

# Shadow Economies All over the World

New Estimates for 162 Countries from 1999 to 2007

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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 countries over the period 1999 to 2006/2007. According to the estimations, the weighted average size of the shadow economy (as a percentage of “official” gross domestic product) in Sub-Saharan Africa is 38.4 percent; in Europe and Central Asia (mostly transition countries), it is 36.5 percent, and in high-income OECD countries, it

is 13.5 percent. The authors find a clear negative trend in the size of the shadow economy: The unweighted average of the 162 countries in 1999 was 34.0 percent and in 2007 31.0 percent; hence a reduction of 3 percentage points!. The driving forces of the shadow economy are an increased burden of taxation (both direct and indirect), combined with labor market regulations and the quality of public goods and services, as well as the state of the “official” economy.

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This paper—a product of the Poverty and Inequality Team, Development Research Group, and the Human Development Economics Unit, Europe and Central Asia Region—is part of an effort to understand the underlying factors that determine the size of informal employment in the shadow economy, providing background technical analysis for a forthcoming World Bank regional study *“In from the Shadow: Integrating Europe’s Informal Labor”*. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The authors may be contacted as follow: Friedrich Schneider: [friedrich.schneider@jku.at](mailto:friedrich.schneider@jku.at); Andreas Buehn: [andreas.buehn@tu-dresden.de](mailto:andreas.buehn@tu-dresden.de); and Claudio E. Montenegro: [cmontenegro@worldbank.org](mailto:cmontenegro@worldbank.org).

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***Shadow Economies All over the World: New  
Estimates for 162 Countries from 1999 to 2007  
(Revised Version)\*<sup>1</sup>***

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\* Unfortunately the estimates of the original version (WPS 5356) needed to be revised due to a serious calibration error (sign switch). We apologize for this, especially as we now have in this version a negative trend for the size and development of the shadow economies over 1999 - 2007, which we did not have in the original version.

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# 1 Introduction

Activities associated with shadow economies are facts of life around the world. Most societies attempt to control these activities through various measures such as punishment, prosecution, economic growth or education. To more effectively and efficiently allocate resources, it is crucial for a country to gather information about the extent of the shadow economy, its magnitude, who is engaged in underground activities, and the frequency of these activities. Unfortunately, it is very difficult to get accurate information about shadow economy activities, including the goods and labor involved, because individuals engaged in these activities do not wish to be identified. Hence, doing research in this area can be considered a scientific passion for “knowing the unknown.”

Although substantial literature<sup>5</sup> exists on single aspects of the hidden or shadow economy and comprehensive surveys have been written by Schneider and Enste (2000), and Feld and Schneider (2009), the subject is still quite controversial as there are disagreements about the definition of shadow economy activities, estimation procedures utilized, and the use of their estimates in economic and policy analysis.<sup>6</sup> Nevertheless, there are some indications that the shadow economy has grown around the world, but little is known about the development and the size of the shadow economies in developing Eastern European and Central Asian (mostly former transition) countries, and high income OECD countries over the period 1999 to 2006/2007. The period was chosen as it has the most comprehensive data availability. This study is an attempt to fill this gap by using the same estimation technique and almost the same data sample used in Schneider and Buehn (2009) and Schneider and Enste (2000).

Therefore, the goal of this paper is twofold: (i) to undertake the challenging task of estimating the shadow economy for 162 countries in various stages of development and located in several regions throughout the world<sup>7</sup> and (ii) to provide some insights about the main causes of the shadow economy. To our knowledge, such an attempt has not been undertaken so far; hence, we provide a unique database of the size and trends of the shadow economy in 162 countries over the period 1999 to 2006/2007. This is an improvement compared to previous work – we used the MIMIC (Multiple Indicators Multiple Causes) estimation method for all countries, thus creating a unique data set that allows us to compare shadow economy data.

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<sup>5</sup> The literature about the “shadow”, “underground”, “informal”, “second”, “cash” or “parallel”, economy is increasing. Various topics – how to measure it, its causes, its effect on the official economy, etc... are analyzed. See for example, survey-type publications by Frey and Pommerehne (1984); Thomas (1992); Loayza (1996); Pozo (1996); Lippert and Walker (1997); Schneider (1994a, 1994b, 1997, 1998a, 2003, 2005, 2007); Johnson, Kaufmann, and Shleifer (1997), Johnson, Kaufmann and Zoido-Lobaton (1998a, 1998b); Belev (2003); Gerxhani (2004); and Pedersen (2003). For an overall survey of the global evidence of the size of the shadow economy, see Bajada and Schneider (2005); Schneider and Enste (2000, 2002); Alm, Martinez and Schneider (2004); Kazemier (2005a); Enste and Schneider (2006); and Feld and Schneider (2010).

<sup>6</sup> Compare the different opinions of Tanzi (1999), Thomas (1999), Giles (1999a,b) and Pedersen (2003), and Janisch and Brummerhoff (2005).

<sup>7</sup> This paper focuses on the size and trend of the shadow economy for countries and does not show any disaggregated values for specific regions. For the EU regions an estimation was done by Herwartz, Schneider and Tafenau (2009). Recently some initial studies were undertaken to measure the size of the shadow economy, as well as the “grey” or “shadow” labor force for urban regions or states (e.g. California). Compare e.g. Marcelli, Pastor and Joassart (1999), Marcelli (2004), Chen (2004), Williams (2004a, b, 2005a, b, 2006), Williams and Windebank (1999, 2001a, b), Flaming, Haydamack and Jossart (2005) and Alderslade, Talmage and Freeman (2006), and Brueck, Haisten-DeNew and Zimmermann (2006).

The rest of the paper is organized as follows. In section 2 we make an attempt to define the shadow economy. The same section also includes some theoretical considerations about its determinants. Section 3 presents the econometric estimation results and the calculation of the size of the shadow economy in 162 countries over the period 1999 to 2006/2007, depending on data availability. In section 4, a summary is given and some policy conclusions are drawn. Finally, appendix 1 presents the currency demand method approach; appendix 2 presents the variable definitions and data sources; appendix 3 presents the descriptive statistics; appendix 5 presents additional empirical specifications for the sub-samples of transition and high-income OECD countries, and appendix 5 presents the ranking for the 162 countries in alphabetic order.

## **1.1 Summary of Results**

According to our analysis, the shadow economy has reached remarkable proportions, with a weighted average value of 17.2% of official GDP over 162 countries between 1999 and 2006/2007. The unweighted average size of the shadow economies in the 162 selected countries (developing Eastern European and Central Asian, as well as high-income OECD countries) decreased from 34.1% of official GDP in 1999 to 31.0% of official GDP in 2007. Comparing results across the 4 different specifications we calibrated, it turns out that the variation in the estimates is relatively low across all countries. Each model predicts a similarly sized shadow economy for each country and our results are quite robust for most of the countries over the period 1999 to 2006/2007. Our results further show that the driving forces of the shadow economy include an increased burden of taxation, labor market regulations, the quality of public goods and services, and the state of the “official” economy. According to specification 3 in table 3.1– the empirical model covering a broad set of countries and all important driving forces of the shadow economy – reducing the tax burden is the best policy measure to reduce the shadow economy, followed by a lessening of fiscal and business regulation. The estimated coefficients indicate that a unit improvement of these driving forces reduces the shadow economy by 0.15 and 0.08 units, respectively. However, the relative importance of these driving forces differs significantly across various country groups, as detailed in the results section of our paper.

## **2 Theoretical Considerations**

This section makes an attempt to define the shadow economy and offers theoretical considerations about the shadow economy’s most important determinants. Finally, it addresses the difficulty encountered when attempting to decide whether a variable is a cause or indicator of the shadow economy. Although section 2 refers to various articles from the literature it does not review the literature comprehensively.<sup>8</sup> Rather, this section draws the most important explanations and findings from the literature and uses them as inputs to the choice of variables (causes and indicators) in the empirical models.

### **2.1 Defining the Shadow Economy**

Most authors trying to measure the shadow economy face the difficulty of how to define it. One commonly used working definition is all currently unregistered economic activities that

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<sup>8</sup> For a literature review see Schneider and Enste (2000) and Feld and Schneider (2010).

contribute to the officially calculated (or observed) Gross National Product.<sup>9</sup> Smith (1994, p. 18) defines it as “market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP.” Or to put it in another way, one of the broadest definitions of it includes “...those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation.”<sup>10</sup>

In this paper the following more specific definition of the shadow economy is used:<sup>11</sup> the shadow economy includes all market-based legal production of goods and services that are deliberately concealed from public authorities for any of 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, such as minimum wages, maximum working hours, safety standards, etc., and
- (4) to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.

This paper utilizes a more precise definition of the shadow economy so as not to deal with typical underground, classical economic crime activities, which are all illegal actions that fit the characteristics of crimes like burglary, robbery, drug dealing, etc. Also, this paper does not focus on tax evasion or tax compliance due to time and length constraints, and the fact that tax evasion is a subject on which a lot of research has already been undertaken.<sup>12</sup>

## **2.2 Main Causes of the Shadow Economy**

### **2.2.1 Tax and Social Security Contribution Burdens**

In almost all studies it has been ascertained that the overall tax and social security contribution burdens are among the main causes for the existence of the shadow economy.<sup>13</sup> Since taxes affect labor-leisure choices, and also stimulate labor supply in the shadow economy, the distortion of the overall tax burden is a major concern for economists. The bigger the difference between the total cost of labor in the official economy and the after-tax earnings (from work), the greater the incentive to avoid this difference and to work in the shadow economy. Since this difference depends largely on the social security burden/payments and the overall tax burden, the latter are key features of the existence and the increase of the shadow economy.

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<sup>9</sup> This definition is used, for example, by Feige (1989, 1994), Schneider (1994a, 2003, 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 Karmann (1986, 1990), and Buehn, Karmann and Schneider (2009).

<sup>10</sup> This definition is taken from Dell’Anno (2003), Dell’Anno and Schneider (2004) and Feige (1989); see also Thomas (1999), Fleming, Roman and Farrell (2000).

<sup>11</sup> See the excellent discussion of the definition of the shadow economy in Pedersen (2003, pp.13-19) and Kazemier (2005a) who use a similar one.

<sup>12</sup> Refer to the survey of Andreoni, Erard and Feinstein (1998) and the paper by Kirchler, Maciejovsky and Schneider (2002), as well as the survey by Feld and Schneider (2009).

<sup>13</sup> See Thomas (1992); Lippert and Walker (1997); Schneider (1994a,b, 1997, 1998a,b, 2000, 2003b, 2005, 2007); Johnson, Kaufmann, and Zoido-Lobaton (1998a,1998b); Tanzi (1999); Giles (1999a); Mummert and Schneider (2001); Giles and Tedds (2002) and Dell’Anno (2003), as well as Feld and Schneider (2010), among others.

Empirical results showing the influence of the tax burden on the shadow economy are provided in the studies of Schneider (1994b, 2000, 2004, 2005, 2007) and Johnson, Kaufmann and Zoido-Lobaton (1998a, 1998b); they all found statistically significant evidence for the influence of taxation on the shadow economy. This strong influence of indirect and direct taxation on the shadow economy is further demonstrated by discussing empirical results in the case of Austria and the Scandinavian countries. For Austria, the driving force for shadow economic activities is the direct tax burden (including social security payments); it has the biggest influence, followed by the intensity of regulation and complexity of the tax system. A similar result has been found by Schneider (1986) for the Scandinavian countries Denmark, Norway, and Sweden. In all three countries various tax variables—average direct tax rate, average total tax rate (indirect and direct tax rate), and marginal tax rates—have the expected positive effect on currency demand and are highly statistically significant. These findings are supported by studies by Kirchgaessner (1983, 1984) for Germany, and by Klovland (1984) for Norway and Sweden.

The concrete measurement of the tax and social security contribution burdens is not easy to define because the tax and social security systems are vastly different among countries. In order to have some general comparable proxies for this, we use the following causal variables:

- (1) Share of direct taxes: direct taxes as a proportion of overall taxation (positive sign expected),
- (2) Size of government: general government final consumption expenditures (percent of GDP, which includes all government current expenditures for purchases of goods and services; positive sign expected),
- (3) Fiscal freedom, a subcomponent of the Heritage Foundation's economic freedom index, which measures the fiscal burden in an economy; i.e. top tax rates on individual and corporate income. The index ranges from 0 to 100, where 0 is least fiscal freedom and 100 maximum degree of fiscal freedom (negative sign expected).

### **2.2.2 Intensity of Regulations**

Increased intensity of regulations is another important factor that reduces the freedom of choice for individuals engaged in the official economy. Regulations include labor market regulations (e.g. minimum wages or dismissal protections), trade barriers (e.g. import quotas), and labor market restrictions for foreigners (e.g. restrictions regarding the free movement of foreign workers). Johnson, Kaufmann, and Zoido-Lobaton (1998b) find significant overall empirical evidence of the influence of labor regulations on the shadow economy; and the impact is clearly described and theoretically derived in other studies, e.g. for Germany (Deregulation Commission 1990/91). Regulations lead to a substantial increase in labor costs in the official economy. But since most of these costs can be shifted to the employees, these costs provide another incentive to work in the shadow economy, where they can be avoided. Their empirical evidence supports the model of Johnson, Kaufmann, and Shleifer (1997), which predicts, inter alia, that countries with more general regulation of their economies tend to have a higher share of the unofficial economy in total GDP. Johnson, Kaufmann, and Zoido-Lobaton (1998b) conclude that it is the enforcement of regulation which is the key factor for the burden levied on firms and individuals, and not the overall extent of regulation - mostly not enforced - which drives firms into the shadow economy. Friedman et al. (2000) reach a similar conclusion. In their study, every available measure of regulation is significantly correlated with the share of the unofficial economy and the estimated sign of the relationship between their measures of regulation and the shadow economy is unambiguously positive: more regulation is associated with a larger shadow economy. These findings show



that governments should put more emphasis on improving enforcement of laws and regulations, rather than increasing their number. Some governments, however, prefer this policy option (more regulations and laws), when trying to reduce the shadow economy, mostly because it leads to an increase in power for the bureaucrats, to a higher rate of employment in the public sector, is easier to implement, is easily perceived and thus positively rewarded by the public.

To measure the intensity of regulation or the impact of regulation on the decision of whether to work in the official or unofficial economy, this study uses business freedom as causal variable. Business freedom is a subcomponent of the Heritage Foundation's economic freedom index; it measures the time and efforts of business activity. It ranges from 0 to 100, where 0 is least business freedom and 100 maximum business freedom (negative sign expected).

### **2.2.3 Public Sector Services**

Shadow economy growth can lead to reduced state revenues, which in turn reduce the quality and quantity of publicly provided goods and services. Ultimately, this can lead to an increase in the tax rate for firms and individuals in the official sector, often combined with a deterioration in the quality of the public goods (such as public infrastructure) and of the administration, resulting in even stronger incentives to participate in the shadow economy. Johnson, Kaufmann, and Zoido-Lobaton (1998a/b) present a simple model of this relationship. Their findings show that smaller shadow economies appear in countries with higher tax revenues achieved by lower tax rates, fewer laws and regulations, and less corruption. Countries where the rule of law is respected and upheld, and financed by tax revenues, also have smaller shadow economies. Transition countries have higher levels of regulation leading to a significantly higher incidence of bribery, higher effective taxes on official activities, and a large discretionary regulatory framework, consequently resulting in a higher shadow economy. Their overall conclusion is that "wealthier countries of the OECD, as well as some in Eastern Europe, find themselves in the 'good equilibrium' of relatively low tax and regulatory burden, sizeable revenue mobilization, good rule of law and corruption control, and a [relatively] small unofficial economy. By contrast, a number of countries in Latin American and the former Soviet Union exhibit characteristics consistent with a 'bad equilibrium': tax and regulatory discretion and burden on the firm is high, the rule of law is weak, and there is a high incidence of bribery and thus a relatively high share of activities in the unofficial economy." (Johnson, Kaufmann, and Zoido-Lobaton, 1998a, p. 1).

The provision and especially the quality of public sector services is also a crucial causal variable for people's decision to work or not work in the shadow economy. To capture this effect, we have the following variable: Government Effectiveness from the World Bank's Worldwide Governance Indicators. It captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The scores of this index fall between -2.5 and +2.5 with higher scores corresponding to better outcomes (negative sign expected).

### **2.2.4 Official Economy**

As demonstrated in a number of studies (Bajada and Schneider, 2005; Schneider and Enste, 2006; Feld and Schneider, 2009), the situation of the official economy also plays a crucial role in people's decision to work or not to work in the shadow economy. In a booming official

economy, people have a lot of opportunities to earn a good salary and “extra money” in the official economy. This is not the case in an economy facing a recession; more people try to compensate their income losses from the official economy through additional shadow economy activities.<sup>14</sup> In order to capture this, we will use the following variables:

- (1) GDP per capita: GDP per capita based on Purchasing Power Parity (PPP), measured in constant 2005 US\$. PPP as gross domestic product converted to international dollars using Purchasing Power Parity rates (negative sign expected),
- (2) Unemployment rate: unemployment, total (as a percent of total labor force). Unemployment refers to the share of labor force that is without work but available for and seeking employment (positive sign expected).

### **2.3 Indicators of the Shadow Economy**

Since the shadow economy cannot be directly measured, we have to use indicators that best capture and reflect the characteristics of shadow economy activities. Here, we use the following indicators:

#### **2.3.1 Monetary Indicators**

To avoid leaving traces of their transactions, people engaged in shadow economy activities primarily use cash. Hence, most shadow economy activities are reflected in an additional use of cash (or currency). To take this into account, we use the M0 over M1 as indicator: M0 corresponds to the currency outside the banks and for M1, the usual definition is M0 plus deposits.

#### **2.3.2 Labor Market Indicators**

Shadow economy activities are also reflected in labor market indicators. We use the following two:

- (1) Labor force participation rate: Labor force participation rate is a proportion of the population that is economically active, all people who supply labor for the production of goods and services during a specified period.
- (2) Growth rate of the total labor force: Total labor force comprises people aged 15 years and older who meet the International Labor Organisation’s (ILO) definition of the economically active population: all people who supply labor for the production of goods and services during a specified period.

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<sup>14</sup> There is however a body of empirical evidence showing that movements into (informal) self-employment are procyclical. For example, Taylor (1996) suggests a “pull” of aspiring entrepreneurs into self employment when unemployment is low and offers of salaried employment are abundant. In good times, individuals may choose to become self-employed knowing that if their venture fails, an offer of formal salaried employment will not be hard to find. Workers considering self-employment wait for a favorable business climate to leave a protected salaried job. Thus, in good economic times when aggregate demand is high and businesses are more likely to flourish there is always a wage-employment safety net that lowers the risks of becoming an entrepreneur. Maloney (1998a,b) presents evidence of pro-cyclical movement into self-employment in Mexico, Arango and Maloney (2000) find that the share of self-employed in Argentina increases as economic conditions improve, while Fiess, Maloney and Shankar (2000) show similar increases in the share of self-employed in Colombia, Brazil and Chile during periods of expansion.

### **2.3.3 State of the Official Economy**

Also, shadow economy activities are reflected in the state of the official economy. We use the the annual growth rate of the GDP per capita as an indicator variable. GDP per capita is gross domestic product converted to international dollars using Purchasing Power Parity rates, divided by the population.

## **2.4 The Problem of Identifying Indicator versus Cause Variables**

Finally, we want to explicitly mention that when using the MIMIC method, there is no clear division between causal variables, which directly influence (drive) the shadow economy and indicator variables, in which shadow economy activities are reflected. In other words, one caveat of the MIMIC method is that, unfortunately, there is not a clear-cut division (or theoretically-oriented guiding rule) between indicator and causal variables. For example, when the economy is in a recession with high unemployment, people have a stronger incentive to work in the shadow economy; this may be seen as a causal variable, but GDP per capita and other measures are also used as indicator variables, in which shadow economy activities are reflected. Hence, we recognize that there is some arbitrariness whether to use a certain variable as causal or indicator. In this paper, we tried to be consistent, but we admit that we use GDP per capita, for instance, as a causal variable in some cases, and as an indicator variable in other cases (specifications 6 and 7 presented in appendix 4). The reasoning here is that we use GDP per capita as a causal control variable in the specifications with a relatively heterogeneous sample, i.e., in the specifications considering the developing countries and the comprehensive sample of 151/120 countries. We use the growth rate of GDP per capita as indicator in these specifications and in the specification considering the transition countries (specification 5). The remaining two specifications considering the high-income OECD countries (specifications 6 and 7 presented in appendix 4) use the GDP per capita as an indicator. Given that the OECD countries are relatively homogeneous, the GDP per capita is not necessarily required as a causal control variable in these specifications.

## **3 The Size of the Shadow Economy in 162 Countries**

### **3.1 Econometric Methodology**

Estimating the size and trend of a shadow economy is a difficult and challenging task. Methods – designed to estimate the size and trend of the shadow economy – such as the currency demand approach or the electricity approach consider just one indicator that “must” capture all effects of the shadow economy. However, it is obvious that shadow economy effects show up simultaneously in the production, labor, and money markets. An even more important critique is that the causes that determine the size of the shadow economy are taken into account only in some of the monetary approach studies that usually consider one cause, the burden of taxation. The empirical method used in this paper is different: It is based on the statistical theory of unobserved variables, which considers multiple causes and indicators of the phenomenon to be measured, i.e. it explicitly considers multiple causes leading to the existence and growth of the shadow economy, as well as the multiple effects of the shadow economy over time.<sup>15</sup> In particular, we use a Multiple Indicators Multiple Causes (MIMIC)

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<sup>15</sup> The pioneers of this approach are Weck (1983), Frey and Weck-Hannemann (1984), who applied this approach to cross-sectional data from the 24 OECD countries for various years. Before turning to this approach they developed the concept of “soft modeling” (Frey, Weck, and Pommerehne (1982), Frey and Weck (1983a,b),

model – a particular type of a structural equations model (SEM) – to analyze and estimate the shadow economies of 162 countries around the world.<sup>16</sup>

The main idea behind SEM is to examine the relationships among unobserved variables with respect to the relationships among a set of observed variables by using the covariance information of the latter. In particular, SEM compare a sample covariance matrix, i.e. the covariance matrix of the observed variables, with the parametric structure imposed on it by a hypothesized model.<sup>17</sup> The relationships among the observed variables are described in terms of their covariances and it is assumed that they are generated by (a usually smaller number of) unobserved variables. In MIMIC models, the shadow economy is the unobserved variable and is analyzed with respect to its relationship to the observed variables using the covariance matrix of the latter. For this purpose, the unobserved variable is first linked to the observed indicator variables in a factor analytical model, also called a measurement model. Second, the relationships between the unobserved variable and the observed explanatory (causal) variables are specified through a structural model. Thus, a MIMIC model is the simultaneous specification of a factor model and a structural model. In this sense, the MIMIC model tests the consistency of a “structural” theory through data and is thus a rather confirmatory than exploratory technique. In fact, in a confirmatory factor analysis a model is constructed in advance; whether an unobserved (latent) variable or factor influences an observed variable is specified by the researcher, and parameter constraints are often imposed. Thus, an economic theory is tested by examining the consistency of actual data with the hypothesized relationships between observed (measured) variables and the unobserved variable.<sup>18</sup> Such a confirmatory factor analysis has two goals: (i) estimating the parameters (coefficients, variances, etc.), and (ii) assessing the fit of the model. Applying this to the shadow economy research, these two goals mean: (a) measuring the relationships of a set of observed causes and indicators to the shadow economy (latent variable), and (b) testing if the researcher’s theory or the derived hypotheses, as a whole, fit the data used.

Formally, the MIMIC model consists of two parts: the structural equation model and the measurement model. The structural equation model is given by:

$$\eta = \gamma'x + \zeta, \quad (1)$$

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an approach which has been used to provide a ranking of the relative size of the shadow economy in different countries.

<sup>16</sup> The latest papers dealing extensively with the MIMIC approach, its development and its weaknesses are from Giles (1999a, 1999b, 1999c), Giles, Tedds and Werkneh (2002), Dell’Anno (2003), and the excellent study by Giles and Tedds (2002), as well as Bajada and Schneider (2005), Breusch (2005a, 2005b), Schneider (2005, 2007), Pickhardt and Sardà Pons (2006), Chatterjee, Chaudhury and Schneider (2006), Buehn, Karmann, and Schneider (2009), and for a detailed discussion of the strengths and weaknesses see Dell’Anno and Schneider (2009).

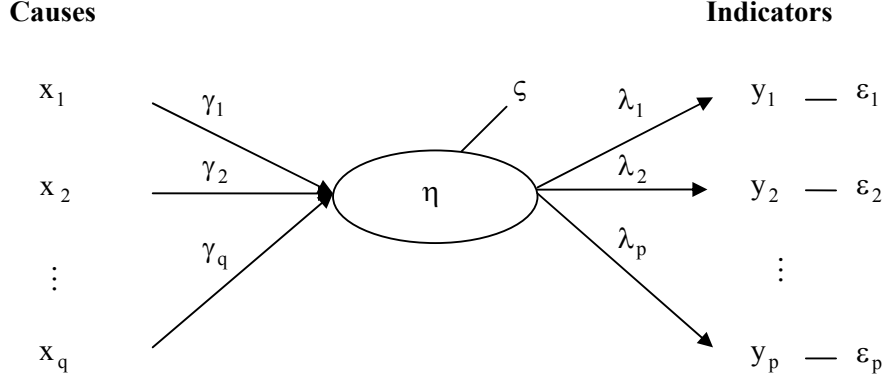
<sup>17</sup> Estimation of a SEM with latent variables can be done by means of a computer program for the analysis of covariance structures, such as LISREL (Linear Structural Relations). A useful overview of the LISREL software package in an economics journal is Cziraky (2004). General overviews about the SEM approach are given in e.g. Hayduk (1987), Bollen (1989), Hoyle (1995), Maruyama (1997), Byrne (1998), Muthen (2002), Cziraky (2005).

<sup>18</sup> On the contrary, in an exploratory factor analysis a model is not specified in advance, i.e. beyond the specification of the number of latent variables (factors) and observed variables the researcher does not specify any structure of the model. This means assuming that all factors are correlated, all observed variables are directly influenced by all factors, and measurement errors are all uncorrelated with each other. In practice however, the distinction between a confirmatory and an exploratory factor analysis is less strong. Facing poorly fitting models, researchers using SEM techniques or a confirmatory factor analysis often modify their models in an exploratory way in order to improve the fit. Thus, most applications fall between the two extreme cases of confirmatory (non-specified model structure) and exploratory (ex-ante specified model) factor analysis.

where  $\mathbf{x}' = (x_1, x_2, \dots, x_q)$  is a  $(1 \times q)$  vector and each  $x_i, i = 1, \dots, q$  is a potential cause of the latent variable  $\eta$  and  $\boldsymbol{\gamma}' = (\gamma_1, \gamma_2, \dots, \gamma_q)$  is a  $(1 \times q)$  vector of coefficients describing the relationships between the latent variable and its causes. Thus, the latent variable  $\eta$  is determined by a set of exogenous causes. Since these causes only partially explain the latent variable  $\eta$ , the error term  $\zeta$  represents the unexplained component. The variance of  $\zeta$  is denoted by  $\psi$ .  $\boldsymbol{\Phi}$  is the  $(q \times q)$  covariance matrix of the causes  $\mathbf{x}$ . The measurement model represents the link between the latent variable and its indicators, i.e. the latent variable determines its indicators. The measurement model is specified by:

$$\mathbf{y} = \boldsymbol{\lambda}\eta + \boldsymbol{\varepsilon}, \quad (2)$$

where  $\mathbf{y}' = (y_1, y_2, \dots, y_p)$  is a  $(1 \times p)$  vector of several indicator variables.  $\boldsymbol{\lambda}$  is the vector of regression coefficients, and  $\boldsymbol{\varepsilon}'$  is a  $(1 \times p)$  vector of white noise disturbances. Their  $(p \times p)$  covariance matrix is given by  $\boldsymbol{\Theta}_\varepsilon$ . Figure 1 shows the structure of the MIMIC model using a path diagram.



**Figure 1.** General Structure of a MIMIC Model

Using equation (1) in equation (2) yields a reduced form multivariate regression model where the endogenous variables  $y_j, j=1, \dots, p$  are the latent variable  $\eta$ 's indicators and the exogenous variables  $x_i, i=1, \dots, q$  its causes. This model is given by:

$$\mathbf{y} = \mathbf{\Pi}\mathbf{x} + \mathbf{z} , (3)$$

where  $\mathbf{\Pi} = \boldsymbol{\lambda}\boldsymbol{\gamma}'$  is a matrix with rank equal to 1 and  $\mathbf{z} = \lambda\zeta + \boldsymbol{\varepsilon}$ . The error term  $\mathbf{z}$  in equation (3) is a  $(p \times 1)$  vector of linear combinations of the white noise error terms  $\zeta$  and  $\boldsymbol{\varepsilon}$  from the structural equation and the measurement model, i.e.  $\mathbf{z} \sim (\mathbf{0}, \boldsymbol{\Omega})$ . The covariance matrix  $\boldsymbol{\Omega}$  is given by  $\text{Cov}(\mathbf{z}) = \text{E}[(\lambda\zeta + \boldsymbol{\varepsilon})(\lambda\zeta + \boldsymbol{\varepsilon})'] = \boldsymbol{\lambda}\boldsymbol{\lambda}'\psi + \boldsymbol{\Theta}_\varepsilon$  and is similarly constrained like  $\mathbf{\Pi}$ . The identification and estimation of the model therefore requires the normalization of one of the elements of the vector  $\boldsymbol{\lambda}$  to an *a priori* value (Bollen 1989). From equations (1) and (2) we can derive the MIMIC model's covariance matrix  $\boldsymbol{\Sigma}(\boldsymbol{\theta})$ . This matrix describes the relationship between the observed variables in terms of their covariances. Decomposing the matrix yields the structure between the observed variables and the latent variable. This covariance matrix is given by:

$$\boldsymbol{\Sigma}(\boldsymbol{\theta}) = \begin{pmatrix} \boldsymbol{\lambda}(\boldsymbol{\gamma}'\boldsymbol{\Phi}\boldsymbol{\gamma} + \psi) + \boldsymbol{\Theta}_\varepsilon & \boldsymbol{\lambda}\boldsymbol{\gamma}'\boldsymbol{\Phi} \\ \boldsymbol{\Phi}\boldsymbol{\gamma}\boldsymbol{\lambda}' & \boldsymbol{\Phi} \end{pmatrix}, (4)$$

where  $\boldsymbol{\Sigma}(\boldsymbol{\theta})$  is a function of the parameters  $\boldsymbol{\lambda}$  and  $\boldsymbol{\gamma}$  and of the covariances contained in  $\boldsymbol{\Phi}$ ,  $\boldsymbol{\Theta}_\varepsilon$ , and  $\psi$ . If the hypothesized model is correct and the parameters are known, the population covariance matrix  $\boldsymbol{\Sigma}$  would be exactly reproduced by estimation of the model, i.e.  $\boldsymbol{\Sigma}$  will equal  $\boldsymbol{\Sigma}(\boldsymbol{\theta})$ . In practice, one does however not know either the population variances and covariances, or the parameters but uses the sample covariance matrix of the observed variables, i.e. of  $\mathbf{y}$  (vector of indicators) and  $\mathbf{x}$  (vector of causes), and sample estimates of the unknown parameters for estimation of the model. The goal of the estimation procedure then is to estimate the parameters and covariances that produce an estimate for  $\boldsymbol{\Sigma}(\boldsymbol{\theta})$ ,  $\hat{\boldsymbol{\Sigma}} = \boldsymbol{\Sigma}(\hat{\boldsymbol{\theta}})$  that is as close as possible to the sample covariance matrix of the observed causes and indicators. The function that measures how close a given  $\boldsymbol{\Sigma}^*$  is to the sample covariance

matrix  $\mathbf{S}$  is called fitting function  $F(\mathbf{S}; \mathbf{\Sigma}^*)$ . The most widely used fitting function for SEM is the Maximum Likelihood (ML) function:

$$F_{ML} = \log|\mathbf{\Sigma}(\theta)| + tr[\mathbf{S}\mathbf{\Sigma}^{-1}(\theta)] - \log|\mathbf{S}| - (p+q), \quad (5)$$

where  $\log|\cdot|$  is the log of the respective matrix's determinant and  $(p+q)$  is the number of observable variables. In general, no closed form or explicit solution for the structural parameters that minimize  $F_{ML}$  exists. Hence, the estimates that minimize the fitting function are derived applying iterative numerical procedures (see appendix 4C in Bollen (1989) for details).

In summary, the first step in the MIMIC model estimation is to confirm the hypothesized relationships between the shadow economy (the latent variable) and its causes and indicators. Once the relationships are identified and the parameters estimated, the MIMIC model results are used to calculate the MIMIC index. However, this analysis provides only relative estimates, not absolute, of the size of the shadow economy. Therefore an additional procedure, benchmarking or calibration procedure, is required in order to calculate absolute values of the size of the shadow economy. These values are presented in subsection 3.3. The next subsection first presents the MIMIC model estimation results.

## **3.2 Econometric Results**

### **3.2.1 Remarks about the Different Estimation Specifications**

As mentioned in the introduction, one of the major goals is to use a coherent data set for a maximum number of countries to produce consistent data of the size and trend of the shadow economies of these countries. Doing this, we face the problem that there may still be data limitations and due to this, we present in table 3.1 four different estimation specifications.<sup>19</sup> It is interesting to see which variables turn out to be significant, especially if one uses subsamples of countries, where more and different causal variables are available. This is the reason why we have two specifications for the developing countries (covering in one case 98, in another case 88 countries) and two specifications for samples of 120 and 151 countries. Consistent estimation for 120 and 151 countries is provided in specification 3 and 4 in table 3.1, from which we can also calculate the size and trend of the shadow economy. The ideal situation would be if a large data set (many causal and indicator variables) were available for all countries over the entire period 1996 to 2007. Unfortunately, this is not the case and this is (as already argued) the sole reason for the different specifications. The sources and definitions of the variables we have used in the estimations are elaborated in appendix 2. Appendix 3 presents the descriptive statistics of the variables for each of the estimated specifications.

### **3.2.2 Econometric Findings**

Results of our MIMIC model estimations are presented in table 3.1. For the total sample two estimations are shown, one for the 151 countries over 1996 to 2007 and, with more causal variables, one sample for 120 countries over 1996 to 2006. In addition to the total sample estimations, econometric estimations using the MIMIC approach (latent estimation approach)

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<sup>19</sup> Appendix 4 presents three additional specifications for transition and high-income OECD countries.

are presented for 88 and 98 developing countries over the period 1994 to 2006.<sup>20</sup> This grouping was necessary because the available data is different across countries and time periods. For the developing countries, two estimations, with and without the direct tax burden rate as causal variable are presented; without direct tax burden rate the number of development countries increased from 88 to 98. Appendix 4 presents additional specifications for 21 Eastern European and Central Asian (mostly former transition) countries, and 25 high-income OECD-countries. For the high-income OECD countries, one specification is estimated over the period 1996 to 2006 and one over the period 1996 to 2007. For the 21 Eastern European and Central Asian countries, the estimation was done over the period 1994 to 2006. For the total sample of 120 and 151 countries we use data for the period from 1996 to 2006/07.

For the developing countries we use the following six cause variables: (i) share of direct taxation (direct taxes in percent of overall taxation); (ii) size of government (general government final consumption expenditure, as a percent of GDP) as proxy for indirect taxation and a variable; (iii) fiscal freedom (an index consisting of top individual income tax rate, top individual corporal tax rate, and total tax revenues as percent of GDP) as three tax burden variables in a wide sense; (iv) regulatory intensity for state regulation; (v) the business freedom index (which is composed of the following components: time to open a business, financial costs to start a business, minimum capital stock to start a business, and costs for obtaining a licence); and (vi) the state of economy with the two variables: the unemployment rate and GDP per capita. As indicator variables we use growth rate of GDP per capita, the labor force participation rate (people over 15 economically active as a percentage of total population), and as currency we use M0 divided by M1.<sup>21</sup> For the total sample of 151 countries we use as cause variables the size of the government, the unemployment rate, government effectiveness, and the GDP per capita. As indicator variables we use currency (M0 over M1), the growth rate of GDP per capita, and the labor force participation rate. For the 120 countries, we have additional causal variables. Here we include the size of the government, the fiscal freedom index, the share of direct taxation, the business freedom index, the unemployment rate, government effectiveness, and the GDP per capita. As indicator variables we use currency (M0 over M1), the growth rate of GDP per capita, and the growth rate of total labor force.

The estimation results for the 88 developing countries, including the direct tax burden over the period 1994 up to 2006 are shown in specification 1, and the estimation results for the 98 developing countries (excluding direct taxation) over the same period are shown in specification 2. In both estimations, all estimated coefficients of the cause variables have the theoretically expected signs. Except for the unemployment rate, all other cause variables are statistically significant, at least at the 90-percent confidence level. The share of direct taxation and the size of government are highly statistically significant, as well as the fiscal freedom and the business freedom variable. Also, the GDP per capita is in both equations highly statistically significant with the expected negative sign. In reference to the indicator variables, the labor force participation rate and the growth rate of GDP per capita are in both equations highly statistically significant. The test statistics are also quite satisfactory.

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<sup>20</sup> Due to data limitations, the three different categories of these countries do not add up to 151 countries. Classifying a country as developing, Eastern European and Central Asian, or High-Income OECD follows the World Bank guidelines (2002) e.g. using a benchmark per capita income of USD 9.265 or less for developing countries.

<sup>21</sup> Here we have the problem that in many developing and Eastern European and Central Asian countries, the US Dollar (or the Euro) is also a widely used currency, which is not considered here, because we could not obtain any reliable figures of the amount of US Dollar (Euro) in these countries.



In specifications 3 and 4 we present two estimations for samples of 120 and 151 countries, respectively. In specification 4 we present the results of 151 countries estimated over the period 1996 to 2007. Turning first to the causal variables, we see that the size of government has the expected positive sign and is highly statistically significant. The same holds true for the two variables which describe the state of the economy, the unemployment variable, statistically significant with a positive sign, and GDP per capita, which is highly statistically significant with the expected negative sign. With respect to the indicator variables, the growth rate of GDP per capita and the labor force participation rate have the expected signs and are highly statistically significant. If we reduce this sample to 120 countries, we can include more causal variables and the results are presented in specification 3. Here, we see that as we have three variables capturing the burden of taxation: the size of government, fiscal freedom, and share of direct taxation. All three have the expected signs and are statistically significant. As regulatory variables we have business freedom and government effectiveness which, again, have the expected negative signs and are statistically significant. For the state of the economy, we have the unemployment rate, which is not statistically significant, and GDP per capita with the expected negative sign, which is highly statistically significant. For the indicator variables, we have the same three (currency defined as M0 over M1), labor force participation rate, and GDP per capita, the latter two being highly statistically significant and showing the expected sign.

Summarizing the econometric (MIMIC) results, we can say that for all groups of countries, the theoretical considerations of the causes of the shadow economy in section 2 behave according to our expectations. Tax burden variables (direct and/or indirect and/or overall tax burden) as well as indices measuring the fiscal freedom in a country are driving forces for the growth of the shadow economy in all three types of countries. The same can be said about the measures of regulation (measured with the business freedom variable, the economic freedom variable, and regulatory quality), and about the measures of the official economy, the unemployment rate, and for the developing countries, GDP per capita. However, the estimated coefficients are quite different in magnitude from one specification to the next. For example, the coefficient on fiscal freedom is twice the size in specification 5 (see appendix 4) as it is in specification 3 and the difference in the coefficient of the unemployment rate is also significant between specifications. Because it is rather difficult to come up with an explanation for the exact differences in the magnitude of the coefficients, we only present a general interpretation for this observation. With respect to the indices measuring regulation in one way or the other, i.e the fiscal freedom and business/economic freedom indices, our results suggest that regulation is a much more important determinant in developed and transition countries than in developing ones. It seems that – for the reason that the burden of regulation is on average higher in developed and transition countries as more rules, regulations, and administrative procedures are in place – the importance of regulation being a determinant of the shadow economy increases with the level of development. On the contrary, in developing countries where regulation is often less burdensome, the coefficients of the fiscal and business freedom indices are much smaller and hence regulation is a less important determinant of the shadow economy. Regarding the unemployment rate, the results are comparable. It does not influence the shadow economies in developing countries (specifications 1 and 2) but is determining the shadow economies in transition and OECD countries (specifications 5 and 6/7 in appendix 4, respectively). It seems that higher unemployment rates due to, on average more regulated and hence less flexible labor markets, significantly contribute to the size and trend of the shadow economies in OECD countries. In developing countries however, unemployment is not a significant determinant of the shadow economy. In these countries, income earned in the shadow economy guarantees the

subsistence of families. Finally, comparing specifications 5 and 7 in appendix 4 it turns out that the unemployment rate is a more important determinant in OECD than in transition countries.

**Table 3.1.** MIMIC Model Estimation Results

<b>Independent variables</b>	<b>Specification 1 88 Developing Countries (1994 - 2006)</b>	<b>Specification 2 98 Developing Countries (1994 - 2006)</b>	<b>Specification 3 120 Countries (1996 - 2006)</b>	<b>Specification 4 151 Countries (1996 - 2007)</b>
<b>Causal variables</b>				
Size of government	0.15 (5.57)***	0.14 (5.97)***	0.10 (3.77)***	0.05 (2.64)***
Share of direct taxation	0.06 (2.57)**		0.05 (2.39)**	
Fiscal freedom	-0.03 (1.69)*	-0.06 (2.90)***	-0.04 (2.08)**	
Business freedom	-0.05 (2.33)**	-0.05 (2.18)**	-0.04 (1.84)*	
Unemployment rate	-0.00 (0.06)	0.01 (0.67)	0.02 (0.89)	0.04 (2.08)**
GDP per capita	-0.26 (6.87)***	-0.27 (8.79)***	-0.33 (9.15)***	-0.38 (15.89)***
Government effectiveness			-0.04 (2.11)**	-0.05 (2.64)***
<b>Indicator variables</b>				
Growth rate of GDP per capita	-1.39 (6.70)***	-1.01 (7.88)***	-0.99 (8.42)***	-0.79 (10.93)***
Labor force participation rate	0.02 (0.14)	0.05 (0.59)		-0.19 (3.15)***
Growth rate of labor force			-0.16 (1.76)*	
Currency	1	1	1	1
<b>Statistical tests</b>				
RMSEA ( <i>p</i> -value)	0.03 (0.99)	0.03 (0.99)	0.02 (1.00)	0.03 (1.00)
Chi-square ( <i>p</i> -value)	44.43 (0.02)	38.70 (0.00)	51.82 (0.03)	29.95 (0.00)
AGFI	0.98	0.98	0.98	0.99
Degrees of freedom	27	20	35	13
Number of observations	741	1045	942	1563

*Note:* Absolute z-statistics in parentheses. \*\*\*, \*\*, \* denote significance at the 1, 5, and 10% significance levels. All variables are used as their standardized deviations from the mean. According to the MIMIC models identification rule (see also section 3.1), one indicator has to be fixed to an a priori value. We have consistently chosen the currency variable. The degrees of freedom are determined by  $0.5(p+q)(p+q+1)-t$ ; with  $p$  = number of indicators;  $q$  = number of causes;  $t$  = the number for free parameters.

The estimation results further show a slightly different impact of “policy” causal variables compared to non-policy “economic” causal variables across the different groups of countries. In general, economic variables, i.e. the level of development and the state of the economy measured by the GDP per capita and the unemployment rate, are very important determinants of the shadow economy. The estimated coefficients indicate that an improvement of economic conditions would reduce the size of the shadow economy. Of course, for the unemployment rate this is only true for transition and highly developed OECD countries (see appendix 4). Comparing the impact of policy variables, such as the different measures of the tax burden and regulation on the shadow economy, across the estimated specifications also reveals interesting results. For example, one could expect that a reduction of the regulatory burden and improvement of business/economic freedom in transition and highly developed OECD countries (see appendix 4), leads to a much higher reduction of the shadow economy than it would in developing countries (which is clearly indicated by the much larger coefficients of these variables). Fiscal freedom, however, is similarly important across all groups of countries.

The actual interpretation of the estimation parameters is straightforward and similar to that of regression coefficients in conventional regression analysis. Their magnitude shows the resulting change of the shadow economy for a unit change in a causal variable, all other variables being equal. Thus according to specification 1, a one percent reduction of the size of government, the proxy for the burden of indirect taxation, would on average reduce the shadow economy by 0.14 percent in developing countries. In transition countries the one percent reduction of the size of government reduces the shadow economy by 0.18 percent (see appendix 4). This means that reducing the burden of indirect taxation in developing and transition countries by one percent would on average reduce the shadow economy from 38.6 and 38.1 percent in 2006 to 38.4 and 37.9 percent in 2007. An improvement in the measures reflecting regulatory burden in these countries, i.e. the business and economic freedom indices of the Heritage Foundation, by one unit reduces the shadow economy by 0.05 percent in developing countries and 0.09 percent in transition countries. This effect is stronger in developed countries. In these countries, an improvement in the business environment – measured by the business freedom index of the Heritage Foundation – by one unit reduces the shadow economy by 0.23 percent. Thus, in developed countries the shadow economy would on average decrease from 18.7 percent in 2006 to 18.4 percent in 2007.

### **3.3 The Size of the Shadow Economies for 162 Countries from 1999 to 2006/2007**

The estimated MIMIC coefficients allow us to determine only relatively estimated sizes of the shadow economy, which describe the pattern of the shadow economy in a particular country over time. In order to calculate the size and trend of the shadow, we must convert the MIMIC index into “real world” figures measured as percentage of official GDP. This final step requires an additional benchmarking or calibration procedure. Unfortunately, no consensus exists in the literature as to which benchmarking procedure should be utilized. The methodology we use was promoted by Dell’Anno and Schneider (2006), Dell’Anno (2007), and Dell’Anno and Solomon (2008). In the first step, the MIMIC model index of the shadow economies is calculated using the structural equation (1), i.e. by multiplying the coefficients of the significant causal variables with the respective time series. For the numerical example of specification 1 the structural equation is given as:

$$\tilde{\eta}_t = 0.14 \cdot x_{1t} - 0.06 \cdot x_{2t} - 0.05 \cdot x_{3t} - 0.27 \cdot x_{4t} \quad (6)$$

Second, this index is converted into absolute values of the shadow economies, which take up a base value in a particular base year. The base values necessary for this final step of the calibration procedure are from the year 2000 and taken from Schneider (2007), who presents estimates of the shadow economies in 145 countries around the world using the MIMIC and the currency demand approach.<sup>23</sup> Thus, the size of the shadow economy  $\hat{\eta}_t$  at time  $t$  is given

<sup>22</sup>  $x_{1t}$  equals size of government,  $x_{2t}$  and  $x_{3t}$  denote the fiscal and business freedom index, and  $x_{4t}$  represents GDP per capita. According to the MIMIC approach, all variables are taken as standardized deviations from mean.

<sup>23</sup> Appendix 1 discusses the the currency demand approach in detail. Again, the MIMIC model treats hidden output as a latent variable, and uses several (measurable) causal and indicator variables. The cash-demand equation is not used as an input to determine the variation in the hidden economy over time – it is used only to obtain the long-run average value of hidden output (base value), so that the index for this ratio predicted by the MIMIC model can be used to calculate a level and the percentage units of the shadow economy. Overall, this latest combination of the currency demand and MIMIC approach clearly shows that some progress in the estimation technique of the shadow economy has been achieved and a number of critical points have been overcome. However, objections can also be raised against the MIMIC method, i.e. (i) instability in the estimated coefficients with respect to sample size changes, (ii) instability in the estimated coefficients with respect to

as:

$$\hat{\eta}_t = \frac{\tilde{\eta}_t}{\tilde{\eta}_{2000}} \eta_{2000}^*, \quad (7)$$

where  $\tilde{\eta}_t$  denotes the value of the MIMIC index at  $t$  according to equation (6),  $\tilde{\eta}_{2000}$  is the value of this index in the base year 2000, and  $\eta_{2000}^*$  is the exogenous estimate (base value) of the shadow economies in 2000. Applying this benchmarking procedure, the final estimates of the shadow economies are calculated for each specification 1 to 7.<sup>24</sup>

Due to shortcomings in the MIMIC and currency demand methods, comparisons of geographically and developmentally different countries are not precise, especially with respect to the ranking and size of the shadow economies in these countries over time.<sup>25</sup> Due to these shortcomings, a detailed discussion of the (relative) ranking of the size of the shadow economies is not conducted.

### 3.3.1 88 and 98 Developing Countries<sup>26</sup>

Two different sets of estimates are presented for the developing countries due to the fact that the direct taxation variable was only available for a smaller country sample (88 developing countries instead of 98); the calibration of the size and trend of the shadow economy of the developing countries is done for both sets of estimations. In table 3.3.1, the size and trend of the shadow economy of 88 developing countries are presented – ordered with respect to the size of the shadow economy – using the MIMIC estimation for the developing countries with the direct taxation, i.e. specification 1. It thus includes a direct measure of the tax burden, in addition to the rather indirect tax burden measure, size of government, which we solely use in specification 2. Although including direct taxation reduces the sample size by 10 countries, specification 1 is superior to specification 2 because it has been shown in various studies that the direct tax burden is a major driving force for the shadow economy. Hence, if possible, this variable should be included in an empirical model measuring the shadow economy.

The size of the shadow economies of those 88 countries are in both samples – calculated according to specification 1 and 2 – quite similar. According to specification 1, the average size – taking the simple unweighted mean - of the shadow economy of these 88 developing countries was 36.2% in 1999 and modestly decreased to 34.2% in the year 2006. The lowest size of the average shadow economy over the period 1999 to 2006 include again China, Singapore, and Vietnam; the middle position now includes Jamaica, Bangladesh, and Papua

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alternative specifications, (iii) difficulty of obtaining reliable data on cause variables other than tax variables, and (iv) the reliability of the variables grouping into “causes” and “indicators” in explaining the variability of the shadow economy.

<sup>24</sup> Calibration is performed separately for each country. The base values typically originate from the year 2000. Regarding the developing countries, we sometimes opted for base values originating from the year 2005 because of data availability. The MIMIC index has been adjusted to the positive range by adding a positive constant.

<sup>25</sup> See also Thomas (1992, 1999), Tanzi (1999), Pedersen (2003) and Ahumada et al. (2004), Janisch and Brümmerhoff (2005), Schneider (2005) and Breusch (2005a, 2005b).

<sup>26</sup> For an extensive and excellent literature survey of the research about the shadow economy in developing countries see Gerxhani (2004), who stresses throughout her paper that the distinction between developed and developing countries with respect to the shadow economy is of great importance. Due to space reasons this point is not further elaborated here; nor are the former results and literature discussed. Compare Schneider and Enste (2000) for this.

New Guinea with 35.8, 35.9, and 35.9%. The highest shadow economies now include Peru, Panama, and Bolivia with 59.0, 63.9, and 66.9%.

**Table 3.3.1. Ranking of 88 Developing Countries According to Size of the Shadow Economy**

No.	Country	Years								Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	
1	China	13.0	13.1	13.1	13.1	12.9	12.6	12.3	12.1	12.8
2	Singapore	13.0	13.1	13.4	13.4	13.1	12.7	12.5	12.5	13.0
3	Vietnam	15.7	15.6	15.6	15.4	15.4	15.2	14.8	-	15.4
4	Mongolia	18.2	18.4	18.4	18.1	17.9	17.4	16.8	-	17.9
5	Bahrain	18.7	18.4	18.5	18.4	18.0	17.6	17.2	-	18.1
6	Saudi Arabia	18.7	18.4	18.9	18.9	18.0	17.6	17.2	-	18.2
7	Iran, Islamic Rep.	18.4	18.9	19.0	18.5	18.3	17.9	17.9	17.7	18.3
8	Jordan	19.5	19.4	19.3	19.1	19.0	18.4	17.6	17.7	18.7
9	Oman	19.5	18.9	18.8	18.9	19.0	18.6	18.0	-	18.8
10	Syrian Arab Republic	19.0	19.3	19.2	19.2	19.2	19.4	18.8	-	19.2
11	Indonesia	19.3	19.4	19.5	19.6	19.7	19.9	19.1	-	19.5
12	Chile	19.8	19.8	19.8	20.1	19.7	19.4	19.0	18.8	19.5
13	Kuwait	21.6	21.7	21.7	21.8	21.4	21.0	20.7	20.5	21.3
14	Israel	22.2	21.9	22.4	22.9	22.5	21.8	21.2	21.0	22.0
15	India	23.3	23.1	22.9	22.6	22.2	21.9	21.6	21.4	22.4
16	Mauritius	23.4	23.1	22.7	22.8	22.8	22.8	22.8	22.7	22.9
17	Argentina	25.2	25.4	26.2	25.7	25.0	24.5	24.2	-	25.2
18	Costa Rica	25.8	26.2	26.8	27.1	26.9	26.5	25.8	25.4	26.3
19	United Arab Emirates	26.5	26.4	27.1	27.5	26.5	25.5	25.1	-	26.4
20	Yemen, Rep.	27.9	27.4	27.6	27.7	27.5	27.3	26.8	-	27.5
21	Malta	27.5	27.1	27.9	27.6	28.1	28.2	27.6	27.6	27.7
22	South Africa	28.6	28.4	28.5	28.3	28.5	28.0	27.4	27.0	28.1
23	Cyprus	29.4	28.7	28.9	29.2	29.2	28.3	28.3	28.4	28.8
24	Lao PDR	30.9	30.6	30.0	29.8	29.2	28.9	28.2	-	29.6
25	Mexico	30.5	30.1	30.1	30.2	30.1	29.9	29.3	-	30.0
26	Namibia	31.9	31.4	31.2	30.4	30.4	29.3	28.8	-	30.5
27	Lesotho	31.4	31.3	31.2	31.1	31.2	30.7	30.2	29.4	30.8
28	Malaysia	31.7	31.1	32.0	31.9	31.8	31.4	31.0	-	31.6
29	Dominican Republic	32.2	32.1	32.4	32.3	32.3	31.7	30.9	31.1	31.9
30	Fiji	32.6	33.6	33.3	32.5	32.3	31.4	31.1	-	32.4
31	Cameroon	33.5	32.8	33.2	33.1	33.1	32.8	32.2	-	32.9
32	Algeria	34.8	34.1	34.2	34.0	32.8	32.2	30.9	30.7	33.0
33	Botswana	33.6	33.4	33.6	33.5	33.3	32.8	32.7	-	33.3
34	Lebanon	33.8	34.1	34.4	34.1	33.9	33.5	33.3	33.4	33.8
35	Venezuela, RB	33.4	33.6	33.7	34.5	35.6	34.1	32.7	-	33.9
36	Sudan	34.1	-	-	-	-	-	-	-	34.1
37	Ecuador	35.7	34.4	34.9	34.4	34.4	33.5	32.2	-	34.2
38	Kenya	34.5	34.3	34.2	35.2	36.0	35.1	33.8	32.7	34.5
39	Egypt, Arab Rep.	34.8	35.1	35.4	35.4	34.9	34.6	34.1	33.5	34.7
40	Togo	35.0	35.1	35.7	34.6	35.3	35.2	35.4	-	35.2
41	Morocco	36.6	36.4	35.9	35.5	35.0	35.0	34.8	-	35.6
42	Mauritania	35.9	36.1	36.1	35.7	35.9	35.1	34.5	-	35.6
43	Jamaica	36.3	36.4	36.1	36.1	35.9	35.6	34.9	34.8	35.8
44	Bangladesh	35.9	35.6	35.3	36.1	36.4	36.3	35.5	-	35.9
45	Papua New Guinea	35.7	36.1	-	-	-	-	-	-	35.9
46	Trinidad and Tobago	-	-	37.2	36.7	36.3	35.7	35.2	35.0	36.0
47	Cape Verde	-	-	-	-	-	-	36.8	35.6	36.2
48	Nepal	36.9	36.8	37.0	37.2	36.8	36.9	36.1	36.1	36.7
49	Pakistan	37.3	36.8	37.4	37.3	36.7	36.1	36.5	35.9	36.7
50	Tunisia	38.5	38.4	38.3	38.5	38.0	37.3	36.4	36.1	37.7
51	Colombia	39.5	39.1	39.0	39.0	38.6	37.7	36.8	35.8	38.2
52	Paraguay	38.5	39.8	39.3	39.7	38.6	37.8	37.7	36.9	38.6

53	Burundi	38.8	38.9	39.1	39.2	39.4	39.5	39.7	-	39.2
54	Ethiopia	39.9	40.3	39.5	40.2	40.8	39.1	37.6	-	39.6
55	Brazil	40.6	39.8	39.7	39.8	40.2	39.3	39.0	-	39.8
56	Mozambique	41.0	40.3	40.6	40.1	40.0	39.7	39.6	-	40.2
57	Rwanda	40.2	40.3	40.7	39.7	40.8	40.3	39.6	-	40.2
58	Madagascar	39.9	39.6	39.6	42.4	42.0	40.8	39.6	-	40.6
59	Niger	41.4	41.9	41.0	40.1	39.5	40.8	39.9	-	40.7
60	Burkina Faso	41.0	41.4	41.4	41.7	41.2	41.0	40.6	-	41.2
61	Swaziland	43.6	41.4	41.2	40.9	40.7	-	-	-	41.6
62	Malawi	40.5	40.3	41.7	42.7	42.2	42.1	41.9	-	41.6
63	Mali	42.5	42.3	41.1	41.3	41.8	41.5	41.6	41.3	41.7
64	Philippines	43.8	43.3	43.0	42.4	41.9	41.0	40.1	39.6	41.9
65	Guinea	43.0	42.8	42.6	42.4	42.0	41.8	41.0	-	42.2
66	Ghana	42.5	41.9	41.5	42.4	43.3	42.7	42.0	-	42.3
67	Côte d'Ivoire	42.0	43.2	42.8	43.6	43.7	43.4	43.4	43.9	43.3
68	Uganda	43.6	43.1	43.3	43.9	43.5	43.5	42.9	42.4	43.3
69	Sierra Leone	44.6	44.0	43.4	42.8	42.7	43.0	-	-	43.4
70	Sri Lanka	44.9	44.6	44.5	44.0	43.1	43.0	42.7	44.4	43.9
71	Chad	46.8	46.2	45.5	45.4	44.4	41.2	41.9	-	44.5
72	Senegal	45.0	45.1	44.2	-	-	-	-	-	44.8
73	Nicaragua	45.6	45.2	45.1	45.3	45.2	45.0	44.1	44.0	44.9
74	El Salvador	46.3	46.3	46.3	46.4	46.0	45.8	45.4	45.2	46.0
75	Central African Republic	-	-	45.1	45.5	46.4	46.3	46.9	-	46.0
76	Congo, Rep.	50.3	48.2	48.1	48.0	47.5	47.7	45.9	-	48.0
77	Congo, Dem. Rep.	48.0	-	-	-	-	-	-	-	48.0
78	Benin	50.8	49.8	49.9	49.7	49.5	49.4	48.3	-	49.6
79	Honduras	50.2	49.6	50.2	50.2	49.9	49.2	48.6	-	49.7
80	Zambia	50.3	50.0	49.7	50.0	49.9	50.4	49.3	48.8	49.8
81	Uruguay	50.4	51.1	51.4	52.1	51.1	49.1	47.7	47.1	50.0
82	Myanmar	51.9	52.6	51.5	50.8	50.0	49.8	48.5	-	50.7
83	Guatemala	51.0	51.5	52.5	52.1	52.0	51.4	50.4	49.9	51.3
84	Thailand	52.9	52.6	52.6	52.1	51.3	51.4	51.2	51.1	51.9
85	Tanzania	59.2	58.3	57.6	56.8	56.4	55.4	54.8	-	56.9
86	Peru	60.2	59.9	60.4	59.4	59.3	58.5	57.7	57.0	59.0
87	Panama	64.5	64.1	64.9	65.3	64.3	62.8	61.1	-	63.9
88	Bolivia	67.3	67.1	67.6	67.9	68.0	67.4	65.7	64.4	66.9
	Time Average	36.2	35.9	36.0	35.9	35.7	35.2	34.6	34.2	

In table 3.3.2 we present the size of the shadow economy in 98 developing countries (excluding the direct taxation variable in the MIMIC estimation). If we consider the trend of the simple unweighted average of these 98 countries over time, in the year 1999 the size was 37.0% and modestly decreased to 35.1% in the year 2006. The three countries with the smallest shadow economies are China, Singapore, and Vietnam with an average country size of 12.8, 13.0, and 15.2 percent respectively.<sup>27</sup> The middle of the distribution includes Cape Verde, Jamaica, and Nepal with an average size of 35.7, 35.7, and 36.6 percent of GDP. The highest shadow economies includes Peru, Panama, and Bolivia with a size of 58.7, 63.5, and 66.6 percent of GDP.

<sup>27</sup> It should be mentioned that Mainland China and Vietnam are still communist countries with partly market economies, so that the figures of these two countries may be biased.

**Table 3.3.2. Ranking of 98 Developing Countries According to Size of the Shadow Economy**

No.	Country	Years								Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	
1	China	13.0	13.1	13.1	13.1	12.9	12.6	12.2	12.1	12.8
2	Singapore	13.1	13.1	13.4	13.3	13.1	12.8	12.5	12.4	13.0
3	Vietnam	15.8	15.6	15.5	15.3	15.3	15.1	14.7	14.5	15.2
4	Mongolia	18.4	18.4	18.4	18.3	18.1	17.6	17.0	16.8	17.9
5	Bahrain	18.6	18.4	18.3	18.2	17.7	17.4	17.2	-	18.0
6	Saudi Arabia	18.6	18.4	18.7	18.6	17.9	17.5	17.1	17.2	18.0
7	Iran, Islamic Rep.	18.6	18.9	19.0	18.5	18.2	17.8	17.6	17.4	18.3
8	Oman	19.3	18.9	18.8	18.7	18.6	18.4	17.9	17.5	18.5
9	Jordan	19.5	19.4	19.2	19.0	19.0	18.4	17.6	17.6	18.7
10	Syrian Arab Republic	19.0	19.3	19.2	18.9	19.2	19.4	18.8	18.5	19.0
11	Chile	19.9	19.8	19.8	20.0	19.6	19.3	18.8	18.5	19.5
12	Indonesia	19.3	19.4	19.5	19.9	19.7	19.6	19.1	19.1	19.5
13	Kuwait	20.0	20.1	20.2	20.2	19.7	19.4	19.2	19.1	19.7
14	Israel	22.3	21.9	22.3	23.0	22.8	22.1	21.4	21.0	22.1
15	India	23.3	23.1	22.9	22.6	22.2	21.8	21.4	21.2	22.3
16	Mauritius	23.3	23.1	22.5	22.5	22.5	22.5	22.4	22.1	22.6
17	Argentina	25.2	25.4	26.1	25.9	25.2	24.6	24.3	24.1	25.1
18	United Arab Emirates	26.6	26.4	26.9	27.3	26.4	25.6	25.5	24.2	26.1
19	Costa Rica	25.8	26.2	26.7	27.0	26.7	26.4	25.7	25.3	26.2
20	Yemen, Rep.	27.7	27.4	27.5	27.4	27.2	26.9	26.3	26.1	27.1
21	Malta	27.6	27.1	27.9	27.6	27.9	28.1	27.6	27.5	27.7
22	South Africa	28.7	28.4	28.4	28.1	28.3	28.0	27.3	26.8	28.0
23	Cyprus	29.3	28.7	28.9	29.2	29.2	28.5	28.4	28.4	28.8
24	Lao PDR	30.9	30.6	30.1	30.0	29.6	29.3	28.5	28.4	29.7
25	Mexico	30.3	30.1	30.4	30.4	30.2	29.7	29.0	28.5	29.8
26	Namibia	32.0	31.4	31.2	30.5	30.2	29.5	29.2	28.4	30.3
27	Lesotho	31.6	31.3	31.2	30.9	31.0	30.7	30.3	29.5	30.8
28	Malaysia	31.4	31.1	31.8	32.0	31.9	31.5	30.9	30.5	31.4
29	Dominican Republic	32.2	32.1	32.2	32.1	31.9	31.7	30.9	31.3	31.8
30	Equatorial Guinea	33.1	32.8	32.2	32.1	31.8	31.1	31.6	31.2	32.0
31	Cameroon	32.9	32.8	32.9	32.7	32.5	32.0	31.5	31.4	32.3
32	Fiji	32.7	33.6	33.6	32.9	32.7	31.7	31.3	31.2	32.5
33	Algeria	34.9	34.1	34.2	34.0	33.2	32.5	31.2	31.1	33.1
34	Guyana	33.3	33.6	33.0	33.4	33.7	33.3	32.7	32.6	33.2
35	Botswana	33.8	33.4	33.6	33.3	33.0	32.9	32.9	32.9	33.2
36	Lebanon	33.6	34.1	34.2	34.0	33.8	33.4	33.0	32.9	33.6
37	Trinidad and Tobago	35.2	34.4	34.7	34.4	33.7	33.1	32.4	32.0	33.7
38	Ecuador	35.6	34.4	34.4	34.2	34.2	33.4	32.2	32.3	33.8
39	Venezuela, RB	33.6	33.6	33.7	34.7	36.1	34.5	32.7	31.8	33.8
40	Sudan	34.1	-	-	-	-	-	-	-	34.1
41	Kenya	34.3	34.3	34.3	35.2	35.5	34.9	33.5	32.3	34.3
42	Egypt, Arab Rep.	34.9	35.1	35.3	35.5	34.8	34.5	33.9	32.8	34.6
43	Togo	34.4	35.1	35.4	34.5	34.9	35.0	35.0	34.6	34.9
44	Mauritania	35.5	36.1	36.0	35.8	35.8	35.1	34.4	31.7	35.1
45	Morocco	36.2	36.4	36.0	35.7	35.1	35.1	34.7	33.5	35.4
46	Bangladesh	35.8	35.6	35.3	35.7	35.9	35.7	34.9	34.7	35.5
47	Papua New Guinea	35.1	36.1	-	-	-	-	-	-	35.6
48	Cape Verde	36.7	36.1	35.5	35.5	35.8	35.6	35.5	34.8	35.7
49	Jamaica	36.1	36.4	36.4	36.5	35.7	35.4	34.5	34.8	35.7
50	Nepal	36.9	36.8	36.9	36.9	36.7	36.8	36.1	36.0	36.6
51	Pakistan	37.3	36.8	37.5	37.5	36.9	36.2	36.5	35.8	36.8
52	Tunisia	38.5	38.4	38.2	38.4	37.6	36.9	35.7	35.6	37.4
53	Colombia	39.4	39.1	39.0	38.7	38.5	38.0	36.9	36.1	38.2
54	Paraguay	38.1	39.8	39.5	39.6	38.7	37.9	37.8	36.7	38.5
55	Suriname	39.9	39.8	39.5	39.1	38.8	37.9	37.4	36.6	38.6
56	Guinea	39.5	39.6	39.3	39.1	39.2	38.7	38.2	37.6	38.9

57	Ethiopia	40.2	40.3	39.4	39.6	40.4	38.9	37.5	36.4	39.1
58	Burundi	39.1	39.2	39.3	39.4	39.5	39.6	39.7	40.3	39.5
59	Brazil	40.6	39.8	40.0	40.1	39.8	39.3	38.9	38.5	39.6
60	Mozambique	41.1	40.3	40.4	39.8	39.8	39.7	38.9	38.6	39.8
61	Guinea-Bissau	40.3	39.6	39.7	40.1	39.9	39.8	39.9	39.6	39.9
62	Rwanda	40.5	40.3	40.6	39.9	40.7	40.2	39.3	39.1	40.1
63	Madagascar	39.6	39.6	39.7	41.9	42.1	40.5	39.4	39.4	40.3
64	Niger	41.7	41.9	40.9	40.3	39.7	40.7	39.7	38.6	40.4
65	Swaziland	43.5	41.4	41.3	40.9	40.2	40.1	39.3	38.9	40.7
66	Burkina Faso	41.0	41.4	41.6	41.6	40.6	40.4	40.0	39.4	40.8
67	Mali	42.5	42.3	41.0	41.2	41.3	41.3	41.2	40.9	41.5
68	Malawi	40.3	40.3	41.6	42.6	42.6	42.7	41.9	40.7	41.6
69	Ghana	42.0	41.9	41.7	41.8	42.6	42.1	41.5	40.3	41.8
70	Philippines	44.1	43.3	43.0	42.4	41.8	40.9	40.1	39.7	41.9
71	Uganda	44.1	43.1	43.2	43.6	43.2	43.0	42.3	41.8	43.0
72	Côte d'Ivoire	42.2	43.2	43.2	44.0	44.2	44.0	43.5	43.9	43.5
73	Sri Lanka	44.7	44.6	44.3	43.8	42.7	42.9	42.5	43.6	43.7
74	Belize	45.4	43.8	43.7	44.1	43.7	43.3	42.9	42.7	43.7
75	Gambia, The	45.4	45.1	44.5	45.7	44.2	43.1	42.9	41.9	44.1
76	Chad	46.3	46.2	45.7	45.5	44.5	41.1	42.1	42.5	44.2
77	Senegal	45.9	45.1	44.7	45.3	44.4	43.9	42.6	42.7	44.3
78	Nicaragua	45.9	45.2	45.0	45.0	44.6	44.3	43.6	43.5	44.7
79	Sierra Leone	46.3	45.6	44.9	44.2	44.1	44.2	44.3	43.6	44.7
80	Central African Republic	-	-	44.7	45.3	46.1	46.0	46.9	45.3	45.7
81	El Salvador	46.2	46.3	46.5	46.3	46.0	45.8	45.0	44.6	45.8
82	Angola	49.7	48.9	48.1	47.3	46.6	45.8	45.0	43.6	46.9
83	Gabon	47.3	48.0	48.1	47.7	46.9	47.0	46.1	46.4	47.2
84	Congo, Rep.	50.0	48.2	48.1	47.9	47.7	47.7	46.4	44.9	47.6
85	Congo, Dem. Rep.	48.0	-	-	-	-	-	-	-	48.0
86	Zambia	49.1	48.9	48.1	48.1	47.8	48.7	47.6	46.9	48.2
87	Honduras	49.7	49.6	49.8	49.6	49.2	48.7	47.5	46.9	48.9
88	Myanmar	51.6	52.6	51.5	50.7	49.0	49.1	47.8	-	50.3
89	Uruguay	50.7	51.1	51.9	52.6	52.1	49.8	48.3	47.7	50.5
90	Benin	51.4	50.6	50.6	51.1	51.1	50.9	49.8	49.7	50.6
91	Guatemala	51.5	51.5	52.7	52.2	52.1	51.8	50.5	49.9	51.5
92	Thailand	53.0	52.6	52.6	52.1	51.2	51.2	51.0	50.6	51.8
93	Haiti	54.9	55.4	56.4	56.7	56.5	55.9	55.9	56.0	56.0
94	Nigeria	58.0	57.9	57.8	57.6	56.3	55.1	53.8	53.0	56.2
95	Tanzania	59.4	58.3	57.7	57.2	56.8	56.3	54.9	54.2	56.8
96	Peru	60.2	59.9	60.3	59.0	58.8	57.8	57.4	56.4	58.7
97	Panama	64.8	64.1	64.7	65.1	64.4	63.5	61.7	60.0	63.5
98	Bolivia	67.0	67.1	67.7	67.7	67.8	67.1	64.7	63.4	66.6
	Time Average	37.0	36.7	36.8	36.8	36.5	36.1	35.5	35.1	

Large shadow economies in some developing countries are only to some extent an issue of tax burden and regulation, given the simple fact that the limited local economy means that citizens are often unable to earn a living wage in a legitimate manner. Working in the shadow economy is often the only way of achieving a minimal standard of living. It should also be noted that the average size of the Asian shadow economy is smaller than the average shadow economy of African and Latin American countries.

### 3.3.2 21 Eastern European and Central Asian (mostly former transition) Countries

The measurement of the size and trend of the shadow economies in the transition countries has been undertaken since the late 1980s starting with the works of Kaufmann and Kaliberda (1996), Johnson, Kaufmann, and Shleifer (1997), and Lacko (2000). They all use the physical



input (electricity) method and come up with larger figures than ours.<sup>28</sup> In the works of Alexeev and Pyle (2003) and Belev (2003) the above mentioned studies are critically evaluated arguing that the estimated sizes of the unofficial economies are to a large extent a historical phenomenon and partly determined by institutional factors.

In table 3.3.3, the size and trend of the shadow economies in 21 Eastern European and Central Asian (mostly former transition) countries are shown as a percent of GDP.<sup>29</sup> If we first consider the unweighted average shadow economy of these 21 Eastern European and Central Asian countries, it was 36.9% in 1999 and decreased to 32.6% in 2007. The three countries with the smallest shadow economies are the Slovak and Czech Republics, and Hungary with an average size over the period 1999 to 2007 of 18.1, 18.4, and 24.4 percent. Croatia, Romania, and Albania are in the middle with 32.1, 32.6, and 34.3 percent. The highest shadow economies include Moldova, Ukraine, and Georgia with 44.5, 49.7, and 65.8 percent, respectively.

**Table 3.3.3** Ranking of 21 Transition Countries According to Size of the Shadow Economy

No.	Country	Years									Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	2007	
1	Slovak Republic	18.9	18.9	18.8	18.6	18.3	18.1	17.6	17.2	16.8	18.1
2	Czech Republic	19.3	19.1	18.9	18.8	18.7	18.4	17.8	17.3	17.0	18.4
3	Hungary	25.4	25.1	24.8	24.5	24.4	24.1	24.0	23.7	23.7	24.4
4	Slovenia	27.3	27.1	26.7	26.6	26.4	26.2	25.8	25.3	24.7	26.2
5	Poland	27.7	27.6	27.7	27.7	27.5	27.3	26.9	26.4	26.0	27.2
6	Latvia	30.8	30.5	30.1	29.8	29.4	29.0	28.4	27.7	27.2	29.2
7	Estonia	-	32.7	32.4	32.0	31.4	31.1	30.5	29.8	29.5	31.2
8	Turkey	32.7	32.1	32.8	32.4	31.8	31.0	30.0	29.5	29.1	31.3
9	Lithuania	33.8	33.7	33.3	32.8	32.0	31.7	31.0	30.4	29.7	32.0
10	Croatia	33.8	33.4	33.2	32.6	32.1	31.7	31.3	30.8	30.4	32.1
11	Romania	34.3	34.4	33.7	33.5	32.8	32.0	31.7	30.7	30.2	32.6
12	Albania	35.7	35.3	34.9	34.7	34.4	33.9	33.7	33.3	32.9	34.3
13	Bulgaria	37.3	36.9	36.6	36.1	35.6	34.9	34.1	33.5	32.7	35.3
14	Macedonia	39.0	38.2	39.1	38.9	38.4	37.4	36.9	36.0	34.9	37.6
15	Kyrgyz Republic	41.4	41.2	40.8	41.4	40.5	39.8	40.1	39.8	38.8	40.4
16	Kazakhstan	43.8	43.2	42.5	42.0	41.1	40.6	39.8	38.9	38.4	41.1
17	Tajikistan	43.5	43.2	42.9	42.7	42.1	41.7	41.5	41.2	41.0	42.2
18	Russian Federation	47.0	46.1	45.3	44.5	43.6	43.0	42.4	41.7	40.6	43.8
19	Moldova	45.6	45.1	44.1	44.5	44.6	44.0	43.4	44.3	-	44.5
20	Ukraine	52.7	52.2	51.4	50.8	49.7	48.8	47.8	47.3	46.8	49.7
21	Georgia	68.3	67.3	67.2	67.2	65.9	65.5	65.1	63.6	62.1	65.8
	Time Average	36.9	36.3	36.1	35.8	35.3	34.8	34.3	33.7	32.6	

<sup>28</sup> Their estimates for the early 1990s are on average 10 to 20 percent higher than our estimates (1999 to 2007) and up to as twice as large as estimates using the currency demand and the MIMIC approach for the same time period.

<sup>29</sup> The estimates were calibrated using specification 4 except for Moldova. Its size of the shadow economy was derived using the estimation results of specification 5 presented in appendix 4.

### 3.3.3 25 High-Income OECD Countries

The size and trend of the shadow economies of 25 high-income OECD countries over the period 1999 to 2007 is shown in table 3.3.4. We first analyze the average size of the shadow economies of the 25 high-income OECD countries. The unweighted average was 17.7% in 1999, and decreased to 16.6% in 2007. Some high-income OECD countries, like Portugal, have ups and downs, while others (like Belgium and Australia) show a steady decrease. The countries with the smallest shadow economies include Switzerland, the United States, and Luxembourg with an average size over the period 1999 to 2007 of 8.5, 8.6, and 9.7 percent, respectively. The largest shadow economies among these 25 high-income OECD countries include Mexico with 30.0, Greece with 27.5, and Italy with 27.0 percent.

**Table 3.3.4. Ranking of 25 OECD Countries According to the Size of the Shadow Economy**

No.	Country	Years									Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	2007	
1	Switzerland	8.8	8.6	8.6	8.6	8.8	8.6	8.5	8.3	8.1	8.5
2	United States	8.8	8.7	8.8	8.8	8.7	8.6	8.5	8.4	8.4	8.6
3	Luxembourg	10.0	9.8	9.8	9.8	9.8	9.8	9.7	9.6	9.4	9.7
4	Austria	10.0	9.8	9.7	9.8	9.8	9.8	9.8	9.6	9.5	9.8
5	Japan	11.4	11.2	11.2	11.3	11.2	10.9	10.7	10.4	10.3	11.0
6	New Zealand	13.0	12.8	12.6	12.4	12.2	12.0	12.1	12.1	12.0	12.4
7	United Kingdom	12.8	12.7	12.6	12.6	12.5	12.4	12.4	12.3	12.2	12.5
8	Netherlands	13.3	13.1	13.1	13.2	13.3	13.2	13.2	13.2	13.0	13.2
9	Australia	14.4	14.3	14.3	14.1	13.9	13.7	13.7	13.7	13.5	14.0
10	France	15.7	15.2	15.0	15.1	15.0	14.9	14.8	14.8	14.7	15.0
11	Iceland	16.0	15.9	15.8	16.0	15.9	15.5	15.1	15.0	15.0	15.6
12	Canada	16.3	16.0	15.9	15.8	15.7	15.6	15.5	15.3	15.3	15.7
13	Ireland	16.1	15.9	15.9	15.9	16.0	15.8	15.6	15.5	15.4	15.8
14	Germany	16.4	16.0	15.9	16.1	16.3	16.1	16.0	15.6	15.3	16.0
15	Finland	18.4	18.1	17.9	17.8	17.7	17.6	17.4	17.1	17.0	17.7
16	Denmark	18.4	18.0	18.0	18.0	18.0	17.8	17.6	17.0	16.9	17.7
17	Norway	19.2	19.1	19.0	19.0	19.0	18.5	18.5	18.2	18.0	18.7
18	Sweden	19.6	19.2	19.1	19.0	18.7	18.5	18.6	18.2	17.9	18.8
19	Belgium	22.7	22.2	22.1	22.0	22.0	21.8	21.8	21.4	21.3	21.9
20	Spain	23.0	22.7	22.4	22.4	22.4	22.5	22.4	22.4	22.2	22.5
21	Portugal	23.0	22.7	22.6	22.7	23.0	23.1	23.3	23.2	23.0	23.0
22	Korea, Rep.	28.3	27.5	27.3	26.9	26.8	26.5	26.3	25.9	25.6	26.8
23	Italy	27.8	27.1	26.7	26.8	27.0	27.0	27.1	26.9	26.8	27.0
24	Greece	28.5	28.7	28.2	28.0	27.4	27.1	26.9	26.4	26.5	27.5
25	Mexico	30.8	30.1	30.3	30.4	30.5	30.1	29.9	29.2	28.8	30.0
	Time Average	17.7	17.4	17.3	17.3	17.3	17.1	17.0	16.8	16.6	

### 3.3.4 The Total Sample of 151 (120) Countries

Finally, we present the calibrated estimates of the shadow economies based on a broad sample of 151 countries (table 3.3.6), and with a larger number of cause variables, calibrated estimates for 120 countries (table 3.3.5). Table 3.3.5 presents the calibrated estimation of the size of the shadow economy for 120 countries over the period 1999 to 2006. For these 120 countries, we have additional cause variables. As a consequence, the results are somewhat different. For the year 1999, when using the 151 country sample, the unweighted average of

the shadow economy was 33.3%, and when using the sample with only 120 countries the same average is 31.7%, which is a rather modest difference.<sup>30</sup> This difference is due to the smaller number of countries in the second sample because countries with large shadow economies such as Haiti, Zimbabwe, and Azerbaijan are not included in the second sample of 120 countries. Alternatively, the differences may occur because specification 3 (120 countries) uses more cause variables and is thus the more specific empirical model. Given the significance of the additionally included variables and the confirmatory nature of the MIMIC model, specification 3 is superior to specification 4. The better empirical model of specification 3 thus hopefully leads to more precise estimates of the size of the shadow economies in these 120 countries.

The countries with the smallest shadow economies among the 120 countries are Switzerland, the United States, and Austria with an average value over the period 1999 to 2006 of 8.6, 8.6, and 9.7%. In the middle we find Malaysia, Estonia, and the Dominican Republic, with average shadow economies over 1999 to 2006 of 31.3, 31.4, and 32.1%. The three countries with the highest shadow economy are now Peru, Georgia, and Bolivia with an average value over the period 1999 to 2006 of 58.4, 66.0, and 66.4%, respectively.

**Table 3.3.5.** Ranking of 120 Countries According to the Size of the Shadow Economy

No.	Country	Years								Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	
1	Switzerland	8.7	8.6	8.5	8.6	8.7	8.6	8.4	8.2	8.6
2	United States	8.8	8.7	8.7	8.7	8.6	8.5	8.4	8.3	8.6
3	Austria	10.1	9.8	9.7	9.7	9.7	9.7	9.4	9.3	9.7
4	Luxembourg	10.1	9.8	9.9	9.8	9.9	9.7	9.5	9.4	9.8
5	Japan	-	-	11.1	11.1	11.0	10.8	10.5	10.3	10.8
6	New Zealand	12.9	12.8	12.6	12.3	12.2	12.1	12.2	12.3	12.4
7	United Kingdom	12.7	12.7	12.7	12.6	12.5	12.3	12.3	12.3	12.5
8	China	13.2	13.1	13.1	13.1	13.0	12.7	12.4	12.3	12.9
9	Singapore	13.2	13.1	13.4	13.3	13.0	12.6	12.4	12.2	12.9
10	Netherlands	13.3	13.1	13.1	13.2	13.3	13.1	12.9	13.0	13.1
11	Australia	14.3	14.3	14.0	13.7	13.5	13.4	13.4	13.3	13.8
12	France	15.4	15.2	15.1	15.0	14.9	14.7	14.5	14.5	14.9
13	Vietnam	15.7	15.6	15.6	15.4	15.2	15.1	14.6	-	15.3
14	Iceland	16.0	15.9	15.8	16.0	16.0	15.3	14.8	14.8	15.6
15	Canada	16.3	16.0	15.8	15.5	15.5	15.5	15.2	15.2	15.6
16	Germany	16.4	16.0	15.7	15.8	16.0	15.7	15.4	15.0	15.8
17	Ireland	16.0	15.9	16.0	16.0	16.0	15.9	15.4	15.3	15.8
18	Hong Kong, China	17.2	16.6	16.5	16.5	16.2	15.9	15.4	-	16.3
19	Finland	18.4	18.1	17.8	17.7	17.5	17.4	17.1	16.8	17.6
20	Denmark	18.2	18.0	18.0	17.9	17.9	17.8	17.5	16.9	17.8
21	Mongolia	18.2	18.4	18.3	17.9	17.7	17.3	16.8	-	17.8
22	Bahrain	18.4	18.4	18.3	18.2	17.8	17.4	17.1	-	17.9
23	Iran, Islamic Rep.	18.8	18.9	18.9	18.4	18.1	17.8	17.8	17.5	18.3
24	Slovak Republic	19.0	18.9	18.8	18.7	18.4	18.0	17.3	17.0	18.3
25	Saudi Arabia	18.6	18.4	18.9	19.2	18.1	17.6	17.3	-	18.3
26	Oman	19.2	18.9	18.6	18.7	18.7	18.6	18.2	-	18.7
27	Jordan	19.5	19.4	19.3	19.0	18.9	18.4	17.9	17.6	18.7
28	Sweden	19.4	19.2	19.2	19.1	18.8	18.5	18.3	18.0	18.8
29	Czech Republic	19.4	19.1	19.3	19.3	19.2	18.8	18.2	17.7	18.9
30	Syrian Arab Republic	19.1	19.3	19.0	18.9	19.0	18.8	18.6	-	18.9
31	Norway	19.1	19.1	19.2	19.2	19.2	18.9	18.6	18.5	19.0

<sup>30</sup> As we have a lot of missing values in this specification for the year 2007, estimates for the year of 2007 are not shown here because it may be misleading – over a third of the countries do not have an estimate for the year 2007.

32	Kuwait	19.9	20.0	20.0	20.1	19.3	18.8	18.3	18.1	19.3
33	Indonesia	19.6	19.4	19.4	19.6	19.3	19.3	18.6	-	19.3
34	Chile	19.8	19.8	19.7	19.8	19.6	19.4	19.1	19.1	19.5
35	Israel	22.3	21.9	22.2	22.5	22.3	21.7	21.3	20.9	21.9
36	Belgium	22.5	22.2	22.2	22.3	22.1	21.8	21.4	20.9	21.9
37	India	23.3	23.1	22.9	22.7	22.2	21.9	21.4	21.0	22.3
38	Portugal	22.8	22.7	22.7	22.7	22.7	22.7	22.7	22.3	22.6
39	Spain	23.1	22.7	22.6	22.8	22.8	23.0	22.8	22.9	22.8
40	Mauritius	23.5	23.1	22.9	23.1	22.7	22.6	22.7	22.7	22.9
41	Hungary	25.4	25.1	25.0	24.8	24.5	24.1	23.8	23.6	24.5
42	Costa Rica	26.2	26.2	26.3	26.3	26.0	25.8	25.3	24.8	25.9
43	Argentina	25.1	25.4	26.3	27.5	26.6	25.7	24.8	-	25.9
44	United Arab Emirates	26.1	26.4	27.1	27.6	26.4	25.3	25.1	-	26.3
45	Slovenia	27.4	27.1	27.0	26.8	26.4	26.2	25.8	25.5	26.5
46	Korea, Rep.	28.1	27.5	27.4	26.9	26.9	26.8	26.4	26.1	27.0
47	Italy	27.7	27.1	27.0	26.9	26.9	27.0	26.9	26.7	27.0
48	Poland	27.9	27.6	27.5	27.5	27.3	27.0	26.3	26.2	27.2
49	Greece	28.1	28.7	28.0	27.9	27.1	26.7	26.1	25.5	27.3
50	Malta	27.5	27.1	27.4	27.2	27.6	27.5	27.2	27.1	27.3
51	Yemen, Rep.	27.8	27.4	27.6	27.6	27.4	27.4	26.8	-	27.4
52	South Africa	28.4	28.4	28.4	28.1	27.8	27.2	26.4	26.1	27.6
53	Latvia	30.9	30.5	30.2	29.9	29.3	29.2	28.3	27.8	29.5
54	Lao PDR	30.8	30.6	30.1	29.8	29.4	29.0	28.4	-	29.7
55	Mexico	30.8	30.1	29.9	30.0	29.7	29.5	29.0	-	29.8
56	Lesotho	31.7	31.3	31.0	30.9	30.9	30.2	29.9	28.7	30.6
57	Namibia	31.8	31.4	31.4	31.0	30.6	29.1	29.0	-	30.6
58	Turkey	32.7	32.1	32.9	32.0	31.2	30.4	29.6	28.7	31.2
59	Malaysia	31.9	31.1	31.7	31.4	31.3	30.9	30.6	-	31.3
60	Estonia	-	32.7	32.4	32.1	31.6	31.3	30.0	29.4	31.4
61	Dominican Republic	32.4	32.1	32.8	32.7	32.2	32.2	31.2	31.2	32.1
62	Fiji	32.7	33.6	33.1	32.1	32.1	31.4	30.9	-	32.3
63	Croatia	33.9	33.4	33.0	32.2	32.1	31.8	31.0	30.6	32.3
64	Lithuania	33.9	33.7	33.2	32.9	32.2	32.0	31.1	30.6	32.4
65	Cameroon	33.6	32.8	32.8	32.5	32.3	31.9	31.5	-	32.5
66	Romania	34.1	34.4	33.7	33.0	32.8	31.5	30.7	29.9	32.5
67	Algeria	34.2	34.1	33.9	33.5	32.3	31.8	30.9	31.0	32.7
68	Botswana	33.6	33.4	33.5	33.5	33.0	32.5	32.4	-	33.1
69	Ecuador	34.6	34.4	34.3	33.7	33.2	32.3	31.1	-	33.4
70	Lebanon	33.7	34.1	34.2	33.8	33.5	32.9	32.7	33.0	33.5
71	Kenya	34.1	34.3	33.8	34.6	34.9	33.8	32.6	31.2	33.7
72	Venezuela, RB	33.4	33.6	33.6	35.2	37.1	35.3	33.7	-	34.6
73	Albania	-	-	-	35.5	35.0	34.7	34.3	33.4	34.6
74	Egypt, Arab Rep.	35.1	35.1	35.2	35.8	35.3	34.9	34.2	33.3	34.9
75	Jamaica	36.3	36.4	36.2	36.2	34.9	34.5	34.1	33.5	35.3
76	Bulgaria	37.2	36.9	36.4	36.0	35.6	35.1	33.9	33.4	35.6
77	Papua New Guinea	35.1	36.1	-	-	-	-	-	-	35.6
78	Morocco	36.7	36.4	35.8	35.6	35.1	34.6	35.4	-	35.7
79	Trinidad and Tobago	-	-	36.3	36.9	36.0	35.7	35.2	34.2	35.7
80	Bangladesh	36.2	35.6	35.4	36.2	36.3	36.2	35.5	-	35.9
81	Cape Verde	-	-	-	-	-	-	36.8	35.6	36.2
82	Pakistan	37.2	36.8	37.2	37.1	36.4	35.6	35.5	34.7	36.3
83	Nepal	37.1	36.8	36.7	36.9	36.5	36.6	36.1	35.9	36.6
84	Tunisia	38.5	38.4	38.0	38.3	37.7	37.2	36.5	36.0	37.6
85	Colombia	39.5	39.1	39.0	39.1	38.5	37.5	36.5	35.2	38.1
86	Paraguay	38.6	39.8	39.1	39.8	38.7	38.2	37.9	36.7	38.6
87	Ethiopia	40.2	40.3	39.5	40.1	40.6	38.9	37.6	-	39.6
88	Brazil	40.8	39.8	39.8	39.9	40.1	39.2	38.8	-	39.8
89	Kyrgyz Republic	41.4	41.2	40.9	40.5	40.1	39.7	39.3	39.0	40.3
90	Mali	42.4	42.3	40.8	40.4	40.4	40.7	40.7	40.6	41.0

91	Ghana	42.3	41.9	41.6	41.5	41.0	40.8	38.8	-	41.1
92	Madagascar	40.3	39.6	39.1	44.6	43.0	41.1	40.0	-	41.1
93	Burkina Faso	41.2	41.4	41.7	41.8	41.0	41.0	40.6	-	41.3
94	Kazakhstan	43.3	43.2	42.7	42.4	41.7	41.0	40.3	39.3	41.7
95	Philippines	44.1	43.3	43.0	42.3	41.7	41.2	40.0	39.4	41.9
96	Malawi	40.8	40.3	42.0	43.7	43.0	42.2	42.1	-	42.0
97	Guinea	43.3	42.9	42.5	42.4	42.0	41.6	41.0	-	42.3
98	Tajikistan	43.7	43.2	42.9	42.3	41.7	41.4	-	-	42.5
99	Uganda	44.3	43.1	42.7	43.1	42.5	42.8	42.5	41.4	42.8
100	Russian Federation	46.7	46.1	44.8	43.8	42.8	42.2	41.3	41.0	43.6
101	Sri Lanka	45.3	44.6	44.8	44.1	43.6	43.6	43.1	43.7	44.1
102	Chad	46.4	46.2	45.5	45.3	44.5	41.2	42.1	-	44.5
103	Côte d'Ivoire	41.7	43.2	44.3	45.5	45.6	45.5	45.6	46.3	44.7
104	Nicaragua	45.8	45.2	44.9	45.2	44.9	44.4	43.8	43.7	44.7
105	Senegal	45.0	45.1	44.1	-	-	-	-	-	44.7
106	Sierra Leone	47.0	46.3	45.5	44.8	44.4	44.1	-	-	45.3
107	El Salvador	46.7	46.3	46.1	45.9	45.2	45.0	44.4	43.8	45.4
108	Central African Republic	-	-	43.6	44.3	46.5	46.6	46.9	-	45.6
109	Congo, Rep.	49.7	48.2	47.6	46.9	46.6	46.0	44.8	-	47.1
110	Honduras	50.5	49.6	50.0	49.9	49.2	48.5	47.8	-	49.3
111	Zambia	51.3	50.8	50.2	50.4	50.0	50.0	48.9	47.9	49.9
112	Ukraine	52.6	52.2	51.7	51.2	50.6	49.6	48.1	47.3	50.4
113	Benin	51.8	50.7	50.8	50.8	50.5	50.6	49.8	-	50.7
114	Uruguay	50.4	51.1	51.3	53.4	53.3	50.5	48.3	47.7	50.8
115	Thailand	53.2	52.6	52.5	51.5	50.1	49.8	49.3	48.9	51.0
116	Guatemala	51.3	51.5	52.4	51.8	51.3	50.8	50.0	49.1	51.0
117	Tanzania	59.0	58.3	57.7	56.8	56.6	55.7	55.2	-	57.0
118	Peru	60.0	59.9	60.2	58.4	58.1	57.3	57.1	56.3	58.4
119	Georgia	68.0	67.3	66.9	66.6	65.7	65.5	64.5	63.4	66.0
120	Bolivia	67.2	67.1	67.4	67.9	68.1	67.2	63.8	62.6	66.4
	Time Average	31.7	31.6	31.4	31.3	31.0	30.5	29.8	28.4	

Looking at table 3.3.6 (151 countries) we see that the unweighted average of the shadow economy in this sample for the year 1999 is 33.3% and steadily decreases to 31.3% in 2007. The three countries with the smallest shadow economies are Switzerland, the United States, and Luxembourg with an average size (over 1999 to 2007) of 8.5, 8.6, and 9.7% of official GDP. In the middle of the distribution we find the Fiji Islands, Algeria, and Romania, with average sizes of 32.4, 32.6, and 32.6%. The three countries with the largest shadow economies are Zimbabwe, Georgia, and Bolivia with an average size of 61.8, 65.8, and 66.1%. In general, comparing the calibrations of the two samples (sample with 151 observations and sample with 120 observations), we can see that the size and trend of the shadow economy are robust for most of the countries over the period 1999 to 2006/7 with only a few minor differences.

**Table 3.3.6.** Ranking of 151 Countries According to the Size of the Shadow Economy

No.	Country	Years									Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	2007	
1	Switzerland	8.8	8.6	8.6	8.6	8.8	8.6	8.5	8.3	8.1	8.5
2	United States	8.8	8.7	8.8	8.8	8.7	8.6	8.5	8.4	8.4	8.6
3	Luxembourg	10.0	9.8	9.8	9.8	9.8	9.8	9.7	9.6	9.4	9.7
4	Austria	10.0	9.8	9.7	9.8	9.8	9.8	9.8	9.6	9.5	9.7
5	Japan	11.4	11.2	11.2	11.3	11.2	10.9	10.7	10.4	10.3	11.0
6	New Zealand	13.0	12.8	12.6	12.4	12.2	12.0	12.1	12.1	12.0	12.4
7	Macao, China	13.3	13.1	13.0	12.9	12.5	12.1	11.9	11.7	11.1	12.4
8	United Kingdom	12.8	12.7	12.6	12.6	12.5	12.4	12.4	12.3	12.2	12.5
9	China	13.2	13.1	13.0	12.9	12.8	12.6	12.5	12.2	11.9	12.7
10	Singapore	13.3	13.1	13.3	13.3	13.1	12.8	12.7	12.4	12.2	12.9

11	Netherlands	13.3	13.1	13.1	13.2	13.3	13.2	13.2	13.2	13.0	13.2
12	Australia	14.4	14.3	14.3	14.1	13.9	13.7	13.7	13.7	13.5	14.0
13	France	15.7	15.2	15.0	15.1	15.0	14.9	14.8	14.8	14.7	15.0
14	Vietnam	15.8	15.6	15.5	15.3	15.2	15.1	14.7	14.6	14.4	15.1
15	Iceland	16.0	15.9	15.8	16.0	15.9	15.5	15.1	15.0	15.0	15.6
16	Canada	16.3	16.0	15.9	15.8	15.7	15.6	15.5	15.3	15.3	15.7
17	Ireland	16.1	15.9	15.9	15.9	16.0	15.8	15.6	15.5	15.4	15.8
18	Germany	16.4	16.0	15.9	16.1	16.3	16.1	16.0	15.6	15.3	16.0
19	Hong Kong, China	17.0	16.6	16.6	16.6	16.4	15.9	15.5	15.0	14.7	16.0
20	Mongolia	18.4	18.4	18.3	18.0	17.7	17.4	17.1	16.7	16.4	17.6
21	Finland	18.4	18.1	17.9	17.8	17.7	17.6	17.4	17.1	17.0	17.7
22	Denmark	18.4	18.0	18.0	18.0	18.0	17.8	17.6	17.0	16.9	17.7
23	Bahrain	18.6	18.4	18.2	18.0	17.8	17.4	17.1	-		17.9
24	Saudi Arabia	18.7	18.4	18.7	19.2	18.3	17.7	17.4	17.4	16.8	18.1
25	Slovak Republic	18.9	18.9	18.8	18.6	18.3	18.1	17.6	17.2	16.8	18.1
26	Iran, Islamic Rep.	19.1	18.9	19.0	18.7	18.2	17.9	18.1	17.7	17.3	18.3
27	Czech Republic	19.3	19.1	18.9	18.8	18.7	18.4	17.8	17.3	17.0	18.4
28	Oman	19.1	18.9	18.5	18.5	18.4	18.3	18.0	17.6	-	18.4
29	Jordan	19.4	19.4	19.2	18.9	18.7	18.3	18.0	17.5	17.2	18.5
30	Norway	19.2	19.1	19.0	19.0	19.0	18.5	18.5	18.2	18.0	18.7
31	Sweden	19.6	19.2	19.1	19.0	18.7	18.5	18.6	18.2	17.9	18.8
32	Qatar	-	19.0	19.3	19.0	19.6	17.4	18.4			18.8
33	Indonesia	19.7	19.4	19.4	19.3	19.1	18.8	18.6	18.3	17.9	18.9
34	Syrian Arab Republic	19.3	19.3	19.2	19.1	19.3	19.1	19.0	18.7	18.5	19.0
35	Chile	19.9	19.8	19.6	19.6	19.4	19.1	18.9	18.7	18.5	19.3
36	Kuwait	20.1	20.1	20.2	20.3	19.3	18.8	18.1	17.9	-	19.3
37	Belgium	22.7	22.2	22.1	22.0	22.0	21.8	21.8	21.4	21.3	21.9
38	Israel	22.7	21.9	22.3	22.7	22.7	22.1	21.8	21.2	20.7	22.0
39	India	23.2	23.1	22.8	22.6	22.3	22.0	21.7	21.2	20.7	22.2
40	Spain	23.0	22.7	22.4	22.4	22.4	22.5	22.4	22.4	22.2	22.5
41	Mauritius	23.3	23.1	22.9	23.0	22.7	22.4	22.4	22.2	21.9	22.7
42	Portugal	23.0	22.7	22.6	22.7	23.0	23.1	23.3	23.2	23.0	23.0
43	Hungary	25.4	25.1	24.8	24.5	24.4	24.1	24.0	23.7	23.7	24.4
44	Taiwan	25.7	25.4	25.7	25.4	25.2	24.7	24.5	24.2	23.9	25.0
45	Argentina	25.2	25.4	26.1	27.6	26.4	25.5	24.7	23.8	23.0	25.3
46	Costa Rica	26.1	26.2	26.4	26.4	26.1	25.9	25.6	25.0	24.0	25.8
47	United Arab Emirates	26.3	26.4	27.0	27.4	26.3	25.4	24.8	23.5	-	25.9
48	Slovenia	27.3	27.1	26.7	26.6	26.4	26.2	25.8	25.3	24.7	26.2
49	Bahamas, The	26.3	26.2	26.4	26.5	27.0	27.4	26.7	26.2	26.2	26.5
50	Korea, Rep.	28.3	27.5	27.3	26.9	26.8	26.5	26.3	25.9	25.6	26.8
51	Italy	27.8	27.1	26.7	26.8	27.0	27.0	27.1	26.9	26.8	27.0
52	Yemen, Rep.	27.7	27.4	27.3	27.2	27.0	27.0	26.6	26.8	26.8	27.1
53	Poland	27.7	27.6	27.7	27.7	27.5	27.3	26.9	26.4	26.0	27.2
54	Malta	27.4	27.1	27.3	27.3	27.5	27.6	27.3	27.0	26.5	27.2
55	South Africa	28.4	28.4	28.4	28.0	27.8	27.1	26.5	26.0	25.2	27.3
56	Greece	28.5	28.7	28.2	28.0	27.4	27.1	26.9	26.4	26.5	27.5
57	Cyprus	29.2	28.7	28.2	27.8	28.2	28.1	27.7	27.3	26.5	28.0
58	Bhutan	29.6	29.4	29.2	29.1	28.7	28.7	28.3	28.2	27.7	28.7
59	Latvia	30.8	30.5	30.1	29.8	29.4	29.0	28.4	27.7	27.2	29.2
60	Maldives	30.3	30.3	30.0	29.4	29.2	28.9	29.6	29.3	28.6	29.5
61	Lao PDR	30.9	30.6	30.2	30.0	29.8	29.4	28.9	28.4	28.0	29.6
62	Mexico	30.8	30.1	30.3	30.4	30.5	30.1	29.9	29.2	28.8	30.0
63	Namibia	31.4	31.4	31.2	31.3	30.7	29.7	29.6	28.8	28.5	30.3
64	Lesotho	31.7	31.3	31.1	31.0	30.7	30.1	30.2	29.3	28.8	30.5
65	Malaysia	32.2	31.1	31.6	31.5	31.2	30.7	30.4	30.0	29.6	30.9
66	Brunei Darussalam	31.3	31.1	31.0	30.2	29.9	31.2	31.8	30.8	31.2	30.9
67	Estonia	-	32.7	32.4	32.0	31.4	31.1	30.5	29.8	29.5	31.2
68	Turkey	32.7	32.1	32.8	32.4	31.8	31.0	30.0	29.5	29.1	31.3
69	Equatorial Guinea	32.7	32.8	32.0	31.5	31.2	30.8	30.5	30.6	30.1	31.4

70	Dominican Republic	32.4	32.1	32.4	32.1	32.1	32.4	31.7	31.0	30.5	31.9
71	Cameroon	33.3	32.8	32.4	32.1	31.7	31.6	31.6	31.4	31.4	32.0
72	Lithuania	33.8	33.7	33.3	32.8	32.0	31.7	31.0	30.4	29.7	32.0
73	Croatia	33.8	33.4	33.2	32.6	32.1	31.7	31.3	30.8	30.4	32.1
74	Ecuador	34.2	34.4	33.7	33.3	32.8	31.6	30.8	30.4	30.4	32.4
75	Fiji	32.9	33.6	33.3	32.6	32.5	31.9	31.4	31.0	32.6	32.4
76	Algeria	34.2	34.1	33.8	33.3	32.5	31.7	31.1	31.0	31.2	32.6
77	Romania	34.3	34.4	33.7	33.5	32.8	32.0	31.7	30.7	30.2	32.6
78	Botswana	33.9	33.4	33.2	33.3	33.0	32.8	32.7	32.3	31.9	33.0
79	Lebanon	34.1	34.1	33.7	33.5	33.2	32.4	32.4	32.8	32.0	33.1
80	Kenya	33.7	34.3	34.0	34.8	34.6	33.7	32.7	31.1	29.5	33.2
81	Trinidad and Tobago	34.7	34.4	34.3	34.4	33.4	33.1	32.9	31.9	31.5	33.4
82	Solomon Islands	31.7	33.4	34.5	34.8	34.7	33.8	33.4	33.2	32.7	33.6
83	Bosnia & Herzegovina	34.3	34.1	34.0	33.9	33.5	33.6	33.2	32.9	32.8	33.6
84	Libyan Arab Jamahiria	34.7	35.1	34.5	33.8	34.9	33.9	33.1	32.0	30.9	33.7
85	Guyana	33.4	33.6	33.3	33.7	33.9	33.4	34.3	33.8	34.0	33.7
86	Venezuela, RB	33.8	33.6	33.5	35.5	36.9	34.9	33.5	32.0	30.9	33.8
87	Albania	35.7	35.3	34.9	34.7	34.4	33.9	33.7	33.3	32.9	34.3
88	Jamaica	36.4	36.4	36.2	36.2	34.4	33.9	34.0	32.9	32.5	34.8
89	Egypt, Arab Rep.	35.5	35.1	35.2	35.7	35.4	35.0	34.8	34.1	33.1	34.9
90	Morocco	36.5	36.4	35.7	35.5	35.0	34.2	34.9	33.1	33.1	34.9
91	Bangladesh	36.0	35.6	35.5	35.7	35.6	35.5	35.1	34.5	34.1	35.3
92	Bulgaria	37.3	36.9	36.6	36.1	35.6	34.9	34.1	33.5	32.7	35.3
93	Cape Verde	36.5	36.1	35.9	35.9	35.7	35.8	35.4	34.1	33.4	35.4
94	Pakistan	37.0	36.8	37.0	36.8	36.2	35.3	34.9	33.8	33.6	35.7
95	Papua New Guinea	35.5	36.1	36.8	37.1	37.1	37.0	37.2	37.1	36.5	36.7
96	Nepal	37.2	36.8	36.7	37.1	36.9	36.8	36.7	36.3	36.0	36.7
97	Tunisia	38.7	38.4	37.8	37.8	37.4	36.9	36.7	35.9	35.4	37.2
98	Colombia	39.4	39.1	38.9	38.9	37.9	37.1	36.1	35.1	33.5	37.3
99	Macedonia, FYR	39.0	38.2	39.1	38.9	38.4	37.4	36.9	36.0	34.9	37.6
100	Suriname	39.7	39.8	39.3	38.9	38.1	36.9	36.5	35.9	35.1	37.8
101	Ethiopia	40.6	40.3	39.5	39.6	40.1	38.6	37.7	36.3	35.1	38.7
102	Comoros	39.3	39.6	39.0	37.7	37.6	39.0	38.0	38.4	39.4	38.7
103	Paraguay	38.0	39.8	39.7	40.1	39.1	38.3	38.2	37.4	-	38.8
104	Guinea	39.7	39.6	39.3	38.7	38.8	38.5	38.4	38.9	39.2	39.0
105	Brazil	40.8	39.8	39.9	39.9	39.6	38.6	38.4	37.8	36.6	39.0
106	Burundi	39.1	39.5	39.6	39.4	39.6	39.6	39.7	39.6	39.6	39.5
107	Eritrea	38.1	40.3	39.4	39.4	40.3	40.6	40.5	41.2	41.4	40.1
108	Kyrgyz Republic	41.4	41.2	40.8	41.4	40.5	39.8	40.1	39.8	38.8	40.4
109	Burkina Faso	41.3	41.4	41.3	41.4	40.3	40.1	39.7	39.7	39.6	40.5
110	Ghana	42.0	41.9	41.8	41.6	41.3	40.9	39.5	38.6	38.3	40.6
111	Mali	42.5	42.3	40.8	40.2	39.9	40.6	40.1	39.9	39.9	40.7
112	Madagascar	40.1	39.6	38.7	44.8	43.4	41.6	40.8	39.8	38.5	40.8
113	Guinea-Bissau	40.4	39.6	39.6	40.7	41.5	41.9	41.7	41.5	41.6	40.9
114	Kazakhstan	43.8	43.2	42.5	42.0	41.1	40.6	39.8	38.9	38.4	41.1
115	Philippines	43.8	43.3	43.0	42.5	42.0	41.6	40.1	39.5	38.3	41.6
116	Malawi	39.9	40.3	42.5	44.4	43.4	42.5	42.6	41.3	39.4	41.8
117	Tajikistan	43.5	43.2	42.9	42.7	42.1	41.7	41.5	41.2	41.0	42.2
118	Uganda	43.5	43.1	42.9	42.9	42.5	42.4	42.2	41.0	40.3	42.3
119	Belize	45.2	43.8	43.3	43.4	42.3	42.0	42.1	41.7	42.0	42.9
120	Chad	45.8	46.2	45.5	45.1	44.2	41.5	41.1	41.7	42.2	43.7
121	Senegal	45.0	45.1	44.5	45.1	44.4	43.2	42.3	42.4	41.7	43.8
122	Russian Federation	47.0	46.1	45.3	44.5	43.6	43.0	42.4	41.7	40.6	43.8
123	Sri Lanka	45.2	44.6	44.6	44.1	43.8	43.9	43.4	42.9	42.2	43.9
124	Armenia	46.6	46.3	45.4	44.5	43.9	43.6	42.7	42.1	41.1	44.0
125	Liberia	44.2	43.2	43.2	43.1	45.0	45.4	44.9	44.5	44.2	44.2
126	Gambia, The	46.1	45.1	44.7	47.1	45.4	43.8	43.6	42.4	40.9	44.3
127	Nicaragua	45.7	45.2	45.3	45.5	45.0	44.2	43.8	43.5	43.1	44.6
128	Central African Republic	42.8	42.6	43.1	44.0	46.9	47.3	46.9	45.9	45.1	45.0

129	El Salvador	46.5	46.3	46.2	45.6	45.2	44.9	44.5	43.8	43.0	45.1
130	Côte d'Ivoire	41.4	43.2	44.3	45.5	46.0	46.1	46.3	46.8	47.0	45.2
131	Sierra Leone	48.6	48.6	47.6	45.4	44.8	44.4	44.3	43.6	42.9	45.6
132	Congo, Rep.	49.5	48.2	47.2	46.8	46.8	46.2	44.7	43.3	44.6	46.4
133	Belarus	48.3	48.1	47.9	47.6	47.0	46.1	45.2	44.2	43.3	46.4
134	Angola	48.8	48.8	48.4	47.4	47.3	47.1	45.0	44.0	42.1	46.6
135	Zambia	49.3	48.9	48.3	48.1	47.5	46.8	46.3	45.0	43.9	47.1
136	Congo, Dem. Rep.	47.2	48.0	48.2	48.1	47.1	46.9	46.8	46.8	46.7	47.3
137	Gabon	46.2	48.0	47.4	47.6	47.5	48.0	47.7	48.0	47.3	47.5
138	Honduras	50.3	49.6	49.7	49.6	48.9	48.3	47.3	46.1	45.1	48.3
139	Cambodia	50.4	50.1	49.6	50.0	49.2	48.8	47.8	46.8	46.0	48.7
140	Ukraine	52.7	52.2	51.4	50.8	49.7	48.8	47.8	47.3	46.8	49.7
141	Benin	51.2	50.2	49.8	49.6	49.3	49.5	49.8	49.6	49.1	49.8
142	Guatemala	51.6	51.5	51.6	51.2	50.7	50.5	50.2	49.0	47.9	50.5
143	Thailand	53.4	52.6	52.4	51.5	50.2	49.6	49.0	48.5	48.2	50.6
144	Uruguay	50.5	51.1	51.7	54.0	53.6	51.1	49.2	48.5	46.1	50.6
145	Haiti	54.8	55.4	56.1	56.5	56.4	57.4	57.1	57.0	57.1	56.4
146	Tanzania	58.6	58.3	57.7	56.9	56.6	56.0	55.4	54.7	53.7	56.4
147	Peru	60.1	59.9	60.2	59.1	58.6	57.9	57.2	55.7	53.7	58.0
148	Azerbaijan	61.0	60.6	60.3	60.0	59.1	58.6	56.7	54.0	52.0	58.0
149	Zimbabwe	59.6	59.4	61.5	62.8	63.7	62.3	62.0	62.3	62.7	61.8
150	Georgia	68.3	67.3	67.2	67.2	65.9	65.5	65.1	63.6	62.1	65.8
151	Bolivia	67.0	67.1	67.6	67.7	67.7	66.9	64.3	62.8	63.5	66.1
	Time Average	33.3	33.0	32.9	32.9	32.6	32.2	31.9	31.5	31.3	

Having estimated and calculated the size and trend of the shadow economy according to 4 different MIMIC model specifications, we finally compare how much the different estimates vary for each country given the different models. For this purpose, we calculated the range of the estimates for each country, i.e. the difference between the maximum and the minimum estimate. It turned out that the variation in estimates is on average relatively low. However, in Guinea (between specifications 3 and 4 as well as between specifications 2 and 4), and Zambia (specifications 3 and 4 as well as between specifications 2 and 4) the maximum differences in the range are 3.3 as well as 3.2%, and 2.8 as well as 2.7%, respectively. These rather large differences might be a consequence of the parsimony of specification 4. Except for these exemptions, all models estimated predict almost the same size of the shadow economy for each country. Calculating pairwise correlations, we find that the correlation coefficients are extremely high. For example, between specifications 1 and 4 they are for all years above 0.98; meaning that for each country the predicted sizes of the shadow economy are almost indistinguishable from each other, regardless of the specification used for prediction. This allows us to add 11 countries to our maximum sample estimation of 151 countries which are not included in specification 6 but for which we have calculated the size of the shadow economy using specification 1 and specification 5 (shown in appendix 4).<sup>31</sup> These countries are: Mauritania, Mozambique, Myanmar, Niger, Nigeria, Panama, Rwanda, Sudan, Swaziland, Togo (taken from table 3.3.2), and Moldova (calibrated according to specification 5 presented in appendix 4). Appendix 5 presents alphabetically-ordered shadow economy estimates for 162 countries around the world.

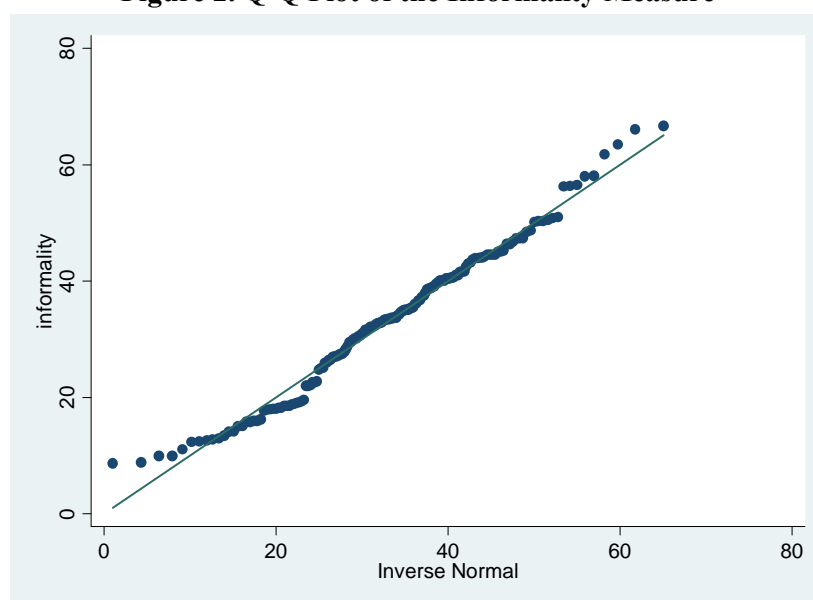
We turn now to analyze our measurement estimates of the shadow economy. First, a visual quick check for normality (i.e. a Q-Q plot, Figure 2) hints that the measure is normal and that there are no overall outliers on the top, nor on the bottom of the distribution. A formal test for normality (the Kolmogorov-Smirnov test, not presented) indicates that we cannot reject the

<sup>31</sup> The reason for this is that these specifications are based on a previous paper in which we used a slightly different set of countries (Schneider and Buehn, 2009).



the null hypothesis of normality. Thus, we are confident that our measure follows a normal distribution.

**Figure 2. Q-Q Plot of the Informality Measure**



Second, we analyze the measurement estimates by regions. To do so we used the regions as defined by the World Bank. The World Bank distinguishes eight world regions. The mean, median, minimum, maximum, and standard deviation in each region are presented in table 3.3.7. The medians by region are plotted in Figure 3 ordered from the highest at the top to the lowest at the bottom. The regional results are very clear: Sub-Saharan Africa has the highest estimates of the shadow economy (with a median of 40.5), followed by Latin America and the Caribbean (38.7), and Europe and Central Asia (35.8). At the bottom of the distribution we find the OECD countries with a median of 16.0. The table also shows that there are big disparities within regions, which is also shown in Figure 3.

**Table 3.3.7. Average Informality (Unweighted) by World Bank's Regions**

	<b>Region</b>	<b>Mean</b>	<b>median</b>	<b>min</b>	<b>max</b>	<b>sd</b>
<b>EAP</b>	East Asia and Pacific	32.3	32.5	12.7	51.0	13.3
<b>ECA</b>	Europe and Central Asia	38.5	35.8	18.2	66.7	11.0
<b>LAC</b>	Latin America and the Caribbean	41.2	38.7	19.3	66.1	12.3
<b>MENA</b>	Middle East and North Africa	28.0	32.7	18.2	37.2	7.9
<b>OECD</b>	High Income OECD	16.8	16.0	8.7	27.9	5.6
<b>OHIE</b>	Other High Income	22.8	25.0	12.4	33.4	6.7
<b>SAS</b>	South Asia	33.2	35.3	22.2	43.7	6.9
<b>SSA</b>	Sub-Saharan Africa	40.8	40.5	22.6	61.8	7.6
<b>World</b>		33.1	33.5	8.7	66.7	12.8

**Figure 3. Average Shadow Economy Measure by Region**

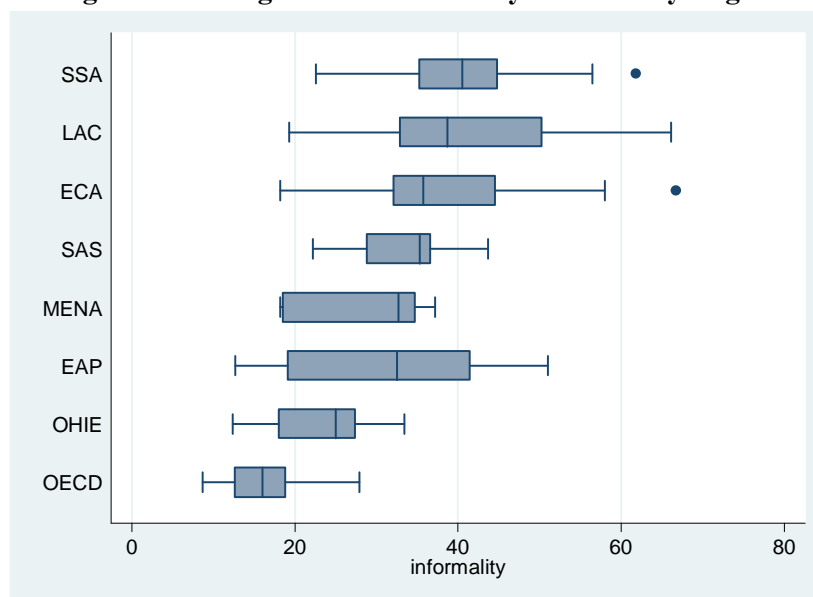


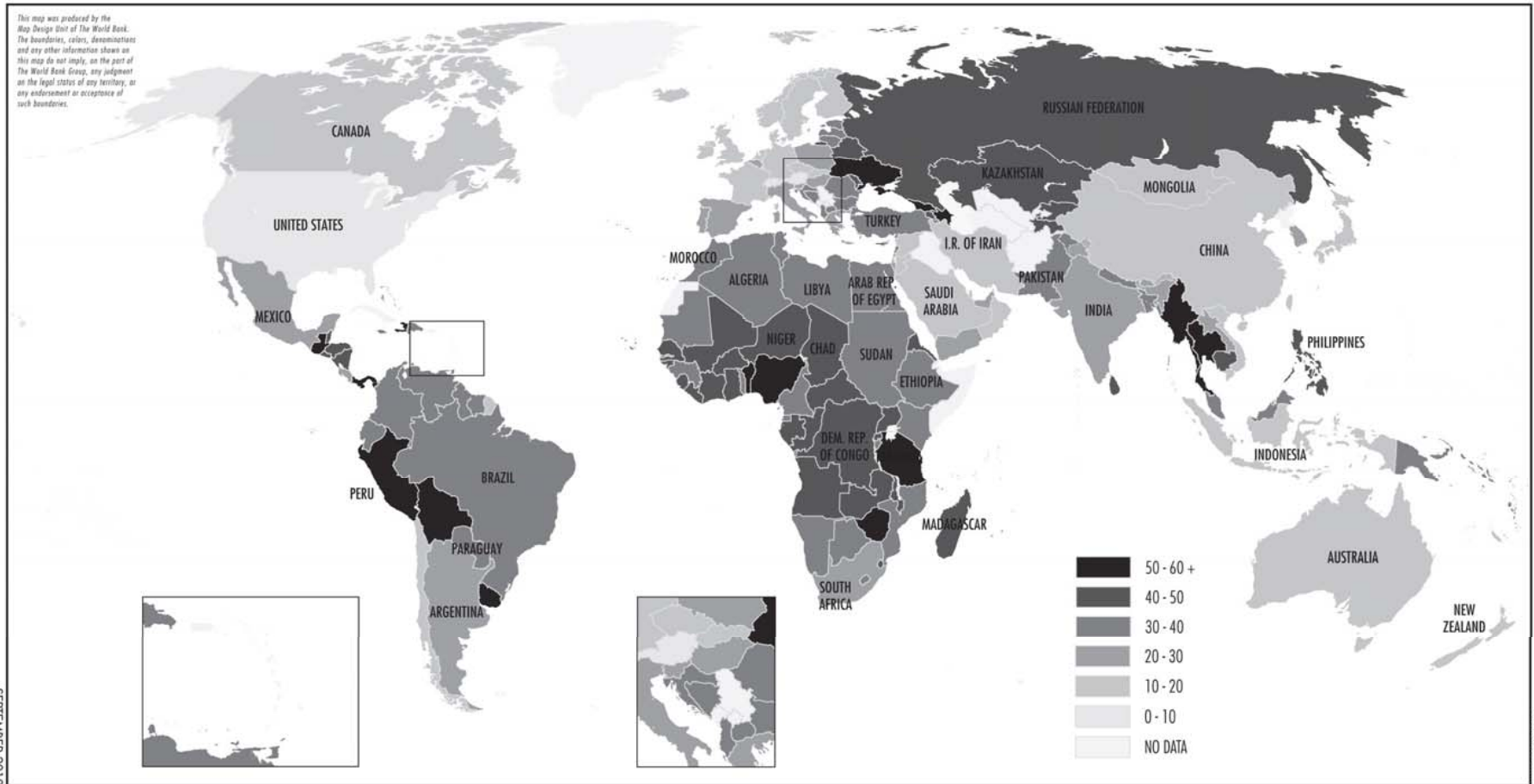
Table 3.3.7 presents at its bottom line the simple unweighted yearly average which is not the average informality for the World but the average World's informality when one weights every country equally. In order to measure how much of the GDP in the world is really informal, we weighted by total country GDP. In particular, for every country/year we weighted the rate of informality by the total GDP. This gives us the GDP in current Billion US dollars that is informal for each country/year. Then we added up this amount and divided it by the total GDP of the sample. The same had also been done for the sub-samples of the eight world regions the World Bank distinguishes. According to these calculations, table 3.3.8 shows much lower rates of informal GDP for the world as a whole, with an average of 17.2%. The results with respect to the countries' development stage are very impressive too: the averages of the weighted yearly informality estimates demonstrate that Sub-Saharan Africa has the largest shadow economies (with an average of 38.4%) followed by Europe and Central Asia (with an average of 36.5%). At the bottom of the distribution we find the OECD countries with an average of 13.5%, which is consistent with the fact that richer economies have lower informality rates.

**Table 3.3.8. Average Informality Weighted by Total GDP in 2005**

	Region	Mean	median	min	max	sd
<b>EAP</b>	East Asia and Pacific	17.5	12.7	12.7	51.0	10.7
<b>ECA</b>	Europe and Central Asia	36.5	32.8	18.2	66.7	8.6
<b>LAC</b>	Latin America and the Caribbean	34.7	33.7	19.3	66.1	8.0
<b>MENA</b>	Middle East and North Africa	27.3	32.7	18.2	37.2	7.8
<b>OECD</b>	High Income OECD	13.5	11.0	8.7	27.9	5.6
<b>OHIE</b>	Other High Income	20.8	19.5	12.4	33.4	4.8
<b>SAS</b>	South Asia	25.1	22.2	22.2	43.7	5.9
<b>SSA</b>	Sub-Saharan Africa	38.4	34.1	22.6	61.8	11.3
<b>World</b>		17.2	13.4	8.7	66.7	9.9

Finally, we present the informality measurement country-by-country in a world map view. Countries shown with darker colors in Figure 4 indicate higher levels of informality. Among them: Azerbaijan, Bolivia, Peru, Panama, Tanzania, and Zimbabwe. Countries shown with lighter colors indicate countries with lower levels of informality. Among them: Austria, Japan, Luxembourg, Switzerland, the United States, and the United Kingdom.

**Figure 4. World View of Informality**



## 4 Summary and Conclusions

There are many obstacles to overcome when measuring the size of the shadow economy and when analyzing its consequences on the official economy. But, as this paper shows, some progress can be made. We provide estimates of the size of the shadow economies for 162 countries over the period 1999 to 2006/2007 using the MIMIC procedure for the econometric estimation and a benchmarking procedure for calibrating the estimated MIMIC into absolute values of the size of the shadow economy. Some new knowledge/insights are gained with respect to the size and trend of the shadow economy of 162 countries,<sup>32</sup> leading to three main conclusions:

- The first conclusion from these results is that **for all countries investigated the shadow economy has reached a remarkably large size** with a weighted (unweighted) average value of 17.2 (33.1)% of official GDP. However, equally important is the clear negative trend of the size of the shadow economy over time. The unweighted average size of the 162 countries decreased from 34.0% of official GDP in 1999 to 31.0% in 2007; for the 21 transition countries from 36.9% in 1999 to 32.6% in 2007.
- The second conclusion is that **shadow economies are a complex phenomenon present to a large extent in all type of economies** (developing, transition, and highly developed). People engage in shadow economic activities for a variety of reasons – especially in response to government actions, most notably, taxation and regulation.
- The third conclusion is that there are **regional disparities in the level of informality, but obvious regional clusters**. At the top level of informality we find Sub-Saharan Africa, and at the lowest level of informality we find the OECD countries.

Considering these conclusions, it is obvious that one of the big challenges for every government is to undertake efficient incentive-orientated policy measures in order to make work less attractive in the shadow economy and, thus, to make work in the official economy more attractive. Successful implementation of such policies may lead to a stabilization, or even reduction, of the size of the shadow economy. Of course, even after 20 years of intensive research about the shadow economy, its size, causes, and consequences are still heatedly debated in the literature indicating that further research is necessary to improve our understanding about the shadow economy.

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<sup>32</sup> In the appendix some critical discussion of these two methods is given; they have well known weaknesses (compare also Pedersen (2003) and Feld and Schneider (2010)).

## 5 Appendix 1. The Currency Demand Approach

The currency demand approach, which is also called an “indicator” approach, is a macroeconomic method that uses various economic and other indicators containing information about the development of the shadow economy (over time), and leaves some traces of the shadow economy. This approach was first used by Cagan (1958), who calculated a correlation of the currency demand and the tax pressure (as one cause of the shadow economy) for the United States over the period 1919 to 1955. Twenty years later, Gutmann (1977) used the same approach, but without any statistical procedures. Cagan’s approach was further developed by Tanzi (1980, 1983), who econometrically estimated a currency demand function for the United States for the period 1929 to 1980, in order to calculate the shadow economy. His approach assumes that shadow (or hidden) transactions are undertaken in the form of cash payments, so as to leave no observable traces for the authorities. An increase in the size of the shadow economy will, therefore, increase the demand for currency. To isolate the resulting excess demand for currency, an equation for currency demand is econometrically estimated over time. All conventional possible factors, such as the development of income, payment habits, interest rates, and so on, are controlled for. Additionally, variables such as the direct and indirect tax burden, government regulation, and the complexity of the tax system (which are assumed to be the major factors causing people to work in the shadow economy), are included in the estimation equation. The basic regression equation for the currency demand, proposed by Tanzi (1983), is the following:

$$\ln (C / M_2)_t = \beta_0 + \beta_1 \ln (1 + TW)_t + \beta_2 \ln (WS / Y)_t + \beta_3 \ln R_t + \beta_4 \ln (Y / N)_t + u_t$$

with  $\beta_1 > 0$ ,  $\beta_2 > 0$ ,  $\beta_3 < 0$ ,  $\beta_4 > 0$

where:

$\ln$  denotes natural logarithms,  $C / M_2$  is the ratio of cash holdings to current and deposit accounts,  $TW$  is a weighted average tax rate (to proxy changes in the size of the shadow economy),  $WS/Y$  is a proportion of wages and salaries in national income (to capture changing payment and money holding patterns),  $R$  is the interest paid on savings deposits (to capture the opportunity cost of holding cash), and  $Y/N$  is per capita income.<sup>33</sup>

Any excess increase in currency, or the amount unexplained by the conventional or normal factors (mentioned above) is, then, attributed to the rising tax burden and the other reasons leading people to work in the shadow economy. Figures for the size and trend of the shadow economy can be calculated, in a first step, by comparing the difference between the development of currency when the direct and indirect tax burden (and government regulations) are held at their lowest value, and the development of currency with the current (much higher) burden of taxation and government regulations. Assuming in a second step the same velocity for currency used in the shadow economy as for legal  $M1$  in the official economy, the size of the shadow can be computed and compared to the official GDP.

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<sup>33</sup> The estimation of such a currency demand equation has been criticized by Thomas (1999) but part of this criticism has been considered by the work of Giles (1999a,b) and Bhattacharyya (1999), who both use the latest econometric techniques.

The currency demand approach is one of the most commonly-used approaches. It has been applied to many OECD countries,<sup>34</sup> but has, nevertheless, been criticized on various grounds.<sup>35</sup> The most commonly raised objections to this method are:

- (i) Not all transactions in the shadow economy are paid in cash. Isachsen and Strom (1985) used the survey method to find out that in Norway, in 1980, roughly 80% of all transactions in the hidden sector were paid in cash. The size of the total shadow economy (including barter) may thus be even larger than previously estimated.
- (ii) Most studies consider only one particular factor, the tax burden, as a cause of the shadow economy. But others (such as the impact of regulation, taxpayers' attitudes toward the state, "tax morality", and so on) are not considered, because reliable data for most countries are not available. If, as seems likely, these other factors also have an impact on the extent of the hidden economy, it might again be higher than reported in most studies.<sup>36</sup>
- (iii) As discussed by Garcia (1978), Park (1979), and Feige (1996), increases in currency demand deposits are due largely to a slowdown in demand deposits rather than to an increase in currency caused by activities in the shadow economy, at least in the case of the United States.
- (iv) Blades (1982) and Feige (1986, 1996), criticize Tanzi's studies on the grounds that the US dollar is used as an international currency. Instead, Tanzi should have considered (and controlled) the presence of US dollars, which are used as an international currency and are held in cash abroad.<sup>37</sup> Moreover, Frey and Pommerehne (1984) and Thomas (1986, 1992, 1999) claim that Tanzi's parameter estimates are not very stable.<sup>38</sup>
- (v) Most studies assume the same velocity of money in both types of economies. As argued by Hill and Kabir (1996) for Canada and by Klovland (1984) for the Scandinavian countries, there is already considerable uncertainty about the velocity of money in the official economy, and the velocity of money in the hidden sector is even more difficult to estimate. Without knowledge about the velocity of currency in the shadow economy, one has to accept the assumption of "equal" money velocity in both sectors.

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<sup>34</sup> See Karmann (1986 and 1990), Schneider (1997, 1998a, 2005), Johnson, Kaufmann, and Zoido-Lobaton (1998a), and Williams and Windebank (1995).

<sup>35</sup> See Thomas (1992, 1999); Feige (1986); Pozo (1996); Pedersen (2003) and Ahumada et al. (2004); Janisch and Brümmerhof (2005); and Breusch (2005a,b).

<sup>36</sup> One (weak) justification for the use of only the tax variable is that this variable has by far the strongest impact on the size of the shadow economy in the studies known to the authors. The only exception is the study by Frey and Weck-Hannemann (1984) where the variable "tax immorality" has a quantitatively larger and statistically stronger influence than the direct tax share in the model approach. In the study of Pommerehne and Schneider (1985), for the U.S., besides various tax measures, data for regulation, tax immorality, minimum wage rates are available, the tax variable has a dominating influence and contributes roughly 60-70% of the size of the shadow economy. See also Zilberfarb (1986).

<sup>37</sup> In another study by Tanzi (1982, esp. pp. 110-113) he explicitly deals with this criticism. A very careful investigation of the amount of US dollars used abroad and in the shadow economy and to "classical" crime activities has been undertaken by Rogoff (1998), who concludes that large denomination bills are the major driving force for the growth of the shadow economy and classical crime activities are due largely to reduced transactions costs.

<sup>38</sup> However in studies for European countries Kirchgaessner (1983, 1984) and Schneider (1986) reach the conclusion that the estimation results for Germany, Denmark, Norway and Sweden are quite robust when using the currency demand method. Hill and Kabir (1996) find for Canada that the rise of the shadow economy varies with respect to the tax variable used; they conclude "when the theoretically best tax rates are selected and a range of plausible velocity values is used, this method estimates underground economic growth between 1964 and 1995 at between 3 and 11 percent of GDP." (Hill and Kabir [1996, p. 1553]).

- (vi) Ahumada, Alvarado, Canavese A., and P. Canavese (2004) show that the currency approach, together with the assumption of equal income velocity of money in both the reported and the hidden transaction is only correct if the income elasticity is 1. As this is not the case for most countries, the calculation has to be corrected.
- (vii) Finally, the assumption of no shadow economy in a base year is open to criticism. Relaxing this assumption would again imply an upward adjustment of the size of the shadow economy.

## 5 Appendix 2. Variable Definitions and Data Sources

**BUSINESS FREEDOM:** Subcomponent of the Economic Freedom Index. It measures the time and efforts of business activity. It ranges from 0 to 100, where 0 = least business freedom, and 100 = maximum business freedom.

Source: Heritage Foundation.

**ECONOMIC FREEDOM:** Economic Freedom Index. It ranges from 0 to 100, where 0 = least economic freedom, and 100 = maximum economic freedom.

Source: Heritage Foundation.

**FISCAL FREEDOM:** Subcomponent of the Economic Freedom Index. It measures the fiscal burden in an economy, i.e., top tax rates on individual and corporate income. It ranges from 0 to 100, where 0 = least fiscal freedom, and 100 = maximum degree of fiscal freedom.

Source: Heritage Foundation.

**CURRENCY:** M0 over M1. It corresponds to the currency outside the banks (M0) as a proportion of M1.

Source: International Monetary Fund.

In specification 4 and 5 we use currency over M2 because of higher data availability.

Source: ECB.

**LABOR FORCE PARTICIPATION RATE:** It corresponds to the labor force participation rate, total (% of total population). Labor force participation rate is the proportion of the population that is economically active: all people who supply labor for the production of goods and services during a specified period.

Source: International Labor Organization, Estimates and Projections of the Economically Active Population database. The data for Taiwan, China was obtained from the Taiwan's Statistical Office website.

**GDP PER CAPITA (PPP):** It corresponds to the GDP per capita based on purchasing power parity (PPP), (constant 2005 international \$). GDP PPP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2005 international dollars.

Source: World Bank, International Comparison Program database.

**UNEMPLOYMENT RATE:** Unemployment, total (% of total labor force). Unemployment refers to the share of the labor force that is without work but available for and seeking employment. Definitions of labor force and unemployment differ by country.

Source: International Labor Organization, Key Indicators of the Labor Market database. Given that this data set contains many missing values, the source was complemented with data from the PRS Group and also with data from some national statistical offices' websites, and also from the World Bank's Development Data Platform.

**UNEMPLOYMENT RATE ESTIMATED:** In spite of all the efforts to fill in the gaps many missing values still remained. To fill them up, a structural model of the determinants of the



unemployment rate was estimated. In this model the dependent variable is the unemployment rate and the predictors are:

- The employment rate of the female population that are 15 years or older
- The employment rate of the male population that are 15 years of older
- The female labor force participation rate
- The male labor force participation rate
- The proportion of the population 15-64 that is female
- The proportion of the population 15-64 that is male
- The GDP growth rate of the previous period
- And the regression also included country fixed effects

The predictors were selected so that they would be relevant to explain the unemployment rate, but also that they would be available for most of the countries in the sample. The model had an excellent predictive power. Using this model we came up with unemployment estimates for some of the missing unemployment rates.

**SIZE OF GOVERNMENT:** General government final consumption expenditure (% of GDP). General government final consumption expenditure (formerly general government consumption) includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditure on national defense and security, but excludes government military expenditures that are part of government capital formation.

Source: United Nations Statistical Database. Available on line at <http://unstats.un.org/unsd/snaama/dnllist.asp>. The data for Taiwan, China comes from the World Bank's Development Data Platform.

**SHARE OF DIRECT TAXES:** Direct taxes as a proportion of total overall taxation.

Source: World Bank and Penn World Table (PWT 6.2).

**REGULATORY QUALITY:** Regulatory Quality. It includes measures of the incidence of market-unfriendly policies such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development. The scores of this index lie between -2.5 and 2.5, with higher scores corresponding to better outcomes.

Source: Worldwide Governance Indicators: 1996-2009, World Bank. Available on line at: [web.worldbank.org](http://web.worldbank.org).

**GOVERNMENT EFFECTIVENESS:** Government effectiveness. It captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The scores of this index lie between -2.5 and 2.5, with higher scores corresponding to better outcomes.

Source: Worldwide Governance Indicators: 1996-2009, World Bank. Available on line at: [web.worldbank.org](http://web.worldbank.org).

**INFLATION RATE:** Inflation, GDP deflator (annual %). Inflation as measured by the annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency. Source: United Nations Statistical Database. Available on line at <http://unstats.un.org/unsd/snaama/dnllist.asp>.

**OPENNESS:** It corresponds to trade (% of GDP). Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.

Source: United Nations Statistical Database. Available on line at <http://unstats.un.org/unsd/snaama/dnllist.asp>.

**TOTAL POPULATION AGES 15 TO 64:** It corresponds to total population ages 15-64.

Source: World Bank staff estimates from various sources including census reports, the United Nations Population Division's World Population Prospects, national statistical offices, household surveys conducted by national agencies, and Macro International. For Taiwan, China the data comes from the National Statistical Office.

**POPULATION TOTAL:** Population, total. Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship--except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of their country of origin. The values shown are midyear estimates.

Source: World Bank staff estimates from various sources including census reports, the United Nations Population Division's World Population Prospects, national statistical offices, household surveys conducted by national agencies, and Macro International.

**TOTAL LABOR FORCE:** Labor force, total. Total labor force comprises people ages 15 and older who meet the International Labor Organization definition of the economically active population: all people who supply labor for the production of goods and services during a specified period. It includes both the employed and the unemployed. While national practices vary in the treatment of such groups as the armed forces and seasonal or part-time workers, in general the labor force includes the armed forces, the unemployed and first-time job-seekers, but excludes homemakers and other unpaid caregivers and workers in the informal sector. Source: International Labor Organization, using World Bank population estimates.

## 5 Appendix 3. Descriptive Statistics

Variable	Mean	Standard Deviation	Min	Max
<b>Specification 1</b>				
SIZE OF GOVERNMENT	14.22	5.57	3.59	44.61
SHARE OF DIRECT TAXATION	26.79	13.76	2.44	82.40
FISCAL FREEDOM	82.55	9.03	52.91	100.00
BUSINESS FREEDOM	44.67	17.75	10.00	94.58
UNEMPLOYMENT RATE	11.51	8.04	0.00	39.70
GDP PER CAPITA	6806.64	8374.87	319.38	48810.29
GROWTH RATE OF GDP PER CAPITA	2.31	3.64	-17.61	16.24
LABOR FORCE PARTICIPATION RATE	66.87	10.26	44.00	92.20
CURRENCY (M0 OVER M1)	43.74	17.65	1.20	92.99
<b>Specification 2</b>				
SIZE OF GOVERNMENT	14.47	6.41	2.95	59.65
FISCAL FREEDOM	81.28	9.81	32.56	100.00
BUSINESS FREEDOM	43.11	17.73	10.00	94.58
UNEMPLOYMENT RATE	12.43	9.51	0.00	64.07
GDP PER CAPITA	6383.75	8243.83	319.38	51586.21
GROWTH RATE OF GDP PER CAPITA	2.19	3.94	-30.03	19.02
LABOR FORCE PARTICIPATION RATE	67.46	10.37	43.90	92.40
CURRENCY (M0 OVER M1)	44.00	16.91	1.20	92.99
<b>Specification 3</b>				
SIZE OF GOVERNMENT	14.66	5.94	3.19	38.09
SHARE OF DIRECT TAXATION	29.71	17.20	2.44	92.00
FISCAL FREEDOM	81.48	9.45	50.29	100.00
BUSINESS FREEDOM	48.01	18.75	10.00	100.00
UNEMPLOYMENT RATE	8.81	5.72	0.00	39.15
GDP PER CAPITA	10361.04	10986.63	340.18	48810.29
GOVERNMENT EFFECTIVENESS	0.12	0.90	-1.59	2.64
GROWTH RATE OF GDP PER CAPITA	2.81	3.65	-17.15	16.24
GROWTH RATE OF LABOR FORCE	0.02	0.02	-0.14	0.11
CURRENCY (M0 OVER M1)	40.84	18.93	0.02	90.82
<b>Specification 4</b>				
SIZE OF GOVERNMENT	15.20	7.09	2.86	75.40
GDP PER CAPITA	9386.87	11276.40	101.00	66597.70
UNEMPLOYMENT RATE	9.02	6.35	0.00	39.15
GOVERNMENT EFFECTIVENESS	-0.09	0.90	-2.51	2.64
GROWTH RATE OF GDP PER CAPITA	2.83	4.29	-33.07	25.11
LABOR FORCE PARTICIPATION RATE	68.48	9.48	44.00	92.40
CURRENCY (M0 OVER M1)	42.01	19.62	0.00	97.93

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Min</b>	<b>Max</b>
<b>Specification 5</b>				
SIZE OF GOVERNMENT	17.82	4.26	8.54	26.80
FISCAL FREEDOM	80.61	9.47	41.00	96.04
ECONOMIC FREEDOM	57.83	8.96	33.71	79.51
UNEMPLOYMENT RATE	11.80	6.45	1.00	40.00
OPENNESS	95.97	34.58	29.45	199.68
INFLATION	29.22	99.08	-0.92	953.46
GROWTH RATE OF GDP PER CAPITA	4.67	4.83	-22.55	13.69
GROWTH RATE OF LABOR FORCE	0.00	0.02	-0.14	0.07
CURRENCY (M0 OVER M1)	48.26	18.06	16.27	90.82
<b>Specification 6</b>				
TOTAL TAX BURDEN	35.96	7.76	16.57	51.79
FISCAL FREEDOM	70.76	9.03	51.12	88.10
BUSINESS FREEDOM	64.92	16.60	30.00	97.96
UNEMPLOYMENT RATE	6.28	2.98	2.04	21.96
GDP PER CAPITA	28412.90	9397.76	7273.22	75597.47
REGULATORY QUALITY	1.34	0.41	0.32	2.01
LABOR FORCE PARTICIPATION RATE	72.28	6.31	58.30	87.50
CURRENCY (M0 OVER M2)	5.37	3.11	0.28	14.98
<b>Specification 7</b>				
TOTAL TAX BURDEN	37.18	7.15	17.34	51.79
UNEMPLOYMENT RATE	6.51	3.20	1.80	21.96
REGULATORY QUALITY	1.39	0.37	0.33	2.01
GDP PER CAPITA	30988.48	8732.90	11485.83	72783.16
LABOR FORCE PARTICIPATION RATE	72.30	6.36	58.30	87.50
CURRENCY (M0 OVER M2)	5.19	2.84	0.34	14.87

## 5 Appendix 4. Additional Specifications

This appendix presents three additional specifications for 21 Eastern European and Central Asian (mostly former transition) countries as well as 25 high-income OECD countries. For the 21 Eastern European and Central Asian countries, we use as cause variables the size of government and the fiscal freedom index. For state regulation, we use the economic freedom index of the Heritage Foundation which ranges from 0 to 100, where 0 is least economic freedom and 100 maximum economic freedom (negative sign expected), and for the state of the economy the unemployment rate, inflation rate and openness (sum of export and imports of goods and services, as a percentage of GDP). The inflation rate and a measure for openness are included to take into account the transition process and periods of high inflation in the late 90s/early 2000s in the transition countries. These two variables are measured as follows:

- (1) Inflation rate: GDP deflator (annual rate in percent); inflation is measured by the annual growth rate of the GDP implicit deflator, which shows the rate of price changes in the economy as a whole (positive sign expected),
- (2) Openness: openness corresponds to trade (as a percent of GDP). Trade is the sum of exports and imports of goods and services, measured as a share of gross domestic product (negative sign expected).

As indicator variables, we use the growth rate of GDP per capita, the growth rate of total labor force, and the ratio M0 over M1. For the 25 high-income OECD countries, we use the total tax burden (total tax revenues as a percentage of GDP), the fiscal and business freedom indices, a regulatory quality index, and the unemployment rate as causal variables. The regulatory quality index is the World Bank's regulatory quality index which includes measures of the incidents of market-unfriendly policies, such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development. The index scores between -2.5 and +2.5 with higher scores corresponding to better outcomes (negative sign expected). As indicator variables, we use the labor force participation rate, GDP per capita, and a measure for currency defined as:

- (1) Currency over M2: It corresponds to the currency outside the banks as a proportion of M2.
- (2) GDP per capita: GDP per capita is gross domestic product converted to international dollars using Purchasing Power Parity rates, divided by the population.

In specification 5, the MIMIC estimation result for the 21 Eastern European and Central Asian (mostly former transition) countries over the period 1994 to 2006 is shown. If we begin with the cause variables, the size of government and the fiscal freedom variable (both capturing the overall state burden), are highly statistically significant and have the expected signs. With respect to regulation, the economic freedom variable has the expected negative sign and is statistically significant. As these countries experienced periods of high inflation, we include the inflation rate, which has the expected positive sign and is highly statistically significant. The variable openness, modelling the transition process, is also statistically significant. Considering the indicator variables, the growth rate of the total labor force is statistically significant, as well as the growth rate of GDP per capita. Also, the test statistics are quite satisfactory.

In specifications 6 and 7, the estimation results for the 25 high-income OECD countries are shown. Specification 6 shows the estimation over the period 1996 to 2006, and specification 7 results over the period 1996 to 2007.<sup>39</sup> Considering the results of specification 6 over the period 1996 to 2006, the two variables capturing government burden (total tax burden and fiscal freedom) are highly statistically significant and have the expected sign. The unemployment rate has the expected sign and is statistically significant at the 95 percent confidence level. The two variables capturing the regulatory burden, business freedom and regulatory quality have the expected signs and are highly statistically significant. Turning to the indicator variables, the labor force participation rate and currency (ratio of M0 over M2) are both highly statistically significant. Also, the test statistics for this equation are quite satisfactory. Turning to specification 7, where we present the results over the period 1996 to 2007, we use the same set of causal variables but exclude fiscal and business freedom, which allows us to estimate the model up to the year 2007. We can see that all causal variables are highly statistically significant and all have the expected signs. The same is true for the indicator variables.

**Table A.4.1.** Additional MIMIC Model Estimation Results

<b>Independent variables</b>	<b>Specification 5 21 Transition Countries (1994 - 2006)</b>	<b>Specification 6 25 High Income OECD Countries (1996 - 2006)</b>	<b>Specification 7 25 High Income OECD Countries (1996 - 2007)</b>
<b>Causal variables</b>			
Size of government	0.18 (3.49)***		
Total tax burden		0.05 (2.05)**	0.06 (1.78)*
Fiscal freedom	-0.08 (1.68)*	-0.07 (2.84)***	
Business freedom		-0.23 (5.93)***	
Economic freedom	-0.09 (1.91)*		
Unemployment rate	0.08 (1.84)*	0.05 (1.89)*	0.11 (3.16)***
Regulatory quality		-0.21 (5.45)***	-0.31 (6.50)***
Openness	-0.15 (2.47)**		
Inflation rate	0.22 (2.83)***		
<b>Indicator variables</b>			
Growth rate of GDP per capita	-0.76 (4.41)***		
GDP per capita		-1.52 (6.71)***	-1.25 (8.36)***
Labor force participation rate		-1.11 (5.45)***	-1.03 (7.70)***
Growth rate of labor force	-0.83 (3.90)***		
Currency	1	1	1
<b>Statistical tests</b>			
RMSEA ( <i>p</i> -value)	0.00 (1.00)	0.00 (0.88)	0.00 (0.99)
Chi-square ( <i>p</i> -value)	17.75 (0.91)	17.74 (0.60)	3.55 (0.94)
AGFI	0.97	0.95	0.99
Degrees of freedom	27	20	9
Number of observations	213	145	243

*Note:* Absolute *z*-statistics in parentheses. \*\*\*, \*\*, \* denote significance at the 1, 5, and 10% significance levels. All variables are used as their standardized deviations from the mean. According to the MIMIC models identification rule (see also section 3.1), one indicator has to be fixed to an a priori value. We have consistently chosen the currency variable. The degrees of freedom are determined by  $0.5(p+q)(p+q+1)-t$ ; with *p*= number of indicators; *q* = number of causes; *t* = the number for free parameters.

<sup>39</sup> A number of variables is not available for 2007, hence we have two different sets of cause variables.

## 5 Appendix 5. Listing of 162 Countries in Alphabetical Order

No.	Country	Years										Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	2007		
1	Albania	35.7	35.3	34.9	34.7	34.4	33.9	33.7	33.3	32.9	34.3	
2	Algeria	34.2	34.1	33.8	33.3	32.5	31.7	31.1	31.0	31.2	32.5	
3	Angola	48.8	48.8	48.4	47.4	47.3	47.1	45.0	44.0	42.1	46.5	
4	Argentina	25.2	25.4	26.1	27.6	26.4	25.5	24.7	23.8	23.0	25.3	
5	Armenia	46.6	46.3	45.4	44.5	43.9	43.6	42.7	42.1	41.1	44.0	
6	Australia	14.4	14.3	14.3	14.1	13.9	13.7	13.7	13.7	13.5	14.0	
7	Austria	10.0	9.8	9.7	9.8	9.8	9.8	9.8	9.6	9.5	9.8	
8	Azerbaijan	61.0	60.6	60.3	60.0	59.1	58.6	56.7	54.0	52.0	58.0	
9	Bahamas, The	26.3	26.2	26.4	26.5	27.0	27.4	26.7	26.2	26.2	26.5	
10	Bahrain	18.6	18.4	18.2	18.0	17.8	17.4	17.1	-	-	17.9	
11	Bangladesh	36.0	35.6	35.5	35.7	35.6	35.5	35.1	34.5	34.1	35.3	
12	Belarus	48.3	48.1	47.9	47.6	47.0	46.1	45.2	44.2	43.3	46.4	
13	Belgium	22.7	22.2	22.1	22.0	22.0	21.8	21.8	21.4	21.3	21.9	
14	Belize	45.2	43.8	43.3	43.4	42.3	42.0	42.1	41.7	42.0	42.9	
15	Benin	51.2	50.2	49.8	49.6	49.3	49.5	49.8	49.6	49.1	49.8	
16	Bhutan	29.6	29.4	29.2	29.1	28.7	28.7	28.3	28.2	27.7	28.8	
17	Bolivia	67.0	67.1	67.6	67.7	67.7	66.9	64.3	62.8	63.5	66.1	
18	Bosnia & Herzegovina	34.3	34.1	34.0	33.9	33.5	33.6	33.2	32.9	32.8	33.6	
19	Botswana	33.9	33.4	33.2	33.3	33.0	32.8	32.7	32.3	31.9	32.9	
20	Brazil	40.8	39.8	39.9	39.9	39.6	38.6	38.4	37.8	36.6	39.0	
21	Brunei Darussalam	31.3	31.1	31.0	30.2	29.9	31.2	31.8	30.8	31.2	30.9	
22	Bulgaria	37.3	36.9	36.6	36.1	35.6	34.9	34.1	33.5	32.7	35.3	
23	Burkina Faso	41.3	41.4	41.3	41.4	40.3	40.1	39.7	39.7	39.6	40.5	
24	Burundi	39.1	39.5	39.6	39.4	39.6	39.6	39.7	39.6	39.6	39.5	
25	Cambodia	50.4	50.1	49.6	50.0	49.2	48.8	47.8	46.8	46.0	48.7	
26	Cameroon	33.3	32.8	32.4	32.1	31.7	31.6	31.6	31.4	31.4	32.0	
27	Canada	16.3	16.0	15.9	15.8	15.7	15.6	15.5	15.3	15.3	15.7	
28	Cape Verde	36.5	36.1	35.9	35.9	35.7	35.8	35.4	34.1	33.4	35.4	
29	Central African Republic	42.8	42.6	43.1	44.0	46.9	47.3	46.9	45.9	45.1	45.0	
30	Chad	45.8	46.2	45.5	45.1	44.2	41.5	41.1	41.7	42.2	43.7	
31	Chile	19.9	19.8	19.6	19.6	19.4	19.1	18.9	18.7	18.5	19.3	
32	China	13.2	13.1	13.0	12.9	12.8	12.6	12.5	12.2	11.9	12.7	
33	Colombia	39.4	39.1	38.9	38.9	37.9	37.1	36.1	35.1	33.5	37.3	
34	Comoros	39.3	39.6	39.0	37.7	37.6	39.0	38.0	38.4	39.4	38.7	
35	Congo, Dem. Rep.	47.2	48.0	48.2	48.1	47.1	46.9	46.8	46.8	46.7	47.3	
36	Congo, Rep.	49.5	48.2	47.2	46.8	46.8	46.2	44.7	43.3	44.6	46.4	
37	Costa Rica	26.1	26.2	26.4	26.4	26.1	25.9	25.6	25.0	24.0	25.7	
38	Côte d'Ivoire	41.4	43.2	44.3	45.5	46.0	46.1	46.3	46.8	47.0	45.2	
39	Croatia	33.8	33.4	33.2	32.6	32.1	31.7	31.3	30.8	30.4	32.1	
40	Cyprus	29.2	28.7	28.2	27.8	28.2	28.1	27.7	27.3	26.5	28.0	
41	Czech Republic	19.3	19.1	18.9	18.8	18.7	18.4	17.8	17.3	17.0	18.4	
42	Denmark	18.4	18.0	18.0	18.0	18.0	17.8	17.6	17.0	16.9	17.7	
43	Dominican Republic	32.4	32.1	32.4	32.1	32.1	32.4	31.7	31.0	30.5	31.9	
44	Ecuador	34.2	34.4	33.7	33.3	32.8	31.6	30.8	30.4	30.4	32.4	
45	Egypt, Arab Rep.	35.5	35.1	35.2	35.7	35.4	35.0	34.8	34.1	33.1	34.9	
46	El Salvador	46.5	46.3	46.2	45.6	45.2	44.9	44.5	43.8	43.0	45.1	
47	Equatorial Guinea	32.7	32.8	32.0	31.5	31.2	30.8	30.5	30.6	30.1	31.4	
48	Eritrea	38.1	40.3	39.4	39.4	40.3	40.6	40.5	41.2	41.4	40.1	
49	Estonia	-	32.7	32.4	32.0	31.4	31.1	30.5	29.8	29.5	31.2	
50	Ethiopia	40.6	40.3	39.5	39.6	40.1	38.6	37.7	36.3	35.1	38.6	
51	Fiji	32.9	33.6	33.3	32.6	32.5	31.9	31.4	31.0	32.6	32.4	
52	Finland	18.4	18.1	17.9	17.8	17.7	17.6	17.4	17.1	17.0	17.7	
53	France	15.7	15.2	15.0	15.1	15.0	14.9	14.8	14.8	14.7	15.0	

No.	Country	Years									Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	2007	
54	Gabon	46.2	48.0	47.4	47.6	47.5	48.0	47.7	48.0	47.3	47.5
55	Gambia, The	46.1	45.1	44.7	47.1	45.4	43.8	43.6	42.4	40.9	44.3
56	Georgia	68.3	67.3	67.2	67.2	65.9	65.5	65.1	63.6	62.1	65.8
57	Germany	16.4	16.0	15.9	16.1	16.3	16.1	16.0	15.6	15.3	16.0
58	Ghana	42.0	41.9	41.8	41.6	41.3	40.9	39.5	38.6	38.3	40.7
59	Greece	28.5	28.7	28.2	28.0	27.4	27.1	26.9	26.4	26.5	27.5
60	Guatemala	51.6	51.5	51.6	51.2	50.7	50.5	50.2	49.0	47.9	50.5
61	Guinea	39.7	39.6	39.3	38.7	38.8	38.5	38.4	38.9	39.2	39.0
62	Guinea-Bissau	40.4	39.6	39.6	40.7	41.5	41.9	41.7	41.5	41.6	40.9
63	Guyana	33.4	33.6	33.3	33.7	33.9	33.4	34.3	33.8	34.0	33.7
64	Haiti	54.8	55.4	56.1	56.5	56.4	57.4	57.1	57.0	57.1	56.4
65	Honduras	50.3	49.6	49.7	49.6	48.9	48.3	47.3	46.1	45.1	48.3
66	Hong Kong, China	17.0	16.6	16.6	16.6	16.4	15.9	15.5	15.0	14.7	16.0
67	Hungary	25.4	25.1	24.8	24.5	24.4	24.1	24.0	23.7	23.7	24.4
68	Iceland	16.0	15.9	15.8	16.0	15.9	15.5	15.1	15.0	15.0	15.6
69	India	23.2	23.1	22.8	22.6	22.3	22.0	21.7	21.2	20.7	22.2
70	Indonesia	19.7	19.4	19.4	19.3	19.1	18.8	18.6	18.3	17.9	18.9
71	Iran, Islamic Rep.	19.1	18.9	19.0	18.7	18.2	17.9	18.1	17.7	17.3	18.3
72	Ireland	16.1	15.9	15.9	15.9	16.0	15.8	15.6	15.5	15.4	15.8
73	Israel	22.7	21.9	22.3	22.7	22.7	22.1	21.8	21.2	20.7	22.0
74	Italy	27.8	27.1	26.7	26.8	27.0	27.0	27.1	26.9	26.8	27.0
75	Jamaica	36.4	36.4	36.2	36.2	34.4	33.9	34.0	32.9	32.5	34.8
76	Japan	11.4	11.2	11.2	11.3	11.2	10.9	10.7	10.4	10.3	11.0
77	Jordan	19.4	19.4	19.2	18.9	18.7	18.3	18.0	17.5	17.2	18.5
78	Kazakhstan	43.8	43.2	42.5	42.0	41.1	40.6	39.8	38.9	38.4	41.1
79	Kenya	33.7	34.3	34.0	34.8	34.6	33.7	32.7	31.1	29.5	33.2
80	Korea, Rep.	28.3	27.5	27.3	26.9	26.8	26.5	26.3	25.9	25.6	26.8
81	Kuwait	20.1	20.1	20.2	20.3	19.3	18.8	18.1	17.9	-	19.4
82	Kyrgyz Republic	41.4	41.2	40.8	41.4	40.5	39.8	40.1	39.8	38.8	40.4
83	Lao PDR	30.9	30.6	30.2	30.0	29.8	29.4	28.9	28.4	28.0	29.6
84	Latvia	30.8	30.5	30.1	29.8	29.4	29.0	28.4	27.7	27.2	29.2
85	Lebanon	34.1	34.1	33.7	33.5	33.2	32.4	32.4	32.8	32.0	33.1
86	Lesotho	31.7	31.3	31.1	31.0	30.7	30.1	30.2	29.3	28.8	30.5
87	Liberia	44.2	43.2	43.2	43.1	45.0	45.4	44.9	44.5	44.2	44.2
88	Libyan Arab Jamahiria	34.7	35.1	34.5	33.8	34.9	33.9	33.1	32.0	30.9	33.7
89	Lithuania	33.8	33.7	33.3	32.8	32.0	31.7	31.0	30.4	29.7	32.0
90	Luxembourg	10.0	9.8	9.8	9.8	9.8	9.8	9.7	9.6	9.4	9.7
91	Macao, China	13.3	13.1	13.0	12.9	12.5	12.1	11.9	11.7	11.1	12.4
92	Macedonia, FYR	39.0	38.2	39.1	38.9	38.4	37.4	36.9	36.0	34.9	37.6
93	Madagascar	40.1	39.6	38.7	44.8	43.4	41.6	40.8	39.8	38.5	40.8
94	Malawi	39.9	40.3	42.5	44.4	43.4	42.5	42.6	41.3	39.4	41.8
95	Malaysia	32.2	31.1	31.6	31.5	31.2	30.7	30.4	30.0	29.6	30.9
96	Maldives	30.3	30.3	30.0	29.4	29.2	28.9	29.6	29.3	28.6	29.5
97	Mali	42.5	42.3	40.8	40.2	39.9	40.6	40.1	39.9	39.9	40.7
98	Malta	27.4	27.1	27.3	27.3	27.5	27.6	27.3	27.0	26.5	27.2
99	Mauritania	35.5	36.1	36.0	35.8	35.8	35.1	34.4	31.7		35.1
100	Mauritius	23.3	23.1	22.9	23.0	22.7	22.4	22.4	22.2	21.9	22.7
101	Mexico	30.8	30.1	30.3	30.4	30.5	30.1	29.9	29.2	28.8	30.0
102	Moldova	45.6	45.1	44.1	44.5	44.6	44.0	43.4	44.3	-	44.5
103	Mongolia	18.4	18.4	18.3	18.0	17.7	17.4	17.1	16.7	16.4	17.6
104	Morocco	36.5	36.4	35.7	35.5	35.0	34.2	34.9	33.1	33.1	34.9
105	Mozambique	41.1	40.3	40.4	39.8	39.8	39.7	38.9	38.6	-	39.8
106	Myanmar	51.6	52.6	51.5	50.7	49.0	49.1	47.8	-	-	50.3
107	Namibia	31.4	31.4	31.2	31.3	30.7	29.7	29.6	28.8	28.5	30.3
108	Nepal	37.2	36.8	36.7	37.1	36.9	36.8	36.7	36.3	36.0	36.7
109	Netherlands	13.3	13.1	13.1	13.2	13.3	13.2	13.2	13.2	13.0	13.2
110	New Zealand	13.0	12.8	12.6	12.4	12.2	12.0	12.1	12.1	12.0	12.4



No.	Country	Years									Country Average
		1999	2000	2001	2002	2003	2004	2005	2006	2007	
111	Nicaragua	45.7	45.2	45.3	45.5	45.0	44.2	43.8	43.5	43.1	44.6
112	Niger	41.7	41.9	40.9	40.3	39.7	40.7	39.7	38.6	-	40.4
113	Nigeria	58.0	57.9	57.8	57.6	56.3	55.1	53.8	53.0	-	56.2
114	Norway	19.2	19.1	19.0	19.0	19.0	18.5	18.5	18.2	18.0	18.7
115	Oman	19.1	18.9	18.5	18.5	18.4	18.3	18.0	17.6	-	18.4
116	Pakistan	37.0	36.8	37.0	36.8	36.2	35.3	34.9	33.8	33.6	35.7
117	Panama	64.8	64.1	64.7	65.1	64.4	63.5	61.7	60.0	-	63.5
118	Papua New Guinea	35.5	36.1	36.8	37.1	37.1	37.0	37.2	37.1	36.5	36.7
119	Paraguay	38.0	39.8	39.7	40.1	39.1	38.3	38.2	37.4	-	38.8
120	Peru	60.1	59.9	60.2	59.1	58.6	57.9	57.2	55.7	53.7	58.0
121	Philippines	43.8	43.3	43.0	42.5	42.0	41.6	40.1	39.5	38.3	41.6
122	Poland	27.7	27.6	27.7	27.7	27.5	27.3	26.9	26.4	26.0	27.2
123	Portugal	23.0	22.7	22.6	22.7	23.0	23.1	23.3	23.2	23.0	23.0
124	Quatar	-	19.0	19.3	19.0	19.6	17.4	18.4	0.0	0.0	14.1
125	Romania	34.3	34.4	33.7	33.5	32.8	32.0	31.7	30.7	30.2	32.6
126	Russian Federation	47.0	46.1	45.3	44.5	43.6	43.0	42.4	41.7	40.6	43.8
127	Rwanda	40.5	40.3	40.6	39.9	40.7	40.2	39.3	39.1	-	40.1
128	Saudi Arabia	18.7	18.4	18.7	19.2	18.3	17.7	17.4	17.4	16.8	18.1
129	Senegal	45.0	45.1	44.5	45.1	44.4	43.2	42.3	42.4	41.7	43.7
130	Sierra Leone	48.6	48.6	47.6	45.4	44.8	44.4	44.3	43.6	42.9	45.6
131	Singapore	13.3	13.1	13.3	13.3	13.1	12.8	12.7	12.4	12.2	12.9
132	Slovak Republic	18.9	18.9	18.8	18.6	18.3	18.1	17.6	17.2	16.8	18.1
133	Slovenia	27.3	27.1	26.7	26.6	26.4	26.2	25.8	25.3	24.7	26.2
134	Solomon Islands	31.7	33.4	34.5	34.8	34.7	33.8	33.4	33.2	32.7	33.6
135	South Africa	28.4	28.4	28.4	28.0	27.8	27.1	26.5	26.0	25.2	27.3
136	Spain	23.0	22.7	22.4	22.4	22.4	22.5	22.4	22.4	22.2	22.5
137	Sri Lanka	45.2	44.6	44.6	44.1	43.8	43.9	43.4	42.9	42.2	43.9
138	Sudan	34.1	-	-	-	-	-	-	-	-	34.1
139	Suriname	39.7	39.8	39.3	38.9	38.1	36.9	36.5	35.9	35.1	37.8
140	Swaziland	43.5	41.4	41.3	40.9	40.2	40.1	39.3	38.9	-	40.7
141	Sweden	19.6	19.2	19.1	19.0	18.7	18.5	18.6	18.2	17.9	18.8
142	Switzerland	8.8	8.6	8.6	8.6	8.8	8.6	8.5	8.3	8.1	8.5
143	Syrian Arab Republic	19.3	19.3	19.2	19.1	19.3	19.1	19.0	18.7	18.5	19.1
144	Taiwan	25.7	25.4	25.7	25.4	25.2	24.7	24.5	24.2	23.9	25.0
145	Tajikistan	43.5	43.2	42.9	42.7	42.1	41.7	41.5	41.2	41.0	42.2
146	Tanzania	58.6	58.3	57.7	56.9	56.6	56.0	55.4	54.7	53.7	56.4
147	Thailand	53.4	52.6	52.4	51.5	50.2	49.6	49.0	48.5	48.2	50.6
148	Togo	34.4	35.1	35.4	34.5	34.9	35.0	35.0	34.6	-	34.9
149	Trinidad and Tobago	34.7	34.4	34.3	34.4	33.4	33.1	32.9	31.9	31.5	33.4
150	Tunisia	38.7	38.4	37.8	37.8	37.4	36.9	36.7	35.9	35.4	37.2
151	Turkey	32.7	32.1	32.8	32.4	31.8	31.0	30.0	29.5	29.1	31.3
152	Uganda	43.5	43.1	42.9	42.9	42.5	42.4	42.2	41.0	40.3	42.3
153	Ukraine	52.7	52.2	51.4	50.8	49.7	48.8	47.8	47.3	46.8	49.7
154	United Arab Emirates	26.3	26.4	27.0	27.4	26.3	25.4	24.8	23.5	-	25.9
155	United Kingdom	12.8	12.7	12.6	12.6	12.5	12.4	12.4	12.3	12.2	12.5
156	United States	8.8	8.7	8.8	8.8	8.7	8.6	8.5	8.4	8.4	8.6
157	Uruguay	50.5	51.1	51.7	54.0	53.6	51.1	49.2	48.5	46.1	50.6
158	Venezuela, RB	33.8	33.6	33.5	35.5	36.9	34.9	33.5	32.0	30.9	33.8
159	Vietnam	15.8	15.6	15.5	15.3	15.2	15.1	14.7	14.6	14.4	15.1
160	Yemen, Rep.	27.7	27.4	27.3	27.2	27.0	27.0	26.6	26.8	26.8	27.1
161	Zambia	49.3	48.9	48.3	48.1	47.5	46.8	46.3	45.0	43.9	47.1
162	Zimbabwe	59.6	59.4	61.5	62.8	63.7	62.3	62.0	62.3	62.7	61.8
	Time Average	34.0	33.7	33.6	33.6	33.3	32.9	32.5	31.9	31.0	

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