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Measuring the shadow economy using company managers

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Abstract

This study develops a method that uses surveys of company managers to measure the size of a shadow economy. Our method is based on the premise that company managers are the most likely to know how much business income and wages go unreported due to their unique position in dealing with both of these types of income. We use a range of survey design features to maximize the truthfulness of responses. Our method combines estimates of misreported business income, unregistered or hidden employees, and unreported wages, to arrive at an estimate of the size of a shadow economy as a percentage of GDP. This approach differs from most other studies of shadow economies, which largely focus on using macro indicators. We illustrate the application of our method to three new EU member countries. We also analyze the factors that influence companies' participation in the shadow economy.

Keywords: shadow economy; tax evasion; company managers; new EU members; GDP

JEL classifications: E26; O17; E01; P24; H26; H32

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