prices	Surplus or deficit of general budget
2010	63324.9	70134.2	-6809
2011	92671.4	78757.7	1391
2012	109607.1	105139.6	4467
2013	103377.9	119127.6	-1574
2014	99402.2	112192.1	-1278
2015	68176.6	70417.5	-2240
2016	57797.7	73571.0	-15773
2017	77335.9	75490.1	1845
2018	106569.8	80873.2	25696
2019	107567.0	111723.6	-4156
2020	47761.0	62141.7	-1438

Source; Columns (1) and (2) are done by the two researchers based on data of Ministry of Finance, Directorate of Budget.

**Column (3) is the result of subtracting column (1) from column (2) in the above table.**

### **C. Economic crises**

The Iraqi economy has suffered from economic crises and many wars, which in turn contributed to the growth of the hidden economy phenomenon in Iraq. These crises and wars led to the emergence of many problems, including poverty, unemployment, and inflation, which are among the most important reasons for increasing and expanding the size of the hidden economy.

### **D. Administrative corruption and the complexity of government procedures**

Government administrative procedures are characterized by their complexity. Even in the absence of taxes, the hidden economy continues to appear due to complex government restrictions and procedures that impede the progress of economic activity. The income of tax employees is not commensurate with their standard of living, which leads them to illegal behavioural tendencies of the employee represented by litigation Bribery.

### **E. Security and political instability**

In light of the absence of legitimacy, the security and political instability would lead to the expansion of the volume of hidden activities. The growing phenomenon of terrorism and wars contributed to the destruction of the economic structure and halting the wheel of development in the state. It can be said that political instability with unmonitored economic liberalization by the state leads to a gap that encourages the growth and expansion of the volume of hidden activities.

## **F. Low rate of income**

The decline in income is one of the reasons for the growth of the size of the hidden economy in Iraq. The decline in income leads to the spread of poverty, and thus the search for alternative means to obtain the income that is necessary for the continuation of life. The decline in income leads to a decrease in labour productivity, which negatively affects national production (Yassir, 2014). Some studies have indicated that low income, i.e. poverty, is one of the factors causing involvement in hidden activities in all its fields. Shareholders are nothing but a group of unemployed people that are unable to obtain a job opportunity in overt activities. The increase in inflation rates leading to erosion Income gives individuals a sense of instability and lack of social security. As a result of their conviction of the government's failure to protect their money, individuals are forced to rely on themselves to achieve this protection by engaging in hidden activities.

## **G. Housing Problems**

Current estimates indicate that Iraq is suffering from a major housing crisis. As a result of this crisis, a vicious circle begins between the state and the citizen, leading to the growth of hidden activities in the housing sector. A good example of this is the random housing of many families.

### **Third; Ways to overcome the phenomenon of Shadow Economy**

It is impossible to eliminate Shadow Economy completely, so a number of measures must be taken to narrow the scope of this economy so that it does not negatively affect economic activity, through the adoption of a number of regulatory, economic, and legal reforms. The high tax burden is considered one of the main reasons for the growth of the activities of the hidden economy and their prices play an important role in influencing the desires of individuals to work in official activities or to work in hidden activities that are not subject to taxes. Therefore, in order to overcome the phenomenon of the hidden economy, certain methods must be followed to reform the tax system in order to avoid tax evasion, review the basis for calculating the tax rate, review the means of disclosing sources of income, simplify procedures, and impose strict penalties on those who fail to pay taxes. Preventive and remedial means are taken by governments, taking into account the distinction between incomes obtained without paying taxes (Draeseke, 2002), and that the decision to evade paying tax of the first type is affected by tax policy and its administrative and technical organization. While the behaviour of the taxpayer of the second type is affected by the confidentiality of the activity and its prohibited nature, which in turn affects the decision of evasion, and that tax evasion is affected by subjective factors, including the efficiency of the tax system, tax rates, the possibility of detecting evasion, and other factors outside the tax system, including government spending policies, the nature of the economy, bureaucracy, economic growth, and others. Therefore, the process of tax evasion must be reduced by increasing tax audits, but this process is costly. In addition, preventing tax evasion may lead to positive and negative effects, as completely eliminating tax evasion is difficult to achieve. Then, it would be better not to eliminate tax evasion in full, but an optimal situation is sought by equalizing the marginal cost of eliminating the hidden economy with the marginal revenue that results from this process, but the

application of this method is very difficult. The authorities have many means that can be adopted to confront the hidden economy, such as tax inspections and reducing Tax rates, severity of penalties, etc. In order to achieve the optimal situation, a careful balance must be made between these tools. Besides, tax rates must be adjusted with inflation rates, i.e. what is called standardization in the presence of inflation (Inflation Indexation) in mitigating recourse towards the hidden economy. Failure to standardize the tax rate with inflation will lead to an increase in the volume of the hidden economy, and vice versa, the standardization procedure will result in reducing the feeling that inflation will lead to a kind of inequity in the distribution of income.

Among other methods to reduce the phenomenon of the hidden economy is the imposition of fines on those who work in a hidden way, as well as increasing the number of labour inspectors, in addition to enacting strict laws to reduce this phenomenon. Another means to confront the phenomenon of the hidden economy is to develop public awareness about the negative effects of some of the activities of the hidden economy on society and on the national economy. It is noticed that other countries have applied programs that are concerned with improving self-skill as a means of persuading individuals to choose an official environment that is commensurate with their new cultural and educational situation. National education programs applied in some countries such as South Korea and Malaysia are considered one of the most important means of accustoming the individual to adhere to the principle of legality and observance of systemic principles, public order and the rule of law on financial actions and economic activities. There is also a belief that programs that aim to address the hidden economy can be more cost-effective in promoting employment, production, and poverty alleviation. In Africa, for example, it was found that official local projects increased when the economic environment became more open. This indicates what can be achieved if the entire economy is liberalized (WWW.EGYPTIAGREENS.COM / DOCS / GENERAL / INDEX).

Therefore, the government must put severe barriers to exiting the announced economy after entering it. Moreover, the government must compare the costs and returns of implementing a particular policy. In addition, governments must follow credibility as well as time consistency when setting policies. For example, when the government resorts to an announcement, the tax amnesty must be followed by a campaign to confront tax evasion. Otherwise, the establishments will resort to tax evasion, expecting the amnesty later.

In order to overcome the hidden economy, structural imbalances in the labour markets must be reformed. Labour market policies in developing countries have contributed to disappointing labour market outcomes as a result of the dominance of the public sector over the labour market. Therefore, labour market policies serving a group of community members contributed to serving the entire community. Labour market reforms have proven successful in creating high rates of job opportunities, job security, continuous review of minimum wage policies, labour market regulations, unemployment insurance, and increased labour productivity through the development of qualification and training in accordance with the requirements of the actual labour market. In order to confront the hidden economy, monetary and financial policies must be reformed. One of the most important means of reforming monetary policy is relying on

electronic cash transactions, which is a safe procedure for money management and money exchange policies to provide banking services and restructure the banking sector that help competition and financial deepening. These measures encourage establishments to work with the declared activities and limit the hidden economy due to the increase in the opportunity cost, in addition to fixing the exchange rate, as adopting a double exchange rate encourages the use of informal channels (Abdullah, 2010). As for reforms regarding fiscal policy, there are several means, including granting tax exemptions on hidden activities transferred to the declared economy for a period ranging from two to five years, while trying to link them to the investment fields that the state needs, and adopting specific programs that aim at improving the performance of small enterprises, by using Financial assistance such as providing short-term credit to encourage workers in hidden activities to enter legally into commercial activity, developing flexible and stable financial policies and legislation that take into account economic changes on the international and local arena, helping individuals to predict future investment, addressing the causes of deficit in the state budget, achieving transparency in public spending, and preventing extravagant waste of state resources (Harris – White, 2010).

## CONCLUSIONS

1. The size of the hidden economy expands and grows with the increase in the economic crises the country is experiencing. Deliberation and laxity in dealing with it may prepare the climate for the emergence of a new culture (the culture of corruption), i.e. negative values prevail at the expense of positive values.
2. The Iraqi economy is characterized by inefficiency in the allocation of economic resources, which led to the growth of the phenomenon of the hidden economy. Its dependence on one financial resource (oil) led to the decline of the role of other financial resources represented by taxes and fees. That is added to the inefficiency of the agencies charged with tax collection because of the spread of administrative and financial corruption and the spread of bribery.
3. Organized crime, such as money laundering, is one of the crimes that can cause political and economic damage, as it affects the prestige of the state and its political system, as well as the national economy in all its economic sectors. It also has social damages represented by the disruption of the social structure and the increase in poverty.
4. Political stability has a significant impact on the size of the hidden economy, as political instability with unmonitored economic liberalization by the state will lead to a gap that helps the growth of the size of hidden economy.

## Recommendations

1. Due to the growth and expansion of the size of hidden economy, it must be addressed and all means must be followed to prevent the growth of its activities through reforming the monetary and fiscal policy, addressing the causes of the deficit in the state's general budget, achieving transparency in public spending, and preventing extravagant waste of the state's resources.

2. Sound economic policies that lead to achieving efficiency in the allocation of economic resources must be followed. In addition, sources of income must be diversified and not make them dependent on one resource alone. Therefore, a sharp and gradual structural change must be made in the public budget that does not deal with oil revenues only, but includes revenues and expenditures in all their joints, as well as reforming the tax system.
3. Banking, legal, and international efforts must be combined to combat the crime of money laundering and work to reduce it by identifying the customer and the nature of the business he/she performs, verifying the extent of their authenticity, and relying on the policy of periodic reports on banking activities, in addition to strengthening the bonds of international cooperation in order to address all Types of transnational organized crime.
4. A stable and secure economic climate must be provided in order to limit the expansion of hidden economy and ways to activate laws that limit all illegal economic activity must be followed.
5. Activating the work of economic control over all transactions that take place within the national economy, in addition to activating the mechanism for controlling the external borders and the accompanying smuggling operations for some commodities and raw materials.

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