



CEIRD

Centre for Entrepreneurship,
Innovation and Regional Development

DISCUSSION PAPERS

**WHAT CAN BE LEARNED FROM
ENTREPRENEURS ABOUT
SHADOW ECONOMY?**

Evidence from the Baltic States.

Tālis J. Putniņš and Arnis Sauka





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Discussion paper No 1

Centre for Entrepreneurship, Innovation and Regional Development
at Ventspils University College

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Evidence from the Baltic States.

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Abstract

This study develops a method that uses entrepreneurs to measure the size of a shadow economy. Using the premise that entrepreneurs themselves are most likely to know how much business income and wages go unreported, our estimates are derived from surveys of entrepreneurs. We use a range of survey design features to maximise the truthfulness of responses. Our method combines estimates of misreported business income, unregistered or hidden employees, and unreported wages, to arrive at an estimate of the size of a shadow economy as a percentage of GDP. This approach differs from most other studies of shadow economies, which largely focus on using macro indicators. We illustrate the application of our method to three new EU member countries. We also analyse the factors that influence entrepreneurs' participation in the shadow sector and use our shadow economy estimates to correct official GDP measurements.

Key words: Shadow economy, tax evasion, new EU member states, GDP

Full paper is available from the author upon request. Please e-mail: arnis.sauka@venta.lv