

Macro Roundup Article

Headline: [Rethinking the Informal Economy and the Hugo Effect](#)

Article Link: <https://www.nber.org/papers/w31963>

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Tweet: Pappada and @kroff argue the size of the “off the books” economy exhibits counter-cyclical variation over time, and that it represents nearly 30% of GDP in Southern Europe vs. World Bank estimates of 20%.

Summary: It is well known that VAT tax evasion is rampant, with social statistics showing large “tax gaps” between taxes that ought to have been collected according to national income statistics, and taxes actually collected according to tax authorities. We introduce our measure of the informal economy, Evading Value Added Duty Economy (EVADE), based on the observed compliance on VAT payments. In Figure 3, we report the evolution of the informal economy over the period 1999-2020. The volatility of EVADE appears to be associated with a counter-cyclical movement of the informal economy: EVADE tends to increase in recessions and decrease in booms, in particular in a couple of GIPS countries like Greece and Italy. In France and Germany instead, the level of informality is more stable. The more pronounced variation across time than previous measures is consistent with the view suggested by the novelist Victor Hugo that informality is countercyclical. Related: From Strength To Strength and Europe Has Fallen Behind America and the Gap is Growing and The Wealth of Working Nations

Primary Topic: Growth

Topics: Academic paper, GDP, Growth, Weekly

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