

## **Comparative Analysis of the Relationship Between Poverty and Underground Economy in the Highly Developed, Transition and Developing Countries.**

### **Abstract**

This study was undertaken with the goal of analyzing the relationship between poverty rates and size of underground economy in the developed and developing countries and exploring whether there is a link between them. There are technical problems in linking them in that getting information from those who have undertaken underground activities are difficult. Secondary data were used to establish hypothetical relationship and primary data for the empirical analysis. The results of the descriptive analysis revealed that underground economy and poverty have no geographical boundary. Although the incidence, and the size differs from one country to another. The incidences of poverty and shadow economy are larger in the poor (developing and transition) countries when compared with the highly developed countries. There is also a causal link between poverty and underground economy especially in the developing and transition countries with common factors such as high unemployment and corruption rates affecting both poverty and underground economy. High social security system and tax burden were found to account for the high rates of underground economies in the highly developed countries even with people's awareness of its implications when caught. In developing countries like Nigeria, most people embark on unlicensed (and hence illegal) micro-enterprises / activities like production and sale of pure water, yoghurts, cutting down of economic trees, illegal running of private schools, drug trafficking, prostitution, black-market currency exchange, fake disclosure of actual business profit, in order to increase their levels of income by tax evasion or avoidance in the name of surviving. Government can reduce this menace to certain extent by engaging itself in sustainable poverty reduction activities, tax policy changes, embarking anti-corruption campaign and increase in job opportunities within the formal economy.

### **Key words**

Poverty, underground economy, developed, transition and developing countries