

SHADOW ECONOMY INDEX FOR THE BALTIC COUNTRIES 2009-2015



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Contents lists available at [ScienceDirect](#)

Journal of Comparative Economics

journal homepage: www.elsevier.com/locate/jce



Measuring the shadow economy using company managers

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ENTREPRENEURSHIP
and the
SHADOW ECONOMY



SSE RIGA

What we do

Since 2009:

- What is the size of the shadow economy in Latvia, Lithuania, and Estonia?
- What are the main determinants of the shadow economy?
- What can be done to reduce the shadow economy?



Laiks diskusijai!
Jūsu viedoklis!

Laiks diskusijai!
Jūsu viedoklis?

Ovum
BIOĒKŠAS
MĀKŠAS

Ovum
BIOĒKŠAS
MĀKŠAS

Panelists' nameplates (partially legible):
- J. K. ...
- J. K. ...

What we do

The Index combines estimates of

- ▣ **misreported business income**
- ▣ **unregistered or hidden employees**
- ▣ **unreported “envelope” wages**

to obtain estimates of the size of the shadow economies as a proportion of GDP

Additionally we estimate **amount of bribery, including bribery in Government orders**

What we do

- We survey entrepreneurs: owner/ managers
- The surveys are conducted between March and April of each year (since 2010) and contain questions about shadow activity during the previous two years
 - For example, the survey conducted in March-April 2016 collects information about shadow activity during 2015 and 2014.
- Random sample, Orbis data set, semi- panel data
- Approximately 500 phone interviews in Latvia, 500 in Lithuania and 500 in Estonia

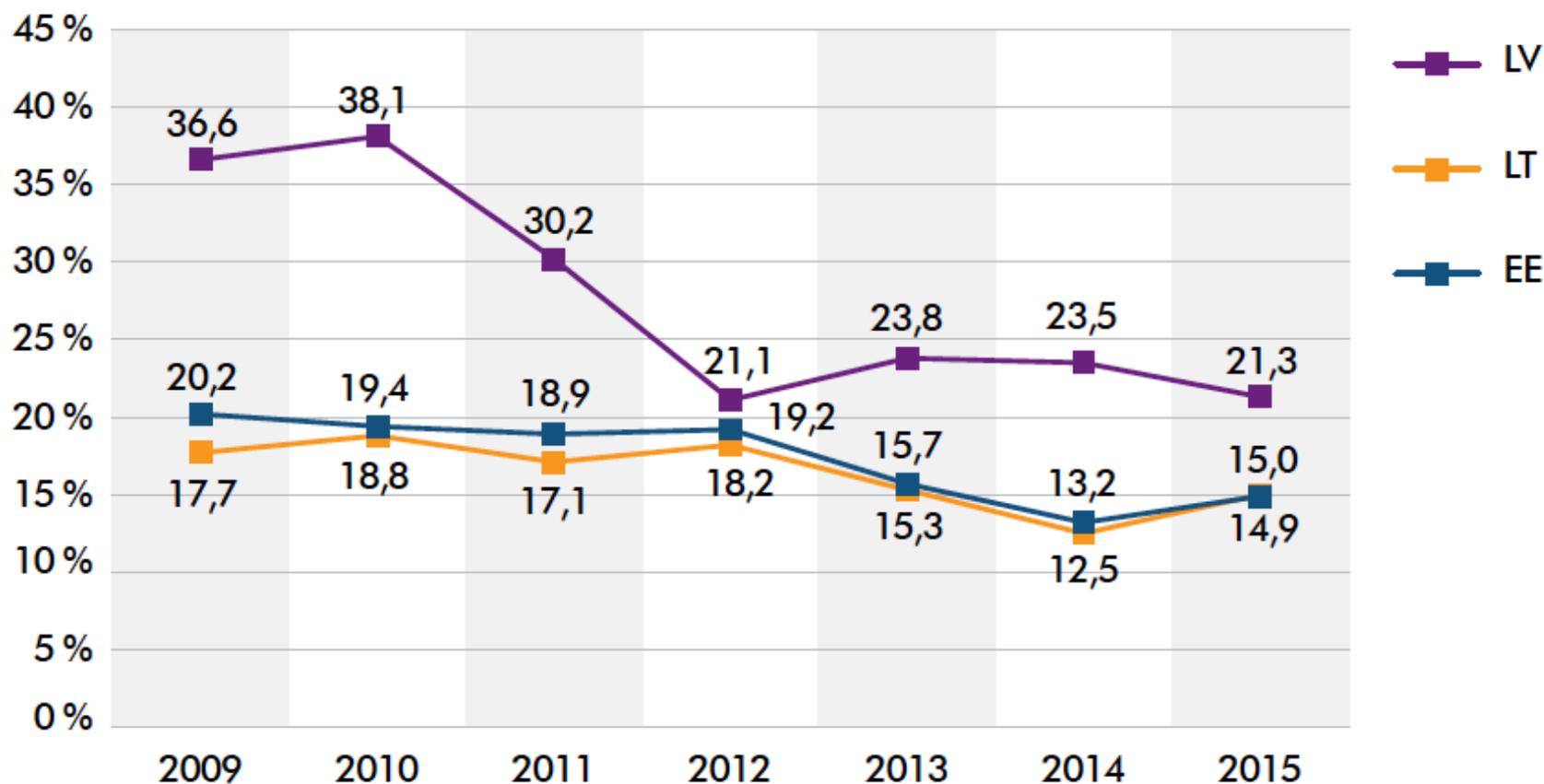
Definition of the shadow economy



All legal production of goods and services that is deliberately concealed from public authorities

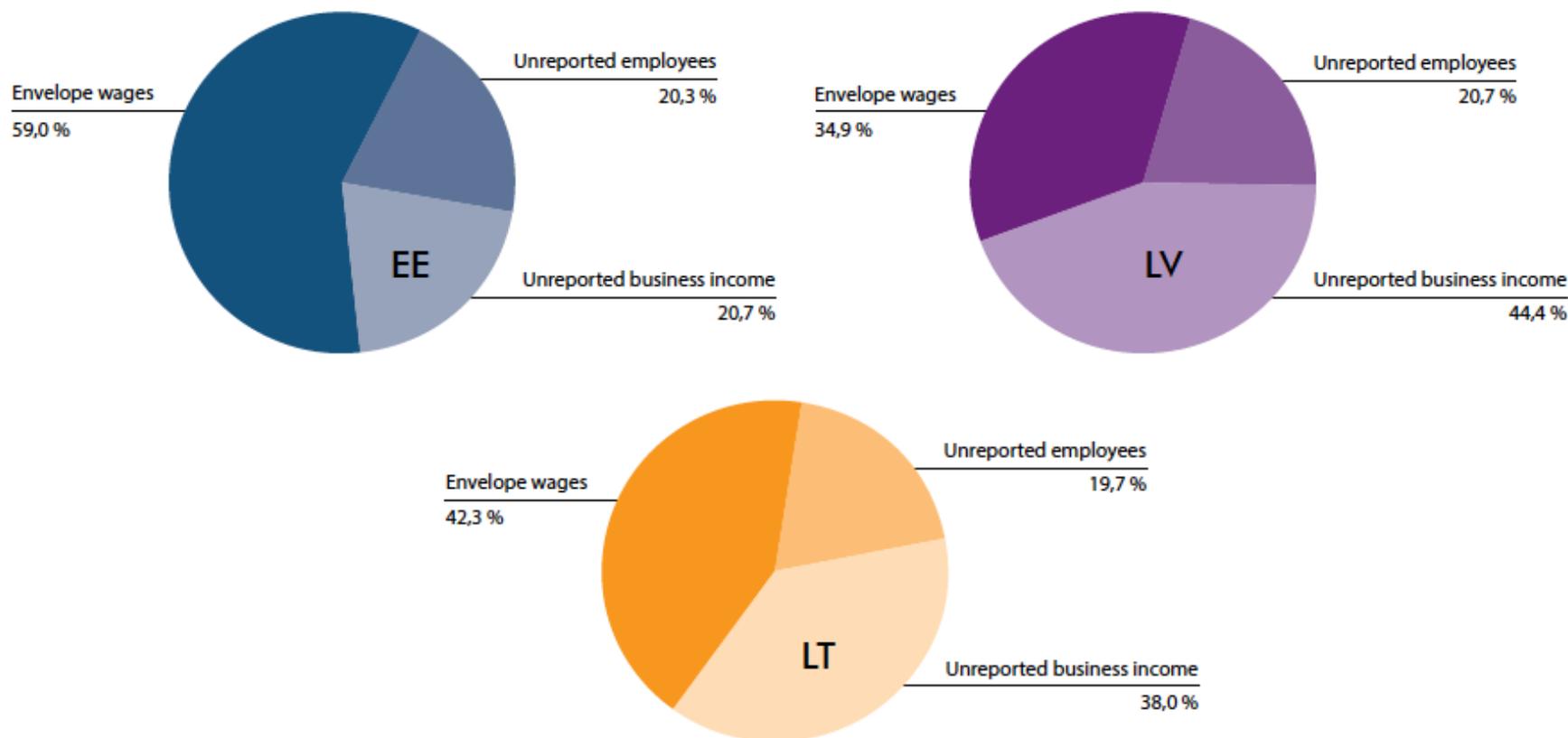
- ▣ In line with OECD (2002), World bank (2010), SNA (1993)

Dynamics of the shadow economy in the Baltic countries 2009-2015

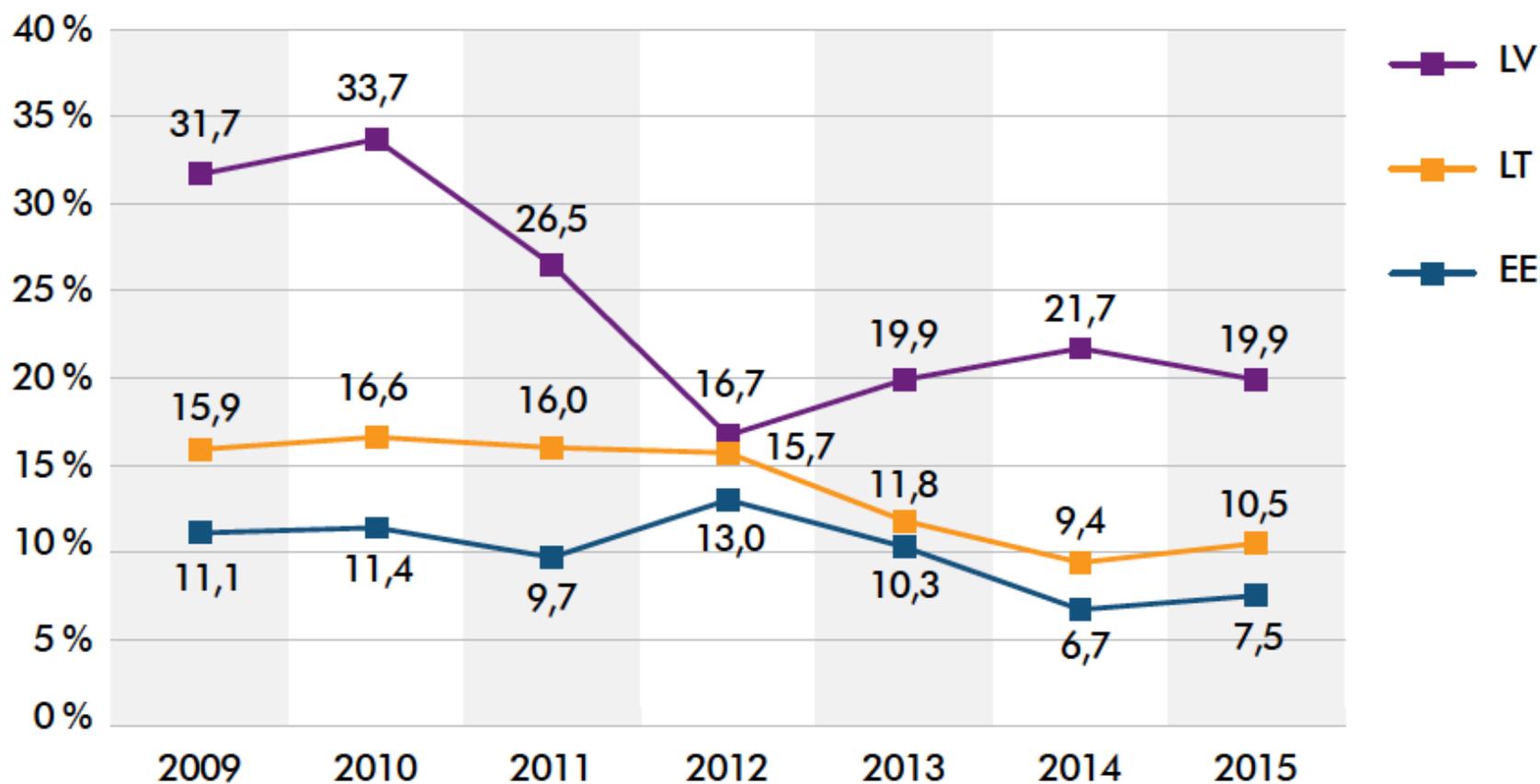


Size of the shadow economy in Latvia, Lithuania, and Estonia 2009-2015

Components of the shadow economy in 2015

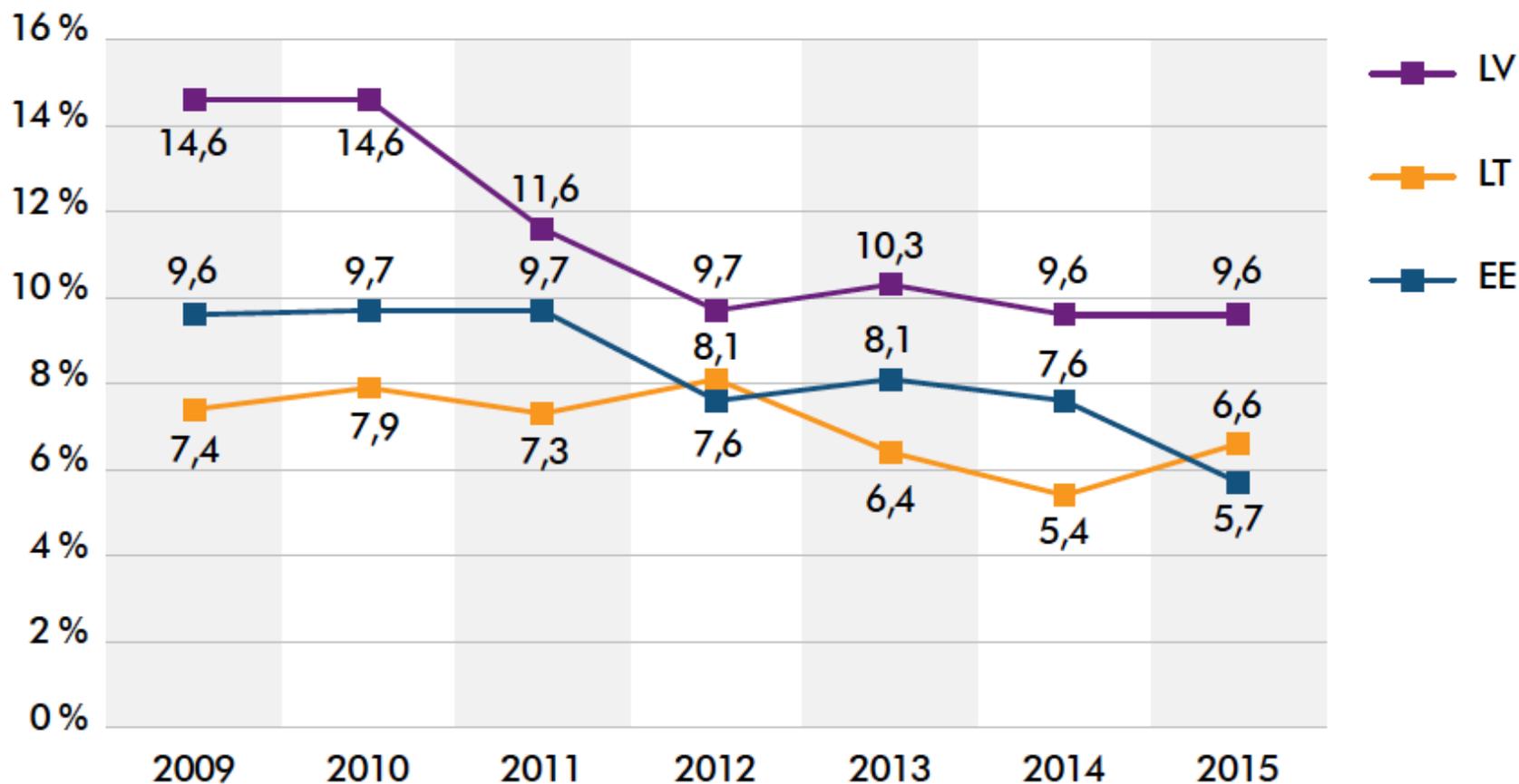


Underreporting of business income, 2009-2015 (average share of revenue in % that companies conceal from the government)



Size of the shadow economy in Latvia, Lithuania, and Estonia 2009-2015

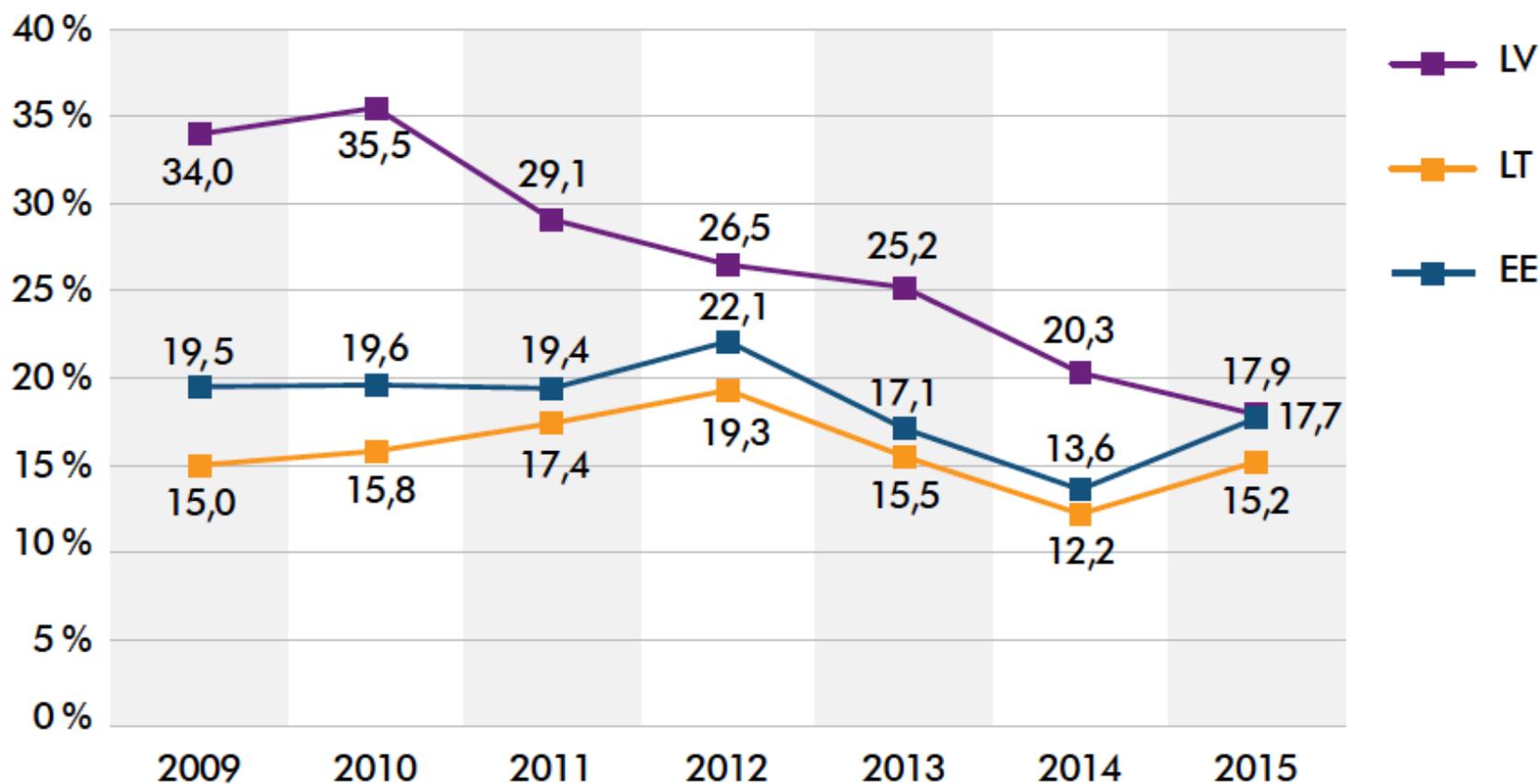
Underreporting of the number of employees, 2009-2015 (average share of the employees in % working without a contract)



Size of the shadow economy in Latvia, Lithuania, and Estonia 2009-2015

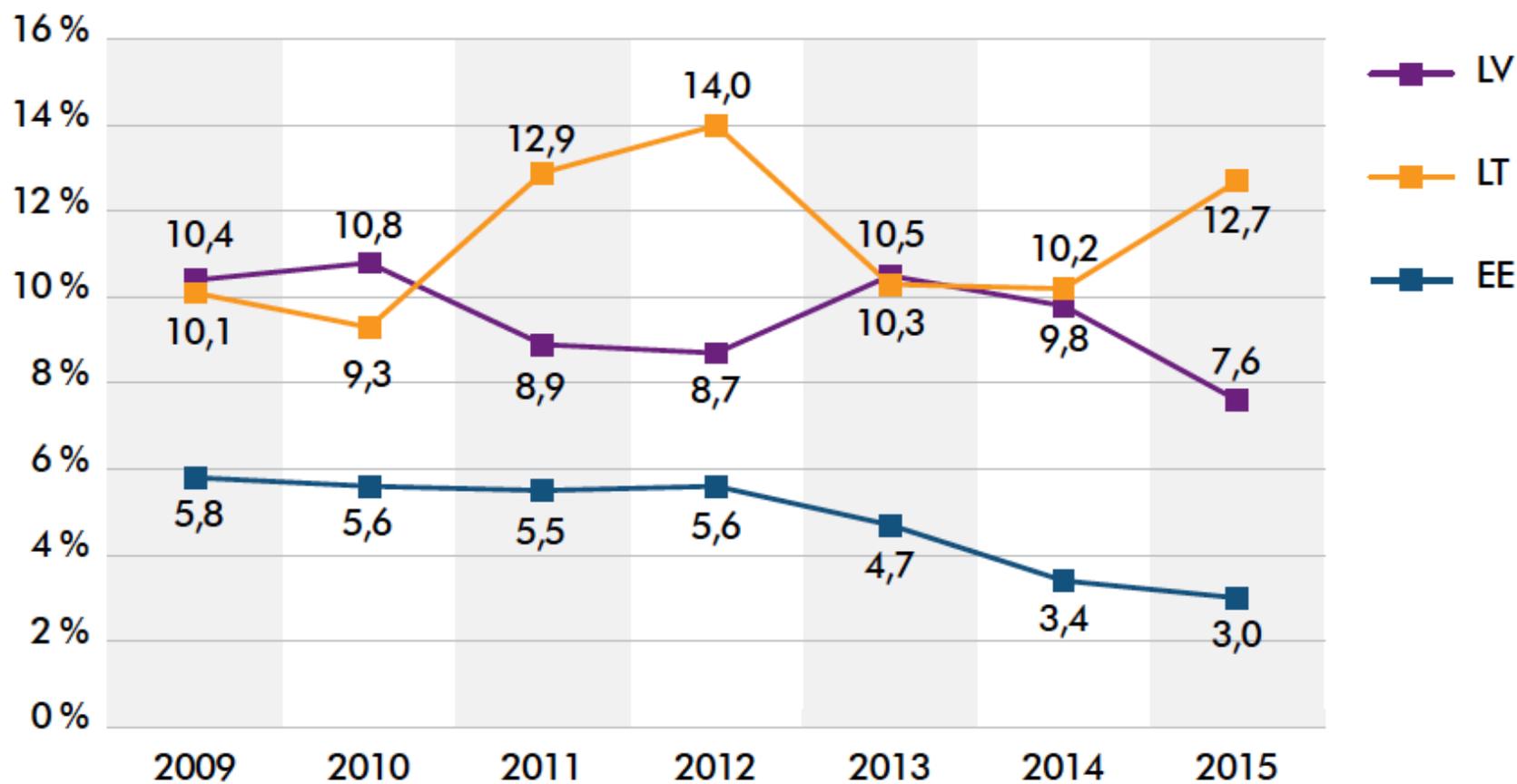
Envelope wages, 2009-2015

(average share of salaries in % which is paid by the employers, but concealed from the government)



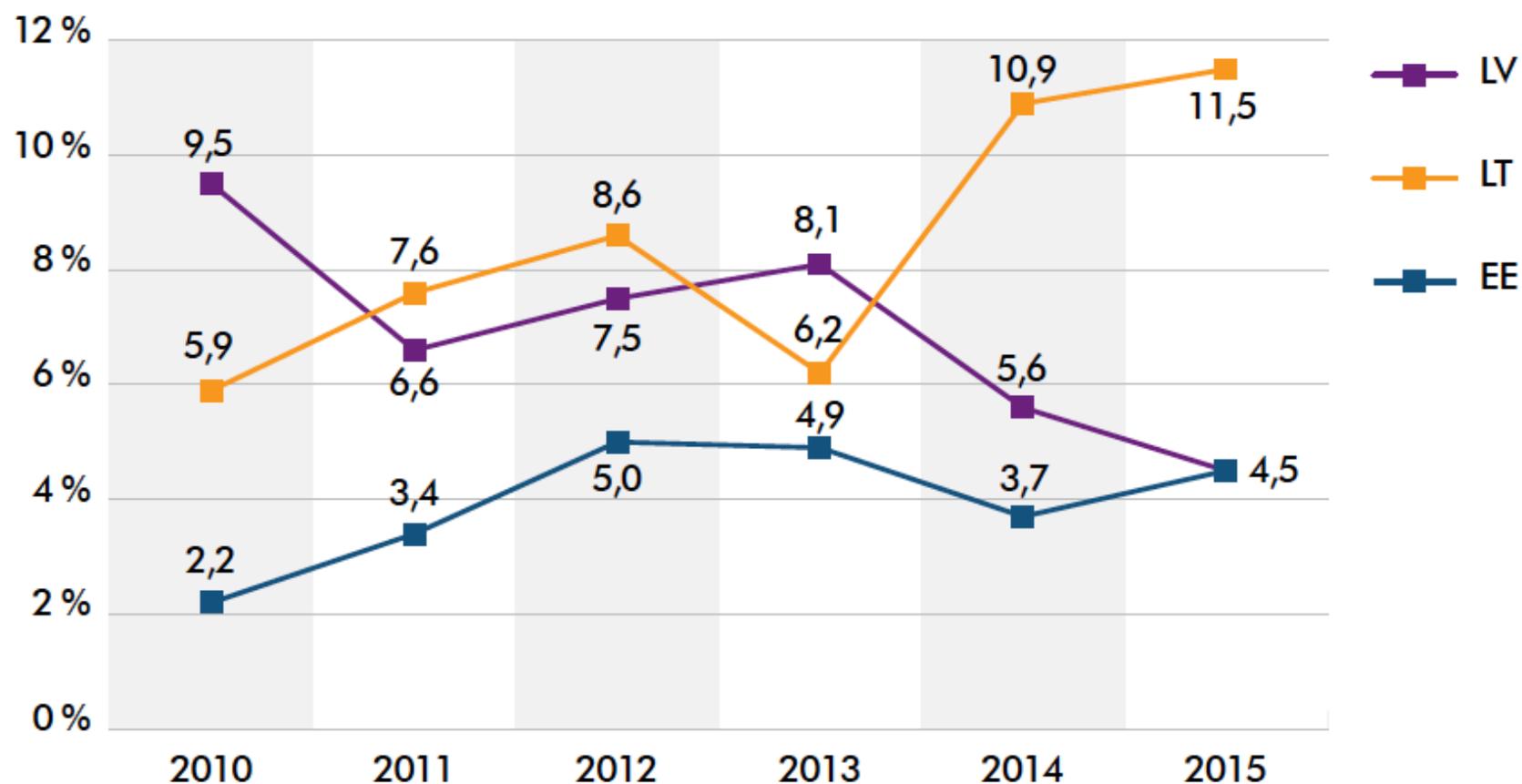
Size of the shadow economy in Latvia, Lithuania, and Estonia 2009-2015

% of payments 'to get things done', 2009-2015 (average percentage of revenue paid as 'bribes')



Size of the shadow economy in Latvia, Lithuania, and Estonia 2009-2015

% of the contract value paid to secure contracts with the government, 2010-2015

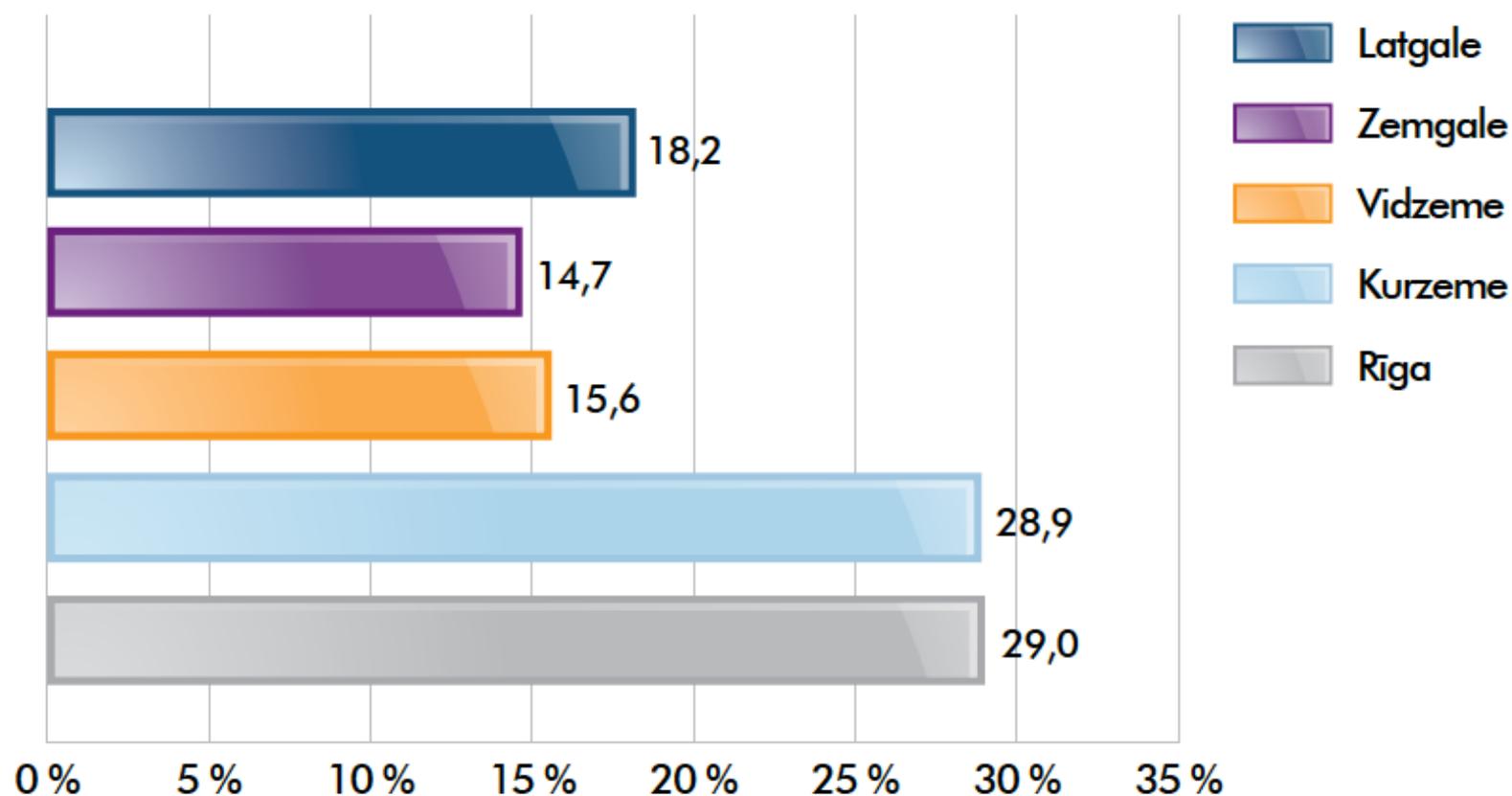


Size of the shadow economy in Latvia, Lithuania, and Estonia 2009-2015

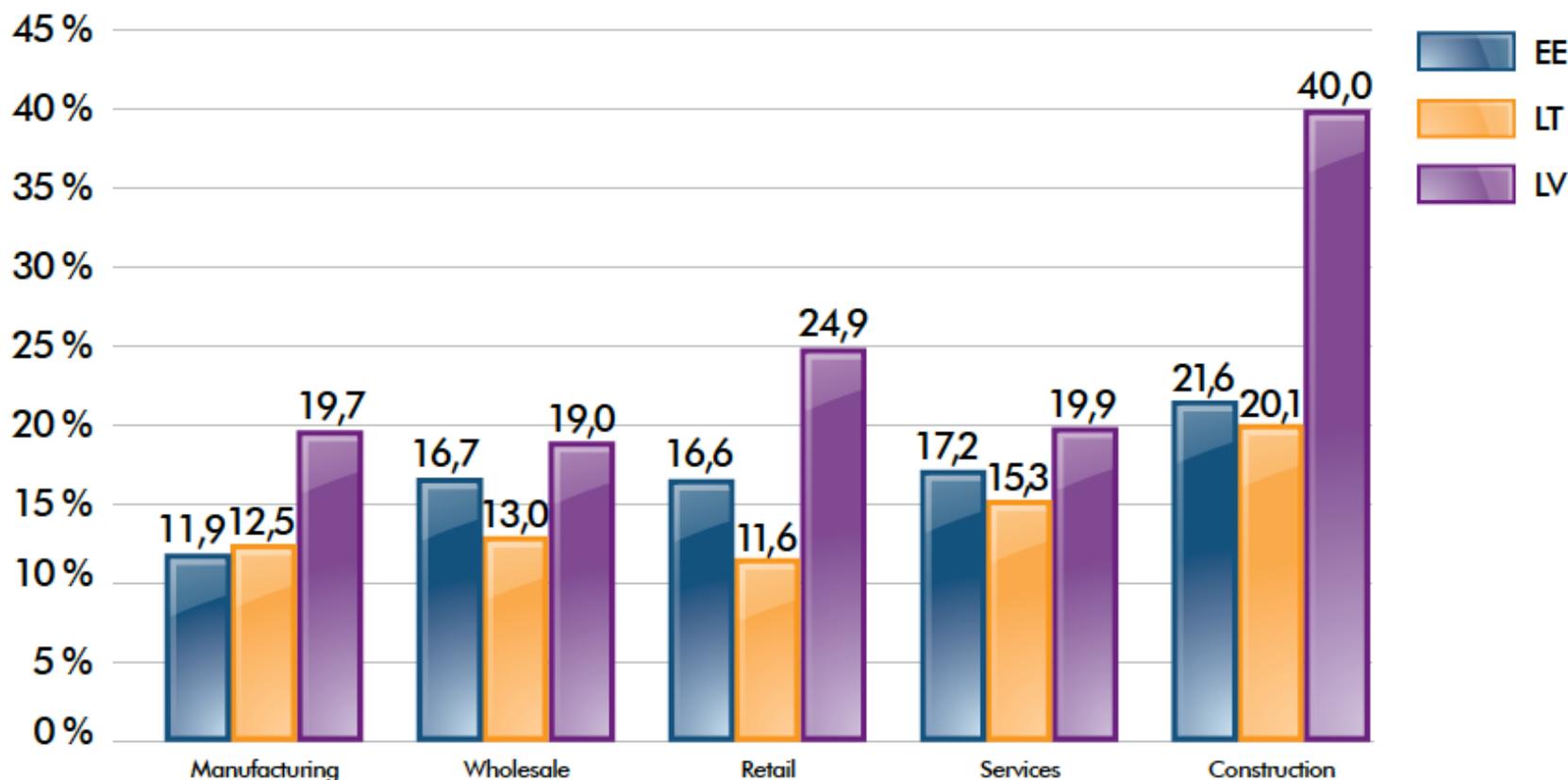
Proportion of unregistered enterprises in the Baltic countries, 2013-2015

	Latvia	Lithuania	Estonia
2015	5,2%	7,3%	5,8%
2014	5,6%	5,2%	6,3%
2013	5,4%	6,2%	7,6%

Size of the shadow economy (% of GDP) by region in Latvia (average, 2013-2015)

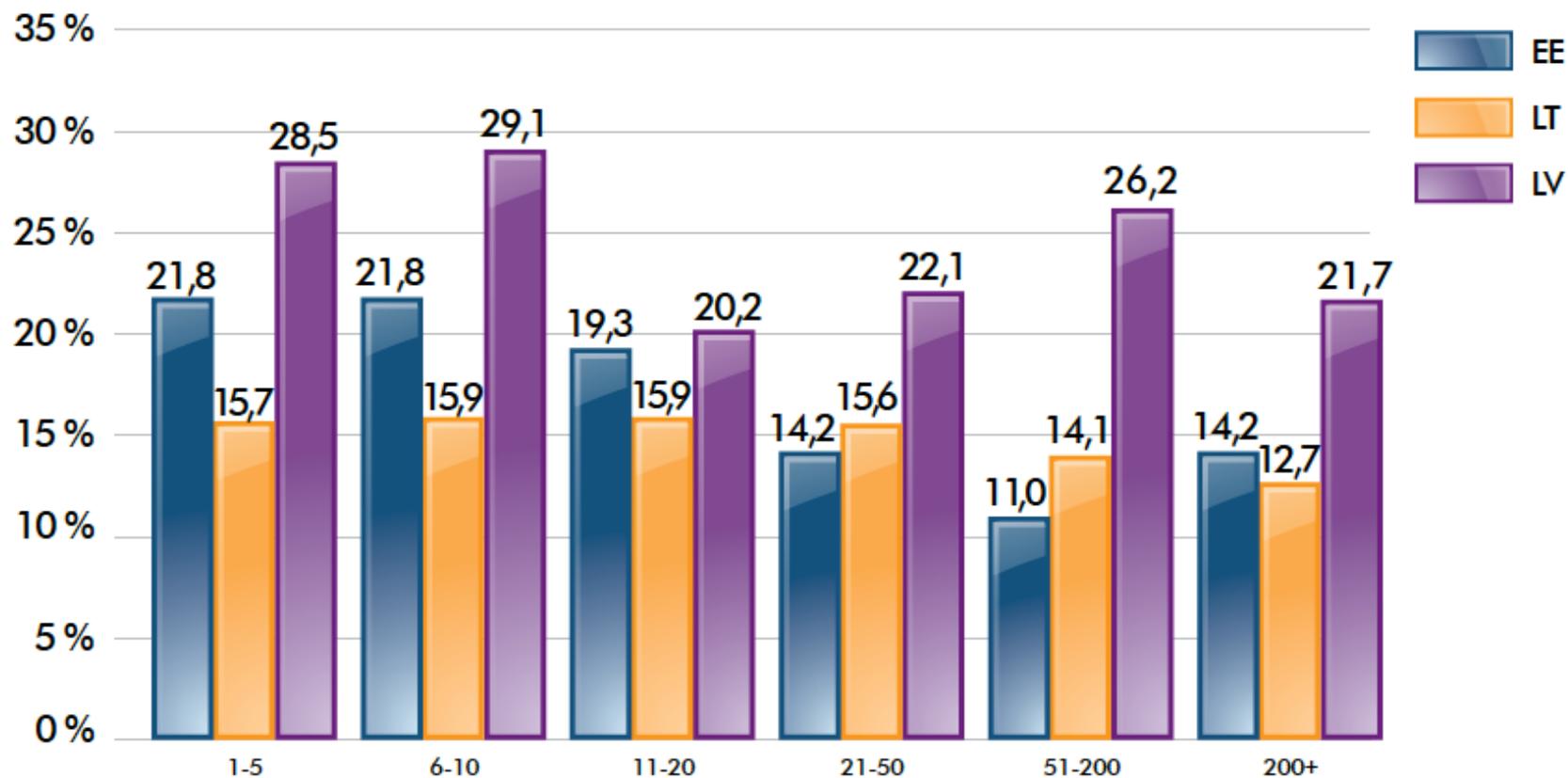


Size of the shadow economy (% of GDP) by sector (average, 2013-2015)



Size of the shadow economy in the regions, sectors, companies of different sizes

Size of the shadow economy (% of GDP) by firm size (number of employees) (average, 2013-2015)



Size of the shadow economy in the regions, sectors, companies of different sizes

Statistically significant determining factors (using regression analysis)

- Greater probability of being caught not paying taxes and more serious consequences → fewer entrepreneurs getting involved in shadow economy activities

Statistically significant determining factors (using regression analysis)

- Dissatisfaction → more shadow activity
- Involvement in shadow economy is greatly determined by dissatisfaction with:
 - ▶ Business legislation (greatest effect)
 - ▶ Performance of SRS
 - ▶ Tax policy
 - ▶ Government support (least effect)

Statistically significant determining factors (using regression analysis)

- Greater tolerance towards involvement in shadow economy → greater involvement in shadow economy
- Smaller firm size → greater involvement in shadow economy
- In Latvia, the Russian speaking community gets involved in shadow economy more often

Thank you!

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