

the ONS says the UK shadow economy is 1.7% of GDP when

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I am occasionally making FOI requests now. I made one a few weeks ago when I anticipated the [new tax gap report from HMRC](#) coming out and asked three questions of relevance to this issue. The first was:

*Is any estimate of those in the shadow economy included in the ONS data on the number in self-employment? If so, what method of calculation is used? What time series data is there for such estimates of such figures are included in the data? Please supply copies of all supporting information relating to such calculations.*

The reply to this one was simple:

*No. The LFS is unable to measure the shadow economy.*

The LFS is the Labour Force Survey that is used for these purposes.

The second question was:

*If those working in the shadow economy are not included in the ONS data for self-employment where are they included in the ONS labour statistics? What estimates of the number of those engaged in this way are available in time series data? How have such estimates been prepared? Please supply documentary evidence of the methodologies and calculations used.*

Again the answer was pretty straightforward:

*Those working in the 'shadow economy' are not estimated in the ONS labour market statistics and no time-series is available.*

That is, hardly helpful, and means that the statistics are clearly distorted.

So, to move to the final question:

*What proportion of the ONS estimate of GDP relates to the shadow economy? How is*

*that estimate prepared? What time series data for this estimate is available? Can the data in question, and the basis on which it is calculated, be made available?*

To which the answer is:

*The latest estimates for the shadow economy relate to 2011 (published in Blue Book 2013), where the adjustment was £25.9 billion, which is approximately 1.7 per cent of GDP in current prices (not adjusted to remove the impact of inflation). There is no time series dataset available for this variable.*

Three things follow from this. First of all such an estimate is ludicrously low: the HMRC data on missing VAT suggests that on average the VAT gap in the UK economy has been 12.2% over seven years. That makes it utterly impossible that the shadow economy can be just 1.7 percent of GDP. Broadly speaking I think the two gaps are likely to be of similar amount - not precisely, but similar.

The second is that this official connivance in this process of ignoring the shadow economy when it comes to tax is staggering. There is now such connivance when it comes to social security.

Last this says that the estimates of tax recoverable are fair - the GDP of this country is understated and therefore the potential for actual recovery of tax is real.

Now we need to do it.