

Good to see that the IEA are now agreeing my figures fo...

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I note, [with curiosity, the following report in the Guardian this morning:](#)

Britain's shadow economy is now worth £150bn a year — but it is smaller than in most other western nations and last year fell to its lowest level in almost a quarter of a century, according to a report released on Tuesday.

A study by a free-market thinktank, the Institute for Economic Affairs, estimated that paid work not declared to the taxman was worth 10% of national income in 2012, half the level in Italy, Greece and Spain.

Part of my curiosity is that the data source is the same as I use for some of my work on this issue. As the Guardian says:

The report, by economists Friedrich Schneider and Colin Williams, found that the UK's shadow economy was smaller than the 13.4% average for the 34 developed nations in the Organisation for Economic Cooperation and Development. The UK rate peaked at 13% in 1997-98.

Previous work by Schneider, [referenced here](#), has suggested the UK shadow economy to be 12.5% of GDP: I have no idea why the figure has been reduced.

But let's follow this logic. GDP is now, [near enough](#), £1,550 billion. So the loss is now, according to Schneider £155 billion. And the UK total [government income this year](#) is estimated to be £612 billion. That's near enough 40% of GDP.

This means the tax lost on £150 billion may, by reasonably extrapolating this IEA survey, be £60 billion a year. Which happens to be remarkably close to my estimate of £70 billion - certainly well within the parameters of statistical error. And if Schneider's previous estimate of 12.5% was used - with the difference indicating the spread of estimation - the loss would be more than £70 billion to tax evasion.

I'll take that as an endorsement by the IEA for my tax gap work from now on.

And whilst the IEA are undoubtedly right in part about this:

The authors said the most important factor determining the size of the informal economy was the tax and benefits system, and much of the shadow employment in Britain could be blamed on the loss of benefits and tax credits for low-paid workers as they earned more.

the solution is not flat taxes; it is, as [Howard Reed and I have suggested](#), a radical reform of taxes and benefits. And it is also measures to tackle business evasion - which is a major part of this that it is just ridiculous for the IEA to ignore.

So refreshingly, the real right wing of UK politics endorses my sources and estimates by implication. But they have the solutions wrong.