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New Estimates for the Shadow Economies all over the World

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Abstract

This paper presents estimations of the shadow economies for 162 countries, including developing, Eastern European, Central Asian, and high income OECD countries over 1999 to 2006/2007. According to our estimations, the weighted average size of the shadow economy (as a percentage of 'official' GDP) in Sub-Saharan Africa is 37.6%, in Europe and Central Asia (mostly transition countries) 36.4% and in high income OECD countries 13.4%. We find that an increased burden of taxation (direct and indirect ones), combined with (labour market) regulations and the quality of public goods and services as well as the state of the 'official' economy are the driving forces of the shadow economy.

Keywords:

Shadow economy of 162 countries

tax burden

quality of state institutions

regulation

MIMIC model

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Notes

¹Compare the different opinions of Tanzi ([1999](#)), Thomas ([1999](#)), Giles ([1999a](#), [1999b](#)) and Pedersen ([2003](#)).

²This definition is used for example, by Feige ([1989](#), [1994](#)), Schneider ([2005](#), [2007](#)), Feld and Schneider ([2010](#)) and Frey and Pommerehne ([1984](#)). Do-it-yourself activities are not included. For estimates of the shadow economy and the do-it-yourself activities for Germany see Buehn et al. ([2009](#)).

³See Schneider ([1986](#), [2005](#), [2007](#)); Johnson et al. ([1998a](#), [1998b](#)); Tanzi ([1999](#)); Giles ([1999a](#)); Giles and Tedds ([2002](#)); Feld and Schneider ([2010](#)).

⁴The pioneers of this approach are Frey and Weck-Hannemann ([1984](#)) who applied this approach to cross-section data from the 24 OECD countries for various years.

⁵A general overview about the SEM approach is given in, for example, Bollen ([1989](#)).

⁶A number of variables is not available for 2007, hence we have two different sets of cause variables.

⁷ x_{1t} is size of government, x_{2t} and x_{3t} are the fiscal and business freedom index, and x_{4t} represents GDP per capita. All series are taken as standardized deviations from the country-specific mean.

⁸The base values originate from the year 2000 except for some developing countries, for which we sometimes used base values from the year 2005 because of data availability. The MIMIC index has been adjusted to the positive range by adding a positive constant.

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