

What is the Non-Observed Economy

OECD/UNESCAP/ADB Workshop on Assessing and Improving Statistical Quality: Measuring the Non-observed economy

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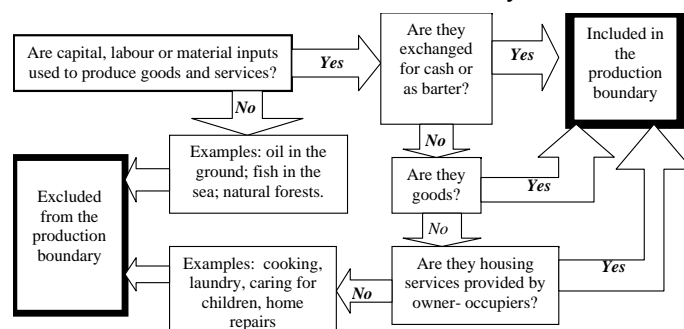
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Background – The SNA

- SNA based on broad view of economic activity and the production boundary
 - e.g. Makes no distinction between legal and illegal activities
- Also requires inclusion of imputed transactions
 - e.g. owner-occupied rent; own-production agricultural goods
- SNA production boundary includes economic activities not reported to tax authorities, whether through ignorance or deliberately

The Production Boundary



The Non-Observed Economy – Definition?

- Informal, Underground, Illegal, Shadow.....
- OECD handbook, defines NOE as: activities which should be included in GDP but are not covered in statistical surveys or administrative records used in NA compilation.
- Important to recognise that non-observed does not mean non-measured.

Why is this important?

- Comparability of GDP across countries and time
- EU contributions and subsidies based on GDP
- Growth rates if Unobserved growth \neq Observed Growth
- Collapse of central planning and replacement by sometimes chaotic, free markets, has (temporarily) undermined statistical reporting systems.
- Economic/fiscal policy
- GDP per capita, emissions, debt, deficit % of GDP

The 5 components of the NOE

- Economic Underground
 - (1) Underground Production
 - (2) Illegal Production
 - (3) Informal Production
- (4) Household Production for own final use
- (5) Statistical Underground
- Conceptual – e.g. income in kind
- Not mutually exclusive
- Wherever the borderlines - all activity captured

Underground Production

- Deliberate concealment of legal activities concealed from public authorities to avoid payment of:
 - Taxes related to profits
 - Social security contributions
 - Meeting certain legal standards: minimum wages, health and safety regulations
 - Compliance costs (e.g surveys & questionnaires)
 - Or, to claim unemployment benefits

Illegal Production

- SNA 6.30: “All illegal actions that fit the characteristics of transactions – notably that there is mutual consent – are treated in the same way as legal actions”
- Covers activities forbidden by law:
 - Production of goods and services whose production or sale is forbidden by law
 - Activities which are usually legal but illegal for unauthorised producers
- Excludes activities where no mutual consent
 - Fraud, Protection rackets, theft
 - But includes trade in stolen goods
- Inclusion important for comparisons over time/countries

Informal Sector Production

- 15th International Conference of Labour Statisticians: Units engaged in production of goods/services with primary objective of generating employment & incomes to the persons concerned.
- Typically operate at low level of organisation, with little/no division between labour & capital & on a small scale. Labour relations, where they exist, are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements.
- Vast majority of informal sector activities provide goods & services whose production and distribution are perfectly legal.

Informal Sector Production

- Criteria for informal sector
 - Must have market-output
 - Enterprise must be smaller than specified size
 - Non registration under specific national legislation
 - Non registration of employees
- Some overlap with Underground & Statistical Underground
- Delhi Group (UN Expert Group on Informal Statistics) tried to improve harmonisation of definition, concluded
- *..national definitions of the IS cannot be fully harmonised at present. International agencies should disseminate IS using national definitions but also disseminate data for the subset of IS that can be defined uniformly... (CSO, India)*

Household Production for Own-Final Use:

- Includes production of crops, livestock, other goods, construction of own-houses, imputed rents, domestic servants.

Statistical Underground

- Production missed due to deficiencies in data collection programme
- *Undercoverage* of enterprises: Births, below the cut-off, incorrectly classified.
- *Non-response* – and no imputation is made
- *Underreporting* –unintentional mistakes by respondents or in editing, weighting of the enterprise
- *Conceptual* – Production for own-final use by market producers, tips, wages and salaries in kind

Measuring the NOE

- OECD handbook describes 5 phases:
 1. Identify conceptual and analytical framework;
 2. Assessment of NA and compilation methods, identifying extent of NOE and non-measured activity;
 3. Identify potential Improvements in NA compilation;
 4. Identify potential improvements in surveys;
 5. Develop long-term implementation plan;